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HOW REGIONAL INTEGRATION AGREEMENTS CAN FOSTER INCLUSIVE GROWTH: LESSONS FROM EXPORTING SMES IN THE WESTERN BALKANS

ABSTRACT: *Empirical evidence on regional integration indicates that CEFTA's Common Regional Market (CRM) could have spatially unequalising effects across the Western Balkans. Such an outcome would be in conflict with CEFTA's goal of inclusive regional economic integration. This article offers a roadmap to avoid that pitfall. Literature on the changing global economy in the digital era and ICT-led growth and literature on the political economy of trust and cooperation between smaller economic agents are brought into a conversation with bottom-up empirical insights from small and medium enterprises (SME) from the region. Empirical data are collected from in-depth interviews with 58 export-oriented SMEs in Bosnia & Herzegovina and Serbia. I find that smaller firms are immensely interdependent with the environments within which they operate and that their competitiveness also stems from their ability to successfully leverage on these communal resources and local public goods. Finding ways to preserve and enhance this collective infrastructure is often more of a priority for them than market expansion and technological progress. The paper concludes by arguing that designing (supranational) institutions which can facilitate local and translocal cooperation among competitive exporting SMEs would mobilise greater democratic support for the CRM project.*

KEY WORDS: *regional economic integration, political economy of local development, small and medium enterprises, local public goods, economic resilience*

JEL CLASSIFICATION: D22, D63, F15, F63, O35

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1. INTRODUCTION

This paper is interested in how regional integration agreements such as CEFTA can foster inclusive growth. It examines strategies that successful, export-oriented small and medium enterprises (SMEs) in Bosnia & Herzegovina (B&H) and Serbia use to overcome the constraints associated with their domestic institutional environments. Using as a starting point the insight that neither politically captured and institutionally weak states nor unregulated free markets can guarantee socially and environmentally sustainable growth, the paper suggests that the architects of regional integration agreements should pay attention to the strategies of resilient and resourceful firms on the ground and seek to reinforce them.

The paper's focus on SMEs is particularly important not only because of their fundamental role in the Western Balkan (WB) economies, but also because most existing analyses of CEFTA have primarily looked at the macroeconomic and aggregate effects of deeper economic integration among the WB countries (e.g. its effects on trade and employment) while disregarding other equally important aspects, such as the industrial structure of the WB economies and the impact that improved SME productivity can have on developmentally oriented and inclusive growth.

Scholarly concerns over the challenges of inclusive growth in the context of regional integration in Europe have primarily stemmed from the experiences of the EU single market. The process of economic and social convergence between the EU's southern periphery and its core, where the southern member states were initially growing faster and converging during the 2000s, ended up increasing competitiveness of the core while diminishing competitiveness of the South in the aftermath of the 2008 financial crisis (Scharpf, 2021). There is also growing empirical evidence that digitalisation has reinforced the already unequalising effect of deeper economic integration around the world, especially through the so-called winner-takes-most dynamics of concentration of market power and resources by larger corporations (OECD, 2018).

Based on what we know from the literature, deeper economic integration of the WB, initiated by the Common Regional Market (CRM) action plan which was launched by CEFTA[1] Parties in 2020, could have an asymmetric impact between areas that are thriving and those that are falling behind, especially if the largest firms from the region (including those in foreign ownership) outcompete smaller (often domestically owned) economic agents. This should be an important policy concern, given the ongoing effect of rising inequalities and geographic cleavages between areas that are thriving and those that are left behind on the destabilisation of political and socio-economic processes around the world. The coronavirus pandemic, the geopolitical turmoil caused by Russia's invasion of Ukraine, and the climate crisis have also raised further policy concerns over geographic and socioeconomic inequalities. Moreover, the civil war and disintegration of Yugoslavia during the 1990s was at least partially triggered by the growing geographic and socio-economic inequalities (Allcock, 2002). Therefore, discussions on spatial inequalities continue to dominate political agendas across the region to this day. Studies on the effect of the CEFTA agreement on the region also show cross-country variations in trade-creating effects, despite these countries being at similar levels of economic development (Uberti & Demukaj, 2019; Matkovski et al., 2022). These insights highlight the importance of asking whether the CRM might benefit some economic actors and regions more than others.

A growing body of social science research is attempting to understand how greater inclusiveness can be ensured in the context of deeper economic integration. To find answers to this question, this paper examines how competitive smaller economic agents manage their internationalising businesses in the context of the WB region's specific challenges. I analyse SME strategies of resilience and resourcefulness under market and government pressures in order to improve our understanding of how this segment of the economy can be better supported by policy. Such a grounded approach to understanding the needs of exporting SMEs in the region can generate new grassroots insights and perhaps inspire the introduction of new features into the CRM that could support smaller productive economic agents in a way that would produce a more inclusive scenario for further regional economic integration.

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1 CEFTA – The Central European Free Trade Agreement – is an international trade agreement between Albania, Bosnia and Herzegovina, Moldova, Montenegro, North Macedonia, Serbia, and UNMIK (on behalf of Kosovo).

The paper is based on interviews with 58 domestic SMEs in B&H and Serbia which are already exporting goods and/or services, and thus have credible levels of international competitiveness. Since SMEs contribute to more than half of value added and employment in both countries (European Commission, 2019a; European Commission, 2019b), they are important economic agents whose perspective should be taken on board. Moreover, SMEs contribute to almost 40% of total exports in Serbia, and so they represent an important part of the country's export-led growth model.[2] Therefore, failing to take into account the exporting SMEs as an important part of the economic structure of the WB will likely lead to the CRM struggling with its aim of spreading its benefits onto the broader population.

These SMEs were interviewed as part of my Horizon 2020 Marie Sklodowska-Curie research fellowship titled "Southeast Europe's emerging growth advocates: Domestic firms, technology and economic governance in institutionally weak states – SEEGROW". The project engages with the literature on political economy, institutional economics, management, collective action, and governance literatures to study the agency of smaller economic agents in the era of ICT-led growth in peripheral economies where adequate state and policy support is not available to them.

The interviews examine the concerns of these more vulnerable economic actors who have the potential to benefit from the innovation-driven CRM as well as to significantly contribute to its better implementation, but who also face the threat of being weakened by it because they have fewer resources to invest in their workers and technology in comparison to large (often multinational) companies. While the traditional Schumpeterian view of technological progress holds that those firms which cannot keep up with the competitive demands of "the economy" should perish through the process of so-called creative destruction, there is a growing recognition in the literature that this view of the economy is too simplistic. Smaller firms have also recently been identified as essential for the transition to a more sustainable and digital future because of their greater flexibility, specialisation, ability to adapt and find innovative solutions, as well as their resourcefulness and resilience amid the growing uncertainty of today's world. Their experiences and organisational knowledge are thus immensely

[2] Data on SME exports are not available for B&H.

valuable although still underappreciated by the market dynamics and policy makers (European Commission, 2020).

The paper is structured as follows. I first discuss literature on the winner-takes-most dynamics of deeper economic integration versus factors that can level the playing field for smaller economic actors. I then present the findings from interviews with SMEs in B&H and Serbia and put them into a conversation with the existing literature to produce novel insights that are relevant for the WB. The concluding section offers some policy implications.

2. LITERATURE REVIEW

2.1. CEFTA: Between captured states and unregulated free markets

Most political economy analyses of the WB region since the onset of transition have focused on formal institutional reforms and the strengthening of state capacities as key preconditions to growth. This focus on the relationship between state institutions and economic performance is embedded in North's path-breaking recognition that well-designed institutions serve an economy by facilitating cooperation and reducing transaction costs for economic actors (North, 1990). Yet, since the 2008 crisis, Europeanisation-oriented political economy scholars have become increasingly concerned about the role of business capture by political parties and elites in shaping trajectories of growth at the European periphery, and the economic, political, and social consequences of these developments (Besimi & Monastiriotis, 2019; Bartlett, 2021). Observed from this perspective, CEFTA and its CRM initiative have the potential to diffuse state monopoly over economic governance by creating supranational institutional regimes that can strengthen the position of the most competitive and the most productive economic agents against those who are the most politically entangled with the state.

While state capture by political parties may indeed be generating obstacles to the development of WB and its deeper regional integration, we also know from the abundant empirical evidence collected over the past 30 years that the market mechanism has its own ways of concentrating power by favouring those with more resources and by dispossessing those with a weaker bargaining position. There is growing evidence that the networked economy of the digitalised era has further strengthened these unequalising dynamics of the market, not the least through monopolisation of the digital marketplaces by big tech companies (Atal, 2021; Berlingieri et al., 2017 in OECD, 2018). The winner-takes-most dynamics of greater global economic integration has also led to an increase in within-country inequalities. Rajic (2021), for example, warns of the limitations of locally implemented policies for the revival of the United Kingdom's old industrial regions in the context of oligopolistic market power of larger firms from the more developed regions. Thus, within the context of regional integration, it is expected that bigger and better resourced firms will tend to have disproportionate market power and disproportionate access to talent and technologies since they have more resources at their disposal than the smaller economic actors. This concern is additionally pertinent in the context of post-socialist economies which have developed strong economic dependencies on foreign direct investment (FDI) and large multinational corporations over the past two decades (Avlijaš et al., 2021; Bohle & Greskovits, 2012; Bohle & Regan, 2021; Nölke & Vliegenthart, 2009). It is therefore clear that we cannot expect the market to resolve the unequalising effects of economic integration and that we need institutional innovation to help address these challenges.

In sum, while markets and technology can diffuse state power through greater regional economic integration, which is especially relevant in the context of captured states and the removal of the high regulatory burden of exports for all economic agents, they also reproduce a language of power unless greater intentionality, which aims to weaken their winner-takes-most dynamics, is introduced into its design. When a CRM initiative is implemented in the context of high existing inequalities and different levels of resourcefulness of different economic players, which is the case among CEFTA Parties, it may perpetuate and even intensify these inequalities. This paper suggests that one way to counteract some of these capital concentrating tendencies is to pay greater attention to SMEs and search for policies that can boost their collective productivity and their contribution to inclusive growth.

2.2 Opportunities and policy challenges associated with the rise of exporting SMEs

There are also factors offsetting the power concentrating dynamics of globalisation and its winner-takes-most dynamics. The policy turn towards a greater inclusion of smaller economic actors could be related to the broader attempt to address the secular stagnation of core capitalist countries since the 2008 crisis (Baccaro et al., 2022). Henrekson and Jacobsson (2001) also show how Sweden ended up being dominated by large corporations to a greater extent than perhaps any other OECD country. Private ownership became very concentrated until the beginning of the 1980s, and it had to be reformed towards greater flexibility of ownership structure and firm size to resolve the issue of its productivity slowdown. The more recent case of Korea also offers an important lesson. Their model of economic development which is led by large firms (*chaebols*) has been losing its competitiveness more recently and generating massive social and economic costs, as the largest part of the population remains excluded from the dominant economic model and much potential for innovation and many skills are lost in the process (Jones & Lee, 2018). Even Schumpeter worried that capitalism's tendency to continually make itself more efficient would lead towards growing monopolies of large corporations and destruction of entrepreneurs who provide capitalism with its institutional and political basis (Henrekson & Jacobsson, 2001). Moreover, the earlier transition literature also emphasised the quintessential role of entrepreneurship for a successful transition to capitalism (Roland, 2000), although this debate has been increasingly replaced by contributions which emphasised the key role of FDI in Eastern European growth models.

Digitalisation, which has led to a strong concentration of corporate power, has also resulted in the proliferation of the more decentralised and fragmented global value chains (GVCs). Smaller firms from around the world have been given an opportunity to plug in to GVCs and obtain some value for themselves, while also using them to upgrade their skills and technologies (Harvie & Charoenrat, 2015). This growing trend has increased the benefits of specialisation and niche markets, and augmented the ability of smaller firms to capture more of the value that is generated in the global economy. Therefore, the thinking about economic upgrading and development is slowly shifting from being based on economies of scale and towards capturing benefits of small-batch production via decentralised GVCs. The fact that hyper-consumption has led to a global environmental crisis is also perhaps starting to push consumers away from mass production and towards demanding custom-made, better quality products.

GVCs have changed the bargaining power of smaller economic actors because information and communication technologies (ICT) have radically reduced the costs of coordination and remote communication. ICT has also facilitated remote monitoring of product and service quality, thus allowing firms in various sectors to export their know-how despite operating in captured states. As shown by Udovički (2018) and Udovicki et al. (2019), SMEs from Serbia have substantially benefited from the digitalisation of GVCs in both the industrial goods and tradeable services sectors.

It would, however, be unsettling to draw from these insights a functionalist conclusion that ICT is automatically transforming these countries' growth dynamics towards greater economic and political independence of domestic SMEs. Udovicki et al. (2019) also argue that the skills and capabilities of the internationalising SMEs in Serbia come from industrialisation which took place during the socialist Yugoslav era. This is an important insight which indicates the perhaps obvious, but like the glasses on the bridge of one's nose, easy-to-forget reality that business inputs, i.e. labour, skills, and know-how, generally come from the collective resources that a society has at its disposal and that had to be built up at some point in time. Technological advantages and emerging trends in the global economy cannot be capitalised upon by individual firms if these firms cannot draw upon labour, capital, and the broader societal know-how, which then allow them to produce products and services that are in demand.

There is also an emerging literature, currently spread out across various disciplines, that focuses on how value added can be diffused more broadly across society in ways which would lead to more local development, a reduction of regional inequalities, and the winner-takes-most dynamics of globalisation. Much of this literature is concerned with the dynamics of economic governance among smaller economic agents. Carter (2018) shows how French winemakers organise themselves politically to capture greater international market value for their products, concluding that markets are not only socially but also politically embedded. Gartzou-Katsouyanni (2020) focuses on how countries with small firms and small farms, notably Greece and Italy, can economically improve their international competitiveness through collaborative efforts. One of Gartzou-Katsouyanni's conclusions is that cooperation in low-trust environments can be enhanced not only through local leadership, but also through institutions that foster inter-firm cooperation. These empirical studies are in line with a renewed theoretical interest in business-centred explanations of developmental outcomes as opposed to statist ones (Puente & Schneider, 2020). Moreover, Farrell (2009: 224) shows that exogenous changes can affect institutional rules because they can change incentives for firms to trust and cooperate with one another. We can therefore expect that smaller economic agents who face new exogenous circumstances would try to experiment with institutional rules and attempt to bend them in order to benefit from these new opportunities. Entrepreneurs are therefore not only rule takers, as the traditional entrepreneurship-oriented institutionalist literature suggests (Baumol, 1990).

When it comes to the WB in particular, earlier literature on the productivity constraints that SMEs in the WB faced focused on the types of state reforms that were necessary to improve their regulatory and bureaucratic environment (Bartlett & Bukvič, 2002; Bartlett, 2003). Bartlett and Bukvič (2002) also tackled the question of social and civic capital, but from the perspective of how macro-level bribery and corruption reduce trust and social ties between entrepreneurs. While some of these old formal and informal barriers to SME development remain to this day, the empirical findings from this article show that the SMEs' increased opportunities for internationalisation have fostered new coping strategies among these firms that have traditionally been constrained by weak policy support and institutional capture.

Furthermore, we now face significantly higher interpersonal inequalities in the WB region than 30 years ago, along with the lower availability of public goods and ample instances of de-development due to long-term anaemic investment (and even disinvestment) in public and social infrastructure. Therefore, as the empirical section of this article shows, exporting SMEs in traditional sectors can act as important stakeholders that can initiate and lead local developmental coalitions because of their high levels of interdependency with their local environments. Their role in the building of communal capacities and local public goods should therefore not be neglected by policy makers. The same policies that can support SME productivity can also foster broader societal gains and more inclusive growth.

Existing policy solutions generally seem to be stuck in the old paradigm–focused on increasing the efficiency of smaller entrepreneurs to make them increasingly corporate-like, rather than drawing on the diversity of values and experiences that they can bring to the table. For example, although the EU's new SME strategy professes strong interest in social inclusion and broader social gains from progress, its policy recommendations remain focused on SMEs in the top tiers of innovative activities, such as those in the defence and space sectors (European Commission, 2020). Their focus seems to be on the reskilling of the population to adapt it to this innovation-driven era, along with vague policy tools such as the building of the so-called networking hubs for SMEs and knowledge hubs where educational materials and information can be shared. We do not learn anything about how traditional SMEs that are excluded from the hi-tech sectors, and where the majority of the broader population works, can be included in these processes.

Moreover, the overall approach to resolving the ongoing secular stagnation of growth in Europe seems to be permeated with techno-optimism, and the ability of top-down innovation to resolve all our social challenges. This optimism comes across as puzzling, given the plethora of existing empirical evidence which shows that digitalisation in the modern era has tended to deepen inequalities. The reskilling paradigm is also contradictory since we have evidence from countries such as Korea where massive investments in education, without concurrent efforts to diffuse social gains of their developmental model more broadly into the society, has led to massive inequalities and social exclusion of youth, and even educated youth (Jones & Lee, 2018). The EU agenda is also permeated with optimism that people can be quickly reskilled to adapt to the needs of the "new" economy, rather than thinking about ways in which new technologies can also become more responsive to societal and environmental needs.

It is becoming increasingly clear from the academic literature that the ability of firms to expand and capture greater economic value is also dependent on their ability to strategically use their embeddedness within their social and political environments. But we still understand very little about what this strategic use implies for smaller economic agents, apart from having the general idea that this is about navigating relations between institutions, business owners, and workers. What works in some contexts may not work in others, and so we need more granular research to throw light on the types of incentives of economic actors that are on the ground in specific environments and that could be leveraged upon to capture greater collective value for peripheral European regions, including CEFTA Parties. The empirical section below contributes to the accumulation of that knowledge.

3. WHAT THE EXPORTING SMES TELL US: QUALITATIVE DATA ANALYSIS

This paper applies abductive analysis, a method based on pragmatist Charles S. Peirce's approach to social enquiry (Tavory & Timmermans, 2014). It starts by surveying the literature, followed by the collection and analysis of empirical data to enrich it. Two components of the research–the theoretical and the empirical–thus enter a balanced and recursive conversation to amplify each other and increase our understanding of the phenomenon of interest. This is a different logic of enquiry from the standard deductive method of comparative research, where expectations are formulated in advance based on what we know from the literature, often at the expense of paying attention to the empirical reality that goes beyond existing classifications. It is also different from the inductive method, where, devoid of theory which would act as a signpost to frame the elaborate empirical findings, the researcher can get lost in the details of an overly descriptive account that offers little new theoretical insight. Abductive analysis is an important methodological innovation for social enquiry that focuses on understanding the new economy that is driven by ICT and knowledge inputs. We cannot assume that a novel interpretative framework can be generated purely from dialogue with private sector enterprises in the European periphery, since they are also captured by certain "old" discourses and may find it difficult to see the bigger picture within which their businesses' threats and opportunities are unfolding in an era where the economic gestalt is rapidly changing. On the other hand, given the rapid changes that are taking place in the world economy in the context of digitalisation, limiting our empirical analysis to confirming what we already know from theory would also be insufficient. The two need to be combined to generate new insights. The analysis of empirical data is additionally enriched by insights from strategic documents, mostly from the European Commission and the OECD, which offer a better sense of new policy directions and ideas that are becoming increasingly disseminated around the world.

Moreover, scholarship has become increasingly aware that theories which are developed in advanced capitalist economies are not fully suited to the context of non-core countries in the global peripheries and semiperipheries, given their weaker institutional settings and issues such as state capture. This is echoed by the growing realisation within the economic discipline that context matters, and that there is no one-size-fits-all policy. This is why abductive research is an important method for the WB region, which can be considered as Wallerstein's semiperiphery–more developed than the global South, but less developed than the core countries (Wallerstein, 1979). Using the abductive method allows for the tweaking and re-interpretation of existing theories by checking them against the grounded reality of life in the context of interest.

3.1 Data collection

The data that are analysed in this paper are collected from SMEs. SMEs are economic actors with more limited resources than the large, often foreign-owned firms. While SMEs have fewer resources at their disposal everywhere, limitations in financial, technological, and human resources for smaller economic actors in the WB are even more conspicuous than in the more advanced economies. The data were collected via semi-structured in-depth interviews which I conducted with owners and directors of 58 mostly domestic and export-oriented SMEs, 28 of which were in B&H and 30 in Serbia. The interviews took place between June and December 2021. Firms from the Federation of B&H and Republika Srpska, the two constituting entities of B&H, are equally represented in the sample.

The interviewed firms were not selected according to their sectors of operation. Firm representativeness by sector of operation was not of interest to the SEEGROW project, given the high sectoral fragmentation of businesses in the WB. Instead, the interviewed firms are a combination of exporters of smart services, manufacturers of products sold to other businesses, and products sold directly to end consumers. Eight of them (five from B&H and three from Serbia) also worked with imports or had at least partial foreign ownership or both. While SMEs with such characteristics were initially not planned for inclusion in the sample, I discovered that they could offer important insights on how business relations in the two countries worked, given the region's high dependency on imports as well as high levels of foreign ownership. One of the aims of the SEEGROW project was to explore different perspectives on what it takes to be internationally competitive within broader SME business subtypes, i.e. to explore causal mechanisms and generate new insights; judgemental sampling was used as the best method for this purpose (Gilbert, 2005). I also took care to include some female-run businesses, although they make up a very tiny portion of exporting SMEs in the region. This was relevant because we know that female-owned firms generally operate with fewer resources, and so their perspective can offer important insights on resourcefulness.

Given the low trust of the private sector and especially smaller economic agents in formal institutions in the countries where the fieldwork was conducted and their lack of trust that somebody would be doing genuine research that fulfils all EU ethics criteria, rather than perhaps spying on their business operations, most of the firms were identified through word of mouth and personal recommendations. While low trust made the fieldwork particularly challenging, it was also a very informative experience because it allowed me to have a better understanding of the low trust business environment within which these firms operate. Despite personal recommendations and contacts, effort was made to ensure a geographically spread-out sample of businesses. The interviews were conducted in a semi-structured fashion and usually lasted about one hour to allow the business owners and directors enough time to gain trust in my intentions and articulate their predominant concerns through relaxed and open conversation. The findings from the interviews are presented in a fully anonymised way, adhering to all EU ethical standards and guarantees that were offered to the research participants.

3.2 Data analysis and discussion

While a wide variety of sectors were covered, from IT, creative industries, and consulting services to the different types of manufacturing, a surprising consistency of concerns emerged throughout the interviews. There was also consistency in how these firms were investing their own resources (time, skills, and money) to resolve some of these issues, whether alone or through seeking collaborations with others.

As expected, regulatory issues facing SMEs when dealing with customs and government bureaucracies in the region are still an important concern. The research participants were naturally very keen to reduce their cost of doing business by reducing government regulatory pressures and deepening economic integration between the WB economies. However, since much of the earlier research covering business in the region has focused on the regulatory environment, and since the key focus of the CRM is on the removal of these barriers, this paper focuses on other important themes emerging from the interviews that can offer useful insights for CEFTA stakeholders.

The interviewed firms did not seem very concerned about market access and business volume. They were certain that the EU was increasingly turning towards the WB to purchase cheaper goods and services, especially as the post-pandemic rift with China has been widening. While access to finance and technology were important to the research participants, they also perceived them as solvable and moderate challenges.

Most of the research participants were predominantly preoccupied with how their local socio-economic environments were conditioning their competitiveness and how their ability to do something about it was limited. They felt a strong interdependency of their businesses with the availability of suitable human resources and communal infrastructure, and this emerged as an important theme throughout the interviews. The interviewed SMEs were therefore worried about the general crisis of production inputs, many of which are traditionally considered as public goods. Their predominant concern was about significant labour and skill shortages that the region is experiencing due to high emigration and low fertility rates, which is consistent with findings of other studies on the region (World Bank, 2019). They worried about how the region could capture more value from these growing exporting opportunities without the right kinds of skills of the general population. Therefore, they often referred to human resources as the weakest link from the perspective of their business competitiveness. The conversations also showed that they understood that the market itself cannot produce people's capabilities and that broader public social investment in skills and human resources and other coordination efforts were necessary to underpin firms' and countries' competitiveness. Such firm-level insights are compatible with the broader, macro-level take from the political economy literature which argues that welfare states underpin countries' growth strategies (Avlijaš et al., 2021).

Inadequate collective and communal public goods were a preoccupation which also prompted them to reflect on the broader societal trends of social and environmental decay that the region has been experiencing since the 1990s war and the subsequent onset of transition. Many of the interviewees also demonstrated concrete efforts and further plans to invest personal resources (time, skills, and money) to mitigate some of these negative societal challenges that their communities were grappling with. This indicates that they were not simply complaining "for the sake of complaining", but that they saw their business model as interdependent with their local environments and felt that they should try to do something about it, however limited their individual efforts may be.

They also did not nurture expectations that adoption of new technologies would miraculously rescue them from these broader developmental challenges. For example, while several of the interviewed SMEs contemplated greater automation of their work processes as a solution to shortages in the low-skilled labour force that they were facing, they argued that their niche specialisations and custom-made production processes were not conducive to as much automation as the production processes of the bigger firms whose business models were based on economies of scale. As a furniture exporter from central Serbia stated: "We got some offers to digitalise our production processes, but they don't understand that this doesn't really work for small batches of luxury furniture. We have to adjust the machines way too frequently to gain any time advantage from investing in automation" (interview 20).

Many also worried about how to keep loyal employees, especially in administration, even at the expense of not adopting cost saving technologies that their workers would resist, such as enterprise resource planning software, since they were dependent on employees who were hard to find and even harder to motivate, and it was difficult to maintain their loyalty. Even in the most innovative niche of the IT sector, where the interviewed firm is exporting high value artificial intelligence-based software, the owner pointed out that the key competitive edge of their business was their ability to adapt software to the humans who were using it, which required a lot of people skills and understanding of the firm's specific processes, rather than simply software design (interview 5).

These examples illustrate the research participants' awareness that societal problems cannot be a mere appendix to technological progress, and that the two must be connected and developed hand in hand to realise not only local development, but even their own business success.

A big concern was also the lack of a broader spectrum of skilled workers that these firms needed to develop their business, whether these are machine operators, crafts(wo)men, engineers, marketing experts, managers of complex projects, or those who know how to manage other people. The participants were also concerned that some of the old skillsets from socialist Yugoslavia were almost dying out, from handymen who know how to weld the types of factory constructions using skills that they could only learn during the Yugoslav era when big infrastructure projects were implemented (e.g. interview 42) to engineers who could not adopt systems thinking because they never had an opportunity to work on more complex projects that only big, often state-run infrastructure projects provided to the previous generation of the socialist era (e.g. interview 19). These insights in particular echo the findings of Udovicki et al. (2019), discussed in the literature review, that industrial capabilities from socialist Yugoslavia, where people had the opportunity to adopt a broader range of skills from large-scale government-funded international and domestic projects, remain an important source of competitiveness for exporting SMEs today.

The smaller businesses in sectors such as high-end handmade fashion and design were specifically worried about the disappearance of craftspeople who knew how to make things by hand, whether sweaters or shoes (e.g. interview 21). A textile manufacturing firm from central Bosnia stated the following: "We don't have anywhere to send our workers for training even if we pay for it; some skills are just lost forever, and there is nothing we can do about it" (interview 33). A furniture maker from B&H was adamant that the region needed to focus on recovering its crafts and manual skill sets which were widespread in socialism but have been massively devalued since the 1990s (interview 55). He also did not think that there was a future in mass production and exports of low-price products in the WB since there were not enough workers to fill these roles, from low-skill factory workers to those who could manage larger scale operations and various challenges with the workforce. Instead, he argued that it only made sense to invest in one's own design, including the nurturing of manual and crafts-oriented skill sets, to climb up the value chain with better quality products. Another furniture maker from B&H also stated that they were not able to deliver the quantities required by the EU market, nor were they interested in expanding their business operations to a mass scale (interview 38).

Even firms from creative industries such as film production and advertising were increasingly concerned about labour shortages and believed that the currently dominant outsourcing-driven labour-intensive business model which focused on exporting relatively low-cost services to foreign production firms would run out of steam rather soon in Serbia. This is because the cost of domestic labour was growing while there were not enough people with the specific skill sets that were needed for such work projects (interviews 12 and 14). “This is why I am turning away from the outsourcing grind, and towards creating my own content which would not be so labour intensive. But it is much harder to create your own product” (interview 12).

Apart from participants’ concerns about the human resources that they needed for their business operations, they were also concerned about the wider social environment within which their workers and they themselves lived. Participants were troubled by the general social decay and apathy that they were operating within because they saw it as very demotivating for the future of their business. An exporter of food products from central Serbia who had invested in top-notch production technology to improve the speed of their production so that he could deliver larger batches of their product to supermarkets around Europe said that he had to get the people who sold them the machines to come six times to attempt to train his workers. “My key machine operator, I begged him to learn about the machines, I wanted to pay for his English classes, I promised him promotions, but he is not motivated beyond the basics. I don’t know what it is, some kind of a collective depression” (interview 16). He went on to lament that he spent most of his time handling human resources, from low-skill to high-skill workers, although as CEO he felt that he should be primarily focusing on market expansion. This finding echoes Telford (2022), who discusses how working people in a decaying and deindustrialising area of the UK have lost their *raison d’être* due to neoliberalism and marketisation that have destroyed the communal fabric and thus inhibit the area’s revival, and Rajković (2018), who discusses the loss of collective meaning for Serbian workers as their city deindustrialised following a failed privatisation effort.

On a positive note, there was a strong awareness that a more developed or a more functional municipality meant that more people were likely to stay there, and that local development increased the resilience and resourcefulness of their own businesses. This came along with an awareness, especially in the poorer regions, that everybody was "emigrating to Germany". The owner of a luxury furniture firm in central Serbia mentioned that he was trying to get a few company owners together to form a team of people whom they would pay to apply for project-based funding and government donations that could bring more resources into their local community (interview 20). Other participants also pointed to the importance of public infrastructure in the localities where their businesses were based, because when they bring in clients, they need to have a decent environment within which they can present their businesses (e.g. a good road, a stable electricity supply, and even a good restaurant).

Research participants also expressed concerns about the growing cost of energy, which was making them consider investments in renewables and energy efficiency enhancing technologies as a lot more profitable than investment in labour saving technologies, given their niche and custom-made approaches to production. This indicates that they recognised their business interest in the green growth agenda, and that this was where application of technological solutions made more sense to them than trying to resolve societal and human constraints by technological means.

A participant from B&H saw an important role for the local industrial zone that he was a part of to absorb workers from the highly polluting large plant that they perceived as useless for the community as well as harmful for health of the general population (interview 40). I also came across a less straightforward example in which a firm owner thought he was doing something to address the problem of energy shortages in the town by building a mini-hydro power plant on a local river, thus presenting a highly contentious environmental issue from the perspective of a win-win solution for the community (interview 37). This example illustrates that multistakeholder socio-environmental governance is already taking place in local communities, but also warns that private sector leaders need to obtain support from the local community, and not just politicians, for true win-win communal solutions to environmental problems.

There was also political awareness among the smaller firms that they were of no interest for the state apparatus, because state-level corruption is organised in such ways that it is easier to "chip in" when there are larger scale and larger value programmes and firms involved (e.g. see interviews 19 and 21). This motivated some of them to look for ways to cooperate at the local level and capture some of the collective resources for their own communities through supporting local development projects, rather than through getting the attention of central authorities. This finding ties into Franičević and Bartlett (2002) who argue that SMEs in the WB were neglected by policy makers due to their overly centralised approach to economic governance. It also echoes Yadav and Mukherjee (2016) who argue that SMEs in corrupt autocracies have a latent common interest in policies that demand anti-corruption measures and more transparent business-government practices.

When it came to taking action with regard to skill and labour shortages, some research participants saw their role as community leaders who could build local resources, often through organising and investing in local skills training centres (e.g. see interviews 3 and 31). Another firm from an area in central Bosnia with traditionally low female employment was proud of their innovation to start hiring young women and giving them an opportunity to gain skills and financial independence, showing how labour shortages were leading to some gender progressive employment strategies as well (interview 38). Interviewee 3, an IT firm from Serbia, also stated that they would love to participate in technological projects that could improve developmental conditions in Serbia, but they did not know how to approach the matter on their own. Instead, they were doing what they could by helping people with low earnings to learn programming and thus obtain better wages. Others saw an important agenda for local SMEs in ensuring decent working conditions and respectable wages for their workforce (e.g. interviews 47 and 55).

Many of the research participants also emphasised the importance of gaining experience outside their place of origin, either through having studied or lived abroad, or through their connections with diasporic communities and foreign clients. A packaging firm from central Bosnia told a story of long-term collaboration with a firm from central Serbia through which they developed machines which helped them both sell more of their products in the international markets (interview 37). Interviewee 5 was entertained by the idea that it was easier to find foreign customers and collaborators through LinkedIn, then to access domestic firms which could benefit from their products. They also observed that once their success was proven abroad, they started getting invitations from Serbian firms for collaboration, leading them to conclude that trust is easier to establish between domestic agents once there was an external mechanism of quality control.

Other interviewees also emphasised the important role of foreign institutions in supporting their business competitiveness. For example, interviewee 17 discussed that their business was saved by the university where they obtained their PhD. The university purchased some of the business's technological products during the hard times until the interviewee found a way to sell them to others. And according to the interviewee, the hard times had nothing to do with the quality of their product, but with the sheer time it took from product development to finding a market for it. An IT firm working with the German market explained that benefiting from Germany's industrial zone programmes and being invited to participate in their industrial strategy projects helped them immensely to understand how production factories work and to then develop their own business products for manufacturing (interview 1). Therefore, even top-tier innovators who were not as constrained by their geographic communities because they can hire globally and also sell globally recognised that they were saved in hard times by supportive communities and that resilience which comes from such support was an essential ingredient of their ability to innovate (see interviews 5 and 17). They emphasised the importance of the skills that they obtained through these networks, which were not only helping them to access foreign markets, but to also bring innovations into their local communities. Many therefore understood the business value of inter-firm and multistakeholder cooperation both locally and translocally. But it was also clear that they had too few incentives in their local low-trust environments to pursue the strategies that they were able to pursue with international collaborators. This also echoes Farrell's (2009) observations that trust is not an abstract feeling, but that it is embedded in specific incentives that actors have to collaborate with one another.

In sum, the interviewed SME owners and directors generally believed that their survival and independence lay in continually becoming better at what they made and finding their global niche markets, while also working on improving their embeddedness in and interconnectedness with their local communities. Thinking about win-win business solutions from the perspective of social and environmental governance adds further insight into Farrell's (2009) observations that changes in the bargaining power of stakeholders (in this case due to labour shortages, the environmental crisis, and general decay of local public goods) can change incentives among businesses and lead them towards seeking more cooperative business strategies. And indeed, we are seeing a very different business context emerging in the WB due to these communal shortages in comparison to the one we saw in the earlier years of transition to capitalism when there was an excess of cheap labour and capabilities left over from socialist industrialisation. Many research participants also saw value in cooperation with firms and other stakeholders outside their communities and in translocal and international networks which provided them with opportunities to strengthen both their resilience and capacities for innovation. This indicates that their increasing internationalisation can be leveraged as a tool that can also strengthen local forms of cooperation that can steer their communities towards pro-developmental outcomes.

4. CONCLUDING REMARKS AND POLICY IMPLICATIONS

This paper demonstrates that the ability of smaller economic actors in the WB to be internationally competitive and capture more value from the global economy is contingent upon the communities within which they operate. Business strategies which are meant to mitigate the problems of labour shortages, skills absence, a general lack of motivation of the workforce, and labour's capacity to adopt new technologies are a key preoccupation for these firms. While they are also concerned about issues such as the regulatory burden and access to new markets, to finance and to new technologies, much of their distress is related to figuring out how to manage relations with their employees and their wider communities. They are therefore mostly concerned about nurturing specific skills and loyal human resources, rather than about digitalisation and cheap labour, which they find to be more relevant for larger manufacturing enterprises. They also worry about their communal infrastructure, sustainability and stability of their energy supply, and availability of the raw materials (such as timber) they use for their production.

The empirical section of this paper discusses some of the strategies these firms use to mitigate such challenges. By showing that they invest their own resources (time, skills, and money) into resolving them indicates the importance of these issues for their business operations, which extend beyond “complaining about life”.

The identified strategies also indicate that the changing exogenous conditions, such as growing labour shortages, more complex demands of the international markets, and environmental constraints, are changing incentives for smaller economic agents and making them more focused on issues such as business sustainability, which they perceive as deeply interwoven with the socio-economic environment within which they operate. Therefore, this paper indicates that collective resilience and resourcefulness are an essential part of value capture in the WB region and that smaller firms have a rational incentive to collaborate with their communities and other firms to strengthen their businesses.

These observations further indicate that access to new markets and technologies is not enough for firm upgrading and development to take place in a region. In other words, techno-optimism does not miraculously produce modernisation. It cannot compensate for the absence of communal capabilities and public goods which have been decaying in both B&H and Serbia since the early 1990s due to low public investment in infrastructure, welfare, and environmental protection. Public goods must be considered as a wider part of the ecosystem within which all firms, but especially SMEs in peripheral areas, need to maintain their competitiveness. Therefore, inclusive economic governance requires threading the needle between encouraging investments in economic upgrading and fostering collective multistakeholder efforts to provide public goods.

Beyond needing their governments to step up with the provision of communal infrastructure, investment in education, environmental protection, and other aspects of local development, SMEs should be recognised as important stakeholders in efforts to repair and rebuild communal capabilities and public goods, which is an important component of inclusive growth. Focusing on small Greek firms, Gartzou-Katsouyanni (2022) shows that inter-firm cooperation is an important tool to this end. She identifies that a small group of local actors can play a key role in catalysing emergence of innovative, cooperative economic activities at the level of an entire community. While cooperation cannot be enforced from above, policy makers can directly affect the extent to which institutions facilitate or constrain inter-firm cooperation, for example by subsidising the upfront costs of cooperative efforts and discouraging opportunistic behaviour by new entrants (Gartzou-Katsouyanni, 2022: 9). Encouraging the establishment and participation of SMEs in translocal networks is an additional policy tool that can expose them to the more successful examples of inter-firm cooperation outside their environments and thus spur their own cooperation (Gartzou-Katsouyanni, 2022: 12). These translocal experiences could build upon the already positive experiences that the interviewed SMEs have with their international collaborators.

Therefore, to avoid the winner-takes-most dynamics of deeper regional integration that we have seen elsewhere, a much more granular approach to economic governance of the CEFTA common market is needed, one that is informed by a fine-grained understanding of the bargaining power of the smaller economic actors, their incentives, and their dependencies on the communal infrastructures within which they operate. Given the specific constraints of the WB region, where investment in human resources has lagged behind the EU, along with strong emigration trends, communities where these interdependencies are particularly pronounced could perhaps be the pioneers of pro-social business practices in the WB because of the greater incentives and pressures of their SMEs for cooperation with their communities. This potential is also highlighted by the fact that many of the research participants believe that the WB does not have much capacity for mass production and businesses that are based on economies of scale.

Economic governance needs to be taken seriously if CRM is to bring prosperity to a broad range of WB peoples. Dialogue with the private sector and allowing other stakeholders, including citizens, to provide input on the effectiveness of the actions taken, which are key “solid governance” tools of the CRM 2021-2024 Action Plan, promote a very functionalist and simplistic worldview where governance is the equivalent of communication. It fails to account for the fact that governance is politics, and that politics depends on a complex web of domestic and foreign stakeholders with different agendas and different organisational cultures, all of whom participate in the daily governance of their economies and in the sharing of the collective resources that are at their disposal as production inputs. While it cannot be the ambition of one initiative to change the entire socio-political landscape of the WB, by recognising what could go wrong with the CRM, and by identifying the changing incentives of smaller economic actors in the region and scaling their already existing strategies of resourcefulness and resilience, institutional change towards a more inclusive growth model in the region could become scalable from the bottom up.

A lot is at stake. Exporting SMEs are some of the most politically independent actors that exist in the region, and so their alienation can be very costly to both the CRM as well as to the general population's economic independence and social fabric. It is not enough for the CRM to focus on the removal of the regulatory burdens and technological innovation if it aims to bring about greater social cohesion and reduce existing socio-economic inequalities. Finding ways to preserve and enhance the collective infrastructure and public goods that surround SMEs in the region, paying attention to their resourcefulness strategies, and facilitating connections between the more competitive SMEs and their communities could mobilise greater democratic support for the CRM initiative and lead to its more successful implementation.

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