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TRANSITION, INTEGRATION AND DEVELOPMENT IN SOUTHEAST EUROPE

Theoretical and methodological issues that have been raised by the Global Research Project (GRP) on the "Impact of rich countries policies on poor countries" (the Impact Project) of the Global Development Network (GDN) and the wiiw contribution to it are discussed. The difference between policy impact in the context of transition and integration as compared with development is highlighted. The characteristics of the SEE region in this respect are described. Research topics and results are summarised and set in the context of the overall GRP and the existing literature. In the conclusions the connection with the next round of work within the GDN is outlined.

Key words: Southeast Europe, post-socialist transition, integration, development

Introduction

The aim of the project was to look at the trade, investment, aid, employment and labour mobility as well as specific policy issues in Southeast Europe (SEE) and how they are influenced by the policies of the European Union (EU). In other words, how institutional and policy integration influence post-socialist transition in a developing region, that is a region with weak political structures and low income. The overall framework was that chosen by the Global Research Project

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(GRP) of the Global Development Network (GDN) within which, in part, the work of The Vienna Institute for International Economic Studies (*wiiw*) was carried out. The aim of the GRP has been to look at the impact of rich countries' policies on poor countries. The GRP covers the whole world and looks more specifically at the impact of policies of industrialized countries, i.e., the OECD countries, on the policies and achievements of the developing countries and especially on the consequences on their welfare and on poverty reduction. In that context, *wiiw* focused on the impact of the European Union (EU) on the transition countries in Southeast Europe because *wiiw* acts as a hub for this region within the overall GDN global research structure.

In this Report, the approach of the research will be outlined, the areas covered will be described, and some of the more interesting issues and the results of the research carried out within the overall project and within the *wiiw* part of it in particular will be discussed and summarised. As background information, the region of Southeast Europe, or the Balkans, as referred to in this project will be defined. Then, stylized facts about transition out of communism will be presented. Next, the process of EU integration, which is the main context within which institutional and policy changes in countries in transition in Southeast Europe are taking place, will be described. Theoretical and methodological challenges of this project will be set out and discussed throughout the Report. The bulk of it will deal with the findings of the research papers in various areas that were covered and within the context of what is otherwise known or accepted in the relevant literature. The Report ends with the conclusion that connects this round of research with the next one that has just started.

The Policy Impact Set Up: General Remarks

The intention of the GRP on the "Impact of Rich Countries` Policies on Poor Countries", the Impact Project for short, has been to look at the consequences of the specific policy decisions taken in developed, i.e., OECD countries, on welfare, and more specifically on poverty, in developing countries. In a nutshell, the set up is one of the interactions of policy-making in the rich countries and policy-taking in the poor countries. The policy areas of specific interest for the GRP have been those of aid, investment, trade and migration or rather on the impact of the policies of rich countries in these areas on policies and outcomes in poor or developing countries. The main outcome variable of interest was welfare and poverty in particular. In the context of the work on Southeast Europe, it was mostly the impact of EU on the countries in transition in this region, or in more general terms, the policies of integration on policies of transition in a developing region such as that of Southeast Europe. The main outcome variables of interest were those connected with economic development and institutional convergence. The issue of poverty reduction was tackled in some instances, but it was believed that this is not an issue of such importance as it is in the typical development countries. Also, it was decided that the issue of inequality and income generation and distribution were of more general interest and it was believed that these issues should be treated in more depth and detail in the next round of *wiiw* project on Southeast Europe. Thus, the next GDN related project will have the issues of income distribution at its centre.

From the methodological point of view, it was believed that the participants in the project should be free to choose the most appropriate methodology for the research they intended to do. The GDN as an international institution and the GRP in particular has rather strong capacity building objectives and interests and developing appropriate methodologies is certainly an important part of capacity building. As most of the studies that have been done were chosen through a competitive process, part of the requirements for project proposals that were submitted was the description and clarification of the methodological approach that was intended to be used. Thus, the papers that have been produced within this project exhibit a variety of research methods and a rather rich set of theoretical and econometric approaches.

One somewhat more general issue may be of interest to be mentioned and commented on in this report. Clearly, the policy-making and policy-taking set-up, discussed in more detail in the project proposal,[1] implies that the active policy-making process is in the developed countries and the rather passive policy-taking process is in the developing or transition countries. An example that perhaps comes the closest to this set-up is that of monetary policy. A dollarized, or a country with high rate of currency substitution, will have very little influence on its own monetary policy and no influence on the monetary policy of the country whose currency has been taken over. For instance, euro is very much used as a parallel currency in the Balkans, and in some countries and territories it is indeed the official currency, with the consequence that independent or any monetary policy at all is difficult to contemplate. Also the policy of the European Central Bank (ECB) cannot be influenced by these countries even indirectly, because the ECB does not take into account the consequences of its policy decisions on the Balkan countries that are using euro, the latter being too small to merit specific consideration. Similarly, and for the same reasons, the influences on trade policies are rather asymmetric, though the EU does take into consideration the interests of the countries in transition especially those in the Balkans.

[1] See the Project Proposal (2004).

This strict asymmetry does not apply to all the policy-making and policy-taking set-ups, however. In a number of policy areas active and passive policy making powers are not so asymmetrically distributed. That supports various game theoretic approaches to policy-making and policy-taking as the preferred framework to trace the impact of particular policies on each other and on individual and social welfare. In addition, there is the methodological issue that goes to the heart of the theory of economic policy and its application to policy research and advice that will be commented on presently.

Let us assume that economic development or any other development can be represented in a causal set-up. In general, it would be desirable to have a model that will somehow causally connect outcomes with events or actions. Thus, if it is assumed that there is a cause, C, and an effect, E, there will be some way for this relationship to be represented so that:

if C, then E.

This is a theoretical representation of an empirical relationship. It may seem natural that a policy advice could be derived from this causal relationship. If C could be manipulated, i.e., if it is a policy variable, then it could be suggested that:

if the aim is E, do C.

It is not immediately clear how is this to be translated into the policy-taking set-up? Clearly, a policy taker will have no power to manipulate the policy instrument and thus will have no possibility to influence the outcomes. Indeed, the policies that the policy-taker will be implementing will be the outcomes of policy decisions of whoever is the policy-maker. This relationship, however, can be generalized to the level of the policy makers too. If it is assumed that the policy-maker is not making decisions completely arbitrarily but with certain aims in mind, then it can be argued that these aims are somehow determined and thus that the decisions of the policy makers themselves are outcomes of a certain causal process. In that case, once it is determined that there is a cause C that leads to an outcome E, it becomes an added problem to determine whether it is the case that by manipulating C the outcome E will be achieved. There is a clear semantic difference between “C causes E” and “doing C achieves E”. In principle, the statement that C causes E should already assume the actions of the policy makers. In that sense, there is a difference between the empirical research and policy analysis. As a consequence, the policy-making-policy-taking set-up is not altogether easy to define as both processes are determined within the more general model of economic activities.

In other words: there is a difference between the following two statements:

(a) (observational claim): if C occurs, E follows, and

(b) (experimental claim): if C is manipulated, E is the consequence.

In theoretical sense, the first is the statement of an instance of a general law, which needs to be known somehow, while the second is, in policy sciences, naturally understood within a game theoretic framework, i.e., where Cs and Es interact and inter-depend.

These considerations have some significance for the choice of methodology, especially because the policy impact framework is almost always a partial equilibrium one and thus assumes that policy variables can be manipulated to achieve the desired goals, i.e., the statement under (ii) is confused with the statement under (i). This is not easy to reconcile with the theoretical model of policy determination and impacts which is inherently inclined towards general equilibrium. This may create methodological problems but has also theoretical consequences because even game theoretic models are most commonly somewhat tilted towards partial equilibrium, as they assume the externally determined rules of the game, and may endow the policy-makers and policy-takers with too much power over the outcomes of the policy game: they work within the framework of the statement under (ii), only they distribute the power of manipulation to various inter-related actors, e.g., policy-makers and policy-takers.

These theoretical and methodological considerations are particularly important in the area of trade policies, aid policies and cross border investments. They also play an extremely important role in the area of migration policy and labour market issues in general. In this project, these aspects have been taken into account, though a lot of theoretical and methodological work remains to be done. Indeed, it was not the main aim of this project to contribute to the theoretical and methodological debate that is going on within policy sciences and among the methodologists in the profession.

In terms of policy areas of interest, in this project, mostly issues of allocation and reallocation of resources have been looked at. The issues of distribution and of the role of policies that have more distributional than consequences for allocation, are increasingly important and those should be the primary subjects of research in the next round of the GRP and in the *wiiw* work on Southeast Europe within that project.

Transition and economic theory

The interesting contribution of studies on developing countries in transition in Europe is that those show that this process is somewhat different than the policy set-up in which developing countries in other parts of the world are operating. In other words, there is a difference between transition and development. Some stylized facts about the process of transition may be useful to see these differences more clearly. Those have also been relied on to develop hypotheses in this round of research on transition in Southeast Europe and also for the next round (from 2007-2009). As an introduction, however, some considerations about the region that was studied are in order.

Defining the region

There are various definitions of the region of Southeast Europe (SEE). In geographical terms, it is often taken to coincide with the Balkan Peninsula. In terms of political geography it may be taken to include all those countries or political entities (the political part of political geography) that have some part of its territory on the Balkan Peninsula (the geographic part of the political geography). In an even broader definition, that takes into account other criteria too, for instance those of economic or cultural geography, some neighbouring countries or regions could also be included because they have significant (economic or security) regional interests or (economic, demographic or cultural) interests in the region. Finally, intersecting regions could also be considered, for instance Southeast Europe could be a combination of (some parts of) the Balkan region and of (some parts of) the Danube region or of (some parts of) the region of Central Europe.

In the current usage in the International Financial Institutions (IFIs) and in the EU, Southeast Europe includes eight (sometimes nine) countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania and Serbia (and sometimes Moldova), and the territory of Kosovo. This is the set of countries and territories that belong to the SEE or the Balkan region in terms of political geography and are also post-socialist transition countries (another distinguishing criterion). This set of countries is sometimes divided into those that belong to the Eastern Balkans (Bulgaria and Romania, sometimes confusingly Moldova is added) and those that are in the Western Balkans (all the rest). These complex classifications came about for two reasons.

The reintroduction of the Southeast Europe as a name for this region came about after the end of the war in Kosovo in 1999 that saw the establishment of the Stability Pact for Southeast Europe. The idea behind the Stability Pact was to support stability and transformation in the crises areas in the Balkans through an inclusive regional approach. For that purpose, broader definition of Southeast Europe was implicitly adopted that included all the Balkan transition countries plus some of their Balkan (Greece and Turkey) and Central European (Slovenia and Hungary) neighbours. But the target group for integration and transformation was that of the eight (or nine) above mentioned countries and one territory of Southeast Europe. For purposes of economic and other analysis and aid-planning, The World Bank usually added Moldova though it cannot be considered to be a Balkan country.

This wider group of SEE countries consisted of members of the EU, candidate countries and other countries, which eventually became potential candidate countries at the Thessalonica Summit of the EU and the Western Balkans in June of 2003. Out of the eight target countries, Bulgaria and Romania already had the Europe Agreements with the EU and became candidate countries and finally member-states on January 1, 2007, while the other six countries were grouped into Western Balkans for which a different procedure of EU integration was devised centred on the instrument called the Stabilisation and Association Agreement (SAA). In the meantime, two of the Western Balkan countries have become candidate countries, Croatia already negotiating for membership with the EU, and Macedonia still waiting for a date to start negotiations. The remaining group of countries (Albania, Bosnia and Herzegovina, Montenegro and Serbia) is in various stages of the Stabilization and Association Process (SAP). To them the emerging state of Kosovo, that is tracking the SAP, should be added.

As the eight countries included into the region of Southeast Europe have been integrating with the EU at different speed, the region has been shrinking as countries have been graduating from Southeast Europe and moving to the EU. Now that Bulgaria and Romania have joined the EU, the region of Southeast Europe for all practical purposes coincides with the Western Balkans. From the perspective of the EU, that region has already been divided into two groups of countries: candidate countries (Croatia and Macedonia) and potential candidate countries (the rest). Therefore, increasingly the EU does not include candidate countries into the Western Balkan countries, so that the regional designation of Western Balkans is becoming not very useful and informative. Except in the sense that there is a regional free trade area that is to be formed and which all of these countries are to join at the beginning of 2007. Strangely enough it will continue to be called the Central European Free Trade Area (CEFTA), as all these countries will be expected to join CEFTA, though it will be comprised only of the Western Balkan countries (plus Moldova).

Thus, the original region of Southeast Europe that justified the creation of the Stability Pact for Southeast Europe had transformed itself into a region of Central European Free Trade Area. That region will be even smaller once Croatia joins the EU and will continue to wither away as other countries advance on their way to the EU.

With the withering away of the SEE and of the Western Balkan region, regional interests may not disappear, however. If the regional economies continue to improve and intra-regional trade and investment start moving freely, SEE may eventually prove to be an important economic region. However, in its current status of a collection of small countries and small economies that are jealous of each other and tend to conflict over a host of issues often and also continue to move towards the EU at different speeds, the regional aspect will continue to play a relatively minor if not any more a negative role.

Economic transition in comparative perspective

SEE went through a turbulent development in the 1990s, partly because of the violent conflicts on the territory of Yugoslavia, partly because of the lack of political support for transition, and partly because of the confused international involvement and intervention. In any case, the whole region has started to report good economic news only after the year 2000. Even after that date, Macedonia went through a costly internal conflict in 2001, Serbia suffered a setback after its Prime Minister, Dr. Zoran Djindjic, was assassinated in early 2003 and Montenegro gained its independence only in spring of 2006. Also, in parts of Bosnia and Herzegovina economic development started to improve only in the last couple of years while the situation in Kosovo is still quite difficult and economic growth is yet to return to that place.

With these caveats in mind, it is clear that economic growth did return to the region and has stayed, for the most part, at a relatively high level ever since. Average growth rates in most countries of the region have been between 4 and 5% in the last few years and can be assessed to be sustainable. In fact, indicators of macroeconomic stability have been improving in most countries in the region. Inflation has been relatively low or has been decelerating or stabilizing. Public sector balances have been improving and the fiscal balances are mostly sustainable even with foreign aid decreasing. In the last few years, exports have also been growing, though the region still remains reliant on large inflows of imports.

If the developments in the Balkans are compared to those in the Central European economies in transition, now new member states (NMS), an argument can be made that the former are following in the footsteps of the latter. They are exhibiting the characteristics of the catching up economies. It may make sense to list similarities and also dissimilarities between these two groups of countries. The purpose would be to determine how much of a difference there is between transition and development and how much of a mixture of the two can be found in the SEE. To facilitate the comparison a review of some stylized facts about the process of economic transition may be useful. These stylized facts of the process of transition refer mostly or exclusively to the European post-communist countries and in particular to those that are on the periphery of the EU and have been seen as eventually joining the Union as indeed those in the Central Europe, and now even two from the Balkans have already done.

Democratization: Transition in Europe, unlike perhaps in some other parts of the world, has been closely connected with the process of democratization. Indeed, it has been argued that the overall strategy of transition that has been chosen and implemented in Central Europe can be characterized thus:

***Democracy first, reforms later*.**[2]

Rather than believing that democratization can be attained by piece-meal reforms, or that economic reforms should precede the political ones, the complete change of the political regime was seen as the prerequisite for economic reforms. This is the consequence of the Western Communist experience and of the so-called Western Marxism as well as of the success in the democratization of Western Europe and even of Southern Europe after the collapse of the right-wing regimes and dictatorships. It is also the outcome of the series of failed attempts to change the rigid communist system through reforms. These failures to reform led to the understanding that no change in the economy is possible without the change in politics or, in other words that the economic system cannot be reformed without a change in the political system. This is in many ways different than what is characteristic for the process of development. It is often found that there is no clear correlation between democratization and economic growth. Also, some kind of economic determinism is accepted, with the claim that economic development is the precondition for political development. Another variant of this claim is that economic liberalization, especially protection of private property rights, precedes political democratization.

Unlike in what are now new member states (NMS) of the EU, in SEE states democratization was often delayed, or alternative types of regimes, authoritarian or oligarchic, were tried. In some cases, democratization or rather its irreversibility is still an issue partly because of the still unresolved constitutional problems. Both the issue of democratization and of constitutional development will be discussed in some more detail in the concluding part of this report. It is important to emphasize here that at least in the Central and Southeast European countries in transition, democratization has been a boost and lack of it an impediment to faster economic growth and development.

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[2] See Roland (2000).

Liberalization and privatization: The main initial reform in the process of transition is that of liberalization of domestic and foreign markets. In conjunction with that is the process of privatization, which usually starts immediately but takes much more time to complete. These two processes are not unrelated and in fact relatively comprehensive liberalization is supportive of the more successful and sustainable processes of privatization. The reason is that the transfer of property rights that goes via the market leads to better allocation of resources and produces a more sustainable distribution of property rights.

These policies were very much supported by the early signal sent by the EU that it is ready to open its markets to exports from the emerging economies in the post-communist Europe and by the quick response of investors and banks from the EU to the opportunities that the expansion of the private sector in the transition economies provided. Thus, significant turnaround in the foreign trade patterns in these countries happened in a relatively short period of time and also large and sustained inflows of investments from the EU member states kept pouring in. Especially important was the quick privatization of the banking sector with unprecedented participation of foreign banks.

Again, the process of liberalization was – for different reasons in different countries or sets of countries – somewhat delayed in SEE while the process of privatization was often rigged and contributed in some cases to the misallocation of resources and even to unsustainable macroeconomic imbalances. For instance, Serbia, Montenegro and Bosnia and Herzegovina are yet to join the World Trade Organization (WTO) and are yet to sign an association agreement with the EU. Also, the contribution of the private sector to GDP in SEE is still on average below the level in the NMS.

However, in the last few years, essentially from the year 2000 onwards, a process rather similar to the one observed in the Central European countries in transition is developing in SEE too.[3] The banking sector has been mostly privatized with large foreign participation and liberalization has been proceeding, though there are still barriers to trade of different kinds. Thus, the region looks ever more similar to Central European pattern of transition rather than to a more cautious process of development.[4]

Foreign investments: In most cases, though not invariably (Slovenia is a notable exception), foreign ownership of assets increases quite dramatically in countries in transition. That is especially true of financial services (banks and non-banking financial institutions), trade and also of the industrial sector. Indeed, the inflow of foreign investments, both direct and other, tends to be very large

[3] See Gligorov, Holzner and Landesmann (2003).

[4] For details, see Gligorov 2006.

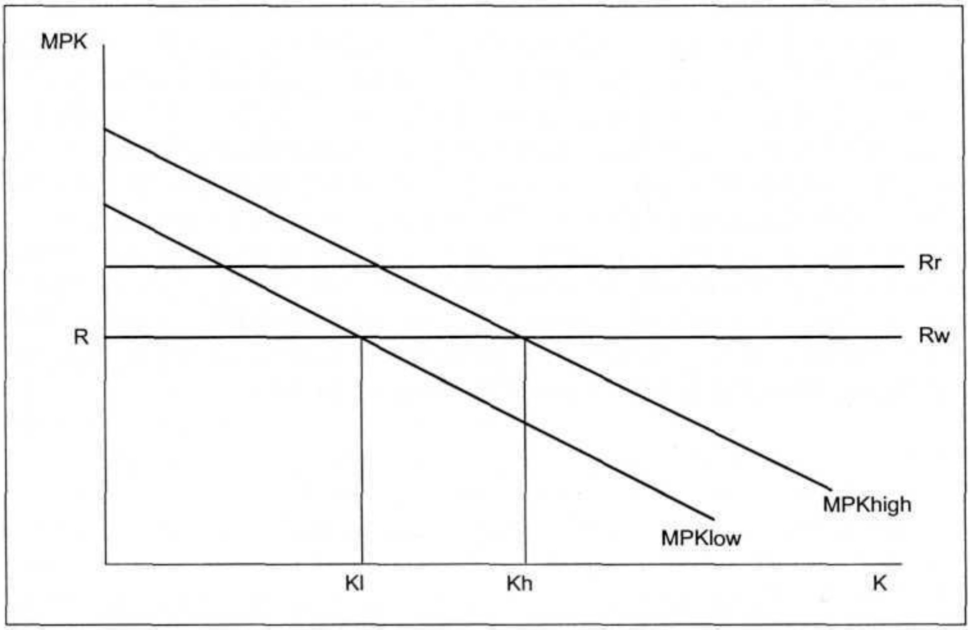
and is sustained over a prolonged period of time. The initial motivation is the opportunity to invest in quite cheap assets, but afterwards the main motive is the opportunity to take advantage of the high potential growth of productivity. This is facilitated by the early opening of the capital and the financial accounts and by foreign takeover of the financial sector in most countries in transition.

In figure 1 a typical neoclassical story of investments going from more developed and more capital rich countries to less developed and countries poorer in capital is depicted.[5] A less developed country has a higher return to capital, which if the scarcer resources, which may not be within reach of entrepreneurs because of higher risks of investment in those countries. If, however, those risks were to be lowered, in the sense that the interest rate in the developing country is approximately the same as in the more developed country, investment would flow from rich into poor countries attracted by higher productivity growth in latter countries. As a consequence, a current account deficit would develop as well as higher foreign debt, but that would be sustainable as exports would pick up as the developing country is catching up with the more developed country.

[5] It is called neoclassical as in the Lucas paradox on why is it that capital is not flowing from the rich to poor countries as neoclassical theory would predict.

Figure 1

INVESTMENT FLOWS



The key to this development taking place is that the risks to investment across countries are similar or ideally the same irrespective of whether they are rich or poor, developed or developing. In the countries that are anchored into the EU integration and transformation process, that seems to be the case which explains the rather large and sustained inflow of foreign investments into the countries in transition. By contrast to the NMS, inflows of foreign investments have been delayed and have become significant in SEE only since the turn of the century. Indeed, in some cases, significant and sustained foreign interest in investing is yet to happen; e.g., in Bosnia and Herzegovina, Macedonia and even Serbia.

It is also to be noted that unlike in most developing or emerging markets, the stability of foreign investments is greater. Though there have been exchange rate crises, those have been relatively mild and short-lived.[6] Thus, process of transition

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[6] The main exception is the Russian exchange rate crisis in 1998, which was partly the consequence of mismanagement. Also, Russian transition does not conform to the transition in the Central and Eastern Europe that is the basis for the stylized story being told here.

that is connected with EU integration, however protracted, tends to be much more stable than the typical process of development even after the latter process is quite advanced. In that respect, countries in SEE tend to exhibit economic stability as soon as they manage to stabilize their political systems and start the process of EU integration.

Productivity, exports and industrialization: As a consequence of political stability and economic reforms, countries in transition relatively quickly start to experience growth of production and of GDP. Also, in a relatively short period of time, exports start to grow as does the industrial production. In the course of a decade or so, successful economies in transition will surpass, sometimes by quite a lot, their pre-transition GDPs, exports and industrial production. Employment, however, tends to decrease and then stagnate for a longer period of time, so that transitional economies tend to grow by high growth of productivity. There are differences across countries so that employment and unemployment rates may differ significantly, but once some of these factors are controlled for, a clear pattern of productivity driven recovery and growth can be associated with the process of transition.

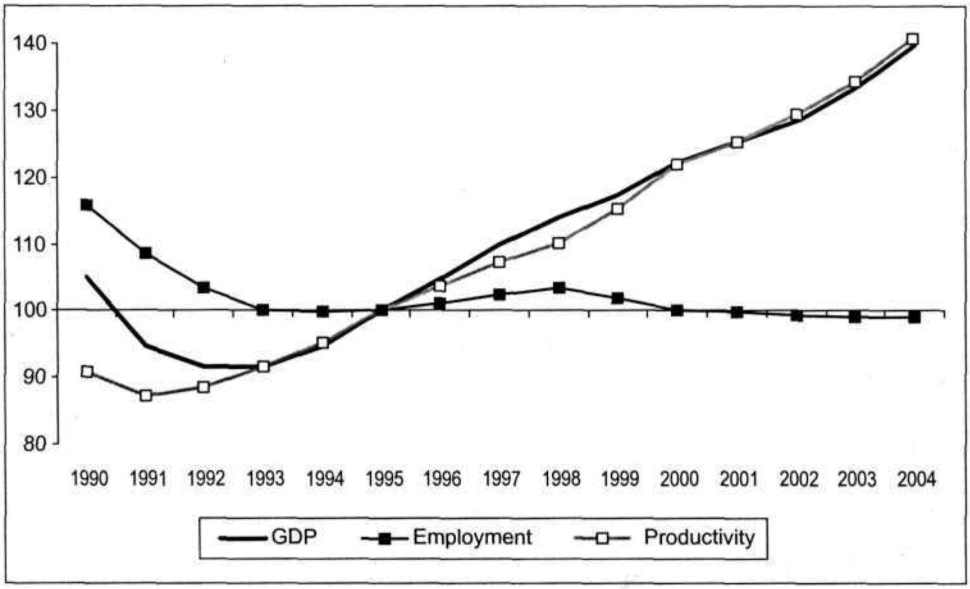
This is well captured by Figure 2 that shows actual growth of GDP, employment and productivity in the NMS. This may be termed catching-up growth in transition. The line for GDP growth can be seen as representing quite well the growth of industrial production and of exports too. Indeed, the latter two tend to grow even faster then the GDP, which suggests even faster growth of productivity in industry and in the exporting sector. Thus, liberalization and privatization tend to support macroeconomic stability and growth based on exports and reindustrialization.

This process of catching up has, however, been delayed in SEE and has been going on for the most part only since the turn of the century, essentially after the resolution of the last serious violent conflict, that in Kosovo in 1999. The difference is, however, that while GDP is growing and its growth is perhaps even accelerating, reindustrialization and the growth of exports are still lagging behind. Similarly, the decline of employment is continuing in many countries and there are unemployment levels that are very high in a number of countries. In the last couple of years there are indications in the foreign trade data and the data on industrial production that in the SEE a similar process of export and industry led growth is being repeated. Again, that may be somewhat different from what is commonly observed in developing countries, thus confirming once again that the process of transition is somewhat different than the process of development.

These developments that strongly resemble those in the more advanced countries in transition as represented in Figure 2, can be seen in the two panels in the Figure 3 where the same picture emerges for candidate countries (including Turkey) as well as for the potential candidate countries. The year 2000 has been taken as the starting point of the turnaround because the developments have been distorted by wars and international sanctions in large parts of the region in the previous period. Thus, it can be observed that the process already observed in the NMS is being repeated in the SEE too. Unlike in the NMS, however, industrial production and exports have not been growing in the SEE at the same speed as the GDP. Reindustrialization and production for exports have yet to recover or develop strongly, though positive developments can be observed in the last few years.

Figure 2

GDP, EMPLOYMENT AND PRODUCTIVITY IN NMS-8
1995 = 100



Source: *wiiw* Database incorporating national statistics; *wiiw* estimates (weighted averages for NMS-8).

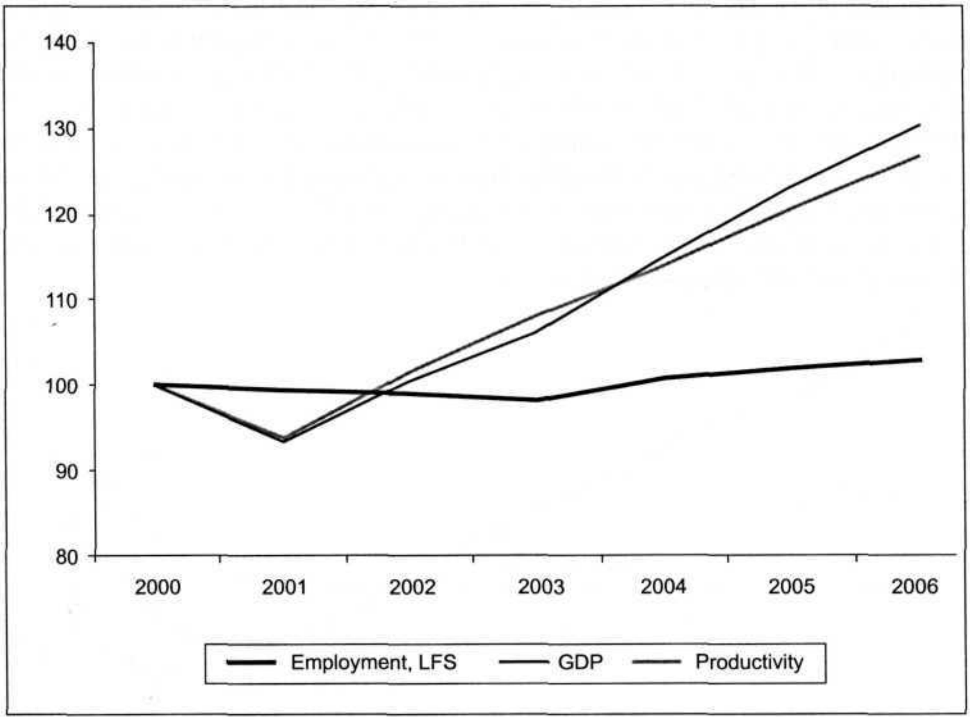
Macroeconomic stability: As a rule, macroeconomic stability has proved to be less of a problem in transition than was perhaps initially expected. There are a number of reasons why that is so. One is growth of production and of GDP in general. The additional reason is significant increase of imports that tends to have a stabilizing effect if the monetary policy is not mismanaged. Finally, and perhaps most importantly, decrease of employment and increase in unemployment tend to produce deflationary rather than inflationary pressures once fiscal policy is put under control. Again, a look at Figure 3 makes this clear. If employment is stagnating or even declining while production is growing, wage inflation should not be a problem except if the labour market is not quite distorted.

In this respect, the SEE has proved to be an exception in several instances for different reasons. In some cases, high fiscal expenditures, often due to the war effort, have proved to be unsustainable and have led to hyperinflation (e.g., in Serbia), in other cases monetary policy got out of hand with high inflation as the consequence (e.g., Bulgaria in 1996-1997), while in yet other cases the collapse of the banking sector led to inflationary and exchange rate problems (e.g., Albania in 1996-1997 and Croatia in 1998-1999). Still, it can be argued that even in countries that have delayed their transition, such as those in the SEE, macroeconomic stability, in terms of prices and exchange rates, has proved to be less of a problem then structural and institutional transformation.

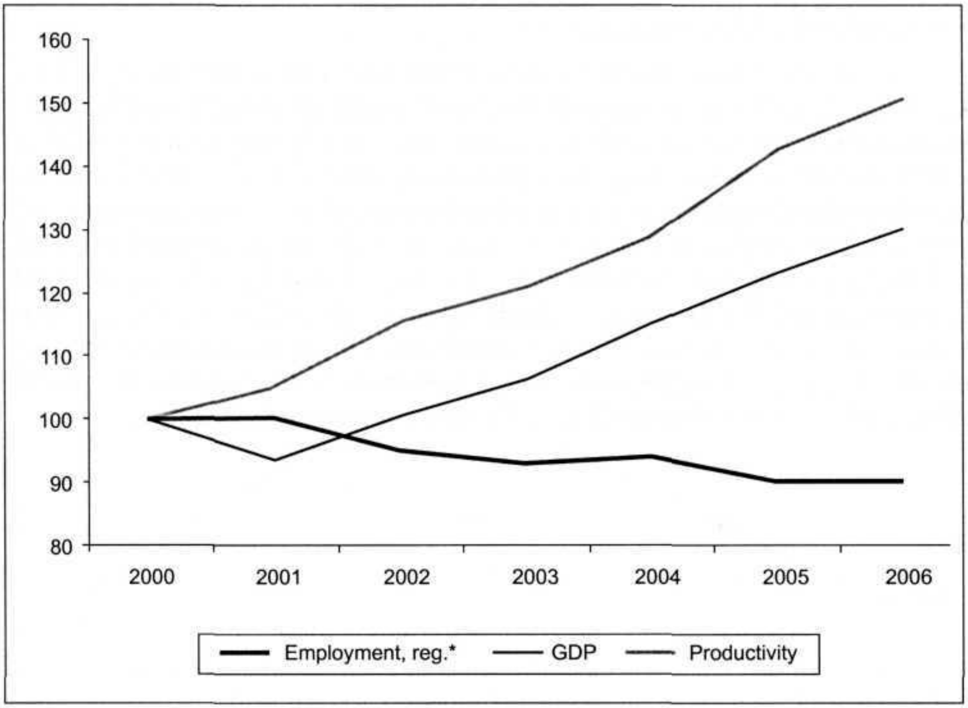
Figure 3

GDP, EMPLOYMENT, PRODUCTIVITY 2000-2006
2000=100

CANDIDATES COUNTRIES (HR, MK, TR)



POTENTIAL CANDIDATE COUNTRIES (AL, BA, ME, RS)



** Serbia data are based on LFS.*

Source: *wiiw* Monthly Database incorporating national statistics.

Sustainability of macroeconomic imbalances: Though inflation may be under control and the exchange rate may be stable, macroeconomic imbalances may develop that may eventually threaten the stability of the nominal variables. In transition, three macroeconomic imbalances – fiscal, external and those in the labour markets – though initially quite high, have proved to be sustainable and to be improving over time.

External balances tend to deteriorate initially, with imports outperforming exports, partly because of the significant inflows of foreign financial resources. Still, with the recovery of exports, the sustainability of the foreign obligations has proved to be less of a problem than it was perhaps initially anticipated.[7]

Fiscal balances have proved to be more of a problem, though relatively high and sustained growth rates have helped the sustainability of the budgets and fiscal

[7] See initial assessment in Cohen (1991).

balances in general. In the SEE, public sector has developed differently in different countries, which warrants separate treatment that will bee attempted in the next round of the GDN research.[8]

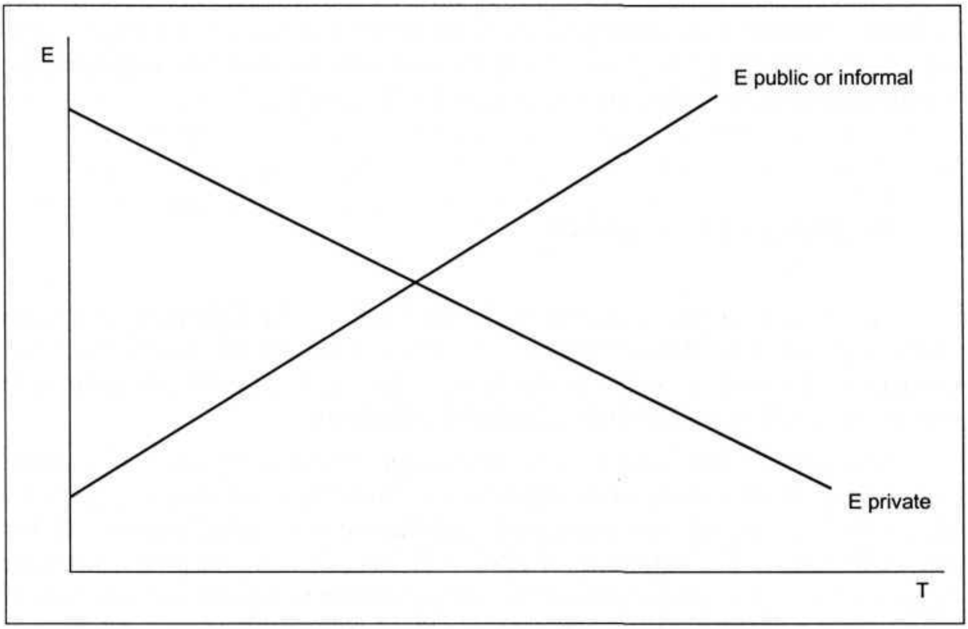
Perhaps the most important imbalance has been that in the labour markets. As already argued, due to the catch-up growth based to a large extent on rising productivity, employment tends to recover more slowly and unemployment in some cases stays at a high level for a prolonged period of time. Figure 4 captures the relationship that has been described as the optimal level of employment.[9] As long as private employment does not increase enough, taxes have to be collected in order to finance public employment. That has consequences for the informal employment and for the level of unemployment, which also has fiscal consequences. In the general equilibrium, unemployment benefits, wages in the formal and informal sector are equalized, while the tax burden, T, determines the growth of the public sector and the decline of the public sector employment, E.

[8] For an initial statement see Gligorov (2000).

[9] It is a variant of the Laffer curve.

Figure 4

TAXES AND EMPLOYMENT



In the Balkans, fiscal imbalances have proved to be a problem in some countries where the public sector has collapsed for various reasons. Over time, however, fiscal balances have been restored and have proved to be for the most part sustainable. External balances may prove to be more of a problem because export capacity has been recovering only slowly in most of the region. Growth of export of services has been helpful in a number of cases, but the recovery of exports of goods has been visible only lately. Finally, in some part of the Western Balkans, unemployment is at very high levels and is certainly the key economic, political and social problem.

Policies and institutions: Initially, policies were believed to be the most important, while institutions were expected to adjust to reforms. After a decade of transition, it became an orthodoxy that institutions are important and that institution building and structural reforms are the key to successful transition. In the case of the NMS, institution building was part of the EU integration, so once they were securely on the path to join the EU, reforms of policies and institutions could go together.

In the case of the Balkans, both reform policies and institution building took often a different path, in some cases because the prospect of EU integration was not very realistic. In fact, Western Balkans is probably the only part of Europe that has initially disintegrated from the EU, because of the collapse of Yugoslavia, before its current process of integration started. In most countries, there was a lack of determined commitment to policies of transition and there was a reluctance to reform the institutions. That was mostly the consequence of domestic politics, but it was also in part the consequence of slow EU integration.[10]

Prospects for EU integration

The key to transition as has been observed in Central and Eastern Europe has been the prospect and the speed of EU integration. It is this institutional and policy impact that has been essential to the development of the European countries in transition. The Balkans has been a laggard in this respect.

Since 2003, when Western Balkans were promised the prospect of membership in the EU, and 2004, when Bulgaria and Romania were seen as joining the EU in 2007, the expectations have been building up that the EU Balkan enlargement will start at the beginning of 2007. The main recent change has been the weakening of the EU commitment to enlargement in Southeast Europe. It is, of course, hard to break promises, all the more so when they have been made repeatedly to the whole region – as well as during the Austrian presidency in the spring of 2006. There is a growing uncertainty about the meaning of that commitment. The EU has since decided to determine its 'absorption capacity': an unfortunate term lacking any clear meaning. Perhaps the kindest interpretation is that the EU needs to reassess its decision-making structures since current arrangements do not cover the union comprising of more than 27 countries. Assuming that interpretation is correct, the problem is to be seen more as a political rather than a fundamental issue. Nonetheless, in view of this increased uncertainty, it becomes more difficult to predict the course that Balkan enlargement will take. In Table 1 the current forecast has been laid out. Though this forecast is not universally shared by researchers, investors, and politicians, the common assumption is that the region as a whole will join the EU, though the dynamics and the succession cannot be safely predicted at this point of time. However, for the flow of investments, the certainty that the region is integrating with the EU and the steady improvement on that path is more important than the precise date of formal entry into the Union.

[10] A detailed discussion of this can be found in the Final Report 2004.

Bulgaria and Romania, which signed their Europe Agreements (EA) already in 1995, joined the EU on 1 January 2007. Croatia is expecting to join around 2010, once the discussions on the Union's 'absorption capacity' and the new financial framework are over. Everything else is highly uncertain. Most of the countries in the Western Balkans will have managed to negotiate stabilization and association agreements (SAA) with the EU by the end of 2006 or in 2007. It is increasingly uncertain, however, whether Macedonia will start negotiating for its membership with the EU at the same time. The expectations are that Turkey will not achieve too swift a progress towards EU membership. Indeed, the debate on the 'absorption capacity' will mostly centre on the prospects of Turkish membership. In any case, 2015 looks increasingly unlikely as the date for Turkey's entry into the EU.

Table 1

SEE EU ACCESSION FORECAST

	SAA	**Negotiations**	**EU**	**Euro**
Bulgaria	1995 (EA)	1999	2007	2009
Romania	1995 (EA)	1999	2007	2012
Croatia	2005	2005	2010	2012
Macedonia	2004	2008	2012-2013	2015
Albania	2006	2009	by 2015	by 2017
Bosnia and Herzegovina	2007	2009	by 2015	by 2017
Serbia	2007	2009	by 2015	by 2017
Montenegro	2007	2009	by 2015	since 2002
Kosovo	2008	2010	after 2015	since 2002

The accession of Bulgaria and Romania has come with certain restrictions in order to push the reforms there even after they have become members and to perhaps minimize possible negative effects that their accession might have on them and on the EU member states. Some of these restrictions that refer to labour mobility as the issue of free movements of people and of migration in general, have become a concern in most EU member states. Other restrictions will have to do with the justice and home affairs issues.

In the case of Croatia and even more so of Macedonia, the speed of EU integration will mostly depend on the institutional transformation of these countries. No serious economic issues for the member states will be raised by the accession of these two states. The remaining countries of the Western Balkans will not be joining the EU before 2015, at least from the current standpoint.

When it comes to the issue of effects of EU Balkan enlargement on the Balkan countries and the EU, it can be argued, on the experience of the 2004 Eastern enlargement, that most of the effects tend to be internalized already during the process of the implementation of the association agreements, during the membership negotiations and through legal harmonization. No dramatic new consequences follow after these countries enter the EU. Thus, for both the EU and the aspiring new member states, the process of integration is more important then the actual act of integration. During the process of integration, the two main consequences are those on trade and investment on one side and on stability on the other. In general, the association agreements bring in significant trade liberalization that tend to push up trade between the EU and the association countries. Investments also tend to increase, sometimes dramatically, because of the decline of risk that goes together with the increased certainty of eventual membership. In addition, macroeconomic and social stability are enhanced because of the swift institutional change, sustainable democratization, and lack of major economic turbulences or crisis.

The Impact Set-Up

The rationale for the Impact Project has been to enhance the understanding of the policy structures on which the developed and developing world are relying and to derive policy recommendations from specific thematic and country studies. The exercise has been useful both in the conceptualization of the issues and in the lessons to be learned when it comes to the ability to recommend policies. The studies dealing with the Southeast Europe have naturally looked into the impact of transition and EU integration, those being the determining processes and contexts for this region. The transition and the EU integration involve not only policy adjustment, but also complete institutional transformation, which is why these issues were also looked into in the Southeast European part of the Impact Project.

The project opened up a number of theoretical and methodological problems, which were in some respects different from those encountered by the other studies on other regions of the world in the Impact Project. These differences are in general connected with the already emphasized difference between the process of transition within the context of EU integration and the process of globalization.

Theoretical and Methodological Considerations

The GRP on the policy impact of rich countries on poor countries has had to deal with at least three important theoretical and methodological issues. One is the modelling of the idea of the impact, the second has to do with the mechanism of influence on the outcome variables of interest, and the third is the reliability of the partial equilibrium or alternative analysis of policy choices and consequences.

The issue of the impact. Policy impact is most naturally seen as causal. There are, however, a number of problems with causal impacts of policy choices that have to be mediated through policy responses before the effects on the output variables of interest can be detected. The implicit assumption in the Impact Project has been that rich countries tend to choose policies based solely on their internal considerations while poor countries have to choose their policies on the basis of both on their domestic and on external considerations. For instance, EU makes decisions on its agricultural policies solely with an eye to the interests of its member states or their agriculture while the developing countries have to adjust their policies to those of the EU and to the needs of their economies. That may have distributional and consequences for the allocation of the resources that may lead to a suboptimal equilibrium. In such circumstances, the way the decisions are carried out, the procedure of decision-making, may turn out to be more responsible for the outcomes than the specific decisions of the policy makers themselves. Thus, it is not altogether clear how is policy impact to be modelled in order to preserve the idea that there is some causal connection between the policy choices and, for instance, welfare outcomes. It has been suggested that the presumed causal nexus may be too strong and perhaps policy impact should be understood more as an influence or some other weak form of power that acts on the outcome variables of interest. Other proposals on how to see the connection between the input and output variables are possible. The strong version of the policy impact as causal was, however, the initial motivation for the Impact Project.

The issue of counterfactuals. The other problem has to do with the determination of the mechanism that connects causes and effects. If the policy impact of interest is that of, for instance, trade policy on income distribution, it is to be expected that there will be several intermediate causal links to be determined. It is not clear, theoretically and methodologically, whether such causal chains are to be entertained and how are they to be identified. A simple way to see this is to look at whether it makes sense to take causal relations to be transitive. For instance, let us assume that

C1 causes E1 in circumstances S1,

and let us assume that

E1 causes E2 in circumstances S2.

Then it would follow by transitivity that

C1 causes E2.

It is not clear, however, in which circumstances: S1 or S2? We have to make assumptions about the relationship between the circumstances and those may turn out to be too strong to be credible, as has been argued in the literature.[11]

If a structural equation model is to be used to trace the causal links, that may seem theoretically appropriate, but it might prove to lead to poor empirical results. This is in part because policies often come in packages and their separate influences are difficult to identify. More important is the problem of counterfactual confirmation. If an impact is detected, it is hard to be certain of its causal strength if it cannot be compared to an outcome in which that impact is not operative. To be able to say that a policy

C leads to outcome E,

it might be necessary to be able to say that

E would not have been the case if it had not been for C.

But there may be no such counterfactual to be had. Of course, in a structural model, assuming that parameters do not change, the counterfactual statements are easy to formulate, but their empirical relevance is quite doubtful.

The issue of policy-evaluation. The third problem is related to the well-known Lucas critique of policy evaluation.[12] In policy analysis one is interested in changes rather than in the persistence of certain policies or policy regimes. Intuitively, an impact of a policy is to be looked for when the policy in question is changed. More formally, if effect E of policies C are to be detected in circumstances S, it could be hypothesized that

future E depends on the historical E and on policy C in circumstances S1, while

policy C depends on the desired future E and on circumstances S2.

To this set up, we can add that

Policies C1 depend on policies C2

to get the multi-policy or an international context. The parameters of interest – those associated with E, C1 and C2 – will not be independent of each other in principle, so that a change in a policy C1 will have an impact on the change in the policy C2 and also on the parameters that determine the change in E parameters.

[11] See Sims (1980).
[12] In Lucas (1976).

That, as Lucas argued, will lead to changes in the parameters of the function that relates policies with outcomes. He argued for this conclusion by drawing the distinction between causal and formulations in terms of expectations (which is an instance of the distinction drawn above between causing and manipulating), but the same point can be made by distinguishing formulations in terms of feasibility and desirability, which is also crucial for policy sciences (this is and instance of Hume's claim that "is does not imply ought"). In both formulations, a policy cannot be easily seen as being exogenous to its consequences, as it cannot be exogenous to preferences and expectations, both in terms of other policies and in terms of the behaviour of the outcome variables.

These considerations support the choice of the general equilibrium analysis, which, however, does not tend to give the results that are of obvious policy interest.[13] Also, because of the difficulty in identifying clear effects of policy choices, it is hard to come up with clear and persuasive policy recommendations.

Lessons Learned

The research, the workshops at which it was discussed, and the Global Annual conferences – in Dakar, Senegal, St. Petersburg, Russia, and Beijing, China where the Impact Project and the *wiiw* contribution to it were discussed – have been useful not only in the sense that much has been learned about the specific policy choices and their impacts that were studied, but also about the limitations that the analysis of policy impacts can have in general and within development economics in particular.

Most of the theoretical and methodological questions that were raised went unanswered even though high quality research papers and studies had been conducted. In that, again, the policy conclusions and recommendation for the developing countries in transition were easier to formulate than for other developing countries. Here, some somewhat general lessons learned will be put down.

The key motivation for the overall Impact Project was the suspicion that the policies that rich countries are either pursuing or are recommending are not having the desirable effects in poor countries, especially when it comes to the effects on the reduction of poverty. For instance, that the current international trade structure is detrimental to the developing countries and especially to those who are poor in those countries. On the background of growing doubts about the ben-

[13] It is questionable whether causal relations can be identified in a general equilibrium model. Arrow repeatedly made the argument that there is no way to determine how prices are set in the model of general competition.

efits from free trade and from free movement of capital together with the growing awareness that aid and international financial support is often counterproductive and with ambiguous assessment of the distribution of benefits from migration between the sending and the receiving countries, it was expected that rather clear answers will be derived from this Global Research Project. Because of theoretical and methodological problems, clear cut results were not really obtained and thus confident recommendations had been all but impossible to draw.

It is hard to argue that the current global policy structure, i.e., the global governance structure, is to be credited with either commendable or disappointing results when it comes to either development or transition.

Also, it is hard to come up with strong policy recommendations to either rich or poor countries in most of the areas that have been studied due to the fact that the effects of alternative policies are not easy to identify with the necessary precision and counterfactual policy advice is hard to justify on empirical grounds. The same lively debate about the directions of future development policies has been going on within this project as within the research community at large.

In the specific case of countries in transition and of the impact of the EU on its periphery, progress was somewhat greater than in other regions. Because of the fact that the EU influences the institutional as well as policy transformation, somewhat clearer results and recommendations could have been derived from the research within this project.

In the case of the EU integration and its effect on transition and development, somewhat clearer results were obtained. Indeed, this is a process that gives almost unambiguously positive verdict when it comes to trade liberalization, foreign investment, migration and development. Only the assessment of aid effectiveness is somewhat more nuanced, though even in that area some relatively clear policy recommendations can also be drawn.

The key to the difference in the impact on transition and development between, let us call it, globalization and EU integration is the fact that the latter, unlike the former, involves institutional transformation rather than just policy adjustment. That may be the key lesson learned on the relationship between integration, transition, and development. Understandably, this lesson may not be easy to implement in other contexts of political, social and economic change and development. On the other hand, the finding is in tune with the growing consensus that it is institutional development that is the more important vehicle of development as opposed to the previous insistence on the role of policy change and reform. That suggests that integration is the instrument of choice rather than that of policy-making and policy-taking or, in other words, of policy impact.

These policy conclusions will be discussed further and summarized after the presentation of the research that has been carried out and of the more specific theoretical and empirical results in the areas covered by the GRP.

EU and SEE: Issues and Policies

The main areas of research within the GRP, the Impact Project, were three: capital flows (investments and aid), trade, and migration (including remittances). *wiiw* added to this list studies on related topics of labour market developments and on particular economic policies, especially those that are significantly impacted by the EU, i.e., monetary and exchange rate policies. In addition, constitutional and institutional issues have been studied because Southeast Europe is a region where state- and nation-building processes have not been finished and because institutional transformation has been influenced by the EU integration process, but also by the massive involvement of the wider international community.[14]

In the rest of this Report, some additional theoretical and methodological issues will be discussed within the context of the GRP and transition economics in general as outlined above. This is necessary because of the specific characteristics of the policy setting in the Balkans, mainly connected with the weak or fragile states or state-like political entities. Then, the research findings and lessons learned will be grouped around the topics that were treated and will be discussed with the view on the existing literature and the contributions made by the research within this project. Conclusions and lessons learned will be summarized and, finally, a connection will be made with the next round of the GRP on migration and on SEE in the *wiiw* in the next two years.

Weak States and Transition Policies

In studying Balkan countries it is important to keep in mind that those are states and political entities with certain institutional and functional deficiencies. Though they could not be all described as weak states, some of them certainly could, and some could be defined as outright failed states or at least as fragile ones. This has implications for the political economy framework within which the impact of outside as well as domestic policies could be studied. In the previous GDN projects – on macroeconomic challenges, regional integration, and reforms – the ability of the Balkan states to deal with economic policy tasks and with institutional reforms has been studied in some depth. In the Impact Project, the issue of the weakness of the state institutions and the importance of that fact for the way in which both outside policies and domestic adjustments affect outcomes has been looked into again. Practically in all of the topics that were studied, the

[14] This topic was also extensively analyzed in the previous GRP on determinants of reforms.

research had to take this fact into consideration in one way or another, that is either explicitly or implicitly.

An additional complication is the fact that the international influences are almost always multi-faceted. In the Balkans, perhaps more than in other instances, though not perhaps in other post-conflict areas, the impact of rich countries' policies is a relationship between various centres of policy-making and also of various centres of policy-taking. Thus, rather than having a relatively simple principal-agent relationship, there is multiple-principal-multiple-agent relationship. Some of these relationships are vertical, but some are horizontal. Some are bilateral, but some are regional or multilateral. It is not at all easy to define the policy influence in the context where there are various external policy makers and a diversity of domestic interests and where the policy discussions and decision making takes place in different fora that have different rules that they operate by. Thus, for instance, in the area of trade policy, there is the multilateral process in the World Trade Organization (WTO), there is bilateral trade negotiation with the EU, and then there are regional negotiations in the context of the setting up of the regional free trade area, CEFTA.

In the discussions about the GRP, there have been doubts raised about the way in which these issues of international governance should be treated. Some have taken an approach that what is needed is to take some policy change as an exogenous variable and trace its impact on the endogenous variables, i.e., on domestic policy choices, and outcome variables of interest. The problem with this approach is that the way the decision on the policy change is taken will have an impact on its consequences, because it will be taken in part with the view on these consequences both on the policy takers and on the outcome variables of interest. Thus, it is hard to separate the issues of international relations and governance from those of policy-taking and policy adjustment. This is particularly the case if the countries in question are small and open. But it is also the case if policy decisions have to be taken within the context of multilateral or regional agreements or organizations. This is the case of the EU in particular, as this is a union of relatively independent states that aim to further their separate interests through their membership in this larger union.

In the European countries in transition, the outside interference in the institutional development and in the choice of policies is particularly strong. In the Balkans, because of the conflicts connected with the dissolution of Yugoslavia and the weak states that emerged, international presence has been extremely strong and pervasive. As a consequence, most of the topics of the Impact Project are all but tailor made for this region. The region has been a recipient of significant foreign aid and has seen significant outward migration. Finally, the region is quite open, though much more in terms of imports than exports. As a consequence, the policies of the rich countries in all these areas have quite significant consequences for the Balkan economies especially because of the fact that the local policy centres exhibit, as already mentioned, quite significant weaknesses and deficiencies.

The specific aspect of the policy development in the SEE vis-à-vis the EU is that policy taking is not just objective or a matter of fact because one partner is much more developed than the other and thus there is a clear asymmetry of interest and in the power to influence in order to achieve these interests. In addition, policy-making by the EU is institutionalized because it is part of the process of integration so that policy influence relies on a variety of instruments, such as that of conditionality and on financial support. This is even strengthened in the SEE because of the direct involvement of the EU in the institutional development and decision making process in a number of countries and territories. Therefore, the policy-taking is in some cases just the process of implementation of policies developed in the EU and tailored for the region of SEE or for particular countries. Thus, the policy-taking process is not that of an adjustment of policies of a poor country to the policies of a rich country, but is a formalized, contractual obligation to take over certain policies designed by the rich countries, i.e., by the EU. In the case of weak states, the policy-making and policy-taking is not clearly distinguished, though the problem of implementation is so much more complicated because of the weakness of the implementing agency.

Thus, SEE countries resemble other transition countries now NMS in terms of the influence of the EU on their institutional and policy transformation, but resemble developing countries in the ability to implement adopted policies.

1. Aid and capital flows

Within the GRP, aid and aid policies were initially seen as being a very important topic of research. This was partly so because of the increasing criticism of aid policy and aid delivery that is paralleled by an increased interest in aid as an instrument of development policy. In addition, the debate about the impact of aid is somewhat twisted because critics tend to point out that it is hard to find outright positive correlation between aid and growth, while the impact on income, poverty and various indicators of welfare may give more positive results. There is an added issue of efficiency of the delivery of aid, which has to do with international and domestic problems with governance, i.e., with weak international and domestic governance structures. Finally, there is an issue of aid as opposed to other types of capital flows, which requires counterfactual analysis that is not all that easy to do. In the end, the research in that part of the GRP turned out to be somewhat disappointing. In the Southeast European part of that project, the output was somewhat better mostly because the research was more modestly defined from the theoretical and methodological points of view. The main interest was to produce two essentially descriptive country studies and a comparison. The aim was to gather information about the amount and the structure of the aid efforts in the Balkans and to assess, to the extent possible, its contribution to economic and political stability.

Four papers were devoted to aid flows and policies towards Southeast Europe. One, a rather theoretical paper,[15] looked at the experience with the aid in developing world and especially at its impact on growth and poverty reduction. In the literature on aid and growth it is found that aid is more effective in countries with better institutions. In addition to these good governance indicators, the indicators of good policies also point in the direction of better use of aid resources and thus to positive consequences for growth and poverty reduction. The approach that these studies rely on and the methodology they use is very much indicative of the problems of policy analysis and evaluation that were mentioned above. This is because it is precisely in cases where institutions are not all that developed and policies pursued are not altogether satisfactory that aid is particularly needed. Thus, the aid effort should be evaluated in countries that have institutional, governance and policy deficiencies.

Even in those instances, there is not a straightforward case for aid. In order to argue that aid is the policy of choice, alternative policies should be showed to be inferior. Theoretically, an argument for aid could be made if a market failure of some kind could be associated with whatever problem the intended aid should address. The problem is confounded by the existence of government failures in developing or post-conflict societies that are usually the recipients of significant aid. If it were only a market failure of some kind that is to be corrected for, aid could be seen as a type of a public income transfer, in other words as analogous to social transfers in any country with a welfare system. Similarly, infrastructure and other investments in public goods or projects with high fixed costs could be seen as public investments paid for by the taxpayers. In a way, that is how structural funds are seen in the European Union. Thus, in all cases in which there are market failures for one reason or another, aid could be designed in the same way in which public transfers and public investments, for instance, are devised.

The problem with this approach to aid policies is that it disregards the fact that tax-payers are in one country and the beneficiaries are in another country. There may be no public goods that they share and there may be no society or

[15] Gligorov in Appendix I.

community that they participate in. Various ways to deal with this problem have been devised, but no particularly good way has in fact been found. It is not hard to see the reasons for that. Political processes in a country that is the recipient of aid may not be in any way coordinated with the political process in the country that is an aid donor. In addition, the aid donors being rich countries, foreign aid may not be high enough on the political agenda in the donor country. Thus, aid policies may be captured by special interest groups in the donor country while the public at large may not care enough to supervise the policy of aid and the way the aid money is spent. In the recipient country, however, aid may be quite important politically and thus may be the main vehicle to influence the policies of a government, both from inside and from abroad.

The first problem, which is that of lack of political supervision in the donor countries, leads to sometimes excessive competition by donor countries for projects in recipient countries. The second problem, that of disproportionate importance of aid for recipient countries, tends to distort the political process and to lead to a variety of problems often summarily described as “aid addiction”.

These problems are present even in cases of recipient countries that have strong institutions. The positive effect on growth that aid has in these countries may not be telling the whole story. Because, as noted before, it is not clear how is the counterfactual that another type of capital or financial inflow would have worked even better could be evaluated properly. It is even more difficult to assess the policy impact and the effect on outcome variables that aid effort might have in countries with poor institutional and policy structures. In other words, it is hard to assess the contribution of the aid effort in countries with significant government failures, i.e., with fragile, weak and even collapsed institutions. In those circumstances, it is arguably when aid is the most needed but where it can be expected to be the least efficient.

In devising the aid part of the SEE research within the Impact Project, the issue of counterfactuals needed to argue for causal connections between aid policies and growth and welfare outcomes was considered to be probably insurmountable. Primarily because of the poor data on aid flows and delivery systems, but also because of the difficulties in combining country specific analysis with the wider considerations that would have been necessary if counterfactual claims were to have been tested. It is in these instances that comparative research and analysis can be useful. Country experiences with the effects of aid policies and delivery can be compared with each other and those can be jointly compared with other countries in the region that have not been targets of an aid programme or at least of the same type or size of an aid effort. Comparative analysis is of course no substitute for proper causal analysis, but the latter not being really available, perhaps even in principle and certainly not in the cases studied within this project, the comparative analysis is perhaps the only feasible one.

In the case of Southeast Europe, Bosnia and Herzegovina and Kosovo are two best examples of massive aid efforts in the context of weak institutions and poor policy set-ups. In addition, these are countries and territories that are partly run by the international institutions and by the EU. Thus, they are protectorates of sorts. Without going into the details of the constitutional, institutional and policy weaknesses, it suffices to say that Bosnia and Herzegovina is a highly decentralized state with significant legal powers delegated to the international representative who has the final say on crucial policy issues, while Kosovo is a territory that is under United Nation's control on which it relies for its security but also for most all economic decisions and even for day to day management. In the circumstances of these weak constitutional and institutional set-ups, the proper amount and the effects of the massive aid efforts have been evaluated.

Within this project, three papers dealt with these two cases: two case studies and one comparative study.[16] The case studies aimed at collecting as much and as accurate data on the aid flows and of the efficiency and effectiveness of their utilization, while the comparative paper looked at the institutional development in the period of the massive aid effort. Four main conclusions of these four papers can be singled out:

First, that aid can be an efficient instrument for the reconstruction of the physical infrastructure.

In post-war and post-conflict areas like the two Balkan cases, the rebuilding of houses and of the roads and railroads as well as the improvements in the electricity and water supply has been a clear success for the most part. There are no obvious ways to measure the efficiency, i.e., it is not known what the level of waste was, but in purely physical terms, reconstruction has clearly been a success, though not in each and every case. The operation of, for instance, Electricity Company in Kosovo has been less than successful which points to the broader issue of the usefulness of technical and aid in public governance.

The second finding is that aid to institutional development is not necessarily very efficient.

In fact, much of the technical and political support have not led to a speedy improvement in the institutional set up and may have had an effect of delaying the institutional transformation because of the increased aid dependency. Also, transparency and responsiveness of the public governance does not grow naturally in the paternalistic setting in which often foreign aid to public governance enhances projects function.

Third, distortions in the allocation of resources tend to be serious and may have long term effects.

[16] See the papers by Antoniades *et al.*, Nedic, and Mustafa *et al.* (details in the Appendix I).

In these Balkan cases aid came with immobilization of local monetary and fiscal policies and with serious consequences for trade balances and thus for relative prices. Wages tend to be higher than is justified by the level of development and the continuous income support tends to distort the labour market in a number of ways.

Finally, the fourth finding is that most everything that can be done with aid can be done on commercial basis too.

If the development of the cases that received significant amount of aid is compared to that in the countries in the region that relied mostly on other foreign financial flows, it is obvious that there is some support for the counterfactual that they would have grown and developed faster had they relied on commercial rather than concessionary loans and pure grants.

Similarly, the institutional context in which the aid effort is taking place determines to a large extent the aims, the instruments, the effectiveness and the efficiency of the aid effort. In these two cases, the primary concern was that of security and the constitutional and institutional set up was very much influenced by the aim to preserve stability. Aid was an instrument of stabilizing these countries and the region as a whole rather than being aimed at growth, development, poverty reduction, or any other primarily transitional or developmental goal. In preserving stability, the aid effort was effective, while in all other respects other instruments would have in all probability done a better job. These two countries or territories are stable, but are laggards when it comes to transition, EU integration or development.

2. Other capital flows

In the Impact Project, foreign investment flows were seen as an important topic because of the controversy over the advisability of the open capital and financial accounts and because of the vulnerabilities sometimes connected with the volatility of foreign capital flows. Eventually, research in this subject area was not altogether satisfactory. In the academic and policy literature, the debate is going on and strong opinions are held about the contribution of the financial market liberalization and development or growth and also on income distribution and on poverty. In the context of transition, these issues commanded a lot of interest at the beginning of the process, but were supplemented with the analysis of other impacts of financial flows, such as those on productivity, employment and technological progress. As argued above, transition has been supported to a very large degree by large foreign capital inflows that have contributed to growth of production and exports without increasing too much the real and nominal volatility and the overall macroeconomic vulnerability. The key to this has been the process of integration that has led to the decrease of risk in countries in transition and thus to lower volatility in capital cross-border flows.

Within its regular research activities, *wiiw* does a lot of research on foreign investments in transition economies and increasingly in Southeast Europe. As a consequence, in the Impact Project, foreign investments were not seen as a priority topic. Still, in this project, one of the proposals submitted to the research competition was devoted to the effects of foreign investments on the activities of foreign banks.[17] Also, in the paper on regional trade integration, the impact of foreign investments on the productivity of the SEE firms was one of the issues that was looked into. The latter issue was also discussed in the paper on the impact of FDI on efficiency of firms in Argentina in the other part of the GRP. Thus, even in this area, the contribution of the *wiiw* research has turned out to be quite important for the GRP as a whole.

The results are in accordance with those that would have been expected on the basis of theoretical considerations. The decrease of risk and increase of foreign trade leads to significant credit expansion. Thus, significant credit flows that are observed throughout the transition economies indicates that once the transition and integration processes start to look as irreversible, financial resources tend to flow into these countries to exploit the higher profit opportunities. In addition, it turns out that foreign direct investments start to be important for demand for credits only after a certain period. Thus, foreign banks start to be important for foreign investments only after they are already established in the countries rather than at the moment of the initial investment. A number of policy variables also play a significant role, especially the exchange rate policy.

In addition to positive contributions of foreign banks to foreign investment inflows, the latter also have positive impact on the productivity and efficiency of the private firms. In the study that partially dealt with the impact of foreign investments on productivity of firms, it was found that in SEE, as in other transition economies and perhaps other emerging markets too, foreign owned firms tended to be more productive and efficient than other firms.[18] In other *wiiw* studies, done outside of this particular project, it was also found that foreign investments have positive effects on employment as foreign owned firms tend to grow faster than other firms, both private and state owned.

These findings complement those that are well known from the literature on the impact of foreign investments on growth of exports and on technological

[17] See Voinea and Mihaescu in Appendix I.
[18] See Damijan *et al*. in Appendix I.

progress. In this project the issue of technological and human capital spill-over effects were not tackled, so the rather indecisive findings on these issues that exist in the literature could not be tested. However, from country studies and regular monitoring of SEE that *wiiw* is engaged in, it could be hypothesized that unlike in some other contexts, foreign investments tend to have spill-over technological and human capital effects from the foreign-owned sectors of the economy to the other segments of that economy. This is clearly the case in the banking and the financial sectors, due to increased competition for clients in the business and the household sectors. Similar development can be found in a number of competitive industries as well as in the sector of public services. But that hypothesis, i.e., that foreign investment has significant technological spill-over effects in the SEE, still remains to be tested.

3. Currency substitution, exchange rates, and dilemmas of policy-taking

One of the theoretical motivations of the Impact Project was to use the set up of policy inter-relationship in the area of monetary policy and generalize it to the policy relations in other areas. In monetary economics, the idea of the impossible triple has been useful to build on when developing models of policy constraints that developing and emerging market economies as well as economies in transition are facing.[19] In general, the claim goes, it is impossible to have free flow of capital, fixed exchange rates, and an independent monetary policy, i.e., to set interest rates independently from those in the world capital markets. In economies in transition, free flow of capital was introduced relatively early, because privatization could not have been, in most cases, finished speedily without the participation of foreign investors. Thus, the choice was between flexible exchange rates that leave room for some autonomy in monetary policy and fixed exchange rates that do not. This choice is more difficult to make if the banks, the enterprises, and the households do not trust the central bank and opt for foreign currency to perform most or all of the functions of money in their economy. In that case, it is rather difficult to pursue independent monetary policy, except by interfering with the free flow of capital in one way or the other. The preferred instruments are reserve requirements and credit ceilings or heavy reliance on prudential criteria and supervision. If those prove to be inefficient, early adoption of euro is one of the options for a country with high level of currency substitution.

In the Impact Project, policy issues were looked into only in the *wiiw* segment of the GRP. This was partly because of the inherent theoretical interest in the

[19] For more on that see Project proposal (2004).

possibility to generalize the impossible triple idea, but also because of the specific interest in connecting the flow of remittances on migration and in their microeconomic and macroeconomic effects. A few papers looked into the exchange rate policies in the context of large currency substitution and into the effects of large inflows of remittances. These issues also naturally connect with the key subject of interest, which is the change in EU policies on the policies and other outcomes in countries in transition in the SEE. A paper on dollarization in Albania was written and another one on the exchange rate deviation in SEE and its effect on growth performance in particular countries and in the region as a whole.

In the case of Albania, the role of remittances and of currency substitution was studied. Albania is a typical Balkan country as it relies on significant outward migration and in turn on significant inflows of remittances.[20] That leads to significant levels of currency substitution that clearly has consequences for monetary policy but also for the product and labour markets. The paper on the currency substitution in Albania aimed at determining the level of currency substitution and at finding the cause of the changes in this level. The authors developed a novel method of calculating the extent of currency substitution and looked at the cause of its changes. This can be useful for further analysis in Albania and other countries in the region as well as for monetary policy discussions. Perhaps surprisingly, the level of currency substitution in Albania, a country with a very open economy and large inflow of remittances, turned out to be in many ways lower than in some other countries in the region that are larger and thus less open and where remittances, though high, play a smaller role. That can be tentatively attributed to the high share of agriculture and to the relatively stable currency and prices in Albania in comparison to other countries. It is also probably an indicator of lower level of financial development so that transaction money, that tends to be in local currency, plays more of a role.

In this context the paper on the exchange rate distortions in Southeast Europe is particularly important. Due to large currency substitution and the policy taking approach that most countries in this region have taken, exchange rates tend to be removed from their equilibrium values. The paper looks at most indicators of exchange rate distortion and finds that in the Balkans local currencies are as a rule overvalued. That is the consequences of the exchange rate policies but also of the monetary policy that is pursued in this region. The paper calculates the foreign trade and growth consequences of exchange rate distortions in the region. It finds that the effects are in fact quite large.

The work on exchange rate distortions and on the effects of possible Dutch disease type of phenomena have been an issue analysed in the *wiiw* for quite some

[20] See Luci *et al*. in Appendix I.

time and especially in the context of euro-adoption, the criteria for that adoption and in particular in the studies on Croatia.[21] The latter country is an interesting case where a long history of price stability has not led the economy and the public in general to switch to more use of their local currency. The level of currency substitution is exceptionally high and has not diminished even after the introduction of euro in the EU, at which time savings held mainly in Deutsch marks were exchanged for euro and were deposited with the commercial banks, but not changed into domestic currency even though the interest rate in kuna, the domestic currency, was preferable. As a consequence, the central bank has problems in managing monetary policy in the context of what is in effect a fixed exchange rate and there are developments that resemble Dutch disease and also an asset bubble that seems to put downward pressure on growth. In the study on exchange rate deviation, a rather sizable cost to this policy in terms of growth foregone has been detected.

Within the context of the impact of euro policies on policy-takers in the SEE, the issue of the adequacy of the Maastricht criteria and their influence on the monetary policies of highly euroized countries is an important one. In the case of Croatia, the central bank has a well understood preference for the outright and even unilateral adoption of euro, which is discouraged from implementing by the European Central Bank (ECB). The costs that both the policy constraint put by the ECB and the inability of the Croatian central bank to change its policy preferences, are those in the structure of the Croatian economy and in its potential growth rate.

Similar constraints have been tackled differently in other SEE countries, with the introduction of currency boards in Bulgaria and Bosnia and Herzegovina, or with the unilateral adoption of euro as in Kosovo and Montenegro, with somewhat different outcomes in terms of growth and emerging structure of production in their economies. In contrast, high currency substitution in Albania has been tackled with a flexible exchange rate regime and with passive monetary policy that seem to have brought about good results in terms of price stability and growth.

Thus, the lesson is that in highly dollarized or euroized economies, self-effacing central banks tend to be a better response than reluctant, but somewhat active, central banks. Thus, in this context, almost complete or outright policy-taking seems preferable to more independent minded policy response.

[21] See Holzner in Appendix I.

4. Trade liberalization

There is long tradition in *wiiw* of intra-regional trade analysis in Southeast Europe. The argument that has been made in *wiiw* over the years – that intra-regional trade has less of a future than trade with the EU and the rest of the world – has been once again put to test in the paper on the impact of regional trade liberalization written for this project. The authors have looked at trade potential, the trade policy issues, and on the effect of growing foreign trade on total factor productivity (TPF) of firms in Southeast Europe. The paper uses advanced and adequate methodologies in all the areas of their research and is useful for that reason too. In *wiiw* there is a tradition of using gravity models to determine potential trade flows and also partial-equilibrium analysis to determine the effects of trade liberalization, e.g., tariff reduction, on output and employment as well as on fiscal revenues. Finally, available data on firms has been used also to gauge the efficiency consequences of various characteristics of firms.

The comprehensive paper written for this project looks at two policy impacts in all the mentioned areas with the methodologies that have been summarily described above.[22] The policy changes are those of trade liberalization with the EU and within the region, which also can be seen as influenced by the EU policy agenda, as it has been the EU that has championed regional SEE trade and investment liberalization and integration. The results of this comprehensive and important research can be summarized thus:

Intra-regional trade has reached its potential and cannot be expected to grow very fast in the future. This is in accordance with the previous findings in the *wiiw.*[23]

Trade liberalization in the sense of the reduction of tariffs is often counteracted by the increase of non-tariff barriers. That supports the opinion that trade liberalization has to be seen within a certain model of policy making where policy mixes need to be taken together. This has been found also in other studies within the GRP, though it is not all that surprising a finding in the context of theory of economic policy.

Finally, increased foreign trade tends to push up the total factor productivity (TFP) of the firms in the tradable sector especially in larger economies. The last result is connected with the influence of the foreign direct investments, as already pointed out above, where it seems that larger countries tend to attract more productive investments.

[22] See Damijan *et al.* in Appendix I.

[23] See Christie (2004).

This paper underlines the characteristics of the transition process and its difference from the development process in other circumstances and regions of the world. It can be argued that liberalization within the context of integration has different, and arguably more positive, consequences than trade liberalization *per se*. The paper also rather effectively combines the treatment of the various stylized facts that were presented in detail at the beginning of this Report.

It may be useful to point out here that the EU push to create a free trade area in the Balkans, CEFTA, that will come into being, on current plans, by May-June 2007, has the aim to make the region more attractive to foreign investors and to further its interest to integrate that region into the EU. On the other hand, the countries and their policy makers in the region are ready to further the end of regional trade integration with the understanding that they have instruments to further their protectionist interest at the same time supporting the policy interests of the EU. This formulation of the policy set-up is a very good indication of the complexity of the policy impact analysis across different policy centres with varying distributions of power according to the choice of targets and instruments. That observation warrants further theoretical and methodological considerations in order to advance the analysis and research in the area of policy analysis.

5. Migration

The major part of the project was devoted to studies on migration. Some of the best proposals in the research competition came in that general area and also *wiiw* has increased its research interests in that topic and intends to continue to work in this area. Indeed, the next GDP project will connect further work in the area of migration with the work on inequality and on the social role of the state.

Southeast Europe, or the Balkans, is traditionally a migrant area. Economic migration has a very long history, but so does the politically motivated migration. The focus in this project has been on the economic emigration from the Balkans and on the causes and consequences of this phenomenon for the sending countries or for the region as a whole. The discussion in the literature on migration is divided between the development economics' interest in the effects of the sending countries and in the interests of other branches of economics in the impact on receiving countries. The latter is perhaps better researched than the former. Recently, there has been a flurry of interest in the effects of migration on the sending countries in view of the significant role that remittances play and because of the worries that brain-drain is an important cost that outward migration is incurring on the sending countries. Effects on labour markets, i.e., on employment and compensations, in both the sending and the receiving countries have been looked into in some detail and social and cultural issue are increasingly being studied also.

From the theoretical point of view, there is a puzzle why is cross-border migration seen as being all that different from labour mobility, cross-border trade in goods and services, or from capital and financial mobility in general. It is also strange to presume that protectionist measures that either do not work or are deemed to lead to suboptimal outcomes, such as quantitative restrictions or other rationing devices, have been seen as attractive in regulating the flow of inward and outward migration. Increasingly, the debate resembles the one on the advantages of free trade or on free movement of capital or on trade in services. Even in the EU, these debates are on-going and liberalization of all the other markets except for trade in goods is seen as much more problematic. That implies that there is a belief in the advantages of rationing in the allocation of resources and the distribution of incomes.

These belief commitments need to be put to test with proper policy impact analysis, which are still in rather short supply. When it comes to the sending countries, a rich set of cause for outward migration have been entertained and various more or less informal theories on the effects have been developed. There is a presumption that brain-drain is a serious cost on the sending countries and that measures should be taken to restrict outward migration. Also, there is a presumption that integration of local with global labour markets has significant and mainly negative consequences for the employment, wages, and the structure of the sending economies. This may be especially true, it is believed, for migrant countries and regions, i.e., for countries and regions that have long history of outward migration. SEE or the Balkans is such a region and it is interesting and important to see what could be the impacts of globalization, EU integration and transition on patterns of emigration flows. The work done within the GRP on migration in the SEE is the beginning of an attempt to answer these questions.

Four major papers were prepared covering country case studies, regional overviews, macroeconomic and microeconomic and sociological approaches. In addition to causes of outward migration, returned migration and social consequences of migration to local communities were studied. On the strength of the contribution in this GRP, *wiiw* has been included as an important partner and contributor to the next GRP on migration. Thus, this is going to continue to be an area of research in the Institute.

In this GRP, which was concerned with the impact of rich countries on poor countries and especially when it comes to poverty, *wiiw* has concentrated on the impact more than on consequences for poverty. In the continuation, effects of migration on income generation and distribution and on social inequality will be studied in greater detail. In this project, a variety of hypothesis have been explored and methodologies used. This has had consequences for capacity building within and outside the Institute.

One major paper has looked at the macroeconomic determinants of migration and especially into the causal role that remittances have on the decision to emigrate.[24] The paper is econometrically quite sophisticated and solves a number of data and research issues. It looks at regional flows of migration and also at Serbia as a case study. It finds that, as hypothesized, remittances have significant explanatory power for persistent flows of emigration. Balkan countries run high trade deficits and this excess of consumption over domestic production tends to support steady outflow of people. Political instability contributes to that also, but so does the policy towards migration in the EU and in the rest of the world. The case of Serbia is quite characteristic though perhaps more extreme cases are those of Albania and Kosovo.

Two papers look into the effects of return migration, one in Bulgaria and another in Romania.[25] Both countries have experienced significant outward migration and have also some experience with return migration. In the case of the study on Romania, it was found that migration tends to increase human capital of the migrants and thus tends to increase the wages that they could earn if they return. Thus, the prospect of higher wages abroad and of higher wages upon return determines the flow of outward and return migration.

In the case of Bulgaria, temporary migration plays a significant role so that migration is a source of income for the family and for the migrants themselves. The study is based on a rather unique data base and gives a very comprehensive picture of regional patterns of migration and on the effects of these on family incomes and on local communities.

The last paper deals with the migration in a small Romanian community near the Hungarian border. It relies on field research and on a questionnaire. It shows the importance of cross border migration for the development of the local communities in the migrant areas. Important issues of social transformation of the migrant community are tackled, which is a contribution very much in demand in the migration studies in the world.

These studies, together with a number of other done within the *wiiw* and also within the GRP and in the ever growing literature on migration in the world, tend to emphasize the positive side of migration on allocation of resources, on development of skills and on improvement in income generation. They also point to generally positive social consequences, as well as consequences for institution-building in the countries of origin. Additional studies on the effects of income

[24] Dragutinovic Mitrovic and Jovicic in Appendix I.
[25] Iara, Pop, and Boshkov and Mintchev in Appendix I.

and other distributional issues will be done within the next round of the GRP and will be an important supplement to the findings from this round of research given that their consequences on wages, employment and income differentiation, are of utmost interest in policy discussions.

In that context, it can be argued that EU policies as well as policies of other rich countries towards migration, are either ineffective or inefficient or most often both. The flows of labour seem to be determined by causes that have little to do with policies. On the other hand, a change in policies can have bad or good effects on the allocation and distribution of migrant flows. In that, the policies toward migration do not have all that different consequences which have protectionist policies in trade of goods or restriction to the free movement of capital. In general, integration and institutional change tend to give better results than isolated policy measures, especially those that are restrictive or lead to an outright prohibition.

6. Labour market

Closely connected with studies on migration is the paper on labour market developments in Bulgaria and Romania in the context of EU integration.[26] The paper studies the response of the labour market on the internal and external shock, such as technology shocks and shocks to labour market institutions. In the context of EU integration, both are important. The findings accord well with the intuitions that Romanian labour market is less sensitive to shocks, especially to external ones. Bulgarian labour market is more sensitive to technology shocks and to those that emanate from changes in market institutions, to the flexibility of the labour market.

Labour market developments are of particular interest because of the pressure that transition puts on employment and on unemployment. As argued above, transition is not necessarily productivity and employment friendly process. In that context, the issues of the flexibility of the labour markets and those that address employment and unemployment policies are especially important. EU affects those mostly indirectly, so the impact is not so easy to trace. In some cases, effective employment policies, like so-called active labour market policies, developed in one part of the EU tend to be adopted by countries in transition, like Bulgaria, with positive results, at least for the time being. Other such influences could be investigated, as also the influences of the EU structural and agricultural funds.

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[26] Kotzeva and Pauna in Appendix I.

One lesson learned from research on labour markets in the SEE that has been done in the *wiiw* is that its flexibility may not be such an important instrument as to affect employment levels, because of the high unemployment rate and relatively low bargaining power of the workers and employees except perhaps in some sectors and in the public sector in particular at some periods of transition. Thus, in general, labour markets are not necessarily institutionally inefficient, though some labour market institutions may be rather less than developed. Again, the key difference between transition and development is that the former is a process that is driven by rising productivity which limits the speed with which laid-off workers can be re-employed or first time job seekers can enter the market. Thus, policies of full employment are difficult to devise and are not those that have to do with increased flexibility in the employment contracts. In this respect there is an important issue of the connection between formal and informal contracts, a work that has also been prominent in the *wiiw* in its studies on the determinants of the informal economy.

Conclusions

The research done within this project confirms the importance of EU integration prospects and processes on countries in transition and their economies. Policy adoption and institutional harmonization have major economic effects. Perhaps the main lesson is that policy-making and policy-taking game is less effective and beneficial than that of integration and institutional development. In that respect, the process of transition is quite different from the process of development and the dynamics of EU integration gives rather different results than that of policy cooperation whether in bilateral or multilateral settings. In general, process of transition, though it has its problems, is friendlier to growth and development both because it fosters faster liberalization and also speedier institutional transformation.

In most of the research on transition, distributional issues are less prominent. Indications are that transition in the context of EU integration has also different consequences for income distribution and for social equality or inequality. Much could be learned from countries in transition that could be useful for developing countries that tend to exhibit much higher levels of inequality. Therefore, this will be an issue that will be the focus of our work within the GDN and the GRP in the next two years.[27]

[27] For details see our Research Proposal (2006).

In the context of the next round of research, the issue of the social role of the state will be also addressed. The SEE has and will continue to have constitutional and other institutional deficiencies and they will continue to impact both on their integration prospects and on their economic development and on their welfare. In this research, *wiiw* intends to cooperate with the GRP that is also being developed within the GDN and some other international organizations, like WIDER. This is a continuing aspect of our work and it ties nicely with the main point of difference between transition and development. In that respect, SEE is a region especially well suited for this type of research as it exhibits both, problems connected with transition and with development. That is why *wiiw* participation in the GDP has been so useful both to the GDN and to the *wiiw.*

Appendix I: Reports

Dragutinovic Mitrovic, Radmila, Milena Jovicic, "Macroeconomic Analysis of Causes and Effects of Remittances: A Panel Model of the SEE Countries and a Case Study of Serbia".

Pop, Daniel, "The Developmental Effectiveness of Remittances: Case Study on Huedin Town, Romania".

Boshkov, Venelin, Vesselin Mintchev, "Return Migration's Profile and Experience: Empirical Evidence from Bulgaria".

Iara, Anna, "Skill Diffusion by Temporary Migration? Returns to Western European Working Experience in the EU Accession Countries".

Kotzeva, Mariana, Bianca Pauna, "Labour Market Dynamics and Characteristics in Bulgaria and Romania – Challenges for a Successful Integration in the European Union".

Damijan, Joze, Jose De Sousa, Olivier Lamotte, "The Effect of Trade Liberalization in South-Eastern European Countries".

Voinea, Liviu, Falviu Mihaescu, "The Determinants of Foreign Banking Activity in South East Europe: Do FDI in Manufacturing, Bilateral Trade and EU Policies Matter?"

Luci, Erjon, Marta Muco, Elvira Sojli, "Euroisation in Albania: From Spontaneous to Consensual".

Holzner, Mario, "Real Exchange Rate Distortion in Southeast Europe".

Mustafa, Isa, Venera Demukaj, Mrika Kotorri, "Financial and Technical Assistance in the Reconstruction and Development of the Post-Conflict Kosova".

Nedic, Goran, "Financial and Technical Assistance in the Reconstruction and Development of Post-Conflict Bosnia and Herzegovina".

Antoniades, Alexis, Kristen Boon, Petros Passas, "Moving From Aid-Dependency to Self-Sufficiency: A Comparative Examination of Bosnia-Herzegovina and Kosovo".

Gligorov, Vladimir, "Aiding Balkans".

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TRANZICIJA, INTEGRACIJA I RAZVOJ U JUGOISTOČNOJ EUROPI

Sažetak

Članak obrađuje teorijska i metodološka pitanja koja je pokrenuo projekt o globalnom istraživanju pod nazivom «Utjecaj politika bogatih zemalja na siromašne zemlje» (projekt utjecaja) pod vodstvom mreže globalnog razvoja, kao i doprinos Bečkog instituta za međunarodne ekonomske studije (*wiiw*). Istaknuta je razlika između utjecaja politika u kontekstu tranzicije i integracije u usporedbi s razvojem. S tim u vezi opisuju se značajke regije Jugoistočne Europe. Teme i rezultati istraživanja ukratko su prikazani i poredani u kontekstu ukupnog projekta o globalnom istraživanju i u kontekstu postojeće literature. Zaključak prikazuje u glavnim crtama predstojeći rad unutar mreže globalnog razvoja.

Ključne riječi: Jugoistočna Europa, postsocijalistička tranzicija, integracija, razvitak