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OF EU REGIONAL POLICY**

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COHESION OF THE BALKAN COUNTRIES IN THE CONTEXT OF EU REGIONAL POLICY

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Abstract

As a whole, the European Union transmutes itself in a power attractive center for the all Balkan region; it is the only reasonable alternative for the countries on the peninsula. In this sense the research of the Balkan states' cohesion in the context of the EU regional policy is extremely topical.

There are contradictory processes on the Balkans in the beginning of XXI century. These processes are with different intensity, conditioned by the lack of balance between the economic levels, the status of environment, the level of activity in the societies, life quality and many other factors. Practically all Balkan countries¹ directly or indirectly have objectives, orientated to convergence with EU policy and achievements. Greece like the oldest state member on the Balkans, implements many programs for reducing the regional asymmetry, including the Cohesion Fund until 2006. In the current program period (2007-2013) the newest state members – Bulgaria and Romania will be the most favored states. The candidate member states – Croatia and Turkey have a long list with convergence criteria to correspond to the conditions of integration. The West Balkan countries, which look forward the beginning of accession negotiation, have to implement different political, economic and social changes in different rates, to achieve criteria, acceptable for the enlarged European Union.

As a whole, the European Union transmutes itself in a power attractive center for the all Balkan region; it is the only reasonable alternative for the countries on the peninsula. In this sense the research of the Balkan states' cohesion in the context of the EU regional policy is extremely topical. For the authors of the article this subject – the asymmetry between the countries is with permanent professional interest.² Especially important is the accent to be set not only on the

¹ The Balkan countries, included in the research are Albania, Bosnia and Herzegovina, Bulgaria, Cyprus, Croatia, Greece, Macedonia (the former Yugoslav republic), Romania, Serbia and Montenegro, Slovenia, Turkey. EUROSTAT information is mostly for the old Serbia and Montenegro, which includes Kosovo, too.

² Tonkova, St., N. Pavlov, M. Bogdanova. Regional Economic Asymmetry on the Balkans. Svishtov, 2005, 126 p.; Tonkova, St., M. Bogdanova. The regional Asymmetry in the context of EU integration. Svishtov,

defining the economic and social goals of the different countries, but on the location of the possible sources of economic stress in the region in the context of the specific macroeconomic objectives – a problem which deserve a separate research.³ In this article however the subject is restricted to outlining the tendencies in the economic and social cohesion between the Balkan countries, from the EU regional policy point of view.

The economic convergence of EU state members is one of the priority objectives of Structural and Cohesion funds for 2007 – 2013. This goal is extremely important for the new state members, especially for Bulgaria and Romania. The future enlargement of the community by accession of new countries from West Balkans depends on the terms and speed of reducing the macroeconomist differences. The most important indicator for this is the average growth rate of real GDP per person. It will be presented according to the average level in EU (Table 1).

Table 1

GDP level and growth rate on the Balkans and EU-27

Страни	Nominal GDP per person, EUR – 2007	Nominal GDP per person - % of EU 27 – 2007	GDP per person in PPS, EUR – 2007	GDP per person in PPS, - % of EU 27, EUR – 2007	Growth rate of real GDP 2007/2006
EU-27	24800	100	24800	100	2,5
Bulgaria - Bg	3800	15	9500	38	6,2
Greece - Gr	20500	83	24300	98	3,8
Cyprus - Cy	19800	80	23000	93	2,4
Romania - Ro	5600 (f)*	23	10100 (f)	41	6,3
Slovenia - Sl	16600	67	22000	89	5,5
Croatia - Cr	8600 (f)	35	13900 (f)	56	6,0
Turkey - Tr	6500 (f)	26	10500 (f)	43	3,2
Macedonia - Mc	2700 (f)	11	7300 (f)	29	4,8
Albania - Al	2150 (f)	9	:	:	5,8 (2005)
Bosnia and Herzegovina - BH	2600 (f)	10	:	:	6,2 (2006)
Serbia - Se	3700 (f)	15	:	:	5,7 (2006)

Source: EUROSTAT

*Note: Forecast data

International Conference, 2006.; Tonkova, St., M. Bogdanova. Cohesion of the Balkan Countries – Reality and Challenge. Varna. 2008.

³ Вж.: Zait Dimitru. La creation d'un 'barometre' local d'attractivite pour les IDE. In: L'Europe et le developpement regional. ISLA, Lisboa, 2007, p. 385-392; Eva Bogalska-Martin. Dispositifs europeens sur la non-discrimination et leurs usages municipaux. Analyse compare France-Pologne. In: L'Europe et ..., p. 420-427; Jaroslav Kita, Ferdinand Dano, Denisa Repkova et Pavol Kita. La competitivite des entreprises sur les territoire de la Slovaque dans l'Europe... In L'Europe et, p. 302-316.

As one can see from table 1, the countries with the highest nominal GDP per person are Greece, Cyprus and Slovenia. They are a little below the average EU level. In the same time, Romania and Bulgaria are on the last two positions in the Community with 23% and respectively 15% of the average EU level of GDP per person.⁴ These two countries drop behind even from the candidate states – Croatia and Turkey. The rest of the Balkan countries are in worse position – Serbia with level of GDP below 15%, Macedonia – 11%, Bosnia and Herzegovina – 10% and Albania – 9%.

The nominal GDP however is not appropriate indicator. It shows only the situation in the moment and ignores the price level. From the point of view of the dynamic of changes, it is important to determine the average rate of convergence, measured by the difference between the growth rate if particular country and a state, chosen for standard. Because the natural aspirations of the Balkan countries are to be closer to EU, the most logical standard for comparison is EU-27. The highest is the growth in particular country, the sooner it will achieve the desired level of GDP.

The dynamic of real growth rate of GDP per person in the present state members is presented on Figure 1. Bulgaria and Romania keep high level and the trend is stable. After 2000 both countries have growth rate that exceeds the EU-27 with approximately 5 points (4.67 points for Bulgaria and 4.96 points for Romania). The rate in Greece, Cyprus and Slovenia is more modest, closer to the average in EU.

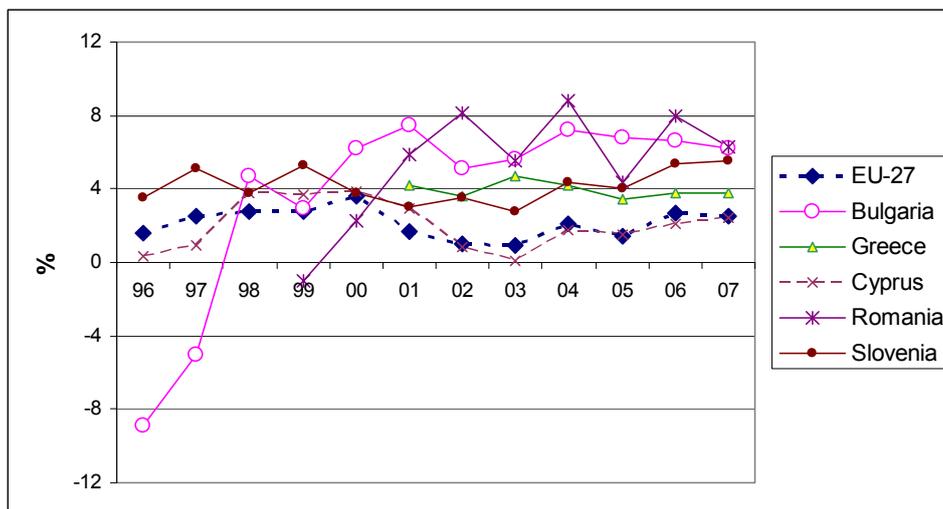


Fig.1. Real growth rate per person in 1996 – 2007 r. in the Balkan state members

⁴ The target level, which must be achieved in Bulgaria according the National Strategic Referent Framework until 2013 are the following: GDP per person – 51.2% of the average EU level, growth rate of GDP – 5.73%. The target level of growth rate in Romania is 10%, in Greece – 3.5%, and in Slovenia – 4.2%.

The situation is different with the other Balkan countries. The dynamic of the real GDP per person in these states is shown on figure 2. There is big amplitude in some countries like Turkey, Macedonia and even Croatia. Besides that the average rate of convergence (the average difference in the growth rate) with EU in 2001 – 2007 is below 2% for Turkey and Croatia and only 0.28% for Macedonia. This means that under equal conditions Macedonia will need many times more time for cohesion than the rest of the countries. In Albania the average rate of convergence is a little higher, but in this country the initial level is extremely low, so the forecast for cohesion is unfavorable, too.

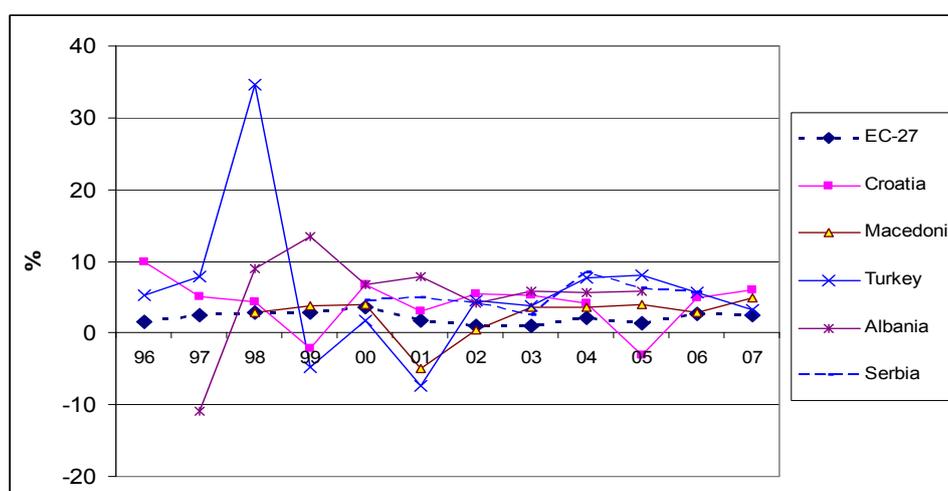


Fig. 2. Real growth rate per person in 1996 – 2007 r. in the Balkan non-members states

Despite of the differences in the growth rate between the separate countries, in the last years all states keep relatively high growth of GDP per person. The political instability, which leads to economical one, remains in the past. If the tendency preserves itself, this can be an important factor for reducing the regional asymmetry between the countries and for economic and social cohesion not only in the Balkan countries, but with the average EU level.

A combine outline of the nominal GDP per person for 2007 and the growth rate for 2007/06 is presented on fig. 3. Conditionally the countries can be divided into three groups. The first one is with the best indicators – Greece, Cyprus and Slovenia. They are closer to average EU level.

In the second group are Bulgaria, Romania – the newest member states, as well as a part of the West Balkan countries – Croatia, Bosnia and Herzegovina, Serbia and Albania. These are the countries which are in the right hand of the figure. They are with the highest growth rate among the all.

The worst position is of the countries from the third group – Turkey and Macedonia. The first one drops behind with its growth, the second – with its GDP level.

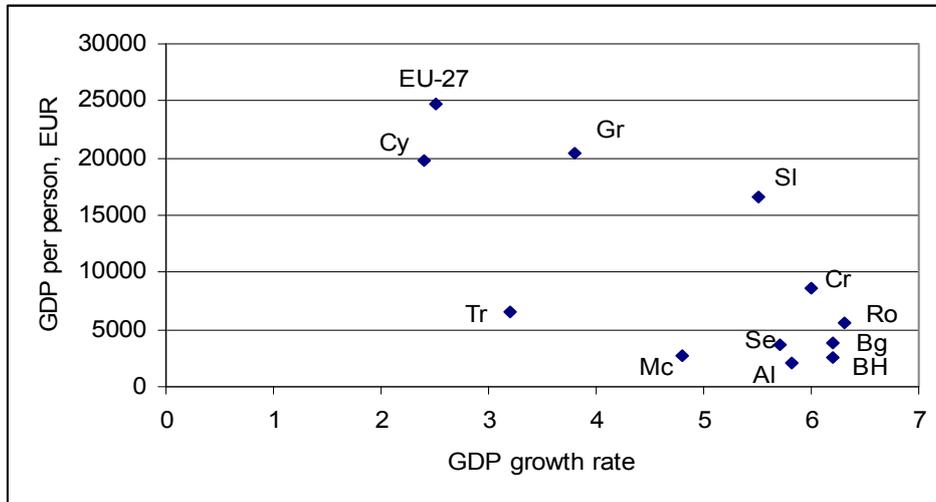


Fig. 3. GDP per person (2007) and growth rate of GDP (2007/06)

Fig 4 presents the GDP, but in its purchasing power standard (PPS) in comparison with growth rate.

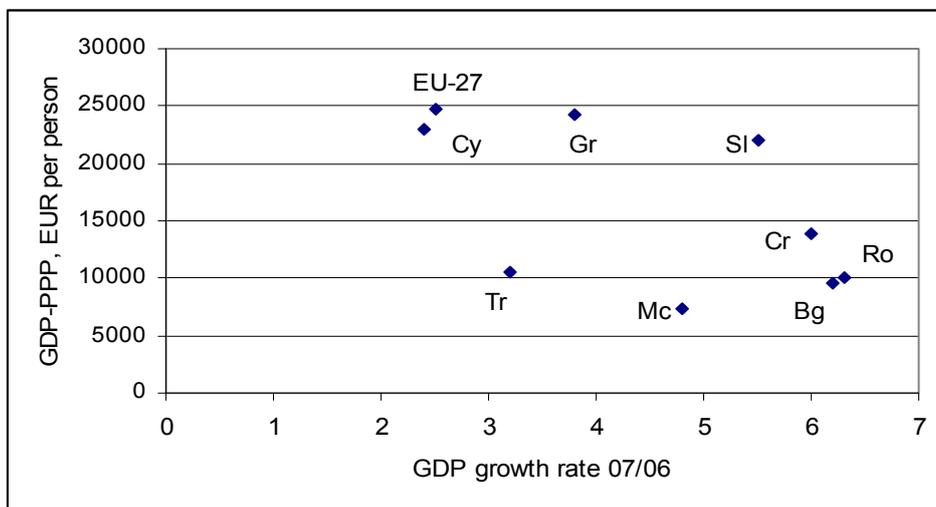


Fig. 4. GDP (PPS) per person (2007) and growth rate of GDP (2007/06)

In this figure the grouping is not so clearly outlined, as in the previous figure. Bulgaria and Romania remain close one to another yet, despite that Romania displays better conditions for

progress. Because of lack of information about some countries – Serbia, Bosnia and Herzegovina, Albania, they drop out of the figure.

Figure 4 shows that there is serious misbalance between the nominal GDP and PPS per person. The reasons are hidden in the relatively different price level in the Balkan countries. The parity of the purchasing power is higher than the nominal GDP. The countries with the highest level are Greece - 98%, Cyprus – 93% and Slovenia – 89% of the average in EU. Croatia is behind them with 56%. In the rest of the state members – Romania and Bulgaria, the share is respectively 41% and 38% of EU-27, and the absolute difference between them grows. The country with the lowest share is Macedonia – 29%. For the rest of the countries there is no information.

The Human Development Index of United Nations Development Program (UNDP) is another indicator for comparison between the countries. In the Human Development Report for 2006, Bulgaria is on 54-th position from 177 countries with HDI of 0.816 and for 2007 – on the 53-th position. So Bulgaria outstrips Romania, which is on 60-th position in the last two reports. The countries which are on the top of the scale are Norway, Iceland, Australia and Sweden. Slovenia is on the 27-th position and Cyprus – on 29-th. The most distant state from Bulgaria on the Balkans is Turkey. It is on the 92-th place. Macedonia is on 66-th. There is no information about Serbia. Despite of that incompleteness of data, there is slow but clear tendency of decreasing the distance between the Balkan countries according to HDI. The HDI is appropriate indicator from the point of view of regional disparities because one of the components – living standard contains GDP per person, corrected with the inflation – the real income.

The level of GDP per person depends in a great extend on the employment, unemployment and inflation. The connection between the inflation and unemployment on the Balkans is presented on figure 3. There is a confirmation of the Philips curve for the relationship between them. In Macedonia the high level of unemployment corresponds to low level of inflation. For Turkey and Romania, the opposite is true. Bulgaria and Greece are rather in the first group – with high unemployment and low inflation. Cyprus is on a best position – with relatively low level of both indicators.

The explanation for Bulgaria is in the currency board, which was introduced after hyperinflation in 1996-97. So the price of the financial stability was paid by the high level of unemployment for 10-years period. Only when Bulgaria was accepted into EU, there was a drop in

the unemployment below 10%. Now it reached its critical point and even there is an insufficiency of labor in some sectors. Because of the world crisis, provoked mainly by the increasing of the fuel price, in 2008 there is increasing of inflation in Bulgaria with approximately 15%. So the Philips curve is valid for the last year too.

The curve is conditionally drowned on the figure 4. Nevertheless there is clear division of countries under and above the curve. Under the curve are the old member states – Greece, Cyprus and Slovenia. Above the curve are the newest countries – Bulgaria and Romania and the candidate member states. Unfortunately Serbia, Bosnia and Herzegovina and Albania are not on the figure. There is not enough information about them. But the last two countries are in the group of Macedonia. Serbia is rather a country with high inflation, provoked mainly by the different kinds of crises, which shook this state in the last ten years.

Table 2

Average inflation and unemployment on the Balkans in 1999 – 2006

	Unemployment	In relation to EU-27	Inflation	In relation to EU-27
EU-27	8,6	1	2,4	1
Bg	14,1	1,64	5,0	2,08
Gr	10,2	1,19	2,9	1,21
Cyprus	4,4	0,51	2,4	1
Ro	7,4	0,86	10,8	4,5
Sl	6,4	0,74	4,6	1,92
Tr	9,4	1,09	12,2	5,08
Mk	36,7	4,27	1,7	0,71

Source: EUROSTAT

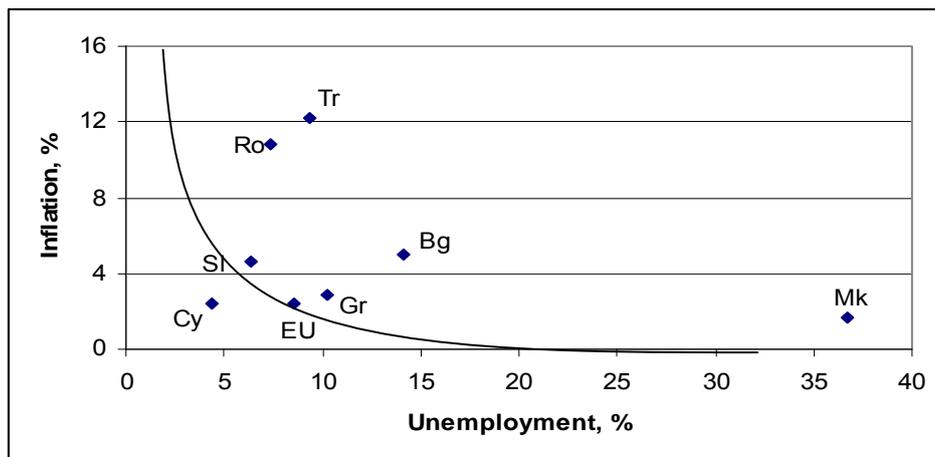


Fig. 5. Inflation and unemployment on the Balkans in 1999 – 2006

The increasing of employment level in EU in 1999-2006 is relatively stable according to EUROSTAT, with exception of 2002-2004. In 2002 the growth is negative (-0,3%) but in 2006 the level reached gradually the figures from 2000. Greece is one of the Balkan countries, where the tendency of employment development is not good outlined. The fluctuations in this indicator are considerable, despite that in 2006 the employment level is close to the average in EU. There are significant variations in Romania, too. Only in 2000, 2004 and 2006 can be seen a positive growth of employment. Bulgaria is one of the countries, in which the employment growth became stable after 2001. In Turkey for the same period there is instability in the level of employment. The same conclusion can be said for Croatia.

One of the important factors, which have a big influence on the GDP per person, is the labor productivity. In EUROSTAT this indicator has been observed relatively to EU-25. The labor productivity in EU-27 measured by GDP PPS per employed person increased for 1999 – 2007, even if slightly. It reached 95.1% from the average of EU-25 in 2007 (starting from 93.6% in 1999). The same situation is in Bulgaria. From 28.9% in 1999 it reached almost 40% in 2007. It is higher with 3.1 points from the index in Romania. In Turkey the labor productivity (by forecast data) in 2007 is 45,2% of the average in EU-25 and in Croatia - 58,9%. The highest level is in Greece – 103% (by forecast data) and Cyprus – 97,8%. For the rest of the Balkan countries there is no data, so they are excluded from the comparative analysis.

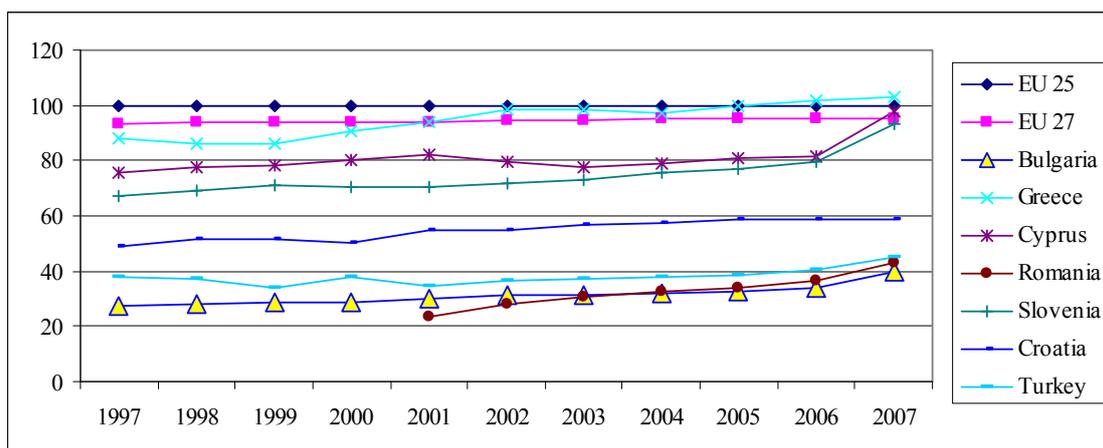


Fig. 6. Labor productivity, measured by GDP PPS per employed person, relatively to EU-25

The main factor for growth is the level of investments. This is the basic problem for the most of Balkan countries – the insufficient amount of investments in GDP. This tendency is valid

especially for the end of nineties of last century. There is a strong deformation in consumption favor on account of investments. If we accept for standard the average EU level, in the end of nineties from all Balkan countries only Slovenia has a share of consumption below that in EU. In all other countries, including Greece, the level of consumption varies from 82% in Turkey to 90% in Romania, with average for EU – 78%.

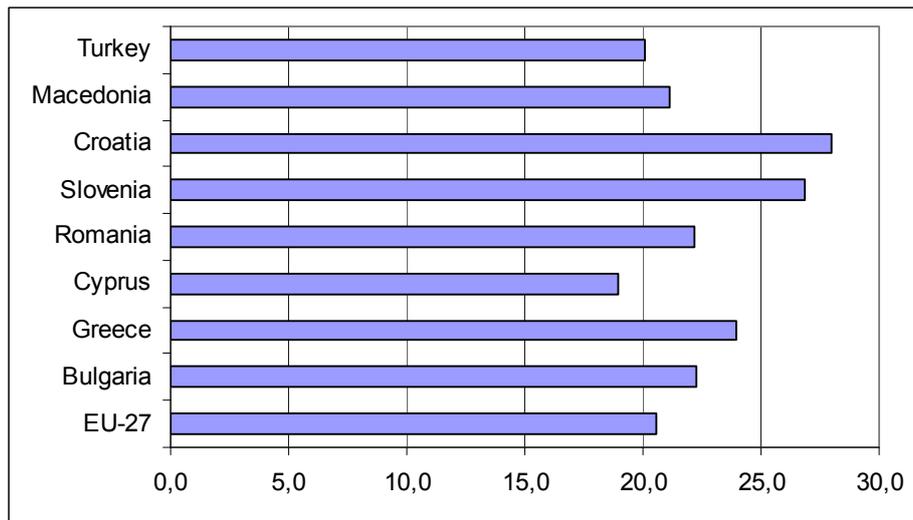


Fig. 7. Average share of Gross capital formation in some of the Balkan countries 1997-2007, % of GDP

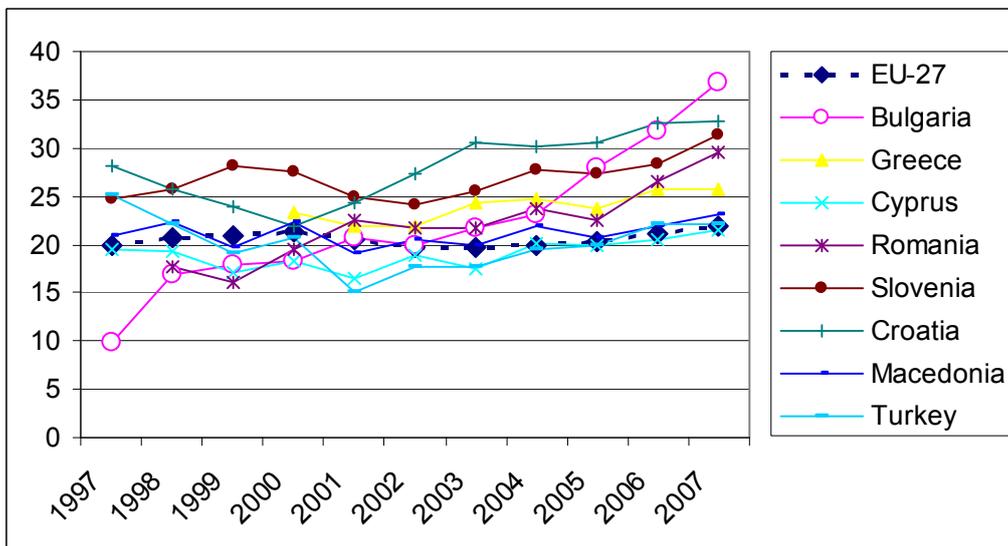


Fig. 8. Dynamic of Gross capital formation in the Balkan countries 1997 – 2007, % of GDP

Only in the beginning of this century the ratios have been changed. For example Bulgaria started from 9.9% share of Gross capital formation in 1997 and reached 36.8% in 2007. So it reaches average rate of 22% for the last 11 years – 2 points more than the average in EU. But the neglecting of investments in the first years of transition period embarrassed the recovery both in the public and private sectors. That's why the level of investments remains an important challenge for Bulgaria as well for the rest of the countries in the region.

The expectations of the authors based on the research are that in the next ten years the economic and social disparities between Balkan countries will go deeper and deeper. The main reason is the division of countries of state members and non members of EU. This is a key factor because of the ambitious cohesion policy that EU leads. In the Fourth cohesion report there are such goals as reducing the asymmetry in GDP per person, in employment, decreasing the unemployment, especially the women unemployment, creation of competitive knowledge economy, as well as decreasing the territorial concentration of EU GDP in the traditional economic “core” of Europe.⁵

The developed and adopted National strategic referent frameworks of state members according to the SF and CF regulations will help to be implemented the objectives of social and economic cohesion. These frameworks are documents for the role of the structural funds in 2007-2013 in support of the development strategies of the separate countries. Each NSRF corresponds to the Community Strategic Guidelines and contributes to the achievements of these goals. The matrix of the Balkan state priorities is shown on table 3.

The comparative analysis of the thematic priorities and NSRF displays that the key tasks of the states are very close in their content. The five countries have as objective **improving the basic infrastructure** and even in Greece and Slovenia it is a mean for increasing the attractiveness and for economy growth. All the countries put accent on the **human capital** as the main important factor for economic development and especially on the Lisbon strategy objectives. In some countries like Greece, Cyprus and Slovenia, except the employment as an element of this priority, is included the social development.

The five countries are orientated to **fostering entrepreneurship and to improving the business environment**. In Slovenia innovations and technology development are priority and in

⁵ Fourth Report on Economic and Social Cohesion, European Commission
http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion4/index_en.htm

Bulgaria – the good governance. Two of all five countries have a separate priority for building an **administrative capacity** – Greece and Romania. The **balanced territorial development** is common priority for all states. It is very well presented in Greece where three sub priorities are defined - sustainable urban growth; development of the countryside; and cross-border, transnational, and inter-regional cooperation.

Despite of some specific moments in defining the basic thematic priorities, the NSRF of Balkan state members are turned to the problems in each country. The implementation of these strategic priorities will depend in a great extend on the administrative capacity of the states. Greece, as the oldest state member and Romania – as one of the youngest, set the building an administrative capacity as a separate priority. The countries which are non member states doubtless will be far behind in capacity building and this will lead to opening the difference on the Balkans.

Table 3

Matrix of the thematic priorities of the Balkan countries, state members

	Bulgaria	Greece	Cyprus	Romania	Slovenia
Basic infrastructure	Improving basic infrastructure	Attractiveness of Greece and of the Regions as places to invest, work and live	Environment, Transport and Energy Infrastructures	Development of Basic Infrastructure to European Standards	Ensuring conditions for growth by providing sustainable mobility, improving the quality of the environment and by providing the appropriate infrastructure
Human capital	Increasing quality of human capital with a focus on employment	Employment and Social Cohesion	Human Resources, Employment and Social Cohesion	Development and More Efficient Use of Romania's Human Capital	Improved labour market flexibility along with guaranteeing employment security in particular through job creation and the promotion of social inclusion
Entrepreneurship, business environment	Fostering entrepreneurship, favorable business environment by support and good governance	Investment in the productive sector of the economy	Strengthening of the productive base of the economy and support to enterprises	Increasing Long-term Competitiveness of the Romanian Economy	Promotion of entrepreneurship, innovation and technological development
Administrative Capacity		Institutional environment		Building an Effective Administrative	

				Capacity	
Balanced territorial development	Supporting balanced territorial development	<u>3 territorial priorities:</u> Sustainable urban growth; development of the countryside; and cross-border, transnational, and inter-regional cooperation	Development of Sustainable Communities	Promoting Balanced Territorial Development	Promotion of a balanced regional development
Knowledge society and Innovation		Knowledge society and Innovation	Knowledge Society and Promotion of RTD and Innovation		Improvement of the quality of the educational system, training and research and development activities

There are some evidences that economic prosperity of EU became less geographically concentrated in the last years. The traditional economic core of Europe (the area between London and Milan) contributes for smaller share of the common GDP of the united Europe in 2004 than in 1995, while the population number remains stable. The reason is in the new axes of economic growth: Madrid-Barcelona-Provence-North Ireland (known as *sunny belt* or *golden banana*) and Lübeck-Rostock-Budapest (popular like *the cucumber*) as well as Gdansk-Poznan-Wroclaw-Praha-Brno-Bratislava-Wien- Budapest. Therefore we can expect that such growth centers will arise on the Balkans, too, mainly round the capitals – Athens, Sofia, Bucharest and Ljubljana. They will attract both the industry and services in big adjoining territories. In this since is the adopted Territorial Agenda of EU, in which is written: “City regions and cities of varying size are best able to build upon their own strengths in the context of a Europe-wide cooperation with entrepreneurs as well as societal and political stakeholders. If they succeed in implementing networks in a polycentric European territory in an innovative manner, they will create conditions to allow them to benefit global competition in terms of their development.”⁶

Besides that the Balkans has big potential for cross-border trade of goods and services, for free movement of people and capital. But these processes will be more intensive again between the state members. In the next years as a result of cross border collaboration can be expected

⁶ Territorial Agenda of EU. Toward a More Competitive and Sustainable Europe of Diverse Regions. Agreed on the occasions of the Informal Minister Meeting on Urban Development and Territorial Cohesion. Leipzig. 2007

streams of people, goods, capitals and services between Greece, Bulgaria and Romania. They are neighbors, which synchronized two years ago their custom', trade', tax' etc. policy, and there are possibilities for grant financing of the cross-border collaboration at one of the Structural fund objectives – European territorial cooperation.

The Balkan countries, which are non state members of EU, have chances to catch up their delay if they succeed in the finishing the accession negotiations. The fact that they would start from higher economic position than Bulgaria and Romania (for example Croatia and Turkey) is very important for their rapid integration.

In most unfavorable position are the states from the West Balkans. Neither economic nor political reforms are enough advanced to be expected forthcoming accession. As a result the economic and social asymmetry between Albania, Macedonia, Bosnia and Herzegovina, Serbia, Montenegro and Kosovo from one side and the state members and candidate state members from other side, can only increase. Nevertheless there remains the hope that the progress of the neighbor countries will be a good example, which to be followed, not to be a reason for aggression and alienation. This is the only reasonable alternative in this part of Europe in the beginning of 21 century.