Economic Update: How Can the Region Catch Up?

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South-East Europe Meeting 2003

After the European Union's historic expansion, the integration of South-East Europe in general and the Western Balkans in particular should top the bloc's agenda, according to holders of the EU Presidency, Greece. The process of economic catch-up needs "a gravity pull that lifts the boat for South-East Europe," suggested John K. Defterios, Anchor and Group Vice-President, Content, International Herald Tribune Television, Italy, to kick off the debate. He pointed to three key factors that will influence the pace of catch-up: the improvement of Greek-Turkish relations, donor fatigue with fresh demands from Iraq and Afghanistan, and the impact of accession and increased competition. One thing not in doubt, Defterios stated, is people's appetite for integration as the region's businesses are "chomping at the bit" to prove themselves.

Jürgen von Hagen, Professor of Economics, Center for European Integration Studies, University of Bonn, Germany, gave a snapshot of the current economic picture with some clear messages:
· Macroeconomic conditions are good with strong growth and stable exchange rates;
· The region needs to open up to international trade and capital flows, improve cooperation on the regional level to realize a market of 120 million people and focus on external trade;
· Labour markets urgently need to move away from a labour intensive base.
The main lesson from the accession process is that the European prospect is key to the countries' success in mastering the economic and structural hurdles they face.

This positive outlook, balanced by an urgent need for reform, was echoed by Nicos Christodoulakis, Minister of National Economy and Finance of Greece; Chairman, Ecofin - Eurogroup. The starting point for reform is a "clear, concrete orientation towards the EU," he argued. This, together with enhanced regional cooperation, will create progress, but more infrastructure, and hence EU investment, is needed and needed now. The EU will provide an "institutional anchor" for the structural reforms ahead, Christodoulakis promised, but he gave a stark warning to governments hoping to put off painful decisions: "One doesn't gain anything by delaying vital reforms." All panellists pointed to the continuing détente between regional powers Greece and Turkey as a key engine for progress. Ali Babacan, Minister of State of the Economy of Turkey, reflected this convergence by underlining Christodoulakis' idea of the EU as an "external anchor".

Billed as the whizzkid of the Turkish economy, Babacan believes countries have to adapt to the reality of globalization as "the old rules of the game have been replaced by new global rules." But with so much change on the agenda he challenged the notion that globalization will mean sacrificing social protection. "Social safety nets can be a motor for growth by ensuring acceptance of change," he contended. The minister argued that a favourable climate for foreign investment is not simply a matter of throwing subsidies around. Instead, good governance, a crackdown on corruption and a cast-iron respect for property laws are the new tools for attracting foreign direct investment (FDI). He sounded a familiar note among panellists by illustrating the absence of infrastructure as a hindrance to regional cooperation with a reminder that it's a 12-hour bus ride from Istanbul, and that Turkish producers need 7-10 days to transport goods to market in nearby Albania.

The challenge of catching up identified by Babacan will best be met by looking back, according to Willem H. Buiter, Chief Economist, European Bank for Reconstruction and Development (EBRD), London. The following aspects of the Irish economic miracle could be emulated in South-East Europe:
· Political stability, continuity and public consensus on the goal of European integration;
· Emphasis on education to provide a skilled workforce and an outward looking attitude;
· Tax incentives to attract FDI.

Buiter admitted that favourable demographics in Ireland are not replicable, but appealed to the straightforward logic of "if it worked there, it could work here." Outside help has its limits and Buiter cautioned against waiting for fixes from Brussels with the reminder: "economic success is made at home."

A self-help attitude is needed as aid on offer from the US will be cut back from the current half-billion US dollars annually, warned Kent R. Hill, Assistant Administrator, Europe and Eurasia, US Agency for International Development (USAID), USA. In Hill's opinion, the technical fixes ignore the cultural and moral values needed for democracy and a market economy to bring peace and prosperity. If the majority of people won't do what's right "because it's right", he claimed, institutional reforms will go nowhere.

For Gerald Knaus, Director, European Stability Initiative (ESI), Germany, more assistance in itself is not the solution either. However, EU aid that addresses structural problems is. He asked why European aid has worked in Greece and Ireland. The answer is that it encourages local initiative and it has succeeded in almost every country it has been tried. The Balkan countries are ready to make it work too, he stated. "More money is not the solution, but there is a case for the funding that the Greek government is calling for," he concluded. Knaus affirmed that people in the region are no longer entrenched in conflict; they are "interested in development and worried about unemployment."

Questions remain as to whether the EU has the "stomach" to repeat the Greek and Irish examples, according to Defterios. However, Knaus called for just that support, saying it is a "vote of confidence" for the leaders in the region. Christodoulakis backed this call, saying Greece is channelling 500 million euros into the region.