

Prospects for Further (South-) Eastern EU Enlargement: from Divergence to Convergence?

by Vladimir Gligorov, Mario Holzner and Michael Landesmann

wiiw Research Reports, No. 296, June 2003

38 pages including 11 Tables and 16 Figures

hardcopy: EUR 22.00, PDF: EUR 20.00

PRESS SUMMARY

The study looks at the experience of South East Europe which includes the former states of Yugoslavia except for Slovenia (i.e. Croatia, Serbia-Montenegro, Bosnia-Herzegovina, and Macedonia), Albania, and the two EU candidate countries, Bulgaria and Romania. For all these economies, accession to the EU will be the overriding driving force of the policy-making agenda for the foreseeable future, albeit with widely different time horizons in the individual economies.

In Part One of the study the South East European (SEE) 'region' is described as one which has over the 1990s significantly 'fallen behind' in the process of economic development relative to the group of Central and Eastern European (CEE) economies which will join the EU in 2004. While developments are somewhat heterogeneous, there is, in particular, an abysmal employment record which has not even started to turn around, as well as an extremely bad productivity and export performance.

In Part Two, the conditions required to move towards a sustained growth and catching-up process are discussed in greater detail. The problematic states of transition in some of the SEE economies are analysed as well as the basic disequilibria (fiscal, external, labour markets) which need to be resolved for sustained development to take place.

It is concluded that assuming that the EU wants to integrate this region, it should take the lead in its development. The best development instrument that the EU has is that of integration. It is now decided that Southeast Europe or the Balkans will accede to the EU some time in the future. Therefore, the real issue is what the EU should do to use the prospect of integration as an instrument of Balkan development.

The EU is the main trading partner for the majority of the Balkan economies and the importance of its market will only grow. This has been realized, but the unilateral trade liberalization should be supplemented with a similar removal of non-tariff barriers. When it comes to remaining protective measures, those are a significant cost for the Balkans and an insignificant benefit for the EU. Standards, however, could be improved through technical assistance, which could also be used to increase the level of information about the way EU markets could be accessed.

In addition, barriers to investments should be lowered. A characteristic feature of most of the Balkans is the dominance of foreign banks, mostly originating from the EU member states. EU presence in the financial markets will further increase with the accession of Slovenia and Hungary. Banks in the Balkans do not lend very much to businesses, especially small and medium-size ones. This is mostly because the risks are assessed to be too high. Those could be addressed in two ways. For one, there must be a way to insure investment and commercial risks. For another, international financial institutions should be able to support the opening up of local banks, as the lack of specific knowledge is often the reason that the bigger foreign-owned banks do not lend to small and medium-size enterprises.

These suggestions are premised on the belief that private investments are the key to development of the Balkans. Such investments could be reassured with appropriate public financial support. There is clearly the need to support infrastructure projects as a basic development tool. Beyond that, investments in institution-building are necessary. Aid and outright budget support – the instrument mostly used in the last decade or so – should be gradually phased out while the support for the strengthening of public governance and restructuring should be increased. Following from this, the EU should get more involved in reforms in the Balkans and even in some aspects of fiscal management both on the central and on the local level.

wiiw, 2003-06-20

Vladimir Gligorov, tel: 533 66 10 – 23, gligorov@wiiw.ac.at

Basic indicators 2002

	Population persons mn	GDP EUR mn	GDP pc EUR	GDP pc USD at PPP	real GDP 1990=100
Albania	3.1	4,908	1,590	4,000	123.3
Bosnia-Herzegovina	3.8	5,574	1,475	6,400	.
Bulgaria	7.8	16,668	2,125	8,250	87.9
Croatia	4.4	23,820	5,368	10,030	92.9
Macedonia	2.0	3,916	1,925	6,520	87.3
Romania	22.4	48,384	2,161	6,590	92.3
Serbia-Montenegro	8.3	14,000	1,679	4,500	52.8

Labour market indicators, 2002

	Unemployment rate		Econ. activity rate
	registered, end of period	LFS, average	
Albania	14.5	.	66.1
Bosnia - Herzegovina	40.0	.	.
Bulgaria	16.3	17.8	49.4
Croatia	21.5	14.8	50.9
Macedonia	.	31.9	52.6
Romania	8.1	8.4	57.1
Serbia & Montenegro	31.2	13.8	56.3

South East European trade across the region and with EU, 2002

imports as % of total (all imports: c.i.f.)

	ALB	B&H	BUL	CRO	MAC	ROM	YUG
from:							
SEE	6.7	33.6	2.8	3.2	19.5	1.3	15.2
EU	77.9	.	50.5	55.8	47.2	64.3	42.6

exports as % of total (all exports: f.o.b.)

	ALB	B&H	BUL	CRO	MAC	ROM	YUG
to:							
SEE	3.0	39.7	9.3	19.7	32.4	3.0	23.7
EU	89.4	.	56.1	52.3	41.0	68.1	40.9

DOT data on trade flows for Bosnia & Herzegovina and Yugoslavia are recalculated using national data.

Source: IMF Direction of Trade Statistics (DOT), June 2002; Croatian Bureau of Statistics, Statistical Pocket Book of Yugoslavia 2002; CBBH Annual Report 2001; wiiw .
