

ECONOMIC GROWTH AND REGIONAL COOPERATION IN SOUTH-EASTERN EUROPE

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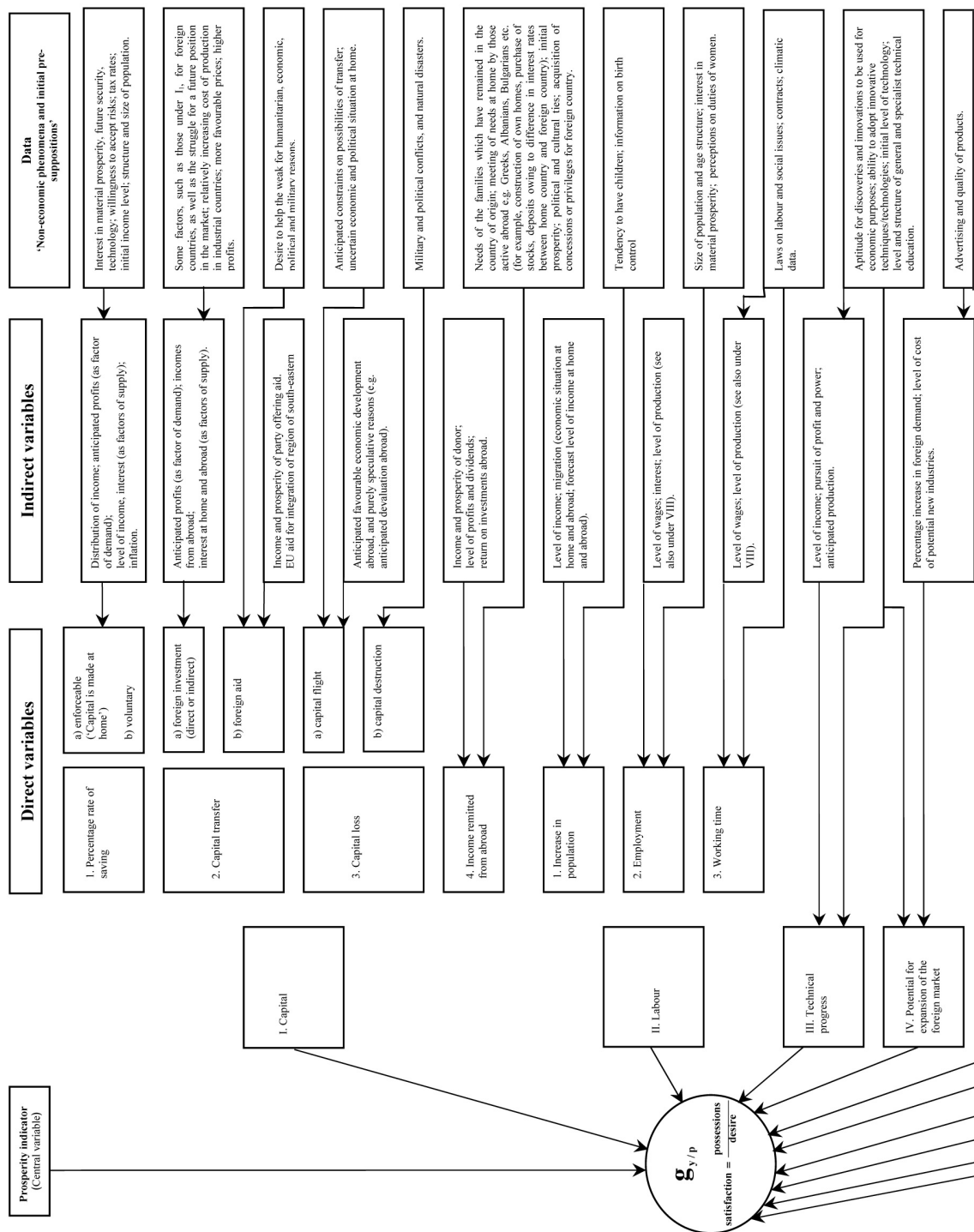
For the purposes of this paper we shall define as a region, in the context of the EU, the whole area of south-eastern Europe. In the context of each individual country within south-eastern Europe, regions will be defined as relatively homogeneous areas in socio-economic terms with distinct geographical and administrative criteria.

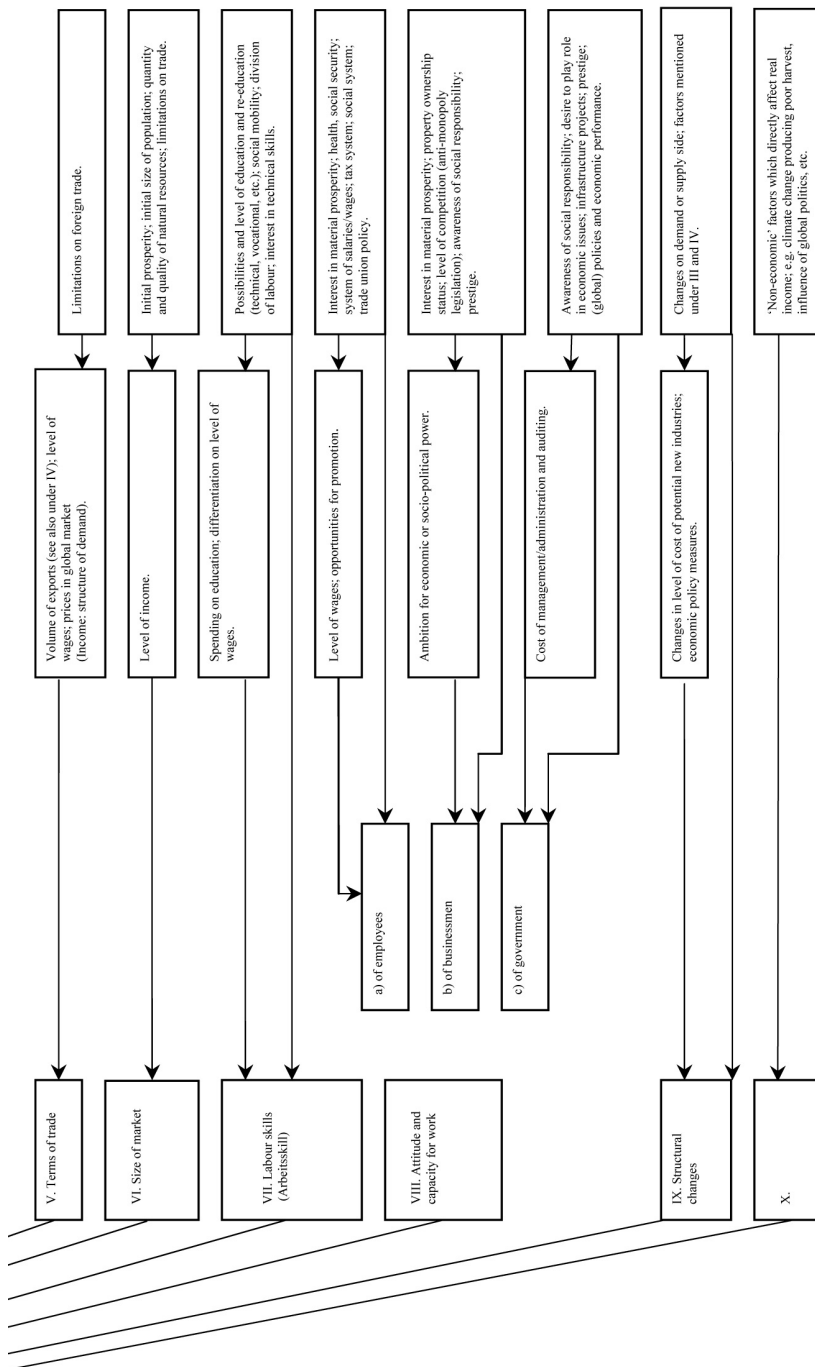
Thus, when we speak of regional economic cooperation we are referring on the one hand to cooperation between south-eastern Europe as a whole and the EU, and on the other hand to cooperation between different areas within one and the same country, and to cooperation between two or more areas in two or more countries of south-eastern Europe, mainly on the inter-state/cross-border level, and/or their cooperation with the EU.

We shall assume that each country in south-eastern Europe has the economic, social and political objective of becoming a full member of the EU, and is therefore trying, as rapidly as possible, to respond to the requirements set by the *acquis communautaire* – most of which involve, directly or indirectly, the economy.

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Presentation by the President of ASECU, Prof. Yannis Tsekouras, at the 3rd International Conference of ASECU, organized by the D.A. Tsenov Academy of Economics, May 11-14 2006, Bankya, Bulgaria

Figure 1. Synergy between goals and means as a strategy for economic growth¹



1. See Yannis Tsekouras: "Wachstum und Strukturwandel in der griechischen Wirtschaft", Dissertation published by the Institut für Sozialwissenschaften and Institut für angewandte Wirtschaftsforschung der Universität Basel, 1971, p. 224 (The idea for the diagram comes from M.M. Al-Homsi by J. Tinbergen, Economic Growth Potential, Netherlands Economic Institute, Rotterdam, pp. 6/7.

Of course, the economic policy of each country, when it seeks not only economic growth but also the distribution of the fruits of that growth, i.e. the prosperity of all social groups and (geographical) regions, must promote – first perhaps on the basis of unbalanced growth (and/or a ‘big push’) for underdeveloped regions, in which specific economic sectors can be given extra support, and then through balanced growth – both intra-regional and inter-regional/intra-state and inter-state/cross border cooperation.

Subsequently, taking the growth rate in *per capita* real income ($g_{y/p}$), this central variable, as the index of prosperity, and presenting all the other variables which contribute, directly or indirectly, to increase in *per capita* real income (see Fig. 1), we shall attempt to more clearly identify the fields in which regional cooperation can and should be sought, particularly in the areas of trade and internationalized businesses, within – of course – the general context of cooperation between south-eastern Europe and the EU.

Where can inter-state/cross-border cooperation exist?

I. In the Capital variable:

- a) *In direct and indirect foreign investment*: the relatively low labour costs, lower social costs weighing on businesses and the lower tax rates in the non-EU countries of the Balkans all attract foreign investment from neighbouring countries (e.g. Greece). If investment is made easier by limiting red tape in the business licensing process, fighting off corruption and making it easier to re-export profits, then these countries will become even more attractive investment destinations.
- b) *EU assistance*, through Interreg for example, makes a significant contribution to cross-border cooperation. However, the broader-based assistance offered by the EU in the form of know-how and important funding resources can also promote more rapid assimilation of the *acquis communautaire*, which, as we know, comprises some thirty chapters, most of which involve the rules of the smoothly functioning market, while others cover policies for education and training, science and research, environmental and consumer protection, and promotion of infrastructures (transport-communication-energy).
- c) *Capital flight*, which can be seen as a blessing for the winner countries, but a curse for the losers, except when the profits are repatriated and invested in the country of origin of the investment, in which case the unemployment, caused by the capital flight, is limited.
- d) “*Reasonable*” *cross-border Labour mobility*, combined with remittance payments from migrants, assists in economic growth on both sides of the border.

II. *In the Labour variable:*

Employment, in relation to the level of wages, can be positively influenced for countries with higher wages, like Greece, because relatively cheap labour is attracted from neighbouring states with lower levels of pay. However, there is also a negative impact in that businesses in countries with relatively high labour costs will tend to close down and move their operations to countries with lower labour costs.

III. *In Technical Progress:*

Research centres in neighbouring countries might benefit from cooperation, promoting R&D and enjoying economies of scale.

IV. *In the possibility of expanding the export market and in the terms of trade:*

It is necessary to facilitate the movement of goods and services, on each side of the border, to such an extent that it will approach the rules of the EU single market—since all the Balkan countries aspire to EU membership. It would be very useful if all the Balkan countries were to set up a **free trade area**. This would have the effect of increasing the relatively small size of the south-eastern European market.

V. *In attitude and capacity for work:*

- *Of businessmen*: since our region does not have a large, modern and innovative business class, and since it will take time for such a class to develop, intra-regional mobility of this class and its importation from outside the region will assist in its more rapid development.
- *Of governments*: in the context of a “strategic perspective”, governments will need to do their best to ensure that all countries in the region assimilate the *acquis communautaire* quickly, proceeding as rapidly as possible to regional cooperation for effective promotion of *joint policies*: on research and development (R&D), on education (in order that our societies really do become **knowledge societies** – and here the role of universities is vital), on fully safeguarding democratic institutions and human rights and on the (sustainable) development of the economy, and therefore the joint protection of the environment. Governments must also work to promote *joint regional infrastructure projects*, especially in transport (main highways, high-speed rail lines, airports, ports), communications and adequate energy networks –which is an important factor for security.

Two more factors of cooperation and peace

All of the above measures will contribute to economic growth, and therefore to confronting unemployment and consolidating peace in the region.

A key factor in ensuring more lasting peace, the basic precondition of any real progress, is the simultaneous and universal (not unilateral) revision of school textbooks across the Balkans (and not just history textbooks) to remove material likely to perpetuate suspicion and prejudice. We should remind ourselves of the historic decision in this regard taken by De Gaulle and Adenauer.

The revised textbooks to be used in schools across the Balkan region must present our children with an objective and critical account of national issues, avoiding all stereotyped views of ethnic or national superiorities and inferiorities, eliminating all hostile depictions of other peoples. Instead, the books should focus mostly on the periods in which our nations co-existed peacefully, and should familiarize our children with aspects of culture and everyday life in neighbouring countries.

This revision of our textbooks will remove one of the most dangerous threats to our region – that posed by the inciting of short-sighted, nationalistic prejudices and aspirations.

It is my belief that the problems posed by various forms of nationalism would be greatly alleviated if we were to accept the view of Foucault, that “identity is a journey”, rather than the aphorism of Jean-Paul Sartre, that “identity is the others”².

What this means is that we cannot regard the nation as a “biological entity”. One is not born Greek or Bulgarian or Albanian or Turkish; one becomes a Greek or a Bulgarian through the process of education, the result of many years of learning within the family, the language, the community, a common set of values and a common destiny.

This sentiment was expressed as long ago as 339 BC by the ancient Athenian orator Isocrates, who said: *The name of Greek is no longer a matter of birth so much as an attitude of mind; to be or rather to be called a Greek means to have partaken of a Greek education or to share in a common nature.*

Thus to declare that one was born Greek or Bulgarian, Serbian or Romanian is really meaningless: our blood and our genes know no nationality.

Although nationalist sentiments remain a threat, the national dimension – in the sense of a common language, history, traditions and culture – remains of fundamental importance in shaping the identity of the individual – despite the expansion of local borders, especially in the economic sphere (one thinks, for example, of the supra-national European Union currently being shaped), and the related transformations of the national dimension brought about by e.g. the transfer of legislative functions from an emphasis on social rights to an emphasis on human rights.

2. See J. Berque: “Identité” in L. SFEZ, *Dictionnaire Critique de la Communication*, RUF, Paris 1993, v. I., p. 108.

Thus many of the changes occurring today have an enormous, if not always positive, impact on the structure, functions and symbolism of the community:

From collective entities to individual citizens, from relations of collective political power to market relations, from solidarity among social groups to the logic of remuneration, from the social subject of the social state to the isolated citizen of the (neo) liberal state, from the prestige of social commitment to the power of the financial status³.

Strenuous endeavours are now required to ensure that “solidarity from similarity”³ can return to a collectivity based on freedom and social justice, and that “solidarity from difference”³ can defend diversity in nature, in society and in the sphere of the individual.

Another factor which influences human rights - and by extension peaceful or otherwise coexistence and cooperation, and therefore progress, among the peoples of the Balkans – is the relationship between religion and politics, church and state.

I do not believe anyone can claim there is a state in our region in which the church, in collaboration with the state, does not influence the system of laws governing human rights, especially those of religious minorities – which, in the Balkans, are to some extent also ethnic minorities. At the same time it is questionable whether there are any states in the Balkans (and elsewhere) which would be willing to be deprived of the potential of the church for the achievement of national and state objectives.

The closer are the ties between church and state, the less loudly the evangelical message of the church is heard.

In any democratic society, the introduction of a religious element into politics gives rise to serious concerns on the part of those who do not subscribe to the same religious beliefs.

Since the state is the only institution which can suspend or curb the granting of human rights – which means that if the church and religious communities undertake to limit the activity of other churches and religious communities in regions where they are predominant, they can do so only in collaboration with or at least with the tolerance of the state – it is essential that states *jointly* cease to make use of their churches, and that churches remain well outside of politics, concentrating exclusively on their spiritual and social mission.

In this way we will be better placed to confront the various threats which loom over our societies and stand in the way of progress.

3. See M. Psimitis, «Η ατομική επιλογή ως παράγοντας Πολιτισμικής Ταυτότητας σε Συνθήκες Πολυπλοκότητας: Η περίπτωση της Αλληλεγγύης», in : «ΕΜΕΙΣ» και οι «ΑΛΛΟΙ». Αναφορά στις τάσεις και τα Σύμβολα (pp. 95, 99), Εθνικό Κέντρο Κοινωνικών Ερευνών, Τυπωθήτω Γ. Δαρδανός, Athens 1999.

To achieve these objectives we need to see, in the short and medium term, the necessary resolve on the part of all our leaders, and first and foremost the political leadership of our societies. **The way of governance in our states must also converge to the developed systems of governance.** In the long term the key role must be played by education which, apart from all its other positive benefits, will contribute to a process of political socialization, fighting injustice and producing active and aware citizens (some of whom will eventually enter politics!) – citizens with a true sense of responsibility for the community, rather than the artificial political consciousness fostered today.

Mobility facilitation of the production factors?

In the world of today almost all developing countries are seeking to attract foreign capital, offering a range of investment incentives (mostly in the form of tax relief and/or opportunities to re-export profits), while the developed countries are attempting to prevent the export/relocation of capital and businesses.

However, given the fierce competition among the candidates for receipt of foreign investment, these incentives are deemed inadequate if not accompanied by a broader organized institutional/administrative (institutions and agencies for effective implementation of development/investment policy) and economic environment, fostering a positive climate for investment.

The new approaches for internationalised strategies – which have replaced traditional approaches – arise from the need to survive in the globalized economy, which has abolished or significantly weakened the old frontiers between state-borders, state-nation/foreign, and thus businesses which have not “internalized” the global strategic logic, that of unlimited global competition, will either be compelled to reconsider their “closed” strategic logic, or will not invest in the new international economic order (or, rather, disorder).

This new international economic disorder (order) – characterized by uncertainty and complexity, two features which are transmitted in turn to the organizational structures of multinational businesses themselves – makes traditional forms of management ineffective and creates problems in the running of these businesses. This is why the organizational principles of Taylorism/Fordism and of Weberian bureaucracy, typical of the industrial model of organization, cannot produce results in the new post-industrial conditions of uncertainty and complexity.

The traditional, centralized, industrial model of organization, unable to rid itself of its various adverse consequences⁴, must therefore be replaced with the so-called

4. Such as: absence of procedures for immediate decision-taking at the lower organizational level; inflexibility in the frequently required revision of initial strategic plans; bureaucratization of business and maximization of transactional costs, owing to scale of business and its internal complexity – precluding the necessary innovative intra-business environment.

heterarchic organizational architecture (horizontally: relationship between parent company and subsidiaries; vertically: relationship between managers and subordinates), the characteristics⁵ of which endow (international) businesses with operational efficiency, flexibility, high performance and an innovative internal environment.

To summarize, then: the hierarchical organization, whether in the form of a multi-centre, or the international or *multilocal* model, or the horizontal and the *adhocratic* model, involves decentralization of basic activities and decision-taking authority within the context of the network of the internationalized business⁶.

The business strategy of internationalized businesses, in conditions of fierce competition, must – apart from its global logic and *heterarchic* architecture – also distinguish itself in the following areas:

- a) in “perpetual innovation”, which will enable the business to remain permanently in the vanguard, and in the linking of innovative strategies. The President of Silicon Graphics describes this doctrine as follows: “The key to the creation of competitive advantage is not to react to chaos, but to create chaos. And the key to creating chaos is to lead the way in innovation”⁷.
- b) in the active management of increasing returns, through a web-building strategy which seeks the creation of new special advantages among strategic partners, and
- c) in deterrence, in the sense of conveying an image of complete and unshakable domination to all the business’s actual or potential rivals, making all attempts or even thoughts of challenging the business’s position seem doomed to failure or making them carry an unacceptable level of risk.

It is, therefore, in the interest of the economies of the region’s countries to facilitate as far as possible the movement not only of capital and goods/services but also of people – especially businessmen and scientists/researchers as well as tourists, since international tourism receipts (foreign exchange earnings) improve the balance of payments and increase GDP and employment⁸.

5. Such as: Elimination of bureaucracy; delegation; de-layering, i.e. reduction in number of hierarchical levels; geographical dispersal of significant functions; development of culture of confidence and sense of common mission among all those working in a business.

6. See R. Marschan, *Dimensions of the International Firm: Nordic Contributions to International Business Research*. Copenhagen: Handelshøjskolen Forlag, 1997.

7. See B. Chakravachy, “A New Strategy Framework for Coping with Turbulence”, *Sloan Management Review*, Winter 1997.

8. Balaguer and Contavella-Jorda confirmed tourism-led growth hypothesis by proving the existence of a long-term relationship between tourism and economic growth and determined a relevant multiplier effect of 1.5% of Spain’s GDP. See Balaguer, J., Manuel, C., “Tourism as a Long-Run Economic Growth Factor: The Spanish Case”, *Applied Economics* 34, 877-84, 2000.

Table 1⁹. Ease of doing business. Ranking of European countries (30 out of 155)

Country	Ease of Doing Business	Starting a Business	Dealing with Licenses	Hiring and Firing	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Denmark	8	15	6	17	31	22	18	61	1	2	25
Un. Kingdom	9	9	29	15	23	1	9	81	21	30	10
Ireland	11	11	14	59	69	11	10	21	18	32	7
Finland	13	18	19	84	16	23	39	68	4	23	6
Sweden	14	20	13	86	8	30	95	38	2	14	18
Lithuania	15	37	16	93	2	36	61	31	31	7	29
Estonia	16	43	9	111	29	48	27	18	14	19	42
Belgium	18	34	31	43	141	45	13	33	9	17	9
Germany	19	47	20	131	33	5	57	54	3	25	30
Netherlands	24	42	66	70	20	14	103	120	5	20	8
Latvia	26	26	47	103	89	26	40	83	62	15	11
Spain	30	86	50	150	37	29	94	25	10	24	16
Austria	32	59	41	110	28	20	121	72	8	35	20
Slovakia	37	48	40	74	6	28	118	69	60	81	44
Cz. Republic	41	77	87	60	57	21	68	70	24	21	101
Portugal	42	104	94	145	93	55	32	47	29	46	19
France	44	13	23	142	144	115	56	35	44	13	32
Hungary	52	72	119	85	96	24	84	98	38	31	50
Poland	54	92	120	64	75	88	22	106	34	104	23
Bulgaria	62	80	118	90	62	46	54	78	45	79	56
Slovenia	63	78	48	133	88	57	46	77	63	85	69
Italy	70	45	93	138	48	51	86	102	90	76	40
Romania	78	8	86	149	114	74	44	116	72	65	102
Greece	80	121	42	148	130	83	128	67	64	8	34
FYROM	81	114	64	123	73	53	30	58	96	111	109
Bosnia and Herzegovina	87	123	141	95	132	9	77	46	122	72	58
Serbia and Montenegro	92	35	130	61	103	99	45	74	123	110	90
Turkey	93	46	137	141	49	103	75	66	95	37	125
Albania	117	108	131	127	66	41	136	132	100	113	73

Table 2¹⁰. Trading Across Borders. The Ranking of a sample of European countries (13 out of 155)

Country	Trading Across Borders	Document for exports (number)	Signatures for export (number)	Time for export (days)	Documents for import (number)	Signatures for import (number)	Time for import (days)
Denmark	1	3	2	5	3	1	5
Sweden	2	4	1	6	3	1	6
Germany	3	4	1	6	4	1	6
Bulgaria	45	7	5	26	10	4	24
Slovenia	63	9	7	20	11	9	24
Greece	64	7	6	29	11	9	34
Romania	72	7	6	27	15	10	28
Turkey	95	9	10	20	13	20	25
FYROM	96	10	8	32	10	11	35
Albania	100	6	13	37	12	17	38
Croatia	109	9	10	35	15	10	37
Bosnia and Herzegovina	122	9	15	32	15	18	43
Serbia and Montenegro	123	9	15	32	15	17	44

9. World Bank: Doing Business in 2006.

10. *Ibid.*

The “ease of doing business” is a particularly critical factor in competitiveness and economic growth. A World Bank study¹¹, which ranks countries (for the year 2005) in terms of ‘ease of doing business’ on the basis of ten key criteria (Starting a Business, Dealing with Licenses, Hiring and Firing, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, Closing a Business) shows that doing business in our region is in fact anything but easy. Among the 155 countries studied in the survey, Bulgaria is ranked 62nd, Romania 70th, Greece and FYROM 80th and 81st respectively, Bosnia-Herzegovina 87th, Serbia-Montenegro 92nd, Turkey 93rd, and Albania and Croatia 117th and 118th respectively.

When the degree of ease of trading across borders of the ten countries of our region is compared with that of Denmark, Sweden and Germany – the three highest-ranked countries globally – we see that our own countries have a long way to go before they can assist in the expansion of international trade and, by extension, economic growth; as Table II shows, they occupy a range from the 45th position in the ranking (Bulgaria) to the 123rd (Serbia-Montenegro). Whereas the three top-ranked countries require just 5-6 days to complete the import/export process, our own countries require from 24-44 days for the same process; likewise, whereas the three top-ranked countries have cut the number of signatures on the already small number (3-4) of import/export documents, to 2-3, in our region the number of signatures required on the relatively numerous (7-15) documents range from 4 in Bulgaria to as many as 20 in Turkey. We can only ask ourselves how long this red tape –which, as we are all aware, is a standing invitation to corruption– can be kept in place.

Furthermore, the Centre for European Reform has ranked the EU countries (including Bulgaria and Romania) on the basis of their progress towards meeting the thirteen Lisbon objectives¹².

11. *Ibid.*

12. The thirteen Lisbon objectives are as follows: 1) Innovation, 2) Research and development, 3) Telecoms and utilities, 4) Transport, 5) Financial and general services, 6) Business start-up environment, 7) Regulatory burden, 8) State aid and competition policy, 9) Bringing people into the workforce, 10) Upgrading skills, 11) Modernizing social protection, 12) Climate change, and 13) Natural environment.

Table 3. Progress of EU countries towards meeting Lisbon objectives

<i>Ranking</i>		
<i>Country</i>	<i>2005</i>	<i>2004</i>
Denmark	1	1
Sweden	2	2
Austria	3	4
UK	4	5
Holland	5	3
Finland	6	6
Ireland	7	10
France	8	11
Luxembourg	9	8
Germany	10	9
Slovenia	11	12
Czech Rep.	12	7
Belgium	13	13
Cyprus	14	15
Hungary	15	14
Estonia	16	18
Greece	17	20
Portugal	18	16
Latvia	19	19
Lithuania	20	21
Spain	21	23
Slovakia	22	17
Italy	23	24
Bulgaria	24	26
Romania	25	25
Poland	26	22
Malta	27	27

Table 3 shows how far the countries of our region are from achieving the Lisbon objectives: among the 27 EU countries (including Bulgaria and Romania) Greece is ranked 17th, with Bulgaria and Romania in 24th and 25th place respectively.

It is not only the difficulty of doing business and the poor performance of our countries in progress towards the Lisbon objectives, but also a whole host of other unfavorable factors which prevent our countries from achieving convergence, in the next few years, with the average economic and social indices of the EU. These factors include: low spending on, and the corresponding poor quality of education; bureaucratic and inefficient organization and management of the state, lack of a large, modern and innovative business class; inadequate skills and thus lack of professionalism,

in other words, we are far away from the **knowledge society**; insufficient spending on research and development combined with limited technological capacity; relatively high energy costs per unit of production – especially for firms consuming high levels of energy, another reason for promoting a **regional energy market** in line with the EU single market; the relatively high labour costs per unit of production in comparison with costs in the emerging rival economies of south-eastern Europe and the eastern Mediterranean; the low level of access of inhabitants of our countries to the internet and to broadband networks; relatively low real income and its distribution, in other words the small size of the south-eastern European market, means that it would be very useful if all the Balkan countries were to set up a free trade area in line with the EU single market; the proportion of exports to GNP and, finally, the percentage of investment in export-oriented businesses.

We have already mentioned the need to create a **free trade area** in our region. Such an area would bring a number of advantages, including reduction of administrative and other costs related to rules of origin, stimulation of regional cooperation and cooperation in other fields, e.g. from the distribution of fiscal revenues to the harmonization of other economic policies, facilitation of the process of convergence – and eventual harmonization - of tariffs with the EU, and, last but not least, a simplified procedure and a uniform treatment of domestic and foreign goods which would reduce corruption opportunities within foreign trade and customs administrations¹³.

According to Dunning¹⁴, incentives for multinational companies to engage in foreign direct investment (FDI) can be classified as market-seeking, efficiency-seeking and resource-seeking. Trade-barrier jumping incentives for FDI are a clear-case of market-seeking FDI. But when in developing countries we have lower labour costs and possible relative resource abundance, then efficiency-seeking and resource-seeking motives may often prevail over market-seeking ones. In international trade theory and in theory of multinational firms, trade barriers, e.g. tariffs and transport costs, are given a crucial role in firms' considerations of the internalization of their operations through FDI¹⁵. However, low purchasing power and high country risk – factors which continue to characterize our region- will continue to influence the overall economic cooperation of the region with the rest of the world.

13. See Branislav Pelević, "South Eastern Europe and the New Dynamics in European Integration", *Economic Cooperation in South Eastern Europe: Transition Progress and Accession to European Union*, Proceedings of the 2nd International Conference of ASECU, November 2003, Belgrade, pp. 120/21.

14. J. H. Dunning, *Multinational Enterprises and the Global Economy*. Workingham: Addison-Wesley, 1993.

15. Jože P. Damijan and Mojmir Mrak, *Trade Reintegration of Southeastern Europe. The Role of Slovenia*, in: *Eastern European Economics*, vol. 43, no. 2, March-April 2005, p.44.

Also, the fact that the purchasing power of each individual country in the Balkan region is relatively low, makes the need to create a free trade area even more urgent, so that foreign investors can deal with a considerable market, both in terms of population (about 70m if we include the three EU members, Greece, Slovenia and Cyprus; 140m if we include Turkey) and in terms of purchasing power (357.2 billion Euro [GDP at current prices, 2004], or 608.8 billion Euro (€ 1 = US\$ 1,20) if we include Turkey. [The corresponding figures in constant prices (anno 1990) for the year 2004 are: GDP 226.4 billion Euro and 431.7 billion Euro if Turkey is included]. It is necessary then that the barriers be eliminated¹⁶ so that cross-border cooperation can be promoted.

This will not in itself, however, be sufficient; if we examine the relative experience of the EU, we see that greater and deeper interaction in internal EU border regions is not so much the result of policies as the outcome of strong market forces related to the size and depth of the markets¹⁷.

Therefore great emphasis must be placed on internally driven growth based on intensive intra-Balkan relations in all fields, including trade and factor movement. This option has two advantages: the one is that it sets in motion intra-regional exports and imports multipliers, which leads to more growth, and the other is that the increasing intra-Balkan economic activity will lead to a more integrated and accessible economic space, that will most likely attract more serious FDI, than the fragmented Balkan economic space of the present day¹⁸, and since this will require more time mandatory adoption of the *acquis communautaire* will also help in this direction.

The fact that all the countries of south-eastern Europe are implementing policies designed to achieve convergence with, and later accession into, the EU, means that the creation of a free trade zone will contribute to a trade off of negative (for those

16. Mitko Dimitrov, George Petrakos, Stoyan Toter and Maria Tsiapa, in their article: Cross-Border Cooperation in Southeastern Europe, The Enterprises' Point of view, in : Eastern European Economics, vol. 41, no. 6, November-December 2003, pp.16/7, classify the barriers in seven categories: 1. The condition of infrastructure: transport, movement of goods, (tele)communications 2. The condition of border crossings: proximity of checkpoints, visa regulations, ease of negotiating border police controls and customs, 3. Trade conditions, i.e. tariffs, quotas, duty fees and technical requirements, 4. Financial conditions: availability of funds and access to finance resources, 5. Lack of assistance: by local and national government, and/or by business associations and EU-organizations (e.g. Schengen), 6. General conditions: political stability, security, corruption, changing of the rules, income and demand prospects, inflation, exchange rate, stability and quality of the banking system, and labor protection, 7. Language as a barrier.

17. Mitko Dimitrov, George Petrakos,.....*op. cit.*, p.22.

18. George Petrakos and Stoyan Toter, Economic Structure and Change in the Balkan Region: Implications for Integration, Transition and Economic Cooperation, in: International Journal of Urban and Regional Research, vol. 24.1. March 2000, p. 111.

countries which are already EU members) and positive (for those not yet members) effects. For example, the relatively low cost of labour (as well as non-labour = social costs) in the non-EU Balkan countries encourages businesses to relocate to these countries from Greece, thereby increasing levels of unemployment in Greece.

On the other hand, a free trade area is of more benefit to the relatively developed partner compared to the less developed partner, since trade is diverted in favour of the more developed partner; the “hub-and-spoke” situation puts “spoke” firms at a disadvantage vis-à-vis “hub” firms simply because the latter have better market access than spoke firms to other spokes¹⁹.

A free trade area encompassing all non-EU Balkan countries promises gains to all its participants, especially when this regional liberalization is combined with “synchronized” most-favored-nation liberalization across SEE economies.

The fact that special importance has been attached to the trade factor (for the more rapid economic development of the region) should not be interpreted to mean that all the other policies are of less significance, e.g. those involving structural reforms, a good business and investment climate, local and national governance, the development of democratic institutions and infrastructure – in respect of which the EU needs to be much more generous in its funding, implementing a policy of a more Keynesian and less monetaristic flavor.

Representative democracy has now come to the Balkans. We have been able to understand and implement the theory of this democracy, but not that of the democracy of opinions, in which we still lag far behind, since we are not familiar with its component parts, nor with the way in which power and its counterbalances operate within this democracy. We do not know the point of equilibrium, since the presentation of the press as the counterbalance to power does not reveal to us the counterbalance to power which the press represents.

All that means that Leaderships and people of the Balkan have to work, as far as possible to achieve full employment, welfare of our peoples, as well as strengthening the participatory democracy of all of our citizens.

19. Bartolomiej Kaminski and Manuel de la Rocha, *Stabilization and Association Process in the Balkans, Integration Options and their Assessment*, the World Bank, Europe and Central Asia Region, Poverty Reduction and Economic Management Sector Unit, August 2003, p.7.

