

THE POLITICS AND ECONOMIC GROWTH OF BALKAN COUNTRIES

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Introductory Remarks

Economic recovery and cooperation among Balkan "regions" have been slow in giving fruit, for a number of reasons. In other words, poverty is to be the "life companion" for the majority of the population in what is called South Eastern Europe. Conflict is another life companion, with its usual phenomena such as publicly acknowledged crime, corruption, and the wide-spread abuse of drugs and alcohol. Politicians like to address crime/drug/alcohol/corruption issues in order to hide the "politically and business correct" homeopathic dishonesty of the state apparatus and para-governmental bodies.

Therefore, sound political measures are to be effectively introduced, taking into consideration local realities and rejecting an ideological approach. The representatives of the so-called international community do have ideological and socio-political prejudices towards the socio-political realities in the Balkans. Often, the local "fallen angels" (nostalgic for the power they had during the communist regime, second-hand writers or actors in need of TV promotion) do dress up their frustration into cosmic humanistic theories (often foggy).¹ Nevertheless, their influence on the western media and politicians is real.

Thus, political cooperation and political decisions are superordinated to economic considerations. The theory that economics is the base and that politics is the superstructure is false. This does not mean that economic elements are not included into political decision-making. The last ten years in the history of the Balkans show that the divorce between politics and economics can also contribute to inappropriate decisions (events in Herzegovina) or smuggling and putrifaction of political institutions (Yugo-Serbia).

For this and other reasons, in the first part of this paper, a short description of the present political and social situation of the area will be presented, with some prospective elements. Only then shall a

model of economic growth be suggested. The main features of future cooperation will be addressed according to the model.

Geo-Politics: Politics and Society in the Balkans - Present and Uncertain Future

This first part addresses the main points of the political and social evolution to be expected over the next 15-20 years. Bearing in mind that many ideological, political and other factors do not allow for the taking of measures that could accelerate "normalisation" of the geo-political landscape, social stabilisation and economic take-off. The area lives in geo-political uncertainty, political weakness, social misery, economic bankruptcy and mismanagement of the international community.

Geo-political uncertainty

De iure, from the geo-political point of view, there are eight countries in the area: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Turkey, and Yugoslavia. All are UN members.

Two among them are pro-forma states: Bosnia-Herzegovina and Yugoslavia. Two others need in-depth reconstruction of their internal political organisation: Albania and Macedonia. Two are to act as stabilising factors: Greece and Turkey (if not leaders). Seven are in deep economic and social crisis requiring urgent help from IMF/WB, and/or the EU. (Greece has lived for years with EU subsidies which make up 30% of its budget.) The situation in Greece and Turkey will be mentioned only when necessary for understanding the stabilising action in the area.

Pro-forma states and quasi-states

It is evident that Bosnia-Herzegovina and Yugoslavia are states only de iure. Bosnia-Herzegovina has two "constituent entities": "The Federation of Bosnians and Croats", and the Republika Srpska. Each entity has its own parliament, government, judiciary, armed forces, etc. It also has 3 constituent nations: Bosnians², Croats and Serbs. They all have a Presidency in common (in reality another three-man chamber), common passport, central bank, but not banking system. But all is kept together only by SFOR, i.e., NATO.

The other pro-forma state is the Federal Republic of Yugoslavia. The two so-called federal units, Serbia and Montenegro, were, until the fall of Milosevic, on the limits of an armed conflict. Serbia even cut off all commercial and financial relations with Montenegro in 1999. It was a real embargo. Serbians are tired of everything, so nowadays Federal Yugoslavia - as a quasi-state - is supported by western diplomats (always behind the game) and war criminals in both Serbia and Montenegro. (The pro-Serbian units from Montenegro murdered Muslims in Srebrenica, with Arkan and other Serbs; ie. those living in Serbia *stricto sensu*, those living outside of Serbia *stricto sensu* are Serbians).

Nowadays (March 2001), Montenegro is preparing for a referendum on independence, with a 60% probability of success.³ Thus, the Republic of Serbia is the only *de facto* member state of the Federal Republic of Yugoslavia. This republic has, *de iure*, two autonomous regions: Kosovo and Vojvodina. *De facto*, Kosovo is out of Serbia (its situation will be discussed later). Vojvodina, at this stage, is seeking the status of a federal republic. The President of the Regional Government, Mr. Canak, speaks as a President of an independent unity and has strong arguments about Djindic and other leaders of DOS (Democratic Opposition of Serbia).⁴ So, the President of Yugoslavia, Kostunica, and the Federal Government of Yugoslavia are irrelevant institutions. President Kostunica has some authority of his own right, as an honest man - very uncommon among politicians - and as a genuine Serbian nationalist - a democratic hegemon. For this reason, he aspires to the Presidency of the future Serbia. But, Djindic wants that job too.

The Federal Armed Forces - or to be precise, the Chief of the Defence Staff, General Pavkovic, a Milosevic appointee, is seated on two chairs. Legally, he is under Kostunica. Factually, Djindic has all the power and the Serbian government. The navy is in Montenegro and the men-of-war are good for scrap. Naval officers who are married in Montenegro have apartments in that country, and their children go to school there. (They do know the sad experience of the Army, Navy and Airforce members who opted for Great Serbia in 1990/91. They left Slovenia, Croatia, Macedonia, Bosnia-Herzegovina - with the hope of coming back as conquerors. They live now in slums around Belgrade - with a high suicide rate.) So, they will opt for an independent Montenegro⁵ and for living there in future. The police are more important than the armed forces. The Federal Police Forces are not in any better shape. All the money went for special Serbian security forces that are better equipped and trained than Federal Army Units.⁶

Quasi-states are Montenegro, Republika Srpska, and in a certain sense, the Federation of Bosnia-Herzegovina. Montenegro has, de facto, an independent government and ground forces (militia). The two Bosnian entities have the same - but they are under order of the High Commissioner. Pro-forma states and quasi-states are elements of the future geo-political architecture in the area. More on this later.

Then, there are administrative territories in geo-political limbo. Kosovo under UN/EU, KFOR, etc.; Kosovo's defence forces; Sandjek - an area in Serbia with a Muslim majority; and Vojvodina with important Hungarian and small Croat and other minorities.

Countries That Need Internal Reconstruction

The two countries are Macedonia and Albania. Since 1990, the western part of Macedonia, where there are about 250,000 Albanians (out of the 1,900,000 population in Macedonia as a whole), has been out of Skopje's control. A few years ago, the Tetovo University problem caused an uprising of Albanians. In the spring of 2001, the uprising became more serious, with an embryo of guerilla war. This war has been read as a signal for a need to reconstruct the Macedonian state by the government in Skopje. The "international community" is preparing for the opening of Tetovo University. It seems that Macedonia is heading towards a kind of federal state.

Albania has to set up its shaken state administration and has to set up regions between the Gigs (Albanians from the north) and the Tosci (Albanians from the south).

Governments

The main features of all the governments in the area are that they are coalitions and that they are weak.

Again, the Yugoslav Federal Government is a pro-forma government. The same is true for the government of Bosnia-Herzegovina (this is not the same as the government of Republika Srpska or the government of the Federation of Bosnia-Herzegovina). The government of the Federation of Bosnia-Herzegovina cannot be set up due to the conflicts between the Croats and the Muslims. In Croatia, there is (for the moment) a coalition of six parties. The three

major parties are communists, social-liberals (HSL) and peasants (HSS). The three minor ones are the Liberals (LS), Popular Party (HNS), and Istrians (a regional party from Istria - on the Italian border). This coalition is kept together by immobility.⁷ There is a latent conflictuality between the government and the Presidency of the Republic (MESIC). There is open conflict between the Defence Minister and the Chief of General Staff (indirectly with the Presidency). Thus, the measures proposed by the Vice-President of the Government LINIC regarding economic policy are not effective and the country looks "backward". FIAS, an independent agency, found 384 governmental obstacles to economic activities. There is no credible opposition in Croatia, but there are opposition parties.

In Serbia, *stricto sensu*, the government is a coalition of former opposition parties (five) - DOS (Democratic Opposition of Serbia) - with 52% in opinion polls.⁸ The two strongest parties are DSS (Djindic) and DS (Kostunica). DSS being by far the strongest. But Kostunica has a support level of 90%. The most unpopular is the President of Serbia (Milutinovic from the SPS - the party of Milosevic) who is unimportant, but his job will be of the greatest importance in the future. The government is weak, because it cannot stop rapid degradation, due to the mismanagement of the previous government. Neither western public opinion nor western politicians can understand the depth of the Serbian disaster. (The indicators of social illnesses will indirectly show the reality).

The Serbian government has some political capital (political capital means the willingness of the population to accept temporary difficulties without blaming the government), as in Croatia in January of 2000. But, in the spring of 2001, there wasn't any more capital. So, the real political rating of the Djindic government will be seen in the winter of 2001. For the moment, there are no credible opposition parties. In Macedonia, the coalition VMRODPMF / Albanian DP - survived the Tetovo crisis. They hold together as they will have to work on the new Macedonian Constitution. The President of the Republic is an ally of the government. But, in Macedonia, there is credible opposition. The signing of a Treaty with the EU is an important point for Macedonia. The Macedonian government has the same social and economic problems as all others - and the same incapacity to change the situation. "Bosnian policy" will have the same effects.

Albania is the Somalia land of the Balkans. Its government, like all others, is important for changing the situation. Albania is a country

which moved from the Middle Ages (until 1945) to a Stalin goulag⁹ until 1990 - and then from goulag to free market chaos. The Albanians from Kosovo are welcome in Albania only as guests, but their commercial activities are not welcome in Albania. Therefore, the stories of great Albania exist only in the heads of the Albanians who live outside of Albania.¹⁰

The situation in Turkey is of concern for the Balkan area, as this country is an important stability factor in the area. The same is true for Greece and Italy.

In Bulgaria, the Union of Democratic Forces and the Government succeeded the former Communists. There is a growing movement among public opinion in favour of the return of the King. Bulgaria gave some of its T-55 to the Macedonian Army. There are latent "linguistic" (in reality, socio-historical) unresolved problems in Bulgaria and Macedonia. Albanians should not underestimate the issue. If they say that 6 million Albanians are stronger than 1.7 million Macedonians, Bulgaria, for historical reasons, can answer that there are 10 million Bulgarians (8.4 in Bulgaria and 1.7 in Macedonia).¹¹ Both Macedonia and Bulgaria have Armed Forces in poor shape.

In all regional countries (with the exception of Greece), the main political objective of their governments is the adhesion to either EU or NATO or both. Kosovo is in the process of creating an embargo of political institutions. Only Serbia and Bosnia-Herzegovina are not members of PFP. Among the former republics of Yugoslavia, Macedonia is the first to have signed a Treaty with the EU. Croatia will follow. On the road towards political (and social) stability, the role of the EU is important. NATO's role is fundamental. Despite all the short-comings and mistakes of the political leadership.

However, both the local governments, the EU and the Non-Governmental agencies failed totally in their basic purpose. They did not introduce law and order in the countries in the area. It is the firm conviction of the author that Parliamentary Democracy is a condition sine qua non for a harmonious society in a peaceful country. But, it has been proved that introducing "democracy" into countries devastated by Bolshevik anarchy appears to be a licence for chaos. The absence of law and order, as important a condition sine qua non as genuine Parliamentary Democracy, postponed the orderly functioning of democracy, state institutions, civil institutions, judiciary, etc... for several decades, thus aggravating social problems and economic misery.

Poverty Ratio

At this stage, I limit the validity of the poverty index to the social group of urban populations, without any direct contact with rural areas. A four-person family with only a one-salary income per month (bribery excluded) or a small entrepreneur having an equivalent income. Of course, income after taxes. This income is divided by the food basket and minimum health, school expenses for a family of four. Albania: no sufficient data. Kosovo: no sufficient data. Bosnia-Herzegovina: Republika Srpska 0.2; Federation of Bosnia-Herzegovina 0.2; Croatia: 0.55; Bulgaria: 0.45; Serbia: 0.2; Macedonia: 0.45. This means that the average salary represents 20% of family needs - if the salary is regularly paid. About 30% of the workforce does not receive a regular salary.¹²

If one takes people that receive only pensions, then the ratio for Croatia is 0.15. In Serbia, it is less, as in Bulgaria, Bosnia or Macedonia. But, in Bulgaria, 60% of households live with gardens around their houses. In Kosovo, traditional solidarity among members of one family works. Among the elderly people, the result is a fast growing death rate - or budgetary euthanasia. Among the young and bright - emigration.

There is an underground economy, but this contributes nothing towards taxes and hence social security. In Serbia, for every one employed there are three out-of-work and two retired. Thus, one active pays for five people.¹³ In Croatia, unemployment is officially 380,000 and there are about one million pensioners. In reality, it is about 500,000. Plus, about 180,000 who are not paid regularly. There are about 750,000 of those who work and are paid. They pay for about one million pensioners, 500,000 unemployed, about 50,000 war veterans, etc. The ratio is about one/two at least. In Macedonia and Bosnia, the ratio is 1/3.

Social Pathology

It is well-known that drug and alcohol abuse are widespread in all these countries. A new trend appears to be alcoholism with drugs amongst children under 15 years. Among bourgeois women, alcoholism is a fast-growing phenomenon. Orthodox Muslims avoid this danger. Thus, Bosnians and Albanians are not under the influences of alcoholism. Others are.¹⁴ This stops the population from

working or learning correctly whilst contributing towards suicide and demographic decline. Bosnia now has about 3.5 million people compared to 4.5 million in 1991. Croatia has 4.2 million compared to 4.45 million in 1991.

Along these lines, the abortion rate remains high. For every 1,000 live births, there are roughly an equal number of abortions in Bulgaria, 500 in Croatia, and 700 in Serbia.¹⁵ But not in Albania or Bosnia. In 1953, in former Yugoslavia, for every 100 live births there were: 40 Serbs, 8 Muslims, 7 Albanians, and 20 Croats. In 1989 - 12 Muslims, 18 Albanians, 28 Serbs, and 16 Croats.¹⁶ Demography is the hidden reason for the Serbian genocide of Albanians. Demographic decline and social pathology result in making the Balkans less attractive even for products of mass consumption, thus, foreign direct investment has no interest in the area. The workforce, trained under the socialist regime, prefer not to work rather than to work for small salaries. The conditions, both political and social, are not favourable for an economic take-off. Again, bureaucratic measures rather than market forces will become, on the macro-level, the driving force - at least for as long as poverty persists.

What then are the prospects for favourable economic development?

Serbia, Republika Srpska and Vojvodina will form a Serbian Confederation - to start with. This will be a politically stable entity. Albanians, Macedonians, Kosovars and Montenegrans will create, with Bulgarians, a Black Sea-Adriatic free trade area, assuming that Macedonia agrees to become a federal state. Montenegro shows that this is ethnically, religiously and politically possible. However, Kostunica declared that Serbia was not interested in cooperation with an independent Montenegro.¹⁷ His Interior Minister declared that Montenegrins living in Serbia will be considered as foreign citizens. Croatia and the Federation of Bosnia-Herzegovina will have to find a modus vivendi and create a Confederation - an idea that was in the pipe-line in 1995/96.

The EU and NATO will have to assist this geo-political restructuring, without ideological or other prejudices. The good intentions and ideology à la mode of so-called civil society organizations and NGOs are deadly cocktails. (In countries in transition, human rights groups are often manned by former party and police members who jailed, murdered or destroyed the lives of honest citizens).

A firm insistence should be made on introducing law and order, and on promulgating well written laws in harmony with German or French models. They are the European countries legal system by tradition - a tradition that ended in 1945. Financial help should go towards the training of judges, lawyers in general and accountants, as top priority.

The key problem of politics in connection with the economy is the built-in dishonesty and inefficiency of both governmental and para-governmental institutions.

Balkan Economies and Cooperation Among Balkan States

Balkan economies - a bird's eye view

They are in collapse. Telecom tradings or petroleum pipe-lines (Skopje-Salonique) will not be enough. All assets are out-of-date. The market value of corporations and their assets is negative. Thus, paradoxically, the NATO bombing of some Serbian factories was like shooting at dead animals. In fact, this is a gift to the new political leadership in Serbia. They have no courage to destroy value-consuming assets so that new economically-profitable factories (rather small at this stage) could be built up.

In all countries, the GDP per capita is between US\$800-1,300. Albania, Bosnia, Serbia: \$800/900; Bulgaria; \$1,300; Croatia: about \$2,000 (based on added value). Bearing in mind that the average salary in Bulgaria is about US\$90 a month, even using PPP, it can hardly be US\$4,200.¹⁸ On top of that, the World Bank in its edition of "World Economic Indicators" 2000 revised the GDP calculations for many countries for the year 1998.

Thus, for Bulgaria, the GDP first calculated was US\$33bn and the new one was US\$40bn, a 20% increase. For Croatia, US\$23bn increased by 32% to US\$30bn, whilst Romania registered a 41% increase, and so on.¹⁹ The political and financial consequences of such statistical "creativity" are dangerous. This is yet another proof that GDP is a statistical estimation and not an economic phenomenon. Still, with assets having no market price, something is still produced but at the cost of consuming substance and manpower.

More and more small businesses will grow - with a small output/employee ratio, relatively large output/assets ratio (practically no assets), and a small added value/employee ratio. All with minimum or zero share capital. This is effectively self-financing business, leading to slow growth and labour intensive economies. In the sophisticated banking sector, strong non-regional banks will take over local banks and set up subsidiaries. Croatia is a prime example, followed by Bulgaria (Italian banks took over the PRIVREDNA and SPLITSKA banks; Raffeisen bank opened many subsidiaries). Interest rates will remain high due to the risk of failure, most firms being undercapitalised because they cannot get credit. But banks have plenty of money to lend to the government, with the risk of creating unbearable public debt and putting the Parliament devant le fait accompli. The behaviour of local subsidiaries of foreign banks is the continuation of former practices - the non-informing of customers in the household sector as to the real interest rate and, generally speaking, the Shylock type of behaviour. Of course, the risks for them are high. Their customers were used to having easy money under socialism.

All in all, the populations of Serbia, Albania, Croatia, Bosnia lost as much wealth in their dealings with the financial sector as in the war destructions. Governments assisted, or at best did not react when faced with the financial robbery of the population. But, citizens were not careful enough. Local currencies are or will be (in Serbia) the link to the DM (soon to be Euro). Or, as in Montenegro and Kosovo, where the DM is already the currency.

They are, in many aspects, economies with a predominance of commerce over small industry. Thus, many goods (of poor quality) are imported, and the commercial balance is in deficit. The EBRD plays, more often than not, a positive role. But, due to the desire of fast growth and the desire of the government to slow down the growth of unemployment, the immediate needs for fresh capital are great, as are the risks.

Agriculture needs more help than any other sector. The reason is that agriculture keeps spatial equilibrium, maintains the trade balance and is even important for tourism. Croatia, Serbia, Macedonia, Bulgaria, and Albania have an adequate climate for "ecological" agriculture, but real estate records are still in disorder. Land ownership by foreigners is a big issue. In Bulgaria and in Albania, foreigners can buy real estate. Not in other countries. Under patriotic slogans, the

ambitious, but broken local "lumpenkapitalistes" want to keep all options open. This is an issue where the EU should be inflexible. Serbs and Croats can buy real estate and land in EU countries.

The legal framework under the slogan of being business-friendly is in reality crime-friendly

The key point is that political instability influences the economy via the rise of risks - and the risks influence the rise of interest rates. The cost of money - i.e. interest rates - which influence the total cost of capital is condensed information within the extant political situation.

The high cost of money, which is the function of the risk born by lenders and by investors, reflects political uncertainty. When rates are high, the actualisation rates (needed for the calculation of the Net Present Value (NPV) and for the Internal Rate of Return (IRR)) are high and the Return on Investments (ROI) and on equity (ROE) need to be even higher, which is difficult in transition economies.²⁰ Thus, investment is made by public institutions or for money laundering purposes (again, the exception being telecommunications, energy, food and pharmaceuticals), but private direct investment is scarce. This, again, raises both the demand for money and risks. But, expensive borrowing also has negative effects on employment. When heavily indebted firms need to pay their fixed costs, they lay off employees and unemployment rises. This in turn creates political instability.

The Economic Future of the Balkan Countries

From what has been said above, a model of the economic future can be suggested. This is for the next 20-40 years:

- Demography: population decline. High Mortality and emigration: Croatia will have less than 4 million (now 4.2 million). Serbia, less than 9 million (now 10m), and so on. Albanians are the exception, whose number will increase;

- The absence of law and order will become "endemic", like many African and Latin American countries;

- The social structure of the population will stay as it is, viz - very rich (10%), middle class (10-20%), poor (70-80%);

- Government sector: overstaffed and corrupted. In these countries, "civil servants" vote for the government. The government sector is important because it is also a mechanism of wealth distribution;

- Corporate sector: undercapitalised, mostly small enterprises with high mortality. Equity is less than 10% of the balance sheet (should be at least 40%);

- Thus, high unemployment and emigration.

Conclusion

The Balkan economies will be the "Latin America" of the EU for at least the next 20 years. This is not a fatality. But, to introduce law and order, all countries need statesmen. Or they have only politicians.

1. Albert Camus in his magnum opus "L'homme Révolte" writes that all those who want to avoid loving or taking care about people in particular and precisely - love humanity in general. There is no obligation for them in this "love".
2. Until 1997, Bosnians were Muslims - in the sense of NATION - (and that since 1963). After 1997, they decided that they were Bosnians, in order to ease the assimilation of Yugoslavs and Romes.
3. A USA institute, "National Democratic Institute" - in a public opinion poll, found that 60% of the population will vote for the two major political parties asking for independence - March 2001.
4. See: Vreme (Belgrade), 23/III/01.
5. Neither Kostunica, nor Djjudic can give them jobs (Serbia has no sea) and homes (Serbia has no money).
6. This is typical Soviet tradition - NKVD units (interior army) were stronger than many Armed Forces units.
7. "Government facing collapse" - GLOBUS, Zagreb, 13/IV/2001. A government composed of "apathetic" bureaucrats", Nacional, Zagreb, 10/IV/01. Both are considered as pro-governmental. See also Globus, 30/III/01.
8. Vreme, Belgrade, 19/IV/01.

9. This was also a safe haven for the Italian mafia. The SIGURIMI worked with Mafia. The port of Durres has been the basis of the Paraguay (yes, Paraguay, South American country) fleet. Mafia put the Paraguayan flag on its ships in order to do business.
10. This is common in the area. Milosevic and Karadzic are from Montenegro. VUK DRASKOVIC from Herzegovina..., etc.
11. Thus, a commentator of "Slobodna Dalmacija", 3/IV/01 (a Croatian daily), an analysis by Danko Plevnik.
12. See, on poverty index: Ivo Paparela, "Some random reflections, etc." in Reiner Weichhardt editor Colloquim 1966, p.61, Bruxelles, NATO 1997.
13. Djindic - in Vreme, Belgrade, 22/III/01. The Prime Minister speaks only about active employed and unemployed, 1/3.
14. Nedjeljni Telegraf - Belgrade, 28/III/01.
15. Herald Tribune, 16/II/01.
16. Slobodna Dalmacija, 5/IV/01.
17. Radio France Internationale.
18. FT, 24/X/01.
19. Bundesinstitut Köln, now Berlin, research by Roland Götz. The author is grateful to Heinrich Vogel for the information.
20. Except in telecommunications - where the high ROE is the result of cheating customers - when DT/Cronet take 50 cts more than earned, the customer does not see it, and it is \$ 3 million monthly in Croatia. On top of other dishonesties.
21. This is specially true of the so-called socialist governments.