

SOUTH-EASTERN EUROPE: A SUMMARY OF DEBATE

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Introduction

Regional cooperation is all the rage at present in South-Eastern Europe. After more than ten years of armed conflict and economic stagnation, many people, particularly in the West, appear to be convinced that the solution to the problems of the region lies in enhanced cooperation among its countries. The assumption behind the concept of regional cooperation seems to be that as local economies become more interdependent, both governments and people will be less likely to resort to violence: everybody will have too much to lose. The idea of regional cooperation was given strong encouragement by the meeting of heads of state and government of South-Eastern Europe in Skopje in February 2001. At this meeting the leaders adopted an Action Plan for Regional Economic Cooperation which identified a number of areas for action including economic and social development and progress in reforms; trade expansion; promotion of foreign direct investment; and improvements in infrastructure. At an earlier meeting, in Geneva in January 2001, organised by the Stability Pact for South-Eastern Europe, representatives of the governments from the region committed themselves to regional free trade and in their Joint Statement of Intent promised to prepare by the end of June a memorandum of understanding on concrete trade liberalisation measures.

In the light of those developments earlier in the year, the decision to devote the May 2001 NATO Economics Colloquium in Bucharest to the interrelationship between regional economic cooperation, security and stability, with particular reference to South Eastern Europe, South Caucasus and Central Asia, was particularly timely.

Discussion in Group I, which concentrated on South-Eastern Europe, probed the rhetoric and the reality of economic cooperation in the region. How much can realistically be expected from economic cooperation in a region such as South-Eastern Europe better known for conflict rather than cooperation? How real is the oft-proclaimed

official commitment to regional cooperation by the locals? Does the current political and security situation favour or hinder regional cooperation? Those were the main questions addressed in two leading presentations and in the subsequent official statements, the discussion that followed and in the final assessments.

How Much Interdependence?

The most striking fact that emerged from the first comprehensive and detailed paper, on Balkan economic interdependencies, by *Dr Krassen Stanchev*, Director of the Institute for Market Economies in Sofia, was that such interdependencies were either not there at all or were extremely few. While Balkan economies trade over 60% with the West, they do not trade with one another. According to Dr Stanchev, some of the reasons are:

- regional integration of a low-income economy with other low income economies usually makes an economy poorer;
- demand is weak and relatively unsophisticated and so go-ahead, competitive firms opt for more rewarding markets;
- the countries of the region are not complementary but rather have similar product and quality structure;
- monetary instability of regional markets;
- inefficient contract enforcement and dispute resolution;
- tariff and non-tariff barriers;
- firms' fear of civil conflicts and insurgencies.

He noted the positive factors supporting the search for development and prosperity in the near future, such as the fact that (a) transition to market economy and democracy has become irreversible; and (b) that the international community - particularly the EU - supports the local leaders' express commitment to follow the path of sustainable growth and prosperity. This is clearly more for political and strategic than for economic reasons, in that South-Eastern Europe is not exactly a big market for the EU: in 1998 it accounted for only 1.6% of EU imports and 4.4% of its exports.

On the negative side, there was the 'unfinished business in the Balkans'. Political instability, eg. in Kosovo, FYROM, Serbia, Montenegro, Bosnia, undermined the fragile hope that business and trade opportunities would eventually make a difference and scared away foreign investment.

The general picture emerging from Dr Stanchev's paper was sobering, even discouraging:

- foreign direct investment is negligible in both absolute and per capita terms;
- mutual penetration of banking sectors is zero (with the exception of some Turkish and Greek banks); foreign ownership of banks is rare (a common practice is to transfer payments to a neighbouring country via international correspondent banks);
- regional commodity exchanges do not exist or function badly;
- cross-border clusters are an exception.

The real key to the solution, according to Dr Stanchev, does not lie in externally-inspired regional initiatives (though external stimulus may be helpful), but rather in comprehensive domestic reforms aimed at fostering the rise of truly competitive firms, mobile and responsive to demands of a sophisticated market and driven by productivity and quality. They should replace what he calls 'subsistence' and 'survival' firms, still far too numerous in the region and too influential politically, forever demanding subsidies and protectionism and thus blocking reforms. All in all, concluded Dr Stanchev, regional initiatives and policies must not be perceived as a substitute for core market and democratisation reforms.

Nationalism Strikes Back

In the second, also substantial paper on the region's economic and political prospects, *Dr Vladimir Gligorov*, of the Vienna Institute for International Economic Studies, started off with the bad news. The area suffered from high unemployment; fiscal fragility; external imbalances; large black markets, pervasive corruption and significant economic criminality. But he also noted the good news:

- continued price stability (except in Yugoslavia and Romania);
- positive growth rates in 2000;
- accelerated structural reforms in Bulgaria, Croatia, Macedonia; and even Bosnia & Herzegovina and Albania;
- better prospects for foreign direct investment due to greater efforts by the locals to attract it and to improved risk assessments on the part of foreign investors;
- momentous political changes in FR Yugoslavia as well as, less spectacular but modestly encouraging ones in Bosnia.

However the rather hopeful 2000 has given way to a rather less hopeful 2001 with a number of adverse developments, the worst of them being the start of armed conflict in FYR Macedonia. Dr Gligorov postulated as the most likely scenario a localised, low-level but prolonged conflict (possibly even a gradually deteriorating one) but confined to Kosovo and FYR Macedonia, with some negative consequences for Albania, Bulgaria and Serbia.

More fundamentally, Dr Gligorov saw the key problem for South-Eastern Europe as that of weak states - weak constitutionally, politically and economically, with constitutional issues (e.g. in Bosnia, FR Yugoslavia and FYR Macedonia) being the most fundamental ones. The issue of EU integration, to which governments in the region all aspire, will give the EU a lot of opportunity to influence events in a positive way (e.g., FYR Macedonia). But it will not be easy. The process of 'state capture' by a variety of interests (some of them criminal) is well advanced. Local states tend to respond to domestic and international groups rather than to their electorates. The weakness of those states cannot easily be overcome by promises of EU integration, according to Dr Gligorov. But EU integration will not take place without those states and their institutions becoming strong - a long and arduous task.

Dr Gligorov's economic scenario for the short and medium-term was rather gloomy. The 2000 growth, consequence of better export performance by most countries in the region, was due to higher growth in the EU. This cannot be expected in 2001 and beyond and so there will be some uncertainty and nail-biting. For the long-term prospects, the strategies of transition adopted will be crucial. The market and the

state, once seen as competitors, are now increasingly seen as partners. Sustainable economic development is vitally important in the continuing confrontation between resurgent nationalism on one side and the rule of law and democracy on the other. The outcome will be to a large extent determined by the way macroeconomic imbalances are handled in the context of steady progress in intra-regional and EU integration, concluded Dr Gligorov.

Concerns About Regional Cooperation Remain

The main themes raised in the two leading presentations were echoed and elaborated upon in the official statements by senior advisers to the governments of Albania (*Genc Ruli*, of the Institute of Contemporary Studies, Tirana); Romania (*Mihnea Constantinescu*, Special Adviser on South-Eastern Europe to the Minister of Foreign Affairs); FR Yugoslavia (*Marko Paunovic*, Economic Adviser to the Deputy Prime Minister of the Federal Republic of Yugoslavia); and Ukraine (*Andrey. V. Nikitov*, Deputy Head of Department, Ministry of Economy). The current preoccupations of at least one of the global financial institutions strongly active in the area were reflected in a statement by *Rory O'Sullivan*, Special Representative of the World Bank Group for South-East Europe Reconstruction in Brussels. Speaking from the Chair, *Christopher Cviic*, touched upon the important role played in the region by the European Bank for Reconstruction and Development (EBRD) in London.

Some of the speakers from the floor expressed doubts about regional cooperation as a panacea for the region's ills and were critical of the results so far achieved by programmes such as the Stability Pact for South Eastern Europe. Some divergent views were also voiced in the general discussion about the role so far played by individual international financial institutions.

Widespread concerns about the foreign policy of the Bush Administration, prompted a statement by *Jonathan B. Rickert*, of the US Department of State. He said he was in a position to impart the good news that the United States remained committed to the region. The United States would carry on with the task of helping the region achieve peace, stability and prosperity and recalled that this approach had been recently confirmed by the Secretary of State, *Colin Powell*, during visits to Paris, Skopje and Sarajevo. During the visit to Skopje, Powell stressed the need for further democratisation and inter-ethnic

dialogue: "...the ultimate solution is not how good your army is to defeat extremists, it is how good your political system is to accommodate the beliefs and aspirations of all the people in your society". Rickert confirmed that the United States would during this fiscal year - through the Support for Eastern Europe Democracy Programme - provide US\$674m in assistance to South-Eastern Europe. He ended his wide-ranging statement by stressing that the key to progress in the region was the building of political and social conditions to foster peaceful resolution of disputes, adding that this approach was as applicable to the region as it was to Macedonia.

Concluding assessments were given by *Professor Katarzyna Zukrowska*, of the Warsaw School of Economics; *Professor Ivo Paparela*, of the University of Split in Croatia; and by *Thomas Price*, Co-Ordinator of OSCE Economic and Environmental Activities in Vienna.