

Economic Cooperation in South-eastern Europe. Progress in Transition and Accession to the European Union*

YANNIS TSEKOURAS

Department of Economics, University of Macedonia, Thessaloniki, Greece

Ladies and Gentlemen,

On behalf of the members of ASECU, and for myself personally, I should like to thank and congratulate the School of Economics of the University of Belgrade, itself a member of ASECU, as well as the Vice President of our Association, our colleague Mr. Cerovic, and the Organising Committee, for organising our second international conference. I must also thank them for inviting us to attend the conference.

ASECU was founded in Thessaloniki in 1996 and now numbers 31 economic universities and faculties among its members. In addition to organising two interesting international conferences, of particular importance to our region, it has now taken a significant step in a new direction, with the publication of its own academic journal (SEEJE). It is our hope that, as one of the few journals published by associations of economic universities, this will come to be regarded as a reliable and respected academic publication. We appeal to you to contribute your intellectual energy, knowledge and research to this new venture, since such initiatives – especially in a region beset by so many difficulties, and at a time of economic and political troubles – are in particular need of support, above all in their early days.

At its meeting in February 2001, in Thessaloniki, the plenary session of the association took a number of other interesting decisions, concerning distance learning, coordination of the curricula of our various faculties and joint participation in EU-funded research programmes. It is clear, however, that the implementation of these initiatives will be difficult and time-consuming. We hope that we will be able to achieve more as the European Educational Territory comes into being.

Corresponding address: 156, Egnatia str., 540 06 Thessaloniki, Greece

e-mail: tsekourj@uom.gr

* Presentation by the President of ASECU, Prof. Yannis Tsekouras at the 2nd ASECU Conference organized by the Faculty of Economics, University of Belgrade, Serbia and Montenegro. Belgrade, 6-9 November 2003.

Introduction

With my relatively limited experience of the problems faced by an association of universities and academics in attempting to implement shared objectives and decisions, I can now see how much more difficult it must be for the countries of south-eastern Europe to work together – especially when most of them are passing through a period of transition. It is fortunate, of course, that all the countries of south-eastern Europe share one objective – their entry into the EU through assimilation of the *acquis communautaire*, which consists, generally speaking, of the following chapters:

Acquis Communautaire – Chapter by Chapter

1. Free Movement of Goods
2. Freedom of Movement for Persons
3. Freedom to Provide Services
4. Free Movement of Capital
5. Company of Law
6. Competition Policy
7. Agriculture
8. Fisheries
9. Transport Policy
10. Taxation
11. Economic and Monetary Union
12. Statistics
13. Employment and social policy
14. Energy
15. Industrial Policy
16. Small and Medium-sized Enterprises
17. Science and Research
18. Education and Training
19. Telecom and IT
20. Culture and Audiovisual Policy
21. Regional policy and coordination of structural instruments
22. Environment
23. Consumer protection
24. Justice and Home Affairs
25. Customs Union
26. External Relations
27. Common Foreign and Security Policy
28. Financial Control
29. Finance and Budgetary Provisions

30. Institutions

31. Other

For the sake of fullness we also list the convergence criteria for the entry of an EU member state into the third stage of EMU, as well as the benefits of the Euro.

At its meeting in Madrid (December 1995), among a number of other significant decisions, the European Council set out the scenario for transition to the single currency. It confirmed that by 1st January 1999 at the latest a final decision would be taken on the exchange rates against the Euro of the currencies of those countries entering the third stage of Economic and Monetary Union.

1. Convergence criteria for the entry of an EU member state into the third stage of EMU*

The convergence criteria for entry of a member state into the third stage of EMU were laid down in the Maastricht Treaty in 1992. The criteria are determined by specific, macro-economic indicators and defined reference values for the compliance of the economies of the member states as they seek to achieve economic convergence.

The convergence criteria on the basis of which the economies of the member states were assessed were as follows.

- a) The **criterion of price stability**, which is met when inflation over the last twelve months before assessment does not exceed by more than 1.5% the average level of inflation in those member states with the lowest rates of inflation.
- b) The **criterion of exchange rate stability**, which is met when the currency of the member state has been in the Exchange Rate Mechanism for at least two years before assessment and has therefore remained within the narrow limits of fluctuation allowed for by the mechanism, i.e. +/- 2.5%.
- c) The **criterion of public finance deficit**, which must not exceed, on an annual basis, 3% of GDP.
- d) The **criterion of public debt**, which must not exceed 60% of GDP. In cases where public debt does exceed this figure, an examination will be made of the ratio of debt to GDP over time to ascertain whether the ratio is diminishing.
- e) The **criterion of convergence of interest rates**, which is met when the average nominal long-term interest rate over the last twelve months before assessment is no more than 2 percentage points higher than the corresponding average interest rate of the three member states with the lowest rates.

* See Ministry of Economy and Finance: 'The introduction of the Euro to Greece', Athens, January 2003.

f) The **criterion of strengthening the economic and political independence of the Central National Bank** of the member state and amendment of its articles to comply with those of the European System of Central Banks.

On the basis of article 109 of the EU Treaty, the European Commission and the European Monetary Foundation compile reports in which they assess the degree to which these criteria have been met by each member state.

2. Benefits from introduction of the Euro*

The EMU is the crowning achievement of the Single European Market. The single currency will allow full utilisation of the advantages offered by the internal market. For the member states, the main economic benefits anticipated from the introduction of the Euro as the single currency of the Eurozone can be summarised as follows:

Reduction of inflation, owing to the strict monetary policy pursued by the European Central Bank in order to preserve stability in the general level of prices in the Eurozone.

Elimination of exchange risks within the Euro area – Reduction of interest rates. This will facilitate investments and contribute to economic growth, while helping to avoid any misallocation of resources. Furthermore, it stimulates competition and benefits businesses, consumers, tourism, trade and decision-taking by economic agencies. Reducing the cost of transferring capital and of exchange reinforces and facilitates the free movement of capital and stimulates investment, owing to the creation of a pan-European money and capital market.

Increase in the rate of economic growth, owing to the improvement in basic economic variables mentioned above (reduction in interest rates, elimination of exchange risks, reduction in inflation and the consequences of all these). Of course, the degree to which these benefits are achieved depends not only on the monetary policy of the Eurosystem but even more so on accompanying stability-oriented fiscal policies and appropriate labour market policies.

Improvement in public finances, generated by the structural changes which are promoted, by the reduction in spending on interest on the public debt, the limiting of budget deficits and compliance with the requirements of the Stability and Development Pact for fiscal discipline and coordination.

Function of the Euro as a major international currency; with a large part of world trade being conducted in Euros, export activities of European businesses are made easier and the turnover of European credit houses and stock markets is in-

* Ibid.

creased. It also becomes easier to respond to external economic crises and to absorb the impact of adverse international developments, which in the past caused serious problems for national economies (e.g. increase in price of oil).

Apart from these economic parameters, the political benefits are more clearly visible, since the EMU is not only the driving force behind economic integration, but also acts as a catalyst for the political unification of Europe and the consolidation of a sense of European identity for the citizens of the continent.

Analyses of the situation - and of the way in which each country of south-eastern Europe can and should first approach and then incorporate the *acquis communautaire*, in order to pave the way for entry into the EU – will be presented to the conference by various speakers.

I myself should like to confine my remarks to a number of political and macro-economic/political factors involved in the more rapid modernisation of - and progress in – the various structures of the economy, society and system of government.

The rapid attainment of the goal of modernisation is dependent first and foremost on the level of the society and economy; however, I am convinced that a crucial role in the success of the project is played by the various leaderships of a country – political and economic, but also intellectual, military and ecclesiastical – who must, however, be possessed of the necessary breadth of vision, and remain firmly in touch with reality.

By working together these leaderships can – and must – contribute to consolidating the most basic political and economic factors essential to rapid and successful accession to the EU.

- First, our region must be relieved of all forms of tension which might lead to uncertainties, and any form of conduct which might nurture nationalist or racist ideologies and ambitions; free of such tensions, the region can foster the cooperation so vital to economic and social progress. At this point particular mention should be made of the role of the Turkish market and economy, and by extension that of the eastern Mediterranean and the Black Sea region.
- The eagerness of all the south-east European countries to join the EU will definitely help them to overcome problems of democratisation, internal instability and relations with neighbour states – problems which affect not only the quality of the economic-political reforms, but also regional geopolitics.
- We are all aware that the proximity for example of the Visegrad countries, even the Baltic states, to the EU has contributed – through relatively low transport costs – to an increase in trade and foreign (direct) investment, and by extension to more rapid economic and institutional changes, and to macro-economic stability. It is therefore necessary to promote trans-European networks which incorporate south-east

ern Europe, and also to overcome the divisive effects of our history and the residual effects of the last war – with their adverse impact on emotions and on cooperation in the economy, in politics and culture, hindering our overall, collective progress.

- Another obstacle to the progress of our economies and societies lies in the irrational administrative division of our countries, and their multi-layered, bureaucratic public administration. There should be just three levels of administration, namely:

Powerful municipalities

Self-sustaining (politically, administratively, economically and technically) regional government, and

Small central government.

This administrative restructuring of each country, together with:

- Simplification and codification of the whole legislative corpus
- Introducing standard procedures for all the citizen's transactions with the public administration, thereby limiting opportunities for bribery of officials
- Full computerisation of all departments of the public sector, with on line links between all departments, and
- In-service training for employees

together with a simple, clear tax system, left unchanged for several years, and an ensuring of rights in property, investment and personal integrity-security, will help to limit bureaucracy and corruption and thereby remove some of the more serious obstacles to the attraction of foreign (direct) investment.

Will these changes be enough to allow the region to bridge the existing gaps in living standards and capital inflows over the medium and long term? Although annual rates of growth (4% and 5% for 2001-2002) across the region are considerably higher than the Eurozone average, nevertheless the difference is not so large that the countries of the Balkans can overcome the many problems left behind by a decade of conflict, stagnation, economic decline and severe de-industrialisation^{1, 2}, and catch up with their richer neighbours to the North and West.

1. The definition of south-eastern Europe varies according to different authors and institutions. Here south-eastern Europe refers to the eight recipient countries of the Stability Pact for South East Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Moldova, Romania and Serbia and Montenegro. Note that this definition is wider than the one in the EBRD's Transition Report, where Croatia is included with Central Europe and the Baltic states, and Moldova is grouped with the rest of the Commonwealth of Independent States (CIS).

2. It should be noted that the measurement of the "unemployment rate" in transition economies is fraught with difficulties (see EBRD, 2000, chapter 5). For example, unemployment in Bosnia and Herzegovina is officially around 40 per cent of the labour force, but may be less than half that level according to World Bank estimates, because many of those officially registered as unemployed have jobs in the informal sector.

Table 1. Private sector share in GDP (2002)

SEE	Private Sector/GDP (percentage)
Albania	75
Bosnia and Herzegovina	45
Bulgaria	70
Croatia	60
FYR Macedonia	60
Moldova	50
Romania	65
Serbia and Montenegro	40
SEE average (<i>unweighted</i>)	58.1
SEE average (<i>weighted</i>)	60.9
CEB average (<i>unweighted</i>)	75.6
CEB average (<i>weighted</i>)	76.4
CIS average (<i>unweighted</i>)	54.1
CIS average (<i>weighted</i>)	66.6

Note: The private sector share of GDP is calculated using available statistics from both official and unofficial sources. The accuracy of estimates is constrained by data limitations, and estimates are rounded to the nearest multiple of 5. Weighted averages are calculated using the dollar value of GDP in each country. SEE is defined in footnote 1, and the CIS averages exclude Moldova.

Source: European Bank for Reconstruction and Development (EBRD), 2002. See also Elisabetta Falcetti, Peter Sanfey and Anita Taci: "Bridging the Gaps? Private Sector Development, Capital Flows and the Investment Climate in South – Eastern Europe", EBRD (Discussion paper), May 2003.

The importance of private sector development and the benefits of a good investment climate are widely recognized. Table 1 shows calculated comparative percentages of private sector in GDP in south-eastern Europe as about 60%, in central Europe and the Baltic as 76%, and in the Commonwealth of Independent States as 67%; in the

latter case the importance of the private sector in Russia (70% of GDP) is evident. However, privatization in itself is not a panacea for the problems facing the region, especially when it suffers a relative lack of contemporary and innovative entrepreneurship, and the labour force is in need of education and training (knowledge economy) in order to limit the phenomenon of widespread absence of professionalism.

- Moreover, the promotion of closer cooperation, and the encouragement of mergers, especially in the banking sector (to make the banks, in their mediating role, not only stronger but also competitive), of insurance companies, stock markets, various businesses, and in the field of research, will assist the necessary structural changes in our economies and perhaps also help to reduce the damaging brain drain.
- In addition to its requirements for the introduction and application of the *acquis communautaire*, the EU must also create a peace and cooperation cordon around the new Union frontiers as they take shape. This will do much to strengthen the sense of permanent security and stability in the region as a whole, helping to cut the relatively high defence spending and fostering economic and social development.
- It is also doubtful whether the EU's insistence on a general, unified and inflexible monetary policy for all the countries of the region, and on a progressive harmonization of public finance policies (see the Stability Pact or even the Investment Compact of the OECD: South East Europe Compact for Reform, Investment, Integrity and Growth) assists the various member countries, and also countries who are interested in becoming members, and which have different levels of growth, inflation, pay and social spending, to attain their development objectives and adjust to the EU within a reasonable period of time and with fewer sacrifices. An intelligent and cautious flexibility in the Stability Pact and in public finance policy, and – of course – in currency policy for the candidate countries, would be of much greater service to them.

We are all aware of the difference between the 'European approach' and the 'American approach' to the rigidity and flexibility of pay. The EU countries mostly have non-elastic pay, so that the impact of fluctuations in trade is manifested mainly in the rate of employment. In the US, however, pay is more flexible, so that the negative effects on employment are limited. The EU candidate countries face a dilemma here: if they adopt pay flexibility, so as not to damage employment, they come up against the already low standard of living of their workers. But if they adopt inelastic levels of pay, they will be fostering greater unemployment, if we accept the views of the school mentioned above. Thus when EU countries like Germany, France or Sweden can maintain labour market policies which increase the cost of labour, and therefore

of production, or retain relatively generous minimum salaries and benefits, international competitiveness, in the context of globalization, increases the overall cost of implementing this decision and requires that the price be paid in terms of high rates of unemployment. It is worth mentioning here the high percentages of GNP accounted for by the informal sector of the economy in the region (see Table 2).

Table 2. The informal sector of GNP in SEE

Country	Informal sector/ GNP
South-Eastern Europe	
Albania	33.4
Bosnia and Herzegovina	34.1
Bulgaria	36.9
Croatia	33.4
FYR Macedonia	45.1
Moldova	45.1
Romania	34.4
Serbia and Montenegro	29.1
Central Europe – Visegrad	
Czech Republic	19.1
Hungary	25.1
Poland	27.6
Slovak Republic	18.9
16 W. Europe OECD	18.0

Note: Estimates are derived using a dynamic multiple- indicators, multiple - causes (DYNAMIC) model, as explained in Schneider (2002a). All figures refer to 1999/2000, except FYR Macedonia where the estimate is 2000/2001 and is taken from Schneider (2002b).

Source: Schneider, Friedrich: - (2002a), “The Value Added of Underground Activities: Size and Measurement of the Shadow Economies of 110 Countries All over the Word” - (2002b), “The Size and Development of the Shadow Economies and Shadow Economy Labor Force of 22 Transition and 21 OECD Countries: What do we really Know?” See also Elisabetta Falcetti, Peter Sanfey and Anita Taci: “Bridging the Gaps? Private Sector Development, Capital Flows and the Investment Climate in South – Eastern Europe”, EBRD (Discussion paper), May 2003.

This sector must be brought under control in order to restore confidence in legality and to curb loss of tax revenue. However, a cautious approach must be taken because this sector of the economy reduces unemployment and allays hardship and social tensions.

Moreover, while – as we are aware – intra-industry trade (e.g. the USA selling automobiles to the EU, while at the same time importing European cars) is obviously based on profits from specialization in conditions of increased scale performance, thereby generating profit for all those involved, inter-industry trade, on the other hand, concerns exports of high-tech products by the US, Japan and the EU to Asia and (south-)eastern Europe. In this case, overall, the regions can benefit from trade of this kind, while the workers within each country can find themselves worse off. Thus in Greece or Italy, for example, workers in the shoe or clothing industries may lose their jobs to the increased competition with lower-paid workers, while it is clear that specialist workers in the countries of Asia and south-eastern Europe may lose their jobs when highly specialized products are imported from the USA, Japan or the EU.

However, in all cases drastic action must be taken to limit all the obstacles in order to develop not only external but also intra-regional trade. More generous assistance must be provided by the Trade Facilitation Programme of the European Bank for Reconstruction and Development and the Trade Guarantee Programme of the World Bank.

Last but not least, Ladies and Gentlemen, the leaderships of the south-eastern European countries must develop greater self-confidence, and communicate that confidence to their peoples, while we must all work together systematically and with self-denial for the prosperity of all members of our societies.

Thank you