

THE FACTORS OF INTRA-REGIONAL LABOUR MOBILITY IN THE WESTERN BALKANS

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ABSTRACT

The emigration from the Western Balkan region is a well-documented and long lasting phenomenon, having been present as a form of labour market adjustment for several decades. The recent developments of the regional cooperation in the Western Balkan region might have been affecting the traditional patterns of labour mobility through various channels. The aim of this paper is to evaluate the factors of intra-regional labour mobility in the Western Balkans by applying the standard theoretical framework of labour migrations. The empirical analysis of intra-regional labour mobility is based on the number of issued work permits to citizens from the Western Balkans that are obtained from the National Employment Agencies for the period 2010-2022. The results show that higher average wage and FDI in destination economies vis-à-vis origin economies represent significant attractors of workers from the region. In contrast, higher unemployment rate and Consumer Price Index in destination economies compared to origin economies negatively affect the number of issued work permits. Among the governance indicators, better regulatory quality positively affect the number of issued work permits, while the government effectiveness exerts negative impact. In this context, several policy recommendations are formulated in order to increase the regional cooperation as a mean for strengthening the labour mobility within the region.

Keywords: *regional cooperation, migration, push-pull factors, Western Balkans*

JEL classification: *J61, F22*

1. INTRODUCTION

The Western Balkan region¹ has been considered as an arena of numerous political conflicts that took place in the recent past and to large extent have affected the regional cooperation. Unsolved conflicts and bilateral disputes have contributed to mistrust in the region, which is sometimes a source of instability and undermines the cooperation and progress assumed by the regional initiatives. The regional cooperation is a principle of utmost importance for political stability, security and economic development. Many of the challenges faced by the Western Balkan countries are not exclusive but rather have a cross-border dimension that involves the entire region. In economic terms, regional cooperation among the Western Balkan countries is an instrument for improving the business climate, attracting foreign direct investments (FDI), and supporting the boost of national direct investments, which constitutes the basis for increasing employment thereby the welfare of the citizens in the region (ETF, 2022).

The emigration from the Western Balkan region is a well-documented and long lasting phenomenon, having been present as a form of labour market adjustment for several decades (OECD, 2022). The Western Balkan migrants generally live in traditional destination countries and with respect to this, they share similar patterns of labour mobility (Nikoloski and

¹ The Western Balkan region consist of the following economies: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

Apostolovska Toshevska, 2019; Esch *et al.*, 2020). The recent episodes of global instability such as political conflicts, pandemics and energy crises considerably affect the migratory movements from the Western Balkan region (King and Gëdeshi, 2023). Meanwhile, we witness a gradually increasing regional cooperation processes that are mainly engendered by the common vision for EU integration. Namely, the obstacles of intra-regional labour mobility that have been identified in the previous analyses have been significantly removed. Those are the poor economic situation, restrictive legislation, recognition of qualifications, deteriorated transport infrastructure, lack of bilateral agreements on financial transactions, limited information on job vacancies etc. (Vidovic, 2015).

The recent developments of the regional cooperation in the Western Balkan region might have been affecting the traditional patterns of labour mobility. First, the easier cross-boarder movements and mutual recognition of qualifications is expected to intensify the intra-regional labour mobility, which to some extent, can act as a substitute to the traditional emigration from the region. Second, the strengthened regional cooperation is assumed to increase the attractiveness of the Western Balkan region among foreign investors that might provide additional job opportunities for domestic labour force thus, reducing the migratory pressure. Finally, the improved socio-economic development prospects due to the regional cooperation might increase the confidence among the diaspora that can be manifested by increased remittances and/or return migration. There are many benefits for the entire region that can be expected from increased intra-regional labour mobility such as: reduced skills mismatches, increased firms' competitiveness, reduced pressure on public finances etc. (RCC, 2021).

Having in mind the above considerations, the aim of this paper is to evaluate the factors of intra-regional labour mobility in the Western Balkans by applying the standard theoretical framework of labour migrations. Since the above stated hypothesis has not been sufficiently treated, this research fills the gap by providing evidence about the implications of the regional cooperation in the Western Balkan region and its impact on the intra-regional labour mobility. Furthermore, the evidence-based assessment can assist in revealing what strategy of regional cooperation is most suitable for the economic development of the region, particularly in the light of the ongoing EU integration process. Hence, the paper is structured as follows. In section 2, the main theories of migrations determinants are outlined, while section 3 is focused on the review of regional cooperation in the Western Balkans as a precondition for increasing the intra-regional labour mobility. In section 4, the sources of data are presented alongside with graphical presentation of data trends that provide a general impression about the intra-regional labour mobility. The empirical assessment of factors that determine the intra-regional labour mobility is a subject of section 5, while in section 6 are summarized the conclusion and formulated the policy recommendations.

2. THEORETICAL BACKGROUND

Various theoretical frameworks attempt to explain migrations and their socio-economic implications upon the economies of sending and receiving countries. The traditional approach used for explaining migratory movements is based upon the well-known 'push-pull' theory of migration (Donald, 1969; Velazquez, 2000). According to this theory, the bad economic conditions in developing countries operate as 'push' or expulsion forces, fostering legal or illegal migration toward developed countries. With respect to this, the push factors are related to the country of emigration, whereas the pull factors are related to the country of immigration (Ramos, 2016, Beine *et al.*, 2016). Taking into account the fact that the new environment is attractive to the migrants because it offers better living conditions and satisfies the person's needs, the new environment gets the power of attracting people (Ghodsi *et al.*, 2024).

The determinants that are most frequently used in theoretical elaboration of migration movements are differences in employment prospects and wage rates between home and

destination country. According to the neo-classical theory, migrations arise as a result of wage differentials between regions or countries. Thus, one can expect, in a world of no regulation of migration, that a large real wage difference would cause intense migratory flows (Bauer and Zimmermann, 1999). In terms of net migration flows, a relatively high real wage has a positive effect on net migration flows into labour importing countries, but negative effect on net migration flows from labour exporting countries (Jennissen, 2003). However, in a dynamic model where emigrants choose their optimal migration duration, a host country wage increase may either increase (relative wage effect) or decrease (income effect) migration duration. Therefore, the prevailing of the above two counteracting effects will determine the eventual impact of a wage increase on migration duration (Dustmann, 2001).

In addition to wage differentials, the generosity of the welfare state and corresponding eligibility may also play an important role as an attractor of immigrants. Since immigrants face a probability of becoming unemployed, they have to take into account this information when make migration decisions. According to the 'welfare magnet' concept, potential legal migrants are more likely to move to countries with more generous welfare programmes (Pedersen *et al.*, 2004). Furthermore, destination countries with relatively high unemployment benefits and relatively evenly distributed incomes are more attractive to risk-averse individuals, while the opposite is true for risk neutral and risk-loving individuals (Heitmueller, 2002).

The human capital theory provides an explanation of migratory movements as an investment in human capital. Since, migration decisions represent an investment in human capital, potential migrants weigh up the discounted present value of their earnings and costs from moving abroad. According to this point of view, other things being equal, the likelihood of permanently emigrating decreases with age because the discounted present value of the older workers' earnings is smaller than that of younger workers.

Keynesian economic theory considers migration movements as a form of equilibrium adjusting mechanism in labour markets. In other words, the determinants of migration movements are more likely to be unemployment differences rather than wage differences. Consequently, in terms of net migration flows, relatively high unemployment has a negative effect on net migration flows into labour importing countries, but a positive effect on net migration flows from labour exporting countries (Jennissen, 2003).

Among the other 'push' economic factors of migration is a high level of poverty in the country of origin. However, a high level of poverty may impose financial constraints on potential emigrants, which implies a lower rate of emigration from the poorest regions. Thus, one can expect an inverse U-shaped relationship between the income level and emigration (Bauer and Zimmermann, 1999; Hatton and Williamson, 2003). In addition, Rotte and Vogler (1999) present several additional arguments that help to explain the inverse U-shaped relationship between development and migration: population growth, changes in domestic society, improved transport and communications and expanding networks. These factors would lead to increased emigration in the short and medium run, but in the long run, potential income convergence and home preference would cause migratory movements to fall.

Apart from the above-mentioned theoretical approaches that seek to explain migration movements there are other determinants such as geographic, demographic, cultural, political, social and so forth. They are often considered as complements to the above theoretical frameworks. For instance, the proximity of receiving and sending countries can substantially lower the cost of migration and thus initiate a higher rate of migration. Demographic structure of the population in the source and destination countries is also considered as a factor that determines migration movements (Fertig and Schmidt, 2000). In this context, countries with a younger population and relatively unfavourable economic conditions are more likely to become net exporters of labour. The opposite is true for countries with an older population and better economic performance. Populations in countries that share the same language or same culture

demonstrate a higher propensity to move across borders. Furthermore, wars and other forms of political instability can cause forced migratory movements of asylum seekers and refugees which may evolve into temporary or permanent economic migrants.

The network effect, consisting of established social ties among the immigrants in a given country, can also contribute to easier integration, which fosters further migration movements (Bauer *et al.*, 2000). The support of potential immigrants can take various forms such as financing the journey, helping to find a job or appropriate accommodation, or providing information about education possibilities or access to social security. Therefore social networks may be an important element in lowering the costs of migration by providing beneficial network externalities (Epstein and Gang, 2004). Alternatively, immigrant clustering may be due to 'herd behaviour', where the migrants follow the crowd instead of rationalising their migration decisions according to the possible positive externalities. In addition, evidence suggests that the network effect plays a more important role in the case of low skilled workers rather than among high skilled workers (Jennissen, 2002).

Recently, immigration policy has become an important factor that shapes the intensity and characteristics of international migrations. Migration movements were initially relatively restrained after the oil-shocks in the 1970's which caused increased fears of recession, typically manifested in lower wages or higher unemployment for domestic. Currently, immigration policies in countries of destination consist of various forms of restrictions that potential migrants face when applying to migrate, such as quotas that directly restrain the number of immigrants. Selective immigration policies were first introduced in Australia and Canada in the 1980's and adopted by other OECD countries later following the dissolution of socialism and influx of asylum seekers and refugees (Docquier and Rapoport, 2004). Therefore, due to these policies only a fraction of the population which intend to migrate will actually be able to move, implying a need for distinction between migratory pressures and *ex post* migration (Hatton and Williamson, 2003).

In the case of Western Balkan countries, a mix of push and pull factors contributes to the observed labour emigration waves that have led to significant international diasporas in Europe and North America. The main economic factors that initiate emigration from the Western Balkan countries are the unfavourable economic conditions such as high unemployment, lack of jobs and income gap with respect to more developed receiving countries. In addition to the economic factors, there are other reasons that contribute to increased emigration from the Western Balkan region such as disrupted value system, emphasized political divide, insufficient level of democracy, and persistent ethnic and political tensions (Mara and Landesmann, 2021; De Silva, 2024).

3. THE HISTORY OF REGIONAL COOPERATION IN THE WESTERN BALKANS

In 2014, a diplomatic action was initiated related to the future enlargement of the European Union called 'Berlin Process' with an aim to improve the cooperation between the Union and the Western Balkans in the European integration process. The Berlin Process was initiated to utilize the potential of increased regional cooperation in the Western Balkans. The idea was to foster specific projects in order to increase connectivity in the region, as well as good neighborly relations while subsequently supporting the EU integration (Šelo Šabić, 2018). The 2014 Declaration of the German Chair defined the following specific fields of improvements as goals: (i) Resolution of outstanding bilateral and internal issues; (ii) Achieving reconciliation within and between the societies in the region; (iii) Enhancing regional economic cooperation; and (iv) Laying the foundations for sustainable growth (Vulović, 2022). Although the Berlin Process intended to spur the advance the region politically and economically through increased cooperation, there is still a lot of room for improvement in this regard (Jovanovic and Holzner, 2022).

In 2017, the Regional Cooperation Council presented the Multi-annual action plan for the regional economic area (MAP REA). MAP REA was approved by the Western Balkan leaders on the Trieste Summit of the Berlin Process on 12 July 2017. This initiative aims to enable unobstructed flow of goods, services, capital and highly skilled labour; making the region more attractive for investment and trade; and accelerating convergence with the EU, thus bringing prosperity to Western Balkan citizens. The coordination mechanisms for MAP REA are established in each economy, with appointments of MAP REA coordinators and component contact points. The principles of ‘all-inclusiveness’ is promoted in all structures involved in the coordination and monitoring of activities within the MAP REA. However, the implementation of MAP REA has experienced many challenges and bilateral disputes in the region, which affected its overall implementation (RCC, 2020; Ristovski, 2022).

In 2019, an initiative for closer regional cooperation titled ‘Mini-Schengen’ was launched striving towards advancing political and economic relations and strengthening cultural ties between the nations (initiated by Albania, Serbia and North Macedonia). Unlike previous regional initiatives that included all six countries from the very beginning, there was no consensus for Mini-Schengen. The aim of the Mini-Schengen was to reverse the trends of rising populism and Euroscepticism by supporting a localized integration through economic and social incentives (BPRG, 2021). In this context, it was announced that border controls between the three countries are expected to be abolished by 2023. In addition, the leaders signed three documents: Memorandum of Understanding and Cooperation on Facilitating Import, Export and Movement of Goods in the Western Balkans, the Memorandum on Free Access to the Labour Market and the Agreement on Cooperation in Disaster Protection.

The regional cooperation forum that took place on 29 July 2021 in Skopje as a regional initiative of North Macedonia, Albania and Serbia acquired a new name – Open Balkan. The Open Balkan’s intentions are to provide greater opportunities for trade, student exchange, and encourage the EU integration of the member states (Németh, 2022). Citizens of member states will need only an ID card to visit other states, saving time at boarder crossings. The aim of the Open Balkan initiative is by building stronger economic integration to prepare the Western Balkan economies to become members of the EU (Dhimolea, 2022). In this context, it was signed a Memorandum of Understanding for cooperation related to free access to labour market with an aim to facilitate movement of persons and to secure easy and free access to the labour market by removing working permits and simplifying procedures on residence permits.

4. DATA

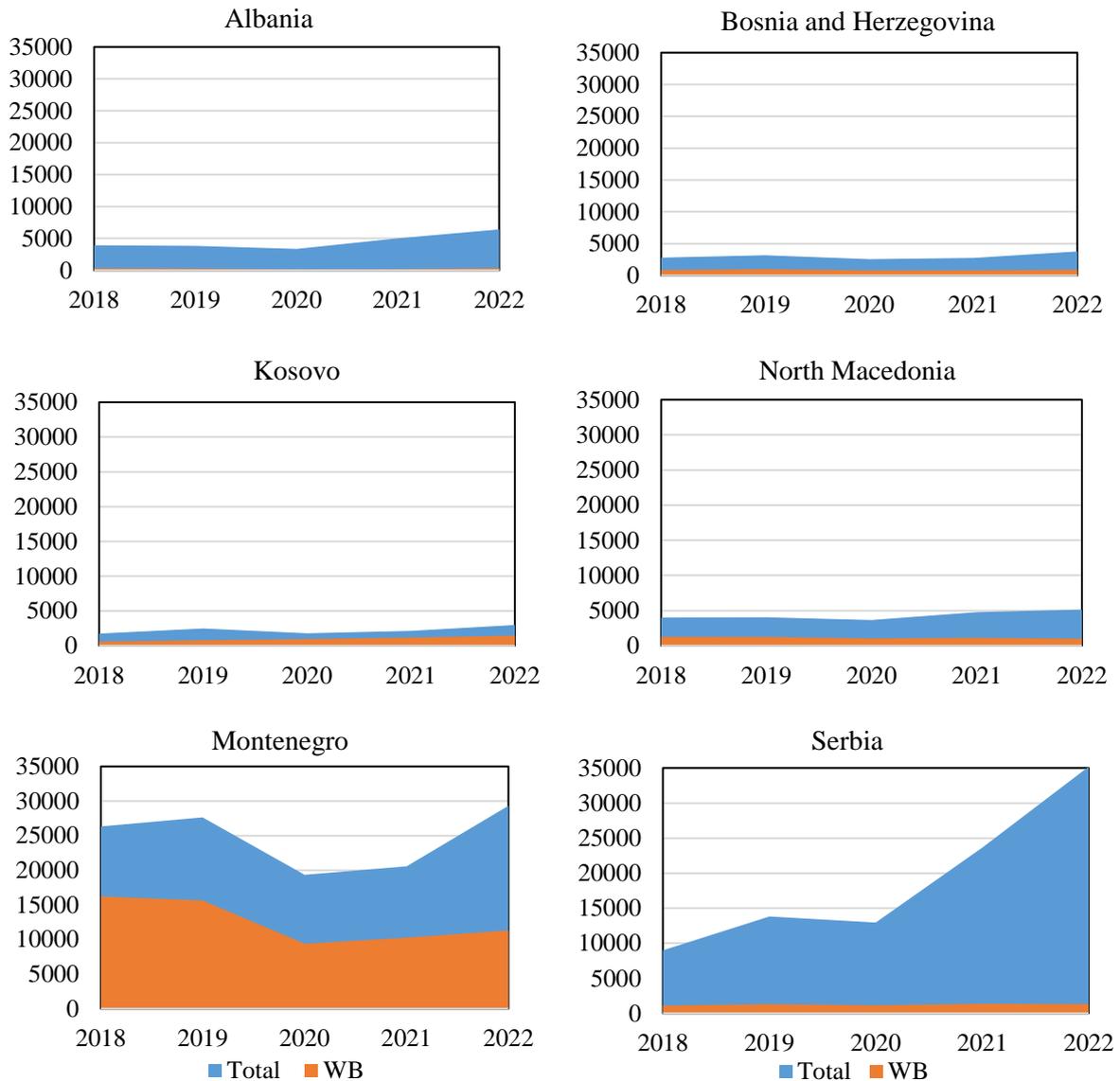
The empirical analysis of intra-regional labour mobility is based on the number of issued work permits to citizens from the Western Balkans that are obtained from the National Employment Agencies for the period 2010-2022. A major advantage of using work permits data is its focus on labour migrants. Namely, the migration decisions of labour migrants are mainly driven by economic reasoning, whilst it is not always true for non-labour migrants.

A work permit is a legal document granting official permission to individuals to seek employment, work, and earn a salary in a foreign country, ensuring their employment is recognized and protected under local laws. The characteristics of a work permit can vary depending on the country and its immigration policies, but some common characteristics include: (i) it is issued by a government agency; (ii) acts as the primary document that explicitly and legally authorizes a foreign national to work in a specific country; (iii) grants entry into a country for an extended period of time; (iv) outlines the terms and conditions of employment, such as the type of work allowed, the employer, and the authorization duration; (v) required in addition to a visa, especially in countries where the two are separate documents.

According to the obtained work permits data for the period under consideration, we deal with an unbalanced panel, which contains in total 274 observations and 28 groups. The numbers of

issued work permits (totals and those issued to Western Balkan citizens) during the period 2018-2022 for each WB economy are presented on Figure 1.

Figure 1: Number of issued work permits (Total and WB citizens)

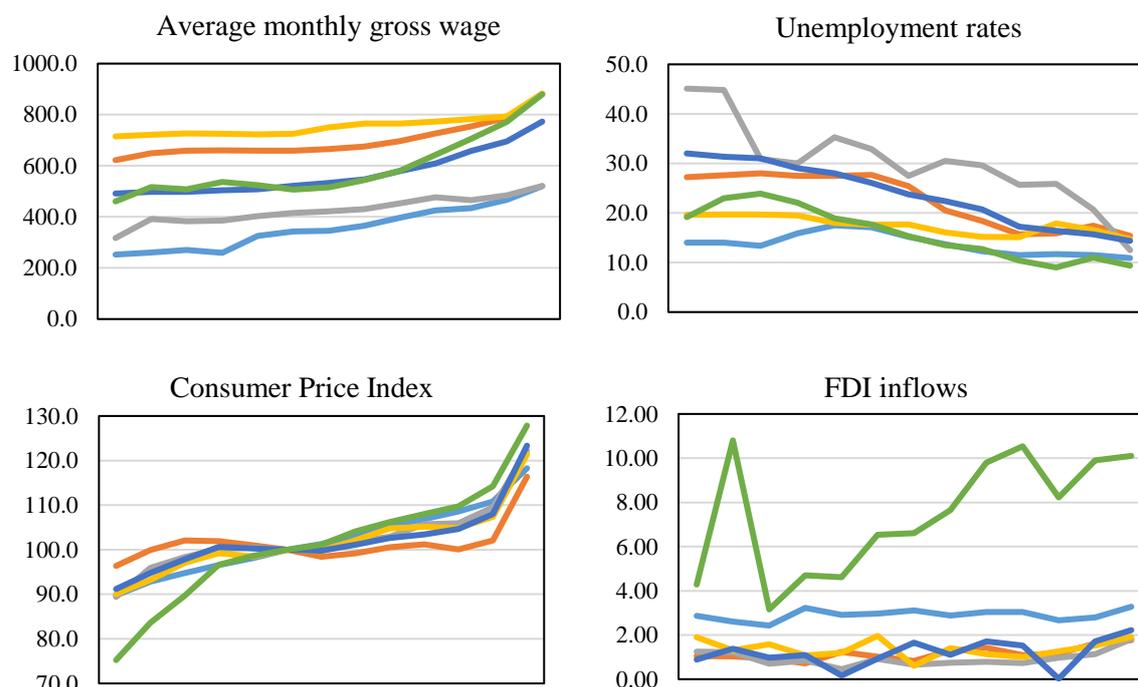


From Figure 1 it is obvious that the amount of work permits issued to Western Balkan citizens is quite modest except in Montenegro where are issued almost two thirds of the total number of work permits in the Western Balkan region. This can be attributed to the high seasonal needs for skilled labour in tourism and hospitality sector that cannot be satisfied by the domestic labour force. In addition, a high number of issued work permits are also observed in Serbia, but the share of those issued to Western Balkan citizens is small and similar to other countries in the region. Hence, the mobility in the region is mainly of seasonal character for employment in tourism, agriculture and construction (RCC, 2015).

We further consider data on the macroeconomic indicators that are usually used as push and pull factors in the international labour movements such as: Gross average monthly wages, Unemployment rates, Consumer Price Index and Foreign Direct Investments. These data are obtained from the Vienna Institute for International Studies (wiiw) that ensures their comparability. The Gross average monthly wages cover total wages and salaries in cash and in kind, before any tax deduction and before social security contributions. They include wages

and salaries, remuneration for time not worked, bonuses and gratuities paid by the employer to the employee expressed in EUR. The unemployment rates are calculated according to the ILO definition representing the share of unemployed in the total labour force, which is estimated by the Labour Force Survey. The Consumer Price Index measures the change in prices of a weighted average market basket of consumer goods and services purchased by households. The sources for CPI are the national statistical offices in the Western Balkan economies, while 2015 is taken as a base period. The FDI are presented as net inflows as the value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net of repatriation of capital and repayment of loans. The dynamics of the above macroeconomic indicators in the Western Balkan economies during the period 2010-2022 is presented on Figure 2.

Figure 2: The macroeconomic indicators in the Western Balkan economies



(Source: Vienna Institute for International Studies)

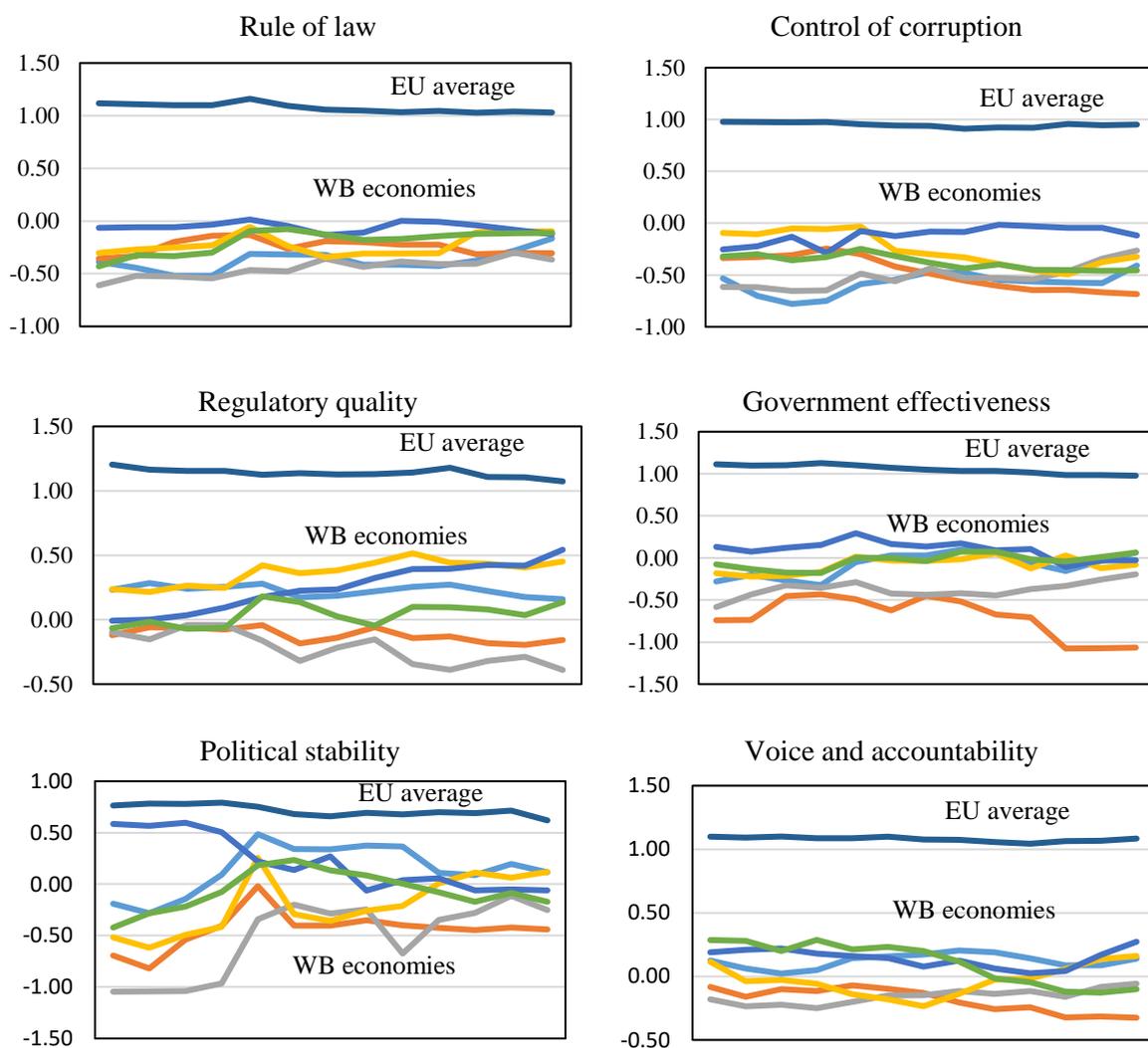
The data on the Governance Indicators are obtained from the World Bank². The Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests. Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. Voice and accountability captures perceptions of the extent to which a

² Source: <https://www.worldbank.org/en/publication/worldwide-governance-indicators>

country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

The aggregate Worldwide Governance Indicators are based on over 30 underlying data sources reporting the perceptions of governance of a large number of survey respondents and expert assessments worldwide. The calculation is done in the following three steps: (i) Assigning data from individual sources to the aggregate indicators; (ii) Rescaling of the individual source data to run from 0 to 1; and (iii) Using an Unobserved Components Model (UCM) to construct a weighted average of the individual indicators for each source. The composite measures of governance generated by the UCM are in units of a standard normal distribution, with mean zero, standard deviation of one. The range of the governance indicators is from approximately -2.5 to 2.5, with higher values corresponding to better governance (Kaufmann *et al.*, 2010). The dynamics of the Governance indicators for the period 2010-2022 is presented on Figure 3.

Figure 3: Dynamics of the Governance indicators in the Western Balkan economies



(Source: World Bank)

From Figure 3 we can conclude that all governance indicators in the Western Balkan economies are lower compared to the EU average values (calculated as unweighted average). Furthermore, there is a converging trend with respect to political stability, while the trend is diverging regarding the regulatory quality. The remaining governance indicators do not show specific patterns and generally, remain stable during the period under the consideration.

5. EMPIRICAL ANALYSIS

In the context of the ‘push-pull’ theory of migration, we make several assumption. First, the differences in real wages between destination and sending economy are expected to have positive, while differences in unemployment rates to have negative impact on intra-regional labour mobility. Furthermore, the difference in Consumer Price Index (CPI) between destination and sending economy as a measure of inflation would exert negative impact on labour mobility since it worsens the living conditions of the immigrants. Finally, it is expected that strengthened regional cooperation improve the economic development of the Western Balkan region by making it more attractive for foreign direct investments. The FDI are expected to exert shifts in labour demand in the region manifested by higher employment and wages at least in the short-run. Hence, the economies with higher FDI inflows are expected to be more attractive as destinations for the labour migrants. The specification of the semi-logarithmic model with the above outlined push and pull factors with panel data and fixed effects is presented with equation (1).

$$\ln WP_{ijt} = \beta_0 + \beta_1(W_{jt} - W_{it}) + \beta_2(u_{jt} - u_{it}) + \beta_3(CPI_{jt} - CPI_{it}) + \beta_4(FDI_{jt} - FDI_{it}) + \gamma_i + \varphi_j + \varepsilon_{ijt} \quad \dots (1)$$

where,

WP_{ijt} is a number of work permits issued in destination economy j to citizens from origin economy i in year t .

$W_{jt} - W_{it}$ is difference in gross average monthly wage between destination and origin economy

$u_{jt} - u_{it}$ id difference in unemployment rates between destination and origin economy

$CPI_{jt} - CPI_{it}$ is difference in Consumer Price Index between destination and origin economy

$FDI_{jt} - FDI_{it}$ is difference in Foreign Direct investments between destination and origin economy

Besides the above stated explanatory variables, we alternatively add the following dummy variables:

$Neighbour_{ij}$ – takes value 1 if economy i and economy j are neighbouring, and 0 otherwise.

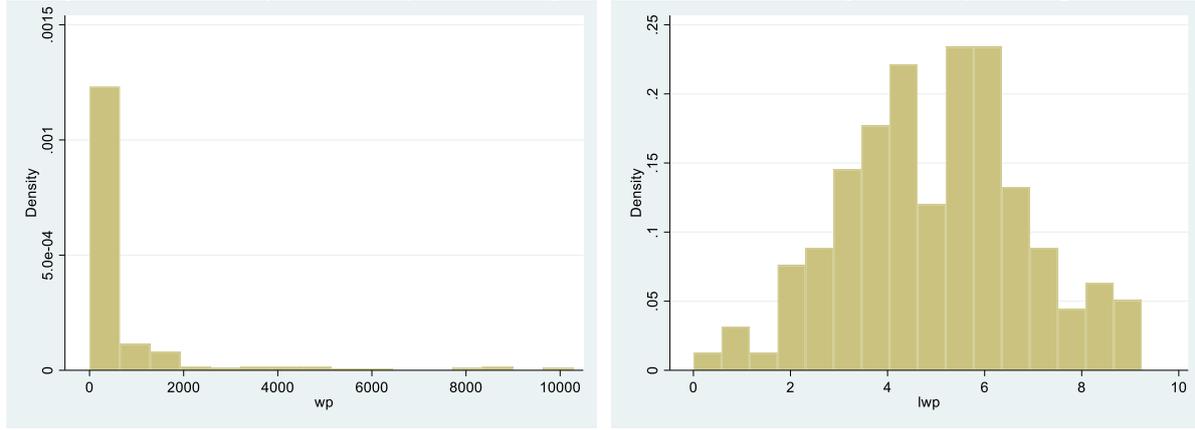
$Language_{ij}$ – takes value 1 if economy i and economy j have same language, and 0 otherwise.

$OpenBalkan_{ijt}$ – takes value 1 if economy i and economy j takes part in the Open Balkan, and 0 otherwise.

$Covid_{ijt}$ – takes value 1 for years 2020, 2021 and 2022, and 0 otherwise.

Since the distribution of the number of issued work permits as dependent variable is skewed to the right, in our analysis we use natural logarithm instead of the original values. With this transformation, the distribution become closer to the normal distribution. This can be observed on Figure 4, where on the left graph is presented the density function of WP, while on the right side is the density function of $\ln(WP)$.

Figure 4: Density functions of the Work permits and natural logarithm of Work permits



The results from the estimated model specifications with push and pull factors are presented in Table 1.

Table 1: Estimation results of the model with push-pull factors

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	5.1015*** (0.000)	3.8851*** (0.000)	4.6230*** (0.000)	5.1072*** (0.000)	5.1034*** (0.000)
$W_{jt} - W_{it}$	0.0029*** (0.005)	0.0031*** (0.000)	0.0030*** (0.000)	0.0029*** (0.000)	0.0030*** (0.000)
$u_{jt} - u_{it}$	-0.0355*** (0.000)	-0.0353*** (0.000)	-0.0350*** (0.000)	-0.0355*** (0.000)	-0.0355*** (0.000)
$CPI_{jt} - CPI_{it}$	-0.0411*** (0.000)	-0.0408*** (0.000)	-0.0410*** (0.000)	-0.0413*** (0.000)	-0.0411*** (0.000)
$FDI_{jt} - FDI_{it}$	0.0469* (0.093)	0.0394 (0.147)	0.0396 (0.148)	0.0463* (0.098)	0.0455* (0.104)
Neighbour		1.7947*** (0.000)			
Language			1.6721*** (0.003)		
Open Balkan				-0.0877 (0.567)	
Covid-19					-0.0044 (0.953)
R² within	0.1643	0.1584	0.1588	0.1615	0.1603
R² betw.	0.1571	0.4641	0.4188	0.2307	0.2310
R² overall	0.1266	0.4126	0.3868	0.1855	0.1861

(Source: Author's calculations)

The estimation results from Table 1 show that difference in average gross wage between destination and origin economy has positive, while the difference in unemployment rates and CPI have negative impact on the number of issued work permits to Western Balkan citizens. These three explanatory variables are highly statistically significant in all model specifications. The effect of difference in the FDI inflows is positive but almost on the limit of 10% level of statistical significance. The neighbouring economies and those who share same language experience higher labour mobility, while the participation in the Open Balkan initiative and Covid-19 dummy variables are not statistically significant. The results are robust since the estimated coefficient do not change significantly from one specification to another. Furthermore, we expand the model with initially considered push-pull factors by including the

governance indicators as explanatory variables. The estimation results are presented in Table 2.

$Rule_{jt} - Rule_{it}$ is difference in rule of law between destination and origin economy

$Corr_{jt} - Corr_{it}$ is difference in control of corruption between destination and origin economy

$Regul_{jt} - Regul_{it}$ is difference in regulatory quality between destination and origin economy

$Effect_{jt} - Effect_{it}$ is difference in government effectiveness between destination and origin economy

$Polit_{jt} - Polit_{it}$ is difference in political stability between destination and origin economy

Table 2: Estimation results of the model with push-pull factors and governance indicators

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	5.1878*** (0.000)	3.9709*** (0.000)	4.7177*** (0.000)	5.1957*** (0.000)	5.2027*** (0.000)
$W_{jt} - W_{it}$	0.0040*** (0.000)	0.0039*** (0.000)	0.0039*** (0.000)	0.0041*** (0.000)	0.0040*** (0.000)
$u_{jt} - u_{it}$	-0.0459*** (0.000)	-0.0441*** (0.000)	-0.0440*** (0.000)	-0.0461*** (0.000)	-0.0458*** (0.000)
$CPI_{jt} - CPI_{it}$	-0.0460*** (0.000)	-0.0453*** (0.000)	-0.0449*** (0.000)	-0.0465*** (0.000)	-0.0466*** (0.000)
$FDI_{jt} - FDI_{it}$	0.0536** (0.048)	0.0488* (0.065)	0.0431* (0.105)	0.0534** (0.049)	0.0521* (0.055)
$Rule_{jt} - Rule_{it}$	-0.2159 (0.622)	-0.2884 (0.509)	-0.3016 (0.495)	-0.2231 (0.610)	-0.2354 (0.593)
$Corr_{jt} - Corr_{it}$	0.2458 (0.359)	0.2457 (0.350)	0.2548 (0.336)	0.2495 (0.352)	0.2472 (0.357)
$Regul_{jt} - Regul_{it}$	1.3100*** (0.000)	1.2610*** (0.000)	1.2206*** (0.000)	1.321*** (0.000)	1.3168*** (0.000)
$Effect_{jt} - Effect_{it}$	-0.5709** (0.016)	-0.5081** (0.030)	-0.5144** (0.029)	-0.5683** (0.017)	-0.5617** (0.018)
$Polit_{jt} - Polit_{it}$	0.1642 (0.264)	0.1694 (0.247)	0.1642 (0.267)	0.1654 (0.260)	0.1658 (0.261)
Neighbour		1.782*** (0.000)			
Language			1.6038*** (0.001)		
Open Balkan				-0.1029 (0.486)	
Covid-19					-0.0428 (0.555)
R² within	0.2708	0.2694	0.2678	0.1615	0.1603
R² between	0.2324	0.4518	0.4082	0.2307	0.2310
R² overall	0.2173	0.4219	0.4072	0.1855	0.1861

(Source: Author's calculations)

From Table 2, it can be noticed that among the governance indicators only regulatory quality and government effectiveness have significant impact on the number of issued work permits to Western Balkan citizens. While the difference in regulatory quality between destination and origin economy exerts positive impact, the effect of the difference in government effectiveness is unexpectedly negative. We confirm the robustness of the model since the signs of the coefficients related to the push-pull factors as well as their statistical significance remain

unchanged compared to the previous specification. Similarly, among the dummy variables, only being neighbouring countries and sharing same language have positive and statistically significant impact, while the participation in Open Balkan initiative and Covid-19 are not statistically significant.

6. CONCLUSIONS AND POLICY RECOMMENDATIONS

The Western Balkans economies during the last decade have advanced structural reforms to create better investment climate, decrease unemployment and provide better living conditions for their citizens. However, there remain many development challenges in order to move closer to the EU living standards. This gap with respect to other EU countries continue to encourage the Western Balkan citizens to look for employment outside the region. Meanwhile, there is an increasing trend of regional cooperation, which is expected to strengthen the labour mobility within the region. The aim of this research was to estimate the factors of intra-regional labour mobility in the Western Balkans as an alternative to the traditional patterns of labour mobility. From the estimated model, we can conclude that higher average wage and Foreign Direct Investments in destination economies vis-à-vis origin economies attract significantly higher number of workers from other Western Balkan economies. In contrast, higher unemployment rate and Consumer Price Index in destination economies vis-à-vis origin economies negatively affect the number of issued work permits. The distance does not appear as a significant variable, but neighboring economies and those who share same language have significantly higher migration. In addition, the Open Balkan and Covid-19 dummies are not statistically significant. Among the governance indicators, better regulatory quality positively affect the number of issued work permits, while the government effectiveness exerts negative impact. The remaining governance indicators (Rule of law, Control of corruption and political stability) do not appear as statistically significant determinants of the number of issued work permits.

The emigration might bring some advantages to the home countries such as remittances, higher quality of life, better job prospects for locals and, knowledge and skill transfers. Namely, the amounts of remittances in the Western Balkan countries have been estimated to be large, and therefore potentially significant for their economic development (Nikoloski, 2012). Moreover, the outward migration reduces the pressure for jobs in the domestic labour markets thus contributing to the decline in unemployment (Prymachenko *et al.*, 2013). Finally, the short-term and seasonal migrations often bring positive outcomes such as transfer of new ideas, skills and knowledge acquired abroad (Leitner, 2021). The consequences of emigration in the Western Balkan region are ambiguous, since the positive effects from remittances and increased level of skills are mixed with the negative effects from the loss of human capital in the domestic economy.

Having in mind the importance of emigration as an alternative labour market adjustment mechanism, all Western Balkan economies have developed migration policies but the management of labour migration flows and related outcomes in destination countries is still weak. The intra-regional mobility has been considerably improved by implementation of measures for removing the administrative barriers within the framework of Mini-Schengen and Open Balkan initiatives. The official involvement in these initiatives can be considered as signals that the economies in the region are willing to engage in more structural cooperation and demonstrate that they have left behind past disputes. However, the Western Balkan region still lacks coordination among its economies, which impedes additional steps for integration.

By taking into account the convergence in average wages and unemployment rates among Western Balkan economies, we can conclude that these factors in the future will have diminishing impact on regional mobility vis-à-vis governance indicators. Namely, the coefficient of variation in average monthly gross wage decreased from 37% in 2010 to 24% in 2022, while the coefficient of variation in unemployment rates decreased from 43% in 2010 to

18.4% in 2022. This means that the Western Balkan region becomes more homogenous with respect to the labour market conditions, which is a main precondition for establishing a common regional labour market and increasing the intra-regional labour mobility. Hence, it has not been expected that intra-regional labour mobility exert any pressure on wages neither leads to higher unemployment among domestic labour force. Namely, considering mainly the seasonal character of migrant employment, the increased labour mobility in the region would not affect unemployment significantly.

The advance in governance indicators and their gradual convergence toward the EU average is crucial for improvement of the investment climate for both domestic and foreign direct investments. This should include strengthening the institutional effectiveness, continuous fight against corruption and strict enforcement of the rule of law. The improved institutional surrounding and regulatory quality is a basis for designing circular migration programmes and incentivizing returning mobility of Western Balkan migrants. The return migration in turn, helps in preventing the human capital depletion, brings new skills and competences in the home economies, but fertile ground must be prepared for their social and economic reintegration.

The monetary and fiscal policy mix should target price stability particularly in the food and energy sectors in order to minimize the uncertainties and build resilient future for the citizens in the Western Balkan region. The price stability will significantly contribute in maintaining the living standard by increasing the purchasing power, thus increasing the possibilities for greater mobility within the region. In addition, targeted management of FDI can contribute to create a strong and competitive private sector that valorizes the return of high-skilled emigrants, with fiscal incentives for entrepreneurship and investors to boost innovation particularly in high productivity sectors.

The governments in the region should encourage joint venture initiatives between entrepreneurs in the Western Balkans. This is particularly relevant for the high productivity sectors where Western Balkan economies have multiple competitive advantages. In this context, it is advisable to use the experiences of developed EU countries in the domain of advanced and smart technologies. The regional economic development should be based on sharing experience and good practices in digital and green transformation, as well as harnessing the potentials of social entrepreneurship. Having in mind the limited human resources, the Western Balkan economies should share know-how and expertise in order to achieve the planned goals. This will require further investment in human capital and increasing supply of ICT professionals, leading to young people working on the global market without the need to migrate, and attracting more companies to invest in the region.

ACKNOWLEDGEMENT

This paper is based on a project funded by the Western Balkans Fund. I am grateful to Regional Cooperation Council and particularly to the ESAP team for its generous help and assistance during the process of data collection. The contents presented are the sole responsibility of the author and do not reflect the views of the Western Balkans Fund or the Regional Cooperation Council.

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