

## WESTERN BALKANS TO THE EUROPEAN UNION MEMBERSHIP

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The area is underdeveloped regarding to the economy and the infrastructure. The Balkans and, especially its Western part, has the weakest economic indicators in the European continent, and internationally we can find it among the poor countries. In Europe only the former members of the Soviet-Union are behind it and just a certain proportion of the previous colonies, who couldn't catch up, show similar bad results in other parts of the world.

Indeed, The Western Balkans is the least integrated and stable region of the continent and in many other ways it dropped behind Europe's other parts. It's to be feared that by the progress of the European integration this gap will be even bigger between the two sides. This facts seems to be certified by the extension of the European Union (EU) in 2004 and in 2007, from what this region was left out. Because of the joining of its neighbouring countries to the EU, the differences strengthened, so the regional deficiencies are more emphasized.

Brussels classifies this region into two categories:

- candidate countries for membership, that is Croatia, Macedonia (as known as officially: Macedonian Republic of Former Yugoslavia, according to local people Makedonia, which is not to confuse with a Greek region with the same name) and Turkey ;
- potential countries for membership, i. e. Albania, Bosnia-Herzegovina (on its official name: Bosnia and Herzegovina), Montenegro, Serbia and Kosovo (the latter could be a member in terms of the Security Council's 1244<sup>th</sup> verdict).

The states of the region belonged to the Ottoman Empire till the end of the 19<sup>th</sup> century's last quarter, or rather till the end of the 1<sup>st</sup> World War, so this fact determined decisively their economic development. The first signs of capitalism showed themselves at the beginning of the 21<sup>st</sup> century but to a lesser degree than in Central European countries. Because of the enormous expenses of the Crimean war the Osmanli Empire- for the first time in its history –took a loan from abroad, and, from that point, the economic difficulties arose continuously.

The area consists of two parts basically: the famous Theodosius-line divides it into two parts. The partitioning (more precisely the borderline, the *limes*) as the one what Big Theodosius left to his sons, to Arcadius and to Honorius in 395, divides the two cultures and civilizations – the orthodox and the westerns- almost the same way as nowadays. The prior uses Eastern, Byzantine, Cyrillic script; the latter tends to the West, its religion is Rome-centered, the alphabet uses Roman characters.

The Christianity exists mainly in the North but doesn't stop at the bank of Sava; and the Serbian territory extends from Miskolc-Eger to Ráckeve-Komárom. With that expansion the local nationalist attitude strengthens, the 'Serbian Athens' comes to being, and, by the end of the 19<sup>th</sup> century, Novi Sad becomes the European gate of the area. At the same time Croatia remains almost entirely Catholic.

The appearance of the Illyrian helped to separate from the Osmanli. For Croatia the Compromise of 1868 meant a big step and in accordance with this, Hungary became its fellow country, and after this, the previous' economy started to develop fast. As the consequence of the Russian-Turkish war of 1877-1878, Serbia and Crna Gora (Montenegro) get their autonomy and their economy starts to develop from that time. Macedonia stays under the regime of the Ottoman Empire till 1913. Albania's independence is proclaimed only at the end of 1912.

The Islam, which has a great importance during the joining to the EU, starts to spread spectacularly in the region, and, in contrast to Hungary, here the consequence of the Ottoman presence was the borrowing of the religion. The long Turkish occupation starts with the war of Rigómező of 1389, which is a mournful memory, and ends with the congress of Berlin of 1878. The actual Turkey is created by the disappearance of the Ottoman Empire after the First World War.

Because of the area's poverty, the Jewish population's settling proportion is low, though they escape abroad from Spain (they are the so called Sephardi Jews) and from Germany (the Ashkenazi Jews) from pogroms, but in a very few number. They settle down almost exclusively in cities and their presence has a

significant influence on the local business, particularly on trade and finances, which were underdeveloped till that moment.

Table 1: the most important datas of the Western Balkans region

Country	Surface (km <sup>2</sup> )	Population (thousand persons)	GDP per capita (based on the PPP, USD)
Albania	28 748	3 639	6 825
Bosnia-Hercegovina	51 129	4 613	6 418
Croatia	56 542	4 489	14 768
Kosovo	10 887	1 805	1 956
Macedonia	25 713	2 115	2 478
Montenegro	14 026	672	3 212
Serbia	77 474	7 379	6 745
Turkey	780 580	71 517	11 022

Country Region Population (thousand persons) GDP per capita based on PPP. Source string : local national statistics.

In Istanbul markets of slaves exist till the First World War and, in the biggest part of the region, the liquidation of the rest of the serves occurs only in 1920(!) and the formation of the industrial working class and of the middle class starts very slowly. Albania remains the most underdeveloped country of Europe till the collapse of the Soviet-Union. Some Asian parts of Turkey are still under that Albanian level even in nowadays. The former Albanian and Yugoslavian 1-3-5-year plans contained grandiose ideas concerning the building up of modern economy, and industrially they managed to show up the excepted quantitative results, like the other socialist countries. Almost the same but in a different way : in Yugoslavia the national plans weren't obligatory based on directives . The production and the sale of self- administrated enterprises were determined mainly by the relationship demand-offer and the companies' leadership wasn't settled by the chic of apparat but by the factories' (local) council, which effects nowadays' privatizations too. The fruitfulness of work was lower even in the second half of the 1950's than before the Second World War. There weren't any national economic plan for the Turkish industry, but because of the national capital's high dividend and the several military putsches (from the 1960's: four decades- four putsches), its economic policy wasn't different from its Balkan fellows'.

The Western Balkans region's liberation came into being with a minimal Soviet help after the Second World War. Both Albania and Yugoslavia were left out from the Comecon's construction that's why their trade with other socialist countries is insignificant. The political distantiation of Josip Broz Tito form the socialist block was realised by economic measures: in the Yugoslavian economy the western capital appears and already int he 1950's decade (on the value of that time!) American and European companies invest more than \$2 millions. The Western Balkans integrational initiative appears: after the deterioration of its relationship with Moscow, and, as a consequence of this, with the other socialist countries, after 1948 the seek of Yugoslavia for new methods leads to this : in 1951 Tito enters into, at first, a military-like, and then, an economic contract with the USA. In 1953-1954 in association with Greece and Turkey he realized the Balkan Pact, which can be related to the NATO.

Yugoslavia's relationship with Brussels changed too: from 1971 it had a contract of collaboration with the European Common Market (ECM), this was renewed in 1980, and contrary to Moscow's friends, it admitted the European Community as its international subject. It's not negligible that, at that time, the numerous quest workers travelling to Western Europe brought a lot of profit for the country: whether through the homecoming, whether by the higher-level expertise. The entry permit has changed since than: nowadays, expect for Croatia and Serbia, Western Balkan citizens need a visa to travel to the EU.

Due to the region's enormous mineral resources' provenance the metallurgy and especially the non-ferrous metallurgy developed vigorously at the end of the previous century's second half. In Yugoslavia the main producing premises of iron and steel were in Bosnia- Hercegovina and in Croatia; and in Serbia we can find copper, zinc, lead and aluminium sources. In the 1950's the development of engineering industry started, and this concerned in the first place the means of transport (manufacturing of naval ships, railway carriages). In Rijeka, in Sisak and in Bosanski Brod oil refineries were established. In Albania and in Turkey petroleum refinery, cement production and non-ferrous metallurgy (copper,chrome) became important.

In the 1990's the big industry collapsed, except for Turkey, and new industry wasn't built up. For a long time, in the former Yugoslavia the most important section of light industry was the textile industry, which

was replaced by to Croatia in the first place. Due to cheap Chinese mass products this was annihilated like in other European countries too. The light industry was started to be modernized only after the civil war, so nowadays. The manufacturing of computer components, installing precision parts, etc. appears. Thanks to low wage, one part of textile firms survived in Serbia and Western Anatolia, and the centre of carpet industry is still Izmir (Smyrna) and the inland part of Anatolia.

There are many tasks waiting for those who want to join the EU. If we compare the facts to previous years' extensions' conditions, it's obvious that Brussels requires more from the candidates. The *acquis communautaire* contains more and more rules, resolutions, international contracts, etc. The candidate has to deal not only with the conventional political-economic factors but also with peace formation, border problems, reconstruction, post-communist transformation, creating the background of market economy, formation of competitiveness, and also with the establishment of durable development.

It's obvious that the countries of this region don't have any other real choices- both economically and politically- but the EU. Being member of NATO is important concerning strategy and security policy. The Russian model is out of date, only in the case of Serbia we can talk about some kind of resurrection but not in the same way as in the past.

The region is in constant movement. The example of Kosovo illustrates it well : after the First World War, on the territory of this new state the proportion of Serbian and Albanian minorities was fifty-fifty but Serbians consider this area as the cradle of their identity, now it's inhabited by Albanians in 80-90 %. There are significant changes in the domain of economics : while in the 'classical' Yugoslavian world the proportion of the difference, based on the GDP per capita, between Macedonia and Croatia was 1:2, in 2009 this ratio was 1:3.5 (source: HVG, 2010).

The EU's main hobbyhorse is corruption, which is present in each country's economy. This can be explained by the low salary of civil servants and public functionaries, and also by traditions. The wide spreading of *baksheesh* was self-evident, moral during half a millennium. Concerning this index number Croatia is the best: based on CPI's specimen in 2008, it was the 64<sup>th</sup> internationally, which is better than the Bulgarian.

The distrust among the new countries is big. On the motorway named 'Fraternity and Union' they established border stations while during the regime of Tito it could be used without any problem. On the Hague International Court of Justice Croatia and Slovenia kept insisting that Serbia does not merit retaining Kosovo who became independent in 2008. Bosnia- Herzegovina and Serbia haven't recognized Kosovo till nowadays, and Serbia claims Bosnian, and what is more, Croatian territories. Croatia and Serbia debates about the tiny Piranian bay, which is too little even for a lake, the latter vetoed the candidature of Croatia concerning the connection to the EU.

In that region the states' population is really variable. Turkey with its 72 million-population can bring out manpower in another proportion than Montenegro with 700 thousands of inhabitants. But with regard to the quality (qualification, skills and abilities, degrees) the proportions are the same, but in both cases- and generally in the region's other countries- we talk about a weak and undertrained staff in comparison with other European countries. At the same time, the population of Croatia and Albania is almost the same concerning the number of the population (in 2007: 3 and 4 millions), but as for qualification, there is a great difference. For example, in Croatia 95% of young people between 20-24 years finish high school, this ratio is only 45% in Albania. The number of graduated people is low in each state of this area: not only falls it behind the leading proportion, which is above 30% in Europe, but, except for Croatia, it doesn't reach the 10%.

There are many sparsely inhabited areas, with the exception of Kosovo, the population density is lower than in the European 27s. In the country, there is no industry, the agriculture isn't enough even for daily livelihood; outside of towns services aren't established, so there is no possibility to work and commuting is technically impossible because of the lack of transport. The quality of life is bad; life expectancy is 76 years for men and 81 for women in the EU. This is far from what this region can show up: Croatia has the best results (life expectancy is 72 years and 79), while in Kosovo it's the worst : 67 and 71 years.

The rate of those who work in the private sector is comparatively low, 58% in the region, the same indicator is 28% in the EU. The share of state sector is high in Turkey, in Albania and in the former Yugoslavian countries too. The biggest problem is the disqualification, which effects the competitiveness negatively. The cheapness of manpower and the unnecessary capacity of work are in vain because the staff is hardly teachable even for trained work. In this area only 30-35% of people able to work are employed, under this rate there is only one state, Kosovo, with its 28.7%. The best is Croatia with 55.4%. In these cases, where there is a thin layer of actively working people, usually the proportion of dependants is high, which means a big difficulty for each government. The further training of staff isn't characteristic. While in the EU

10% of people of 25-64 years take part in further education (at least 4 weeks/year), this rate is about 2% in Turkey and in Croatia, and in other countries of this region it doesn't reach the 0.5%.

Because of the Balkan civil war one part of the manpower left the country and didn't come home. This situation is valid in the case of well-qualified competitive workforce, of skilled workers and of graduated people. Because of the huge differences between the salaries it's not likely that they return home in the near future. The emigration exists, though it's getting lower, especially in newly formed countries: in Montenegro and in Kosovo. The present manpower migration is contributed to the fact that the Western Balkan countries entered in easy visa and taking back contracts with the EU.

The usual suit is fixed by commercial and economic contracts between the states of the region and the EU in the 1990's. The turning point was the year 2000 because the political-economic risk of these countries was reduced by the changes in Croatia and Serbia, and European integration became important for them. Also in 2000 on the summit conference of Zagreb they accepted the SAA (Stabilization and Association Agreement), in which the foreign trade plays a great role.

The agreements between the Western Balkans and the EU are disproportional for the benefit of the previous. Thanks to the decree of the European Council of 2000 the 95% of the area's export can reach the EU's market duty-free. The EU demolishes barriers so as to give a chance to its member countries to strengthen their economy and by this, to reduce the risk of shocking a section by the competition. This disproportion is getting lower and lower and ceases for the joining to the EU.

By analyzing the international trade's ratios we can see the Western Balkan region's countries start from a worse situation from this point of view than the other Eastern-Central-European countries. During this decade the speed of the extension is above 10 % concerning the export and the import, and, what is more, it overpasses the 15% in the previous few years. The circumstances have changed: the EU became the region's most important trading partner both in terms of the export (64.2% in 2008) and the import (62.3% in 2008). But inversely it's not true: for the EU the Western Balkan trade is negligible: the 0.9 % of the EU's import comes from this region and its export is 2.3% (Eurostat 2009). Its main reason is that these countries' quantity of exportable merchandise is very small and this limits their import possibilities.

Among the countries of the Western Balkan Croatia is the most important trade partner of the EU and the least important is probably Kosovo (we don't have exact numbers of the latter). The international trade relations are determined by their proximity and historical attachment. The EU's export directed towards this region concerns primarily machines and equipment, after these come vehicles and chemical products. The bigger part of the Western Balkan countries' export is processed product. This contains three major items: food, textile industry products and metals (iron, steel and non-ferrous metal). More than 1/3 of total export comes from these three commodity groups. Each of them is a so called delicate product, their exportation was a problem during the extension of 2004 and of 2007. The Western Balkan countries' commercial deficit is growing, the above mentioned states haven't been able to profit from the disproportional trade liberalization.

The foreign trade of the Western Balkans has grown since 2000 in a bigger measure. Their relationship with the EU is developing faster than with the other parts of the global economy. Their attachment to the 27's is strong but in the meantime the Balkan trade is modest, so the states of the area couldn't use the advantages given by the integration. Their production structure is very similar and their level of development is almost the same, except for Croatia, and their exportable products are the same too.

The countries who want to join to the European Union ( EU ) are small, except for Turkey, regarding not only to their territory and population but also to their purchasing power. So the international trade has a distinguished role. After the opening to the West, the international barter surged in every country and its annual growth is over 10 % everywhere. Between 2000 and 2008 Croatia produced the best ( 43 % ) and Albania the least ( 14 % ) exportation growth numbers. Due to the known historical background the local integration is still in its infancy, but the CEFTA (Central European Free Trade Agreement ) exists, what the countries of Central and Eastern Europe quit by their joining to the EU, but each Balkan country is a member.

We have to mention the preciation of the currency in connection with the commercial balance. This is the common problem of this region's countries, which can be linked to the establishment of the competitive economy, but we have to take into consideration the difference between the international and national level of inflation. The latter wasn't neutralised by any of the countries by the preciation of the currency because the priority of the prices' stability is out of question. The hyperinflation of the '90s gives an obvious explanation for this. The preciated currency, especially when it goes with higher and higher production charges, weakens the countries' capital attiring capacity. And also it effects negatively the manufacturing

and exportation of wages-demanding products. It's visible particularly in the case of Croatia who has a high wage level.

The regional cooperation and maintaining neighbourly relations have key roles in the European integration. The results obtained in this domain strengthen the confidence and signify several advantages concerning the stability of the region, the good relationship reaching across the borderlines and the infrastructure. All these result in economic advantages: faster growth and more direct foreign investments in this area.

Neither of the countries have got over the events of the recent pass yet; beyond intern social problems, they have to face (up to) borderline issues and international tensions. Indeed, the region has no country which is exempt of these conflicts.

From the realistic evaluation of the Western-Balkan possibilities comes the fact that one of the sources, or probably the only source, of growth can be the regional development of service-trade. Nowadays, the third sector is dominant and its proportion is growing. In 2000 its average share of the GDP was only 55%, in 2006 this very number was 59% ( in the EU it was 78% ). It's obvious that by the economy-opening not only grows the barter but the circulation of the capital, the exchange of work, of intellectual property rights and of soft skills too.

The encouragement of products' and services' exchange became one of the milestones of the Western-Balkan's economic politics. Under the terms of the SAA ( Stabilisation and Association Agreement ) the two parties create a free trade zone in a seven-year period following the regulation of the World Trade organisation ( WTO ), which has been already come to being. The suppression of administrative obstacles has already been launched in every country. The service-trade overpasses the EU's relations: the WTO requires total opening. Croatia, Macedonia, Turkey and Albania are already WTO members, the others' admission is in progress, so all of them are interested in keeping the international contract's points.

The international retail networks' and franchise enterprises' appearance started nicely. The Big Europeans are present in almost every country: Carrefour, C & A, Metro, IKEA, H & M, Safeway, Tesco, Subway, McDonald's, Plus, Ahold, Auchan, Billa, Burger King, Aldi, etc. The multinational companies can be found at least in one, but rather in more, countries. Brussels requires much from the liberalisation of the telecommunication: while in the EU the member countries spend 2,6 % of their GDP on this, in the Balkans and in Turkey this proportion is above 4%. For the time being, the telecom's fares are higher in all over the region than in the EU; both the landline telephone's and mobile phone's fares. There is no roaming agreement anywhere but only in Turkey.

Maintaining neighbourly relations concerns not only the members of this region. In harmony with the EU's statement of 25<sup>th</sup> September 2005 and with council inferences of 11<sup>th</sup> December 2006, Turkey has to meet requirements in connection with the supplementary minutes of the settlement of Ankara: she has to apply it an anti-discrimination way. Also, she is obliged to demolish every impediment so as the merchandise and services can circule without restriction, including the limitation for means of transport in case of the Cyprian Republic. Moreover, the aim is to normalise the bilateral relations with this country, including the political relations too.

There can be a big opportunity in the regional cooperation across the borders. The establishment of this kind of supply chain and of regional wires of production are both among the proposals of the EU and the World Bank. The essential of all this is that rational demands and not artificial frontiers form the new economic regions; so the existence if more country borders within one region should be subsidiary circumstances. This is true in a local area-level: the biggest advantage of cluster organisation is the joining of local knowledge, capacities, enterprises and the utilization of synergic benefits.

Table 2. The ongoing balance of payments deficit in % of the GDP

<i>Country</i>	<i>2007</i>	<i>2008</i>
Albania	8,3	8,3
Bosnia-Hercegovina	13,0	14,0
Croatia	8,5	9,0
Macedonia	2,7	6,8
Montenegro	37,0	32,7
Serbia	16,5	16,1
Turkey	5,7	6,7

Source: IMF World Economic Outlook, 2009

In future, we have to take into consideration regions and not countries. A lorry running on the route Salzburg-Thessaloniki crosses 4 borders and each country has its own customs and health regulations. Besides, there are 5-10 documents needed for the exportation and 4-15 for the importation. The locomotive of Kosovo cannot even cross the frontier. By the formal demolition of country borders the administration is shortened by 2-3 hours; the abolition of customs formalities cuts the time of the route by 4-8 hours.

In the transformation of the region's current balance of payments the private transfer has an enormous role which mainly comes from the guest workers' home journey when they return back to their native country. In the fifties Turkey began this practice, then the socialist Yugoslavia continued. The exodus was in the sixties, most of them went to the short-staffed Western Germany. Nowadays by guess, 2 millions of Turkish live in Germany but they live in big numbers in Netherlands, in France (over a million), in Belgium, in Italy and in Austria. The Yugoslavian team wasn't much smaller.

Apropos of the events of the civil war of the nineties, the migration in the area speeded up. Some 2 millions of Bosnian, 1 million of Albanian, 1 million of Croat and 3 hundred thousands of Kosovo abandoned their home. The aim countries differ: in case of the Albanian and Bosnian it is Greece and Italy, the Croats hold to Germany. Based on this same report of the World Bank, Albania receives 1.2 billion annually, Bosnia-Herzegovina gets 1.3 billion, Macedonia gets 0.9 billion and Serbia and Montenegro receives 1.4 billion of Euro which comes from the remittances of the emigrated. Albania, Bosnia-Herzegovina, Serbia and Montenegro are among the world's first 20 countries regarding the magnitude of remittances back to home, which aggregates 10-20 % of their GDP. This very number is 23% in case of Kosovo (it contains only the bank transfer, at a guess, the allocations put in private pocket overpass the 40% of the country's GDP).

The region's balance of payments disposes of another particularity. By virtue of the well-known political circumstances, the financial aid means a very significant item even in international comparison. Their quantity is different, in case of Macedonia it's the 3-4 % of the GDP, but in Kosovo the same percentage is 40%. The tourism cannot be underestimated either. By the stabilization of civil wars' circumstances there are more and more people who visit the area's countries, what is more, the buying of crofts and villas started up too. There are more and more guests, and tourists spend more money there. The most preferred is Croatia but for example the tourism of Montenegro grew by 23% to 2006.

Additionally to this, the remittances and the financial aid relieves contribute to the fact that in all of these countries the lack of the balance of payments is less than the trade's.

Without the significant inflow of the active foreign capital the lack of commercial and current balance of payments' actual rate cannot be sustainable in middle term. The Western Balkan is revalorized in the eyes' of foreign investors. The cut-off of the civil war, the political-economical stabilization, the evolving of the European-type legal institution's background, the fast growing cadence, restraining of the inflation, establishing of market economy conducted to all this. Each of them is a factor that makes the region more seductive. More seductive and not just seductive, namely there is no trustingly big market, no attractive tax paradise, no trained manpower, no established infrastructure for the investments, moreover, the sustainable development is not ensured, the imbalance is a big problem too.

The customs-free Western-Balkan products, provided by the European Union (EU), could help to allure the necessary direct foreign capital investments. In all of the countries the bank and financial sector got over the privatization and they got into foreign property. Based on all these, it's expectable that the investments and services start up in other domains and also in the ungainful sections of the industry. Although, the foreign capital going inward the region is growing but it's still very few in an international comparison.

Table 3. Actice foreign capital in the Western Balkan (million USD)

<i>Country</i>	2002	2003	2004	2005	2006	2002 – 2006	<i>FDI/capita (USD)</i>
Albania	135	178	341	262	225	1141	365
Bosnia-Hercegovina	267	381	612	299	350	1909	489
Croatia	1123	2056	1224	1761	2000	8164	1837
Macedonia	77	96	157	100	280	710	349
Serbia and Montenegro	137	1360	966	1481	2450	6394	793
Serbia	na	na	na	1248	4348		
Montenegro				383	502		
In all	1739	4071	3300	3903	5305	18318	365

*Source:* World Bank 2008, respectively after the detachment of Montenegro and Serbia, the Bureau of Statistics of Montenegro and the Ministry of finance of Serbia

The FDI's (Foreign Direct Investment) source is considerably concentrated. Among the capital exporters Germany is the first, she is followed by Austria, Italy and Greece. Among the newly joined Slovenia and Hungary appear as a capital exporter. Some small countries are concerned, e.g. Serbia's third biggest investor is Luxemburg. The USA are present also. At the same time, the flow of capital started off from the region's developed countries going onto the less developed areas, so in Bosnia-Herzegovina for example Croatia is the second biggest capital exporter.

The list of the receptives is very concentrated too. During the half decade between 2002-2006 the 318 millions of USD capital's  $\frac{3}{4}$  part got into Croatia, Serbia and Montenegro. According to the datas of the World Bank the value of the FDI vested in the area reached the 5 305 billions of USD in 2006; based on not definite numbers it will be 752 billions to 2007, and after the bank's evaluation it will be 6449 billions of USD to 2008.

The primary aim of foreign investors – beyond the profit – is the gain of market. This is true not only for the service sector but for the industrial investments. In the Balkans they haven't already exploited the production's charges' advantages, which arises from the low wages and from the relative cheapness of production's charges (operational costs, energy etc.), and its reason is the bad infrastructure and the unqualified manpower. That is the wage-demanding production's non-qualified part flows in here and presumably the reticulation of multinational companies will follow this direction. Probably – and the region's governments hope this so – that the membership to the EU will boost the process and in the same way it will push other economical (above all the external trade) relations with the Union and with Hungary.

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