

SOUTHEAST EUROPEAN ECONOMIC PROSPECTS IN VIEW OF RECENT POLITICAL DEVELOPMENTS

Vladimir Gligorov

Professor, The Vienna Institute for International Economic Studies and OECD

Introduction

After the momentous political changes in Croatia and Serbia and generally positive political developments in the region last year, economic prospects for Southeast Europe (SEE) looked better than at any time in the last ten years or so.¹ Indeed, 2000 was the first in a long time that saw positive growth in all SEE states. Though there were reasons to believe that this positive economic performance may not be easy to sustain because of significant and persistent macroeconomic disequilibria and uneven microeconomic transition, still it looked as if the region has finally chosen to walk the path of transition and development. These hopes have been somewhat shattered by the renewed security concerns centred, this time, on Macedonia. Though the impact of the current crisis in Macedonia is not easy to assess, it is clear that it will not be without costs, both political and economic. In addition, there is the potential for other crisis points to emerge or re-emerge, especially depending on the way the crisis in Macedonia develops and is resolved. Thus, the economic prospects still depend to a very large extent on the way political and security issues are resolved. In this paper, the possible course of economic developments in the short and medium run will be assessed in view of the political and security flash points and their potential, if any, to lead to a more general instability in SEE.

Overview of Current Economic Developments in SEE

Most assessments of current economic developments in particular SEE countries are encouraging.² They emphasise:

- continued price stability, except in Yugoslavia and Romania;
- positive growth rates in 2000, everywhere, in some cases after

years of stagnation or low growth (e.g., Macedonia) and in other cases after shorter or prolonged recessions (e.g., Croatia and Romania);

- accelerated structural reforms in Bulgaria, Macedonia, Croatia and even Bosnia and Herzegovina and Albania;
- more positive prospects for foreign investments due to greater domestic interest in attracting them and to improved risk assessments on the part of foreign investors;
- improved intra-regional and inter-regional co-operation (with Central Europe, the EU and the rest of the world);
- and, in general, the sustainability of these positive trends at least in the short and medium run.³

One could add that the initial developments in Yugoslavia, after the momentous political change in the autumn of 2000, have been assessed as promising,⁴ and that the difficult negotiations between the IMF and Romania seem to be moving towards some kind of a positive resolution.⁵

Of course, it is hard not to notice the persistence of high unemployment throughout the region, of fiscal fragility and of external imbalances in addition to large black markets, pervasive corruption and significant economic criminality. Still, it is easier to deal with all of these problems when the economies are growing than when they are not. Thus, the two key targets that have been set for the region on the basis of developments in 2000 are sustained stability and growth. Most of the economic programmes of the countries in the region have been geared towards achieving these two goals.

Obviously, the conditions that would be conducive to achieving these goals, apart from the adoption of an appropriate reform strategy and a coherent economic policy, are improved domestic and regional security, political stability and the continuation of regional and wider integration. The changes in Serbia and Croatia last year were seen precisely as contributing to these conditions being fulfilled. In addition to those, the elections in Bosnia and Herzegovina in late 2000 were seen as going mostly in the same direction.⁶ The same process of democratisation was seen as taking root or developing further in the rest of the region too. Finally, it was believed that the prospect of EU integration would displace the political attractiveness of local animosities.

These positive developments were seen as supportive of the programme of making this region, or most of the region, self-sustainable especially in cases in which foreign aid has played a vital role over the last decade. The sub-region in the Balkans that depends to a significant extent on foreign private and public aid is quite large. It includes Bosnia and Herzegovina, Kosovo, Montenegro, Macedonia and Albania. Now Serbia has to be added to this list.⁷ The other three countries, Croatia, Romania and Bulgaria, do not depend on outright foreign aid all that much, though various other types of help and special consideration, together with financial and technical assistance, are quite important.⁸ The shift to self-sustainability was supposed to take place over the next five or so years,⁹ but this is probably unrealistic given the heavy political and security agenda that has to be dealt with. Indeed, at the beginning of 2001 the political and security situation looks significantly worse than it looked at the end of the year 2000.

Nationalism Strikes Back

The problem with the positive analysis of trends in 2000 was that it disregarded the strength of nationalism and also the fragility of some of the security and political arrangements. The pro-democratic changes in the region have stirred nationalist reactions that underline the fragility of the whole security and political construction on which SEE stability and development are based. This has exposed the key problem with the internal and the external approach to the region, namely that it has been based on the premise that nationalism should be appeased rather than completely illegitimatised. It has also not been taken fully into account that democracy and nationalism do not go together and that the nationalists will have to react if democracy appears to be taking root.

This reaction has now arrived. It is again shaking the political structures in SEE and will undoubtedly have serious economic consequences for the countries affected. The resurgence of the many faces of SEE nationalism has already been noticed by scholars and commentators¹⁰ so I will concentrate on what is at the moment the most critical issue, that of Macedonia.

The reason that the current Albanian revolt in Macedonia can be defined as nationalistic is twofold. First, the key demand is territorial, i.e., the control of ethnic territories.¹¹ Second, the Albanians using violence to achieve their political ends are recruited from outside as

well as from inside Macedonia. This is a movement that is almost to the dot analogous to the Serbian and the Croat ones. In the latter cases, the cause of the nationalists was also territorial and they assumed the existence of ethnic solidarity from all the Serbs and all the Croats wherever they happened to live.

There are two aspects of Albanian nationalism, however, that distinguishes it from the other two. This nationalism is revolutionary and has been somewhat legitimised internationally. It is revolutionary because it puts out political goals that do not really justify the violent actions that are taken to achieve them. Thus, for instance, equal rights under the constitution are demanded, but that would justify demonstrations or other types of political actions and not armed insurrection. It is also said that the existing Albanian parties that take part in the Macedonian parliament and government are unrepresentative and corrupt, which would suggest that an alternative party rather than a paramilitary organisation should be formed.

The other aspect of this nationalism is that it can claim some international legitimacy (even if it uses violent means to achieve political ends) in view of the support for the insurrection in Kosovo in 1998 and 1999. There is some confusion in the international circles about the nature of this support.¹² The fact that it was justified as humanitarian does not mean that whenever there is any violation of human rights, true or alleged, armed revolt is justified and will be supported. Because, first, gross violations of human rights are needed and, second, the legal and democratic means to remedy those should be completely absent. This was arguably the case in Kosovo, but it is not the case in Macedonia.

This confusion has another consequence that has to be taken into account. The international support for the resistance in Kosovo is not the same as the support for the separation of Kosovo from Yugoslavia. This is in keeping with basic international principles. This does not mean that Kosovo cannot become an independent political entity sometime in the future. What it means is that the support for human rights and for the right to democratic government and indeed even for national self-determination is not necessarily the same as the support for national independence, i.e., for a separate state.¹³ Indeed, the very nature of the defence of human rights that took place in Kosovo goes somewhat against the principle of self-determination to the extent that the latter can lead to national independence and to the change of national borders only through peaceful means. Because of that and

also because of the subsequent democratisation of Serbia, the international community is unlikely to support the independence of Kosovo if it is not achieved in a peaceful and negotiated way. The same argument applies to Bosnia and Herzegovina and indeed to all the other contested territories in the Balkans.

The change of borders by the use of violence is not something that the international community will feel comfortable with and an agreement on that, for instance in the Security Council, is not to be expected either in the case of Kosovo or in the other cases.

With all that in mind, the Macedonian crisis has to be seen as a very serious one indeed. Though it has calmed down somewhat, it cannot be expected to be completely resolved in a short period of time and certainly not through half-hearted political concessions that will not be seen as satisfying the demands of the nationalists. However, the full justification and acceptance of the demands of the nationalists cannot but lead to a new round of balkanisation throughout the region or in any case of a large part of it.

This is the dilemma that hangs over the political debate in Macedonia. At this moment, it is not clear how it is going to be resolved. With the means used not being matched by the ends sought, there is an ambiguity in the strategies followed by the various political actors in Macedonia that is certain to create problems in the political discussions and negotiations that have already started in Skopje. Those should have come up with a political resolution of the "ethnic competition" in Macedonia by the end of June 2001. This is an obligation that the Macedonian government has undertaken in the context of the political discussions with the representatives of the international community. The negotiations are being held under the constant pressure of the threat of the resurgence of violence if they do not end up with the desired outcome. As the demand of the Albanian representatives is the change of the constitution in a way which is unacceptable to the Macedonians and as the threat by the paramilitaries is that conflicts will continue if the changes are not adopted, the compromise solution is rather difficult to see at this particular point in time.

Economic Consequences

The economic consequences of the Macedonian crisis are not so easy to assess. This is because it is difficult to predict the likely

development of the crisis. There are, perhaps, the following possibilities in terms of duration:

- quick resolution;
- somewhat prolonged, low-level conflict;
- gradual deterioration;
- sharp deterioration;
- prolonged sharp conflict (i.e., civil war).

Assuming that it is a localised, low-level, but somewhat prolonged conflict (possibly with gradual deterioration), the consequences can be confined to Macedonia and Kosovo with the neighbouring countries being little affected. The immediate economic consequences for Macedonia can already be assessed. The IMF has already realised that Macedonia will not be able to fulfil the targets set by the recent agreement. In particular, the accelerated structural reforms, involving the downsizing of the public administration and closing down of loss-making enterprises will have to be postponed. Also, exports will suffer, especially those destined for Kosovo. Public obligations will rise because of the costs of military intervention and because of the costs of destruction and migration. Internal trade will suffer too, so the overall economic picture would worsen significantly.

It will become much more difficult to sustain the already tenuous external position and with that the stability of the currency. Macedonia runs a large trade deficit, which could be sustained, at the current exchange rate, only with the help of private and public transfers and increasingly with foreign direct investments. Private transfers will suffer, as will investment. Therefore, a need may arise to adjust the exchange rate. A sharp depreciation¹⁴ should clearly be avoided for the time being at least because it may have serious destabilising effects.

For this to be achieved, it will be crucial to see how official foreign transfers will perform. The initial reaction by the EU has been to set aside some additional money to support some of the programmes that aim to meet some of the Albanian demands, e.g., the opening of the University in Tetovo and greater inclusion of Albanians in public services. Some technical support for the military has been promised. It can be expected that some support for refugees and displaced

people will be forthcoming too. However, if the crisis is prolonged and the economic situation deteriorates further, other types of support will be necessary in order to avoid further macroeconomic destabilisation.

In this context, it is very significant that the EU has decided to proceed with the signing of the Stabilisation and Association Agreement (SAA) with Macedonia irrespective of the crisis that has developed since the SAA was negotiated and initialled (late 2000). Indeed, Macedonia is a front runner in this new type of association agreements and it is important for the stability of the country that it does not lose pace in its integration with the EU.

Apart from Macedonia, the most affected region is that of Kosovo. Because of the lack of data, it is difficult to assess the extent of economic inter-dependence between Macedonia and Kosovo. Clearly, the main route to Kosovo is through Macedonia.¹⁵ Connections with Albania are not good and those with Serbia are mostly closed. Looking at the available data on the Kosovo economy,¹⁶ it is evident that this province depends very much on imports and on official transfers. At least half of the Kosovo budget is covered from foreign grants. Also, all imports are paid for from transfers - Kosovo exports are effectively zero. Thus, the Kosovo economy depends significantly on its relations with Macedonia and on the steady inflow of foreign aid.

Obviously, if trade with Macedonia suffers, this will hurt Kosovo. More importantly, if the international community decides that it does not want to continue with its generous support for Kosovo, there will be a significant deterioration in public finances. Finally, violent conflicts in Macedonia will postpone the process of state building in Kosovo, which will have negative effects on investments and on economic development in general. Thus, the costs of the Macedonian crisis for Kosovo could be very significant.

Moreover, the costs of the current crisis will be born disproportionately by the Albanian population in Macedonia. The economic relations between the Albanian part of Skopje, of Tetovo, the whole of Western Macedonia and Kosovo are much more developed than between the Macedonian parts and Kosovo. Thus, both physical destruction and economic loss is going to fall mainly, though not exclusively, on the Albanian population both in Macedonia and in Kosovo. Also, and more importantly, investments in Western Macedonia, i.e., in the region populated by Albanians, will continue to suffer, especially those in industry and in public projects. Thus,

economic development, which is the one key factor for political stability in Western Macedonia, will not occur. Indeed, in Western Macedonia, as in Macedonia as a whole, rapid economic development and social modernisation are the key to political and social stability. Wars and ethnic conflicts are of course bad catalysts for that kind of change.

Assuming still that the conflict will be a localised but a prolonged one, there will be some negative consequences for the Bulgarian and the Albanian economies. Those will mostly consist of the increased costs of foreign investments. Direct economic dependencies between Macedonia and both Bulgaria and Albania are not very high and will certainly not increase in the context of the increased security risks. There is some trade, but it is not vital and it will not necessarily suffer. However, the regional risk will increase and that will have consequences for foreign investments both official and private. Some of the important regional projects under the Stability Pact will be negatively affected and some of the private investments with a regional component will also be more difficult to implement.¹⁷

There will be some negative consequences for the Serbian economy too, because Macedonia is an important trade partner and especially because the conflict in Macedonia is not independent from the similar conflict in Southern Serbia. Clearly, the latter cannot destabilise Serbia, but may drain some of its resources and may have some negative influence on political developments in Serbia (e.g., on the scaling down of the role of the military). It may have adverse effects on the economic development of the southern part of Serbia and of central Serbia in general. This may further complicate the relations between Vojvodina, Belgrade and central Serbia, as Vojvodina stands to gain much more from the political and economic changes in Serbia than either Belgrade or central Serbia do. Indeed, further transfers of public money from Vojvodina to central Serbia, which may be even more necessary given the adverse security developments in Serbia, may create problems for the government in Belgrade.

Political and Economic Contagion

Other countries in the region should not be affected all that much by the current conflict, assuming that it is localised. However, given the nationalist environment in which it is taking place, problems of different

types and intensities may be expected to emerge throughout the region and that may have negative economic consequences that cannot be easily assessed or quantified at this early stage. These developments will depend very much on the behaviour of the international community, especially of the EU and the US. If they fail to take a firm stand against the resurgent nationalism throughout the region, quite far-reaching negative consequences can be anticipated.

There are other leftovers from the dissolution of former Yugoslavia and from the Balkan wars in the nineties, in addition to the conflict in Macedonia, some of which are potentially destabilising. The incomplete list includes:

- the Kosovo question;
- the constitutional development of Bosnia and Herzegovina;
- the issue of the independence of Montenegro;
- the constitutional arrangement for Yugoslavia, i.e., Serbia.

The rest of the Balkans seems unaffected by internal problems of the same kind, though this is probably somewhat misleading. However, if the four problems listed above develop in an unfavourable way, the whole region may be more or less destabilised.

These four major problem areas have to be seen together with the current crisis in Macedonia in order to have an understanding of the scope of the problems that the current set up in the SEE creates and contains. Looking at the possible contagion mechanisms from whichever of these four problems to the others, two most general ones can be singled out:

- The first is that of general instability and the attached uncertainty. If one takes the example of Kosovo, it becomes clear that the unsettled political status of Kosovo increases the instability in the whole region through the increase in the uncertainty of what is permanent and what is provisional. The same is true for the possible contagion effect of the eventual decision of Montenegro to declare independence from Yugoslavia. This is also mainly the effect that constitutional debates and decisions in Serbia may have on its immediate neighbours (e.g., Bosnia and Herzegovina and Macedonia);

- The second is that of principles followed and applied. The decisions taken locally have to be accepted by the international community. Unlike inter-state relations, which do not have to go beyond common interests, the legitimacy bestowed on the national decision by the international community has to be based on principles if not on international law. Therefore, the constitutional arrangement that is accepted in one case sets a precedent for all the other cases. This is what is so bothersome to many countries in the region when it comes to the issue of the re-drawing of the borders. Once borders are changed in one case, the principle is being violated and a new one, that of the acceptability of the redrawing of the borders is being promoted. This applies to all the other issues, and not only to that of borders. For instance, if the federalisation of Macedonia is accepted, so may the federalisation of Kosovo, and so on.

Clearly, the current situation is unsustainable. To estimate more exactly the potential risks that these all these security and political problems may give rise to, at least two things have to be known. One is the final regional set-up that may be emerging and the other is the process by which it will be reached (these two may not be independent of each other). It could be argued that if the process is democratic, then the final status may not be settled before the process runs its course. However, the use of non-democratic means cannot be excluded and because of that there may be a need to have an idea of where these developments are going in order to minimise the possible security and other risks that are sure to arise. Clearly, EU integration is the end to which most of the reasonable political actors in the region are inclined. However, for the region to be integrated into the EU, it has to solve all outstanding security and political problems. Therefore, some idea of how the intra-regional set up is going to look like would be useful in strengthening the pro-democratic and pro-European political actors.

The Weak States

The key security, political and economic problem of the SEE is to be found in the weakness of its constituent states¹⁸ that are weak constitutionally, politically and economically.

Clearly, constitutional problems are the most fundamental ones and have been discussed throughout this paper.¹⁹ It is enough here to point out that many countries in the SEE have unclear borders and have

internally and externally limited sovereignty.²⁰ One has only to think of the constitutional constructs like those to be found in Bosnia and Herzegovina and Yugoslavia to see the point. Other countries have constitutional problems too, as already discussed, while the biggest problem is the constitutional status of Kosovo, which is in fact impossible to define.

The key consequence of these constitutional deficiencies is the shaky or non-existent rule of law. Without the rule of law, the provision of security is at best an imperfect one. Again, the extreme example is Kosovo where there is no legislative power at all, as there is little if any other legitimate power, and that fact accounts for the bad security situation both in Kosovo itself and nearby. However, the deficiencies in the rule of law are widespread throughout the region. Those deficiencies have negative consequences for other institutions as well, so the region has to go through the process of institution building together with that of state building.

Politically, these states are in a process of democratisation, at best. Again, they are at different stages in this process, but none of the SEE countries can yet be described as a stable, functioning and sustainable democracy. Still, the situation that the region is facing now is fundamentally different from the one that prevailed immediately after the end of socialism and during the dissolution of former Yugoslavia. There are three differences to consider:

- The general acceptance of democratic means to solve political problems. After the fall of Milosevic, the non-democratic forces are only those who support paramilitaries whether those are Albanian or not. Though the paramilitary forces present a significant threat, they are still facing mainly pro-democratic parties and governments and cannot expect to muster international support even if sometimes they purport to be aiming at political goals that have wide support among the respective population. Thus, nationalists cannot expect to get international support for the use of violent means to achieve political aims, as they in some cases could during the dissolution of former Yugoslavia;
- The partly changed structure of public preferences. While in the past political preferences dominated over economic ones, this ranking has been partly reversed in many countries. This is something one hopes to see even more in Bosnia and Herzegovina and in Kosovo, while the reversal is almost complete in all the other states;

- The role of EU integration. Though the issue of integration still does not dominate the domestic political agenda in SEE, it has certainly increased in importance. With the speed up of the process of association, the issues pertaining to EU integration will become even more prominent. This will give significant leverage to the EU to influence developments both in the region and in particular countries in a positive way. Indeed, the current crisis in Macedonia is an obvious test of that.

Economically, states in SEE are, for the most part, captured. They tend to respond to domestic and international interest groups rather than to their electorates. This is a well-documented fact. Other economic characteristics of SEE are discussed in more detail in the next section on "Economic Prospects".

The weakness of states in SEE cannot be completely overcome by promises of EU integration, because such integration will not take place without these states becoming strong. That means that they respect the rule of law, are sustainable democracies and follow economic policies that respond to the preferences of its citizens. In SEE the strong state is identified with the strongly sovereign and paternalistic state,²¹ which is not what I have in mind here. Clearly, the process of EU integration leads to the modification of the traditional concept of sovereignty. But it stresses even more the need for legality, legitimacy and democratic responsiveness.

There are opinions that the states are weak because they are multi-ethnic and that they will strengthen if they are ethnically homogenous. Thus, some commentators push for further ethnic separation and for further disintegration of the ethnically mixed states. This judgement is not really supported by the facts of SEE development. It cannot be said that the states that are ethnically more homogenous are also stronger in term of rule of law. Romania, Bulgaria and Albania have weak states, though they are reasonably ethnically homogenous, at least by Balkan standards. Croatia is not much different, though it is now quite homogenous in ethnic terms. This points to the fact that ethnic homogeneity is not a sufficient condition for existence of a well-functioning state. It is also not a necessary condition either, as there are quite a number of ethnically heterogeneous states outside of the Balkans that are quite successful. By a strong state, I mean one that is based on the rule of law and where there is no reason to expect that ethnic heterogeneity would be a barrier to the determined and consistent implementation of the rule of law.

Ideas about the necessity of ethnic homogeneity in the Balkans are mostly propagated out of ignorance and by relying on comparisons of dubious value. It has been argued that a stable state in Europe, and thus in the Balkans, requires that at least 80% of the population of a state belongs to the dominant ethnic community. Otherwise, ethnic conflicts are to be expected. A rather comprehensive study of ethnic conflicts in the world, however, seems to show that precisely the opposite is true: multi-ethnic states are more stable than those with small minorities.²² This finding can be supported by the history of ethnic conflicts in the Balkans. In most cases, the worst ethnic cleansing has happened in areas where there is one dominant ethnic group that wants to get rid of one or more minorities. This, if correct, would argue for regional integration, and thus for the increased role of multi-ethnic coexistence, rather than for ethnic disintegration.

Economic Prospects

Given the political and security problems outlined above, what are the economic prospects for SEE? Short-term economic prospects depend on the sources of growth from 2000 remaining extant and upon the non-appearance of external shocks that might emerge. Growth in 2000 was the consequence of a better export performance in most countries of the region.²³ This was due to higher growth in the EU, which cannot be expected to be repeated in 2001. There was some increase in investments into some SEE countries, especially of foreign investments (e.g., in Macedonia). This should continue to be the case because most countries are hard pressed for foreign currency in order to pay for their mounting public debts. Private consumption is still depressed, while public consumption has been recovering in a number of cases. The latter cannot be expected to continue to grow this year, however, except in some cases, e.g., in Serbia. Therefore, overall growth should not be much better in 2001 than it was in 2000. Though some countries may do better and some worse.

Short-term growth prospects may deteriorate through internal and external shocks. Apart from the security and political changes that have already been discussed above, there are those that may arise out of the unfinished process of transition. For instance, in the case of Serbia, a slowdown of growth is projected in 2001 due to the need to stabilise the economy and to start the process of transition in earnest. In the case of Croatia, growth is not expected to accelerate significantly due to the need to reduce public expenditures in order to

get the fiscal deficit under control. Growth prospects in Romania could also be affected by the need to tighten fiscal and monetary policies in order to bring inflation down, though that was not originally the intention of the new government, at least not this year.

The need to accelerate the process of transition may lead to medium-term growth prospects that are rather less than spectacular. More importantly, in the medium-term, there are a number of macro-economic imbalances that may instigate sharp adjustments that might in turn lead to the slowdown of growth or to a recession in some cases. In many cases, the exchange rate is misaligned and may have to be adjusted. In others, the fiscal situation is unsustainable and a protracted adjustment may fuel a prolonged low growth rate. Finally, social pressure, as a consequence of the high rate of unemployment, may lead to a slowdown in microeconomic adjustment and that may lead to low productivity growth rates and thus to low GDP growth as well.

It cannot be expected that political and security uncertainties will be resolved in the medium-term in order to provide a positive boost to economic growth. Therefore, the level of uncertainty in the region will remain pretty much the same, though serious crisis, e.g., in Macedonia, cannot be excluded. If that were to happen, the regional economic prospects would only get worse.

Conclusion

SEE is facing a new source of instability. The potential for the conflict in Macedonia to destabilise the whole region is great. However, the most probable development of the crisis is that it will be localised and will be somewhat prolonged. That will have significant negative economic consequences for Macedonia and for Kosovo and non-negligible consequences for Albania, Serbia and Bulgaria. However, the situation has changed in the last couple of years or so, with democratic parties and institutions taking over from more authoritarian and bellicose political actors. Therefore, the challenge that resurgent nationalism poses is to the strength of the rule of law and of democracy. This applies to the other fundamental political and indeed constitutional issues that arise in a number of countries in the region. In this context, sustainable economic improvement is vitally important. This will depend on the way macroeconomic imbalances are handled in the medium run and with transition progress. Also, and most importantly, steady progress with intra-regional and EU integration is crucial.

**Appendix: Selected Macroeconomic Indicators in
South East European Countries, 1998-2000**

	ALB ¹⁾	B&H ¹⁾²⁾	BUL	CRO	MAC	ROM	YUG ³⁾
GDP, real change in % p.a.							
1998	8.0	18	3.5	2.5	2.9	-5.4	2.5
1999	7.3	8	2.4	-0.4	2.7	-3.2	-17.7
2000	7.8	10	5.0	3.5	5.1	1.6	7.0
Consumer inflation, change in % p.a.							
1998	20.9	5 / 2	22.3	5.7	0.8	59.1	29.9
1999	0.4	0 / 14	0.3	4.2	-1.1	45.8	44.9
2000	-0.2	0 / 12 ⁴⁾	9.9	6.2	10.6	45.7	85.6
Unemployment rate, in %, end-2000							
	18.4 ⁵⁾	39 / 41 ⁶⁾	17.9	22.6	32 ⁷⁾	10.5	26.7
Current account, % of GDP							
1998	-1.5 ⁸⁾	-28.2	-0.5	-0.7	-8.8	-7.2	-6.4
1999	-4.2 ⁸⁾	-17.4	-5.3	-7.6	-3.9	-3.8	-3.4
2000	-4.0 ⁸⁾	.	-5.8	-4.2	-9.7	-3.8	-7.7
General government balance, % of GDP							
1998	-10.4	-7.4	1.0	0.6	-0.6	-4.1	-6.1
1999	-11.5	-5.7	-1.0	-2.0	1.0	-4.0	.
2000	-9.5	-3 / -4	-0.7 ⁹⁾	-3.9 ⁹⁾	3.5	-3.6 ⁹⁾	.
GDP per capita, USD at PPP, in 2000							
	2893 ¹⁰⁾	.	5600	7640	4880	6200	3500 ¹¹⁾

Notes: 1) Unless otherwise indicated, figures for 2000 for Albania and Bosnia and Herzegovina represent IMF estimates. - 2) In case two figures are given, the first one refers to the Federation, the second to Republika Srpska. - 3) From 1999 excluding Kosovo and Metohia. - 4) As of mid-2000, year-on-year. - 5) End-1999. - 6) Mid-2000. - 7) Annual average, according to LFS data. - 8) Including official transfers. - 9) Central government only. - 10) In 1998. - 11) Estimation as of 1999 by Prof. Pavle Petrovic, University of Belgrade.

Source: WIW Database incorporating national and international statistics.

References

Collier, P. (2000), *Economic Causes of Civil Conflict and Their Implications for Policy*. The World Bank.

Department of Reconstruction, New Economic Faculty (2001), *Partnership in Kosovo: Reconstruction 1999-2000*.

EBRD (2001), *BIH Country Strategy Paper*.

Gligorov, V. (1994), *Why Do Countries Break Up? The Case of Yugoslavia*. Uppsala: Acta Universitatis Upsaliansis.

Gligorov, V. (2000a), "The Economic Viability of Kosovo". *International Spectator*.

Gligorov, V., ed., (2000b), *Balkan Reconstruction: Economic Aspects*. WIIW.

Gligorov, V. (2000c), "Bosnia and Herzegovina: Reconstruction without Development", *Journal of Southeast European and Black Sea Studies*, Vol. 1, number 1.

Gligorov, V. (2000d), "Notes on the Stability Pact", *Journal of Southeast European and Black Sea Studies*, Vol. 1, number 1.

Gligorov, V. (2001a), "State in the Balkans", to be published.

Gligorov, V. (2001b), *Southeast Europe: Business Prospects*. Bank Austria.

Gligorov, V. (2001c), "Kosovo's Economy: An Overview", to be published.

Gligorov, V., N. Sundstrom (1999), "The Costs of the Kosovo Crisis", *Country Studies* 12.

Gligorov, V., N. Sundstrom (2001), "Change in Serbia", *Social Market Foundation Working Paper* 3.

IMF Macedonia (2000), *Former Yugoslav Republic of Macedonia: Recent Economic Developments*.

IMF Macedonia (2000), *Former Yugoslav Republic of Macedonia: Staff Report for the 2000 Article IV Consultation*.

IMF Romania (2000), *Romania: 2000 Article IV Consultation -- Staff Report; Statement by Staff Representative; and Public Information Notice Following Consultation*.

IMF Romania (2001), *Romania: Selected Issues and Statistical Appendix*.

IMF BiH (2001), Bosnia and Herzegovina: Fourth and Fifth Review Under the Stand-By Arrangement and Requests for Extension and Rephrasing of the Arrangement--Staff Report and Press Release on the Executive Board Discussion.

IMF Croatia (2001), Republic of Croatia: 2000 Article IV Consultation and Request for a Stand-By Arrangement--Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Authorities of Croatia.

IMF Albania (2001), Albania: First Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria--Staff Report; Staff Statement; News Brief on the Executive Discussion; and Statement by Authorities of Albania.

IMF Yugoslavia (2001), Federal Republic of Yugoslavia: Membership and Request for Emergency Postconflict Assistance--Staff Report, and Press Release on the Executive Board Discussion.

IMF Kosovo (2001), Kosovo: Macroeconomic Issues and Financial Sustainability.

IMF Bulgaria (2001), Bulgaria: Selected Issues and Statistical Appendix.

IMF Bulgaria (2001), Bulgaria: 2000 Article IV Consultation and Fifth Review Under the Extended Arrangement--Staff Report; Staff Statement; Public Information Notice and News Brief on the Executive Board Discussion; and Statement by the Authorities of Bulgaria.

Independent International Commission on Kosovo (2000), *The Kosovo Report: Conflict, International Response, Lessons Learned*. Oxford University Press.

Podkaminer, L. et al. (2001), *The Transition Economies: Externally Conditioned Improvements in 2000, Slowdowns and Adjustments Likely in 2001 and 2002*. WIIW Research Reports, No. 275.

Rawls, J. (1999), *The Law of Peoples*. Harvard University Press.

Suroi, V. (2001), "Renewed Ethnic Reform Would Defuse Macedonian Conflict", *International Herald Tribune*, March 27.

Tamir, Y. (1993), *Liberal Nationalism*. Princeton University Press.

UNMIK (2001), *Kosovo Budget for 2001, and Public Reconstruction Investment Proposals for 2001-2003*.

WIIW, Southeast Europe: Economic Statistics. WIIW.

World Bank (2000), *The Road to Stability and Prosperity in Southeast Europe*. The World Bank.

World Bank Bulgaria (2001), *Bulgaria - Country Economic Memorandum: The Dual Challenge of Transition and Accession*.

World Bank Yugoslavia (2000), *Federal Republic of Yugoslavia - Recent Economic Developments and Key Policy Challenges*.

World Bank Kosovo, Federal Republic of Yugoslavia (Serbia and Montenegro) (Kosovo) (2001), *Economic and Social reforms for Peace and Reconciliation*.

Xhaferi, A. (2001), "An Optimist in Panic: An Interview with Arben Xhaferi", *IWPR Balkan Crisis Reports*, number 236.

1. Detailed analysis of these recent developments can be found in Gligorov (2001b). For a description of the main developments in the last ten years or so see World Bank (2000). For a discussion of the main problems that economic reconstruction of SEE faces, see Gligorov (2000b).
2. For the recent development of key economic indicators, see the table in the appendix. For comprehensive data on the economic development in Southeast Europe, see WIIW (2001).
3. This is the assessment to be found in various country reports by the IMF and The World Bank. See, for instance, IMF on Croatia and Albania, and before that on Macedonia. See the World Bank study on Bulgaria and EBRD study on Bosnia and Herzegovina.
4. See IMF and the World Bank on Yugoslavia.
5. According to the statement by the chief negotiator of the IMF.
6. A number of other elections in the region were seen as generally encouraging, though not always up to the more optimistic expectations.
7. The extent of aid dependence is hard to assess precisely. Public aid arrives from different and diffuse sources. Private transfers are even more difficult to trace because they arrive in all kinds of ways, in many cases not through the banking system. Still, just by looking at the information on the EU aid and assistance, it is clear that their contribution is vital.
8. Again, EU aid and assistance of one kind or another plays a crucial role.

9. See World Bank (2000).
10. E.g., for the latter in the op-ed pieces by D. Owen, W. Petritsch, C. Bildt, R. Holbrooke among others.
11. There are some differences between the demands of the Albanian political leaders in Macedonia and those put out by the paramilitaries. The difference is on the issue of federalisation of Macedonia. Some, like the leaders of the DPA (the major Albanian party in Macedonia, which is a member of the coalition government) are against federalisation. The paramilitaries, however, are for federalisation and eventual secession. On the whole issue see Xhaferi (2001) who defines the current conflict as “ethnic competition”. He also says that the demands of the political and the military leaders of the Albanians in Macedonia are the same, which introduces an ambiguity in view of the difference pointed to above.
12. “War is a catalyst for change”, writes Veton Suroi (2001) expressing succinctly this confusion about the legitimacy of violence.
13. On this, for instance, see Tamir (1993) and Rawls (1999).
14. Macedonian denar has slipped from 31 to 33 denars for one German mark.
15. Throughout the crisis there were demands from the international administration in Kosovo to keep the border with Macedonia open because its closure is having negative effects on the Kosovo economy.
16. For whatever data there is, see IMF on Kosovo. For some discussion of the economic development of Kosovo see Gligorov (2001c).
17. More on that in Gligorov (2000d).
18. More on that in Gligorov (2001b).
19. For some background discussion of constitutional problems of former Yugoslavia, see Gligorov (1994).
20. Sovereignty may be limited by contractual arrangements, as in the case of membership in a confederation or a union. It can also be limited by imposition or by circumstances, the latter being the case with the countries in the SEE with significant international involvement.
21. More on that in Gligorov (2001a).
22. Collier (2000).
23. Details on that see in Podkaminer et al. (2001).