

Transforming the Western Balkans through Near-shoring and Decarbonisation



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Transforming the Western Balkans through Near-shoring and Decarbonisation

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Executive summary

When the COVID-19 pandemic disrupted global supply chains, many anticipated that it would catalyse a trend of near-shoring. The expectation was that multinational companies, having realised the risks of concentrating all production in far-away, low-cost locations, would begin shifting some operations closer to home to have shorter supply chains. Many – including us, the authors of this study – predicted that this would lead to increased investment in the Western Balkans, a region near Western Europe that offers both a skilled labour force and relatively low production costs. The onset of the war in Ukraine gave additional impetus to these discussions, heightening global political and economic uncertainty and deepening divisions worldwide.

In this study, we revisit these predictions with the benefit of hindsight. Our aim is to evaluate whether near-shoring has indeed occurred in the Western Balkans, to identify concrete cases of it, and to explore how it can be aligned with ongoing decarbonisation efforts. Additionally, we examine the implications of these two megatrends – near-shoring and decarbonisation – for local companies in the Western Balkans and consider how they might be leveraged to foster greater cooperation between local and foreign firms in the region.

To this end, we conduct a quantitative analysis of macroeconomic data on FDI inflows in the region, analyse case studies of recent investment projects in the Western Balkans, and draw insights from interviews with investors and other stakeholders as well as from surveys of both international and local companies operating in the region.

The quantitative analysis of post-pandemic trends in FDI inflows across the six Western Balkan economies indicates that three of them – Bosnia and Herzegovina, Kosovo and North Macedonia – are likely experiencing near-shoring. This conclusion is based on the observation that FDI inflows in these economies in the 2020-2023 period consistently exceeded the long-run equilibrium values simulated by econometric models and logarithmic trends. Conversely, Albania and Serbia do not show these kinds of indications, as actual FDI inflows consistently fell below the simulated values. In Montenegro, the evidence is inconclusive; while FDI inflows exceeded the simulated range in the 2020-2022 period, they dropped below it in 2023.

The case-study analysis of recent investment projects in the Western Balkans reveals that all six economies have recently attracted promising foreign investments, many of which are linked to either near-shoring or decarbonisation. Significant projects in renewable energy have been identified in Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia. Additionally, Albania, Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia have seen investments in the manufacturing sector that can be classified as motivated by near-shoring efforts. Notably, some of these manufacturing investments have come from Asian companies that are strategically investing in the Western Balkans to ensure proximity to their European markets.

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Detailed interviews with 17 foreign investors and stakeholders confirm that near-shoring is indeed a key strategy adopted to address challenges revealed by the pandemic and more recent geopolitical events, such as the war in Ukraine. The interviews also highlight that environmental sustainability and decarbonisation – driven by regulatory requirements and consumer expectations – are becoming increasingly important factors in investment decision making. This presents a window of opportunity for local suppliers to integrate into the broader supply chains of foreign investors if they make progress in these areas.

The survey of 65 foreign companies that have invested in the Western Balkans suggests that the primary reasons for investing in the region are its favourable geographical location, the quality of the labour force, and the relatively low wages. These factors are also cited as the region's main strengths, while poor governance, weak institutions and inadequate infrastructure are identified as the main challenges. Satisfaction with the overall experience in the region is high, with 72% of respondents indicating that they are either satisfied or very satisfied. Additionally, 11% of the companies reported relocating operations from a distant location to one closer to their headquarters, potentially signalling a trend towards near-shoring. Foreign companies view the region as an attractive destination for green investment, with two thirds indicating that it is either very attractive or somewhat attractive. A similar proportion of companies also suggested that they would likely invest more in the region if improvements in decarbonisation are made.

The survey of 382 local companies reveals that around two thirds are familiar with the concept of decarbonisation. Most companies reported that their carbon emissions primarily stem from the electricity they use, followed by transportation and then the production process. Companies generally have a positive view of decarbonisation, with many indicating that it is driving them to invest in new technologies to reduce carbon emissions. They believe that doing so could improve their chances of exporting to the EU market, and most have concrete plans to reduce their emissions over the next five years. To achieve this, companies plan to switch to cleaner energy sources, reduce energy consumption and invest in green technologies. However, companies are unequivocal in their belief that they need financial support to effectively reduce their carbon footprint.

The main conclusions are that near-shoring indeed appears to be taking place in the region, that it aligns well with the global trend of decarbonisation, and that local companies and the Western Balkan economies as a whole stand to benefit from these developments.

However, to fully capitalise on these opportunities, significant work remains to be done by the Western Balkan economies, particularly by their policy makers. Previous recommendations – such as improving governance and institutions and investing more in infrastructure – are still crucial, as foreign companies continue to cite these as the primary challenges of operating in the region. In addition to these longstanding recommendations, it is now essential to prioritise investments in renewable energy and decarbonisation, as foreign companies have indicated that they are more likely to invest in the region if progress is made in these areas.

Investing in renewable energy and reducing CO₂ emissions is also likely to strengthen collaboration between foreign and local companies. If local companies can reduce their carbon footprint, they will become more attractive partners for foreign firms seeking environmentally responsible suppliers. While local companies are keen to invest in new technologies to achieve decarbonisation, they have emphasised the need for financial support to make this feasible. Additionally, governments could enhance cooperation between foreign and local companies by supporting local firms in their efforts to obtain needed certifications and to improve production quality standards – areas often cited by foreign companies as major barriers to deeper collaboration.

By addressing these challenges, the Western Balkans can indeed transform itself through near-shoring and decarbonisation, which would enhance its attractiveness to foreign investors, accelerate the green transition, foster greater collaboration between local and foreign companies and, ultimately, drive sustainable economic growth.



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LIST OF ABBREVIATIONS

AHK	German Chamber of Commerce Abroad
CBAM	Carbon Border Adjustment Mechanism
CO₂	Carbon dioxide
DIHK	Association of German Chambers of Industry and Commerce
EBRD	European Bank for Reconstruction and Development
EFT GROUP	Energy Financing Team Group
ERS	Elektroprivreda Republika Srpska (The state-owned integrated power company in Republika Srpska)
ETS	Emissions Trading System
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IATF	International Automotive Task Force
ICT	Information and Communications Technology
IFC	International Finance Corporation
ISO	International Organization for Standardization
JETRO	Japan External Trade Organization
KDWV	German-Kosovar Business Association (Kosovarisch-Deutsche Wirtschaftsvereinigung)
KfW	Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau)
MONITA	Montenegro-Italy Undersea Interconnector
MoU	Memorandum of Understanding
MWH	Megawatt-hour
OEM	Original Equipment Manufacturer
PV	Photovoltaics
SME	Small and medium-sized enterprise
STEM	Science, technology, engineering, and mathematics
UK	United Kingdom
WB	Western Balkans
WB6 CIF	Western Balkans 6 Chamber Investment Forum
wiiw	The Vienna Institute for International Economic Studies



Introduction

The topic of near-shoring has attracted significant attention in recent years. It first came to prominence during discussions about 'slowbalisation' following the global financial crisis of 2007/2008 (Bakas 2008; The Economist 2019), gained further relevance amid the supply chain disruptions triggered by the COVID-19 pandemic (McKinsey & Co. 2020), and most notably intensified after the start of the war in Ukraine in February 2022 (Agnew 2022).

To contribute to these ongoing debates, we published a study in 2021 titled 'Getting Stronger After COVID-19: Nearshoring Potential in the Western Balkans' (Jovanović et al. 2021). In this study, we explored whether the Western Balkan economies could benefit from near-shoring trends following the pandemic. Our findings suggested that such benefits are indeed possible, but they also emphasised the need for these economies to focus on enhancing skilled labour, investing in education and training, and improving infrastructure and governance. The study was well received, attracting considerable attention from the media, academic researchers, the business community and policy makers.

Now, three years after its publication, we present a follow-up study that reassesses and expands on these questions. Specifically, this new study aims to evaluate whether near-shoring has indeed occurred in the Western Balkans, to identify where it may have occurred, to highlight concrete cases of it, and to examine how near-shoring trends can be synergised with ongoing decarbonisation efforts. Additionally, we will explore the implications of these two megatrends – near-shoring and decarbonisation – for local companies in the Western Balkans and assess whether they can be leveraged to foster greater cooperation between local and foreign firms in the region.

Some of the more detailed questions we explore include:

- Have FDI inflows to the Western Balkans (WB6) increased since the pandemic?
- In which economies have FDI inflows risen, and in which industries? From which countries are these potentially higher inflows originating?
- Are the potentially stronger FDI inflows into the WB6 economies in recent years driven by near-shoring, or are other factors at play?
- Can we identify concrete examples of foreign companies investing in the region as a result of near-shoring?
- Are there FDI projects in the WB6 that can be linked to decarbonisation, such as investments in renewable energy or electric vehicles?
- Are there FDI projects in the WB6 that can be linked to both near-shoring and decarbonisation?
- How important is decarbonisation for multinational companies when considering foreign investments and partnerships?

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- How do multinational companies perceive the WB6 region with respect to decarbonisation?
- Would they invest more in the region if improvements were made in these areas? Would they increase cooperation with WB6 companies if they decarbonised?
- How do local and foreign companies in the WB6 view decarbonisation? How do they view the Carbon Border Adjustment Mechanism (CBAM), i.e., the proposal to impose a carbon tax on imports to the EU from countries with less stringent climate policies? Do they see them as threats or opportunities?
- Do companies believe that decarbonisation would make exporting to the EU easier?
- Do local companies think that by decarbonising, they might increase collaboration with foreign companies operating in their economies?
- When foreign companies decide where to invest, do they consider green issues, such as renewable energy and CO₂ emissions?
- When foreign companies seek to shorten their supply chains, are they also looking for partners that perform well in terms of CO₂ emissions?

The academic literature does not offer a single, universally accepted definition of near-shoring, but the concept is generally understood as the practice of relocating business processes, manufacturing or services to a nearby location in order to be closer to the company's headquarters or primary market. As such, it is often contrasted with off-shoring, which involves relocating business processes to more distant locations, often on different continents, where labour and production costs are significantly lower. So, the key difference between near- and off-shoring is in the motivation: While near-shoring is motivated by the desire to get closer to the headquarter or the final market, off-shoring is motivated by the wish to minimise costs.

For the purposes of our study, we interpret near-shoring in four ways:

- When a Western company decides to move operations from a more distant destination to somewhere in the Western Balkans. For example, a German company might relocate its factory from China to Serbia.
- When a Western company opts to invest in the Western Balkans rather than in a more distant location. For instance, an Austrian company might choose to invest in Albania instead of Vietnam.
- When a company invests in the Western Balkans to be closer to its final market in Western Europe. For example, a Chinese company aiming to sell its products in the European market might invest in Bosnia and Herzegovina to facilitate exports to the European Union (EU).
- When a company invests in the Western Balkans to achieve shorter supply chains for its business partners. For example, a Japanese company that supplies German firms might invest in producing components in North Macedonia, thereby allowing the German company to benefit from a shorter supply chain.

The issue of decarbonisation is better understood and relatively well defined as the process or efforts that lead to a reduction in CO₂ or greenhouse gas emissions. Some of the specific examples we consider include investments in renewable energy generation, the production of electric vehicles or their components, the adoption of technologies that reduce emissions, and improvements in energy efficiency.

The study is organised as follows: Chapter 1 provides an overview of recent trends in FDI in the Western Balkan economies and employs a **quantitative analysis**, using logarithmic trends and econometric techniques, to determine whether the macroeconomic data on FDI inflows in the region indicate increased foreign investment after the pandemic and whether this can be interpreted as a sign of near-shoring. Chapter 2 presents **concrete case studies** of companies that have made investments in the region in recent years that can be linked either to near-shoring or decarbonisation, with the aim being to provide a clearer understanding of developments in this area. Chapter 3 outlines the main findings from **detailed interviews conducted with 17 investors or stakeholders**, which aimed at gaining deeper insights into their motivations, with a focus on near-shoring opportunities, investment decisions, the role of decarbonisation in investment strategies, and the potential for collaboration with local companies on these issues. We then present the key findings from a **survey of 65 foreign investors operating in the Western Balkans**, focusing on their perceptions, attitudes and views on investing and working in the region, cooperation with local companies, near-shoring, decarbonisation and the CBAM. In Chapter 5, we discuss the main findings from a **survey conducted with 382 local companies in the Western Balkans**, exploring their perceptions, attitudes and views on decarbonisation, the CBAM, and cooperation between local and foreign companies. Finally, we summarise the main findings and conclusions of the study and derive some guidelines for the future.



Chapter 1 – Trends in FDI in the Western Balkans

- *In Albania, the quantitative analysis does not suggest near-shoring after the pandemic, as the actual FDI inflows from 2020 to 2023 consistently fell below the simulated long-run equilibrium values.*
- *In Bosnia and Herzegovina, the actual FDI inflows in the 2021-2023 period exceeded the simulated range, which we interpret as a potential sign of near-shoring, though the magnitude is not very large.*
- *Kosovo shows similar but more pronounced trends, which clearly indicates some near-shoring to the economy.*
- *In Montenegro, actual FDI inflows from 2020 to 2022 exceeded the simulated range, but inflows in 2023 dropped below the range, which makes it difficult to conclude whether the country has seen near-shoring or not.*
- *In North Macedonia, actual FDI inflows in 2022 and 2023 exceeded the simulated range, which we read as a sign that the country started experiencing some near-shoring in the last two years.*
- *In Serbia, actual FDI inflows in the 2020-2023 period were consistently below the simulated range, indicating no significant near-shoring.*
- *Looking at the sectors that have seen an increase in FDI in recent years, manufacturing and energy often stand out.*

This chapter provides a quantitative analysis of recent trends in FDI inflows in the six Western Balkan economies. The aim is to determine whether the macroeconomic data on FDI inflows indicate increased foreign investment in the region after the pandemic, to identify which activities might experience increased inflows, and to determine which countries these increased inflows might be coming from.

The analytical approach is straightforward. We examine pre-pandemic FDI trends, extrapolate these trends for the post-pandemic period, and compare the actual FDI values for the post-pandemic period with the simulated ones. If the actual values exceed the simulated ones, it suggests potential near-shoring after the pandemic. The idea is that trends represent the long-run equilibrium values of the FDI inflows or, in other words, the foreign investment that would have occurred if business had continued as usual (i.e. if there were not any new drivers of FDI to the region, if the influence of the FDI determinants remained unchanged, and if there were not

any major changes in the global economic and political order). Therefore, if actual FDI exceeds these hypothetical inflows, this means that some new developments are making actual FDI higher than the FDI that would have occurred if there were no changes in the underlying factors.

We conduct this analysis for each Western Balkan economy individually. The pre-pandemic period is defined as the 2012-2019 period, as FDI inflows followed certain regular patterns during this stretch of time. We simulate FDI inflows for the 2020-2023 period. We do this analysis on an aggregate level (i.e. for total FDI inflows in all six economies).

We perform two types of simulations. While the first is based on a simple logarithmic trend applied to the total FDI inflows in the Western Balkan economies, the second relies on econometric analysis of macroeconomic determinants of FDI inflows to the region. Each method is explained in detail in the following sections. After the two methods are presented, we compare the FDI inflows that the Western Balkan economies incurred with the simulated values.

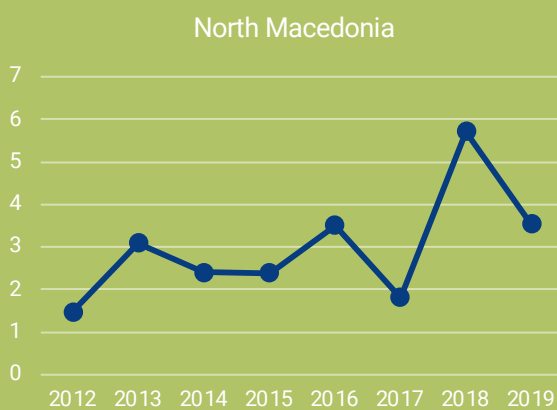
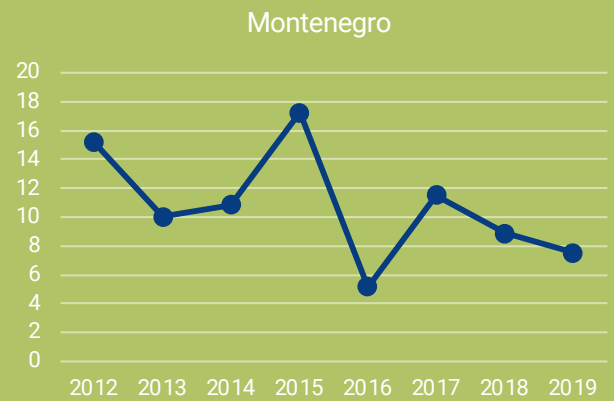
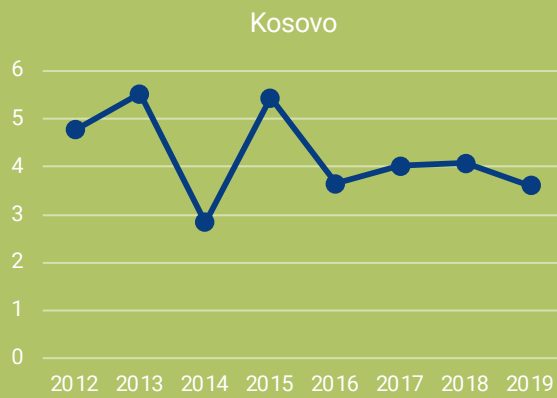
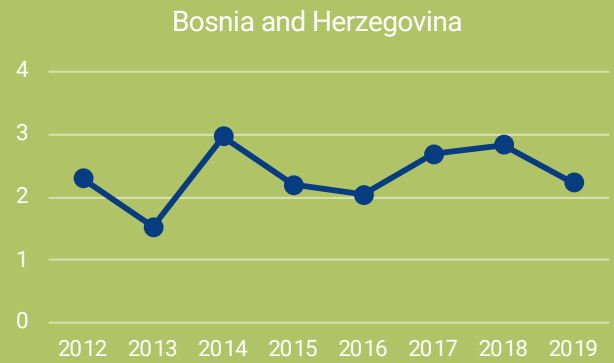
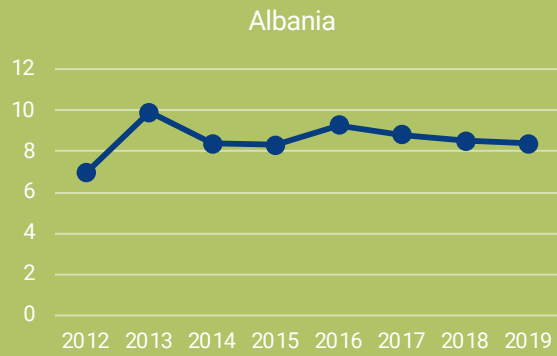
● Logarithmic trend analysis

This analysis is based on a simple logarithmic trend applied to total FDI inflows in each of the six Western Balkan economies during the 2012-2019 period. The FDI inflows are measured as a percentage of GDP. We opt for a logarithmic trend instead of a linear one because the logarithmic trend converges to some value (i.e. it does not rise or fall indefinitely).

The analysis is implemented in several steps. The first step is to fit a logarithmic trend to the FDI inflows data between 2012 and 2019 for each of the economies. The second step is to extrapolate this trend for the four subsequent years (2020-2023). The third step is to compare the actual FDI data with the simulated trend.

Figure 1 illustrates the FDI inflows as a percentage of GDP in the six Western Balkan economies from 2012 to 2019. In Albania, the inflows generally range between 8% and 9%, showing a slight upward trend. In Bosnia and Herzegovina, the inflows fluctuate between 2% and 3% of GDP, while also displaying a mild upward trend. Conversely, Kosovo experiences a downward trend, with FDI inflows decreasing from between 5% and 6% in the early years to around 4% towards the end of the period. Montenegro exhibits a similar downward trend, with inflows declining from above 10% of GDP in the first half of the period to below 10% in the latter years. North Macedonia shows a clear upward trend, with inflows increasing from 3% or less in the initial years to between 4% and 6% in the last two years. Similarly, Serbia demonstrates a gradual upward trend, with FDI inflows rising from 3% in 2012 to 8% in the final two years.

Figure 1 / FDI inflows in the WB6 economies between 2012 and 2019 (% of GDP)



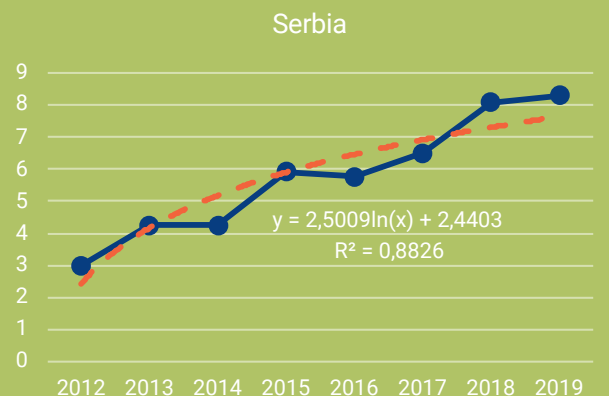
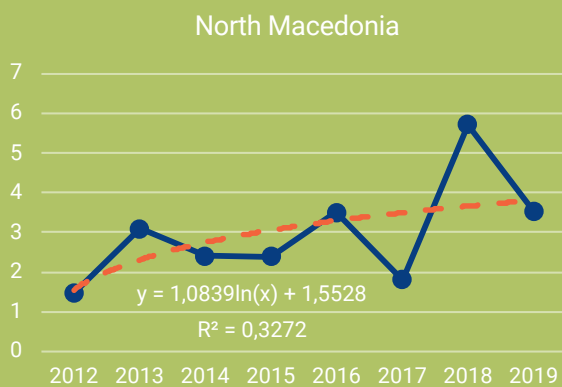
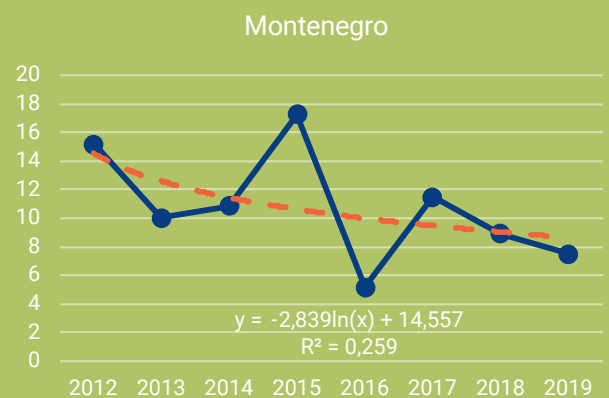
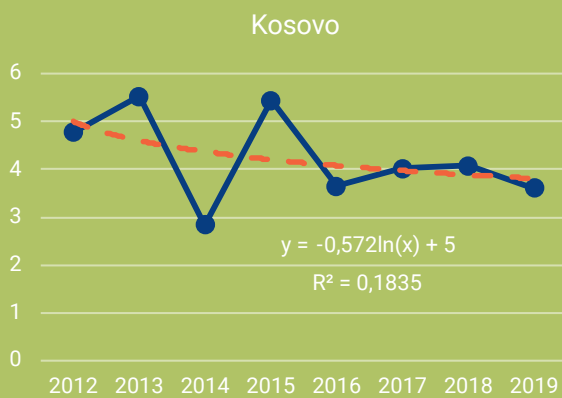
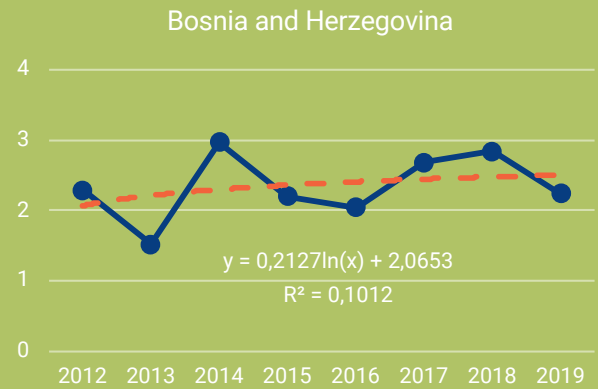
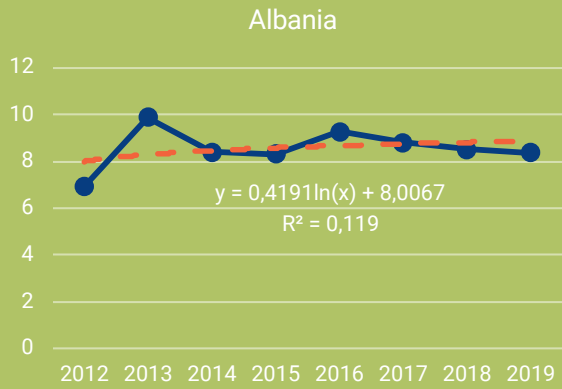
Source: wiiw FDI database.

Figure 2 illustrates the logarithmic trends fitted to FDI inflows in the Western Balkan economies. In Albania, the trend shows a slight upward movement, starting from approximately 8% and nearing 9% by the end of the period. Bosnia and Herzegovina exhibit a similar mild upward trend, beginning at 2% and reaching 2.5%. Conversely, Kosovo's trend is mildly downward, decreasing from about 5% to below 4%. Montenegro also shows a downward trend, but it is steeper, dropping from over 14% to around 9%. North Macedonia's trend is upward, increasing from around 1.5% to nearly 4%, while Serbia also experiences an upward trend, starting at around 2.5% and rising to 7.5%.

Notably, none of these trends exhibit explosive behaviour, and they all appear to converge towards a steady-state value. The trends closely follow the dynamics of the FDI series, with no significant systematic deviations. The fit is best for Serbia (88%), followed by North Macedonia and Montenegro (33% and 26%, respectively), while the other three economies have somewhat lower values for the goodness of fit (between 10% and 18%). The final data points for FDI inflows are close to the trend lines in all economies. A small exception is Serbia, where the data points for the last two years are above the trend line, indicating that actual FDI exceeded the long-run equilibrium values.



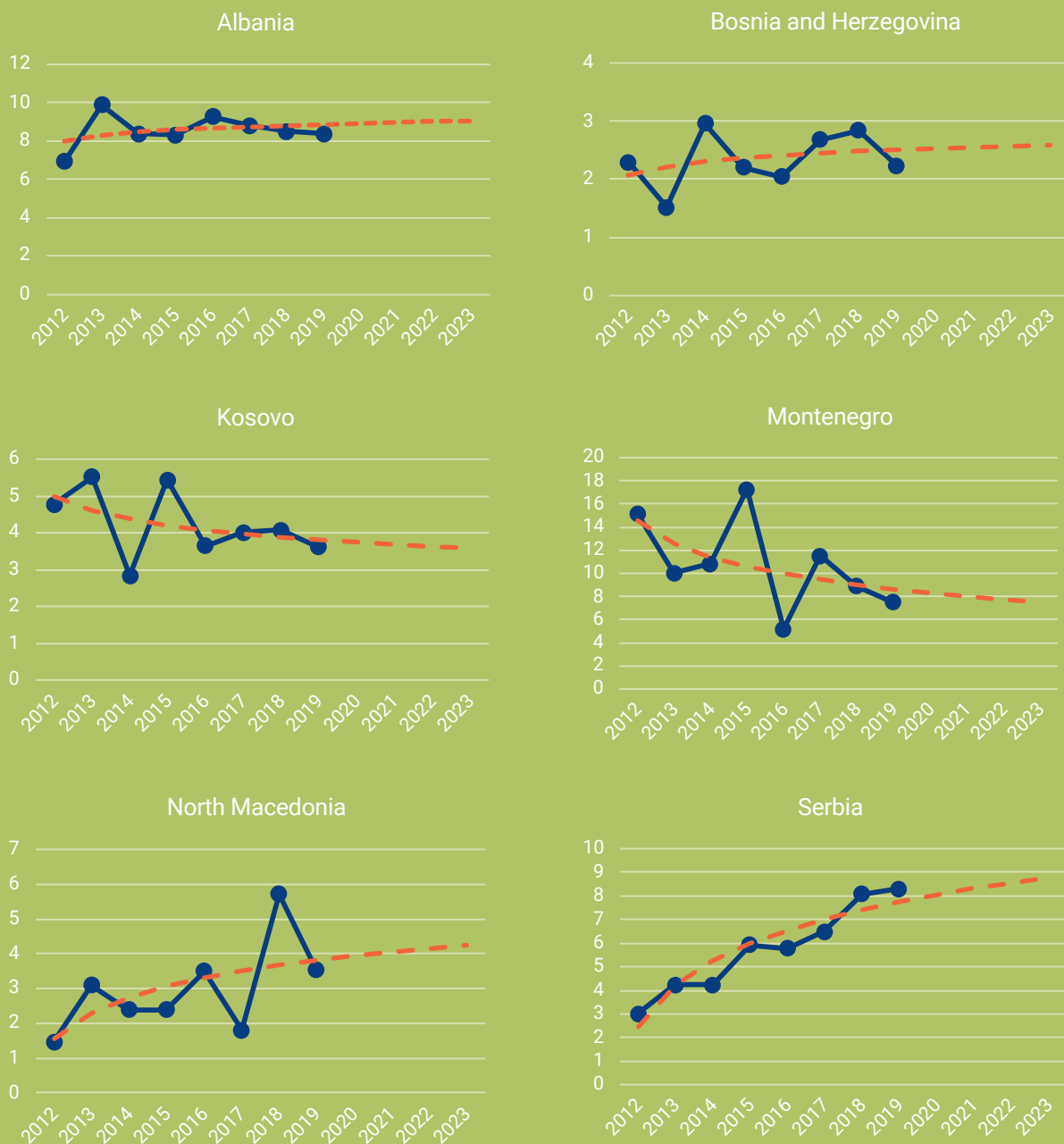
Figure 2 / Logarithmic trend fitted to FDI inflows in the WB6 economies between 2012 and 2019 (% of GDP)



Note: The dashed orange lines represent the logarithmic trends.
Source: wiiw FDI database; own calculations.

Figure 3 presents the extrapolated trends for FDI inflows from 2020 to 2023. The trends maintain their previous dynamics. In Albania, it shows a slight increase, stabilising at around 9%. Bosnia and Herzegovina also see a modest upward trend, slightly surpassing 2.5%. In contrast, Kosovo experiences a slight decline, with the trend dipping to approximately 3.5%. Montenegro shows a more pronounced decline, falling to around 7.5%. In North Macedonia, the trend grows modestly, reaching just over 4%. Similarly, Serbia’s trend continues to rise, approaching nearly 9% by 2023.

Figure 3 / Extrapolation of the logarithmic trend fitted to FDI inflows for the 2020-2023 period (% of GDP)

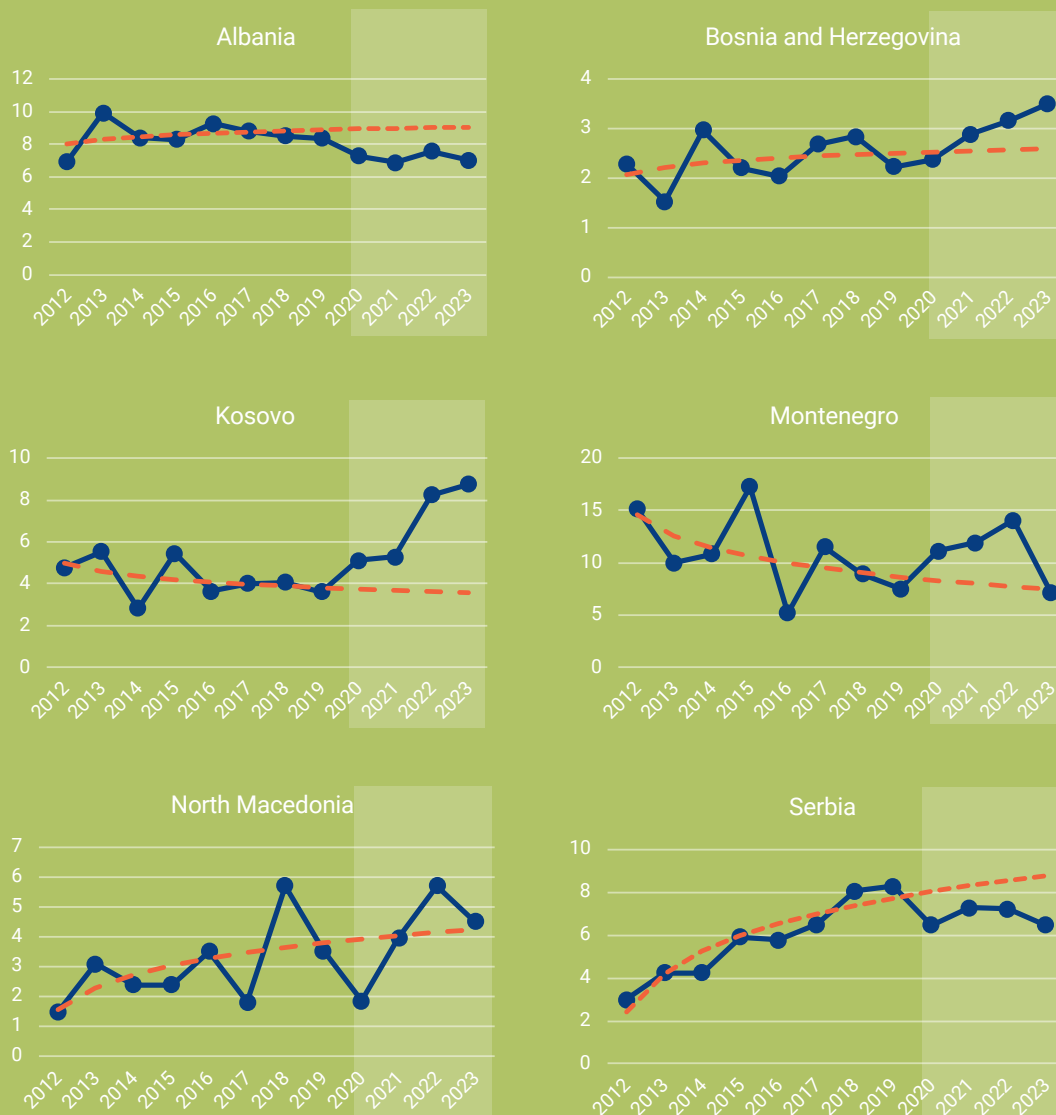


Note: The dashed orange lines represent the logarithmic trends.

Source: wiiw FDI database; own calculations.

Finally, **Figure 4 compares these extrapolated logarithmic trends with the actual FDI inflows experienced by the Western Balkan economies in the post-pandemic period from 2020 to 2023.** The shaded grey areas on the figures represent the post-pandemic period. In Albania, the actual FDI inflows consistently fall below the trend throughout the entire post-pandemic period, with actual inflows ranging between 7% and 7.5% of GDP, while the trend is about 9%. Conversely, in Bosnia and Herzegovina, the actual FDI inflows consistently exceeded the trend in the last three years, with actual inflows at 3% or higher compared to the trend of around 2.5%. Kosovo shows a similar pattern but with greater divergence. The trend values there are just below 4%, while actual FDI inflows are above 5% for all four post-pandemic years, surpassing 8% in the last two years. Montenegro presents an interesting case, with actual FDI inflows significantly exceeding the trend in the 2020-2022 period but falling slightly below it, to 7%, in 2023. North Macedonia initially sees FDI inflows below or close to the trend in the early post-pandemic years, but these inflows rise to 5% or more of GDP in the last two years, exceeding the trend. In Serbia, the actual FDI inflows during the post-pandemic period remain at around 7% of GDP, which is below the trend line of approximately 8.5%.

Figure 4 / Comparison of the logarithmic trends and the actual FDI inflows in the 2020-2023 period (% of GDP)



Note: The dashed orange lines represent the logarithmic trends.

Source: wiiw FDI database; own calculations.

● Econometric analysis

We now move to the econometric analysis, which is based on a regression model that examines the macroeconomic determinants of FDI inflows in the Western Balkan region during the pre-pandemic period. The model is then used to estimate hypothetical FDI inflows to the region for the post-pandemic period, meaning the inflows that would have occurred if there had not been any changes in the underlying determinants of FDI, their effects, or the global economic and political conditions.

The analysis consists of several steps. First, an econometric model is fitted to the FDI inflows in the six Western Balkan economies from 2012 to 2019. This model is then used to simulate FDI inflows for the 2020-2023 period. Finally, these hypothetical FDI inflows are compared to the actual inflows observed during the same period.

The econometric model employs panel data, with the six Western Balkan economies representing the cross-sectional dimension of the panel and the years between 2012 and 2019 representing the time dimension. The dependent variable is the total annual FDI inflows in each economy measured as a percentage of GDP, as shown above in **Figure 1**. As explanatory variables, a set of conventional macroeconomic determinants of FDI from the literature are employed, such as:

- **Credit Rating:** Defined as the long-term sovereign credit rating from S&P Global (S&P).¹ The credit rating can affect FDI inflows, as a higher rating may be perceived as an affirmation of the stability and good policies of the economy.
- **Rule of Law:** Measured by the Rule of Law Index rank from the World Bank's Worldwide Governance Indicators dataset.² Rule of law can affect FDI inflows, as foreign investors typically prefer environments in which legal frameworks are strong and consistently enforced.
Nominal GDP: As a measure of the size of the market,³ this can affect FDI inflows, as companies usually want to invest in economies with bigger markets.
- **General Government Revenues:** Defined as total general revenues as a percentage of nominal GDP. This serves as a proxy for the level of taxation, with higher revenues indicating higher taxes, which may deter FDI if foreign investors are sensitive to tax rates.

In addition to the four primary variables used in the final analysis presented here, we also considered several other variables, including GDP per capita, GDP growth, wage levels, unit labour costs, and indices for political stability and control of corruption. However, we ultimately excluded these additional variables to maintain a parsimonious model, which aims to include the fewest variables necessary to explain the maximum variation in the dependent variable. These

¹ The conversion from the rating marks issued by S&P (i.e. B-, BB+, etc.) to the quantitative values used in the econometric analysis is done using a linear scale. Concretely, B-, the lowest rating in the sample, is given a value of 1, B is given a value of 2, B+ is given a value of 3, BB- is given a value of 4, BB is given a value of 5, and BB+, the highest value in the sample, is given a value of 6

² The analysis uses the rank in the Rule of Law Index, not the value of the index. The rank compares the value of the index for a given country with all the other countries in a given year.

³ The variables are defined as a natural logarithm of the nominal GDP in EUR.

additional variables were correlated with the primary four variables and did not significantly contribute to the model. In some cases, they even had incorrect signs or very small regression coefficients, further justifying their exclusion.

The four primary explanatory variables – credit rating, rule of law, nominal GDP and general government revenues – were included incrementally in the model. We started with the credit rating, then added the rule of law, nominal GDP and general government revenues in that order. This approach resulted in four different models for explaining FDI inflows in the six Western Balkan economies. The results of these econometric estimations are presented in Table 1.

Table 1 / Results of the econometric estimations of the models for the determinants of FDI inflows in the WB6 between 2012 and 2019

	(1)	(2)	(3)	(4)
VARIABLES	FDI	FDI	FDI	FDI
Credit Rating (S&P)	1.10** (0.013)	1.14** (0.021)	1.20*** (0.006)	1.23** (0.011)
Rule of Law		0.06 (0.546)	0.07 (0.465)	0.08 (0.385)
Nominal GDP (log)			1.01 (0.764)	1.21 (0.655)
General Gov. Revenues				-0.06 (0.886)
Constant	2.04** (0.023)	-0.25 (0.955)	-9.61 (0.750)	-10.09 (0.728)
# of observations	48	48	48	48
# of economies	6	6	6	6

Notes: All models include 'dummies' (i.e. fixed effects) for the six economies. Standard errors clustered on economy level. Robust p values in parentheses.

**** indicates significance at 1%, ** significance at 5%, * significance at 10%.*

The first model (Column 1) examines the impact of the S&P credit rating on FDI inflows. It finds that a higher credit rating is associated with stronger FDI inflows. The second model (Column 2) includes both the S&P credit rating and the Rule of Law Index rank. This model indicates that both higher credit ratings and a stronger rule of law are linked to increased FDI inflows. In the third model (Column 3), nominal GDP is added to the analysis. All three variables – credit rating, rule of law, and nominal GDP – positively correlate with FDI inflows. The final model (Column 4) incorporates general government revenues. While the previously included variables maintain their positive signs and magnitudes, general government revenues exhibit a negative coefficient. This suggests that higher taxes generally deter FDI inflows.

It is important to note that only the coefficient for the S&P credit rating is consistently significant across all models. The other coefficients are statistically insignificant, which is likely due to the relatively low number of observations and high correlation between explanatory variables.

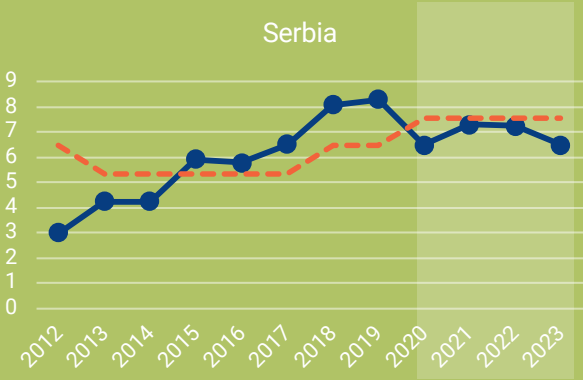
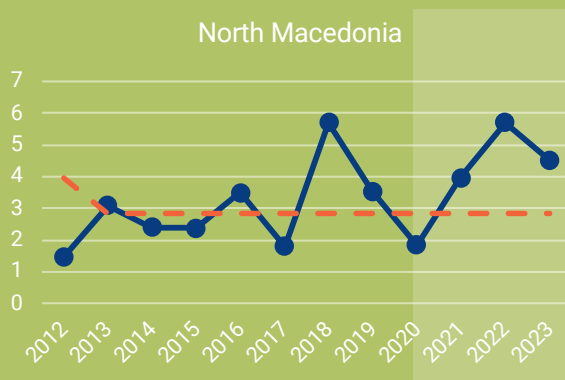
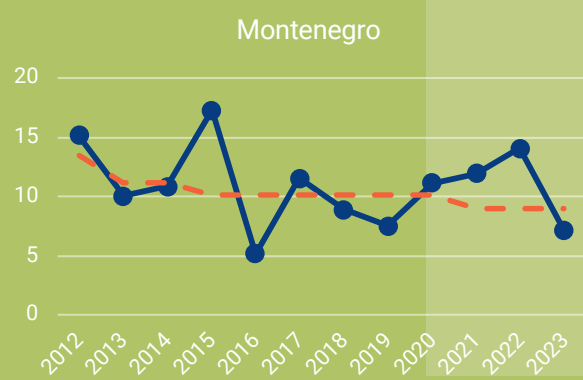
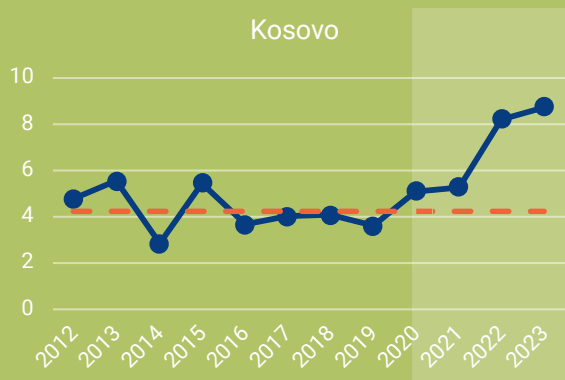
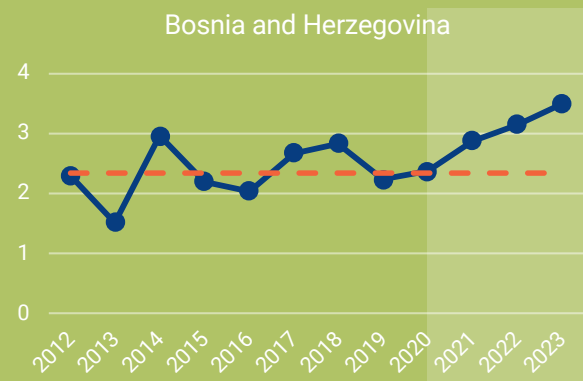
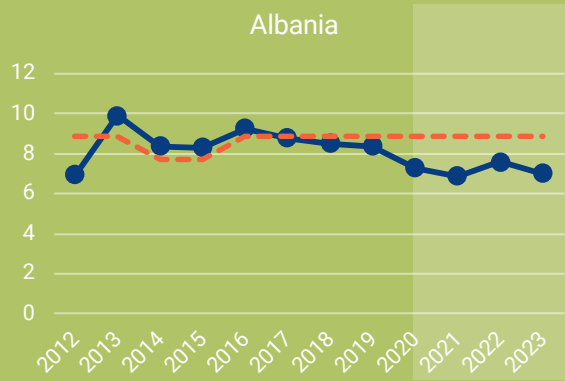
Once the econometric models are estimated, they are used to simulate the FDI inflows, which are essentially the fitted values of the regressions. These values are obtained by multiplying the regression coefficients by the explanatory variables included in the model. Below, we present and briefly explain each of these simulations.

Figure 5 shows the fitted values of the first model, which only includes the S&P sovereign credit rating. Since the credit ratings of the six Western Balkan economies remained relatively stable during the analysed period, the simulated FDI inflows are also quite steady. In Albania, there is a slight decline in 2014 when its credit rating was downgraded from B+ to B, but this improves already in 2016, when the rating was upgraded. Bosnia and Herzegovina and Kosovo⁴ have stable fitted values, as their credit ratings did not change during this period. Montenegro shows a gradual decline in fitted values, reflecting the deterioration of its credit rating from BB+ at the beginning of 2012 to B in the 2021-2023 period. North Macedonia experiences a drop in simulated FDI inflows in 2013 due to a downgrade from BB to BB-, after which the values stabilise. Serbia exhibits the most variation, with a decline in simulated flows at the beginning of the period followed by gradual improvement, which mirrors changes in its S&P sovereign credit rating.



⁴ Kosovo doesn't have a published sovereign credit rating by S&P, so we treat this as if there were no changes in the rating. It is the change which is important for the econometric analysis, not the level of the rating, since the level is captured by the economy-specific constant term (i.e. the fixed effect).

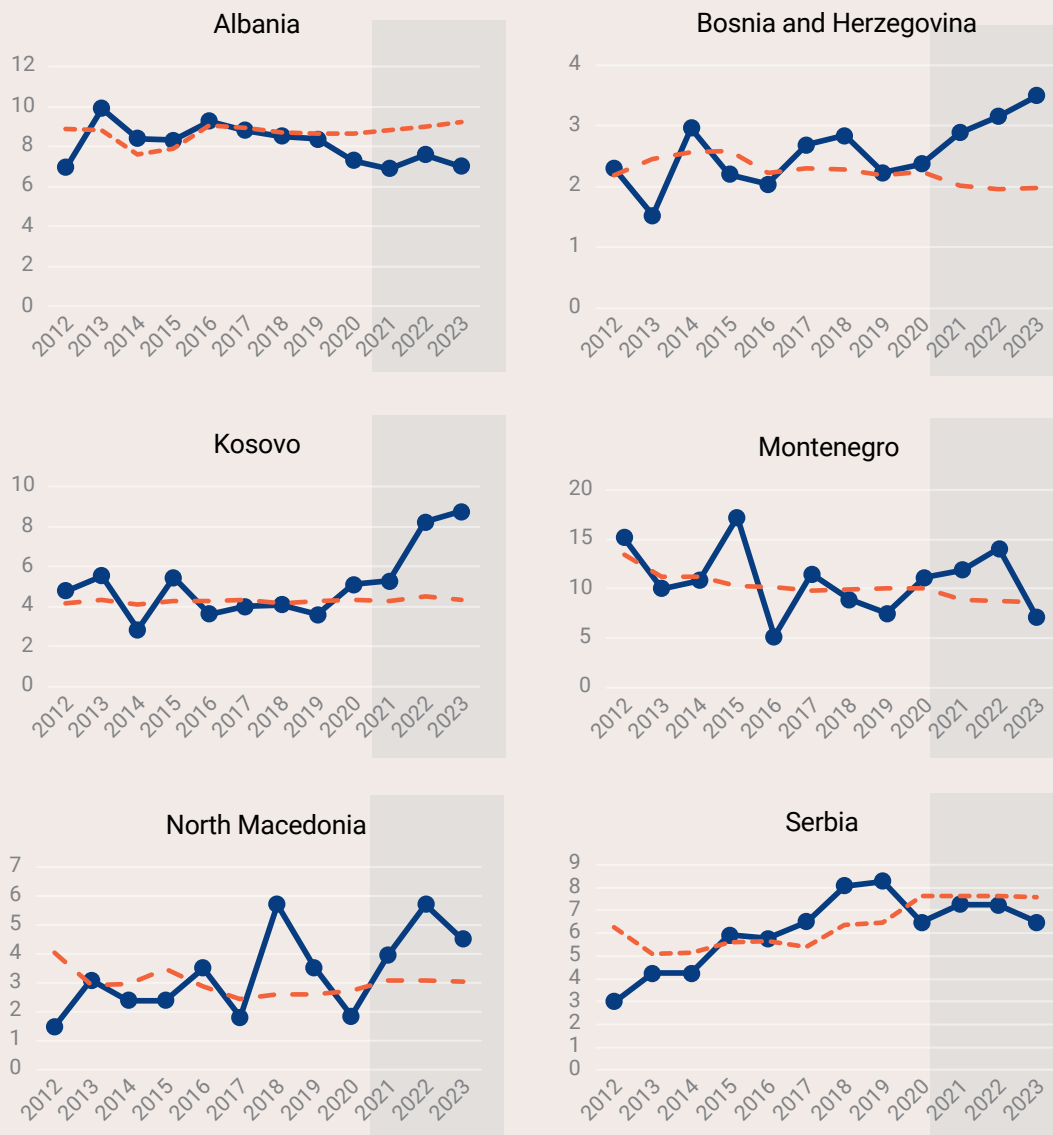
Figure 5 / Actual FDI inflows and FDI inflows simulated by the first econometric model (% of GDP)



Note: The dashed orange lines represent the inflows given by the first econometric model, with just the credit rating as an explanatory variable.
 Source: wiiw FDI database; own calculations.

Figure 6 shows the fitted values of the second model, which includes the S&P credit rating and the Rule of Law Index rank from the World Bank. These values obviously have more variation. In Albania, after the early decline in 2014 owing to the credit-rating downgrade, the simulated FDI inflows show a gradual and steady improvement, owing both to the improvement of the credit rating and the gradual strengthening of the rule of law in the country. In Bosnia and Herzegovina, the fitted values improve and decline in turn, driven by the rule-of-law changes, but these changes are not very big. In Kosovo, the fitted values improve marginally owing to the gradual strengthening of the rule of law. In Montenegro, the simulated values still have the declining trend seen in the first model, primarily owing to the worsening of the credit rating. In North Macedonia, the simulated values seem to follow a mild cycle – declining, then improving, then declining again, and then improving again – although the overall changes remain small. Serbia has the same dynamic as the one seen in the first model, with the simulated values declining at first and then gradually improving.

Figure 6 / Actual FDI inflows and FDI inflows simulated by the second econometric model (% of GDP)



Note: The dashed orange lines represent the inflows given by the second econometric model, with credit rating and rule of law as explanatory variables.

Source: wiiw FDI database; own calculations.

Figure 7 illustrates the fitted values of the third model, which incorporates the S&P credit rating, the Rule of Law Index rank and nominal GDP, while Figure 8 presents the fitted values of the fourth model, which additionally includes general government revenues. The dynamics of the FDI inflows simulated by these models generally mirror those of the previous models, displaying similar trends with some variations in magnitude. The inclusion of additional variables refines the simulations, but the overall patterns remain consistent, reflecting the stability of key macroeconomic determinants across the Western Balkan economies during the analysed period.

Figure 7 / Actual FDI inflows and FDI inflows simulated by the third econometric model (% of GDP)



Note: The dashed orange lines represent the inflows given by the third econometric model, with credit rating, rule of law, and nominal GDP as explanatory variables.

Source: wiiw FDI database; own calculations.

Figure 8 / Actual FDI inflows and FDI inflows simulated by the fourth econometric model (% of GDP)



Note: The dashed orange lines represent the inflows given by the fourth econometric model, with credit rating, rule of law, nominal GDP and government revenues as explanatory variables.
Source: wiiw FDI database; own calculations.

Finally, Figure 9 presents the fitted values of all four models alongside the actual FDI inflows in the six Western Balkan economies. The simulated values from the four models are closely aligned and exhibit similar trends. The general conclusions would be that in Albania, Kosovo and Serbia, the model-explained FDI inflows show improvement over time, reflecting enhancements in underlying economic conditions. In Bosnia and Herzegovina and North Macedonia, the simulated values fluctuate with no significant changes. In Montenegro, the simulated FDI inflows decline over time, primarily due to the deterioration of the sovereign credit rating.

Figure 9 / Actual FDI inflows and FDI inflows simulated by all the four econometric models (% of GDP)



Note: While the dashed orange lines represent the inflows given by the four econometric models, the grey line represents the actual FDI inflows.
 Source: wiiw FDI database; own calculations.

● Near-shoring or not?

To assess potential near-shoring trends in the Western Balkan economies during the post-pandemic period, we compare the FDI inflows obtained from the analysis of logarithmic trends and econometric modelling with the FDI inflows that these economies actually incurred. As explained earlier, the simulated FDI inflows represent the long-run equilibrium values of the FDI inflows or, in other words, the foreign investment that would have occurred if there were not any fundamental changes in the drivers of FDI to the region (i.e. if the determinants of FDI stayed the same, their influence on FDI inflows remained unchanged, and there were not any major changes in global economic and political conditions). If the actual FDI inflows exceed these hypothetical values, it suggests that new developments are causing higher levels of investment than would have occurred under unchanged conditions. In other words, actual FDI inflows surpassing the simulated ones can be interpreted as evidence of potential near-shoring to the region after the pandemic.

To facilitate the comparison of actual and simulated FDI inflows, we created a range for the simulated values, spanning from the lowest to the highest of the simulated values. These ranges are depicted in orange in Figure 10, while the actual FDI inflows are shown as grey lines.

For Albania, the actual FDI inflows from 2020 to 2023 consistently fell below the simulated range, with actual inflows of around 7% of GDP, compared to the simulated value of between 9% and 10%. This suggests that there is no indication of near-shoring trends in Albania.

In Bosnia and Herzegovina, the actual FDI inflows from 2021 to 2023 were around 3% of GDP or higher, exceeding the simulated range of between 2% and 2.8%. We interpreted this as a potential sign of near-shoring in the post-pandemic period, though the magnitude is not very large.

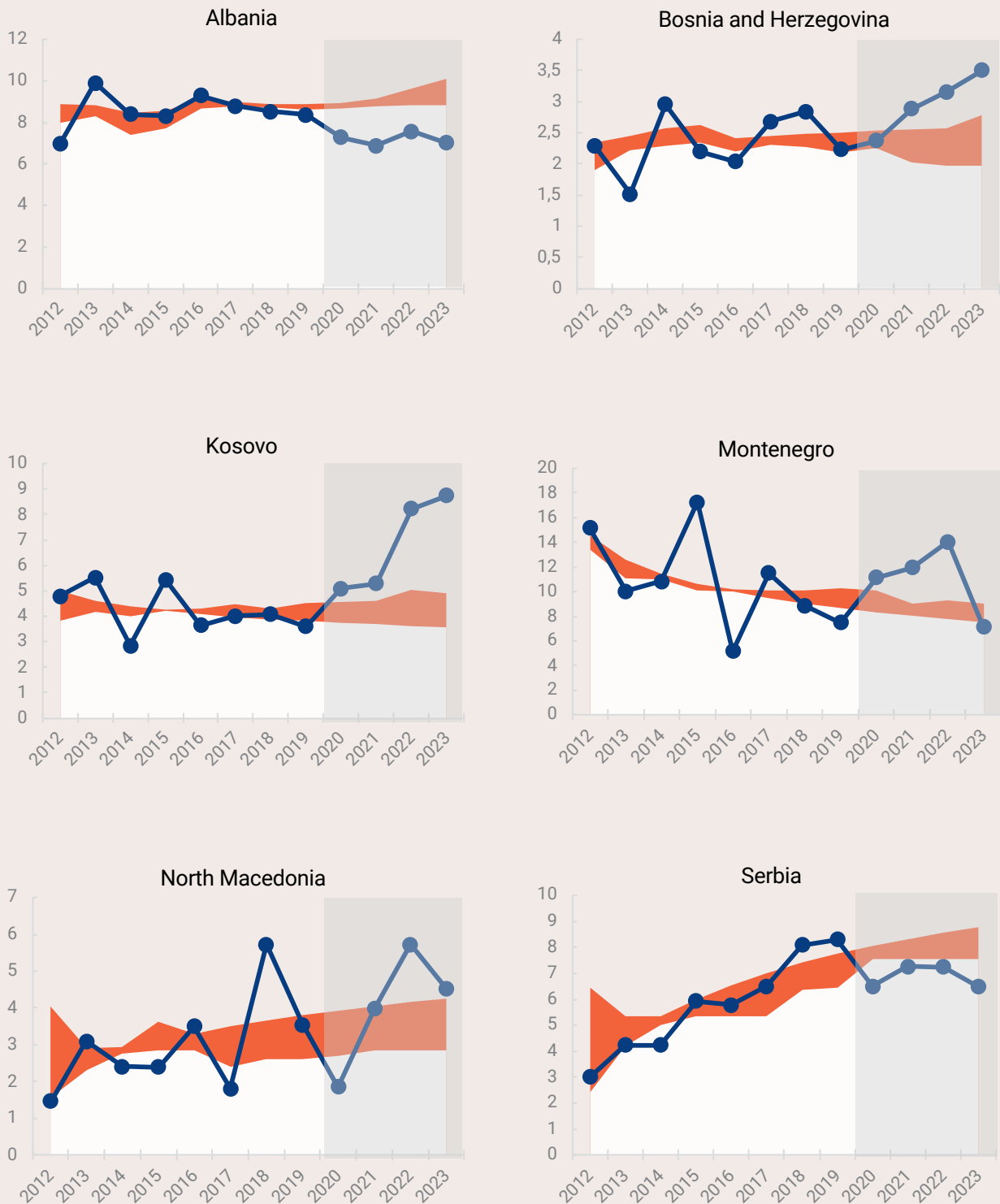
Kosovo shows a similar but more pronounced trend, with the actual FDI inflows in the post-pandemic period being well above 5% of GDP, compared to the simulated range of between 3.6% and 5%. This clearly indicates some near-shoring to the economy.

Montenegro presents an interesting case. While the actual FDI inflows between 2020 and 2022 exceeded the simulated range of between 7.5% and 10%, the inflows in 2023 dropped to 7.1% of GDP, which is even below the lower bound of the range. This makes it difficult to determine whether the country has seen near-shoring in the post-pandemic period.

North Macedonia's simulated FDI for the 2020-2023 period ranged between 2.7% and 4.2% of GDP, and the actual FDI inflows were within or below this range in 2020 and 2021. However, in 2022 and 2023, they exceeded 4.5% of GDP, thereby surpassing the upper bound of the simulated range. We interpret this as a sign that the country started experiencing some near-shoring in the last two years.

Lastly, in Serbia, the actual FDI inflows between 2020 and 2023 were around 7% of GDP, which is consistently below the simulated range's lower bound of 7.5%. This indicates that there has not been any significant near-shoring in the post-pandemic period.

Figure 10 / Actual FDI inflows vs. FDI inflows given by the logarithmic trends and the econometric models (% of GDP)



Note: While the orange areas show the range between the lowest and highest values of the FDI inflows obtained by the logarithmic trends and the econometric models, the grey line shows the actual FDI inflows.

Source: wiiw FDI database; own calculations.

● Which sectors are seeing higher FDI, and from where?

To gain some additional insights into recent FDI developments in the region, we examine the sectoral composition of FDI inflows over the past several years as well as the countries of origin of these investments. We do this for each of the six economies individually, focusing only on the most significant sectors and source countries.

Figure 11 shows the FDI inflows by sector for Albania. The decline in total FDI inflows over the past four years is primarily due to the energy sector. FDI in energy averaged 1% of GDP between 2020 and 2023, compared to an average of 4% in the previous four years. This decline is entirely attributable to the completion of the Trans Adriatic Pipeline in 2020. Conversely, two sectors have seen increases in recent years: manufacturing and real estate. FDI in manufacturing averaged 0.7% of GDP in the 2020-2023 period, up from 0.3% in the previous four years. Real estate has attracted foreign investment inflows equivalent to 1.5% of GDP in the last three years, compared to 0.7% in the previous four years.

Figure 12 illustrates the origins of FDI inflows in Albania over time. The recent decline in total FDI inflows is entirely due to a decrease in FDI from Switzerland. Swiss FDI in Albania averaged 0.5% of GDP over the last four years, down from 3% in the previous four years. This reduction is again related to the Trans Adriatic Pipeline, as a key consortium member for the project was a Swiss-based company. On the other hand, there was a mild increase in FDI from the EU in recent years, as compared to the pre-2018 period.

Figure 11 / Sectoral composition of the FDI inflows in Albania (% of GDP)

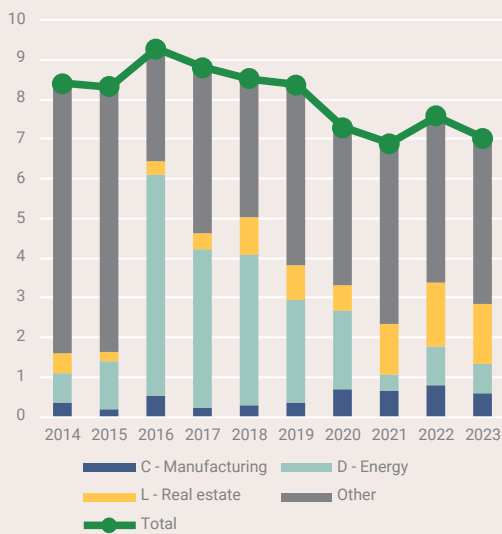
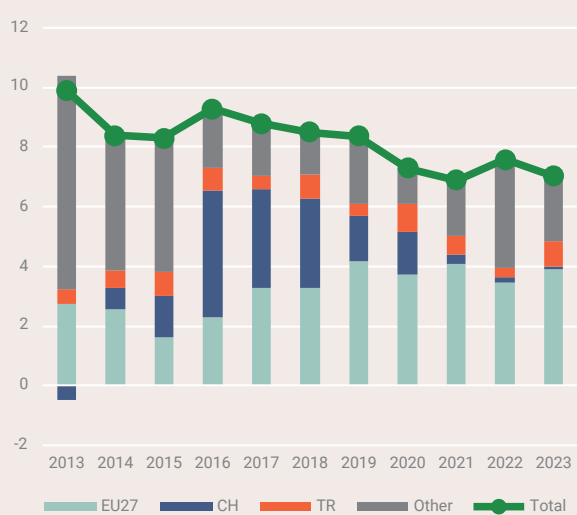
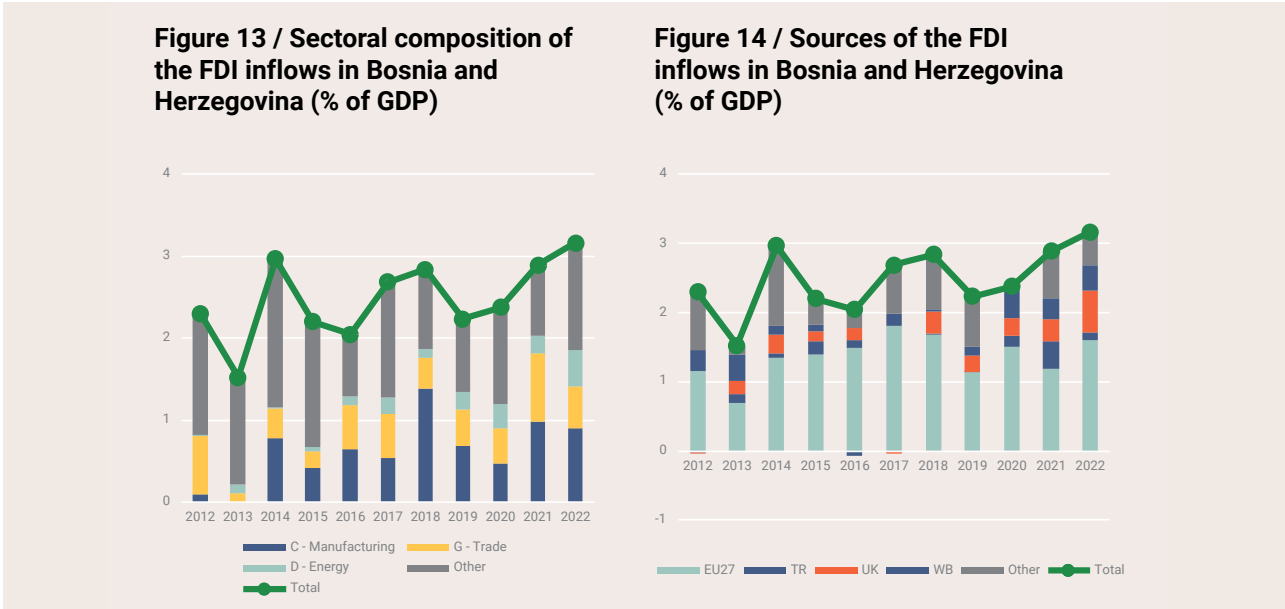


Figure 12 / Sources of the FDI inflows in Albania (% of GDP)



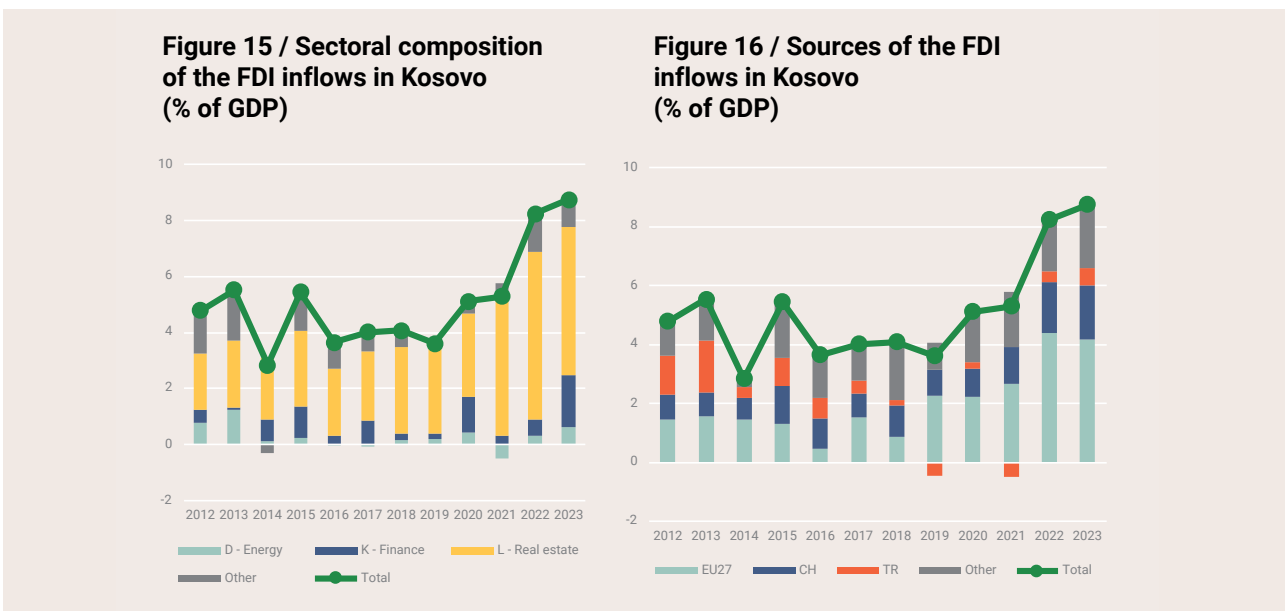
Source: wiiw FDI database.

In Bosnia and Herzegovina, the recent increase in FDI inflows over the last two years is primarily driven by higher investments in the manufacturing and energy sectors, as shown in Figure 13. Looking at the countries of origin of the inflows, one can see that the improvement is owed to the stronger inflows from the Western Balkans, Turkey and the UK (Figure 14).



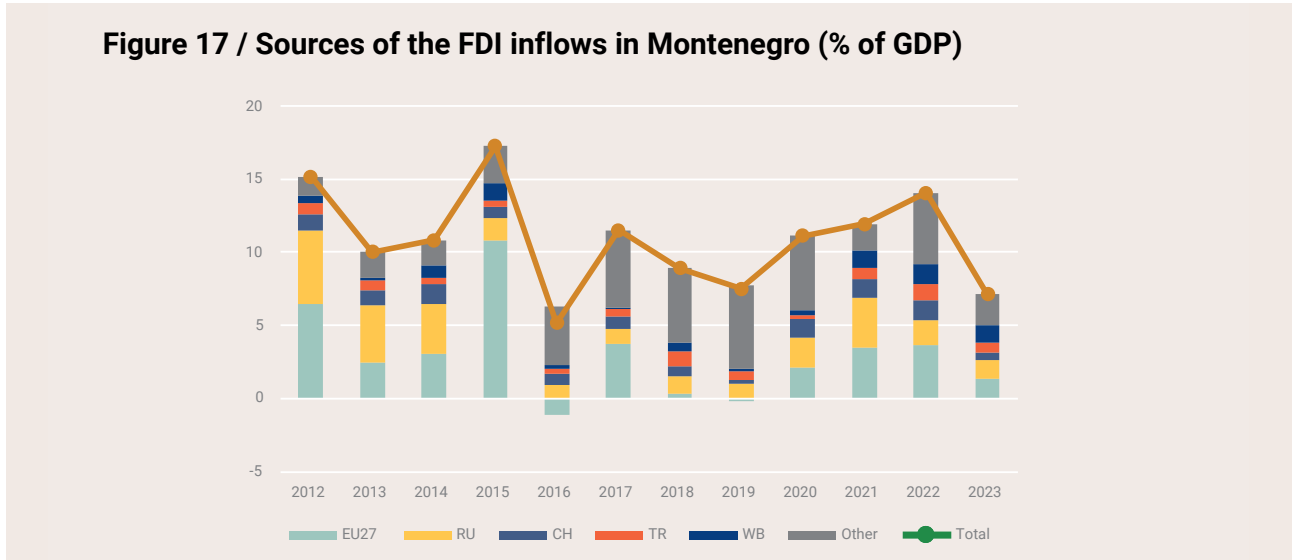
Source: *wiiw FDI database*.

In Kosovo, the significant increase in FDI during the post-pandemic period is mainly driven by the real estate sector, with some improvements also observed in the finance and energy sectors (Figure 15). FDI in manufacturing remains low and shows no signs of substantial improvement. Regarding the sources of investment, the increase is owed to the stronger FDI from EU countries, with significant contributions also coming from Switzerland (Figure 16).



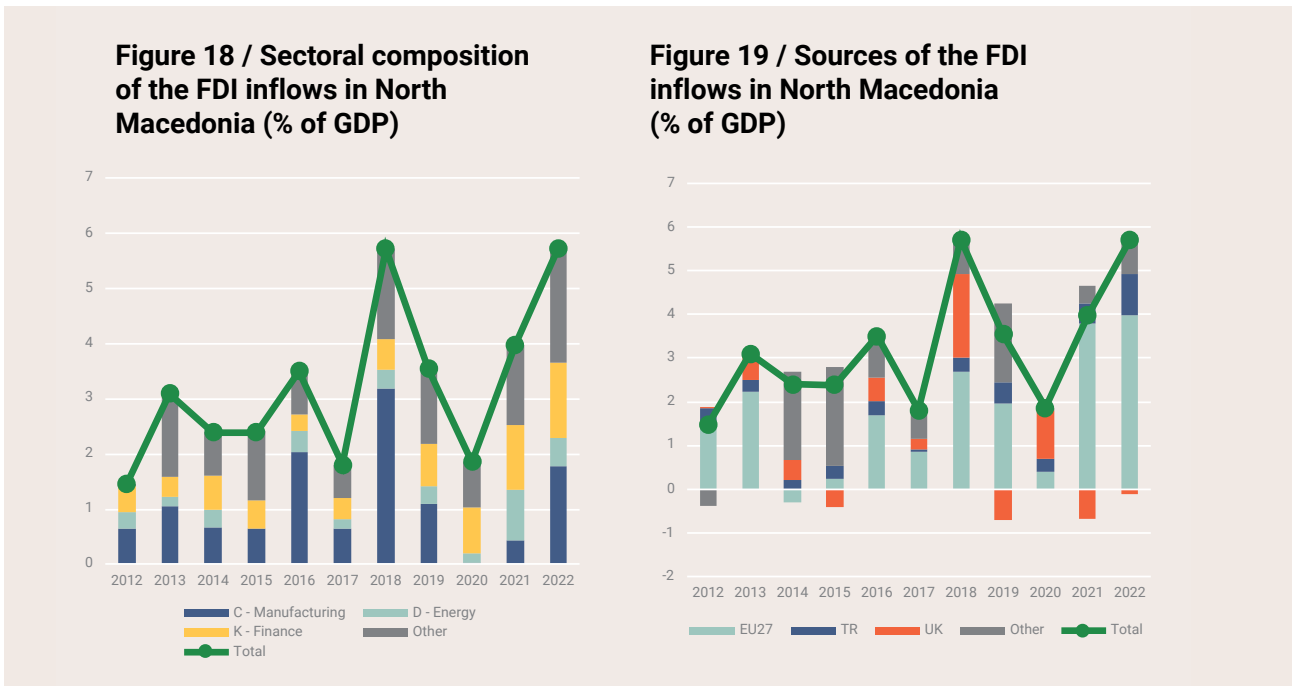
Source: *wiiw FDI database*.

Since **Montenegro** does not publish data on FDI inflows by sectors of activity, our analysis is limited to the countries of origin. One can see in Figure 17 that the improvement in FDI from 2020 to 2022 was driven by stronger inflows from the EU, Russia and Switzerland. These countries also account for much of the drop in FDI in 2023, but there is also a decline in inflows from other countries, such as Azerbaijan and the United Arab Emirates. Notably, inflows from the Western Balkan region have increased since the pandemic.



Source: *wiiw FDI database*.

In North Macedonia, the improvement in FDI over the past two years is primarily driven by stronger inflows in the manufacturing, energy and finance sectors. For instance, FDI in the energy sector has averaged 0.7% of GDP in the last two years, compared to between 0.2% and 0.3% previously (Figure 18). Regarding the sources of investment, the increase can be attributed to stronger FDI from the EU, with Turkish FDI also showing improvements in recent years (Figure 19).



Source: *wiiw FDI database*.

Finally, in **Serbia**, the slowdown in FDI during the post-pandemic period is mainly due to reduced inflows in the transportation, finance and manufacturing sectors. For example, FDI in transportation averaged 0.2% of GDP over the last two years, compared to 1.2% in the previous four years. Similarly, FDI in finance averaged 0.4% of GDP in the last four years, down from 0.8% in the previous four years (Figure 20). Looking at the sources of FDI, the decline is largely attributable to reduced inflows from the EU, which averaged 2.9% of GDP in the last three years, compared to 4.5% in the previous four years. Russian FDI also decreased slightly, averaging 0.3% of GDP in the last four years, down from 0.6% in the previous four years. On the other hand, there has been a significant increase in Chinese FDI, rising from 0.4% of GDP in the 2014-2017 period to 2.1% of GDP in the 2022-2023 period (Figure 21).

Figure 20 / Sectoral composition of the FDI inflows in Serbia (% of GDP)

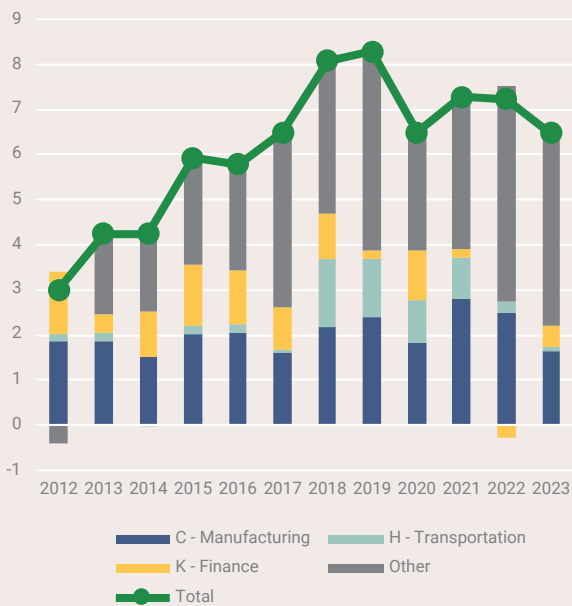
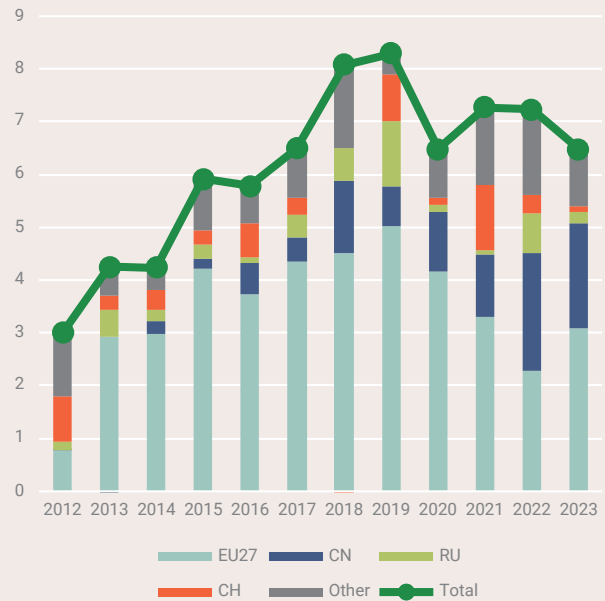


Figure 21 / Sources of the FDI inflows in Serbia (% of GDP)



Source: *wiiw FDI database*.



Chapter 2 – Case studies of recent investment projects in the Western Balkans linked to near-shoring and decarbonisation

- *All Western Balkan economies have recently attracted promising foreign investment projects, many of which are linked to either near-shoring or decarbonisation.*
- *Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia have seen significant projects in renewable energy.*
- *Albania, Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia have also experienced investment in the manufacturing sector tied to near-shoring, which is driven by investors' desire to be closer to the European market they serve.*
- *Notably, some of these manufacturing investments have come from Asian companies, which are strategically investing in the region to align with the 'local-for-local' approach, thereby ensuring proximity to their European markets.*

To provide a clearer understanding of near-shoring and decarbonisation efforts in the Western Balkans, we have prepared a series of case studies featuring companies that have invested or have been planning to invest in the region in recent years. These case studies are based on data from the Financial Times' fDi Markets database, which tracks cross-border greenfield investments around the world. Specifically, we selected all investment projects recorded for the six Western Balkan economies and identified the most promising cases related to near-shoring or decarbonisation, focusing on those with significant capital investment and job-creation potential. Our analysis concentrated on investments in manufacturing, energy and other high-tech sectors. We conducted detailed examinations of these cases through desk research and interviews with company representatives or other stakeholders, emphasising their connections to near-shoring and decarbonisation. Below, we briefly present the most noteworthy cases.

Albania

Albania has seen several big foreign investments in the energy sector as well as some big investment in manufacturing, specifically in the automotive sector.

The Italian companies Saipem, working in the energy and infrastructure sectors, and **Alboran Hydrogen**, working in renewable energy, signed a memorandum of understanding (MoU) in March 2021 to jointly develop and construct five plants to produce green hydrogen, one of which will be in Albania. Saipem will be responsible for the engineering, procurement and construction of the plants. It has already been involved in the construction of the Trans Adriatic Pipeline in Albania. Alboran Hydrogen will manage technological coordination, authorisation processes and supply-chain agreements with research institutions and universities. The project is expected to involve several universities and research centres from Italy and Albania. The plant in Albania has an estimated investment volume of around EUR 60 million and is expected to employ around 90 people. Although announced over three years ago, there has not been any investment in Albania yet. However, the two companies have started working on the Puglia Green Hydrogen Valley project in Italy, which is one of the five plants included in the MoU.

The French renewable company Voltalia has invested around EUR 100 million in the Karavasta Solar Project, which involves a solar power plant in Fier County in south-western Albania. The power plant has an installed capacity of 140 MW and is currently the biggest solar power plant in the Western Balkans. The plant started generating its first megawatt-hours towards the end of 2023. The project was supported by the European Bank for Reconstruction and Development (EBRD), which provided part of the financing through a syndicated loan involving the International Finance Corporation (IFC) and other banks. The project is structured so that 50% of the electricity generated will be sold to the Albanian state for EUR 24.89 per megawatt-hour (MWh) under a 15-year power purchase agreement, while the remaining 50% will be sold on the open market. The solar plant will contribute to Albania's goals of reducing greenhouse gas emissions, increasing the share of renewable energy in its energy mix, and diversifying its energy sources. These sources have been heavily reliant on hydropower, which can be vulnerable to fluctuations in water availability due to seasonal and climatic changes.

In February 2019, **the South Korean company Yura** announced its plans to open a manufacturing plant in the city of Fier, which is located in Fier County (mentioned above). The investment volume was initially reported to be around EUR 6.5 million for the first phase, but the long-term investment may reach up to EUR 130 million with additional expansions. The project aims to employ around 700 people at first, with long-term plans that will eventually create up to 4,000 jobs as more factories are opened in other parts of the country. The investment will focus on producing automotive electrical and electronic components, including wiring harnesses and electronic control modules, which are integral to the manufacturing operations of global automotive companies. The construction of the plant began in July 2019, and operations are expected to start by the end of 2024. Yura's decision to invest in Albania was influenced by the country's skilled workforce, competitive costs, strategic geographical location and favourable government incentives. Since the products made by Yura in Albania will be exported to European markets, the project can be linked to the near-shoring trend.

Bosnia and Herzegovina

Bosnia and Herzegovina has several ongoing foreign investment projects in the energy sector as well as one in the manufacturing sector.

The UK-based Energy Financing Team (EFT Group) signed a 50-year concession contract for the construction and operation of a photovoltaic system in Bileća, a town in south-eastern Bosnia and Herzegovina. Construction under a turn-key EPC contract began in the second half of 2022. An EPC contract has been signed with Dongfang Electric Corporation, meaning that the contractor will handle the entire engineering, procurement and construction process and will deliver the completed, operational facility to the owner. The investment volume is estimated to be EUR 140 million. The solar power plant will have a peak capacity of 60 MW, with an annual output estimated at 100 GWh, and will pay EUR 2.80 per MWh of production, with 95% of the money going to the town of Bileća. The plant was finished in May 2024.

The Chinese companies Genertec and PowerChina have announced that they will build Iovik, an 84 MW wind farm near Livno and Tomislavgrad, Bosnia and Herzegovina. The project's estimated cost is around EUR 140 million. The construction of the wind farm started in 2022, and commercial operations are expected to begin in 2024. The project is set to become the largest renewable energy project in Bosnia and Herzegovina upon completion and is one of the country's key projects for green growth.

The German renewable energy company WPD is developing multiple wind farms in Bosnia and Herzegovina, contributing to a significant renewable energy initiative in the region. This initiative includes the Dah Planine wind farm, near Mostar, with an estimated cost of around EUR 140 million and an installed capacity of 138 MW. Additionally, WPD is working on the Čadilj wind farm in the municipality of Glamoč, with a capacity of 138 MW, and the Marino Brdo wind farm in Bosansko Grahovo, with a capacity of 126 MW. These projects are part of a larger plan to establish a total installed capacity of 1.2 GW in Bosnia and Herzegovina and Croatia. WPD secured the concession agreements in July 2022, with expected completion within a timeline of three to four years.

China's CCSC Technology Group announced in July 2023 that it plans to invest EUR 18 million to build a factory to produce electronic components near Banja Luka, a city in northern Bosnia and Herzegovina. The plant is expected to employ 150 people. The company specialises in the manufacture and sale of interconnect products, including connectors, cables and wire harnesses for various industries, such as automotive, industrial, medical and telecommunications. Founded in 1993, it operates globally and is headquartered in Hong Kong. As one of the most important reasons for investing in Bosnia and Herzegovina, the company cited its proximity to the EU, as its primary goal is to serve this market. Thus, the project can be viewed as being related to near-shoring.

Kosovo

Kosovo has recently seen one big investment in high-tech manufacturing as well as one big investment in IT.

A very interesting case of a foreign investment is Munda in Kosovo, which is a joint investment of **the German companies Aunde and Mentor**. While Aunde is a large automotive supplier with 116 plants worldwide, Mentor specialises in lighting solutions. The investment was announced in September 2023, and Munda is set to produce textile lighting systems for the automotive industry by combining the expertise of the two parent companies in textile design and LED-based lighting.

The company plans to employ around 220 people and invest a figure in the double-digit-million range. The decision to invest in Kosovo was influenced by its well-trained and motivated workforce, attractive tax incentives, low energy costs and potential for near-shoring (i.e. the desire to be close to the EU market). The general manager discovered Kosovo through a chance encounter with a Kosovar window manufacturer, which highlights the role of the diaspora in advocating for the region as an investment destination. The company is currently in the pre-series production stage, having delivered its first products several months ago.

Compared to other regions where Munda's parent companies operate, the experience in Kosovo has been positive, with high employee motivation, low absenteeism and a relatively easy recruitment process. This stands in contrast with the increasingly challenging labour market conditions in traditional automotive supplier locations, such as Romania and Poland.

While Munda's main materials are sourced from Germany and China, the company has explored some regional cooperation, particularly for logistics and facility remodelling. However, the availability of specialised spare parts required by original equipment manufacturers (OEMs) and machine components in the Western Balkans is challenging and keeps cooperation low.

Overall, Munda's experience in Kosovo has been positive, and the company sees the potential for further near-shoring activities in the Western Balkans, driven by factors such as labour availability, cost advantages and the region's strategic location.

Another interesting investment in Kosovo involves **the US-based company InterVision**, which provides and supports complex IT solutions for enterprise and public-sector organisations. InterVision announced its investment in April 2023 and chose Kosovo as a location for its company due to its growing tech talent pool, cost-effective operations and strategic position within Europe. The investment is estimated to be around EUR 15 million and is expected to create up to 1,000 jobs. As of the time of writing of this study, the company was actively hiring its workforce and setting up its infrastructure.

Montenegro

Montenegro has one ongoing project for a big foreign investment in the energy sector. **CWP Europe, a subsidiary of Continental Wind Partners from Australia**, is developing the Montechevo solar power plant close to Cetinje, which will reportedly be the largest solar power plant in the region. The planned installed capacity of the power plant is 400 MW, and the value of the investment is estimated at around EUR 360 million. The development and construction of the project is envisioned to take place in a series of phases. While the start of construction is expected in 2025, the completion of construction and the start of commercial operation are expected in late 2026.

North Macedonia

North Macedonia has recently seen several big investment in the manufacturing and energy sectors.

The biggest announced recent investment in the country is by the **Taiwanese tech company Yageo**. In April 2023, it announced an investment of EUR 205 million, which will create 3,900 new jobs in the country. The company plans to open two plants in two technological industrial development zones, one near the capital Skopje and one near the city of Štip, with 1,950 new jobs in each of them. Yageo specialises in producing chip resistors and other electronic components, which are then integrated into various automotive and electronic products. Yageo's collaboration with Tesla qualifies this investment as a green project given that Tesla's electric automobiles are environmentally friendly. When discussing the reasons behind Yageo's decision to invest in North Macedonia, among the factors listed by Pierre Chen, the company's founder and chairman, was the strategic geographic position of the country. Some additional factors that he mentioned were a stable monetary and favourable tax environment, the highly qualified workforce and competitive labour costs. Yageo's investment in North Macedonia is strategically positioned to enhance the firm's capacity to serve the European market more effectively by producing electronic components closer to their European customers, thus aligning with near-shoring strategies.

Another recent investment in the manufacturing sector is by the **German glass and plastic packaging producer Gerresheimer**. In June 2022, it announced a plan to build a factory in North Macedonia that will manufacture medical glass products, cost around EUR 126 million, and is expected to create more than 180 new jobs in the country. The factory will be located near the capital city of Skopje. Gerresheimer is a leading global partner to the pharma and healthcare industries. The company has production facilities in North and South America, Europe and Asia. Thus, the investment in North Macedonia could be linked to the near-shoring trend, as the company is building a manufacturing plant close to its home country of Germany instead of in some of the other locations where it has a presence.

● Transforming the Western Balkans through Near-shoring and Decarbonisation

Several foreign companies have announced plans to make investments in North Macedonia related to renewable energy. One of these companies is the Macedonian company **Ostro Solar, which is owned by the French company Akuo Energy**. Ostro Solar plans to build two solar parks, one near the municipality of Štip and one near the city of Pehčevo, both of which are in eastern Macedonia. The installed capacity of the plants is expected to be 350-400 MW, the estimated investment volume is EUR 279 million, and the plants are expected to create 55 new jobs in the country. This project was announced in November 2021, and the infrastructure was supposed to be built in 2022 and 2023. However, these plans were delayed because the first agreements were only drafted in 2024.

Another company that plans to invest in the field of renewable energy in North Macedonia is the **Germany-based WPD**, which specialises in wind energy and plans to invest around EUR 200 million to build a 415 MW wind farm near the cities of Kumanovo and Kriva Palanka. The project was announced in October 2021, was expected to start in 2024, and aims to be fully operational in 2030. It is expected to employ 55 people.

A third company that plans to invest in the field of renewable energy in North Macedonia is the **UK-based Energy Financing Team (EFT)**, which has been granted permission by the government of North Macedonia to build an 80 MW solar plant near the village of Erdželija. The project is expected to have an investment volume of roughly EUR 200 million and to create 55 new jobs.

● Serbia

Serbia has the most and the biggest announcements for foreign investments in the region, with some noteworthy examples in manufacturing, energy and logistics.

One of the biggest announced investments in Serbia is by the **Japanese company Nidec**, which specialises in electric motors for electric cars. In May 2023, it opened a factory near the city of Novi Sad in the Serbian province of Vojvodina. The investment is part of Nidec's plan to establish a robust production and supply chain within Europe so as to reduce its dependence on imports from Asia and to align with near-shoring trends to be closer to its key markets. This project can be also categorised as green because it is related to electric vehicles. The company has also announced a second project in the same part of Serbia. The total investment volume is expected to be around EUR 1.5 billion, and 1,000 new jobs are expected to be created.

Another company investing in Serbia is **Profine Energy, a German company** that specialises in renewable energy. In March 2023, it was reported that a new 450 MW solar plant will be built on around 800 hectares between the cities of Belgrade and Novi Sad. The plant will be in an industrial park, which the company will also build there. The investment is reported to involve EUR 1.5 billion and is expected to create 579 new jobs in the area. The plant is expected to be built beginning in 2025 and to enter into commercial operation in 2027.

The Chinese company Zijin Mining has announced two projects in Serbia in the field of renewable energy. The bigger of the two projects is a plant that aims to use wind and solar power to create hydrogen, an important source of energy, in an eco-friendly way. The plant will be located near the city of Bor in eastern Serbia. The project will involve an investment volume of around EUR 2 billion and is expected to create 760 jobs in the area. Construction is expected to begin in the first quarter of 2025, with the first phase of the project to be completed by mid-2026. The smaller project will involve the construction of a 300 MW solar plant to meet the needs of the company. The investment volume is reported to be EUR 184 million, and 71 jobs are expected to be created. As of April 2024, it is still unknown whether the investment has already started.

Another noteworthy investment in Serbia is by the **Czech company CTP**, which specialises in building logistical parks. In January 2023, it announced that it was developing a logistical hub in Belgrade, called CTPark Belgrade City, with an expected cost of EUR 94 million. In explaining why it chose to invest in Serbia, the company explicitly mentioned near-shoring. Petar Kolognat, Head of Business Development at CTP Serbia, said: 'The growing outsourcing of Germany's industrial supply chain to CEE markets, combined with the near-shoring trend, where companies are opting to build resilience into their global supply chains by locating manufacturing closer to their main markets, is generating strong demand for industrial and logistics space along the axis of CTP's core markets.'





Chapter 3 – What do interviews with foreign investors reveal about near-shoring, decarbonisation and collaborating with local companies?

- *Near-shoring is a key strategy being adopted by the interviewed investors to address challenges revealed by the pandemic and other global disruptions.*
- *COVID-19 has been a pivotal factor in reshaping business strategies, especially in terms of supply chain management and risk mitigation, while geopolitical events, such as the war in Ukraine, are pushing them more in this direction.*
- *Driven by regulatory requirements and consumer expectations, environmental sustainability and decarbonisation are becoming crucial factors in investment decisions.*
- *There is a window of opportunity for local suppliers to become part of broader supply chains of foreign investors if they become more competitive.*
- *However, investors have identified several barriers that hinder companies in the Western Balkans from cooperating more with foreign firms, including the absence of quality production standards and a lack of relevant certifications.*
- *To overcome these challenges, policy makers should provide financial and technical assistance.*
- *Another issue that has been raised by investors is the need for improved regulatory frameworks for investing in renewable energy, allowing energy produced from renewable sources to be sold back into the grid, and the development of decarbonisation strategies for manufacturing.*

This chapter presents the main findings of the interviews that were conducted with 12 German investors present in the Western Balkans, one potential German investor, one local company and three experts: one from JETRO, the Japanese trade and investment agency; one from the KfW, Germany's investment and development bank; and one regional energy expert.

The interviews aimed at allowing us to gain a deeper understanding of the motivations and thinking of the foreign investors while focusing on three key areas:

1. **Near-shoring opportunities and investment decisions**, i.e. how investors understand and define near-shoring, how they perceive near-shoring opportunities in the Western Balkans, and which factors are influencing their investment decisions.
2. **Decarbonisation's role in investment strategies**, i.e. how decarbonisation is shaping investment strategies of foreign companies and forging partnerships with local firms. In addition, we assess the readiness of companies for the CBAM, i.e., the EU initiative for imposing a carbon tax on imports from countries with less stringent climate policies, identifying both barriers and opportunities.
3. **Collaboration and the risk of falling behind**, i.e. the quality and significance of collaboration between German investors and local companies in the Western Balkans, examining the key factors investors prioritise, the benefits of and barriers to intensified collaboration, and the risks of not addressing these barriers.

The interviews were systematically analysed using thematic analysis. Following Witzel (1982), the initial step in text analysis involves identifying key issues and topics within the interviews and marking the text with keywords derived from the interview guidelines and theoretical concepts. This approach emphasises identifying specific statements made by respondents on various subjects, such as their investment activities or approaches to decarbonisation. To make this possible, the interview data is coded. Coding involves categorising the data with keywords ('codes') to facilitate analysis, which makes it quantifiable and comparable in addition to ensuring that the insights accurately reflect the respondents' realities. The interviews were first transcribed, and then the text material was thematically coded using MaxQDA, a qualitative text-analysis tool that enables a structured contextualisation of the interviewees' statements.

● Perspectives on Near-shoring Opportunities and Investment Decisions

Interviewed investors stress that near-shoring is a key strategy that they are adopting to address challenges revealed by the pandemic and other global disruptions. COVID-19 has been a pivotal factor in reshaping business strategies, especially in terms of supply chain management and risk mitigation. Recent geopolitical events, such as the war in Ukraine, are pushing them more in this direction.

Investors perceive a significant potential for near-shoring in the Western Balkans. The region arises as a natural first option when investors are looking to move production closer to their European customer base, to shorten supply chains and to increase proximity to the end consumer for various reasons. They explicitly mention the 'local-for-local' strategy, according to which they would produce in Europe what they sell in Europe and produce in Asia what they sell in Asia. During the interviews, they mentioned a range of strategic factors that influenced their investment in the Western Balkans.

'The closer production and customer, the faster and less risk-sensitive the supply chain, and – usually – the greener the footprint. With manufacturing sites in Germany, the United States and China, even our European business depends on Asia, which is where near-shoring comes into play. Based on a stronger local-for-local strategy, we would mainly produce in Asia what we sell in Asia and produce in Europe what we sell in Europe to ensure a shorter supply chain.' (German investor, Serbia)

A similar strategy was interestingly reported by a representative of JETRO, the Japanese trade and investment agency, which has recently been promoting the Western Balkans more when working with Japanese investors interested in the European market. Referring to an example of a Taiwanese company, JETRO explains how Asian companies have also been recently considering the Western Balkans as a near-shoring location to be closer to European customers:

'They [a Taiwanese company] explained that they are planning to increase their capacity and have already built their second or third production facility in North Macedonia. When planning, they compared their many production sites in China or other Asian countries with potential sites in Europe. Ultimately, they decided to produce in North Macedonia. The reasons included requests from European companies to produce closer to Europe and concerns about geopolitical factors.' (JETRO)

Similarly, an investor in Albania observes the trend that manufacturing companies are relocating their production from Asia closer to Europe for the European market:

'But we see that companies are already moving back and new companies are forming. Some are relocating from Asia, particularly those producing PCB or electronic components used in machines. These companies are returning, sourcing chips locally and manufacturing in places like Albania or Serbia. They have subsidiaries and are moving closer to Europe. This shift is primarily for the European market, although many still maintain part of their operations for the Asian market.' (Erind Berberi, Albania)

Some interviewed investors mentioned that experienced and competitive suppliers from Asian countries, such as China and India, are looking to relocate facilities to the Western Balkans to be closer to their customers, as they already have the experience and capabilities to produce the required components. This kind of approach, in which companies invest in countries where their customers (not final consumers) are, can be considered another type of near-shoring.

Interviewer: 'Do you see near-shoring as something that can happen in the Western Balkans in the future more and more?'

Investor: 'Yeah, definitely, because, for example, we have some positive feedback from our current suppliers. So, for example, we have a supplier who is producing for us in China, but they are willing to open a plant in Serbia, and this is in process. Some of our current suppliers abroad are willing to open their facilities in Serbia. In Serbia, we have big customers, like Brose, we have Nidec, we have Johnson Electronics, we have Bosch, we have a lot of other automotive companies. And this is why they are willing to come to Serbia.' (Brose, Serbia)

One advantage of the short supply chains resulting from the 'local-for-local' approach that investors consider is that it ensures efficient, cost-effective and rapid production and supply.

Locating production facilities in the Western Balkans allows companies to produce essential parts efficiently and to supply customers quickly due to proximity. This setup reduces logistical complexities and transportation costs. Regular truck routes between production sites simplify logistics, making internal management and communication easier, which enhances the attractiveness of the region to investors. This indicates that regional cooperation in the Western Balkans remains important for attracting investments, as it facilitates local sourcing and shortens supply chains. Proximity to customers also ensures rapid delivery, which offers a significant advantage over distant locations, such as China, as was especially highlighted by disruptions during the COVID-19 pandemic.

'Transport costs are not high. We can manage in our companies very easily internally who will do what and how, and communication is easy and simple. So, it is a benefit, and we could be attractive for more investors if that is all connected.' (König Metall, Serbia)

'To have a location in this part of Europe was very important for the company to ensure the production of essential parts and to supply customers in the most effective way, considering the proximity to these customers.' (ZF, Serbia)

'In Serbia, you are delivering to Germany in one day. If that is the case from China, it is not possible and COVID really blocked that. And who knows if the next COVID will come in three years? Who can guarantee?' (König Metall, Serbia)

Another advantage is that it reduces carbon emissions, as producing closer to customers reduces the carbon footprint of transportation. According to the interviewed investors, this not only speeds up delivery but also enhances supply chain stability and reduces environmental impact, which has a positive effect on the balance for the CBAM report.

'The closer production and customer, the faster and less risk-sensitive the supply chain and – usually – the greener the footprint.' (German investor, Serbia)

Interviewer: *'You mentioned that near-shoring will help regarding the CBAM. What do you mean?'*

Interviewee: *'Transportation costs will be reduced, so you will have less impact on the environment, and this counts as well.'* (Brose, Serbia)

Investors also stress that this mitigates supply chain risks. The COVID-19 pandemic and geopolitical tensions, such as war in Ukraine, have exposed vulnerabilities in global supply chains. The interviewed German investors perceive near-shoring in the Western Balkans as a tool to diversify their supply chains and reduce reliance on Asia, thereby mitigating risks and reducing increased prices.

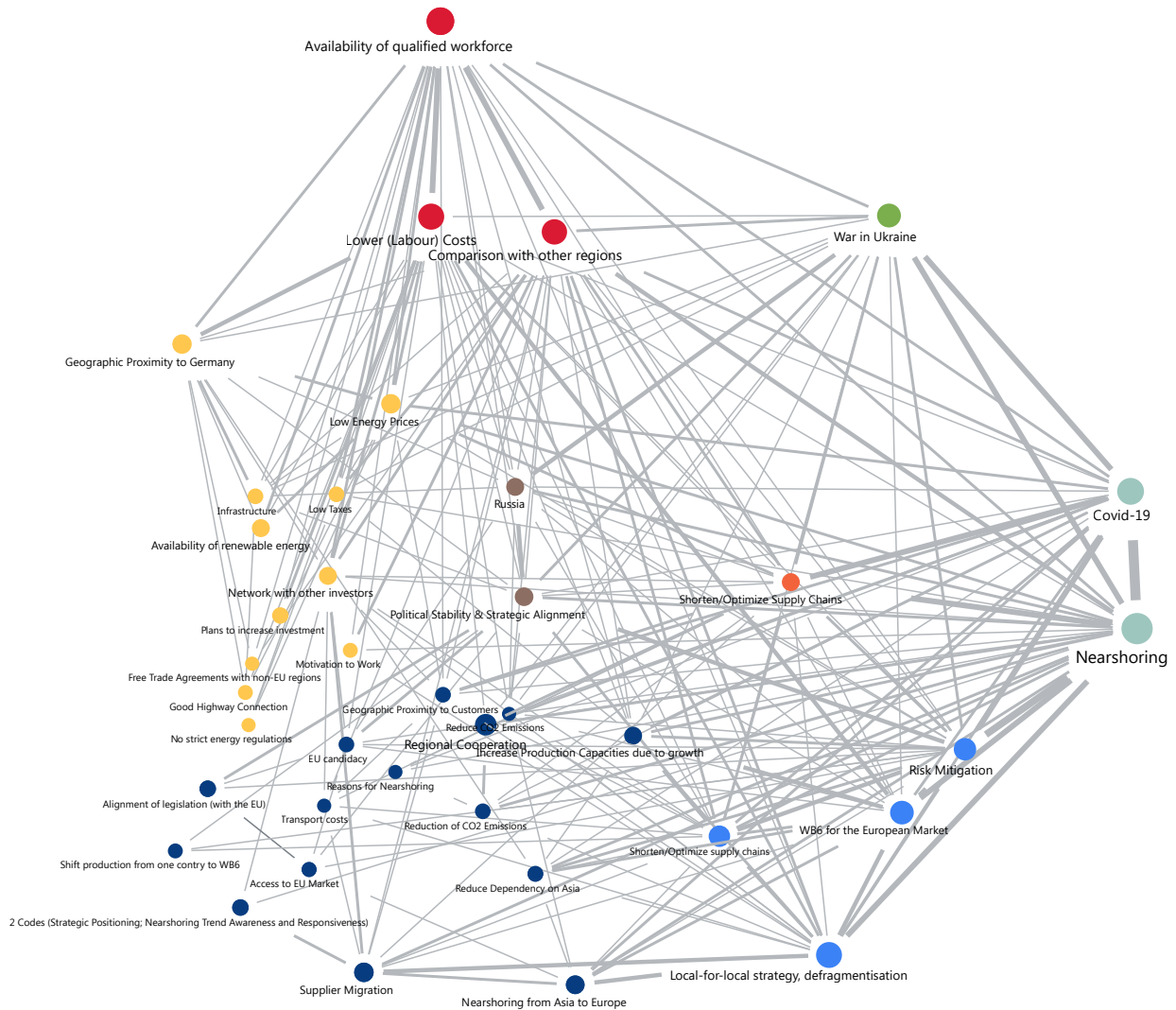
'Geopolitical risks and regulatory uncertainties are driving companies to near-shoring in the Western Balkans.' (German investor, Serbia)

Investors also discussed what makes the Western Balkans attractive to them. While the availability of qualified workers was the most frequently mentioned factor both in 2021 and 2024, lower labour costs gained importance in 2024, coming second in terms of the number of mentions, followed by risk mitigation. In addition, although it was previously unmentioned, the availability of renewable energy now ranks among the top investment reasons.

During our analysis, we utilised the code map feature in MaxQDA as a visual tool, which allowed us to represent and explore the intricate relationships between various codes and subcodes (i.e. topics) within our coding framework. This tool provided a structured visualisation that enhanced our understanding of the hierarchical organisation and interconnections among the themes that emerged from our data.

The code map depicts codes as distinct nodes, with their size and position reflecting their importance and frequency within the dataset. One of the primary strengths of the code map lies in its ability to visually illustrate connections between topics. By linking nodes with lines, the map highlights co-occurrences and conceptual relationships between different themes. Thicker lines signify a higher degree of overlap among topics.

● Transforming the Western Balkans through Near-shoring and Decarbonisation



Notably, the map reveals a strong interconnection between the topics of near-shoring and COVID-19 across all interviews. This suggests that interviewees frequently mentioned these topics together, indicating a perceived link between the pandemic and the impetus for near-shoring. Additionally, near-shoring is closely associated with risk mitigation, a factor often discussed alongside themes such as the optimisation of supply chains, Russia's invasion of Ukraine, and the strategic decision to invest in the Western Balkans in order to bring production closer to the European market.

The code map also underscores that the availability of a qualified workforce emerged as one of the most frequently cited reasons for investing in the Western Balkans, as indicated by the prominence of this node, along with low labour costs.

The visualisation further categorises investment motivations into distinct clusters. The purple cluster, for instance, represents strategic investment reasons, such as reducing dependency on Asia and aligning with EU standards. On the other hand, the yellow cluster highlights favourable conditions in the Western Balkans that positively influence investment decisions, including geographical proximity to Germany, low energy prices and the availability of renewable energy sources. This detailed illustration underscores that investment decisions are driven by a confluence of factors rather than a single motivation.

Table 2 / Comparison of all mentioned investment reasons during the interviews with German investors in 2024 and 2021 (percentages of mentioned and coded reasons throughout all analysed interviews).⁵

Question: Why did your company decide to invest in the Western Balkans?

Reason for Investing	2024	2021
Availability of qualified workforce	12.58%	15.12%
Lower (labour) costs	11.26%	12.79%
Comparison with other regions	10.60%	-
Risk mitigation	7.95%	-
Geographic proximity to Germany	5.30%	13.95%
Low energy prices	5.30%	-
Political stability & strategic alignment	4.64%	11.63%
Network with other investors	3.97%	-
Availability of renewable energy	3.97%	-
Increased production capacities due to growth	3.97%	-
Shorten/optimize supply chains	3.31%	-
Alignment of legislation with the EU's	2.65%	-
Plans to increase investment	2.65%	-
Geographic proximity to customers	1.99%	-
Low taxes	1.99%	2.33%
Reduce dependency on Asia	1.99%	-
EU candidacy	1.99%	-
Infrastructure	1.99%	-
Good highway connections	1.32%	-
Gain access to EU Market	1.32%	-
Shift production from another country to WB6	1.32%	-
Strategic positioning	1.32%	-
Near-shoring trend awareness and responsiveness	1.32%	-
Motivated workforce	1.32%	8.14%
Free trade agreements with non-EU regions	0.66%	1.16%
Reduce CO ₂ emissions	0.66%	-
No strict energy regulations	0.66%	-
Transportation costs	0.66%	-
Easy to connect with officials	0.66%	-
Diaspora	0.66%	-

⁵ The percentages presented in each column are specific to the respective year and are not directly comparable across years. That is because fewer interviews were conducted in 2021, resulting in less codable text material. Additionally, fewer codes/investment reasons were identified in 2021, which inflates the percentages compared to 2024, where a broader range of reasons was identified. In 2024, we identified 30 investment reasons in the interview analysis and coded them accordingly, while in 2021 there were only 13. The percentages indicate how often we counted the reasons in all interviews and how they relate to the total number of mentioned investment reasons. For example, in 2024, the reason 'Availability of qualified workforce' was mentioned a total of 19 times, corresponding to 12.58% of all mentions. The only valid comparison between the two years is in the investment reasons that were consistently mentioned by investors, noting any new additions or omissions over time.

According to the interviewed companies, the Western Balkans offer a **skilled, cost-competitive labour force** compared to Western Europe.

'We know that it is currently still relatively easy to find trained personnel. On the labour market in Kosovo, there are many trained people, but there are not too many job opportunities for people. Since we've been here, we now have 18 employees. Recruiting has been really easy.' (Munda, Kosovo)

'The other thing, the other option or benefit, was you have access to human resources. So, you had a lot of people, young people, with a good education, university or something technical. And we had a lot of human resource potential. So, you can choose from the best.' (Erind Berberi, Albania)

'When choosing a business location, company owners certainly took into account good road infrastructure as well as professional and reliable workers. All available labour comes from the local region. Our company is located in the north-east of Bosnia and Herzegovina, at the very gate of the European Union, so to speak. Transport, energy and labour costs were probably taken into account.' (Pass, Bosnia and Herzegovina)

Compared to the last study on near-shoring potential, from 2021, there is now greater emphasis on cost factors. Lower labour costs have become the second most important reason for investment.

'But I do know that some of the plants they [i.e. the mother company] have in Poland, France and Mexico are currently being expanded. Because you can also see that it's getting more and more expensive in Germany. So that's a problem. Production costs in Germany are already a problem for companies. Be it employees, be it energy costs, be it employee availability, be it a shortage of skilled workers – we have to deal with this every day in Germany.' (Munda, Kosovo)

Additionally, low energy prices have emerged as an important factor, which was not considered significant in the previous study and has now also become a decisive factor for near-shoring and for increasing or moving production outside of Germany:

'Furthermore, of course, we have an incredibly low electricity price in Montenegro, which is of course a big factor, because, yes, it sounds strange, but for battery production, we also need cheap electricity.' (High Performance Battery, Germany)

Risk mitigation, prompted by recent global events (e.g. the COVID-19 pandemic and the war in Ukraine), has emerged as an important factor when deciding on an investment location. This consideration not only involves shortening supply chains to make them less susceptible to disruptions but also includes **geopolitical considerations** when selecting an investment site.

'OEMs are also at a point right now where they have realised with the whole COVID situation and the war in Ukraine that these incredibly long supply chains are a very big risk factor.' (Munda, Kosovo)

'For us, geopolitical considerations naturally play a major role. Of course, this has something to do with our liberal values, such as democracy, freedom and free markets. On the other hand, we are dependent on access to our global customers. An investment in a country that either does not share central values or supports a conflict with our central markets must therefore be carefully considered.' (Mubea, Bosnia and Herzegovina)

Shortening supply chains to minimise risk is of course accompanied by **geographical proximity** to Germany, which once again plays an important role in investment decisions:

'The automotive industry, in particular, is used to long delivery times because parts are imported or exported from all over the world. And the distance from the Western Balkans to the EU is very limited. It's manageable. [...] It's just good that there is a direct highway connection to Germany. And in the long term, of course, we could also use the port in Durrës or Thessaloniki.' (Munda, Kosovo)

Decarbonisation's Role in Investment Strategies

The interviews revealed three main motivations for pursuing decarbonisation and green investments: (a) regulatory and customer pressure, (b) cost savings and efficiency, and (c) competitive advantage and market access. These motivations drive both local businesses as well as foreign investors to adopt green practices, which influences investment and collaboration in the region. The interviews also indicated an additional factor affecting companies' decarbonisation efforts: practical considerations related to clean energy investments, which we call **'pragmatic environmentalism'**.

Companies are facing increasing demands from customers, especially large multinational corporations, to reduce their carbon footprint and adopt sustainable practices. This **regulatory and customer pressure** is a significant driver of decarbonisation. German investors are seeking suppliers that can adopt sustainable practices to minimise their carbon emissions, which creates opportunities for local companies to strengthen their collaboration with German investors. For instance, one interviewee from ZF in Serbia stated:

'Our target for the production facility where we produce e-drives and e-machines is to be CO₂-neutral by 2025. These targets are set by the OEMs. We also started procuring green electricity, produced from renewables, in 2020 to ensure we reach this target. So, yes, it's very important that we provide products with as little of a carbon footprint as possible. We are now preparing ourselves, not just in Serbia but across the entire group, for these new regulations.' (ZF, Serbia)

Similarly, Kostal's representative in North Macedonia emphasised:

'I will give you an example. Many of our customers are saying, 'If you expect nomination for a big project, especially for power electronic, for electric or plug-in hybrid vehicles, you need to have a production facility with a carbon-neutral footprint by no later than 2025 or 2026. If we want to compete for such projects, we need to build a new plant or upgrade the existing one to be carbon-neutral.' (KOSTAL, North Macedonia)

Investing in renewable energy sources, such as solar and wind, can lead to long-term **cost savings** on energy bills. Companies also see opportunities to optimise operations and waste management so as to boost their efficiency and reduce their environmental impact. Similarly, energy prices in the Western Balkans are considerably lower than in Germany, which makes investing in renewable energy and the return on investment more favourable.

'When we looked at the return on investment, we were paying for coal energy anyway. So, now we are paying half there, half there, half in the investment, half in the energy, in coal energy. So, in five years, we will not pay anything because we have already seen what we are getting from solar energy. The invoice has really decreased a lot from [the one for] coal energy, and we can see it immediately.' (Eurometal Shpk, Kosovo)

Companies that demonstrate a commitment to sustainability and decarbonisation can gain a **competitive advantage** that helps them to become part of the supply chain of international customers. When asked if reducing carbon emissions in local companies' production processes would increase near-shoring potential in the Western Balkans, most interviewed German investors had a clear message:

'Absolutely. This is the advantage. From my point of view, if local suppliers recognise the importance of decarbonisation, they will have an advantage over other suppliers. [...] The clear question now is: What is the advantage of the new supplier, and why should we choose them and maybe replace others? Decarbonisation is something we have clear targets for, with a defined timeline, embedded in the strategy of our group and the regulations. We are committed to achieving these targets. To do so, we need a supply chain that supports these goals in all areas.' (ZF, Serbia)

The interviews revealed an additional factor affecting companies' decarbonisation efforts: practical considerations regarding clean energy investments. This concept can be described as **pragmatic environmentalism**. While companies acknowledge the importance of environmental sustainability, their primary focus often remains on maintaining production levels and meeting financial obligations. Investments in renewable energy, such as solar panels, are considered secondary to core business operations. Companies are willing to comply with environmental regulations and standards set by customers, but only if it is financially viable and does not jeopardise profitability. An investor from Bosnia and Herzegovina noted:

'We often encounter various requests from customers, which mostly involve adjustments, additional investments, etc. It even happens that they are sometimes surreal and unenforceable in practice. Each such request is considered and analysed by our top management, i.e. the highest level. When making decisions, we try to be rational and pragmatic because the preservation of the production process and the profitability of the company is our first priority. Financial obligations towards employees and state institutions are undoubtedly at the top of the priorities. However, we are also aware that we have to worry about decarbonisation, environmental protection, sustainable development and the circular economy.' (Pass, Bosnia and Herzegovina)

When talking about decarbonisation efforts, the companies also commented on the CBAM and their preparedness for it. The CBAM is a tool implemented by the European Union to avoid 'carbon leakage'. Since a considerable part of exports from the Western Balkans go to the EU, the region is preparing itself for the implications of the CBAM and how to comply with its regulations. However, companies show diverse levels of preparedness for the CBAM. While some companies are proactively addressing the new regulations, others remain unaware of or underprepared for it or say that they will not be affected by it. Some of the interviews indicate a significant lack of awareness and understanding of the CBAM among local companies and governments or suggest that it is not yet a top priority for some foreign investors operating in the region.

'In this phase and the next few years, the automotive industry will be under impact, especially through its supplier network, with direct effects and readjustment limited to particular situations. In the long run, we can anticipate a reconfiguration and adjustments of supply chains. Our logistics, procurement and quality teams are aware of the upcoming requirements. Foreign investors, especially German ones, are already putting initial plans in place to address the new requirements. I am afraid that not a lot of local/regional companies have much information about or treat the topic as a high priority.' (KOSTAL, North Macedonia)

However, some companies are taking steps to prepare for the CBAM. A local company in Kosovo, for instance, has switched to using solar energy as a proactive response to the CBAM so as to maintain a competitive edge as early adopters:

'When we told our clients that we are switching to solar energy, they were very happy because of the CBAM. [...] If everyone is doing so, we cannot do something different. So, why should we wait until the end? So, we are one of the companies here in this region that started [...] producing energy with solar panels. So, we could be an example for others as well. And since our clients will also have the carbon tax soon, very soon, we want to be competitive in this area, too. And I'm sure that with panels, since we have switched to production of energy, it will be lower or no tax at all.' (Eurometal Shpk, Kosovo)

Reasons for this mixed picture of how the CBAM is being perceived might be that there are still **barriers and challenges** regarding compliance. Many companies, especially local and smaller ones, are not fully aware of the details and implications of the CBAM, which indicates a **lack of knowledge** of and education about the CBAM, especially regarding the **complexity of reporting**:

'I think in general there is lack of knowledge, education or focus on [the CBAM]. I believe some companies and investors will start thinking about the issue when they are faced directly with the potential penalties. There is an overall lack of information on the importance, on the timing of implementation, and on potential repercussions. Undoubtedly, the large foreign investors that are export-oriented may contribute to the adjustment and implementation of this process by transferring their knowledge and experience in the field to small and local entities'. (KOSTAL, North Macedonia)

'Everybody must think about optimising the manufacturing footprint to be carbon-neutral and to use renewable energy. These necessary actions are both potential problems and opportunities. Based on the strict deadline for implementation of the mechanism, we go into details with tier-two and tier-three suppliers in order to review and assess their progress and procedures. We have already established software support for assessing our suppliers.' (KOSTAL, North Macedonia)

'For example, we are installing a photovoltaic system. How to incorporate this into the CBAM balance? I don't know. But we are taking the steps that we can to improve our position.' (Brose, Serbia)

There is also the fear that compliance with all the regulations associated with the CBAM and the Green Agenda will tend to increase product prices on the market, which in turn will have to be paid for by the customer.

'The question will certainly be whether customers are even prepared to bear the higher costs involved. In my experience, the availability of 'green' steel is welcomed, but the willingness to bear the necessary additional costs is limited.' (Mubea, Bosnia and Herzegovina)

Since compliance with the CBAM and the implementation of green practices at the companies go hand in hand, obstacles to the introduction of measures to reduce CO₂ emissions also influence companies' preparedness for the CBAM.

The analysis of the interviews reveals several key barriers to decarbonisation and the implementation of green practices in companies within the Western Balkans. These barriers include infrastructure and technical capabilities, regulatory and policy challenges, and insufficient waste-management infrastructure.

The **limited infrastructure** to support **renewable energy** sources is a barrier mentioned by multiple German investors. For instance, in Serbia, while international investors are keen to invest in

photovoltaics (PV), the existing grid infrastructure is not ready to feed the generated electricity back into the grid. As noted by one interviewee:

'Serbia's infrastructure still poses certain challenges. Many international investors invest in solar energy, especially in new buildings, and companies can source renewable energy from photovoltaic parks in Serbia. However, at the time of our investment, the power grid was not ready to absorb overflow energy produced. It took approximately six months to receive a permit, and sometimes the infrastructure is not stable enough to support feeding in locally produced renewable energy.' (German investor, Serbia)

Similarly, in Kosovo and Bosnia and Herzegovina, companies face challenges due to inadequate infrastructure, which impacts their ability to rely solely on renewable sources for their energy needs:

'There is definitely still a way to go. And one possibility for companies that we can now see in concrete terms would be to use photovoltaic systems on site. But even if the entire roof is packed full of solar cells, that won't be enough for our energy needs. So, we also have a bit of hope that the government will make Kosovo's electricity producers fundamentally greener.' (Munda, Kosovo)

'Customisation and increasing green practices in Bosnia and Herzegovina is going very slowly; we are definitely lagging behind Western Europe. For example, here is the official data for 2023 (source: ERS): Our company used 49.55% from thermal energy, 48.10% from hydro energy, and only 2.36% from solar power plants, mini-hydropower plants and biogas power plants. Some OEM manufacturers are already hinting that the condition for business cooperation will be the use of 50% of total consumption from renewable energy sources by 2030. Elektroprivreda Republika Srpska (ERS) [the state-owned integrated power company] is currently unable to issue guarantees on the origin of electricity. According to the available information, the system for controlling the issued green certificates should go live in 2024. I think it will be a significant challenge in the next few years.' (Pass, Bosnia and Herzegovina)

These quotes highlight several critical challenges faced by companies in the Western Balkans in their efforts to decarbonise and adopt green energy practices. The interviewed investors point out the significant lag behind European standards and conditions, which makes it difficult to meet the renewable-energy targets set by their customers, which are OEMs. The absence of a green certificate means that companies cannot verify the origin of their supposedly renewable energy, a crucial requirement for many OEMs. This inability to procure green energy hampers the efforts of companies in the region to align with the sustainability standards expected from their international partners. The broader implication of these challenges is a potential delay in the region's integration into the global green economy and a potential weakening of its ability to attract and retain investment from companies committed to sustainability.

Bureaucratic inefficiencies and corruption are additional obstacles complicating the implementation of green projects. As highlighted by one interviewee:

'Many companies have invested in renewable energy in the last two or three years because of the self-produce condition in the Albanian law, which says that companies can invest in 500 kW of solar energy for their own use without any huge burdens. This has helped many companies to reduce their electricity consumption. However, for many companies like us as well as for production companies, 500 kW is not enough. So, we actually need much, much more. In the past, receiving a license for 2 MW from the ministry was not easy and the regulations were not clear.' (Lindner, Albania)

Waste management is another critical challenge for companies, as it hampers their efforts to adopt circular economy practices. Companies must deal with limited waste management infrastructure, which makes it difficult to handle industrial waste sustainably. This, in turn, adds to their operational challenges and costs, as the following interview quote shows:

'Recycling and water treatment plants did not meet our expectations in Serbia. Due to the lack of recycling companies in Serbia, investors must export some of their production waste in order to properly recycle.' (German investor, Serbia)

Not recycling also means that important and valuable resources, such as PET and aluminium, are not returned to the economic cycle. In the case of Montenegro, this is perceived as a missed investment opportunity:

'Of course, the whole thing is also a political issue, especially when it comes to waste. Over 10 years ago, I proposed a EUR 15 million recycling park for the municipality of Ulcinj with a well-known company. It went back and forth 10 times, and nothing came of it. The waste is still buried in the landfill, including valuable and good-quality aluminium and PET. They bury millions there. The possibilities are there, but the question is whether the political will exists to do something for the country rather than for personal gain.' (Michael Bader, Montenegro Experte, Montenegro)

The analysis of interviews revealed several ways in which green practices are perceived as opportunities for advancing investment and collaboration activities in the region. Some local companies leverage these opportunities to differentiate themselves and gain a competitive edge by positioning themselves as environmentally responsible and sustainable suppliers. This approach is seen as a means of **attracting new investments**, improving the region's attractiveness as an investment destination, and enhancing **supply chain integration**. Increased long-term investment in renewable energy, improved energy efficiency and large-scale waste management at the regional level can ultimately contribute to the Western Balkans' **green transition**.

The availability of renewable energy sources, progress in decarbonisation and implementing EU environment standards will make the region more attractive for FDI. A representative from the Japanese External Trade Organization (JETRO) mentioned that the Western Balkans would become more attractive to Japanese investors if they make ‘progress on environmental issues [...] and have a close standard to EU countries’. That means that, by doing so, the Western Balkans could increase its competitiveness not only for EU-based companies but for any company that trades with the EU, as the following quote illustrates:

‘We’ve observed a trend – not just in the Western Balkans, but across Europe – where Japanese companies are now seeking new locations. This tendency started before the pandemic, driven by the European Union’s Green Deal. Prior to the corona pandemic, some OEM and tier-one companies had encouraged Japanese suppliers to establish operations in Europe rather than exporting from Asia.’

Interviewer: *‘In what way was this related to the EU’s Green Deal?’*

Interviewee: *‘To reduce transportation distances and congestion, thereby supporting environmental goals. This trend was already evident and was accelerated by Russia’s invasion of Ukraine. Even before that, the pandemic disrupted global supply chains, prompting many companies to seek closer proximity for their production facilities. This heightened demand, combined with geopolitical factors, has led Japanese companies to explore new European locations.’ (JETRO)*

As mentioned above, according to the interviews, **improved environmental standards and decarbonisation efforts in the Western Balkans can help local companies to integrate into the supply chains of multinational corporations**, which are eager to reduce their carbon emissions either due to political regulations (e.g. the CBAM and the EU’s Green Deal) or customer expectations.

‘Emissions are very important, especially in the industry where we conduct our business. BEVs [battery electric vehicles] do not have CO₂ emissions when they are used, and that is a great benefit of this technology. However, on the other side, the production and the whole supply chain generate emissions that must be reduced. Due to regulations like the Green Deal, OEMs started pushing all suppliers and the supply chain towards achieving zero emissions in their production facilities a few years ago.’ (ZF, Serbia)

In this lies a chance that local companies and suppliers do not want to miss out on. The need for a coordinated approach to decarbonisation and renewable-energy development can also foster increased **regional cooperation** in the Western Balkans as well as with the European Union. And, vice versa, regional cooperation in the Western Balkans facilitates efforts to reduce carbon emissions.

An interviewed regional energy-sector expert with vast experience in developing regulatory-legal framework and project financing, explained that the CBAM, an EU regulation, will impact third-party countries by fostering a clean transition. The Western Balkan economies have an existing framework for this transition in the form of the Energy Community Treaty. This framework will play a role in how the CBAM affects the region because it provides steps to adjust regulatory and legal frameworks by establishing mechanisms, such as the EU's Emissions Trading System (ETS), at the national level and by aligning emission prices with EU levels. Although ambitious in terms of timing, these adjustments could drive local economies positively.

'In the case of Serbia, when the law regulating the energy sector changed, a window of opportunity was opened and competitiveness was increased. The auctions have been launched where private investors could compete and then later develop projects. What remains, again, as a task is to continue to align the framework with the most recent framework in the EU, which is a clean energy package.' (Regional energy-sector expert)

An analysis of the interviews revealed that there is increased demand for green energy and sustainable practices in the private sector. At the same time, companies that want to implement more green practices in their operations, such as by installing photovoltaic panels, encounter bureaucratic and technical hurdles, such as insufficient grid stability. Most interviewed companies pointed out that governments in the region need to **improve the regulatory framework**, invest in renewable energy infrastructure and strengthen waste management systems to support companies in their efforts to become greener so as to remain competitive as suppliers to EU-based companies and to allow a faster return on investment.

Overall, the pursuit of decarbonisation and green investments in the Western Balkans is driven by a combination of external pressures, internal strategic goals, and the potential for long-term cost savings and competitive advantages. These practices are shaping investment decisions in the production industry and provide the region with a window of opportunity to react to these developments by shaping sustainable supply chains. As one regional energy-sector expert put it:

'Decarbonisation is an opportunity – not only this year or in the next five years, but for decades.'

Collaboration between German Investors and Local Companies in the Western Balkans

As we have found in our previous near-shoring study, and as we will present again in Chapter 4, survey data consistently show that while most German companies in the region report that they work with local companies, the level of cooperation remains low in terms of turnover share and limited to buying goods and services. The interviews we have conducted here provide a better understanding of the reasons for these conditions and their implications. The focus is on the key factors that investors prioritise when engaging with local companies, the barriers to intensified collaboration, and the risks associated with not addressing these barriers for both German and local businesses.

As previously elaborated, some of the interviewed German investors plan to localise their supply chains to reduce the risks and vulnerabilities associated with having long, global supply chains. The interviews provide a glimpse of how exactly German investors plan to optimise their supply chains in response to the CBAM. For instance, sourcing from local or regional suppliers offers more flexibility and stability to them, as it can provide advantages in terms of shorter transportation distances, reduced emissions and faster delivery times.

'Our general goal is to localise as much as possible and thereby ensure that the European supply of components – such as packaging materials, plastic or metal parts, and raw materials – comes from Serbia. Keeping everything as close to the factory as possible develops the area and positively impacts our carbon footprint.' (German investor, Serbia)

'We intend to have companies, our suppliers, nearby. So, when we established, for example, I don't know, the company in Mexico, we were trying also to find the suppliers nearby. This is what we are also doing in Serbia. And we have a special department called Supplier Development, which is also searching for suitable suppliers near our facilities in different countries and regions.' (Brose, Serbia)

'And if you are talking about our suppliers, we are now developing suppliers for raw material in Serbia, not from Germany, as we are buying today. And for indirect material, when we are talking about spare parts or all other parts that can be produced in Serbia, we are localising suppliers. It is cheaper, it is faster, and there is no transport, there is no customs. So, yes, we are also developing small companies in Serbia and their customers.' (König Metall, Serbia)

When selecting local suppliers, German investors have several requirements and expectations that local businesses must meet to become part of their supply chain. It is noteworthy that the decision is never based on a single factor. For the German investors interviewed, local suppliers must meet multiple criteria simultaneously. When elaborating on the expected deliverables from local companies, the interviewed investors also mentioned the barriers associated with it, which is why they will be discussed here simultaneously.

'From the first day, we were looking for potential in the region to source some parts. Several factors are very important, and I will mention some of them: You need suppliers who are already producing according to the automotive standards, they must offer a competitive price level, they need to be approved by our customer, and the parts must also be approved by the customer. This validation period can take several years, so you need time for that.' (ZF, Serbia)

Key requirements regarding local suppliers include adherence to production and quality standards, possession of relevant certifications, high production capacity, competitive prices and, more recently, evidence of lower CO₂ emissions.

For instance, local companies are expected to adhere to industry standards by obtaining necessary certifications (e.g. IATF, ISO 9001, ECOVADIS) and demonstrating quality control. According to the interviews, this specifically applies to companies in the automotive sector, where any disruptions or issues cannot only jeopardise safety but also result in significant financial losses. So, before entering a collaboration with German investors, local companies must prove that they are responsible and reliable partners.

'You have certain standards to fulfil. There are rules and, for that, you need time. As a supplier, you must adapt your complete business model towards that. For example, reliability and liability are very important in the automotive industry. We are talking about parts that can impact the safety of people, which is why these standards are very strict. To be a supplier in that supply chain, you must be fully compliant with certain standards and ensure you are in control of your business. Otherwise, if you have a disruption or a problem, you can harm people, and it costs a lot of money. Stopping an OEM's production line is very expensive.' (ZF, Serbia)

'I met a lot of small companies, but they do not even have basic ISO 9001 standards. And that was always the blocking point to becoming a supplier of some German customers. Normally, technically, they are absolutely okay; they have know-how, they have good ideas, and the price is low. But they do not have basic management standards or QS implemented, and that was always a blocking point. So, if we develop small companies to a certain level and educate them, then they will all be visible for German companies as suppliers.' (König Metall, Serbia)

Another requirement German investors are looking for in suppliers is that they have the capacity to handle large projects. For instance, an investor in North Macedonia mentioned during the interview that they have been able to design and produce production lines locally and that working with local or regional companies rather than producing everything in Germany or China has reduced costs by 35%. However, they note that more complex tools and equipment still need to be sourced from outside the region and that they take a realistic approach to the Western Balkans' **production capacities:**

'KOSTAL has a local supplier development team responsible for working with regional suppliers. We do have some local flexibility and the ability to find and develop alternative regional suppliers as well as to design and develop production lines in the region vs. using Germany or China. The flexibility is not there on procurement of electronics parts, as they exclusively come from Asia.' (KOSTAL, North Macedonia).

A new investor who just opened a plant in Kosovo noticed that:

'When it comes to special spare parts for machines, the region is a bit more difficult. It's not so easy to get hold of spare parts and very specific machine parts.' (Munda, Kosovo).

This impression is underlined when looking at the interview with a local company from Kosovo that supplies exclusively to German companies in Germany. They confirm that the lack of certain machinery and production capacity hinders them from accepting an increasing number of production requests. However, they found a solution by cooperating on a regional level with a company from Serbia to pool their capacities:

'We can do the production here, but there are some parts that we are sending to Serbia, for example, to be galvanised. Nobody can do it in Kosovo, and it's very much needed. If we had somebody to invest in this part, it would be very profitable, not only for our company, but for all companies that are working in Kosovo. [...] Also, we do not have the capacity to produce, meaning that we are working with two shifts – a day shift and a night shift – but we don't have more capacity. For now, we're producing three to four hundred tonnes, but we receive requests for maybe 600 tonnes per month.' (Eurometal Shpk, Kosovo)

Often the lack of sufficient production capacities leads to the problem of local companies not being **financially competitive** despite the fact that they fulfil the other requirements. That again shows that it is a bundle of factors that makes German investors work with local suppliers:

'And even though they [a local company] had the IATF certificate, believe it or not, they were not competitive. Yeah, a lot of companies – for example, in Serbia – that we wanted to involve, we did some kind of benchmarks and, unfortunately, they had higher prices than the companies in Germany, our current suppliers. Because they didn't face this kind of production, they didn't have machines, know-how, etc. So, a lot of those companies were, let's say, smaller ones, so they didn't have a capacity to fulfil our needs and, yeah, I would say those were the main blocking points.' (Brose, Serbia)

For German investors, it is important that local companies offer competitive prices and are cost-effective compared to existing suppliers, which are often located in other countries. In that sense, foreign companies are looking for local suppliers that can match or beat the cost competitiveness of their existing global suppliers.

'So, it wasn't anymore the low-cost country production, as the prices were high. I just made some examples from Serbia, but we also have examples from Romania, Bosnia and Herzegovina, and elsewhere. Yeah, in most of the cases, the prices were too high.'
(Brose, Serbia)

In contrast to the last study, from 2021, this time decarbonisation efforts of the companies play an increasing role in deepening cooperation between German and local companies. Some interviewees mentioned that they are looking for innovative local suppliers that have already integrated sustainable practices and that can contribute to the investors' sustainability goals and reduce the carbon footprint of the supply chain.

'Among the suppliers we collaborate with already, we'll keep working with the ones that adjust their activities and operate under the neutral-carbon-footprint guidelines. The ones that do not adapt will not be part of our supply chain. Of course, this will not be an overnight change, but a process that takes some time to adjust.' (KOSTAL, North Macedonia)

This strategic shift not only meets environmental targets but also provides competitive advantages in anticipation of the upcoming CBAM regulation, positioning companies ahead of peers who may not prioritise sustainability to the same degree. Furthermore, the use of eco-certified suppliers and sustainable materials demonstrates a commitment to reducing carbon emissions and lowering environmental impact, which underscores the broader trend towards greener business practices and the adoption of sustainable supply chain strategies.

Lastly, the interviewed companies underlined that they are looking for partners with an **innovative and entrepreneurial mindset** as well as a willingness to learn and adapt, which is sometimes not easy to find:

'Some of the local companies, I have to say, are really great – especially in the construction segment, where we cooperate most. I am sometimes amazed. [...] Then there are companies that still have not understood that you first have to submit an offer before you can sign a contract. Of course, attempts to give money to receive a job still exist in Albania. The understanding that especially internationals are blacklisting such companies are not considered in those moments. However, things are improving, and that is important.' (Lindner, Albania)

'The local mindset and understanding is that foreign investors give confirmed long-term business commitment upfront and only after the contract is secured are local companies willing to invest in new equipment and to expand the production activities and services they offer. However, this is not how things work in practice. Both parties need to be proactive, not just the investors seeking local suppliers. While we – the large investors – can be proactive in our approach, we do not have complete knowledge of the landscape and opportunities that exist in the region. At times, we can only find and work with the limited resources and partners available due to the lack of proactivity and entrepreneurial drive of the local SMEs. This process is not as developed or efficient as it is in countries with more established industrial traditions, such as those in Central Europe or Turkey.' (KOSTAL, North Macedonia)

This example shows that German investors rely on the knowledge and network of local companies. Some German investors are investing time and financial resources to provide training or support to their partners to help them develop the capabilities needed for the industry's requirements. In return, foreign companies value the local market knowledge, connections and ability to navigate the business environment that local companies can provide. The know-how transfer and ecosystem development are seen as important benefits of collaborating with local partners, and that applies especially to the service sector:

'So, wherever possible, definitely and very, very gladly. That is also very, very important to me. Let's take the example of tourism. Everything we do with our tourists, all the excursions we go on, all the recommendations we give, it all goes through the local community. So, I don't want to entrust a group of tourists to a foreigner to go to Lake Skadar. No, they all have to be local people. That's what I've been doing for years. And maybe that's why I get along well with them, because they know that I work for them and not against them.' (Michael Bader, Montenegro Experte, Montenegro)

Interviewer: *'Do you envisage increased cooperation with companies from the Western Balkans if they reduce their carbon footprint?'*

Interviewee: *'Where there is general potential to cooperate, yes. If you look at the supply chains, logistics service providers, in particular, have great opportunities to create synergies between companies, to consolidate shipments, and to thereby improve their own and their business partner's carbon footprint.'* (German investor, Serbia)

A regional energy-sector expert sees collaboration between foreign and local companies as a way to foster the development of a more sustainable and **innovative ecosystem** in the region. Experienced foreign companies can act as peers to support local startups, SMEs or even large-scale companies in their efforts to develop and adopt green technologies and solutions. This can lead to the creation of new business opportunities and accelerate the region's transition to a low-carbon economy.

'On the one hand, the regulatory-legal framework can be established to foster further development and growth promoting the best practices. Still, cooperation of local companies and institutions with actors experienced in successful implementation of those best practices elsewhere may be beneficial and may accelerate the growth. One such story started back in 2010 and is related to the development of the large-scale infrastructure that connects a country in the WB6 region with an EU member state, namely, the undersea cable between Italy and Montenegro (MONITA). The regulatory-legal framework has been continuously evolving and transposing up-to-date EU energy packages, while direct cooperation between project developers – Italian and Montenegrin system operators – has been established at the corporate level, enabling at the same time the exchange of know-how with the EU peer. MONITA has been continuously operating for almost five years, and the electricity transit has nearly tripled compared to the time before the undersea cable. This cooperation certainly developed the know-how and capacities of local companies and institutions, and the Italian partner is still the shareholder of the company in Montenegro.' (Regional energy-sector expert)

If the increased competitive pressure is perceived as an opportunity to adapt and grow, it could be a chance to develop and become part of sustainable supply chains, concludes another investor:

'While there are strong local companies, many others still require development and have the potential to grow within the ecosystem. This represents a significant opportunity for local businesses, as many small companies fear that large investors from China or Germany will take away jobs. However, when viewed as an ecosystem, there are more opportunities than risks, allowing local companies to participate and collaborate in this environment.' (German investor, Serbia)

In summary, the interviews suggest that foreign companies prioritise collaboration with local partners that meet international standards, offer competitive pricing and reliable delivery, demonstrate financial stability, support sustainability goals, provide local market expertise, and are willing to adapt and grow together. Leveraging such cooperation could accelerate the integration of the region into sustainable supply chains, drive investments in renewable energy and decarbonisation, ensure compliance with the CBAM and other regulations, and foster the development of a more innovative and sustainable ecosystem in the Western Balkans. This raises the question: What are the risks if the potential for intensified collaboration, which currently presents itself as an opportunity, cannot be harnessed?

Conclusions

The interviews with German investors, local companies and expert institutions showed that the Western Balkans is an attractive investment destination for companies serving the European market owing to the region's low labour and energy costs, available workforce, accessible renewable energy, compliance with EU standards, and potential to minimise supply chain risks due to geographic proximity and geopolitical alignment with the EU.

The interview analysis showed that German companies operating abroad are bound by and must adhere to EU directives, such as the Green Agenda and the CBAM, and that they must heavily rely on local companies and suppliers to meet these standards. Close and stable cooperation in implementing the energy transition is crucial for all parties involved. The pressing question is whether local companies can withstand this pressure and swiftly adapt to the new circumstances. With support from regulatory and financial institutions, they must strive to avoid being outpaced by established high-profile suppliers from Asia that are ready to position themselves closer to German producers in the Western Balkans.

However, investors have identified barriers that could prevent companies in the Western Balkans from taking advantage of this window of opportunity and becoming truly competitive and strong partners. Local companies should address the barriers to collaboration mentioned by German investors through:

- Enhancing quality standards in production
- Obtaining relevant certificates
- Increasing know-how
- Expanding production capacity
- Investing in new technologies

Governments in the Western Balkans can support the region's business community in their efforts to surmount these obstacles by providing financial support schemes, improving legislation and regulations, and reducing bureaucratic inefficiency in implementing energy-transition activities.

If the WB6 want to attract more investors from Germany, the EU and Japan, they need to foster decarbonisation by streamlining the procedures for obtaining licenses, expanding recycling and waste management capabilities, implementing regulations for the use of photovoltaic panels, and investing in grid technology to facilitate electricity feed-in, particularly for production companies.



Chapter 4 – What do foreign companies say about their experience in the Western Balkans, cooperation with local companies, decarbonisation and the CBAM?

- *The main reason for investing in the Western Balkans is its good geographical location, followed by the quality of the labour force and the relatively low wages. These three reasons remain unchanged compared to our previous survey from 2021.*
- *The satisfaction of foreign companies with their overall experience in the region is very high. In total, 72% of respondents indicated that they are either satisfied or very satisfied. This marks an improvement over the previous survey from 2021.*
- *Companies highlight the quality of the labour force as the main positive aspect of working in the Western Balkans, followed by geographic location and the relatively low wages.*
- *The main challenges of working in the region are poor governance, weak institutions and inadequate infrastructure.*
- *The majority of foreign companies in the region report that they already work with local companies, with only 14% of them saying they do not. Buying goods and services remains the most common form of cooperation, followed by selling products.*
- *11% of the companies indicated that they have relocated operations from a distant location to one closer to their headquarters, potentially indicating a near-shoring trend.*
- *Foreign companies see the region as an attractive destination for green investment, with two thirds of them indicating that the region is either very attractive or somewhat attractive.*
- *Around two thirds of the foreign companies responded that they would either probably or definitely invest more in the region if it were to make improvements in decarbonisation.*
- *Around one third of the foreign companies surveyed said the CBAM will affect their operations in the Western Balkans, most commonly by making their products more expensive on the EU market and by burdening them with reporting requirements.*

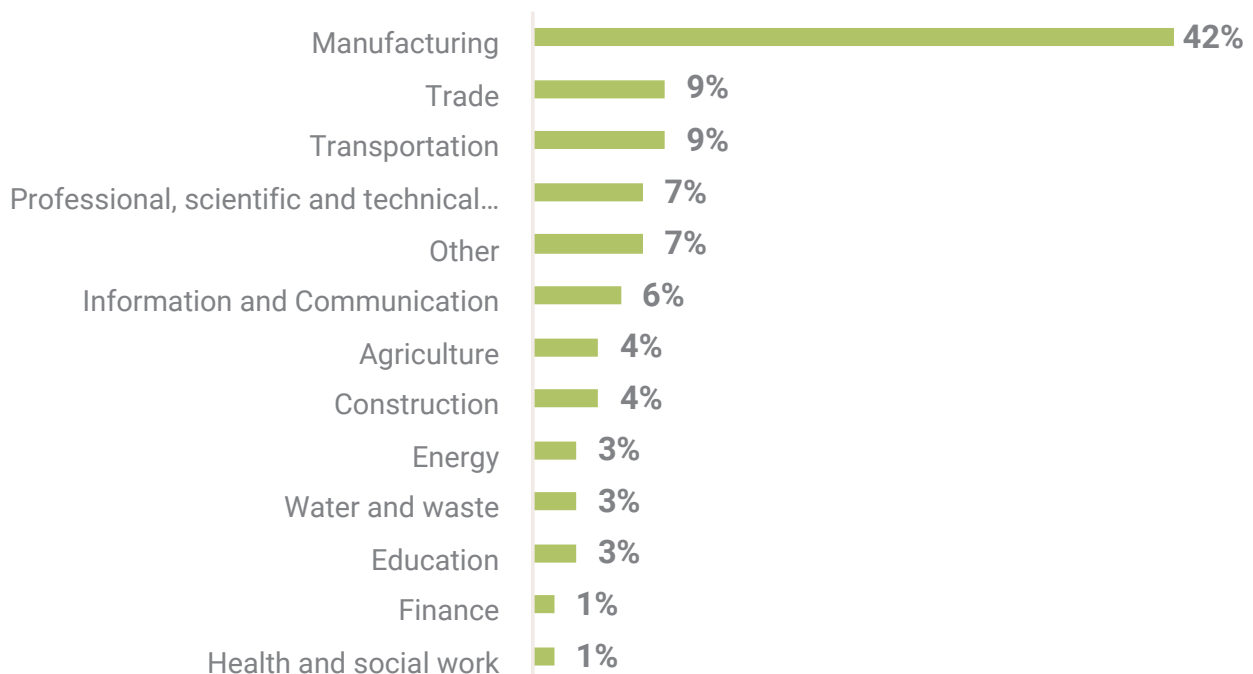
● General information on the survey and the companies covered

To analyse perceptions, attitudes and views of foreign companies operating in the Western Balkans on investing and working in the region, cooperation with local companies, near-shoring, decarbonisation and the CBAM, a survey was conducted in May-June 2024 by: the German-Serbian Chamber of Commerce (AHK Serbia), covering Serbia and Montenegro; the Delegation of German Industry and Commerce in North Macedonia (AHK North Macedonia), covering North Macedonia, Albania and Kosovo; and the Delegation of German Industry and Commerce in Bosnia and Herzegovina.

The survey was based on a questionnaire designed specifically for this project, consisting of 22 questions organised into several groups: general information about the company, investing in the Western Balkans, cooperation with local companies, near-shoring, decarbonisation and the CBAM. The exact questions are presented in Appendix 1. Below, we briefly present the main findings.

A total of 65 companies responded to the survey. The majority of these companies are from the manufacturing sector (42%), followed by the trade and transportation sectors, each representing 9% (Figure 22).

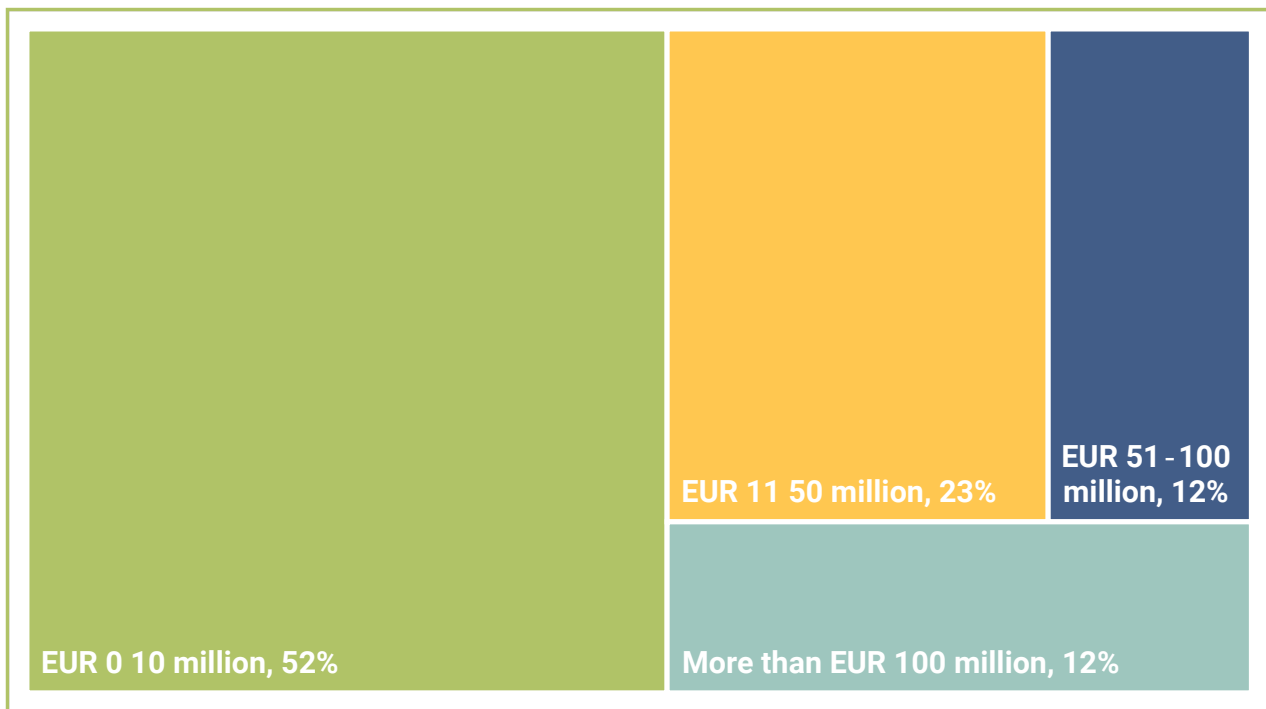
Figure 22 / Distribution of companies by sector of activity



Source: Survey conducted among foreign companies operating in the Western Balkans.

Most of the companies that answered the survey (52%) had investments in the region worth less than EUR 10 million. While 23% of the companies had investments worth between EUR 11 million and EUR 50 million, 12% had investments worth between EUR 51 million and EUR 100 million and another 12% had investments worth more than EUR 100 million (Figure 23).

Figure 23 / Distribution of companies by size of investment in the Western Balkans

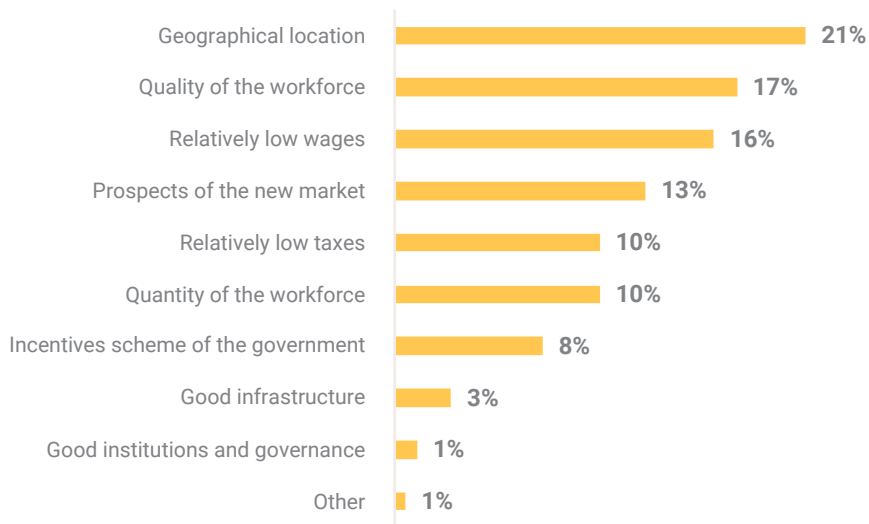


Source: Survey conducted among foreign companies operating in the Western Balkans.

● Experience working in the Western Balkans and cooperation with local companies

The main reason for investing in the Western Balkans is its good geographical location, which was cited by 21% of the companies. The next two most important reasons are the quality of the labour force and the relatively low wages (17% and 16%, respectively). These three reasons remain unchanged compared to our previous survey from 2021, although the order has slightly shifted. In 2021, wages were the top factor, with 22% of the companies selecting them. It is also informative to note the factors cited less often as the main reasons for investing in the region: good institutions and governance (1%) and good infrastructure (3%). Interestingly, government incentive schemes were selected by only 8% of respondents, suggesting that they may not be as important as often assumed (Figure 24).

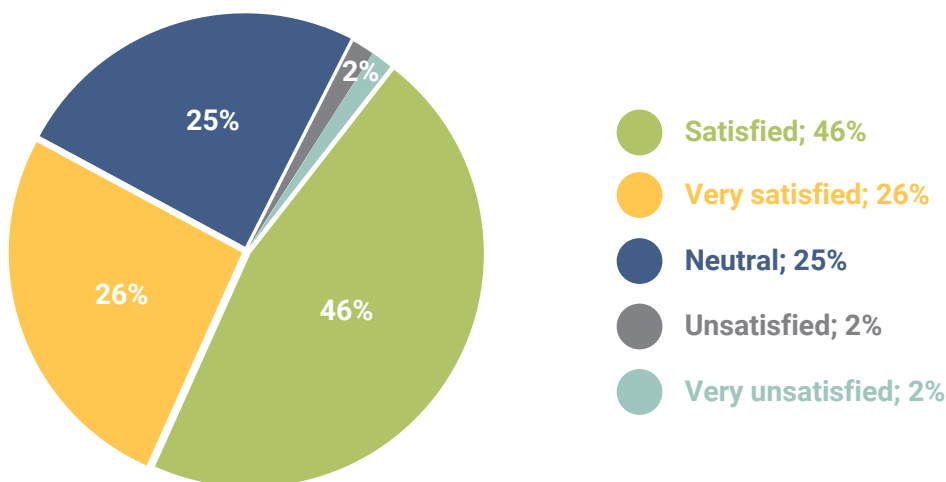
Figure 24 / Reasons for investing in the Western Balkans



Source: Survey conducted among foreign companies operating in the Western Balkans.

The satisfaction of foreign companies with their overall experience in the Western Balkans is very high. Nearly half of the companies (46%) said they are satisfied, while an additional 26% reported being very satisfied. In total, 72% of the respondents indicated that they are either satisfied or very satisfied. This marks an improvement over the previous survey from 2021, where 62% of firms said they are satisfied or very satisfied. Previously, 19% of companies reported being unsatisfied or very unsatisfied; this figure has now decreased to only 4%. We interpret these changes as an indication that the overall business environment and conditions in the Western Balkans have improved in recent years, particularly when it comes to foreign investments (Figure 25).

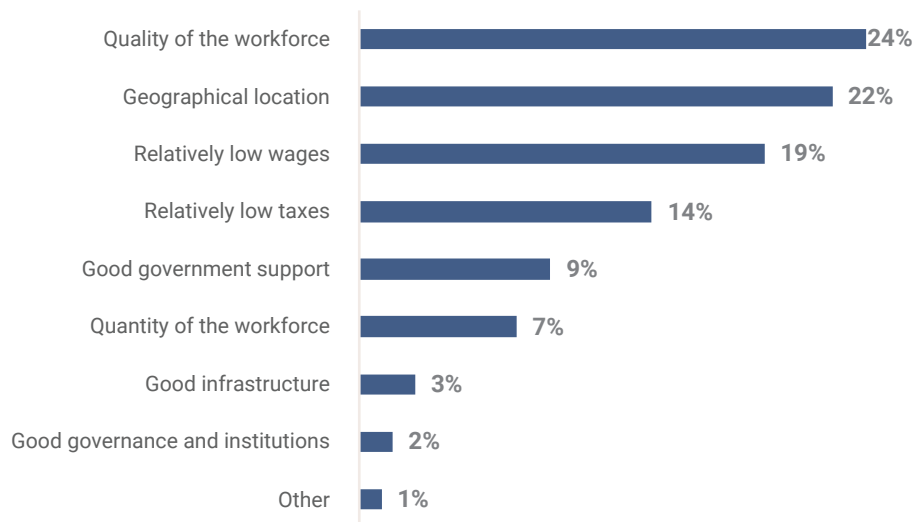
Figure 25 / How satisfied are you with the overall experience of working in the Western Balkans compared to the other regions in which your company operates?



Source: Survey conducted among foreign companies operating in the Western Balkans.

Companies highlight the quality of the labour force as the main positive aspect of working in the Western Balkans, with 24% of the responses referring to this. The second most cited factor is the geographic location, with 22% of the responses, followed by relatively low wages, with 19%. At the bottom of the list are good governance and good infrastructure, with only 2% and 3% of the responses, respectively (Figure 26).

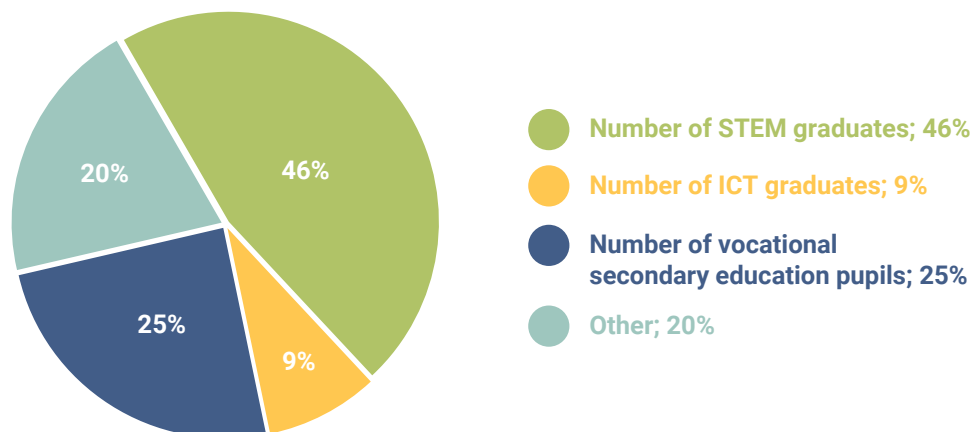
Figure 26 / Positive sides of working in the Western Balkans



Source: Survey conducted among foreign companies operating in the Western Balkans.

When asked which aspects of education were most important for their decision to invest in the Western Balkans, around half (46%) of the companies highlighted the number of science, technology, engineering and mathematics (STEM) graduates. Secondary vocational education pupils came in second, with 25%. Interestingly, the number of information and communications technology (ICT) graduates was chosen by just 9% of the companies, which might be explained by the dominance of manufacturing companies in the sample. Additionally, 20% of the responses referred to other aspects of education, with some companies specifically pointing to the availability of unskilled workers (Figure 27).

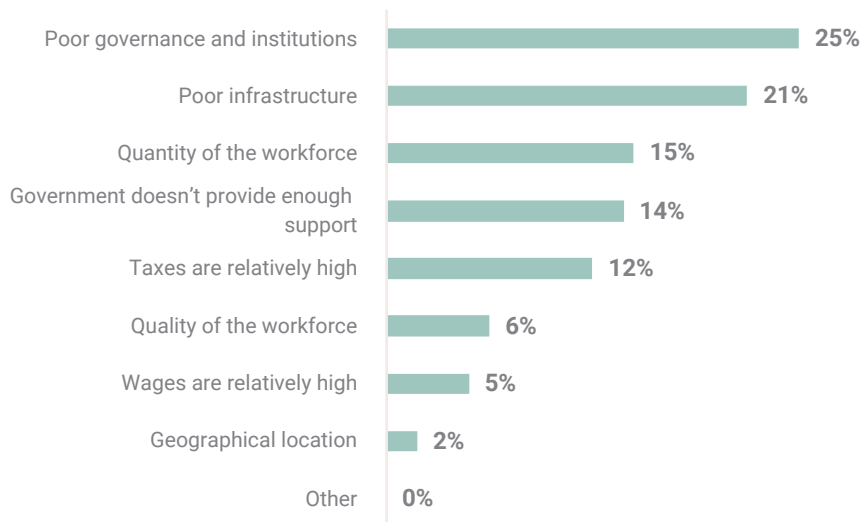
Figure 27 / Most important aspects of education for companies' decision to invest



Source: Survey conducted among foreign companies operating in the Western Balkans.

Perhaps unsurprisingly, when asked about the challenges of working in the Western Balkans, companies' responses are the mirror image of the positives. The main challenges highlighted were poor governance and institutions, with a quarter of the responses, and poor infrastructure, with 21% of the responses. Interestingly, the third most cited challenge is the quantity of the labour force, with 15% of the responses. Taxes and government support are seen as mid-level challenges, consistent with their rankings in the previous question (Figure 28).

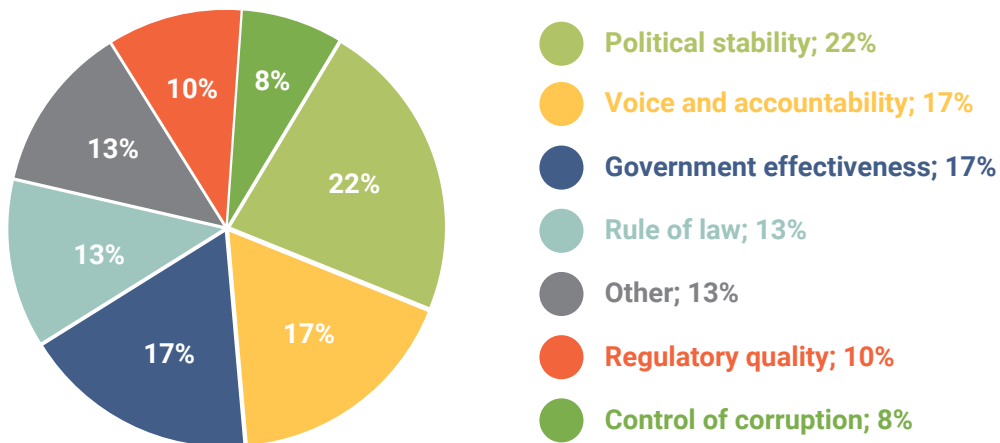
Figure 28 / Negative sides of working in the Western Balkans



Source: Survey conducted among foreign companies operating in the Western Balkans.

When asked which aspects of institutions and governance were most important for their decision to invest in the region, companies listed political stability as the top factor, with 22% of the responses. The answers "Voice and Accountability" and "Government Effectiveness" each received 17% of the responses. We interpret this as an indication that these three aspects are not seen as major issues in the Western Balkans. Control of corruption came last, with only 8%, suggesting that companies perceive corruption to be a significant problem in the region (Figure 29).

Figure 29 / Most important aspects of institutions for companies' decision to invest



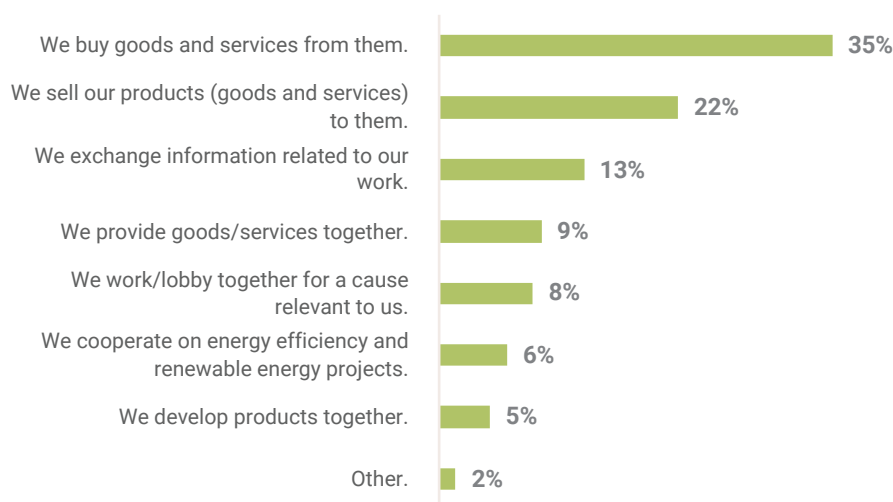
Source: Survey conducted among foreign companies operating in the Western Balkans.

Cooperation with local companies

The majority of foreign companies in the region report that they already work with local companies, with only 14% saying they do not. However, for many of these companies, the level of cooperation with local firms remains low. Among those that do work with local companies, 38% reported that such cooperation accounts for 10% or less of their total turnover. There are companies with higher levels of local cooperation and, on average, business with local companies represents 32% of the total turnover for the entire sample.

When examining how foreign companies cooperate with local ones, buying goods and services remains the most common form, accounting for 35% of the responses. Selling products comes in second, with 22% of the responses. Other forms of cooperation each make up around 10% of the responses. These results are almost identical to those of the previous survey, indicating that not much has changed in this respect over the past three years (Figure 30).

Figure 30 / In which ways is your company cooperating with local companies?

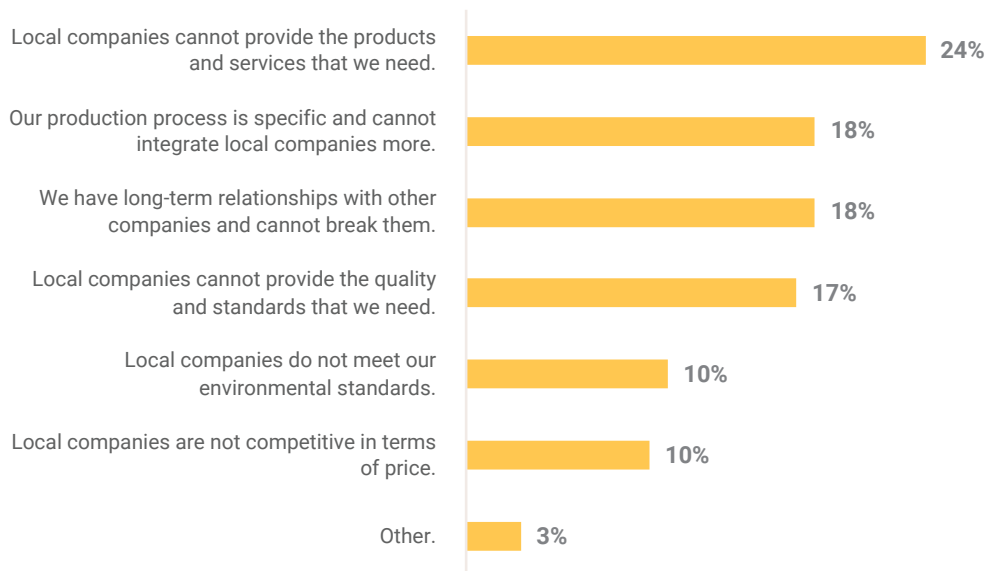


Source: Survey conducted among foreign companies operating in the Western Balkans.

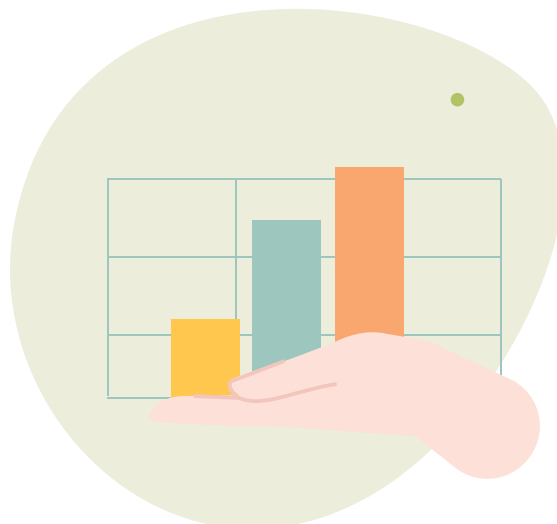
When looking at why foreign companies do not cooperate more with local firms, the most commonly mentioned reason is that local companies cannot provide the products and services that foreign companies need (24%). The next three reasons, each receiving between 17% and 18% of the responses, are (a) that foreign firms' production processes are specific and cannot integrate local companies more, (b) that foreign companies have long-term relationships with other companies and cannot break them, and (c) that local companies cannot provide the quality and standards that foreign companies need (Figure 31).

There are some differences here compared to the previous survey, where the main issue was that local companies could not provide the quality and standards needed by foreign companies, with 31% of the responses. The decline in the mentions of this obstacle might indicate that local companies have improved their quality and have begun adopting necessary standards and certifications in the past three years. On the other hand, the share of companies citing long-term relationships has increased from 7% in the previous survey to 18% now, suggesting that, as time goes by, foreign companies in the Western Balkans are likely to develop more long-term relationships with other foreign companies, which will make it even harder for local companies to cooperate with them.

Figure 31 / What are the barriers to working more with local companies?



Source: Survey conducted among foreign companies operating in the Western Balkans.



Near-shoring

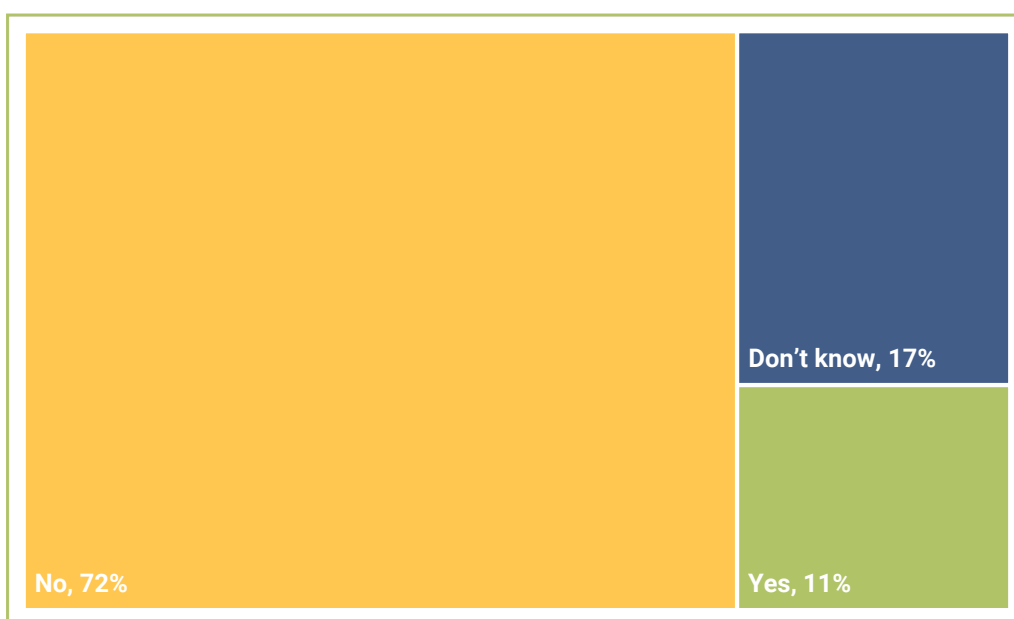
The survey results seem to suggest that the Western Balkan region might indeed be experiencing some near-shoring. Most of the companies surveyed (72%) reported that they have not relocated operations from a distant location to one closer to their headquarters in the past three years. An additional 17% said they do not know. However, 11% of the companies (seven in total) indicated that they have relocated operations, potentially indicating a near-shoring trend (Figure 32).

When asked about the specific origins and destinations of their relocations, the responses were often unclear, as companies filled in this information themselves and their responses were typically brief and lacking in detail. Nevertheless, three companies mentioned relocating from Germany or Switzerland to the Western Balkans, and one company reported shutting down operations in Bulgaria and continuing in Serbia. These cases could indeed qualify as near-shoring if the new destinations in the Western Balkans are closer to the companies' headquarters. However, due to the lack of information on the locations of the headquarters and the reasons for the relocations, it is difficult to determine with certainty whether this genuinely constitutes near-shoring.

Looking at the size of the investment of these seven companies, two reported investments worth between EUR 11 million and EUR 50 million, while the others reported investments worth less than EUR 10 million.

Four additional companies reported that they are considering relocating operations from distant locations to ones nearer to their headquarters in the foreseeable future. Three of these companies are in the manufacturing industry. One has an investment worth between EUR 51 million and EUR 100 million, another one has an investment worth between EUR 11 million and EUR 50 million, and the rest have investments worth less than EUR 10 million.

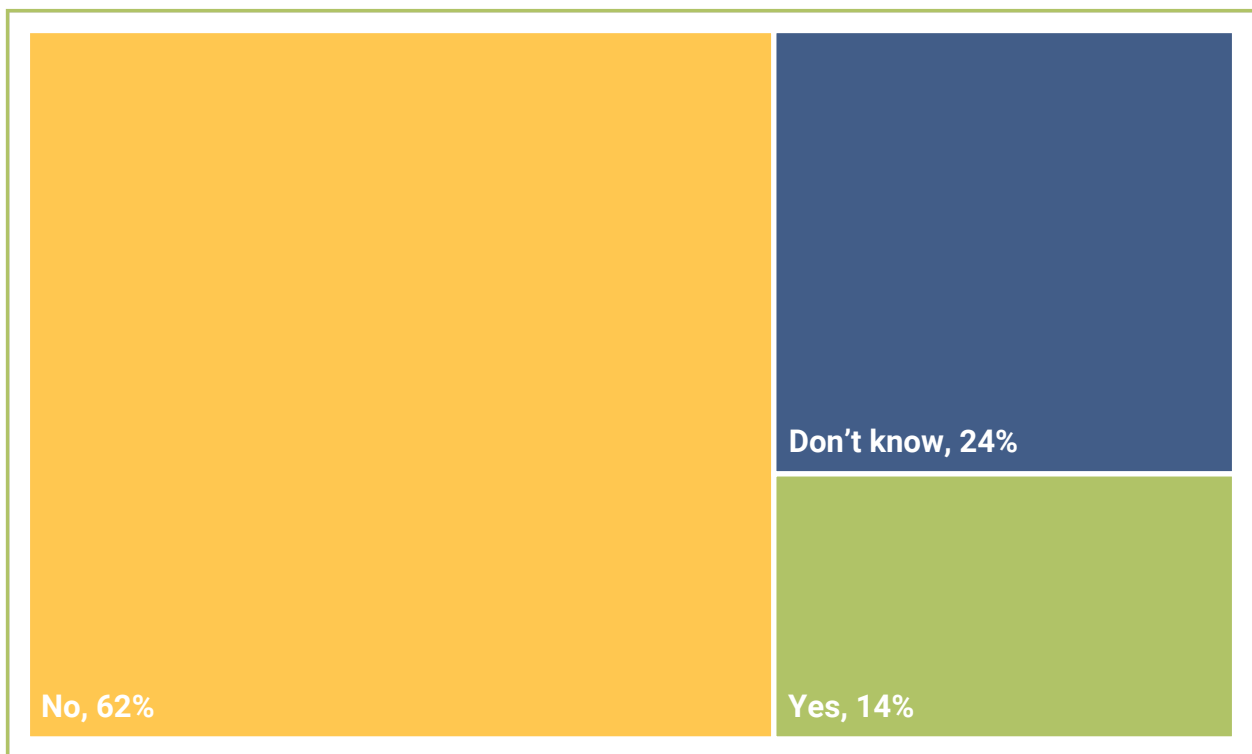
Figure 32 / In the past three years, has your company relocated any of its operations from a distant location to one closer to your headquarters?



Source: Survey conducted among foreign companies operating in the Western Balkans.

Six additional companies said that they have invested in locations closer to their headquarters instead of in a more distant one. Looking at the available information on these cases, one of the companies from the manufacturing business said that it had invested (more than EUR 100 million) in Poland instead of in Ukraine, which is likely due to the war in the latter rather than near-shoring. Another smaller company from the transportation sector said that it invested (less than EUR 10 million) in North Macedonia instead of in Asia, which seems to be a textbook example of near-shoring. A third company dealing with wholesale industrial trade said that it had invested (less than EUR 10 million) in Slovenia instead of in Hungary.

Figure 33 / Over the past three years, has your company decided to invest in locations closer to your headquarters instead of in a more distant one?

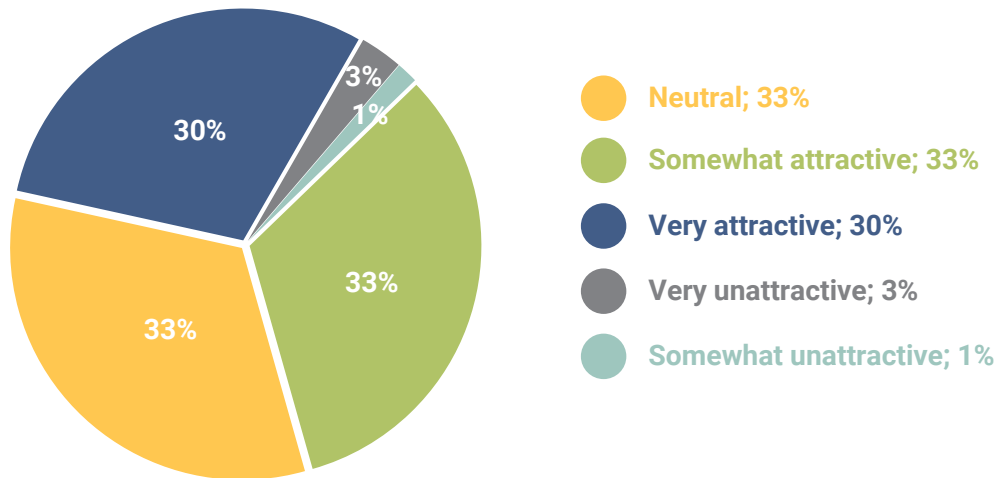


Source: Survey conducted among foreign companies operating in the Western Balkans.
Note: Only 42 of the 65 companies answered this question.

● Decarbonisation and the CBAM

Foreign companies operating in the Western Balkans see the region as an attractive destination for green investment. Two thirds of them indicated that the region is either very attractive or somewhat attractive. Another third had a neutral view, while only 4% found the region unattractive (Figure 34). This suggests that the region has the potential to benefit from the ongoing decarbonisation trend, as it has features that make it appealing for green investments.

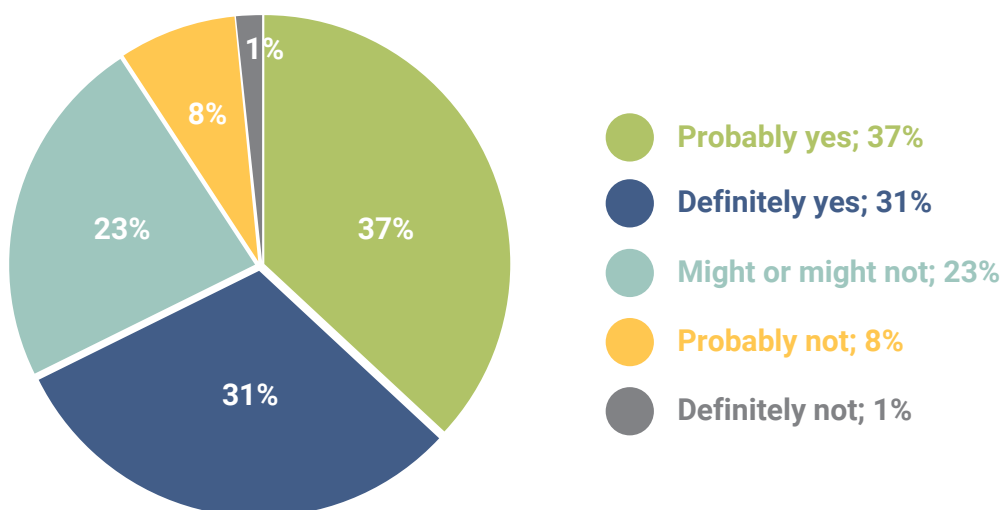
Figure 34 / How do you perceive the Western Balkans region in terms of its attractiveness for green investments?



Source: Survey conducted among foreign companies operating in the Western Balkans.

When asked whether significant improvements in decarbonisation would make them more inclined to invest in the region, two thirds of the companies responded that they would either probably or definitely invest more. While about a quarter of the companies were indifferent, only 9% said that they probably or definitely wouldn't invest more (Figure 35). This suggests that decarbonisation in the Western Balkans is not just a means for achieving environmental and ecological goals, but can also be a vehicle for economic development, as it can attract higher foreign investment in the region.

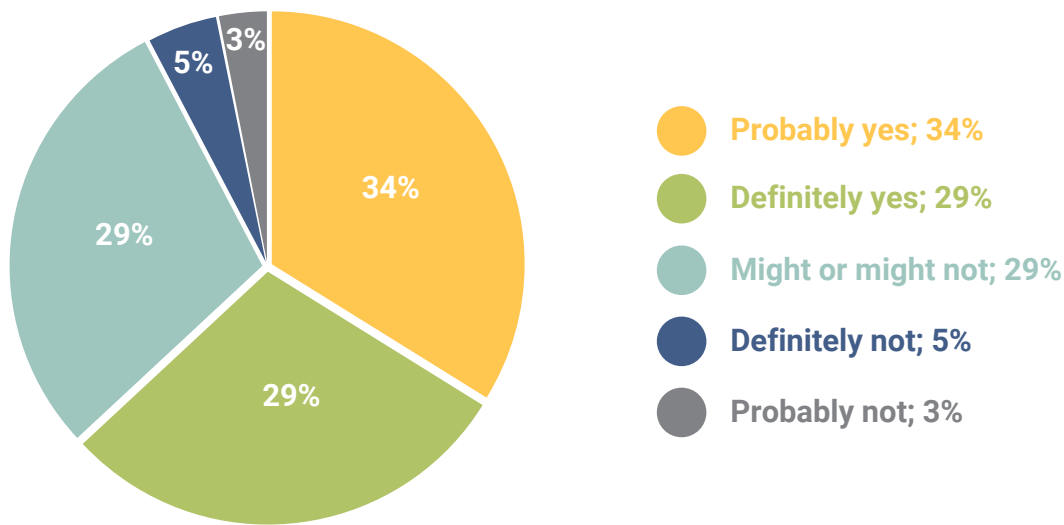
Figure 35 / If the Western Balkans region were to make significant improvements in decarbonisation, would your company be more inclined to increase its investments there?



Source: Survey conducted among foreign companies operating in the Western Balkans.

Similarly, foreign companies in the region indicated that they might be more likely to engage in collaborations with Western Balkan companies if those companies significantly decarbonised their operations. Around two thirds of the foreign companies responded to this question with either 'probably yes' or 'definitely yes', while an additional 29% were unsure. Only 8% said that they probably or definitely would not collaborate more with local companies (Figure 36). This suggests that decarbonisation can also be a tool for enhancing cooperation between local and foreign companies in the Western Balkans.

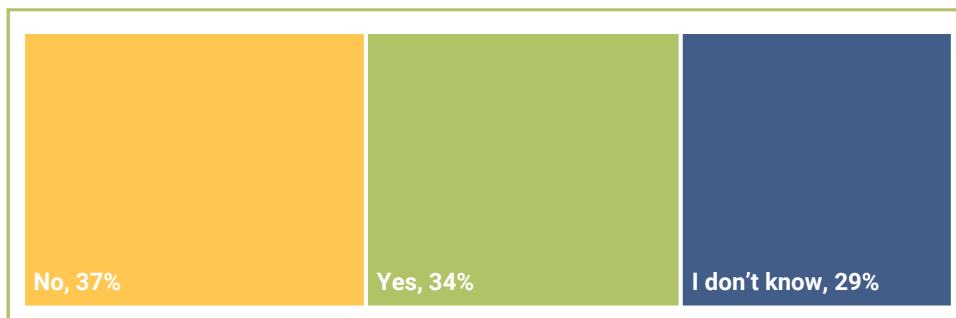
Figure 36 / Would your company be more likely to engage in collaborations with Western Balkan companies if they significantly decarbonised their operations?



Source: Survey conducted among foreign companies operating in the Western Balkans.

Turning to the CBAM, around one third of the foreign companies said that their operations in the Western Balkans will be affected by it. Slightly more (37%) said that they won't be affected, while 29% of the companies said that they don't know (Figure 37).

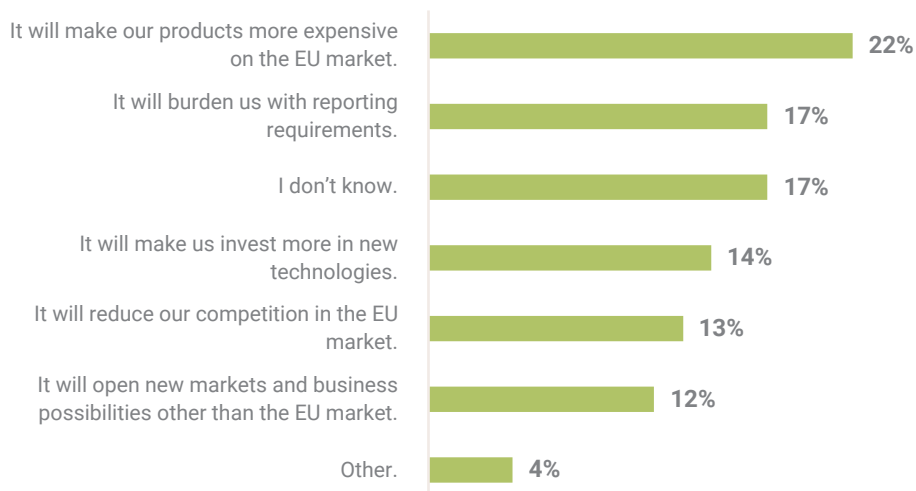
Figure 37 / Will the introduction of the EU's CBAM, which will apply to the Western Balkan region as well, affect your operations in the region?



Source: Survey conducted among foreign companies operating in the Western Balkans.

When examining how the CBAM will affect the operations of foreign companies in the region, companies see certain challenges. Specifically, 22% of foreign companies said that the CBAM will make their products more expensive on the EU market, and 17% indicated that it will burden them with reporting requirements. Only 14% mentioned that it will lead them to invest more in new technologies (Figure 38).

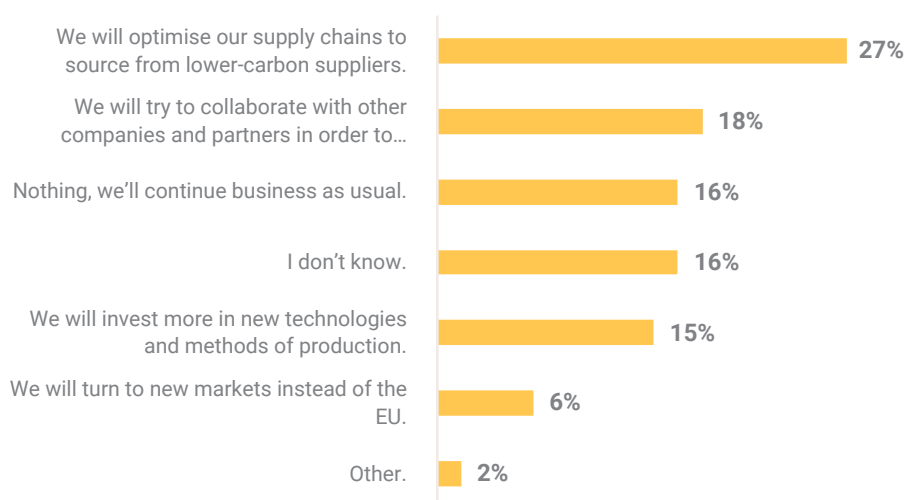
Figure 38 / How will the introduction of the EU's CBAM, which will apply to the Western Balkan region as well, affect your operations in the region?



Source: Survey conducted among foreign companies operating in the Western Balkans..

When asked how they intend to react to the CBAM, the most common response (27%) was that they will optimise their supply chains, with the second most common response (18%) being that they will try to collaborate with other companies to address challenges together (Figure 39). Interestingly, the third most common response was that they won't do anything (16%).

Figure 39 / What does your company intend to do because of the CBAM?



Source: Survey conducted among foreign companies operating in the Western Balkans.



Chapter 5 – What do local companies say about decarbonisation, the CBAM and cooperating with foreign companies?

- *Around two thirds of the local companies said they are familiar with what decarbonisation means.*
- *Most of the companies said that most of their carbon emissions come from the electricity they use, with transportation being the second source and the production process being the third.*
- *Companies tend to have a rather positive view of decarbonisation, with most of them saying that decarbonisation is making them invest in new technologies in order to reduce carbon emissions.*
- *The majority of the companies are getting their electricity from the grid, with just 14% getting it from their own renewable sources.*
- *Companies think that if they reduce their carbon emissions, they might have greater chances to export to the EU market.*
- *Most of the companies say they have concrete plans for reducing their carbon emissions in the next five years.*
- *To reduce carbon emissions, companies say they plan to switch to cleaner energy, to reduce energy consumption and to invest in green technologies.*
- *Companies are unequivocal in their belief that they need first and foremost financial support to reduce their carbon footprint.*
- *Most companies surveyed are not familiar with the EU's CBAM and do not know whether they will be affected by it.*
- *Companies are concerned about the CBAM's effects, with almost half of them fearing that it will increase prices and will burden them with reporting requirements.*
- *But companies are positive when asked what they intend to do because of the CBAM, with most of them saying that they plan to invest in new technologies and to cooperate with other companies to overcome challenges together.*
- *Companies primarily identify a need for increased information and technical assistance to cope with the challenges posed by the CBAM.*
- *Almost half of the local companies surveyed said they are cooperating with foreign companies present in the region, which is slightly lower than in the 2021 survey.*
- *Satisfaction with working with foreign companies is high, with almost 80% of respondents indicating that they are satisfied or very satisfied.*
- *Local companies are unsure whether reducing their carbon emissions will increase their cooperation with foreign companies.*
- *Of the local companies that do not work with foreign firms, more than half expressed a desire to cooperate with them.*
- *The dominant reason why companies are not cooperating with each other is that local companies do not know foreign companies with which they can cooperate, but this share is significantly lower than in the 2021 survey.*

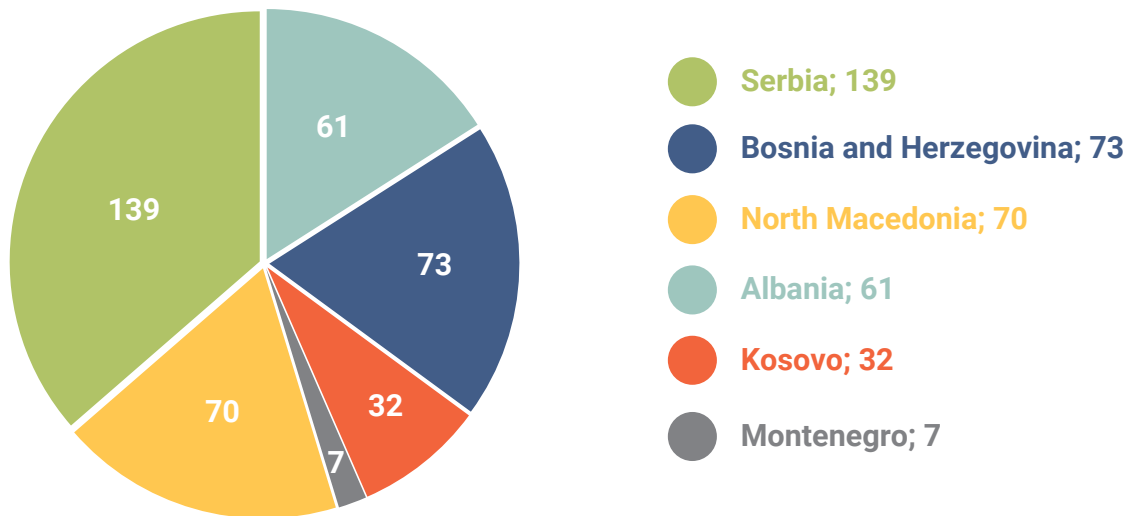
● General information on the survey and the companies covered

To analyse perceptions, attitudes and views on decarbonisation, the CBAM, and cooperation between local and foreign companies operating in the Western Balkans, a survey was conducted in April-May 2024 by the members of the Western Balkans 6 Chamber Investment Forum. This includes the Union of Chambers of Commerce and Industry of Albania, the Foreign Trade Chamber of Bosnia and Herzegovina, the Kosovo Chamber of Commerce, the Chamber of Economy of Montenegro, the Economic Chamber of North Macedonia, and the Chamber of Commerce and Industry of Serbia.

The survey was based on a questionnaire designed specifically for this project, consisting of 25 questions organised into four groups: general information about the company, decarbonisation, the CBAM and cooperation with foreign companies. The exact questions are presented in Appendix 2. Below, we briefly present the main findings.

In total, 382 companies responded to the survey: 139 from Serbia, 73 from Bosnia and Herzegovina, 70 from North Macedonia, 61 from Albania, 32 from Kosovo, and seven from Montenegro (Figure 40).

Figure 40/ Number of survey responses in each of the economies



Source: Survey conducted among local companies from the Western Balkans.

A plurality of the companies (36%) are from the manufacturing sector, though there are some differences among the economies. In Albania, the largest proportion of companies are from the construction sector (15%), while the wholesale and retail trade dominates in Montenegro (43%). In Bosnia and Herzegovina, the share of manufacturing companies is notably high, at 82% (Table 3).

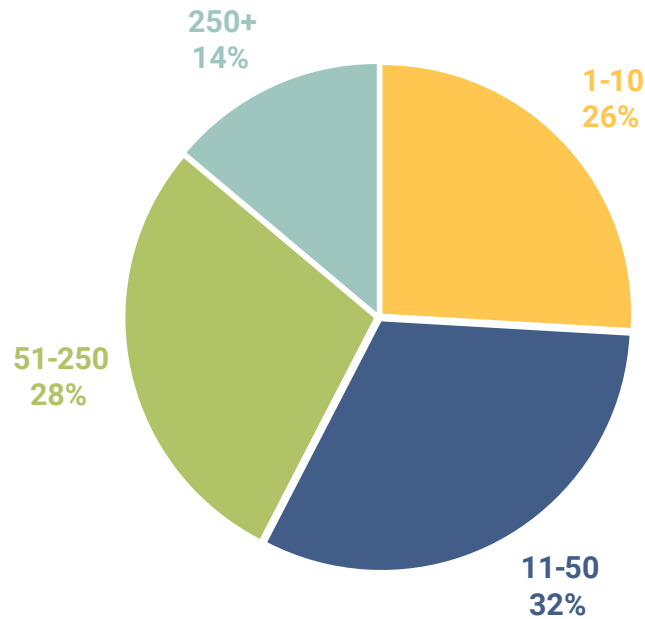
Table 3 / Distribution of companies by sector of activity

NACE sector of activity of firms	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
Accommodation and Food Service Activities	8%	0%	3%	0%	0%	2%	2%
Agriculture, Forestry and Fishing	10%	1%	0%	14%	3%	9%	6%
Construction	15%	0%	13%	0%	7%	9%	8%
Education	2%	0%	0%	0%	0%	0%	0%
Electricity, Gas, Steam and Air Conditioning Supply	8%	0%	0%	0%	7%	2%	3%
Financial and Insurance Activities	8%	0%	3%	0%	1%	1%	2%
Health and Social Work Activities	2%	0%	0%	0%	1%	0%	1%
Information and Communication	3%	1%	0%	0%	3%	0%	1%
Manufacturing	11%	82%	41%	14%	29%	25%	36%
Mining and Quarrying	8%	1%	3%	14%	3%	3%	4%
Professional, Scientific and Technical Activities	7%	0%	9%	0%	1%	2%	3%
Transportation and Storage	8%	0%	0%	0%	0%	5%	3%
Water Supply; Sewerage, Waste Management and Remediation Activities	5%	0%	0%	0%	1%	4%	2%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	5%	1%	6%	43%	4%	12%	7%
Other	0%	12%	22%	14%	39%	25%	21%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

A plurality of the companies (32%) that answered the survey were small, with 11-50 employees. While medium-sized companies (51-250 employees) made up 28%, micro companies (1-10 employees) made up 26%. Approximately 14% of the companies were large (250+ employees) (Figure 41).

Figure 41 / Distribution of companies by size, for the whole sample



Source: Survey conducted among local companies from the Western Balkans.

There were some differences in size distribution among the six economies. In Albania, Kosovo and Montenegro, the responses primarily came from micro and small enterprises. In Serbia, most responses were from small and medium-sized enterprises. In Bosnia and Herzegovina, the majority of responses were from medium-sized enterprises, while in Macedonia, the sample was biased towards medium-sized and large enterprises (Table 4).

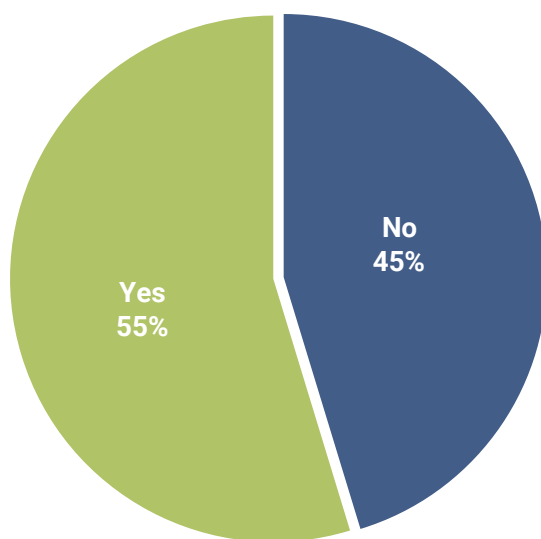
Table 4 / Distribution of companies by size, for each of the six Western Balkan economies

Number of employees	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
1-10	31	10	17	4	7	30	99
11-50	25	11	10	2	18	55	121
51-250	4	38	4		25	38	109
250+	1	14	1	1	20	16	53
Total	61	73	32	7	70	139	382

Source: Survey conducted among local companies from the Western Balkans.

More than half (55%) of the surveyed companies export to the EU, with the average share of production or volume of activity exported standing at 28% (Figure 42). However, there are notable differences among the different economies. The majority of firms in Albania, Kosovo and Montenegro (70-80%) do not export to the EU, while a similar percentage of firms in Bosnia and Herzegovina and North Macedonia do export to the EU. In Serbia, the share of exporters matches the overall sample, at 55% (Table 5).

Figure 42 / Share of companies that export to the EU, for the whole sample



Source: Survey conducted among local companies from the Western Balkans.

Table 5 / Share of companies that export to the EU, for each of the six Western Balkan economies

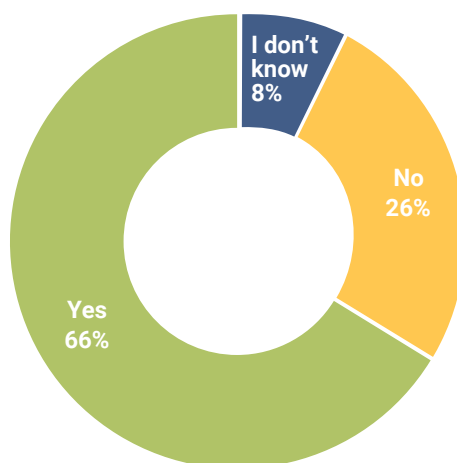
Exporting to EU	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
No	80%	14%	81%	71%	29%	45%	45%
Yes	20%	86%	19%	29%	71%	55%	55%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

● Attitudes towards decarbonisation

The majority of companies (66%) said that they are familiar with decarbonisation, i.e. with the process of reducing carbon emissions (Figure 43). Around a quarter of the companies said they are not familiar with decarbonisation (26%). The share of companies that are familiar with decarbonisation is fairly high in Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia (between 66% and 84%), but it is slightly lower in Albania and Kosovo (41% and 44%, respectively), as can be seen in Table 6. The explanation for the lower share in Albania and Kosovo is the prevalence of smaller firms in the surveys there. As can be seen in Table 7, the share of the companies that are familiar with decarbonisation increases in parallel with the size of the companies. In the group of companies with 250+ employees, 89% of the firms are familiar with it, while the share is just 39% in the group of companies with 1-10 employees.

Figure 43 / Are you familiar with decarbonisation (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 6 / Share of companies that are familiar with decarbonisation in each of the economies covered

Are you familiar with decarbonisation?	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
I don't know	0%	5%	16%	0%	9%	10%	8%
No	59%	11%	41%	29%	11%	24%	26%
Yes	41%	84%	44%	71%	80%	66%	66%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Table 7 / Share of companies that are familiar with decarbonisation, by company size

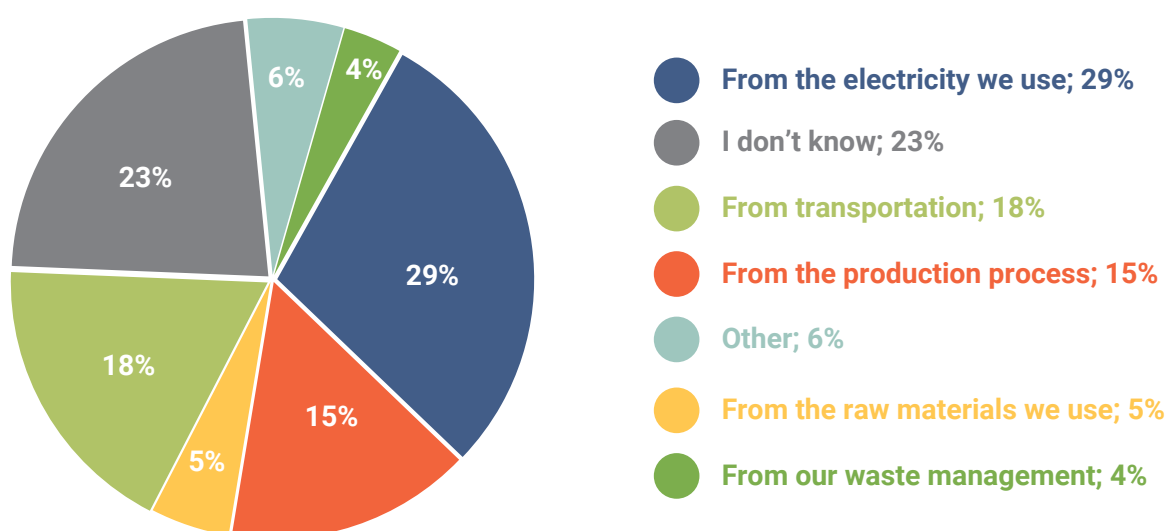
Are you familiar with decarbonisation?	1-10	11-50	51-250	250+	Total
I don't know	7%	6%	11%	6%	8%
No	54%	26%	11%	6%	26%
Yes	39%	68%	78%	89%	66%
Total	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

A plurality of the companies (29%) said that most of their carbon emissions come from the electricity they use (Figure 44). Transportation is the second biggest source (18%), and the production process is the third (15%). Interestingly, almost a quarter of the companies said they do not know where most of their emissions come from (Figure 44). These shares are fairly consistent across the economies, with the only notable differences being that the share of companies who do not know where their emissions are coming from is slightly higher in Albania and Kosovo (38% and 34% respectively) and that the share of transportation exceeds the share of electricity in Kosovo (Table 8).

Interesting patterns can be noted when one looks at these answers by size of company. For example, for the micro companies (1-10 employees), most of the CO₂ emissions come from transportation, which is not the case for the other groups. The bigger the company gets, the bigger the share of electricity. And smaller companies do not know where their CO₂ emissions come from more often than companies of other sizes (Table 9).

Figure 44 / Do you know where most of the carbon emissions of your company are coming from? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 8 / Origins of carbon emissions, by economies

Where are most of your carbon emissions coming from?	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
From our waste management	8%	3%	3%	0%	6%	1%	4%
From the electricity we use	23%	36%	13%	29%	33%	30%	29%
From the production process	13%	33%	13%	14%	19%	6%	15%
From the raw materials we use	5%	5%	6%	0%	6%	4%	5%
From transportation	13%	4%	25%	29%	16%	27%	18%
I don't know	38%	15%	34%	14%	13%	23%	23%
Other	0%	4%	6%	14%	9%	8%	6%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Table 9 / Origins of carbon emissions, by firm size

Where are most of your carbon emissions coming from?	1-10	11-50	51-250	250+	Total
From our waste management	5%	3%	3%	4%	4%
From the electricity we use	19%	31%	29%	43%	29%
From the production process	8%	13%	22%	21%	15%
From the raw materials we use	4%	4%	6%	6%	5%
From transportation	20%	21%	16%	11%	18%
I don't know	37%	21%	19%	8%	23%
Other	6%	7%	5%	8%	6%
Total	100%	100%	100%	100%	100%

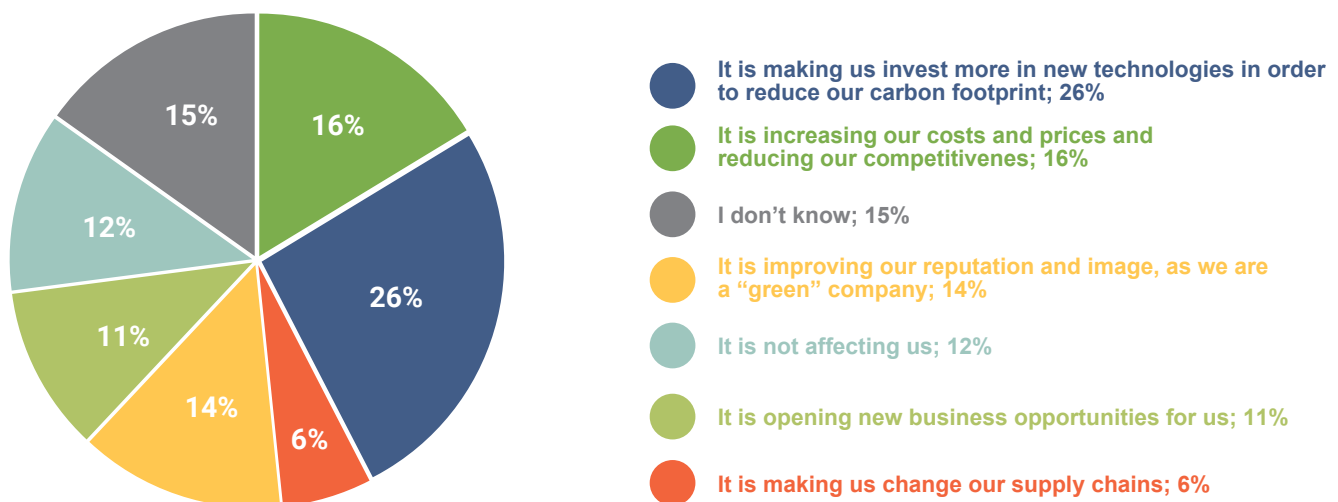
Source: Survey conducted among local companies from the Western Balkans.

The answers to the question regarding how decarbonisation is affecting a company provide very interesting insights. A plurality of the companies (26%) said that decarbonisation is making them invest in new technologies in order to reduce carbon emissions. Thus, it seems that decarbonisation can indeed serve as a vehicle for technological upgrading in the Western Balkans. The second most common answer is that decarbonisation is increasing costs and prices and reducing competitiveness, but this option is chosen much less often (16%). Very close to it in terms of prevalence is the answer that decarbonisation is improving the reputation and image of the companies (14%), while 11% of the answers are that it is opening up new business opportunities (Figure 45). Thus, one could say that Western Balkan companies clearly tend to have a rather positive view of decarbonisation much more often than a negative one.

These patterns are rather consistent across the six economies, with Montenegro being the only minor exception, as most of the answers there (50%) are that decarbonisation is increasing costs and prices and reducing competitiveness (Table 10). This is explained by the smaller number of companies that answered the survey there (just seven).

When observed by different sizes of companies, the patterns are again fairly stable, with a notable difference among micro companies (1-10 employees). Most of them said that they are not affected by decarbonisation (18%), and of those that are affected, decarbonisation is more of an increaser of costs than a catalyser of investments in technology (14% and 12%, respectively). The bigger the company gets, the more likely it is to say that decarbonisation is making it invest in new technologies (Table 11).

**Figure 45 / In which ways is decarbonisation affecting your company?
(answers for the whole sample)**



Source: Survey conducted among local companies from the Western Balkans.

**Table 10 / In which ways is decarbonisation affecting your company?
(answers for each of the economies)**

Values	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
It is increasing our costs and prices and reducing our competitiveness.	21%	23%	6%	50%	10%	15%	16%
It is making us invest more in new technologies in order to reduce our carbon footprint.	27%	28%	29%	0%	29%	23%	26%
It is making us change our supply chains.	4%	7%	6%	0%	7%	6%	6%
It is improving our reputation and image, as we are a 'green' company.	7%	12%	6%	13%	26%	10%	14%
It is opening new business opportunities for us.	3%	13%	0%	13%	16%	11%	11%
It is not affecting us.	20%	5%	23%	0%	5%	16%	12%
I don't know.	17%	11%	31%	25%	8%	19%	15%

Source: Survey conducted among local companies from the Western Balkans.

**Table 11 / In which ways is decarbonisation affecting your company?
(answers for companies with different sizes)**

Values	1-10	11-50	51-250	250+	Total
It is increasing our costs and prices and reducing our competitiveness.	14%	18%	17%	15%	16%
It is making us invest more in new technologies in order to reduce our carbon footprint.	12%	25%	31%	35%	26%
It is making us change our supply chains.	5%	5%	6%	8%	6%
It is improving our reputation and image, as we are a 'green' company.	10%	11%	16%	20%	14%
It is opening new business opportunities for us.	10%	10%	10%	15%	11%
It is not affecting us.	18%	16%	7%	6%	12%
I don't know.	31%	15%	13%	1%	15%

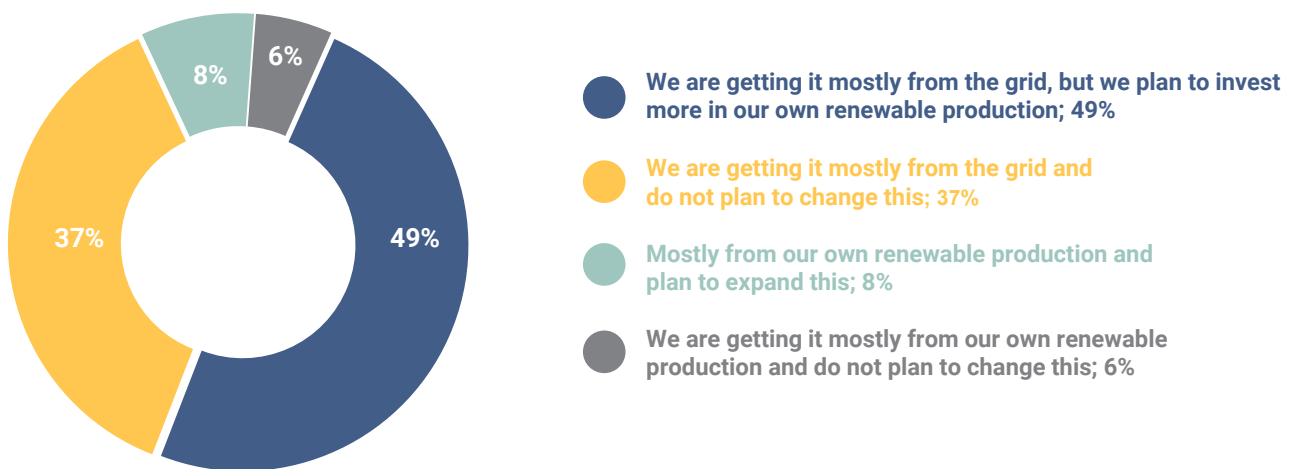
Source: Survey conducted among local companies from the Western Balkans.

Looking at how companies are getting the electricity they use, the vast majority of them are getting it mostly from the grid (86%), while only 14% are getting it mostly from their own renewable sources. However, it is interesting to observe that of those companies that are getting their electricity from the grid, more than half are planning to invest more in their own renewable production (Figure 46). Thus, there seems to be a clear interest among companies in the Western Balkans to invest in their own renewable-energy generation.

These patterns are fairly stable across the six Western Balkan economies, with some differences in Kosovo and Serbia. There, most of the companies said that even though they get most of their energy from the grid, they do not plan to change this. This share is 72% of all the responses in Kosovo, while it is 48% in Serbia (Table 12).

Observed by companies of different sizes, bigger companies plan more often to invest in their own renewable production. Of the companies with more than 250 employees, 66% said that they are getting most of their electricity from the grid but plan to invest more in their own renewable production. This share was 36% among the companies with 1-10 employees (Table 13).

Figure 46 / How do you get your electricity, and do you plan to change it in near future? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

**Table 12 / How do you get your electricity, and do you plan to change it in near future?
(answers for each of the economies)**

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
We are getting it mostly from our own renewable production and do not plan to change this.	15%	3%	0%	14%	10%	1%	5%
We are getting it mostly from our own renewable production and plan to expand this.	10%	10%	0%	0%	14%	6%	8%
We are getting it mostly from the grid and do not plan to change this.	23%	26%	72%	43%	23%	48%	37%
We are getting it mostly from the grid, but we plan to invest more in our own renewable production.	52%	62%	28%	43%	53%	45%	49%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

**Table 13 / How do you get your electricity, and do you plan to change it in near future
(answers for companies with different sizes)**

	1-10	11-50	51-250	250+	Total
We are getting it mostly from our own renewable production and do not plan to change this.	8%	2%	6%	8%	5%
We are getting it mostly from our own renewable production and plan to expand this.	2%	8%	11%	13%	8%
We are getting it mostly from the grid and do not plan to change this.	54%	42%	28%	13%	37%
We are getting it mostly from the grid, but we plan to invest more in our own renewable production.	36%	48%	54%	66%	49%
Total	100%	100%	100%	100%	100%

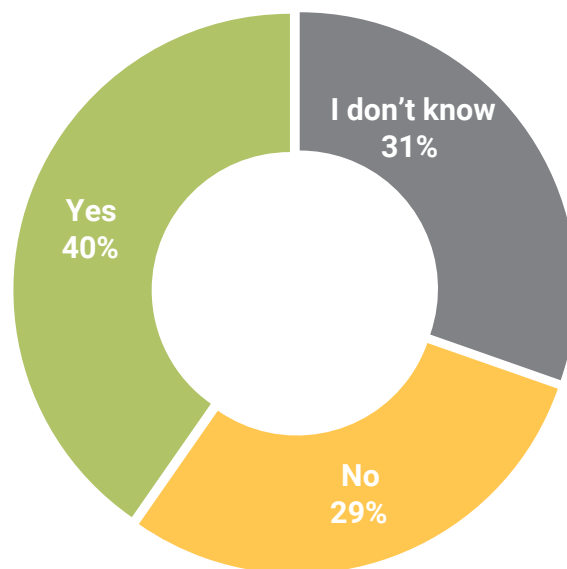
Source: Survey conducted among local companies from the Western Balkans.

A plurality of the companies (40%) think that if they reduce their carbon emissions, they might have greater chances to export to the EU market. Still, the shares of those that give a negative answer to this question or that say that they don't know are also high, both at around 30% (Figure 47).

There are interesting patterns for different economies here. In Bosnia and Herzegovina, Montenegro and North Macedonia, more than half of the companies gave a positive answer to this question. In Albania, by contrast, more than half of the companies gave a negative answer. In Kosovo and Serbia, most of the companies said that they don't know, while the share of those who said that reducing carbon emissions will improve their chances to export to the EU market was the lowest of the three options (Table 14).

Perhaps unsurprisingly, smaller companies tend to have a more negative view on this question. Among the micro (1-10 employees) and small (11-50) enterprises, most respondents said that reducing carbon emissions will not improve their chances to export to the EU market or that they don't know. Among the medium-sized (51-250) and big (250+) companies, half or more of the answers are that reducing carbon emissions will improve their chances to export to the EU market (Table 15).

Figure 47 / Do you think that if you reduce your carbon emissions, you might have greater chances to export to the EU market? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 14 / Do you think that if you reduce your carbon emissions, you might have greater chances to export to the EU market? (answers for each of the economies)

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
I don't know	16%	25%	63%	14%	19%	39%	30%
No	54%	12%	28%	14%	24%	31%	29%
Yes	30%	63%	9%	71%	57%	30%	40%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Table 15 / Do you think that if you reduce your carbon emissions, you might have greater chances to export to the EU market? (answers for companies with different sizes)

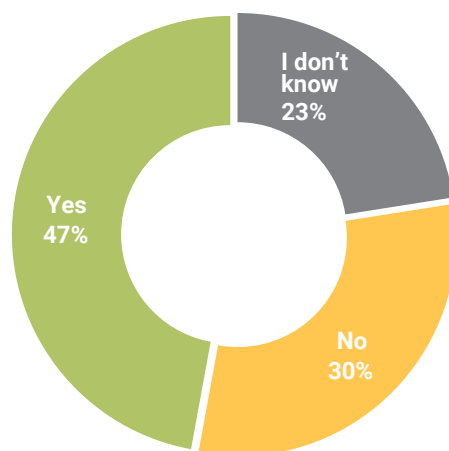
	1-10	11-50	51-250	250+	Total
I don't know	36%	35%	24%	23%	30%
No	39%	29%	27%	17%	29%
Yes	24%	36%	50%	60%	40%
Total	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Almost half of the companies (47%) said that they have concrete plans for reducing their carbon emissions in the next five years, with the share of those that said no being 30% (Figure 48). Again, there are notable differences across the six economies, with firms in Bosnia and Herzegovina, North Macedonia and Serbia saying more often that they do have concrete plans for reducing carbon emissions. In Albania, the most common answer is that they don't have concrete plans for reducing carbon emissions, while in Kosovo and Montenegro, most of the companies said that they don't know (Table 16).

Bigger companies more often have concrete plans for decarbonisation; among the large companies (250+ employees), three quarters of respondents gave this answer. This answer was also the most common for medium-sized (51-250 employees) and small companies (11-50 employees). Micro companies (1-10 employees), by contrast, usually said that they don't have concrete plans to reduce carbon emissions in the next five years (Table 17).

Figure 48 / In the next five years, do you have some concrete plans to reduce your carbon emissions? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 16 / In the next five years, do you have some concrete plans to reduce your carbon emissions? (answers for each of the economies)

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
I don't know	11%	14%	44%	57%	26%	24%	23%
No	49%	32%	25%	14%	14%	32%	30%
Yes	39%	55%	31%	29%	60%	45%	47%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Table 17 / In the next five years, do you have some concrete plans to reduce your carbon emissions? (answers for companies with different sizes)

	1-10	11-50	51-250	250+	Total
I don't know	24%	28%	21%	9%	23%
No	48%	26%	25%	17%	30%
Yes	27%	45%	54%	74%	47%
Total	100%	100%	100%	100%	100%

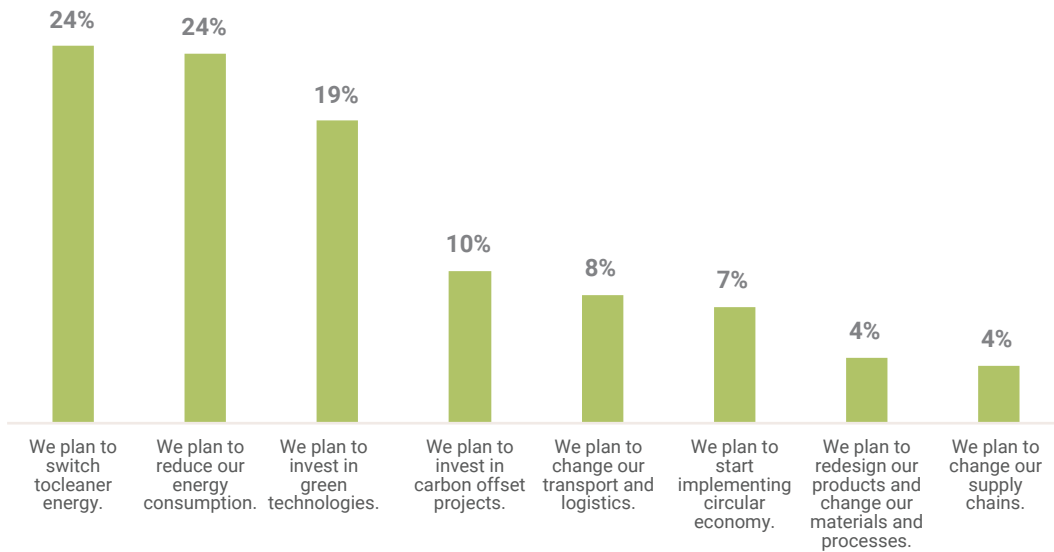
Source: Survey conducted among local companies from the Western Balkans.

When asked what they plan to do to reduce their carbon emissions, companies usually said that they plan to switch to cleaner energy (24% of the responses), to reduce energy consumption (24%) and to invest in green technologies (19%). Fewer answers referred to investing in carbon offset projects (10%), changing transport and logistics (8%), or implementing circular economy models (7%). The least common answers were redesigning products and changing supply chains (both 4%) (Figure 49).

These three intentions dominate in all six Western Balkan economies, with only minor differences. In Albania, changing transport and logistics is among the top three options (20% of responses), or slightly more common than investing in green technologies (16%). In Montenegro, the top answer is investing in green technologies (33%) (Table 18).

Perhaps surprisingly, the answer to this question was fairly consistent across companies of different sizes. For all size groups, the three most common replies were switching to cleaner energy, reducing energy consumption and investing in green technologies (Table 19).

**Figure 49 / What do you plan to do to reduce your carbon emissions?
(answers for the whole sample)**



Source: Survey conducted among local companies from the Western Balkans.

**Table 18 / What do you plan to do to reduce your carbon emissions?
(answers for each of the economies)**

Values	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
We plan to switch to cleaner energy.	25%	23%	28%	17%	25%	23%	24%
We plan to reduce our energy consumption.	22%	24%	28%	17%	18%	27%	24%
We plan to change our transport and logistics.	20%	1%	13%	8%	6%	9%	8%
We plan to invest in green technologies.	16%	19%	18%	33%	24%	17%	19%
We plan to redesign our products and change our materials and processes.	5%	4%	3%	8%	7%	2%	4%
We plan to change our supply chains.	4%	5%	3%	0%	3%	3%	4%
We plan to start implementing circular economy.	4%	9%	5%	8%	11%	5%	7%
We plan to invest in carbon offset projects.	5%	15%	3%	8%	6%	12%	10%

Source: Survey conducted among local companies from the Western Balkans.

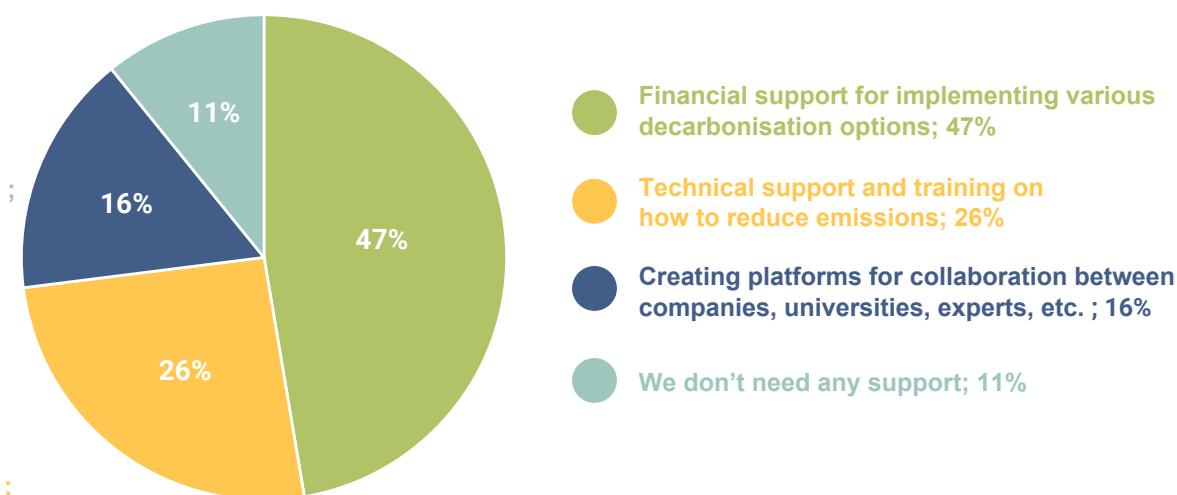
**Table 19 / What do you plan to do to reduce your carbon emissions?
(answers for companies of different sizes)**

Values	1-10	11-50	51-250	250+	Total
We plan to switch to cleaner energy.	24%	27%	24%	21%	24%
We plan to reduce our energy consumption.	25%	25%	23%	21%	24%
We plan to change our transport and logistics.	15%	12%	4%	4%	8%
We plan to invest in green technologies.	18%	18%	20%	20%	19%
We plan to redesign our products and change our materials and processes.	2%	4%	4%	5%	4%
We plan to change our supply chains.	1%	2%	4%	8%	4%
We plan to start implementing circular economy.	7%	5%	8%	10%	7%
We plan to invest in carbon offset projects.	7%	6%	13%	12%	10%

Source: Survey conducted among local companies from the Western Balkans.

When asked what kind of support they need to reduce their carbon footprint, the companies are unequivocal in their belief that they need first and foremost financial support. Almost half of the companies gave this answer (47%), with the second most common answer – for technical support – receiving almost half of that (26%) (Figure 50). This was remarkably stable across the six economies (Table 20) and across companies of various sizes (Table 21). The only notable difference here is that smaller companies more often tend to say that they do not need any help.

**Figure 50 / What kind of support do you need to reduce your carbon footprint?
(answers for the whole sample)**



Source: Survey conducted among local companies from the Western Balkans.

**Table 20 / What kind of support do you need to reduce your carbon footprint?
(answers for each of the economies)**

Values	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
Technical support and training on how to reduce emissions.	27%	30%	19%	20%	26%	23%	26%
Financial support for implementing various decarbonisation options.	42%	46%	57%	50%	49%	47%	47%
Creating platforms for collaboration between companies, universities, experts, etc.	21%	19%	3%	20%	19%	13%	16%
We don't need any support.	10%	5%	22%	10%	5%	17%	11%

Source: Survey conducted among local companies from the Western Balkans.

**Table 21 / What kind of support do you need to reduce your carbon footprint?
(answers for companies with different sizes)**

Values	1-10	11-50	51-250	250+	Total
Technical support and training on how to reduce emissions.	26%	23%	28%	26%	26%
Financial support for implementing various decarbonisation options.	39%	57%	45%	45%	47%
Creating platforms for collaboration between companies, universities, experts, etc.	21%	8%	17%	21%	16%
We don't need any support.	14%	12%	9%	8%	11%

Source: Survey conducted among local companies from the Western Balkans.

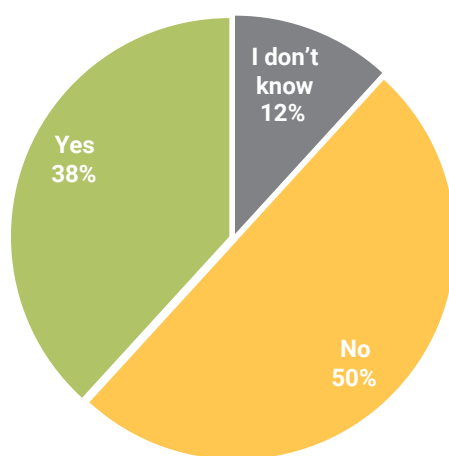
Attitudes towards the Carbon Border Adjustment Mechanism

Regarding the questions on the EU's Carbon Border Adjustment Mechanism (CBAM), notable differences emerge compared to the general questions on decarbonisation. The first interesting finding is that most companies surveyed are not familiar with the CBAM. Half of the companies gave this response, while 38% said that they are familiar with it. Additionally, 12% were unsure whether they are familiar with the proposal or not (Figure 51).

There are significant differences among the six economies surveyed. In Bosnia and Herzegovina, Montenegro and North Macedonia, most companies reported being familiar with the CBAM, whereas in the other three economies, most companies reported not being familiar with it. In Albania and Serbia, over 60% of companies stated that they are not familiar with the CBAM (Table 22).

There are also clear size-related patterns here, with smaller companies more frequently indicating unfamiliarity with the CBAM. Still, even among large companies (250+ employees), almost a third of respondents reported not being familiar with it (Table 23).

Figure 51 / Are you familiar with the Carbon Border Adjustment Mechanism?
(answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 22 / Are you familiar with the Carbon Border Adjustment Mechanism?
(answers for each of the economies)

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
I don't know	10%	12%	22%	14%	10%	11%	12%
No	64%	29%	47%	29%	41%	61%	50%
Yes	26%	59%	31%	57%	49%	28%	38%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Table 23 / Are you familiar with the Carbon Border Adjustment Mechanism?
(answers for companies of different sizes)

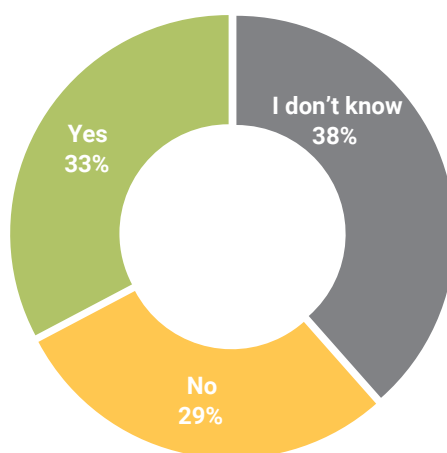
	1-10	11-50	51-250	250+	Total
I don't know	9%	12%	17%	6%	12%
No	70%	55%	37%	30%	50%
Yes	21%	34%	46%	64%	38%
Total	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

The lack of knowledge about the CBAM is evident in the responses to the question on whether companies will be affected by it. A plurality of companies (38%) said they don't know if they will be affected, 33% said they will be affected, and 29% said they won't be affected (Figure 52). Distinctive patterns emerge among the different economies. While most firms in Serbia, Montenegro and Kosovo reported that they don't know whether they will be affected, the most common response in Bosnia and Herzegovina and North Macedonia was that companies will be affected. In Albania, 59% of companies said they won't be affected (Table 24).

When looking at company sizes, smaller companies more often reported that they won't be affected by the CBAM, whereas larger companies more frequently said they will be affected. The proportion of companies that are unsure whether they will be affected appears to be fairly consistent across the various company sizes (Table 25).

Figure 52 / Will the Carbon Border Adjustment Mechanism affect your company? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 24 / Will the Carbon Border Adjustment Mechanism affect your company? (answers for each of the economies)

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
I don't know	15%	37%	47%	71%	39%	46%	38%
No	59%	11%	34%	14%	20%	29%	29%
Yes	26%	52%	19%	14%	41%	25%	33%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

**Table 25 / Will the Carbon Border Adjustment Mechanism affect your company?
(answers for companies of different sizes)**

	1-10	11-50	51-250	250+	Total
I don't know	37%	40%	43%	26%	38%
No	46%	26%	17%	26%	29%
Yes	16%	34%	39%	47%	33%
Total	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Companies from the Western Balkans express both concerns and proactive attitude regarding the effects of the CBAM (Figure 53). When asked how the CBAM will affect them, the most common response was that it will prompt companies to invest more in new technologies (31%). However, the next two most common responses were that it will increase prices (24%) and it will burden companies with reporting requirements (23%). Yet again, about 13% of companies stated that it will reduce competition in the EU market, while 9% stated that the CBAM will open new opportunities for them.

Companies in Albania and Kosovo seem to have a more positive perspective, with a significantly higher share of responses indicating that the CBAM will lead to investment in new technologies (56% and 41%, respectively) (Table 26).

Interestingly, there do not appear to be significant differences between firms of different sizes in terms of their views on the CBAM's impact. The only notable difference is that smaller firms more often say they don't know, while larger companies choose this option less frequently (Table 27).

**Figure 53 / In which ways will the CBAM affect your company?
(answers for the whole sample)**



Source: Survey conducted among local companies from the Western Balkans.

**Table 26 / In which ways will the CBAM affect your company?
(answers for each of the economies)**

Values	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
It will make our products more expensive on the EU market.	15%	21%	9%	11%	25%	19%	20%
It will burden us with reporting requirements.	4%	29%	9%	0%	15%	18%	19%
It will make us invest more in new technologies.	56%	23%	41%	22%	24%	20%	25%
It will reduce our competition in the EU market.	4%	11%	13%	11%	12%	10%	11%
It will open new markets and business possibilities other than the EU market.	4%	6%	6%	11%	6%	9%	7%
I don't know	19%	9%	22%	44%	19%	24%	18%

Source: Survey conducted among local companies from the Western Balkans.

Table 27 / In which ways will the CBAM affect your company? (answers for companies of different sizes)

Values	1-10	11-50	51-250	250+	Total
It will make our products more expensive on the EU market.	13%	18%	22%	24%	20%
It will burden us with reporting requirements.	11%	14%	23%	25%	19%
It will make us invest more in new technologies.	19%	31%	24%	25%	25%
It will reduce our competition in the EU market.	10%	8%	12%	13%	11%
It will open new markets and business possibilities other than the EU market.	13%	6%	6%	6%	7%
I don't know	35%	23%	13%	8%	18%

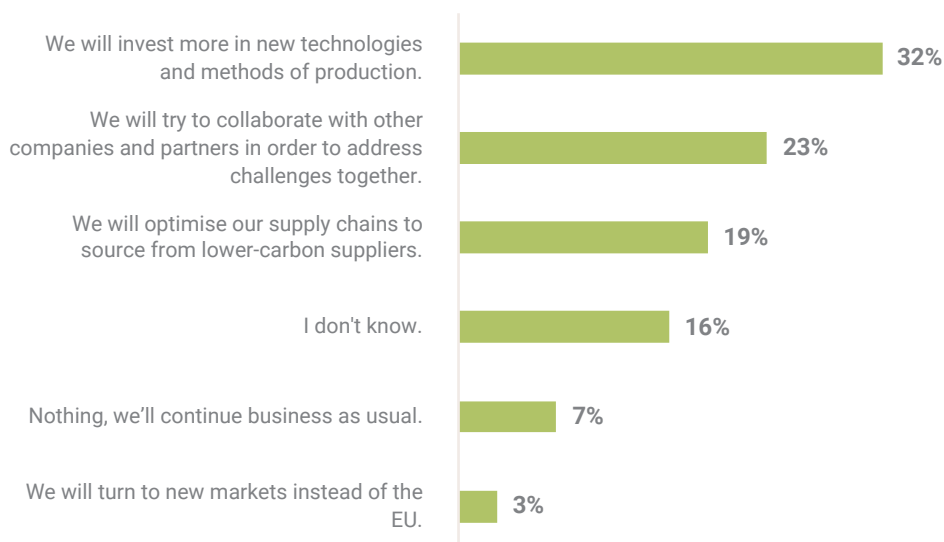
Source: Survey conducted among local companies from the Western Balkans.

A more positive perspective emerges when companies are asked what actions they intend to take in response to the CBAM (Figure 54). A plurality of the companies (32%) say they plan to invest in new technologies, with the second most common response being cooperation with other companies to overcome challenges together (23%). Additionally, 19% of companies intend to optimise supply chains to source from lower-carbon suppliers. Only 7% of companies say they won't do anything, and just 3% say they will turn to new markets. These responses are slightly different from the responses of the foreign companies to the same question, whose most common response was that they will optimise their supply chains. These responses imply that local and foreign companies could complement each other in the sense that foreign investors' need for local suppliers to adopt sustainable technologies (in order to comply with EU regulations) can match the local companies' readiness to invest in enhancing their competitiveness.

There are no significant differences across the six economies, as these three responses are the most common everywhere. However, in Montenegro and Serbia, a notably higher percentage of companies said that they don't know what they will do (38% and 24%, respectively). In the other four economies, this share was 16% or below (Table 28).

When looking at companies of different sizes, the most common responses remain consistent. Interestingly, the share of companies investing in new technologies and optimising supply chains increases with company size, while the share of those saying they won't do anything or don't know decreases (Table 29).

Figure 54 / What does your company intend to do because of the CBAM? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

**Table 28 / What does your company intend to do because of the CBAM?
(answers for each of the economies)**

Values	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
Nothing, we'll continue business as usual.	4%	4%	15%	0%	5%	13%	7%
We will invest more in new technologies and methods of production.	59%	30%	31%	38%	34%	26%	32%
We will optimise our supply chains to source from lower-carbon suppliers.	7%	28%	15%	13%	23%	10%	19%
We will try to collaborate with other companies and partners in order to address challenges together.	11%	32%	15%	13%	17%	24%	23%
We will turn to new markets instead of the EU.	4%	0%	8%	0%	5%	3%	3%
I don't know.	15%	6%	15%	38%	16%	24%	16%

Source: Survey conducted among local companies from the Western Balkans.

**Table 29 / What does your company intend to do because of the CBAM?
(answers for companies of different sizes)**

Values	1-10	11-50	51-250	250+	Total
Nothing, we'll continue business as usual.	16%	12%	3%	2%	7%
We will invest more in new technologies and methods of production.	22%	35%	31%	40%	32%
We will optimise our supply chains to source from lower-carbon suppliers.	13%	13%	23%	25%	19%
We will try to collaborate with other companies and partners in order to address challenges together.	22%	22%	26%	20%	23%
We will turn to new markets instead of the EU.	3%	2%	3%	3%	3%
I don't know.	25%	17%	13%	10%	16%

Source: Survey conducted among local companies from the Western Balkans.

Finally, regarding the support companies need to better cope with the challenges and opportunities of the CBAM, there are notable differences compared to the respective question on decarbonisation (Figure 55). The most common response is that companies need more information on what the CBAM will mean for them (20%). The two other options related to technical support – for reducing carbon footprints and for carbon accounting and reporting – received 16% and 15% of the responses, respectively, meaning that responses focused on knowledge and technical support made up more than half of the answers. Financial support options – for investing in new technologies and for compensating for higher export costs due to the CBAM – account for 20% and 17% of the responses, respectively. This shows that while companies still need financial support to cope with the CBAM, the issues related to it are not solely about finances.

The answers are fairly consistent across different economies (Table 30), with a noticeable difference in Albania, where financial support options dominate (48% in total). In Montenegro, a significant number of companies indicated a need for platforms to facilitate collaboration between universities, companies, experts and others (18%). Looking at company size, there is very little variation in the answers to this question (Table 31).

Figure 55 / What kind of support do you need to cope better with the challenges and opportunities arising from the CBAM? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 30 / What kind of support do you need to cope better with the challenges and opportunities arising from the CBAM? (answers for each of the economies)

Values	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
More information on what it means for my company and how will it affect us.	17%	16%	33%	18%	20%	21%	20%
Technical support and training on how to reduce our carbon footprint.	17%	17%	15%	9%	18%	14%	16%
Technical support and training on carbon accounting and reporting.	11%	21%	8%	18%	14%	13%	15%
Financial support to make up the higher export costs because of the CBAM.	26%	18%	15%	9%	16%	17%	17%
Financial support for investing into new technologies.	22%	20%	15%	18%	18%	21%	20%
Creating platforms for collaboration between companies, universities, experts, etc. on how to adapt to CBAM.	2%	6%	8%	18%	12%	8%	8%
We don't need any support.	4%	1%	8%	9%	2%	6%	3%

Source: Survey conducted among local companies from the Western Balkans.

Table 31 / What kind of support do you need to cope better with the challenges and opportunities arising from the CBAM? (answers for companies of different sizes)

Values	1-10	11-50	250+	51-250	Total
More information on what it means for my company and how will it affect us.	22%	20%	19%	19%	20%
Technical support and training on how to reduce our carbon footprint.	16%	15%	19%	16%	16%
Technical support and training on carbon accounting and reporting.	14%	13%	19%	17%	15%
Financial support to make up the higher export costs because of the CBAM.	16%	19%	14%	19%	17%
Financial support for investing into new technologies.	17%	22%	19%	19%	20%
Creating platforms for collaboration between companies, universities, experts, etc. on how to adapt to CBAM.	7%	8%	11%	8%	8%
We don't need any support.	7%	4%	0%	3%	3%

Source: Survey conducted among local companies from the Western Balkans.

● Cooperation with foreign companies present in the Western Balkans

Turning to the questions regarding cooperation with foreign companies present in the Western Balkans, about half (49%) of the local companies surveyed said they are cooperating (Table 32). This is slightly lower than in the 2021 survey, where 55% of respondents reported cooperation. Interestingly, in Albania and Kosovo, around three quarters of the local companies said that they are not cooperating with foreign companies, while the share of those that do cooperate is much higher in Montenegro, North Macedonia and Serbia, at around 60%. This trend partly reflects the greater presence of smaller firms in the surveys conducted in Albania and Kosovo, as smaller firms tend to cooperate less with foreign companies. Only 37% of micro firms (1-10 employees) reported cooperation, whereas this share was 60% among large companies (250+ employees) (Table 33).

Table 32 / Is your company working with foreign companies that are operating in your economy?

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
No	74%	52%	75%	43%	34%	42%	51%
Yes	26%	48%	25%	57%	66%	58%	49%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

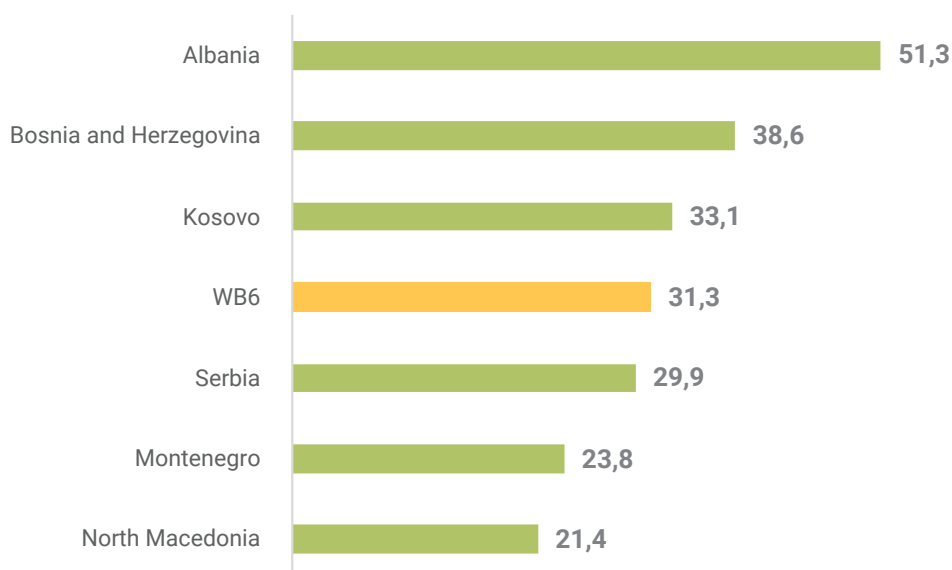
Table 33 / Is your company working with foreign companies that are operating in your economy? (answers for companies of different sizes)

	1-10	11-50	51-250	250+	Total
No	63%	49%	47%	40%	51%
Yes	37%	51%	53%	60%	49%
Total	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Looking at the companies that cooperate with foreign companies, one can see that around a third (31.3%) of their total turnover comes from working with the foreign companies (Figure 56). This is very similar to the finding from the 2021 survey, where the share was 35%. There is some variation across the six economies, with turnover from foreign companies ranging from 51% in Albania to 21% in North Macedonia. The share is remarkably stable across different company sizes, remaining between 31% and 33% in all size groups (Table 34).

Figure 56 / How much of your company's annual turnover is with foreign companies that are operating in your economy? (in percent)



Source: Survey conducted among local companies from the Western Balkans.

Table 34 / How much of your company's annual turnover is with foreign companies that are operating in your economy? (answers for companies of different sizes) (in percent)

	1-10	11-50	51-250	250+	Total
Average turnover	32.7	30.7	30.8	31.7	31.3

Source: Survey conducted among local companies from the Western Balkans.

The level of satisfaction with working with foreign companies is high, with 53% of respondents indicating they are satisfied and 25% saying they are very satisfied (Figure 57). However, this is slightly lower than the satisfaction rate in the previous survey, where the respective shares were 57% and 30%. Compared to the previous survey, it is now evident that the share of firms that are neutral (i.e. neither satisfied nor unsatisfied) has increased from 11% to 19% (Table 35). The share of neutral firms is highest in North Macedonia (30%). Conversely, the share of firms that are very satisfied is highest in Albania and Montenegro (75%) and also very high in Kosovo (50%). Satisfaction is slightly lower among small companies (11-50 employees) and slightly higher among large companies (250+ employees) (Table 36).

**Figure 57 / How satisfied are you with the cooperation with the foreign companies?
(answers for the whole sample)**



Source: Survey conducted among local companies from the Western Balkans.

**Table 35 / How satisfied are you with the cooperation with the foreign companies?
(answers for each of the economies)**

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
Neutral	0%	17%	13%	0%	30%	19%	19%
Satisfied	25%	40%	38%	25%	61%	64%	53%
Unsatisfied	0%	9%	0%	0%	0%	3%	3%
Very satisfied	75%	34%	50%	75%	9%	15%	25%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

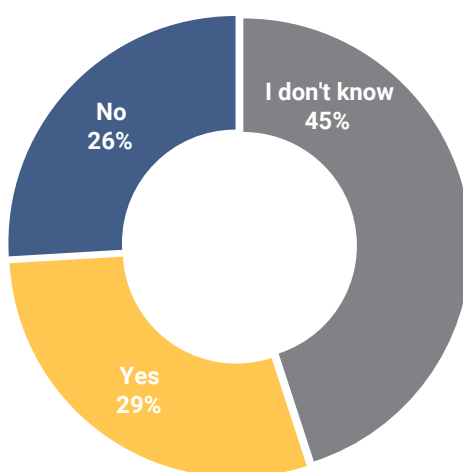
**Table 36 / How satisfied are you with the cooperation with the foreign companies?
(answers for companies of different sizes)**

	1-10	11-50	51-250	250+	Total
Neutral	19%	26%	14%	16%	19%
Satisfied	59%	39%	64%	56%	53%
Unsatisfied	3%	3%	3%	0%	3%
Very satisfied	19%	32%	19%	28%	25%
Total	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Most of the companies that already cooperate with the foreign companies are unsure whether reducing their carbon emissions will increase their cooperation (45%) (Figure 58). While 29% believe that reducing their carbon emissions will enhance their chances, 26% do not think so. There are significant variations across the six economies regarding this question (Table 37). In Bosnia and Herzegovina and Montenegro, the share of companies uncertain about this is as high as 57% and 75%, respectively. Conversely, in Albania, 63% of respondents believe that reducing carbon emissions will increase their chances of working with foreign companies. Interestingly, there are no significant differences in responses to this question based on company size (Table 38).

Figure 58 / Do you think that if you reduce your carbon emissions, you might have greater chances to work with foreign companies who are present in your economy? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 37 / Do you think that if you reduce your carbon emissions, you might have greater chances to work with foreign companies who are present in your economy? (answers for each of the economies)

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
I don't know	6%	57%	38%	75%	41%	49%	45%
No	31%	9%	38%	0%	35%	28%	26%
Yes	63%	34%	25%	25%	24%	24%	29%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Table 38 / Do you think that if you reduce your carbon emissions, you might have greater chances to work with foreign companies who are present in your economy? (answers for companies of different sizes)

	1-10	11-50	51-250	250+	Total
I don't know	51%	35%	48%	50%	45%
No	24%	29%	24%	25%	26%
Yes	24%	35%	28%	25%	29%
(blank)	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Most companies would like to cooperate more with foreign companies by selling their products to them (Figure 59). This option accounts for 46% of the responses, or slightly more than the share in the 2021 survey (40%). However, a slightly larger share of responses (48% in total) refers to soft forms of cooperation, such as exchanging information, lobbying together for common causes, providing goods and services together, and developing products together. This is similar to the last survey, where this share was 50%.

There are notable differences across the six economies (Table 39). In Albania, all responses refer to selling more products to foreign companies, while this share is as low as 41% in Bosnia and Herzegovina and North Macedonia. The responses are fairly consistent across companies of different sizes (Table 40).

Figure 59 / In which ways would you like to cooperate more with foreign companies that are operating in your economy? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 39 / In which ways would you like to cooperate more with foreign companies that are operating in your economy? (answers for each of the economies)

Values	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
We would like to sell more our products (goods and services) to them.	100%	41%	56%	50%	41%	45%	46%
We would like to buy more goods and services from them.	0%	3%	0%	13%	7%	10%	7%
We would like to provide goods/services together.	0%	18%	11%	13%	12%	11%	12%
We would like to develop products together.	0%	16%	11%	13%	13%	8%	11%
We would like to exchange information related to our work.	0%	12%	0%	13%	15%	14%	13%
We would like to work/lobby together for a cause relevant to us.	0%	11%	22%	0%	13%	14%	12%

Source: Survey conducted among local companies from the Western Balkans.

Table 40 / In which ways would you like to cooperate more with foreign companies that are operating in your economy? (answers for companies of different sizes)

Values	1-10	11-50	51-250	250+	Total
We would like to sell more our products (goods and services) to them.	38%	53%	44%	46%	46%
We would like to buy more goods and services from them.	6%	7%	7%	7%	7%
We would like to provide goods/services together.	17%	10%	15%	5%	12%
We would like to develop products together.	11%	11%	12%	9%	11%
We would like to exchange information related to our work.	13%	11%	11%	19%	13%
We would like to work/lobby together for a cause relevant to us.	16%	9%	12%	14%	12%

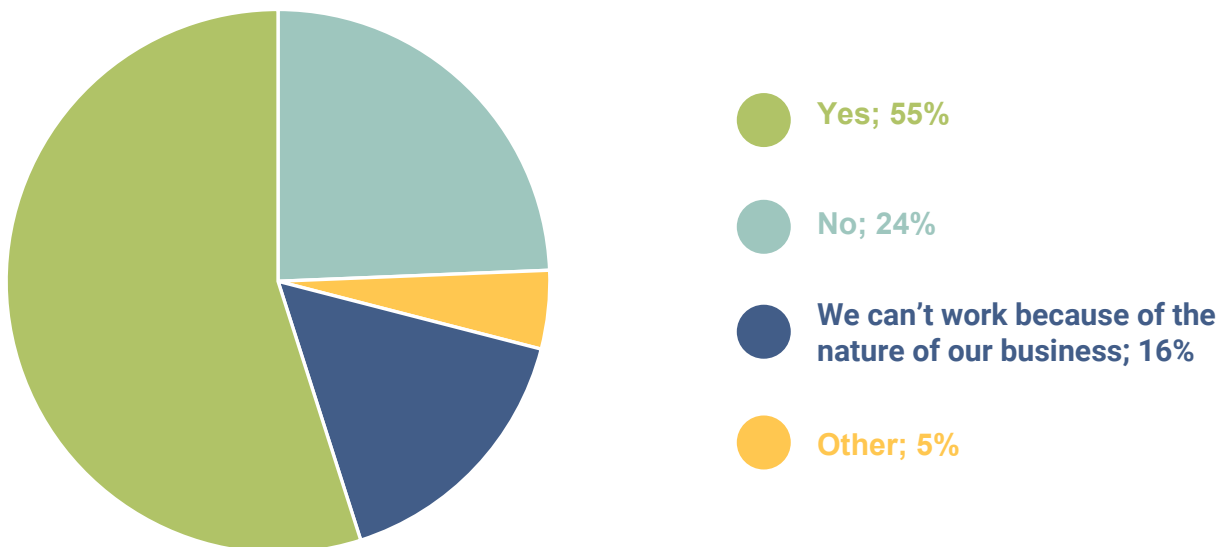
Source: Survey conducted among local companies from the Western Balkans.

Turning to local companies that do not work with foreign firms, more than half (55%) expressed a desire to cooperate with foreign companies (Figure 60). This share is notably lower than in the 2021 survey, where 80% of companies expressed this desire. In the present survey, 24% of companies said they do not want to cooperate with foreign firms, compared to just 5% in 2021. The share of companies that said they cannot cooperate due to the nature of their business remained similar in both surveys, at around 15%.

There are significant differences among the six economies regarding this question (Table 41). In Albania, 67% of local firms said that they do not want to cooperate with foreign companies. This share is 33% in Montenegro, 17% in Serbia 17%, and below 10% in the remaining three economies. Conversely, the share of local firms that want to cooperate with foreign companies ranges between 63% and 75% in five of the economies, with the only exception being Albania, where only 18% of respondents gave a positive answer to this question.

There are also size-related patterns, with smaller firms more frequently indicating that they do not want to cooperate with foreign companies (Table 42). Specifically, 42% gave this response among micro firms (1-10 employees), whereas only 10% said the same among large companies (250+ employees). Additionally, larger companies more often reported that they cannot cooperate with foreign firms due to the nature of their business.

Figure 60 / Do you want to work with foreign companies that are operating in your economy? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 41 / Do you want to work with foreign companies that are operating in your economy? (answers for each of the economies)

	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
No	67%	8%	4%	33%	8%	17%	24%
Other	2%	8%	4%	0%	0%	7%	5%
We can't work because of the nature of our business	13%	18%	17%	0%	29%	12%	16%
Yes	18%	66%	75%	67%	63%	64%	55%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Survey conducted among local companies from the Western Balkans.

Table 42 / Do you want to work with foreign companies that are operating in your economy? (answers for companies of different sizes)

	1-10	11-50	51-250	250+	Total
No	42%	20%	14%	10%	24%
Other	5%	3%	6%	5%	5%
We can't work because of the nature of our business	10%	14%	18%	38%	16%
Yes	44%	63%	63%	48%	55%
Total	100%	100%	100%	100%	100%

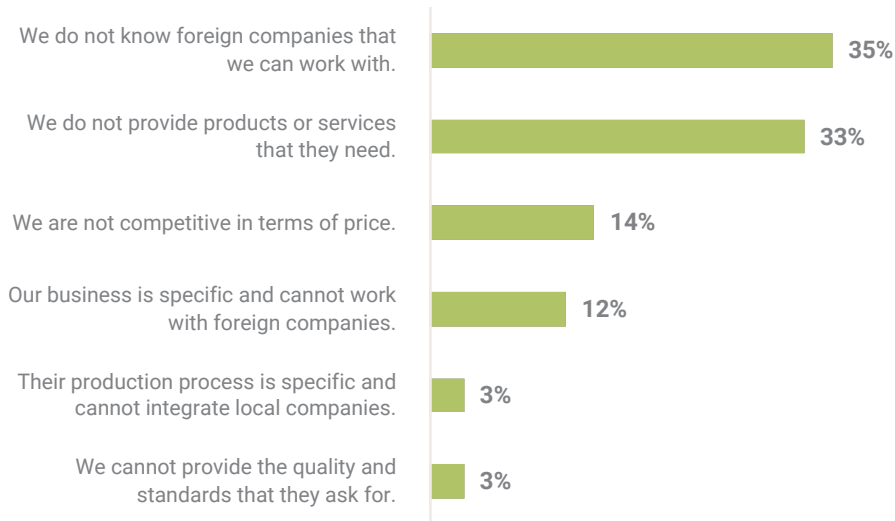
Source: Survey conducted among local companies from the Western Balkans.

Examining the reasons why local companies in the Western Balkans are not cooperating more with foreign companies present in their economies, the dominant reason (35%) is that they do not know foreign companies with which they can cooperate (Figure 61). However, this share is significantly lower than in the 2021 survey, where it was 50%, which may be interpreted as a sign that local and foreign companies have become more familiar with each other over the past three years. The second most common reason (33%) is that local companies do not provide the goods and services that foreign companies need, a significant increase from 18% in the previous survey.

There are notable differences across the economies in terms of reasons for not cooperating more (Table 43). In Albania, the main reason is that local companies are not competitive in terms of price. In North Macedonia, the primary reason is that local companies do not provide the goods and services that foreign companies need. In the remaining four economies, the predominant reason is the lack of knowledge about potential foreign partners.

Distinct size-related patterns also emerge, with smaller companies more frequently citing price competitiveness as a barrier, while larger companies more often report that they do not provide the goods and services that foreign companies need (Table 44).

Figure 61 / What are the reasons why your company does not work with foreign companies operating in your economy? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 43 / What are the reasons why your company does not work with foreign companies operating in your economy? (answers for each of the economies)

Values	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
We do not provide products or services that they need.	23%	32%	25%	33%	56%	33%	33%
We are not competitive in terms of price.	30%	11%	8%	0%	4%	13%	14%
We cannot provide the quality and standards that they ask for.	14%	0%	0%	0%	0%	0%	3%
Their production process is specific and cannot integrate local companies.	5%	0%	0%	0%	7%	3%	3%
Our business is specific and cannot work with foreign companies.	14%	11%	4%	0%	26%	9%	12%
We do not know foreign companies that we can work with.	16%	46%	63%	67%	7%	42%	35%

Source: Survey conducted among local companies from the Western Balkans.

Table 44 / What are the reasons why your company does not work with foreign companies operating in your economy? (answers for companies of different sizes)

Values	1-10	11-50	51-250	250+	Total
We do not provide products or services that they need.	22%	37%	33%	55%	33%
We are not competitive in terms of price.	28%	15%	2%	5%	14%
We cannot provide the quality and standards that they ask for.	6%	3%	0%	0%	3%
Their production process is specific and cannot integrate local companies.	3%	2%	5%	0%	3%
Our business is specific and cannot work with foreign companies.	6%	12%	17%	15%	12%
We do not know foreign companies that we can work with.	34%	32%	43%	25%	35%

Source: Survey conducted among local companies from the Western Balkans.

A plurality (36%) of the local companies that do not currently work with foreign companies indicate that their preferred form of cooperation is by selling products to foreign companies (Figure 62). This share is nearly identical to the previous survey, which reported 37%. The four soft forms of cooperation (i.e. exchanging information, lobbying together for common causes, providing goods and services together, and developing products together) account for 52% of the responses, or the same as in the 2021 survey. There are some differences among the six economies, with the share of companies preferring to sell products ranging from 24% in Albania to 50% in Montenegro (Table 45). There are also company size-related patterns, with the preference for exchanging information and lobbying together increasing with firm size (Table 46).

Figure 62 / In which ways would you like to cooperate with foreign companies that are operating in your economy? (answers for the whole sample)



Source: Survey conducted among local companies from the Western Balkans.

Table 45 / In which ways would you like to cooperate with foreign companies that are operating in your economy? (answers for each of the economies)

Values	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	Total
We would like to sell our products (goods and services) to them.	24%	43%	32%	50%	33%	40%	36%
We would like to buy goods and services from them.	16%	9%	14%	17%	12%	8%	11%
We would like to provide goods/services together.	9%	12%	16%	17%	10%	15%	13%
We would like to develop products together.	24%	9%	14%	17%	12%	10%	13%
We would like to exchange information related to our work.	20%	15%	16%	0%	14%	14%	15%
We would like to work/ lobby together for a cause relevant to us,	7%	11%	9%	0%	19%	13%	11%

Source: Survey conducted among local companies from the Western Balkans.

Table 46 / In which ways would you like to cooperate with foreign companies that are operating in your economy? (answers for companies of different sizes)

Values	1-10	11-50	51-250	250+	Total
We would like to sell our products (goods and services) to them.	33%	46%	32%	33%	36%
We would like to buy goods and services from them.	12%	9%	13%	6%	11%
We would like to provide goods/services together.	15%	14%	13%	6%	13%
We would like to develop products together.	17%	11%	13%	9%	13%
We would like to exchange information related to our work.	15%	15%	13%	24%	15%
We would like to work/lobby together for a cause relevant to us,	7%	5%	16%	21%	11%

Source: Survey conducted among local companies from the Western Balkans.



Conclusions

This study has revisited the question of near-shoring in the Western Balkans. Many predicted that the disruption of global supply chains caused by the COVID-19 pandemic, combined with the geopolitical tensions and polarisation following the onset of the war in Ukraine, would catalyse a trend of near-shoring, whereby multinational companies reorganise their operations towards shorter supply chains. It was anticipated that this would lead to increased FDI in the Western Balkans, a region close to Western Europe that offers both a skilled labour force and relatively low production costs.

We have tried to evaluate whether near-shoring has indeed occurred in the Western Balkans, to identify concrete cases of near-shoring, to explore how these trends can be aligned with ongoing decarbonisation efforts, and to examine the implications of these two megatrends – near-shoring and decarbonisation – for local companies in the region. Drawing on a combination of quantitative analysis, case studies, interviews and surveys, several key conclusions emerge.

First, the quantitative analysis of FDI inflows in the region suggests that near-shoring is indeed taking place in the Western Balkans, particularly in Bosnia and Herzegovina, Kosovo and North Macedonia. The econometric analysis indicates that these economies have experienced sustained increases in investment since the pandemic, exceeding long-run equilibrium values and supporting the notion that companies are relocating operations closer to their headquarters or primary markets in Western Europe. However, the trends in Albania, Serbia and Montenegro are less clear.

We also identified concrete examples of near-shoring, where companies have invested in the region – or are preparing to do so – driven by the desire to locate in the Western Balkans due to the region's proximity to the EU market. We identified such examples in all the economies except Montenegro. Interestingly, many of these investments come from Asian companies, which are strategically positioning themselves in the Western Balkans to be closer to their EU business partners. Some Asian companies are also investing in the region to facilitate exports to the European market, while others – particularly Western European firms – have opted to invest in the Western Balkans instead of in Asia. However, we did not find any cases of companies closing their operations in Asia to relocate to the Western Balkans, which is probably due to the substantial costs involved in such operations.

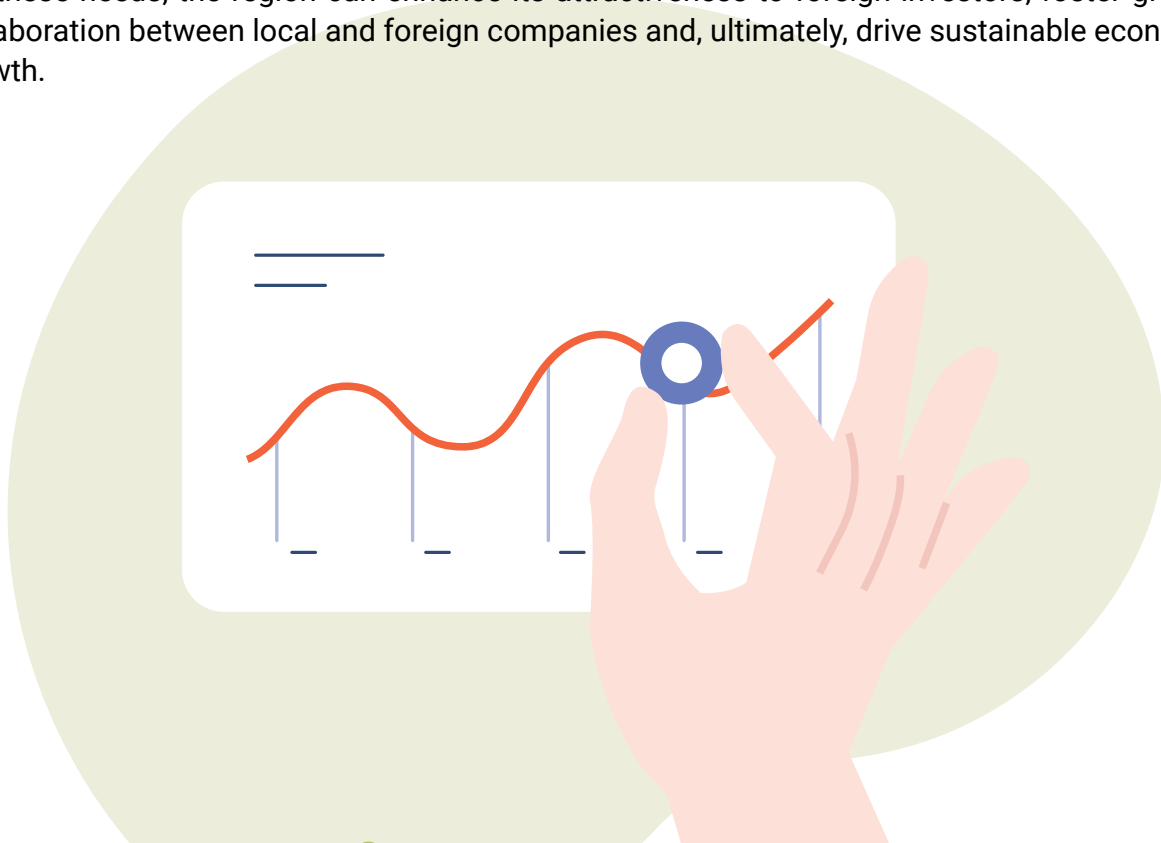
The detailed interviews with foreign investors and other stakeholders underscore that multinational companies are actively discussing and implementing near-shoring strategies. Notably, the 'local-for-local' strategy, whereby companies locate production and other activities closer to their final markets, is gaining traction. The interviews also reveal that near-shoring and decarbonisation are increasingly intertwined in the investment strategies of multinational companies, with decarbonisation becoming a critical factor in decision-making, driven by both regulatory pressures and consumer demands. This presents a significant opportunity for the Western Balkans to attract further investment by aligning local policies with global sustainability trends.

The surveys conducted with foreign and local companies provide valuable insights into the current perceptions and challenges within the region as well as into how near-shoring and decarbonisation can be utilised to benefit the Western Balkans. Foreign companies cite the region's favourable geographical location, skilled labour force and relatively low wages as its main strengths. However, they also identify persistent challenges, such as poor governance, weak institutions and inadequate infrastructure, which hinder greater investment and cooperation with local firms. Notably, a significant proportion of foreign companies expressed a strong interest in increasing their investments if the region were to improve its decarbonisation efforts, which suggests that environmental sustainability could be a key driver of future growth.

Local companies, on the other hand, are increasingly aware of the importance of decarbonisation, with many already taking steps to reduce their carbon emissions. However, the need for financial support to achieve these goals is evident, as is the need for assistance in obtaining relevant certifications and improving production quality standards. These factors are crucial for enhancing the competitiveness of local firms and integrating them into the supply chains of foreign investors.

In conclusion, the Western Balkans are standing at a crossroads where near-shoring and decarbonisation present both opportunities and challenges. To fully capitalise on these trends, it is essential for policy makers in the region to address the longstanding issues of governance, infrastructure and institutional quality while simultaneously prioritising investments in renewable energy and environmental sustainability. Foreign companies have indicated that they are more likely to invest in the region if progress is made in these areas.

Investing in renewable energy and reducing CO₂ emissions is also likely to strengthen collaboration between foreign and local companies. If local companies can reduce their carbon footprint, they will become more attractive partners for foreign firms seeking environmentally responsible suppliers. While local companies are eager to invest in new technologies to advance decarbonisation, they have emphasised the need for financial support to make this feasible. By addressing these needs, the region can enhance its attractiveness to foreign investors, foster greater collaboration between local and foreign companies and, ultimately, drive sustainable economic growth.





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APPENDIX 1 – Survey on Perceptions and views of German companies present in the Western Balkans

SURVEY ON PERCEPTIONS AND VIEWS OF GERMAN COMPANIES THAT ARE PRESENT IN THE WESTERN BALKANS ON INVESTING IN THE REGION, NEAR-SHORING, DECARBONISATION AND THE CARBON BORDER ADJUSTMENT MECHANISM

This survey is part of the study 'Near-shoring and decarbonisation in the Western Balkans', carried out by the chambers of commerce in the Western Balkans, the Association of German Chambers of Industry and Commerce (DIHK), and the Vienna Institute for International Economic Studies (wiiw).

The purpose of the study is to give recommendations on how to cope better with the challenges and opportunities arising from decarbonisation and the Carbon Border Adjustment Mechanism (CBAM).

The survey consists of around 20 questions and should take no more than 10 minutes of your time.

Your answers will be used strictly for the purposes of the study and will be anonymous.

- General questions about the company -

1. Which is the main industry in which your company works globally? (one choice)
 - Agriculture, Forestry and Fishing
 - Mining and Quarrying
 - Manufacturing
 - Electricity, Gas, Steam and Air Conditioning Supply
 - Water Supply; Sewerage, Waste Management and Remediation Activities
 - Construction
 - Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles
 - Transportation and Storage

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- Accommodation and Food Service Activities
- Information and Communication
- Financial and Insurance Activities
- Professional, Scientific and Technical Activities
- Education
- Health and Social Work Activities
- Other (please specify)

2. What is the size of your investment in the WB? (one choice)

- EUR 0-10 million
- EUR 11-50 million
- EUR 51-100 million
- More than EUR 100 million

- Investing in the Western Balkans -

3. Why did your company invest in the WB country in which it invested? (multiple choice)

- Because of the quality of the workforce in the country
- Because of the quantity of the workforce in the country
- Because of the relatively low wages
- Because of the relatively low taxes
- Because of the incentives scheme that the government provided
- Because of the good infrastructure in the country
- Because of the good institutions and governance in the country (rule of law, control of corruption, government effectiveness, etc.)
- Because of the geographical location of the country
- Because of the prospects of the new market
- Other (please specify)

4. Which of the following aspect of education was most important for your company to invest in WB? (one choice)

- The number of STEM graduates (science, technology, engineering, mathematics)
 - The number of ICT graduates (information and communications technology)
 - The number of vocational secondary education pupils
 - Other (please comment)
5. Which of the following aspects of institutions and governance was most important for your company to invest in WB? (one option)
- Voice and Accountability
 - Political Stability and Absence of Violence/Terrorism
 - Government Effectiveness
 - Regulatory Quality
 - Rule of Law
 - Control of Corruption
 - Other (please comment)
6. How satisfied are you with the overall experience of working in the WB compared to the other regions where your company works?
- Very satisfied
 - Satisfied
 - Neutral
 - Unsatisfied
 - Very unsatisfied
7. Which are the positive sides of working in the WB? (choose 3 and rank them)
- Quality of the workforce
 - Quantity of the workforce
 - Relatively low wages
 - Relatively low taxes
 - Good government support (incentive schemes, zones...)
 - Good infrastructure

- Good governance and institutions (rule of law, control of corruption, government effectiveness)
- Geographical location
- Other (please specify)

8. Which are the negative sides of working in the WB? (choose 3 and rank them)

- Quality of the workforce
- Quantity of the workforce
- Wages are relatively high
- Taxes are relatively high
- Government doesn't provide enough support (incentive schemes, zones...)
- Poor infrastructure
- Poor governance and institutions (rule of law, corruption, government ineffectiveness)
- Geographical location
- Other (please specify)

- Working with local companies -

9. How much is your company working with local companies in the WB country where you have invested as a % of your annual turnover? (Direct answer)

- ___ %

10. In which ways is your company cooperating with local companies? (multiple choice)

- We sell our products (goods and services) to them
- We buy goods and services from them
- We provide goods/services together
- We develop products together
- We cooperate on energy efficiency and renewable energy projects
- We exchange information related to our work
- We work/lobby together for a cause relevant to us
- Other (please comment)

11. What are the barriers to working more with local companies? (multiple choice)

- Local companies cannot provide the products and services that we need
- Local companies are not competitive in terms of price
- Local companies cannot provide the quality and standards that we need
- Local companies do not meet our environmental standards
- Our production process is specific and cannot integrate local companies more
- We have long-term relationships with other companies and cannot break them
- Other (please comment)

- Near-shoring -

12. In the past three years, has your company relocated any of its operations from a distant location to one closer to your headquarters?

- Yes
- No
- Don't know

13. What was the previous location of your operations, and where have you moved them to? (only if previous answer is YES)

14. Are you considering relocating any operations from distant locations to ones nearer to your headquarters in the foreseeable future?

- Yes
- No
- Don't know

15. Over the past three years, has your company decided to invest in a location closer to your headquarters instead of in a more distant one?

- Yes
- No
- Don't know

16. What was the more distant location where you decided not to invest, and what was the closer location where you invested? (only if previous answer is YES)

- Decarbonisation -

17. How do you perceive the Western Balkans region in terms of its attractiveness for green investments (i.e. investments that are environmentally sustainable, such as renewable energy, energy efficiency, green transportation, waste management, etc.)?

- Very attractive
- Somewhat attractive
- Neutral
- Somewhat unattractive
- Very unattractive

18. If the Western Balkans region were to make significant improvements in decarbonisation (i.e. reduction in CO₂ emissions), would your company be more inclined to increase its investments there?

- Definitely yes
- Probably yes
- Might or might not
- Probably not
- Definitely not

19. Would your company be more likely to engage in collaborations with Western Balkan companies if they significantly decarbonised their operations?

- Definitely yes
- Probably yes
- Might or might not
- Probably not
- Definitely not

- Carbon Border Adjustment Mechanism -

20. Will the introduction of the EU's Carbon Border Adjustment Mechanism (CBAM), which will apply to the Western Balkan region as well, affect your operations in the region?

- Yes
- No (if this option, the survey ends)
- I don't know

21. In which ways will the CBAM affect your operations in the region? (multiple options)

- It will make our products more expensive on the EU market
- It will burden us with reporting requirements
- It will make us invest more in new technologies
- It will reduce our competition in the EU market
- It will open new markets and business possibilities other than the EU market
- I don't know
- Other (please specify)

22. What does your company intend to do because of the CBAM? (multiple options)

- Nothing, we'll continue business as usual
- We will invest more in new technologies and methods of production
- We will optimise our supply chains to source from lower-carbon suppliers
- We will try to collaborate with other companies and partners in order to address challenges together
- We will turn to new markets instead of the EU
- I don't know
- Other (please specify)



APPENDIX 2: Survey on Perceptions and views of WB6 companies

SURVEY ON PERCEPTIONS AND VIEWS OF WB6 COMPANIES ON DECARBONISATION, THE CARBON BORDER ADJUSTMENT MECHANISM AND COOPERATION WITH FOREIGN COMPANIES

The purpose of the survey is to evaluate the perceptions of Western Balkan companies on decarbonisation, the Carbon Border Adjustment Mechanism (CBAM) and cooperation with foreign companies.

The survey is part of the study 'Near-shoring and decarbonisation in the Western Balkans', carried out by the chambers of commerce in the Western Balkans, the Association of German Chambers of Industry and Commerce (DIHK), and the Vienna Institute for International Economic Studies (wiiw).

The purpose of the study is to give recommendations on how to cope better with the challenges and opportunities arising from decarbonisation and the CBAM.

The survey consists of not more than 25 questions and will take no more than 15 minutes of your time.

Your answers will be used strictly for the purposes of the study and will be anonymous.

- General questions about the company -

1. Which is the main industry in which your company works? (one choice)
 - Agriculture, Forestry and Fishing
 - Mining and Quarrying
 - Manufacturing
 - Electricity, Gas, Steam and Air Conditioning Supply
 - Water Supply; Sewerage, Waste Management and Remediation Activities
 - Construction
 - Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles
 - Transportation and Storage
 - Accommodation and Food Service Activities
 - Information and Communication

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- Financial and Insurance Activities
- Professional, Scientific and Technical Activities
- Education
- Health and Social Work Activities
- Other (please comment)

2. How many employees does your company have? (one choice)

- 1-10
- 11-50
- 51-250
- 250+

3. Is your company exporting to the EU?

- Yes
- No

4. How much of your company's annual production/service is exported to the EU (direct answer) (conditional)

- ___ %

- Decarbonisation -

5. Are you familiar with decarbonisation (i.e. the process of reducing carbon emissions)?

- Yes
- No
- I don't know

6. Do you know more where most of the carbon emissions of your company are coming from?

- From the electricity we use
- From the production process
- From transportation
- From the raw materials we use

- From our waste management
 - I don't know
 - Other (please specify)
7. In which ways is decarbonisation affecting your company? (multiple options)
- It is increasing our costs and prices and reducing our competitiveness
 - It is making us invest more in new technologies in order to reduce our carbon footprint
 - It is making us change our supply chains
 - It is improving our reputation and image, as we are a 'green' company
 - It is opening new business opportunities for us
 - It is not affecting us
 - I don't know
 - Other (please specify)
8. How do you get your electricity, and do you plan to change it in near future?
- We are getting it mostly from the grid and do not plan to change this
 - We are getting it mostly from the grid, but we plan to invest more in our own renewable production
 - We are getting it mostly from our own renewable production and do not plan to change this
 - We are getting it mostly from our own renewable production and plan to expand this
9. Do you think that if you reduce your carbon emissions, you might have greater chances to export to the EU market?
- Yes
 - No
 - I don't know
10. In the next five years, do you have some concrete plans to reduce your carbon emissions?
- Yes
 - No
 - I don't know

11. What do you plan to do to reduce your carbon emissions? (multiple options) (conditional)

- We plan to switch to cleaner energy
- We plan to reduce our energy consumption
- We plan to change our transport and logistics
- We plan to invest in green technologies
- We plan to change our supply chains
- We plan to redesign our products and change our materials and processes
- We plan to start implementing circular economy
- We plan to invest in carbon offset projects
- Other (please specify)

12. What kind of support do you need to reduce your carbon footprint? (multiple options)

- Technical support and training on how to reduce emissions
- Financial support for implementing various decarbonisation options
- Creating platforms for collaboration between companies, universities, experts, etc.
- We don't need any support
- Other (please specify)

- General Carbon Border Adjustment Mechanism Questions -

13. Are you familiar with the Carbon Border Adjustment Mechanism (i.e. the proposal to impose a carbon tax on imports of certain goods that come from countries with less stringent climate policies)?

- Yes
- No
- I don't know

14. Will the Carbon Border Adjustment Mechanism (CBAM) affect your company?

- Yes
- No (if this option, go to question 22)
- I don't know

15. In which ways will the CBAM affect your company? (multiple options)

- It will make our products more expensive on the EU market

- It will burden us with reporting requirements
- It will make us invest more in new technologies
- It will reduce our competition in the EU market
- It will open new markets and business possibilities other than the EU market
- I don't know
- Other (please specify)

16. When will the CBAM start affecting your company?

- It has already affected us because we have started the reporting
- It will affect us starting in 2026, when we will start paying for carbon emissions
- It has already affected us because of the reporting and will additionally affect us starting in 2026, when we will start paying for carbon emissions
- I don't know
- Other (please specify)

17. What does your company intend to do because of the CBAM? (multiple options)

- Nothing, we'll continue business as usual
- We will invest more in new technologies and methods of production
- We will optimise our supply chains to source from lower-carbon suppliers
- We will try to collaborate with other companies and partners in order to address challenges together
- We will turn to new markets instead of the EU
- I don't know
- Other (please specify)

18. What kind of support do you need to cope better with the challenges and opportunities arising from the CBAM? (multiple options)

- More information on what it means for my company and how will it affect us
- Technical support and training on how to reduce our carbon footprint
- Technical support and training on carbon accounting and reporting
- Financial support to make up the higher export costs because of the CBAM
- Financial support for investing into new technologies
- Creating platforms for collaboration between companies, universities, experts, etc. on how to adapt to the CBAM

- We don't need any support.
- Other (please specify)

- Questions on CBAM reporting -

19. Is your company obliged to report its own direct and indirect emissions regarding the CBAM?

- Yes
- No (then go to question 22)

20. What were the most relevant challenges you experienced with the reporting? (multiple options)

- To understand what emissions should be and what should not be included
- To measure or calculate these emissions
- To understand and define boundaries of the installation
- To understand the EU regulation itself
- Other (please specify)

21. Who is in charge of the CBAM issue in your company?

- Sustainability/ESG manager
- CFO
- A cross-sectoral team
- Chief engineer
- Somebody else (who?)

- Cooperation with foreign companies -

22. Is your company working with foreign companies that are operating in your country?

- Yes (if this option is chosen, go to Questions 23-26)
- No (if this option is chosen, go to Questions 27-29)

23. How much of your company's annual turnover is with foreign companies that are operating in your country? (Direct answer)

- ___ %

24. How satisfied are you with the cooperation with the foreign companies? (one choice)

- Very satisfied
- Satisfied
- Neutral
- Unsatisfied
- Very unsatisfied

25. Do you think that if you reduce your carbon emissions, you might have greater chances to work with foreign companies who are present in your country?

- Yes
- No
- I don't know

26. In which ways would you like to cooperate more with foreign companies that are operating in your country? (multiple options)

- We would like to sell more our products (goods and services) to them
- We would like to buy more goods and services from them
- We would like to provide goods/services together
- We would like to develop products together
- We would like to exchange information related to our work
- We would like to work/lobby together for a cause relevant to us
- Other (please comment)

(Just for those who answer NO on the first question)

27. Do you want to work with foreign companies that are operating in your country?

- Yes
- No
- We can't work because of the nature of our business
- Other (please comment)

28. What are the reasons why your company does not work with foreign companies operating in your country? (multiple choice)

- We do not provide products or services that they need
- We are not competitive in terms of price
- We cannot provide the quality and standards that they ask for
- Their production process is specific and cannot integrate local companies
- Our business is specific and cannot work with foreign companies
- We do not know foreign companies that we can work with
- Other (please comment)

29. In which ways would you like to cooperate with foreign companies that are operating in your country? (multiple choice)

- We would like to sell our products (goods and services) to them
- We would like to buy goods and services from them
- We would like to provide goods/services together
- We would like to develop products together
- We would like to exchange information related to our work
- We would like to work/lobby together for a cause relevant to us
- Other (please comment)

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