

Regional Transformation Process in the Western Balkan Countries

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This is a collection of papers by a number of authors, the result of a research collaboration between the Regional Studies Centre of the Hungarian Academy of Sciences and the OECD LEED (Centre for Local Development). The interest of Hungarian researchers in the western Balkans is not purely academic, but can also be ascribed to geographical, historical and economic factors. The disciplines engaged in the problems and development of the regions have made significant progress, particularly in recent years. Hungary shares borders with various countries in the western Balkans: Serbia, Croatia and Slovenia. There is even a significant Hungarian minority in Serbia. Hungary, Croatia, Slovenia and Bosnia-Herzegovina were linked by strong historical ties before and after the Austro-Hungarian Monarchy of 1867-1918. The Monarchy strengthened the economic and other bonds among its member countries, and represented the first successful experiment to create a united central Europe, establishing a common market with elements of economic union, such as a reduction or abolition of tariffs, the free movement of capital, workers and services, a single currency, etc. There are still robust economic ties among these countries today.

Issues relating to the western Balkans are highly topical, mainly because of the social, political, economic and spatial reforms of the last few decades, but also because of the region's geostrategic position and the unresolved problems it faces. The transition of the western Balkan countries presents a series of noteworthy singularities, above and beyond the usual characteristics of other countries undergoing the transition process. The Balkan peninsula – because of its intercontinental position between Europe, Asia and Africa – continues to be a crossroads and corridor of great strategic importance between East and West, North and South. Its geostrategic importance is greater than its specific weight in Europe, in terms of surface area (5.3%), population (4.9%) and the low percentage of European GDP it accounts for. The region's

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border and ethnic problems, the Kosovo issue and the controversy over the name of FYROM, alongside other problems, threaten the stability not just of the Balkans but of the European region as a whole.

As a topographical concept in regional geography, the term 'Western Balkans' dates back to the 19th century. However, as a political-spatial concept it is a relatively recent term. It first appeared in December 1998 in the regional policy terminology of the European Union, in the Council of Europe's Vienna Declaration. It embraces eight states: Serbia, FYROM, Montenegro, Albania, Bosnia-Herzegovina, Croatia, Slovenia and Kosovo.

The authors of the book, through creative processing of the extensive international literature, seek to paint a comprehensive picture of Balkan reforms, in all their facets, over the decades of transition. The book consists of five parts, each with its own theme.

Part I is devoted to the effects of regime change in the western Balkans (pp. 15-120). After a historical review of the place of the Balkans in Europe, it analyses the process of the creation of new states since 1990, the internal structures of the western Balkan countries and their growing links with the European Union. The disintegration of the federal Yugoslav state and the founding of seven small states in its place may have satisfied some ethnic or nationalist aspirations and helped development on the national, regional and local levels, but it has had a range of negative effects too. From the economic perspective it impedes the growth of the small Balkan countries, because of their inability to make economies of scale and the absence of integration owing to conflicts and destabilization. EU accession might counteract some of these negative factors, but the process of joining Europe has been slow. Of all the western Balkan states only Slovenia has attained full membership; Croatia and FYROM are official accession candidates; Albania, Bosnia-Herzegovina, Serbia and Montenegro are potential candidates, while the position of Kosovo is uncertain. The book is right to conclude that accession of the western Balkan states will not be feasible before 2014, as the original Greek proposal foresaw (p. 43). The whole process still requires more time.

Part II focuses on demographic trends and the labour force (pp. 121-226). The overall population of the region grew from 18.3m in 1960 to 23.9m in 2010, an increase of 30.6% and a faster rise than the overall increase in EU-27 population. It is a population with pronounced singularities in terms of ethnicity, age structure and migration. The percentage of the population of the region aged 0-14 was 17.9% in 2010, greater than the corresponding figure for the EU-27 (15.7%), while the population aged 15-64 was 68.8%, compared with 60.8% (p. 168). One of the key aspects of the region is the level of mass migration. The percentage of migrants in the population in 2005 was 37.7% in Bosnia-Herzegovina, 27.5% in Albania, 21.9% in Serbia and Montenegro, 18.2% in FYROM and 16% in Croatia (p. 180). The main host countries

for emigrants are Greece, Italy, Germany and Austria. Remittances from emigrants are a significant course of income and growth. As a percentage of GDP they account for 17.2% in Bosnia-Herzegovina, and 14.9% in Albania. In other western Balkan countries the figures are lower (p. 181). The average rate of unemployment in the region is very high – 22.6% of the active population in 2009, almost 2.5 times higher than the OECD average (p. 205).

Part III examines the state of the environment, infrastructures and networks (pp. 227-303). Atmospheric pollution, using the indicator of emissions per capital in equivalent tons of CO₂, was greatest in Slovenia in 2009, at 7.4, followed by Bosnia-Herzegovina (6.9), Kosovo (5.5), Croatia (5.2) and FYROM (5.1), and much lower in Serbia and Montenegro (3.7) and Albania (1.1) (p. 244). Air pollution is lower in the region than in the EU-27, where greenhouse gas emissions in 2008, per capita in equivalent tons of CO₂, reached an average of 9.9. Infrastructure in the region lags far behind that of the developed countries, particularly in rural regions. In Kosovo, for example, only 28% of residents live in homes connected to a sewage system, while the figure for FYROM is just 18% (p. 399).

Part IV discusses the political system and public services (pp. 305-376). The main conclusion is that a new political and institutional structure has taken shape in the region over the last twenty years. Apart from Albania, seven independent, sovereign states have been set up in the place of the former Federal Yugoslavia, all operating on the basis of their constitutions. There continue, however, to be ethnic problems both within and among the states of the region. In all countries the multi-party system of parliamentary democracy has taken root, with two or more parties alternating in government on the basis of free elections. There has been significant progress towards dividing legislative, executive and judicial powers. The book presents a mass of interesting detail on social services and the serious problem of poverty, social exclusion and the stark inequalities within and among the countries of the region.

Finally, Part V analyzes economic trends in the western Balkans (pp. 377-601). The first stage of transition was characterized by a decline in production, an acceleration in de-industrialization, a restructuring of the economy and an increase in regional inequalities. Over the period 1990-1995 industrial production fell at an average annual rate of 5% in Slovenia, 10% in Croatia, 14% in Yugoslavia, 13% in FYROM and (up to 1994 only) 34% in Bosnia-Herzegovina (p. 382). Subsequent restructuring of the economy encouraged some growth, mainly in industry and services. As a result of these changes, in 2007-2008 the contribution of the primary sector to generation of gross added value in the region fell by 9%, but continues to be much higher than the EU-25 average (2%). The contribution of the secondary sector was 28% across the region, comparable to the EU-25 figure of 26%. The tertiary sector contribution rose to 63%, but is still lower than the EU-25 figure of 72% (p. 390).

Direct Foreign Investment has played a very important role in developing industry, and the economy in general, in the western Balkans and central-eastern Europe. Specialist research has shown a high level of correlation between inflows of DFI, economic performance and exports. In the western Balkans per capita DFI rose from \$383 in 1995 to \$3,839 in 2008. The increase was greater in Slovenia (7,852) and Croatia (7,002), and smaller in Albania (829), Bosnia-Herzegovina (1,686), FYROM (2,121) and Serbia (2,225). DFI is lower in the western Balkans than in central Europe and so its role in the dynamics of growth is more limited (pp. 393-394).

There has only been limited progress in the area of the Knowledge Economy. The Knowledge Economy index for the region stands at 5.9, far lower than the EU-15 average of 8.7. This is a drag on competitiveness and future development prospects for the region.

Agricultural production continues to play a significant role in the economy and in employment, but is based to a large extent on traditional farming techniques with the transition to contemporary, competitive methods and a market economy advancing only slowly.

The Balkans play an important part in the international economy as a corridor linking central and western Europe with Asia Minor and the Middle East. If this role is to be strengthened in future, transport infrastructure will need to be strengthened and the stability of the region improved.

Intra-Balkan trade among countries of the region is relatively modest, ranging between 7-15% of total external trade. The two exceptions are Bosnia-Herzegovina at 38% and FYROM at 26%. The foreign trade of the Balkan countries is very much oriented towards western Europe, with 40-76% of commercial transactions being conducted with the western European countries. For Albania the major trading partners are Italy (30%) and Greece (24%). For the other Balkan countries the main trading partner is Germany, at rates ranging from 18-35% (p. 432).

Tourism is a major sector in Croatia and Slovenia, which hold 23rd and 35th positions respectively in the world tables of tourist numbers to thousand inhabitants, while the role of tourism is much more limited in FYROM, Bosnia-Herzegovina and Albania, ranked 88th, 110th and 137th respectively (p. 451).

Analysis of the banking system in the region shows the characteristics of an emerging market, with improving stability and a trajectory of growth, particularly in the last decade. Reforms of the banking system proceeded slowly at first, in comparison with rates in central Europe, but subsequently accelerated, allowing the western Balkans to attract strategic investors from abroad. The process was accompanied by extensive privatization of the banking sector. It is worth noting that the share of foreign banks as a percentage of bank assets rose between 1998-2005 in Albania from 14.1% to 92.3%, in Bosnia-Herzegovina from 1.9% to 90.9%, in Kosovo from 32.3% to 74.5%, in Montenegro from 6.7% to 91.2% and in FYROM from 16.9% in 2002

to 87.7% in 2005. The 2005 figures were lower in Serbia (22.6%), Croatia (70%) and Slovenia, in 2004, (10%). For the whole region the share of the sector in the hands of foreign banks was 75% in 2005, with only 7% remaining in the control of the state. Greek banks played a leading role as investors in the region, followed by their Austrian, German and Italian counterparts (pp. 478-479). The global credit crisis has caused increased risks and uncertainty in the region's banking sector, as elsewhere.

The book features interesting analyses of the higher education, research and development sectors. One important development has been the founding of many new universities and other institutions of higher education in the region, since 1991. Student numbers have risen, and they now account for 19-48% of young people of university age. But spending on research and development remains modest: in 2007 it was just 0.18% of GDP in Albania, 0.03% in Bosnia-Herzegovina, 0.18% in FYROM, 0.24% in Montenegro, 0.34% in Serbia and 0.93% in Croatia. These figures are way behind the EU-27 average of 1.9% (pp. 488-501).

The region has laid particular emphasis on the creation and development of SMEs, which are an important element in the functioning of a market economy. Hundreds of thousand of SMEs have been set up and they now number between 9.9-22.3 per 1,000 inhabitants. In the area of facilitating entrepreneurship the countries of the region have made significant progress, but still lag behind the more advanced countries, ranking between 75-136 in the table of the world's 178 countries. To start a new business, for example some 8-15 procedures must be completed, and the process consumes a considerable amount of time (pp. 517-519, 538).

The extensive privatization process in the western Balkans has been slow in comparison with that of central Europe and the Baltic countries. In the period 1995-2003 the private sector contribution to GDP rose in Albania from 60% to 75%, in Croatia from 45% to 60% and in FYROM from 40% to 60%. In 2003 the figure for Bosnia-Herzegovina was 50% and for Serbia and Montenegro 45% (p. 517). The private sector contribution to GDP over the period 1990-1999 increased in the Czech Republic from 12% to 80%, in Hungary from 18% to 80%, in Romania from 17% to 60%, in Estonia from 10% to 75% and in the Russian Federation from 5% to 70% (EBRD figures).

In the chapter on local economic development the focus is on encouragement of entrepreneurship, lifting barriers and creating a propitious business environment at the local level. Particular emphasis is laid on the decisive role of educational and research institutions in the development of innovations and their application at the local level.

Finally, the chapter on regional development programmes features an analysis of the implementation of the EU Regional Development Programmes 1991-2007. The funds made available by the EU since 1991 to support the western Balkan countries amount to 6.8 billion Euro. 20 billion Euro has been made available for humanitarian

aid and bilateral aid. It is emphasized that 'regional cooperation in the region will be a key factor in achieving political stability and economic growth, and is the only road to follow if the countries of the region wish to address successfully the basic challenges they face (energy deficits, pollution, transport infrastructures, cross-border crime, and so on)' (p. 571).

The conclusion to be drawn, from this and other studies of the region, is that the transition and reform of the western Balkan states have shared characteristics and singularities, when compared with the countries of central-eastern Europe and the Baltic (Hungary, Slovakia, Czech Republic, Poland, Bulgaria, Romania, Estonia, Latvia, Lithuania, etc.). A common feature of all the countries is socio-political and economic reform: the transition from state socialism and central management to a hybrid capitalist system; the transition from the single-party to the multi-party system; the transition from a centrally planned and managed economy to a market economy, or some form of mixed economy. These processes all involve changes to the value system. One distinctive feature of the western Balkan countries from this perspective is that their transformation has been accompanied by violent conflict, by ethnic or civil hostilities, in contrast to other countries where the changes have been effected by peaceful political methods. One major and very distinctive feature has been the break-up of the Federal Yugoslavia into seven independent, sovereign states, with all the positive and negative consequences analyzed in the book.

A common feature of all the transition countries is the key role played by wholesale denationalization. A distinctive trait of the western Balkan countries is that this process has been slower and more limited in extent than elsewhere.

The transformation of the region has established a favorable climate for the growth of entrepreneurship, but at the same time has brought about greater social, income and regional inequalities. Serbia, Kosovo, FYROM, Bosnia-Herzegovina, Montenegro and Albania have experienced a new marginalization, retaining their regional characteristics. The exceptions have been Slovenia and, to a lesser extent, Croatia, which have made significant progress to shedding their regional status. The creation of seven, small, new states improves the conditions for national, regional and local development. On the other hand, it makes it difficult to achieve economies of scale, while preserving inequalities and a range of nationalistic and ethnic-oriented patterns of behaviour. These problems can be alleviated by international cooperation, particularly regional collaboration within the Balkans and wider cooperation on the European level.

Another common feature of all the transition countries has been the shift in orientation from East to West. In these terms the case of Albania is unusual, in that it is moving from introversion to extroversion, from a closed, self-sufficient economy to an open model. The western orientation is reinforced in three main ways. The first is the commercial integration with western Europe, with a rapid increase in external

trade with western European countries. The second is the establishment of multinationals and the inflow of Direct Foreign Investment into the transition countries. The third is their inclusion in European-Atlantic institutions and organizations. These processes have all been completed more rapidly in the countries of central and south-eastern Europe and the Baltic region, which have already secured membership of the EU, NATO, the IMF, the WHO and the World Bank, while progress in this direction has been slower in the western Balkans, whose countries, with the sole exception of Slovenia, are still at the candidate or potential candidate stage in respect of EU membership.

This book is a valuable contribution to the study of Balkan problems, enriching the international literature on the region as it gradually sheds the disparaging connotations of the terms 'Balkans' and 'Balkanization' and evolves, as south-eastern Europe, into an organic and integral part of the European continent.