

In memoriam Chris (Krstó) Cviić (1930-2010)

Remaking the Balkans

PETER SANFEY*

European Bank for Reconstruction and Development, London

* The Chris Cviić memorial lecture, hosted jointly by the European Bank for Reconstruction and Development and the British-Croatian Society and held on 6 May 2011 at the EBRD's headquarters in London. I thank Simone Zeh for assistance and comments. All views expressed herein are mine alone and not necessarily those of the EBRD.

Chris (Krstó) Cviić (1930-2010) had a long and distinguished career as a writer, broadcaster, journalist and political adviser. Born in Croatia in 1930, Chris came to the UK in 1954 to work for the BBC, initially in the Yugoslav language section. He joined The Economist in 1969 and served as their correspondent for central and south-eastern Europe for 21 years. He also edited The World Today, the journal of the Royal Institute for International Affairs (Chatham House) from the mid-1980s until 1995. In 1999, Chris joined the EBRD as a Senior Political Counsellor for central Europe, the Baltic states and south-eastern Europe. Following his retirement from the EBRD in 2007, he published regular articles in various media outlets in Croatia and also served on an advisory council for the Croatian President, Ivo Josipović. Chris authored two books in English on the Balkans: Remaking the Balkans, published in 1991, and In Search of the Balkan Recovery: the Political and Economic Re-emergence of South-Eastern Europe (co-authored with Peter Sanfey), published in 2010. He was awarded an OBE in 2001 for his work on promoting democracy in central and eastern Europe.

I am deeply honoured to be asked to give this lecture in honour and celebration of my dear friend Chris Cviić. I valued enormously our close friendship and collaboration, which began 12 years ago. I learned an incalculable amount from him, especially on our travels together to the region, not just about the history and politics of the Balkans but also about how to relate to and communicate with people.

Chris was an extraordinary person in many ways. He had a keen intellect and a phenomenal memory, which is testament to the interest he took in life: in people and in politics, which was his passion. He was, in the words of his close friend David Wedgwood Benn, “a person of unstoppable momentum”. At the EBRD, he worked in the Office of the Chief Economist; he was a non-economist who loved being surrounded by economists – now that is truly unusual, not to say unique.

REMAKING THE BALKANS

The title of my lecture is “Remaking the Balkans”, a clear piece of plagiarism from Chris’s first book, published in 1991. I want first of all to address head-on the use of the word “Balkans”. In the EBRD, we tend to prefer the term “South-Eastern Europe”, and this is what we usually use in our reports. But somehow, “Remaking South-Eastern Europe” does not have the same ring. In fact, Chris was not worried about using the term “Balkans” – he was a true Croatian patriot and immensely proud of his Northern Croatia roots, but at the same time, as Marcus Tanner has rightly noted, “he did not sympathise with the way that so many Croats came to regard the word ‘Balkan’ almost as a term of abuse.” Indeed, Croatia is uniquely placed to be a bridge between central Europe and the Balkans, with its strong historical orientation to both regions.

In thinking about what to say in this lecture, I decided to go back and re-read Chris’s first book. It is absolutely in Chris’s familiar style – a masterpiece of luci-

dity, clarity and accessibility. The chapter on economic developments, titled “The economic black hole”, is a fine analysis of the economic mess the region was in at the time. Chris had clearly learned a lot from his 20-plus years at *The Economist*. The book was quite prescient in many ways. For example, it foresaw the problems and delays that countries in the Balkans would have in joining the EU. “The wait, particularly for full membership of the Community, could be very long”, he wrote, as indeed it turned out – 16 years for Bulgaria and Romania, and longer for the other countries. On a darker note, the book also foretold the conflagration in Kosovo. The EBRD gets a mention as well – Chris wrote that the new bank, which started operations in April 1991, “will also have its part to play”, once it “gets going properly”. How true that turned out to be, and how much Chris contributed to our business and our dialogue in this region.

There is also a strong constructive spirit running through the book. It was written when the region was clearly falling apart, but Chris was willing to look ahead and see what might come afterwards, and how the region might go forward. He spoke in the final chapter of a “new Balkanscape”. Although his vision – two regional groupings emerging – was not entirely fulfilled, his analysis still has validity today.

Chris was also an optimist about the future of the Balkans, and some of this spirit can be seen even in the first book, written in the dark hours of mid-1991. Several obituaries of Chris referred to this aspect of his character, and I believe it helps explain why he enjoyed his work so much. The book ends with a particularly important statement, worth quoting in full: “Good economic performance is appreciated as that makes states strong and stable. Although Yugoslavia’s acceptance of that principle must await the resolution of the current messy but necessary reordering process, it is a principle that is coming to be understood by the new post-communist leaders, as well as their peoples, and will perhaps in the end encourage cooperation rather than irredentist wars.” This was a remarkably wise thing to write at a time when everyone else was focused on the ongoing and impending conflict in the region.

IN SEARCH OF THE BALKAN RECOVERY

I want now to say a few words about the genesis of our joint book. In June 2006, Chris and I were sitting in a restaurant in Podgorica, capital of newly independent Montenegro and, over a glass or two of Vranac, we discussed the idea of writing a new book – one that took up and updated some of the themes of Chris’s previous book, particularly the quote highlighted above by bringing out more explicitly the economic aspect. We wanted to write something that would highlight the progress in the region, particularly in the first decade of the new century, that would dispel some of the myths and misunderstandings about the Balkans, and that would emphasise the untapped potential of the region.

The result is our book: “In Search of the Balkan Recovery: the Political and Economic Re-emergence of South-Eastern Europe”, published in summer 2010.¹ For this title (and for producing the book) we are grateful to our publisher, Michael Dwyer of Hurst & Co. The title appealed to Chris and myself immediately, because it manages not only to refer to the region as both “the Balkans” and “South-Eastern Europe”, thereby solving the dilemma of which term to use, but it also uses the words “recovery” and “re-emergence” – the types of terms we want to emphasise rather than the usual words used in the titles of Balkan books (“crisis”, “conflict”, etc.).

Many of you attended our book launch in this auditorium last summer. Some of you may have bought the book, and possibly even read it. I do not want to rehearse some of the things said then. However, I do want to return to one theme that was discussed briefly that evening, namely, the economic prospects for South-Eastern Europe.

THE NEW GROWTH AGENDA

South-Eastern Europe has been badly hit by the crisis. The full effects came with a bit of a lag compared to western Europe and the US, but the recovery is equally slow to arrive. All countries except Albania saw sizeable drops in GDP in 2009. The two biggest economies – Croatia and Romania – experienced a further fall last year, while growth was rather anaemic elsewhere (compared to more than 4 per cent in 2010 for the whole transition region).

So, these developments have raised some awkward questions. Were we too optimistic in our assessment of the region’s potential? And was the pre-crisis growth model, based mainly on growing trade, investment, financial and political integration with the rest of the world, the wrong one for the Balkans?

The answers I would give, which I believe Chris would endorse if he were here now, are: no and no. We were not too optimistic about prospects for the Balkans; and although the previous growth model had weaknesses, we do not need to abandon it completely. But we do need a serious debate about how to get the Balkans back on track, economically speaking. In the language of the EBRD Transition Report 2010, we need a new growth agenda but not a new growth model. And this new growth agenda requires tackling fundamental problems and challenges that were somewhat swept under the carpet during the boom years.

I want now, with the aid of a few visuals, to sketch out some of the elements of this new agenda, and to highlight the extent of the challenges facing the region. In doing so, I am skirting around some of the remaining political issues and controversies about which Chris was so knowledgeable and insightful. I do not want to

¹ An earlier, shorter version of the book was published in 2008, in Croatian translation, by Novi Liber press, with the title: *Jugoistočna Europa: od konflikata do suradnje* (South-Eastern Europe: from Conflict to Cooperation).

minimise these problems, but I believe that the debate has shifted decisively to economic issues.

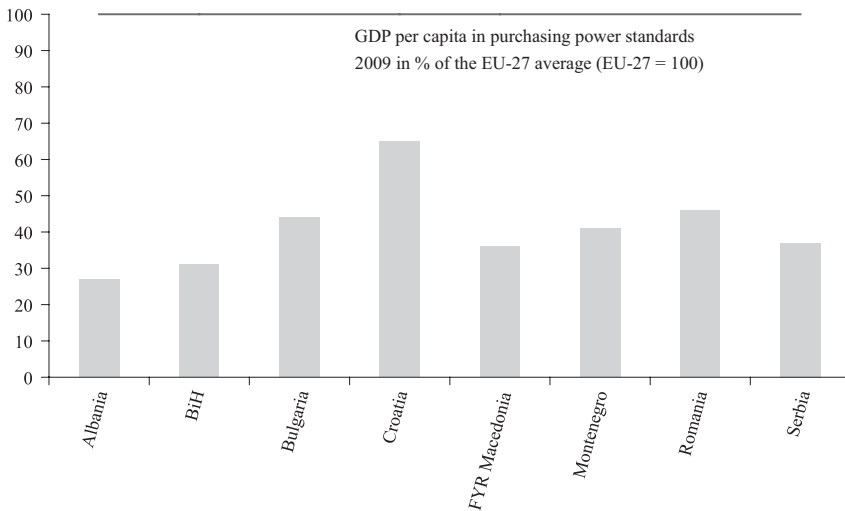
The region is faced with two broad challenges I want to highlight here – improving living standards (thereby reducing poverty), and making people happier. Obviously the two are not wholly unrelated, though the link between income and happiness is more complex than the economics textbooks typically assume.

Chart 1 shows how much the Balkans lag behind the rest of the EU in living standards, as proxied by GDP per capita (in 2009) in each country compared to the EU average (adjusted for purchasing power). Albania's GDP per capita is barely more than one-quarter the EU average. Only Croatia among these countries has more than 50 per cent of the EU average. Bulgaria and Romania are 44 and 46 per cent of the average, respectively.

For most countries, these gaps may not be closed in the lifetime of anyone here. For example, let us suppose that Albania grew at 4 per cent a year from now on and the EU average went up by 2 per cent a year. It would then take 65 years for Albania to catch up to the average. But under the right circumstances, the gaps can be narrowed over time. Poor countries should grow faster than richer ones, provided the right conditions are in place for growth to occur.

CHART 1

Challenge: improve living standards



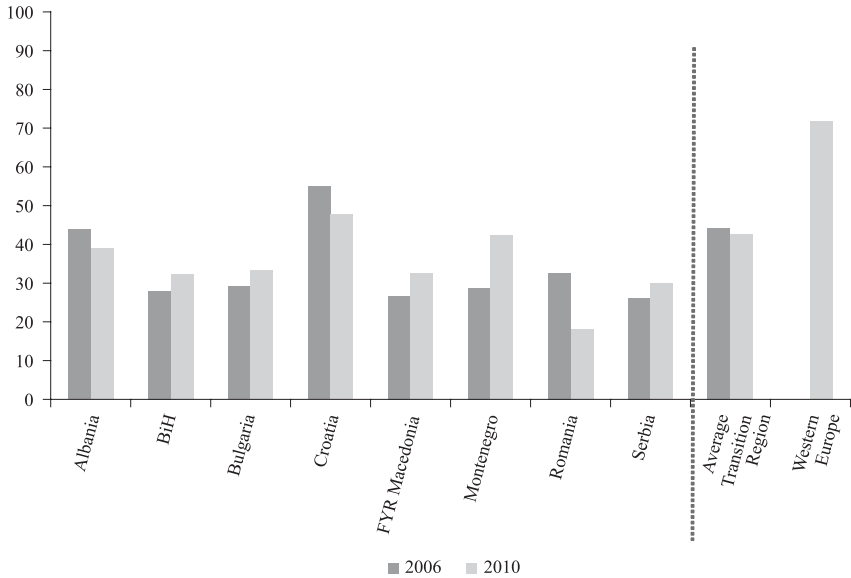
Source: Eurostat, 2010.

Chart 2 draws on the EBRD-World Bank Life in Transition Survey to show how dissatisfied with life people are in the Balkans, when compared to the rest of the

transition region, and especially compared to western countries such as the UK, France and Germany. Typically about a third of people in several former Yugoslav countries would agree or strongly agree with the statement: “all things considered, I am satisfied with my life now”. An exception is Croatia, although even here the percentage dropped below 50 per cent between 2006 and 2010. The results for Romania are striking: only 18 per cent report themselves as satisfied with life.

Chart 2

Challenge: make people happier (satisfaction with life, %)



Source: EBRD-World Bank, *Life in Transition Survey, 2006 and 2010*.

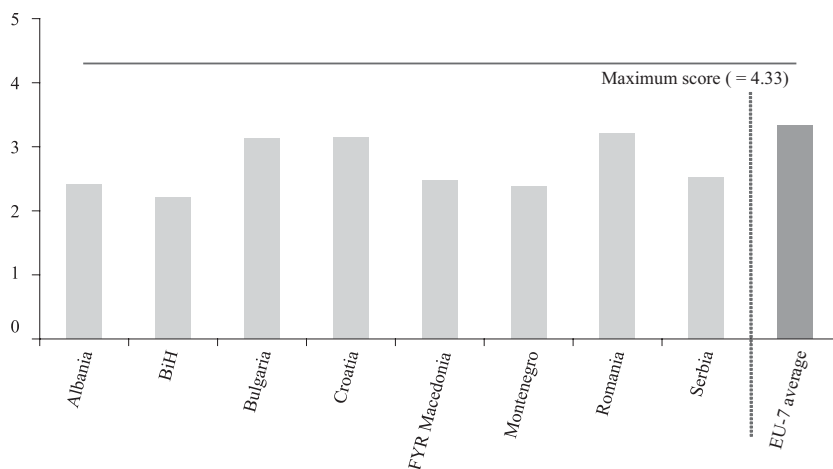
Note: Data for 2010 are preliminary. The EBRD will issue a report on the second round of the *Life in Transition Survey* in late-June 2011.

So, how can economic growth be reinvigorated? The rather boring answer is that sustainable growth will require a commitment to implementing deep structural reforms. There are four elements of this agenda that I want to highlight here: reforms, business environment, trading across borders, and education.

Chart 3 shows the average for each country of the EBRD sectoral transition scores, which measure how far a country has advanced in its transition to a well-functioning market economy. The scoring system ranges from 1, which you get just for showing up, to 4.33, at which point one could say there are really no, or negligible, remaining transition challenges. The chart shows that there is still quite some work to do before transition can be declared over, even in central European countries but even more so in South-Eastern Europe.

CHART 3

Growth agenda: complete the transition
(average EBRD sector transition scores, 2010)

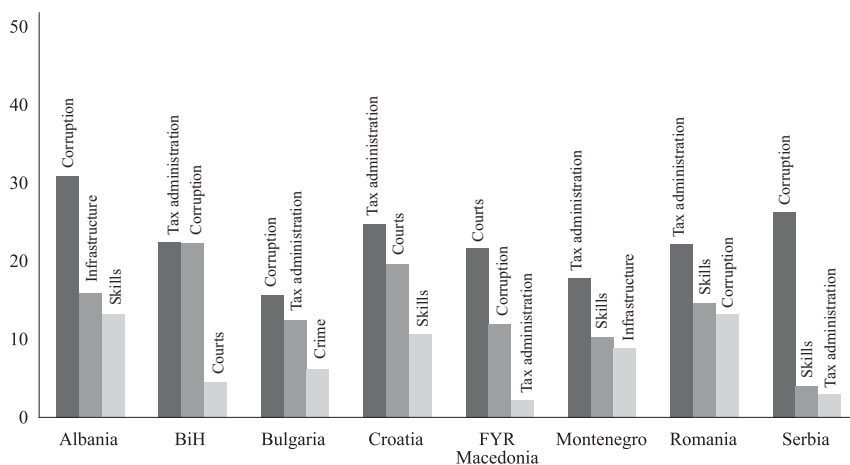


Source: EBRD Transition Report, 2010.

Chart 4 brings out some of the main concerns as seen by businesses on the ground and revealed to us (and the World Bank) through detailed surveys. The problems facing the region are quite diverse, but issues such as tax administration, corruption, lack of skills and poor functioning of the courts crop up repeatedly. The great value of these surveys is that they can really bring out the concerns of businesses on the ground and, one hopes, can focus the minds of governments that are determined to tackle these problems.

CHART 4

Growth agenda: tackle business environment problems (BEEPS 2008/09 – top three business obstacles, % deviation from country average)



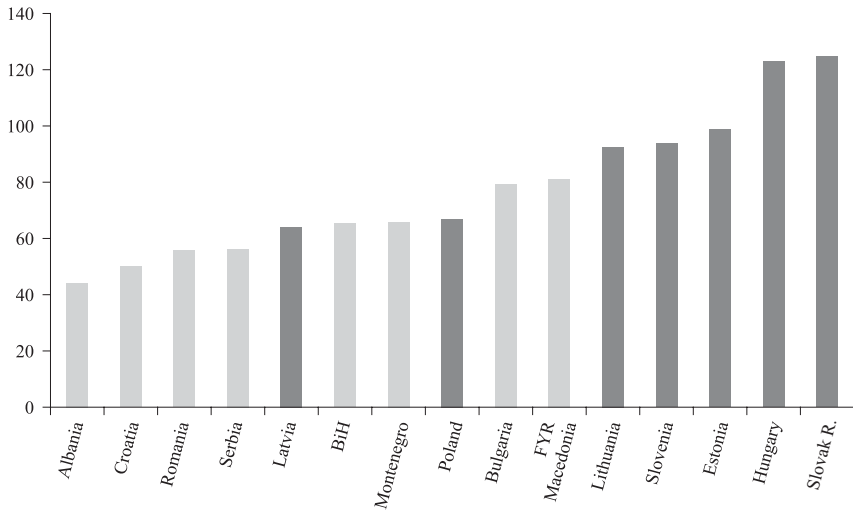
Source: EBRD-World Bank, Business Environment and Enterprise Performance Survey, 2008/09.

Another crucial part of the growth agenda is the need to boost exports, not only because of the direct benefit for the balance of payments, but also because research (both at the EBRD and elsewhere) has shown a clear causal link between exports and innovation/R&D, which in turn is essential for growth. Chart 5 shows that the degree of openness of South-Eastern Europe economies lags behind the central European and Baltic states. Why? Because there are still many barriers to trade – not so much high tariffs, but rather things like poor infrastructure, customs inefficiency, and corruption.

CHART 5

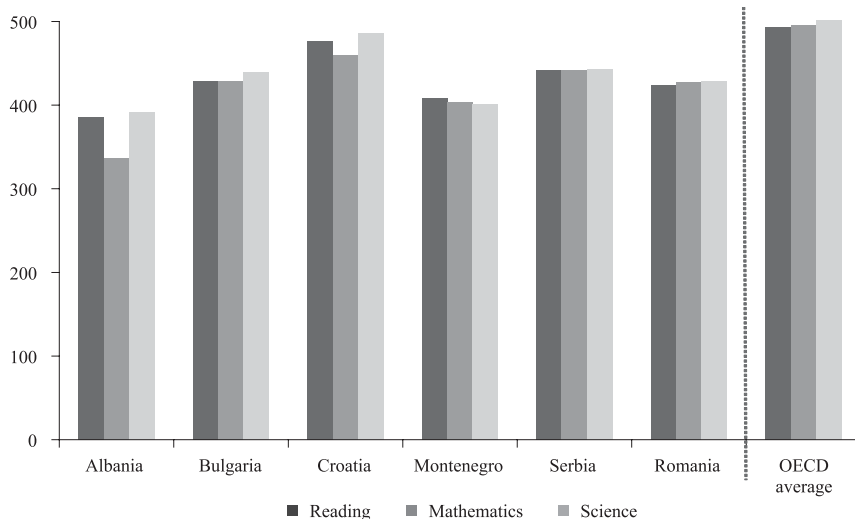
Growth agenda: reduce barriers to trade

(trade openness ((EXPORTS+IMPORTS)/GDP), 2009, %)



Source: National authorities and IMF.

Finally, and as noted, our surveys tend to highlight the lack of skills of the workforce – this was a particular problem in the pre-crisis boom years. But to what extent are the Balkan economies preparing young people in the basics of literacy, mathematics and scientific knowledge? A useful source of cross-country information on educational standards is found in the so-called PISA tests of 15-year olds across countries. Chart 6 shows that there is quite a bit of variation within the region (with Croatia performing best) and that these countries still lag behind the OECD average.

CHART 6*Growth agenda: boost education levels**(Programme for International Student Assessment (PISA), 2009 results)**Source: OECD.***CONCLUSION**

Chris's 1991 book started with the somewhat ironical phrase "All Quiet in the Balkans". Twenty years later, one can say quite definitely that things are quieter than they used to be. The world is less interested in the Balkans than it was in the 1990s, and for that we can only be grateful. Several times on our travels around the region, people would tell Chris and me that they wanted to live in a boring country. One day, that wish may be granted – but not yet; there are still big challenges ahead, only some of them having been touched on in this lecture. I believe that Croatia can play a strong leadership role in helping this process. In many ways Croatia is uniquely placed to do so, as a bridge between South-Eastern Europe and central Europe. The current government has indeed made clear its intention to support and cooperate with this region fully, as well as to finalise its current membership negotiations with the European Union. Not only do I support these efforts, but I can say with full confidence that Chris would also have approved.