

Démographie spatiale des Balkans : tendances et enjeux
Spatial demography of the Balkans: trends and challenges

IV^{ème} Conférence internationale de Démographie des Balkans
IVth International Conference of Balkans Demography

(Budva, Monténégro, 13-15 mai 2010/ 13th – 15th May 2010)

RECENT SOCIOECONOMIC DEVELOPMENTS
IN THE BALKANS

(Séance Inaugurale/ Inaugural Session)

Ross Fakiolas

Introduction

Unlike the situation a few years ago when it was a war-area, the Balkan region does not catch any more first page news in the international media. Besides, EU policy has now other priorities: To meet the challenge of the world economic recession which erupted in August 2007 in the USA financial institutions (the same as the 1929 economic crisis) and soon developed into a depression world-wide, with still uncertain depth, duration and long-run effects; to cope with the administrative issues arising from the approval of the Lisbon Treaty by Ireland in the second referendum in October 2009 and the election of a president and a foreign secretary of the EU; to strengthen the internal cohesion of the 27-member community, after the accession of 12 new members from the last two enlargements in 2004 and 2007.

In addition, being a large international entity of stability with strong and growing economic and political influence on the world affairs, the EU cannot ignore the violent ethnic and ideological conflicts raging in Central Asia, and the gradual shift of the world economic and political power away from the North Atlantic area to the BRICs (Brasilia, Russia, India, China). With about half of the earth's population, nearly one third of the global output and an appreciable share in advanced technology, the BRICs are changing the world into a multi-polar economic and political system.

Nevertheless, the world interest on the Balkans remains because of the important and continuous socio-political developments in the region. Among others, these include the separation from Serbia of Montenegro (with a referendum) and the unilateral declaration of independence by Kosovo on grounds that the overwhelming majority of its population are Albanians; the continuing serious friction between Greece and FYROM over the constitutional name Macedonia of the latter; the issues of the alleged war crimes raised by the Hague International Court of Justice; and the ethnic problems in the fragmented Bosnia and Herzegovina (BiE), where the various peace agreements created an asymmetrical confederation of highly autonomous, ethnically based entities and many levels of administration, coupled with weak central institutions (Arvanitopoulos/Tzifakis 2008). None of these problems lends itself to easy solutions.

Furthermore, most Balkan countries face high fiscal deficits and soaring public debts because of the world depression and of their delay in implementing indispensable economic and social reforms. Progress therefore is hampered by serious structural challenges, political instability and constitutional problems inside and among the Balkan countries.

Following a brief account of the Balkan-EU relations, this paper focuses firstly, on the critical issues of choice between strengthening regional cooperation and singular economic and political orientation to the EU; and secondly, on evaluating the effects on the region from the current economic recession and the counter-cyclical measures taken to meet the challenge. The large heterogeneity of the Balkan countries in geographic area, population size, economic performance and relations with the EU extends also to the consequences from the economic crisis.

1. Relations with the European Union

Aspiring to be more than an association of countries with an extended market and being interested in the security and the well being of its citizens, the EU endeavours to establish close links with its neighbours and to incorporate gradually all European countries wishing to join it. Liechtenstein, Norway and Switzerland are reluctant to become EU-members, although they have signed preferential agreements with the European Commission (EC) and are charged for participating in various EU councils.

Four Balkan countries have been EU member-states since 1981 (Greece), 2004 (Slovenia, along with nine other countries, the seven from Eastern Europe plus Cyprus and Malta) and 2007

(Romania and Bulgaria). Greece and Slovenia are also EMU members since 2001 and 2007 respectively, together with 12 other countries of the eurozone. Following the settlement of the territorial dispute with Slovenia over a narrow coastal line in the Adriatic Sea, Croatia is a candidate member and its accession to the EU-27 cannot be delayed much longer. Serbia is next in the procedures for accession, after Caratzis has been brought to the Hague international court, as demanded by the EC.

The remaining countries are also eager to join the EU and most have already started the long procedures of adjusting to its *acquis communautaire*, consisting of about tree dozen subject-points for negotiation. On account of the present economic and political difficulties, however, the EC appears reluctant to accelerate the pace of new accessions.

All new EU-members qualify for financial aid, consisting mainly of the Structural and the Common Agricultural Policy Funds. These absorb 80%-85% of the EU budget of some E400 billion annually, amounting to under 1% of the EU GDP (a small fraction of the national budgets of member-states). All member-states contribute to and benefit from the Funds but Belgium, Britain, France, Germany, Holland and Sweden are the net donors.

2. Regional cooperation versus exclusive links with EU

On account of their geographical position, history and deeply rooted traditions, all Balkan countries belong to Europe and accept its values, while the Western Balkans are gradually turning into a stable region. The danger of war is no longer imminent and the respective governments have proven "prudent" enough not to be thrown into chaos and political turmoil. Having overcome open ethnic and community conflicts, they are finding slowly their peaceful way to settle border issues, tackle the minority problems and improve economic performance (ICB 2005). The foreign private sector involvement has been based on only a few minimal conditions-the restoration of peace and basic security, the beginning of economic recovery and a modest improvement in business environments (see Laza Kekic 2005).

The efforts for further normalisation of the situation in the region continue, economic interactions even among entities that were until recently fighting fierce wars are increasing and the signs for a lasting adherence to international law for conflict resolution and the gradual stabilisation and economic growth multiply. It appears then that the region is becoming more capable to adjust its developmental trajectory to present needs and wants, raising the question about its main future orientation. Should the choice be purely European or an equal priority should be given to the regional approach, i.e. to strengthen the ties among the respective Balkan states?

Whereas regional economic and political cooperation presents serious advantages, there are strong indications of an increasing tendency among the Balkan countries to leave the region, becoming singularly 'European'. The European perspective on the other hand entails the threat of dragging the most developed countries of the region to a backward path by encouraging the development of regressive specialisations; while the regional perspective can create similar problems by slowing down or even diverting the process of economic (and institutional) modernisation. This process is very successfully triggered by association to the European economy and polity (Monasteriotis 2008). Obviously, dangers and ambiguities exist with either of the two options.

The developments at the level of the EU with the postponement of future enlargements, "EU distancing" and the new doctrine of "regional ownership" (largely exogenous as they constitute partly responses to EU's own internal problems) offer opportunities to the region to take control of its own development and reevaluate its priorities and long term interests.

No matter how smoothly or how fast integration with the EU proceeds and how deep it becomes, there is a shared responsibility in the region to identify and strengthen its competitive

position in the international division of labour, promote its own integrated and coherent market, activate regional multipliers and strengthen those regional specialisations that can upgrade product quality and overall regional production. European integration and regional cooperation are both useful for economic development. Multispeed and multidirectional performances would generate a more fragmented economic space than the very essence of the European idea may tolerate (Petrakos/Totev 2000).

This is certainly not a matter of a singular choice over two competing alternatives but an issue of balance. There are real benefits from regional integration and this should be actively pursued in conjunction with efforts for European integration. Regional cooperation would promote socio-political reconciliation and economic development, by integrating as much as possible the markets of the respective countries. Policy harmonisation within the region to avoid negative competition and to facilitate economic interaction and market integration is a useful central objective of national policy-makers.

It is reckoned that this goal could not be pursued optionally and only by the very ambitious. In the context of intense global economic competition, where regional and sectoral advantages shift rapidly and product life cycles shrink in a world of international sub-regionalisation, an unconnected collection of small states in a historically problematic peninsula in the corner of Europe has limited possibilities to compete and to converge to higher standards (Monastiriotes, 2008).

3. Consequences from the current recession

In addition to the large economic heterogeneity in the Balkan region, the economic position among the various social groups within each country change continuously and at a high rate.

3.1 Demographic developments

More than in normal economic conditions, in the downward face of the trade cycle the demographic issues affect directly all economic and political developments.

In the last two centuries most Balkan countries have experienced large emigration flows and in the last 20 years immigration has been equally large in Greece. The remaining countries too have received modest flows of immigrants from third countries, mainly from Africa and Asia, because of the high growth rates in 2001-2008 and the rise in wages. Due to the war conditions in the 1990s, however, and the dissolution of the former Yugoslavia, intra-region migration has been considerable.

As the income from emigrant remittances in many countries constitutes a significant source of foreign exchange, repatriations and lower earnings abroad caused by the depression have resulted in a large decline of the revenues for the state budget and the balance of trade. Together with the large foreign capital inflows and the rapid increase in exports, the emigrant remittances were the principal factors of growth in all Balkan countries for many years before the recession. Credit shortages and declining demand since 2008 changed the macroeconomic environment, affecting exports and domestic production in all countries of the region.

The abolition of visa requirements in February 2010 for citizens in many Balkan countries by many foreign countries is expected to facilitate greatly cross-border movements.

3.2 Fiscal and unemployment problems in Greece

Despite the serious consequences from the present depression, Greece and Slovenia remain by far the most prosperous in the region, followed by Croatia, the candidate EU-member. All have adjusted considerably to the EU environment and benefit appreciably from it, albeit not without cost.

For Greece the prospects for this year and beyond are for an over 2% GDP decline. The country faces also a high budget deficit (about 12.7%) and public debt (over 115% of GDP), exceeding greatly the upper limits of 3% and 60% respectively set by EMU in the Program for Stability and Development. The only positive development is that although exports have declined, imports have declined even more, reducing the large deficit in external accounts.

In its present fiscal difficulties Greece cannot implement the “classical” national currency devaluation (now the euro), as many other non-euro area Balkan countries have done. It resorts instead to the more difficult politically “internal devaluation” through controlled deflation, i.e. to lower nominal values in both product and factor domestic markets, in order to increase competitiveness and gradually reduce the high public debt. To this end and to meet its obligations to the EC which contributes to lowering the high interest rates of borrowing to service the debt (spreads and default credit swaps), the government implemented severe austerity measures in early March 2010, causing intense but still controlled social reactions.

Due to an average 4% annual growth rate for about 10 years before 2008, unemployment in Greece declined from 11.5% of the labour force in 2000 to 7.5% in 2008. It rose again to over 10.3% in February 2010, and still follows an upward trend, being certainly one of the most challenging policy issues.

3.3 GDP reduction in other Balkan countries

Socio-economic characteristics

Health care leaves much to be desired in many countries, after the previous national health systems have been largely demolished and in some (Albania, BiE and others), delays in land restitution (return to its previous owners) obstructs the privatisation process. Besides, the relatively prosperous middle class during communist administration faces increasing difficulties. Those working in export industries are hit by the domestic credit crunch and the recession in foreign markets, particularly in EU, their main trade partner. Most of the remaining are state employees, facing wage reductions and dismissals. The small and medium-sized enterprises (SMEs), the backbone of the western Balkan economies are especially vulnerable to the downturn. Even without the depression, however, economic development and increasing labour costs could not allow many of them to survive for long.

Many countries face also curbs in foreign aid (ICB 2005, SOPEMI 2003- 2009) and in DFI (Direct Foreign Investment) which showed strong upward trends in previous years, “the most remarkable development in the Balkans” (Kekic Laza 2005). Some DFI was for “brownfield” investment, i.e. mergers, acquisitions, take-overs etc., mainly through privatisations. Its size was probably influenced by the perceived instability, excessive red-tape and bribes, especially in securing construction permits. A considerable part however was “greenfield” investment (mobile technologies creating positive externalities through knowledge transfers, importation of new production methods and processes, development of new products), promoting greatly economic and social development and speeding up economic restructuring. This kind of DFI has declined sharply since 2008.

Public deficits and devaluations

Due to the large public deficits since 2008, most countries have devaluated their national currencies with respect to euro: Serbia by 24,4%, Romania by 18,3%, Croatia by 7,2% and Albania by 5,4%. Romania and Albania show further declines in the value of their currencies (Bank of Greece, October 2009:69). Many countries, particularly Serbia and Romania turned to IMF and the EE for financial support, undertaking to implement severe austerity measures to their respective communities.

Decline in economic activity

Attaining an average GDP growth rate of about 5% annually from the end of violent conflicts in the region in 2001 to 2008, most Balkan countries have been experiencing serious income loss since the economic downturn began. They face also high unemployment and heavy indebtedness to IMF, followed by strict administering rules imposed by it. Yet, their public debt is below 60% of GNP.

The few data below from Romania, Bulgaria and Kosovo may help in having a better picture of the prevailing conditions in the region.

The GDP in Romania and Bulgaria decreased by about 7% in 2009 on a y.o.y basis and a considerable decline was experienced also to the precious for all countries FDI. In Bulgaria, however, there are signs of recovery in recent months (IMF expects a 2% GDP growth in 2010). Although recovery of the world economy is so far weak, exports have resumed their upward trend, the chronic gap in external trade has been reduced and the budget deficit for 2010 is estimated to decline to 5.5%, from 8.5% in 2009. The independent Kosovo on the other hand suffers from high unemployment (43%, among the youth 73%) and a large number of suicides (110 in 2009, mainly among young ages), indicating that independence has not solved many of every-day-life problems. Growth has taken a chaotic form and the GDP rise is mainly due to the remittances of the Albanian expatriates (NBG, Athens various publications).

Concluding notes

The main problem for the Balkan region is to attain macroeconomic financial stability by curbing public budget deficits and proceeding to the necessary socio-economic reforms. Systematic efforts should be made also to resume growth rates at the pre-2008 levels and to strengthen both the democratic institutions and the regional cooperation. The rich natural resources in the region and the high training of its labour force offer ample opportunities for rapid progress. Despite the difficulties faced by the current depression, there are already indications in some countries that recovery is not far away.

Selected references:

ICB (International Commission on the Balkans) 2005 "The Balkans in Europe's Future" Secretariat Centre for Liberal Strategies, Sofia Bulgaria

Kekic Lasa (2005) "Foreign Direct Investment in the Balkans: Recent Trends and Prospects" Vol. 5, No 2, May pp. 171-190

Monastiriotis V. (2008) "Quo Vadis Southern Europe? EU accession, Regional Cooperation and the Need for a Balkan Development Strategy" Hellenic Observatory, The European Institute, LSE, GreeSE Paper No 10

Migration News Sheet, Monthly Information Bulletin on Immigrants, Refugees and Ethnic Minorities. Various issues

NBG (National Bank of Greece) "South Eastern Europe and Mediterranean Emerging Economies", Strategy and Economic Research Division, weekly and quarterly bulletins, Athens).

Petrakos G. and Totem St. (2000) "Economic Structure and Change in the Balkan Region: Implications for Integration, Transition and Economic Cooperation" Intern. Journal of Urban and Regional Research Vol.24.1 March

SOPEMI "Reports on International Migration" for the years 2003-2009, OECD Paris