

## EU PERIPHERY, ECONOMIC PROBLEMS AND OPPORTUNITIES – THE CASE OF BALKAN COUNTRIES

*The economic analyses outlined that the big differences between the Balkan countries economic structure and the average EU one is seriously negatively affecting their economic efficiency. It appears that the Balkan region is becoming the weakest European economic area – the new European economic periphery. It is outlined that the most proper policy that will not lead to problematic economic results for the lagging Balkans countries can be the one of making benefits from their geographical location. Firstly by realising economic cooperation within Balkan countries and secondly throw participating of the Balkans as a sub-regional structure in the Black Sea economic initiatives.*

*JEL: O47; R11; R58*

The mainstream comprehension of the EU cohesion policy is linked with the paradigm incorporated in the neoclassical development theory; the economic growth is leading to diminishing regional differences and carrying out the effect of convergence (EC, 1999). In other words the maintaining of as high as possible growth within the EU countries will lead to the desirable economic convergence. However new theoretical and empirical researches support the understanding that the economic growth cannot be always related with accomplishing of economic convergence moreover, sometimes it can be the main reason for increasing of the divergences (Solow, 1999; Puga, 2001; Petrakos et al., 2005).

The economists are not united how the convergence-divergence processes are going in the EU framework – they do not provide synonymous answer to that. One can find in the literature quite contradictive statements whether convergence between the rich and poor countries is observed or not (Friedman, 1992; Quah, 1997; Bradley, Untiedt, 2008). The opinions differ also about the course of action, the object and the possibilities for realising convergence.

The mixed results from the empirical researches make most of the economists to come to the idea of the dualistic nature of the development in the EU framework – differences in the development of the North and the South or between the centre and the periphery. That means that convergence-divergence processes are determined by the level of

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<sup>1</sup> Stoyan Totev is Senior Research Fellow, Ph.D. in Economic Research Institute at the Bulgarian Academy of Sciences, e-mail: s.totev@iki.bas.bg; stotev@yahoo.com.

development; development that in the European economic space to a great extent depends on the geopolitical location of the countries (Quah, 1997; Puga, 2001; Petrakos et al., 2005; Totev, Sariiski, 2008). The main question that still does not find acceptable answer is not whether the two processes exist simultaneously (convergence and divergence), something that already is accepted as a fact, but to make clear when and at what stage of the economic development these processes take place in the different EU countries.

Generally in the last decade it is observed decreasing of the differences of the GDP per capita and the labour productivity within the EU countries; this is before all due to improving the results for the lagging countries like Romania and Bulgaria. However, this process is not finding confirmation within the EU-15 countries. One can say that the convergence in EU framework is obvious when smoothing the big differences but not as a one-way process. So no matter how attractive it may sound to achieve convergence by means of a common growth, this is not at all supported by the empirical results.<sup>2</sup> This means that the EU regional policy pointed to facilitate the economic convergence should not rely on the economic growth to solve the problems by itself.

### **Convergence Processes and the Economic Production Structures**

The economic potential of a country to a great extent is determined of its economic structure (EC 1999). The presumption is that the composing of one or another structure is a result of the comparative advantages of given country, respectively to its competitiveness in a given activities. After the labour productivity by various economic activities differs, the forming of different production structure by these activities is prerequisites for regional divergence as far as one or another production structure is decisive for the production efficiency – respectfully for the growth and the level of consumption (OECD, 1987; Pender, 2003; Canova, 2004; Totev, Sariiski, 2008; Moore, 2009).

The countries with more “effective” structure (higher share of sectors or branches with high labour productivities) are the developed countries and vice versa. It is quite interesting to define what production structures have the new member states

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<sup>2</sup> The author of the paper has yielded to the temptation to discuss the beloved thesis of the Bulgarian economists – when the country will reach the average European level of GDP per capita. If one leave the exotic forecast for achieving convergence in the EU framework for two-three centuries (Fingleton, 1999) it can be underlined that in the foreseeable future Bulgaria will never reach the average income of the present EU countries. After all if it is average EU level, and having in mind that the big EU-15 countries are with stronger economies, this means that more than half of the EU countries should stay behind Bulgarian level of development. In this case more clearly this can be illustrated by pointing out that Bulgaria should leave behind countries like Check Republic and Slovenia (countries with the highest economic levels within the new member states) and to level its indicator with those of Italy, Spain and almost to reach the one of France.

and to analyse what economic prospects provide these structures.<sup>3</sup> The structural changes in the last decade is showing that the countries from Central and Eastern Europe are in a process of adaptation of their economic structures – adaptation that is accomplished in a different way. The Central European countries like Hungary, Check Republic, Slovenia and Slovakia managed to achieve structure close to the average EU one; that ensure them having the potential to reach the EU average competitiveness and efficiency. The rest of the new member states in one degree or another cannot accomplish such adaptation and their structures differ from the EU average.

Table 1

Labour productivity, labour productivity as a result of the structural differences and GDP per capita in PPS

	GDP per capita, 2008, % (in PPS)	Labour productivity, 2008, % (GDP per employed in PPS)	Labour productivity as a result of differences of employment structure by main sectors, 2008, %*	Labour productivity as a result of differences of employment structure of manufacture by its sub-branches, 2005, %**	General effect of structural differences, 2005, % (combined effect of col 3*** and 4)
Columns	1	2	3	4	5
EU – 27 average	100.0	100.0	100.0	100.0	100.0
Bulgaria	41.3	38.8	74.5	86.7	78.1
Check Republic	80.4	72.0	83.7	100.8	90.8
Estonia	67.4	64.0	91.0	88.6	93.7
Lithuania	57.3	52.1	93.0	87.3	97.5
Latvia	61.9	62.4	89.7	89.3	92.3
Hungary	64.4	71.9	91.1	103.0	94.7
Poland	56.4	62.2	82.3	96.7	88.5
Romania	44.3	50.3	66.9	90.1	74.0
Slovenia	90.9	84.9	81.2	97.7	82.5
Slovakia	72.2	79.4	84.1	99.4	89.7
Croatia	62.7	--	82.9	98.0	87.6
FYR of Macedonia	32.0	--	70.1	83.3	77.1
Turkey	45.5	--	74.4	88.5	73.1
Albania	--	--	60.1	--	--
Serbia	--	--	75.8	--	--
Moldova	--	--	75.3	83.9	77.0

Sources: EUROSTAT sources.

\* labour productivity as a result of the differences of agriculture, business and finance services and other services – for Serbia and Moldova the figures are for 2005;

\*\* NACE classification for manufacture sub-branches (15-37) – DF 23 “Manufacture of coke, refined petroleum products and nuclear fuel” is not included;

\*\*\* The structural effect of the differences by main observed sectors for 2005.

<sup>3</sup> In the research are evaluated the differences in the labour productivity as a result of the differences of the structure by main economic sectors (agriculture, business and finance services and other services) as well as the effect from the differences of the structure of the manufacture by its sub-branches.

If one assumes that every country has equal productivity by each given sectors or manufacture sub-branches to the average EU one for those sectors or manufacture sub-branches, it can be estimated what will be the net effect on the labour productivity solely as a result of the structural differences for the observed sectors and manufacture sub-branches. In Table 1 are presented the estimated effects on the productivity for the EU Central and East European countries due to having different structures from the EU average – different labour productivity as a result of the differences by main sectors (differences of the shares of agriculture, business and finance services and other services), see column 3; as a result of the differences of the manufacture composition by its sub-branches, see column 4; general effect of the structural differences, see column 5 (combined effect of column 3 and column 4).

All Central and East European countries have lower structural labour productivity compare to the EU average (EU average = 100%) due to the differences of the structure by the main observed sectors. Most disadvantageous figures have Romania and Bulgaria – accordingly 66.9% and 74.5%, see column 3, Table 1. For Bulgaria that means that the total productivity of the observed sectors will be with 35 percents higher if the country has same structure to the average EU one. The picture for the rest of the Balkan countries that are not members of the EU is same, only Croatia has better figures.

It is observed a close relation between the production structure and the incomes and the latter somehow appears to be consequence of this relation. The coefficient of correlation between the structural effect and level of economic development is 0.85 (relation between columns 3 and 1, Table 1) and the coefficient of correlation between the structural effect and the labour productivity is 0.87 (relation between columns 3 and 2, Table 1).<sup>4</sup>

These results are showing that one cannot expect to have a convergence regarding the incomes in long-term perspective in case of existence of obvious process of increasing the production structure differences of EU countries (Totev, Sariiski, 2008). The economic analyses outlined that the big differences between the average EU economic structure and that of the Balkan countries will remain; that will seriously influence negatively the labour productivity for these countries in the future too.

### **Geography Matters**

Bulgaria with Romania differ from the other Central European new member states in respect of their structural competitiveness. This is valid and for the other Balkan countries like FYR of Macedonia, Turkey, Serbia and Moldova (see Table 1). It is obvious a North-south divide between Central and Eastern European countries with the Balkan economies having a less advanced economic structure than the Central European ones and performing worse economically than them. The economic structures of the Balkan countries differ and from the lagging EU-15 countries like

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<sup>4</sup> Coefficient of linear correlation estimated on the bases of data for the 27<sup>th</sup> EU countries.

Portugal and Spain. Given that within the EU-15 Greece is a case of structurally lagging behind country, it appears that in the new, slowly shaped, geography of Europe, the Balkan countries has the weakest economic structures; the Balkan region is becoming the weakest economic European area – the new European economic periphery.

Here arises the question what will be the prospects for the Balkan countries, are they going to eventually converge towards the more advanced European countries or to continuously diverge from them. The economic analyses are showing that in foreseeable future (10-15 years) the big differences in the structures by main economic sectors and by manufacture sub-branches will remain. One can say that the Balkan region will remain the one with countries with lagging economies within the EU space.

Here the paper is not going to discuss what economic policy can improve the structural competitiveness of the Balkan countries – policy with doubtful results when speaking about the implementation of new technologies, science intensive activities, etc. For example if one look to the priorities that the Bulgarian authorities put for the development in the future it appears that they are not realising the problem that stable convergence is not possible to be obtained with weak economic structure. It should be underline that the desire development not always is the possible one. The policy makers and authorities in Balkan countries also are paying tribute to the idea of developing advanced technologies (as an example in Bulgaria still is popular the idea of developing as a priority sector the nanotechnologies). Everybody will be happy if that becomes truth but this is hardly attainable goal. Such a populist ideas are not considered with the real potential of the countries and their real comparative advantages.

In the same time the truth is that the desired and expected structural changes and priority sectors in the Balkan countries are similar to a great extent. Speaking about priority sectors and comparative advantages something that can be called the myth of the priority sectors should be noted. The myth of the priority sectors is that every Eastern European country is outlining the unique possibility that have their countries to develop particular sectors. These sectors are more or less the same for most of the countries. The coincidence of these priority areas makes difficult for the Western investors to use these resources and factors endowments in every country as the national economists supposed. In the same time because of their proximity to the Western countries and stronger economies, the Central European countries are in a favourable position. In this respect the Balkan countries should try to take advantages from something that can be distinctive for them – namely taking specific advantages of their geographic location.

### **What Are the Prospects of the Balkan Countries in This New International Setting?**

The development of relations within the Balkan countries is of vital importance for the small Balkan countries that are located peripherally to the European economic

gravity centre.<sup>5</sup> They cannot benefit like the Central European countries to be adjacent to the developed European countries, due to that the regional cooperation is an important option for realising economic advantages. So the Balkan countries have to define realistically their real priorities as well as regional orientation, which should be the Balkan region and the Black Sea Economic Area countries. This orientation should not be understood as an alternative to the main development direction – becoming full EU members for all Balkan countries.

Activities related with regional cooperation can be really beneficial for the Balkan countries and are not questionable like the attempt to realise comparative advantages by developing advanced technologies, science intensive sectors, etc. The idea for finding kind of regional agreements is not new for the Balkans. There are a lot of efforts to promote cooperation in the region that date back into the Ottoman period and since then have been numerous calls and proposals, some of them up to 1989 are:

- First effort to form a customs union was between Bulgaria and Serbia in 1905 but was aborted because of Austrian pressure on the Serbs;
- Second Balkan League in 1912 gained in military cooperation against Turkey collapsed because followed immediately of the second Balkan War;
- The formation of the first Yugoslavian Kingdom in 1918 might be considered more successful so far even though it failed in nowadays;
- After First World War Romania, Croatia, Bulgaria and Greece promoted proposals for Balkan political and economic cooperation – however the idea it remains in the sphere only of the good wishes;
- Greece, Romania, Yugoslavia and Turkey signed an agreement in 1934, which was supposed to provide a permanent Council, a Balkan bank, and legislative coordination. Unfortunately Italy opposed that, supported by France; the idea weakened and was not implemented;
- During the Second World War Yugoslav and Greek Communists proposed a Balkan Union – this idea failed with the failure of Greek communist to come to power;
- There was another idea in 1947 to extent the South Slav Union including Bulgaria, which failed because of Tito's break with Moscow;
- There were initiative for Greek, Yugoslavian and Turkey agreements but it failed with the Greco-Turkish conflict in 1955 and the Soviet initiative to improve the relations with Yugoslavia in the same year;

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<sup>5</sup> Quite often as economic centre of Europe (gravity centre) is accepted the German town Frankfurt am Main – for example when using gravity models.

- In 1988 a meeting in Belgrade takes place to consider how greater cooperation could be of mutual interests.

In all cases somehow the Balkan countries did not manage to come to mutual agreement.<sup>6</sup> Even when there were good will among the Balkan countries there were pressure against them from Russia, Austro-Hungarian Empire, Italy, France (“Great Power” countries). At present such a pressure is not to be expected if we not count the Russian policy that have always “special interests” on the Balkans. Now the Balkan countries have for first time the possibility to find ground for such cooperation since they have mutual interest in joining the EU structures.

Since 1989 there were no shortages of initiative for regional cooperation most of them related with the Stability Pact or other EU initiatives. Unfortunately these initiatives more or less were realised to the extent allowing only to assimilate the provided funds for them. So one can claim that it is high time the regional cooperation within the Balkan countries to become a reality. For the Balkan countries that are characterised by small internal markets, inefficient cross border infrastructures and to some degree trans-border political tensions and conflicts, the elimination of the economic and political «border-effect» will enable the interaction of the integration between sub-regions belonging to different countries, strengthen the stability in the region, finding new markets for trade and becoming attractive for foreign investments.

The region’s location of the Balkan countries presupposes also the development of the European economic relations with the countries from the Black Sea Economic Area. It is a regional possibility for the Balkan countries to search in making advantages of their geographical location by involving in the Black Sea economic initiatives, which are oriented in making productive use of financial and human resources as well as foreign investments. It is a cooperation scheme, which is part of the future European and Eurasian architecture.

The main directions of the Black Sea Economic Cooperation (BSEC) development are the speeding of the development of joint investment projects such as in the field of transport and communications and the building of their infrastructure. Participation in the creation of regional elements of cross European networks – transport, energy and telecommunications.

#### *Prerequisites for a Successful BSEC and Obstacles to be Overcome*

##### *Main favourable settings*

*Geographical* – Owing to its suitable location, region could be integrated relatively easy to the markets of Europe, Central Asia and Middle East. This offers a large

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<sup>6</sup> Actually there was one agreement that can be considered as successful for the countries involved in it, the one during the Second Balkan War – almost all Balkan countries against Bulgaria.

potential for cooperation in the development of transport, telecommunications, infrastructure with regional and intercontinental importance;

*Political* – The end of the cold war era;

*Economic* – Complex of factors such as revolutionary progress in communications and information technologies, diffusion of modern technology, globalisation of markets, investment and product mobility, huge mineral and energy resource endowment, relative skilled and cheap manpower;

*Cultural* – Historical familiarity, cultural affinity and lingual similarity.

*Unfavourable settings*

*Economic* – Serious differences in incomes that can rise in course of time; economic difficulties can generate social tensions;

*Cultural* – Religious and ethnically heterogeneity, minority problems;

*Institutional* – Lack of basic legal and institutional framework, disharmony in the legislation of the member countries;

*Financial* – Most of the countries have limited financial resources; currencies, which are not fully convertible;

*Political* – Local conflicts and military instability.

**What Prospects for Economic Development Provide the BSEC for the Balkan Countries?**

The BSEC will encourage the mutual realization of the European initiatives in the regions and its links with neighbouring economic areas. What is more, the development of these relations could be a prerequisite for a future regaining of a part of these markets for the former socialist countries (namely Bulgaria and Romania).

Advantages that can be expected for the Balkan countries from their joining as a sub-regional structure in the Black Sea Economic Area is the speeding up their development by attracting foreign investment for realization of joint investment projects. The main economic and political importance of the Black Sea Economic Area for now is connected with the oil and gas transportation from the huge sources high quality oil fields, what requires a solution of the problem related to the route and way of its transportation. The main issue is that Black Sea Economic Area covers the countries that the oil and gas pipeline will cross and the interests are quite different literally speaking we are witnesses of a real struggle for the projects concerning the gas and the oil transportation.



*Needs of Cooperation of Balkan countries within Black Sea Economic Area*

Here one should clarify why it is important to realise Balkan countries (sub-regional) economic cooperation and this can be understood as a prerequisite for their participation in the Black Sea economic initiatives.<sup>7</sup>

- The greater degree of economic cooperation will be obtained within the Balkan countries the greater will be the possibilities to attract foreign investment for this sub-regional structure in its participation in the Black Sea Economic initiatives. In other words the Balkan economic cooperation gives a possibility in finding mutual interest as a sub-regional structure in these initiatives;
- Balkan countries are a lot more homogenous group in economic, social, traditional, cultural and religious aspects. More over they have a lot more motivations to create a regional economic space and if they did not find a way to obtain that, this will mean that the possibility of creating a real regional form of cooperation within countries in the Black Sea Economic Area will face a lot of difficulties. In other words the Balkan countries economic cooperation can be accept as a touchstone for the creating a mutual inter-regional relation within the countries in the Black Sea basin;
- If Balkan countries manage to realise kind of cooperation within them it will be easier to defend their interests when participating in the Black Sea economic initiatives. Up to now in the Black Sea Economic Area the Balkan countries (if we not count Turkey) did not manage properly to defend their interests separately. In the presence of big countries like Russia, Ukraine and Turkey the closer collaboration of the Balkan countries will allow them to follow mutual economic policy considered with the already settled Balkan economic priorities. This will help these countries in their future relation under the Black Sea Economic Area as economic potential and interests to have correspondence and equivalence with the big countries. Otherwise the Balkan countries in the Black Sea Economic Area will never have the power to counterbalance to the interests of these big countries. For example up to now by giving advantages to one and not to other countries the Russia is finding a way to oppose the interests of the Balkan countries in order to provide entirely its own one.

The participation of the Balkan countries in the EU structures – members, countries in accession, etc. is an unique possibility for using it to find ways for closer cooperation in the EU framework and further to use that in their participation in the Black Sea Economic initiatives. EU from the other hand is quite interested in such initiatives from its member (or future members), since BSEC is a scheme, which forms a part of the future European and Eurasian architecture.

The successful implementation and effectiveness of the regional integration and mutual participating in Black Sea initiatives depend significantly of the Balkan countries authorities understanding how to take advantage of the mutual geo-

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<sup>7</sup> Turkey is not included when speaking about the Balkan countries cooperation.

strategic importance of the region in more adequate way, i.e. making the balance between national and regional interests. The Balkan countries should learn to behave in the Black Sea Economic Area following the maxim "Think globally, act locally".

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