New Challenges for the Balkan Economies in the Context of the European Union

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Abstract: The paper deals with the idea that EU has to reformate as a result of the latest challenges, including the Brexit. A possible effect and opportunity from this can be a stronger position for the EU Balkan Member States. The analysis in the paper takes into consideration all Balkan economies, including candidate countries in order to obtain a general approach for the region. This approach is new because it puts together member and candidate members from a region, in the context of re-evaluating the EU, and leads to the idea of finding a regional leader able to generate regional progress and to support the region's interests in the European Institutions. The analysis covers five representative economic indicators (GDP growth rate, gross fixed capital formation, unemployment rate, inflation rate and general government gross debt) and is realized on three levels: a comparative analyses, a cluster analysis, and a cumulative analysis as well. Moreover, regression is used in order to point out the economic disparities across the region. The main conclusion of the analysis is that the great regional economic disparities can be decrease using common regional policies. Moreover, the analysis identifies a regional economic leader able to coordinate common initiatives at least on short and medium terms. The analysis and the conclusions in the paper are supported by the latest official statistic data, pertinent tables and diagrams.

Keywords: Regional disparities; regional clusters; regional economic forecasts; economic development; regional economic competitiveness

JEL Classification: R11; R12; R59

1. Introduction

The Balkans became a very interesting region from political, military and economic point of view. The region covers 666,700 square km and more than 60 million inhabitants.

There is not a unique approach on the countries which belong to Balkans. Finally, 11 states are taken into consideration as belonging to the region. Six of them are 100% of their surfaces included in the region: Albania, Bosnia and Herzegovina, Bulgaria, Greece, Montenegro and FYR of Macedonia (Danforth & Crampton, 2015). The other five belong partially to the region: Serbia (80%), Croatia (49%),

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Slovenia (27%), Romania (9%) and Turkey (5%) (Columbia Encyclopaedia, 2015).

All these countries have a direct connection to the European Union. Bulgaria, Greece, Croatia, Romania and Slovenia are Member States. Albania, Montenegro, FYR of Macedonia, Serbia and Turkey are candidate countries, while Bosnia and Herzegovina formally applied for EU membership in February 2016.

The global crisis had greater impact on these countries. Grexit represents a well-known example, which is far away of solving yet. Moreover, the Brexit became reality and its impact on the EU is not simply of quantifying.

As a common trend, all Balkan economies suffered the most from the recent global recession. After an economic contraction of 5.2% in 2009, the recession started in 2010 in these countries. Even Romania, which is the largest Balkan economy, had not efficient economic solutions for fighting against recession (Laza Kekic, 2012).

The global crisis impact was specially analysed on Western Balkan Region. The analysis is focused on representative macroeconomic indicators (GDP, employment, inflation rate, budget deficit, trade relation) before and during the years of crisis (Pere & Hashorva, 2011).

A very important indicator is foreign direct investment (FDI) into the Balkan region. FDI flows present great disparities in the volume, timing and sectorial structure between the Balkan economies. The use of a gravitational model and a comparative analysis to the Central East European countries lead to the conclusion that the Balkan region received less FDI with direct effect on the present and future economic development (Estrin & Uvalic, 2013).

Other recent research is focused on a comparative competitiveness analysis between Western Balkans and the EU countries. At least five advantages for the investors are identified in this region: the EU adhering perspective, the high degree of macroeconomic stability, the geographic proximity and tariff-free access to EU markets, the economic diversity of the region, the taxes and labour costs' levels (Sanfey, Milatovic & Kresic, 2016).

A less optimistic approach is that starting to a complex macroeconomic analysis of the Balkan economies and finishing with the conclusion that the region will face to low long term trend growth in the last at least 40 years or so (Gligorov, 2016).

The approach in this paper is that the "new EU27" can create new opportunities for the Balkan economies. The question is if the region is able or not to become a sustainable growth pole. At least from the theoretical point of view, the present Member States have to generate economic stability and sustainable development and to become examples for the candidate countries, as well.

The problem of defining regional political and economic leaders can be essential. These leaders can result only from a very rigorous economic analysis.

2. Balkan Economies' Challenges and Opportunities

In order to point out the present economic performances in Balkan region, five representative economic indicators are used in the analysis. The analysis covers 2012-2016 and the official forecasted data for 2017-2018 (European Commission, 2016).

The dimension of the Balkan economies in terms of GDP leads to great disparities (see Figure 1).

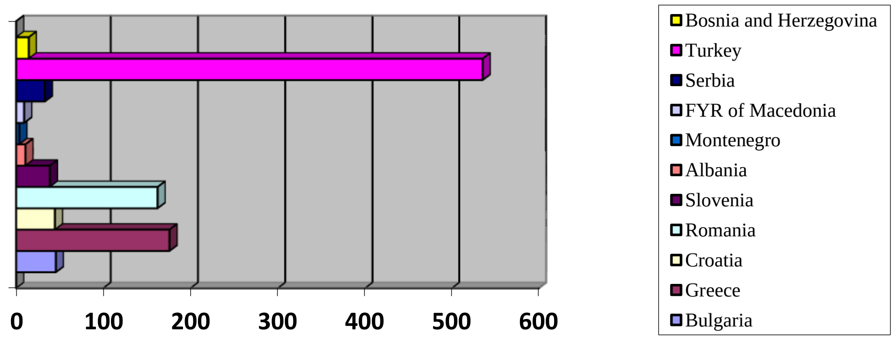


Figure 1. GDP in 2015 (billion euros)

A better approach is that related to the trend of the economic growth in these countries (see Figure 2). This figure supports the idea that the Balkan economies can be grouped into two clusters in 2016. The first one covers the states with achieved GDP growth rates less than 3.0% (Greece, Croatia, Slovenia, Montenegro, FYR of Macedonia, Serbia and Turkey). The second cluster includes Bulgaria, Romania, Albania and Bosnia and Herzegovina.

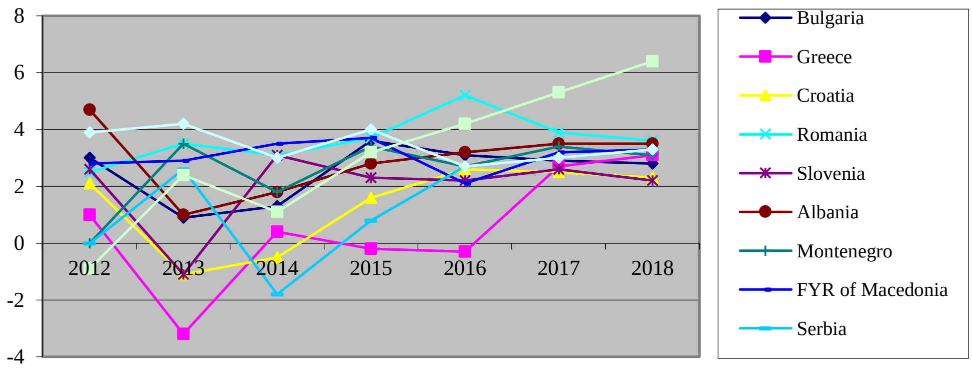


Figure 2. GDP growth (%)

The viability of this approach is supported by a two-step cluster analysis for 2016 (see Figure 3). The cluster quality is good (0.8).

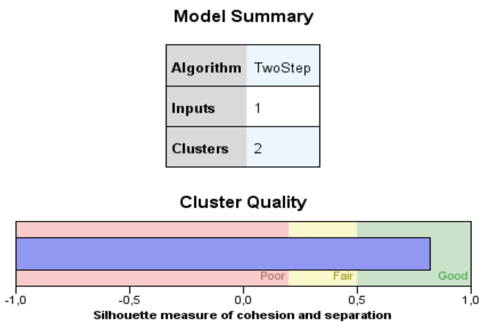


Figure 3. GDP growth cluster approach for 2016

The economic recovery is supported by the gross fixed capital formation. Of course, the value of this indicator varies from a country to another. Moreover, the growth rates show the same great disparities (see Figure 4).

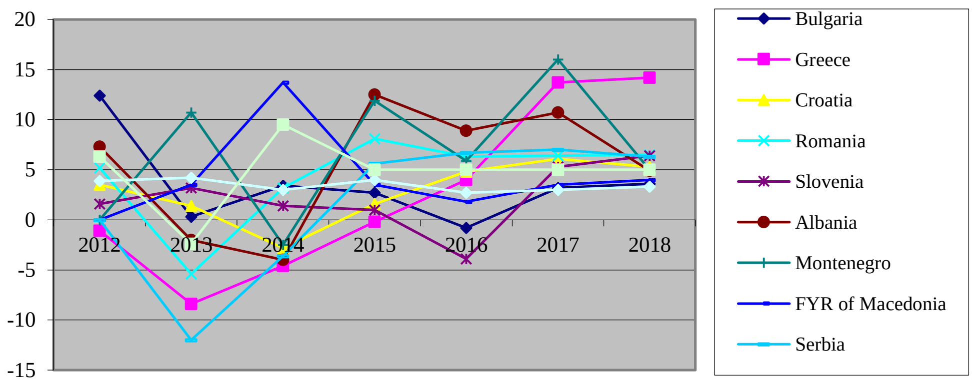


Figure 4. Gross fixed capital formation (%)

The above cluster approach can be used in building two clusters. First of them covers those countries with gross fixed capital formation rates less than 5.0% (Bulgaria, Greece, Croatia, Slovenia, FYR of Macedonia and Turkey), while the second is formed from: Romania, Albania, Montenegro, Serbia and Bosnia and Herzegovina. The quality of this cluster approach is 0.7 (see Figure 5). Moreover, 72.7% of the components of these two clusters are the same.

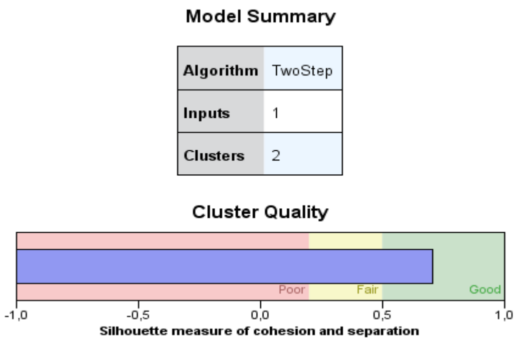


Figure 5. Gross fixed capital formation cluster approach for 2016

The unemployment is one of the greatest challenges for the Balkan economies. As a result, the unemployment rates vary a lot (see Figure 6).

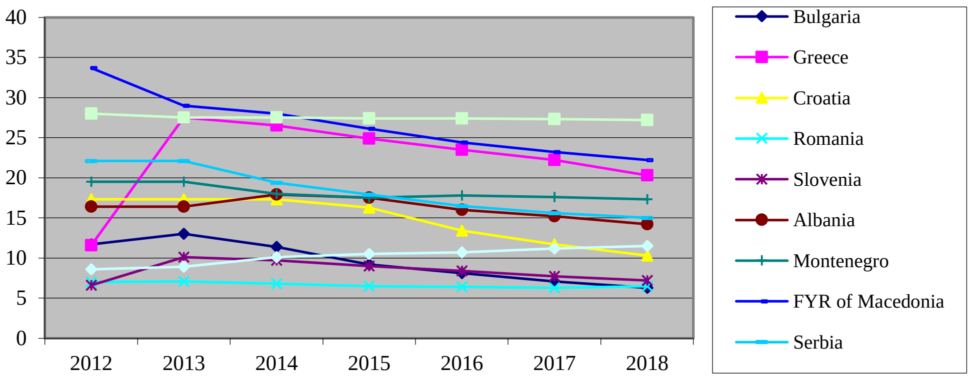


Figure 6. Unemployment rate (%)

Only three countries had unemployment rates less than 10% in 2016 (Romania, Bulgaria and Slovenia). On the other hand, Turkey faced to an increase in unemployment rates during 2012-2016.

The unemployment rates in 2016 lead to the following clusters: countries with unemployment rates less than 15% (Bulgaria, Croatia, Romania, Slovenia and Turkey) and those with unemployment rates greater than 15% (Greece, Albania, Montenegro, FYR of Macedonia, Serbia and Bosnia and Herzegovina). This new cluster structure covers 72.7% from the above cluster structure and the same good cluster quality (0.7).

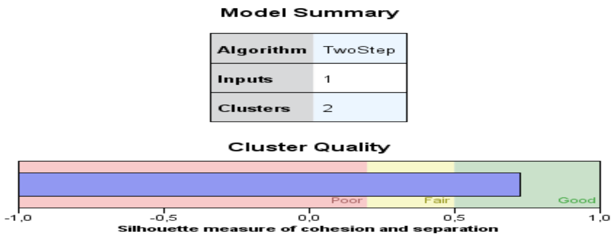


Figure 7. Unemployment cluster approach for 2016

Another important indicator is the inflation rate. All Balkan economies succeeded in decreasing their inflations rates during 2012-2016, excepting Turkey (see Figure 8). Moreover, only three Balkan economies faced to positive inflation rates in 2016.

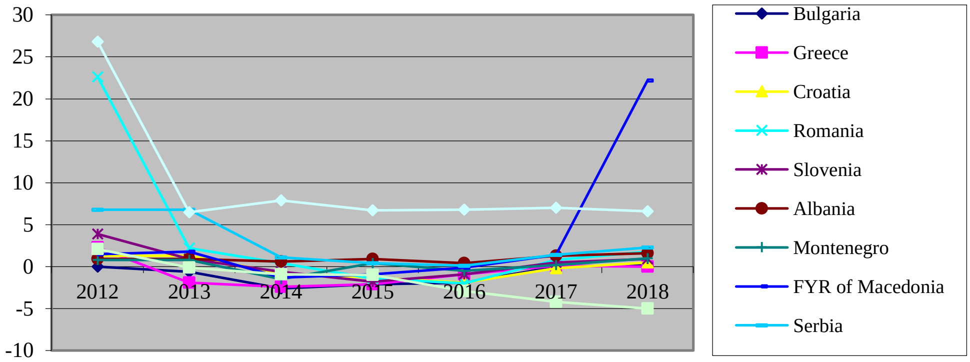


Figure 8. Inflation rate (%)

According to the inflation rate in 2016, the first possible cluster covers negative inflation rates less than -1.0 (Greece, Slovenia, Montenegro, FYR of Macedonia). The second one is built from: Bulgaria, Croatia, Romania, Albania, Serbia, Turkey and Bosnia and Herzegovina. This new cluster approach is presented in Figure 9.

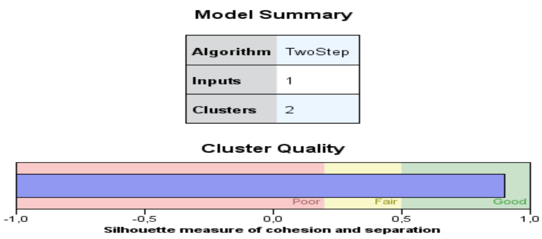


Figure 9. Inflation cluster approach for 2016

Last but not the least, the analysis of the general government gross debt leads to the following diagram:

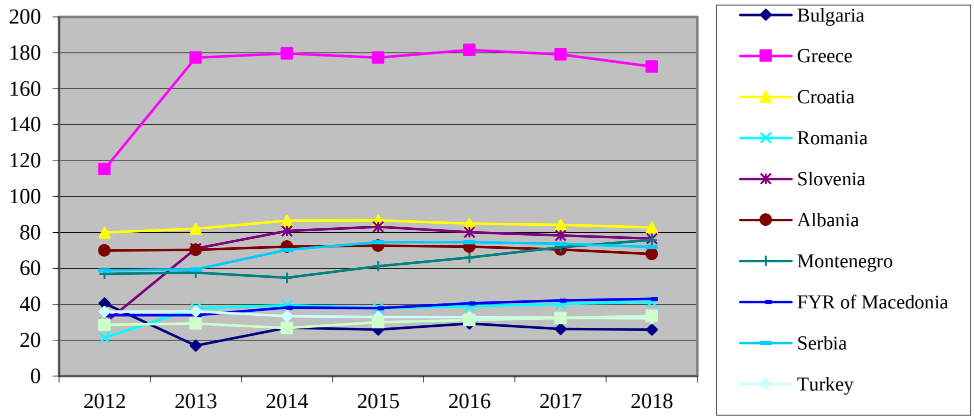


Figure 10. General government gross debt (% GDP)

As a general point of view, the government gross debt fluctuated in all Balkan economies during 2012-2016. On the other hand, the value of these debts varied from a country to another (see Figure 10).

The government gross debt in 2016 allows building two clusters. The first covers countries with government gross debts less than 50% 0f GDP (Bulgaria, Romania, FYR of Macedonia, Turkey and Bosnia and Herzegovina). The countries which face to government gross debts greater than 50% of GDP (Greece, Croatia, Slovenia, Albania, Montenegro and Serbia) form the second cluster. This last cluster approach has a good quality (0.8) and is represented in Figure 11.

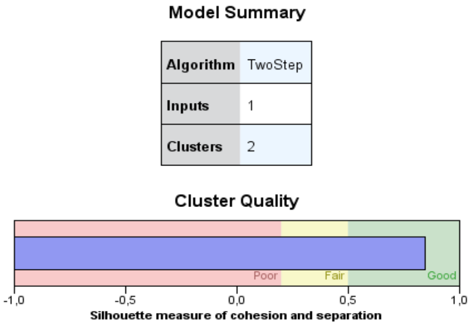


Figure 11. Government gross debts cluster approach for 2016

3. The Need of a Regional Leader

The above economic analysis points out great economic disparities between the Balkan economies. In the context of the latest EU developments, the Balkan region becomes a strategic one. 5 countries in this area are Member States. The others are candidate countries. The economic development in Balkans asks for an economic engine, able to stimulate the economic recovery and growth and to support these countries in the EU institutions.

In order to find such a leader, a synthetic table will be useful. This table quantified the economic position of each Balkan economy using the indicators from the second chapter. The analysis is based on data for 2016.

Table 1. Economic synthesis of 2016

Country	Rank for GDP growth rate	Rank for gross fixed capital formation	Rank for unemployment rate	Rank for inflation rate	Rank for government gross debt	Total
Bulgaria	4	10	2	3	1	40
Greece	11	7	9	5	11	17
Croatia	8	6	5	3	10	28
Romania	1	3	1	2	4	49
Slovenia	9	11	3	5	9	23
Albania	3	1	6	10	7	33
Montenegro	5	4	8	8	6	29
FYR of Macedonia	10	9	10	5	5	21
Serbia	5	2	7	9	8	29
Turkey	5	8	4	11	3	39
Bosnia and Herzegovina	2	5	11	1	2	39

Table1used maximum values in ranking GDP growth rates and gross fixed capital formation and minimum values in ranking unemployment rate, inflation rate and government gross debt. Each economic indicator (as value) was pondered in the same manner for all Balkan economies.

According to Table 1, Romania is able to become a regional leader and to improve its position in the EU organization, as well. On the other hand, the Balkans represents an area with great disparities. The composed analysis of the above five indicators supports the disparities diagram in Figure 12.

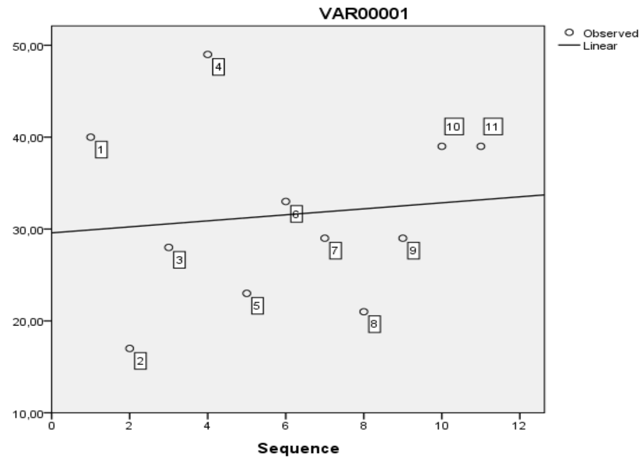


Figure 12. Economic disparities across the Balkans in 2016

1. Bulgaria; 2. Greece; 3. Croatia; 4. Romania; 5. Slovenia; 6. Albania; 7. Montenegro; 8. FYR of Macedonia; 9. Serbia; 10. Turkey; 11. Bosnia and Herzegovina.

The analysis in Figure 12 uses regression under ANOVA conditions. This figure supports the idea of dividing the Balkan economies into two clusters. The countries with better economic performances form the first cluster (Bulgaria, Romania, Albania, Turkey and Bosnia and Herzegovina). The second cluster covers countries which face to economic challenges (Greece, Croatia, Slovenia, Montenegro, FYR of Macedonia and Serbia).

4. Future Dynamics Across the Balkan Economies

Eurostat realized economic forecasts on short term (2017-2018) in order to obtain an overview on EU and Euro area, as well. There are some interesting changes in the new economic indicators compared to 2016.

In order to obtain a realistic point of view on economic disparities in the Balkans, a new regression analysis has to be used for 2018.

The GDP growth rates will spectacular increase in Greece and Bosnia and Herzegovina. Albania, Montenegro, FYR of Macedonia, Serbia and Turkey will succeed in obtaining greater rates in 2018 than in 2016. On the other hand, Bulgaria, Croatia and Romania will face lower rates in 2018 than in 2016, while Slovenia will maintain its economic growth in 2018 as in 2016. These new evolutions lead to new disparities as in Figure 13. According to this figure, the possibility to group the Balkan economies into two clusters is more than obvious.

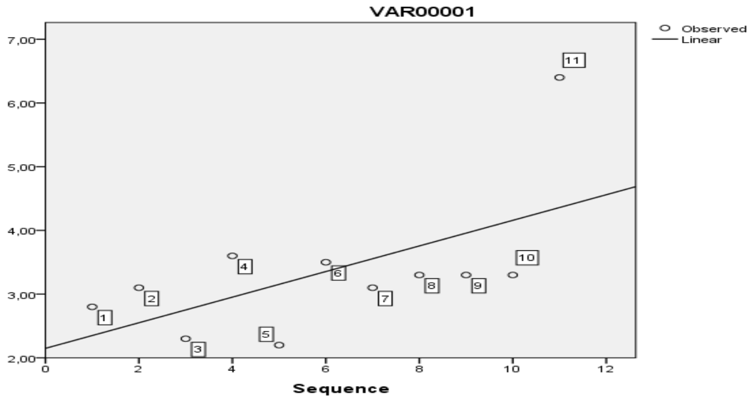


Figure 13. GDP growth rate disparities across the Balkans in 2018

1. Bulgaria; 2. Greece; 3. Croatia; 4. Romania; 5. Slovenia; 6. Albania; 7. Montenegro; 8. FYR of Macedonia; 9. Serbia; 10. Turkey; 11. Bosnia and Herzegovina.

Seven states will succeed in increasing the gross fixed capital formation in 2018 compared to 2016. Bosnia and Herzegovina will maintain the rate as in 2016, while Albania, Montenegro and Serbia will face to a decrease in 2018 compared to 2016. The result of these evolutions is presented in Figure 14.

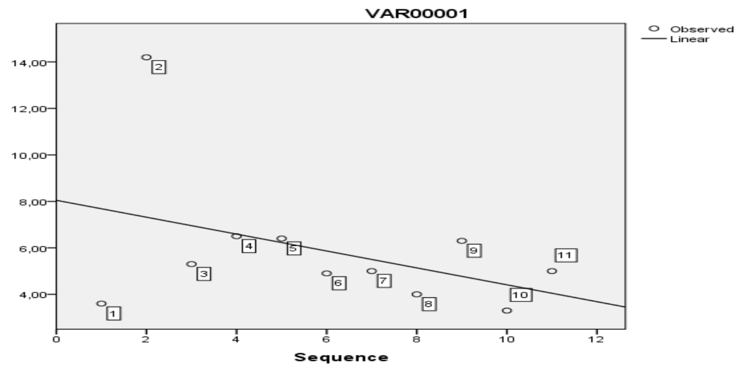


Figure 14. Gross fixed capital formation disparities across the Balkans in 2018

1. Bulgaria; 2. Greece; 3. Croatia; 4. Romania; 5. Slovenia; 6. Albania; 7. Montenegro; 8. FYR of Macedonia; 9. Serbia; 10. Turkey; 11. Bosnia and Herzegovina.

The classic cluster approach can be used again using this economic indicator.

Turkey is the only Balkan state which will face to an increase in unemployment rate in 2018 compared to 2016. On the other hand, the unemployment rate will be one of the greatest challenges for the region in 2018 at least for Greece, Croatia, Albania, Montenegro, FYR of Macedonia, Serbia and Bosnia and Herzegovina. Basically, only Bulgaria, Romania and Slovenia will have one digit unemployment rates in 2018 (see Figure 15).

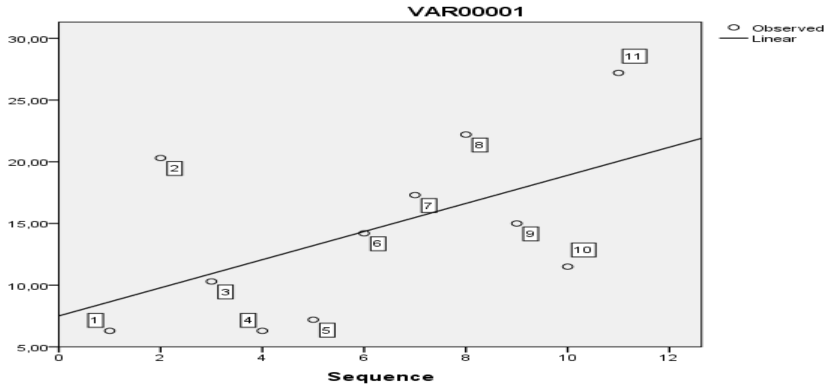


Figure 15. Unemployment disparities across the Balkans in 2018

1. Bulgaria; 2. Greece; 3. Croatia; 4. Romania; 5. Slovenia; 6. Albania; 7. Montenegro; 8. FYR of Macedonia; 9. Serbia; 10. Turkey; 11. Bosnia and Herzegovina.

Turkey and Bosnia and Herzegovina will succeed in decreasing inflation rates in 2018 compared to 2016. On the other hand, six Balkan economies will pass from negative to positive inflation rates in 2018 compared to 2016 (Bulgaria, Croatia, Romania, Slovenia, Montenegro and FYR of Macedonia). The greatest inflation rate will be in Turkey in 2018 (6.6%).

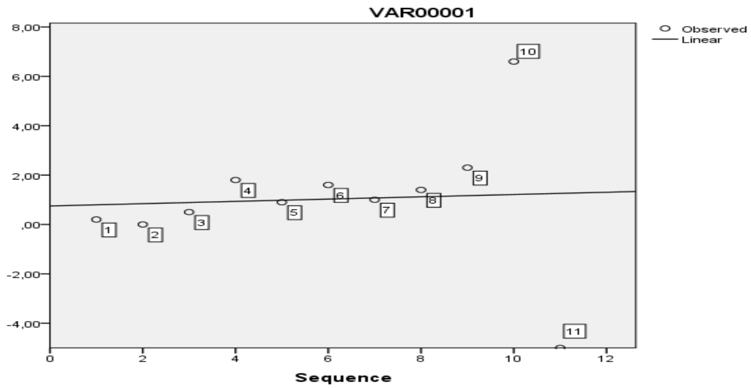


Figure 16. Inflation disparities across the Balkans in 2018

1. Bulgaria; 2. Greece; 3. Croatia; 4. Romania; 5. Slovenia; 6. Albania; 7. Montenegro; 8. FYR of Macedonia; 9. Serbia; 10. Turkey; 11. Bosnia and Herzegovina.

Finally, Romania, Montenegro and Bosnia and Herzegovina will face to an increase in their government gross debts in 2018 compared to 2016. Only Greece will face to a government gross debt greater than its GDP in 2018 (see Figure 17).

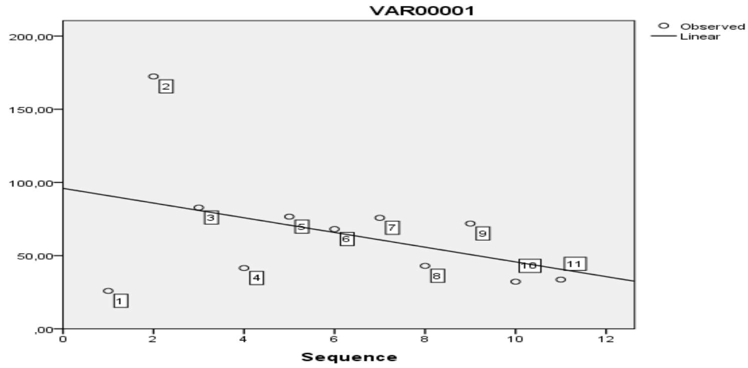


Figure 17. Government gross debt disparities across the Balkans in 2018

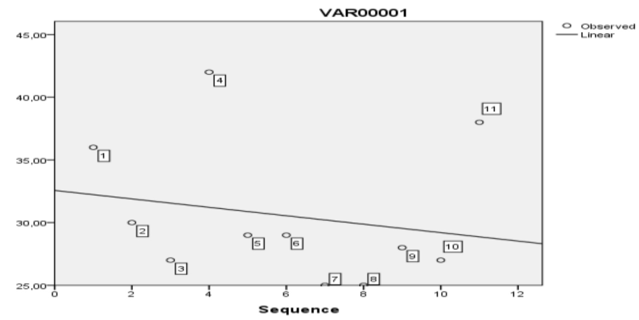
1. Bulgaria; 2. Greece; 3. Croatia; 4. Romania; 5. Slovenia; 6. Albania; 7. Montenegro; 8. FYR of Macedonia; 9. Serbia; 10. Turkey; 11. Bosnia and Herzegovina.

The above analysis in this chapter has to be followed by a cumulative one in Table 2. The same approach as in chapter 2 was used in order to realize this table.

Table 2. Economic synthesis of 2018

Country	Rank for GDP growth rate	Rank for gross fixed capital formation	Rank for unemployment rate	Rank for inflation rate	Rank for government gross debt	Total
Bulgaria	3	2	11	9	11	36
Greece	5	11	3	10	1	30
Croatia	2	7	8	8	2	27
Romania	10	10	11	3	8	42
Slovenia	1	9	9	7	3	29
Albania	9	4	6	4	6	29
Montenegro	5	6	4	6	4	25
FYR of Macedonia	8	3	2	5	7	25
Serbia	8	8	5	2	5	28
Turkey	8	1	7	1	10	27
Bosnia and Herzegovina	11	6	1	11	9	38

The economic disparities are different in 2018 compared to 2016 (see Figure 18).



1. Bulgaria; 2. Greece; 3. Croatia; 4. Romania; 5. Slovenia; 6. Albania; 7. Montenegro; 8. FYR of Macedonia; 9. Serbia; 10. Turkey; 11. Bosnia and Herzegovina.

Figure 18. Economic disparities across the Balkans in 2018

5. Conclusion

A comparative analysis between the economic disparities across the Balkan economies in 2016 and 2018 leads to interesting conclusions. For the beginning, the economic performance will improve in all these economies in 2018.

The best performance will be achieved by the Greek economy, while Montenegro and Turkey will face to greater challenges than in 2016.

However, the classic two cluster approach used in the analysis will be available in 2018 as in 2016. Moreover, 81.8% of the cluster structure in 2016 is the same to that in 2018. The positive thing is that the economic disparities in Balkans will decrease in 2018 compared to 2016.

On the other hand, Romania will keep first rank in economic performance in 2018, as in 2016. As a result, the Romanian economy has to become a stimulus for its Balkan neighbors.

At least two elements modified the EU strategy on short and medium term: the Brexit and the elections' result in USA. As a result, new other challenges can result from these. The Balkan region, which is still a very sensitive, has to be able to face to these potential challenges and to continue the economic development.

A most competitive EU is possible with the support of the Balkan dynamic economies. Some of them are Member States. The others have to adhere as soon as possible.

6. Acknowledgement

The paper was achieved with the support of the Centre for Juridical, Administrative, Social and Political Researches, http://www.fsjsp.ugal.ro/cercetare.php.

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