

Economies of the western Balkans in the process of European integration – New parameters

Abstract

This article evaluates the impact of the global economic crisis on the western Balkans. The article also discusses the factors that have contributed to recent changes, including on how countries from the region have integrated their markets with foreign economies, especially those of European Union countries, which presents its own new challenges. Statistics show that the level of integration and the openness of member countries to external economies have contributed to the deterioration of the microeconomic indicators. The article considers the universal economic crisis of the western Balkans, using reliable data obtained from the IMF as well as the European Commission. The early years of the millennium witnessed a steady, and rapid, pace of growth in the economies of the western Balkans compared to the rest of the world, especially in terms of low inflation levels. Based on the current situation, GDP depicts trade deficits, while the major and continuing challenges include corruption and negative political trends.

Keywords: economic crisis, GDP, unemployment, trade, investment, economic reforms, co-ordination, reconciliation

Introduction

The western Balkans refers to the seven countries of south-eastern Europe, including Serbia, Albania, Bosnia and Herzegovina, Macedonia, Montenegro, Croatia and Kosovo.¹ The Balkans population is approximately 65m, with a population density of about 85 per km² (Bastian, 2011: 78). The member countries of this region have undergone several transitions in politics, economics and social aspects over the past several years.

In the current times, the western Balkans has transformed its designations from ones that were focused more on the geographic context to ones that are substantially political. The individual member countries envisage joining the European Union, and indeed some have already joined. The European Union forms one of the largest trading blocks for the Balkans. The net revenue earned from trade with the European Union accounts for approximately two-thirds of regional trade. However, Boneva (2011: 99) argues that the transitions in western Balkan structures possesses backwards-slide dangers to the region's economy, with the transition economies having particular defining features, such as a double-drip economy, unemployment and inadequate investments.

1 This designation is without prejudice to position on status, and is in line with UNSCR 1244 and the ICJ Advisory opinion on Kosovo's declaration of independence.

Trade interactions with European nations have, however, played an important role in the enhancement of harmony, economic prosperity, solidity and independence, with the countries having shown major focuses on capitalism than on reforms.

In terms of the future agenda, there is a need for the western Balkans to shift their focus from internal security concerns towards mechanisms that can raise the economies of the constituent states. The countries' economies have already been weakened by the Euro crisis. Additionally, a withdrawal of Greece from the EU would instil a great shock as regards the western Balkans (Smith, 2002: 60). However, there is a growing awareness within the European Union that the western Balkans should join, and on a comprehensive basis, the membership of the international institutions.

This discussion is thus focused on the economies of the western Balkans and the processes that have been involved in integrating them into the European Union in recent times.

Discussion

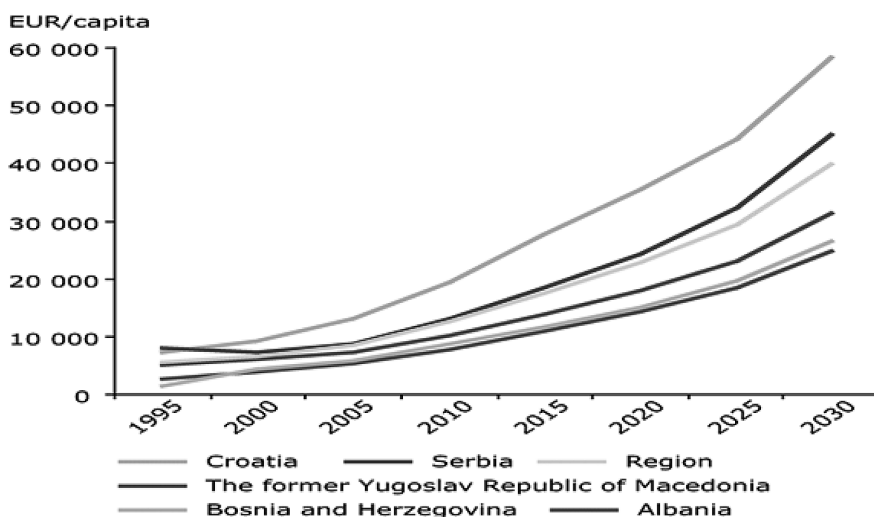
Current economic situation of the western Balkans and the new parameters for integration

Several years after the occurrence of the war that, at its worst, devastated and divided the former Yugoslavia, the countries of the western Balkans are faced with a variety of tasks and challenges. These refer mainly to their global economic aspects. The current situation is, at heart, the inverse of what was the case several years ago: the average growth rate in 2008 was over 5%, but there has, however, been a negative growth in GDP ever since. The global economic crisis has not affected a single country in the region but, instead, a majority of the major states as a result of the countries' low level of openness to external markets. Their relative short distance from the European market and Greece has meant that the economic impacts of the situation in both are felt by the western Balkans community.

In respect of such an outlook then, before we can analyse the impacts of the various factors, it is important to consider the real consequences of the economic crisis on the western Balkans. Macroeconomic indicators, such as Gross Domestic Product, reveal that, prior to the economic crisis, economic growth rates were showing an increased level of economic output. Furthermore, in the years immediately prior, such as between 2005 and 2007, GDP rates in countries within the western Balkans were higher than those of European Union member states. The downturn in the economies of European countries did not, to a significant amount, affect the region's economies. What was witnessed at the time was a slow shutdown in economic growth, which has continuing implications.

Table 1 – GDP growth around the time of economic crisis

	2005	2006	2007	2008	2009	2010
Albania	5.5	5.0	5.9	7.5	3.4	3.7
Bosnia & Herzegovina	5.0	6.2	6.8	5.4	-2.9	0.7
Croatia	4.2	4.8	5.2	2.1	-7.4	-1.7
Kosovo	6.0	6.3	4.5	3.6	3.3	4.4
Macedonia	4.4	5.0	6.1	5.0	-0.9	2.9
Montenegro	4.2	8.6	10.7	6.9	-5.7	2.5
Serbia	5.5	4.9	5.9	5.4	-3.1	0.6

Chart 1 – Immediate past and prospective economic growth to 2030 in countries of the western Balkans

The other accepted macroeconomic parameter is the rate of unemployment, since the unemployment rate is an indicator of how the impacts of the economic crisis could be analysed.

Major economic crises are characterised by an increase in rates of unemployment: the relevant situations, in employment terms, saw a decrease in the level of unemployment prior to the onset of the global economic crisis. With the elapse of time, the situation grew worse, especially after 2008. Bartlett has argued that the unemployment

crisis mostly affected the countries of the former Yugoslavia and Albania (Bartlett, 2010: 96).

Nevertheless, they all share common problems. There are high levels of unemployment, especially among young people. Additionally, unemployment rates in the western Balkans have been strongly influenced by the bad management of public finances through widespread corruption practices by both private and public sectors, as well as poor budgeting procedures.

It is important to note that most of these factors have been, in one way or another, affected by the crisis in European Union member states. Data for June 2013 reveal that unemployment levels were 28.8%, which put the region on the lowest employment ranking in the whole of Europe. Long-term unemployment, i.e. for more than two years, remains a concern for governments, accounting for 69 per cent of the total over the whole period (Bastian, 2011: 79). Young people (aged 16-25) who are still not employed account for 40 per cent of the net unemployment level in the region. The young generations have a significant impact on the economy of the region, being the ones who are most energetic and active. Therefore, the availability of working opportunities to young people would imply an active economy that can increase its economic position.

The current situation of countries in the western Balkans region is quite different from the status they held at the outset. A return to the previous times of economic growth in the region requires countries to focus on target goals, and this is very hard considering the limiting nature of time. Any return to the position which applied in previous decades would entail great attention being paid to human resources, i.e. the provision of adequate levels of employment to sustain the active population.

At the same time, the above figures also can be indicated to mean that there are poor living standards and a low quality of life in the majority of the western Balkan countries.

Recognising the impacts of the global crisis

In major developing countries, the impacts of the global economic crisis tend to be related to factors such as the level of integration with the global economy, the difficulties in acquiring loan finance from financial institutions and the increase in commodity prices during the economic crisis. The impacts or degree of manifestation of these factors varies from one individual country to another, but the characteristics remain the same. Concerning the level of economic integration with the global economy, it is imperative to understand the impact through the perspective an open economic set-up. The level of economic integration is determined by trade levels; i.e. through the country's exports and imports (Holman, 2004: 220).

The European Union is a major trading partner with the western Balkans (Jovanović, 2013: 320). In 2013, the value of EU imports and exports with the western Balkans were as follows (see Table 2).

Table 2 – EU trade with the western Balkans, 2013

	Imports (%)	Exports (%)
Machinery and transport equipment	24.1	26.9
Manufactured goods	21.1	22.3
Miscellaneous and manufactured articles	20.3	
Chemicals		15.2
Mineral fuels		12.3

In terms of integration with the global economy then other than Croatia, which is already a member of the EU, the countries of the western Balkans are at various stages on their individual paths to integrating with the EU. The Former Yugoslavia Republic of Macedonia became a candidate country in December 2005, but has not yet entered accession negotiations, with the name issue still of substantial importance in its case. Montenegro is a candidate country for membership, with the EU recognising Montenegrin independence in June 2006. Albania submitted its application for membership in 2008 and was accorded candidate country status by the European Commission in June 2014. Bosnia-Herzegovina, a potential candidate country, has not yet submitted its application for accession. Serbia became a candidate country for EU membership in 2012.

Albania joined the International Monetary Fund in 1991 and has, since then, benefited in terms of global stabilisation and reform programmes.

Considering access to loan finance, it is clear that banking systems have also contributed significantly to the economic crisis. This is due to the level of economic activities arising from the banking sector being much lower in the countries of the western Balkans than elsewhere. The assets of the financial system in European countries are approximately 150 per cent of GDP, while for a country in the western Balkans, such as Albania, for example, it is approximately 82 per cent. These differences demonstrate a great deal of significance in terms of the banks' contributions towards enhancing the economy.

Finally, Pere and Hashorva (2011: 148) argue that the higher negative impact of product prices in the western Balkans also has an impact on the import activities of the countries of the region. Higher prices imply that imports in such scenarios are more expensive and hence more problematic since they increase the costs of production.

It should, therefore, be noted that the western Balkan nations are facing a significant level of economic difficulties that are not necessarily of their own making, or the result of their policy decisions. The initial aim, in order to rectify the situation, should therefore be to reduce the political risk factors involved. There are differences within the communities based on their individual ethnic groups, which has contributed greatly to them living separate and distinct lives. Therefore, as long as there remains evidence of these dividing lines among the countries of the western Balkans, investment levels in the region will be very risky for young investors who may have an interest in investing

in the economies. Such political divisions have also had the effect of limiting the scope for regional integration (Grupe and Kušić, 2005: 88).

The net impact of all this has been increased costs, as well as decreased opportunities, for all potential investors in the countries. The countries of the western Balkans have shown laudable initiatives and good intentions to eliminate such crises through the formation of, and agreement to, the likes of the Central European Free Trade Agreement. However, the implementation of such intentions is still way below the expected level. Many individuals will tend to agree that the most important efforts that need to be made are towards the promotion of the reconciliation of the countries of the region and the establishment of deeper economic links. Both would be aimed at convincing investors that conflicts are very unlikely occurrences in the region.

The governments of the western Balkans must strength the co-ordination of economic reforms, for the simple reason that the region will become more attractive to public and private investors which, as a result, should contribute towards an improved economic situation for the benefit of citizens. Investments will only happen if countries improve the investment climate and create the conditions for the levels of sustainable growth which are necessary to create new jobs; attract FDI; and establish both the conditions in which businesses can be competitive and those that will reignite the spirit of entrepreneurs and of small- and medium-enterprises (SMEs).

The investment needs in the region remain substantial. The region has to intensify its co-operation on key infrastructure investments, including priority transport and energy projects. These may be implemented through the Western Balkans Investment Framework to make sure that resources flow through a single pipeline.

The other very important concern that requires attention pertains to the absence of a strong market for the western Balkans. The governments and independent courts, which are the market-supporting institutions, need to be keener in the protection and upholding of the rule of law (Jovičić, 2009: 30). A poor business climate has been created by levels of corruption and the lack of an independent judicial system. The political elites are taking advantage of their situation and positions to intimidate entrepreneurs and other investors and, in turn, they are able to secure financial and political favours.

The administrative institutions have made attempts to rectify these situations. This has mainly been through the identification of reforms, of which various have been developed in regard to the economy; these are, however, not particularly challenging and the actual level of implementation still remains superficial. It would be a bad move to copy uncritically the model of economic and social organisation of other European countries that are more advanced in terms of technology, since enlargement will not occur in the context of the region's mass unemployment, especially of young generations, alongside the economic prospects to which they have become conditioned. Bastian (2011: 102) states that the traditional mechanism of 'wait and see' that involves the countries of the region demonstrating their compliance cannot continue to operate. The process of getting these countries to meet European standards requires a different form of supervision and an attempt to deal proactively with their current situations.

There is also a need to restructure the roots of the systemic lifestyle and social values applying within these countries in order to minimise division and conflicts.

Conclusion

The western Balkans economic crisis is reflected by a decreasing growth rate in Gross Domestic Product. This is evident in that, for example in 2009, GDP growth rates were as follows: Montenegro -5.7%, from 6.9% in 2008; while Macedonia stood at -0.9%, from 5.0% in 2008. Generally, growth rates were only positive in Kosovo and Albania.

Unemployment rates are also worrying, in that the majority of unemployed people are specifically between the ages of 15 and 24. The highest unemployment figures were reached in 2009 for the majority of western Balkan countries.

Imports have also, to some extent, altered local production systems. This has contributed significantly to a devaluation of the local currency against the Euro as well as to an increase in price levels.

However, the levels of openness and integration with external markets have also increased, such that the likes of Macedonia and Montenegro have higher integration indices than even some European Union member countries.

The countries of the region, in response to their current economic situation, have made various attempts to rectify their positions. Most significantly, this has entailed the introduction of economic reforms and the development of a favourable business environment. The latter has occurred through the elimination or reduction of political and economic conflicts within institutions so as to attract and retain investors. The implementation of these reforms has, however, not been adequately carried out. The government and the law courts need to recognise their principal functions of delivering these requirements in practice. What is needed, in other words, is the attainment of the creative power, intensiveness and courage necessary to build new concepts between the economic and political institutions in order to realise a strategy for the economic development of western Balkan countries.

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