

EC330-3-SP – Lecture 18

Transition in South-Eastern Europe
at the Turn of the Century

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Plan of talk

- **Introduction**

1. Defining South-Eastern Europe (SEE)
2. EU accession prospects for the SEE countries
3. Enterprise and bank privatisation outcomes in SEE
4. Infrastructure and labour market policies in SEE

- **Wrap-up**

Aim and learning outcomes

- **aim:** understand what is special for South-Eastern Europe from the perspective of history, geography, economic development and, hence, transition experience
- **learning outcomes**
 - classify transition countries in 3 major groupings (EBRD)
 - compare EU accession prospects for the SEE countries
 - summarise transition experience with enterprise and bank privatisation in the 3 most advanced SEE economies
 - present the policies and problems related to infrastructure and labour markets in the 3 most advanced SEE countries

EBRD: CEE (6) and the Baltics (3)

- 8 “**successful transition**” countries (excluding Croatia): joined EU in May 2004, 1st wave of EU “East European” enlargement
- **Central Eastern Europe (CEE)**: nowadays 6 countries, all came out (except Poland) of the Austro-Hungarian Empire after WWI
 - 2 of these countries, Slovenia and Croatia, belonged to a federation of 6 states, former Yugoslavia (*Croatia* is the only *exception* of a CEE economy not joining EU in 2004, due to wars and slower reforms)
 - 2 other countries, the Czech Republic and Slovakia, formed part of another federation, former Czechoslovakia
 - the last 2 in this group, Hungary and Poland, existed as separate states
- the 3 **Baltic states**, Estonia, Latvia and Lithuania, formed part of the USSR b/n 1939 and 1991 (Latvia up to August 1990)

EBRD: CIS (12) and SEE (6)

- taking away the 3 Baltic states, what remains from the former USSR, once a union of 15 republics, are now the 12 countries belonging to the **Commonwealth of Independent States (CIS)**
- the residual of the former “Eastern bloc”, inclusive of ex-Yugoslavia (but *without Slovenia and Croatia*) and Albania, is to be then referred to as **South-Eastern Europe (SEE)**
- the same grouping on a historical basis, insofar history matters as much as geography in determining economic development
 - Albania
 - Bulgaria
 - Bosnia and Herzegovina
 - Former Yugoslav Republic (FYR) of Macedonia
 - Romania
 - Serbia and Montenegro

were all part for a few centuries of the Ottoman Empire before gaining independence, one after the other, in the late 19th and early 20th century

Why are “Balkan transitions” special?

- similarly to CEE and the Baltic republics, the prospect of EU accession is a major factor spurring transition reforms in SEE
- yet no country from the region joined the EU in May 2004
 - principal reason: the delay with negotiations and the resulting agreements on various aspects of convergence, itself caused by
 - internal circumstances: indecisive reforms and reform reversals due to stronger political and social constraints
 - external (for the “peaceful Balkan transitions”) circumstances: wars in former Yugoslavia and related civil wars, refugee migrations, potential ethnic and religious conflicts, economic embargo measures and, ultimately, poor investment climate in a region “undergoing fire”
 - deeper reason: some backwardness of SEE countries relative to CEE(B) ones inherited from
 - socialism
 - the interwar period
 - and – even – the 19th century

EU accession scheduled for January 2007

- Bulgaria and Romania (+ Croatia?), conditional on:
 - successful completion of accession negotiations
 - further progress with reforms to comply with convergence requirements
 - **Bulgaria** well along the route to meet this accession date
 - by end-July 2003, the country provisionally closed 25 out of the 30 chapters of the *acquis communautaire*
 - EU warns that entry to the EU depends on a significant improvement in the public administration ability to manage and make effective use of EU funds, to increase considerably through various programmes prior to accession up to €1.2 billion over 2004-2006
 - **Romania** recent doubts by the EC about the fixed date
 - by end-July 2003 the Romanian government had managed to provisionally close 19 of the 30 chapters of the *acquis communautaire*.
 - similarly, improvement of the quality of the state and local public administration is needed to absorb and make efficient use of EU pre-accession funds in the amount of up to €2.8 billion over 2004-2006
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EU stabilisation & association agreement

all post-socialist countries of the region have already formally initiated longer-term EU accession strategies

- **FYR Macedonia** has begun steps toward EU convergence
 - January 1998: EU Partnership and Cooperation Agreement signed
 - April 2001: EU Stabilisation and Association Agreement signed
 - April 2003:
 - accession to the WTO
 - stand-by arrangement concluded with the IMF
- **Albania** began formal negotiations with the EU
 - January 2003: Stabilisation and Association Agreement
 - EBRD says the focus of the agreement will be to improve standards of governance, strengthen state institutions and the legal framework and increase international economic cooperation: to this end, the government is accelerating reforms, especially to fight corruption and organised crime
 - February 2003: Albania became member of the WTO

EU association feasibility study

- preparing the ground for future convergence under way
- **Bosnia and Herzegovina**
 - since July 2003: a feasibility study to assess whether the country is ready to enter formal negotiations on a Stabilisation and Association Agreement with the EC in progress
 - EBRD reports talks have focused on issues of trade and investment and crime and asylum
 - the country expects to become WTO member by end-2005
- **Serbia and Montenegro**
 - similarly, the EU has begun a feasibility study on the readiness of for a Stabilisation and Association Agreement
 - key issues in the negotiations concern a single trade policy, notably the harmonisation of agricultural tariffs and the alignment of import levies
 - WTO accession in progress too

Bulgaria, Romania and FYR Macedonia

- restructuring of SOEs and the monobank
 - small-scale enterprise privatisation is close to completion
 - but large-scale enterprise privatisation has been slow
 - bank privatisation is almost completed
 - stock exchanges are underdeveloped and of low turnover
- policies toward infrastructure and labour markets
 - reform of the energy sector proceeds slowly
 - as for the rate of unemployment
 - has been one of the highest in the region in FYR Macedonia
 - has been declining from earlier peaks in Romania and Bulgaria
 - still a lot to do in the area of social reforms

Concluding wrap-up

- **What have we learnt?**
 - how to group transition countries (using EBRD criteria)
 - what the prospects to EU accession are for SEE countries
 - how similar and different are the 3 most advanced SEE economies in terms of enterprise and bank restructuring
 - how similar and different are the 3 most advanced SEE economies in terms of infrastructure and labour market policies
- **Where we go next:** to the case of successful transition, analysing the countries that joined the EU in May 2004