

Transnational Co-operation as a strategic instrument for development in South East Europe

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Jointly for our common future



Spatial connectivity and economic development in SEE

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(SEECs are characterised by) weak internal spatial connectivity

- weak functional integration across space
- insufficient functional linkages across sectors
- weaker production capacities and complementarities
- specialisations in less competitive sectors and products
- inter-industry and hub-and-spoke North-South trade
- trade and CA deficits and import dependency

**which constrains growth, long-term convergence,
and the model of development in the SEE.**

Starting premise

- **Transition** directing focus on national development
- **Accession** dominating policy priorities
- Spatial **disparities** growing: polarisation/peripherality
- Traditional regional **policies** failing or ‘lacking’
- Slow importation of ‘**new**’ **concepts** of LED but with questions about applicability / misfit

- **Key question: Does the ‘local’ constrain the region’s response to the ‘global’?**

The economic geography of SEE – main characteristics

- **Polarisation** and primacy of (few) metropolises
 - Growing or non-declining disparities, often with a ‘disappearing middle’ (see next: geographies)
 - Very steep rank-size rules
(less in AL/MG – but due to size)
 - Capitals 3-5 times larger than second city
(up to x10 with respect to GDP)
 - Small states and city-state-like economies

The economic geography of SEE – main characteristics

- **Macro- and micro-geographies combined**
 - Macro-heterogeneity
 - Core-Periphery (polarisation, extent of disparity)
 - East-West / North-South disparity (borders / EU)
 - Micro-absorption
 - very localised disparities ('within': 75%-BG, 65%-SB)
 - little geo-clustering of specialisations / outcomes
 - mainly absorption/drainage by main agglomerations

The economic geography of SEE – main characteristics

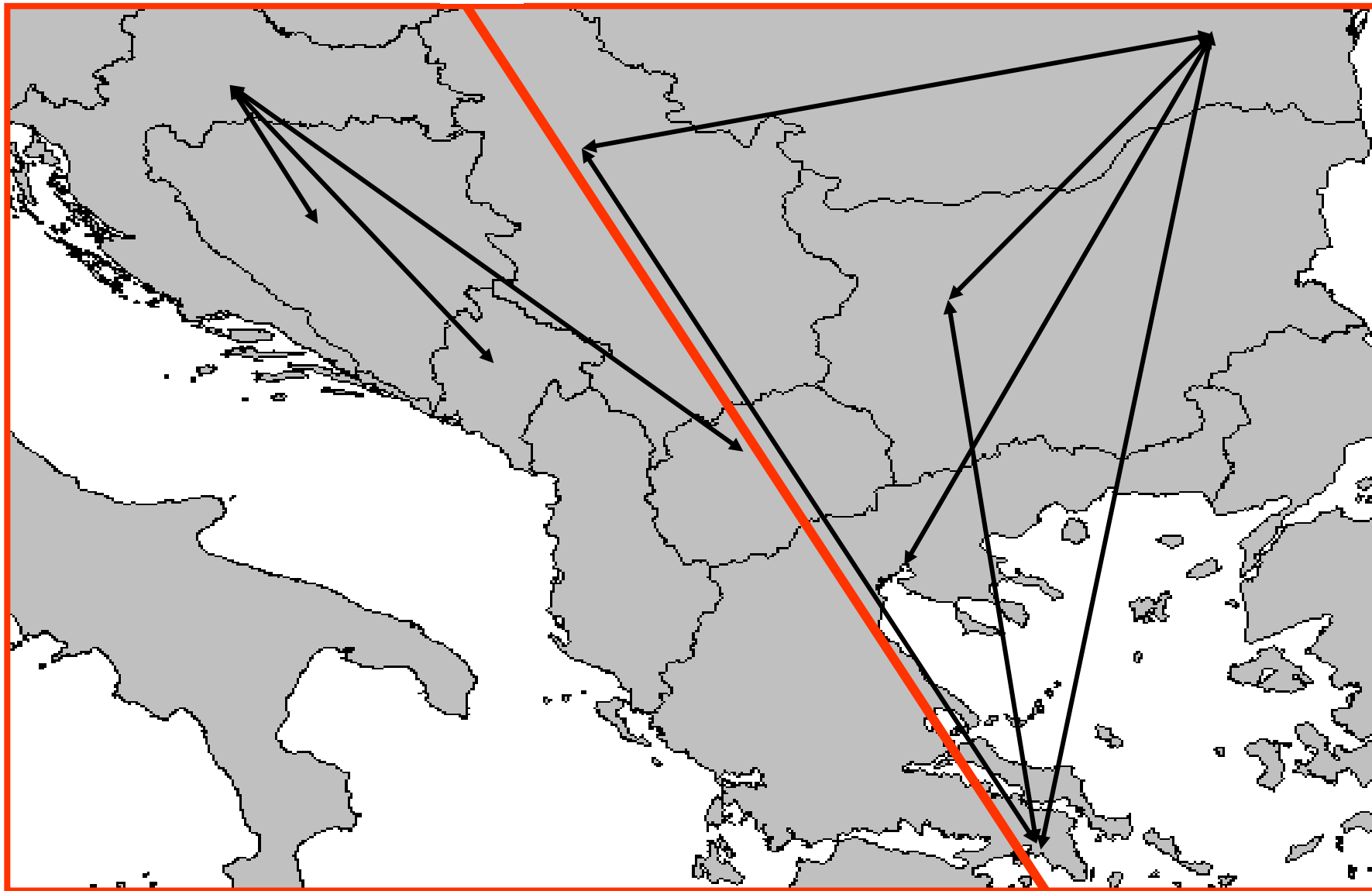
- **Weak spatial connectivity**
 - Spatial un-connectedness
(see infrastructure + localised disparity)
 - Weak spatial spillovers
(low FDI spillovers; close to zero spatial dependence)
 - Weak commuting and demand/supply-chain links
 - Weak also among countries, among capital cities and between cities and hinterlands

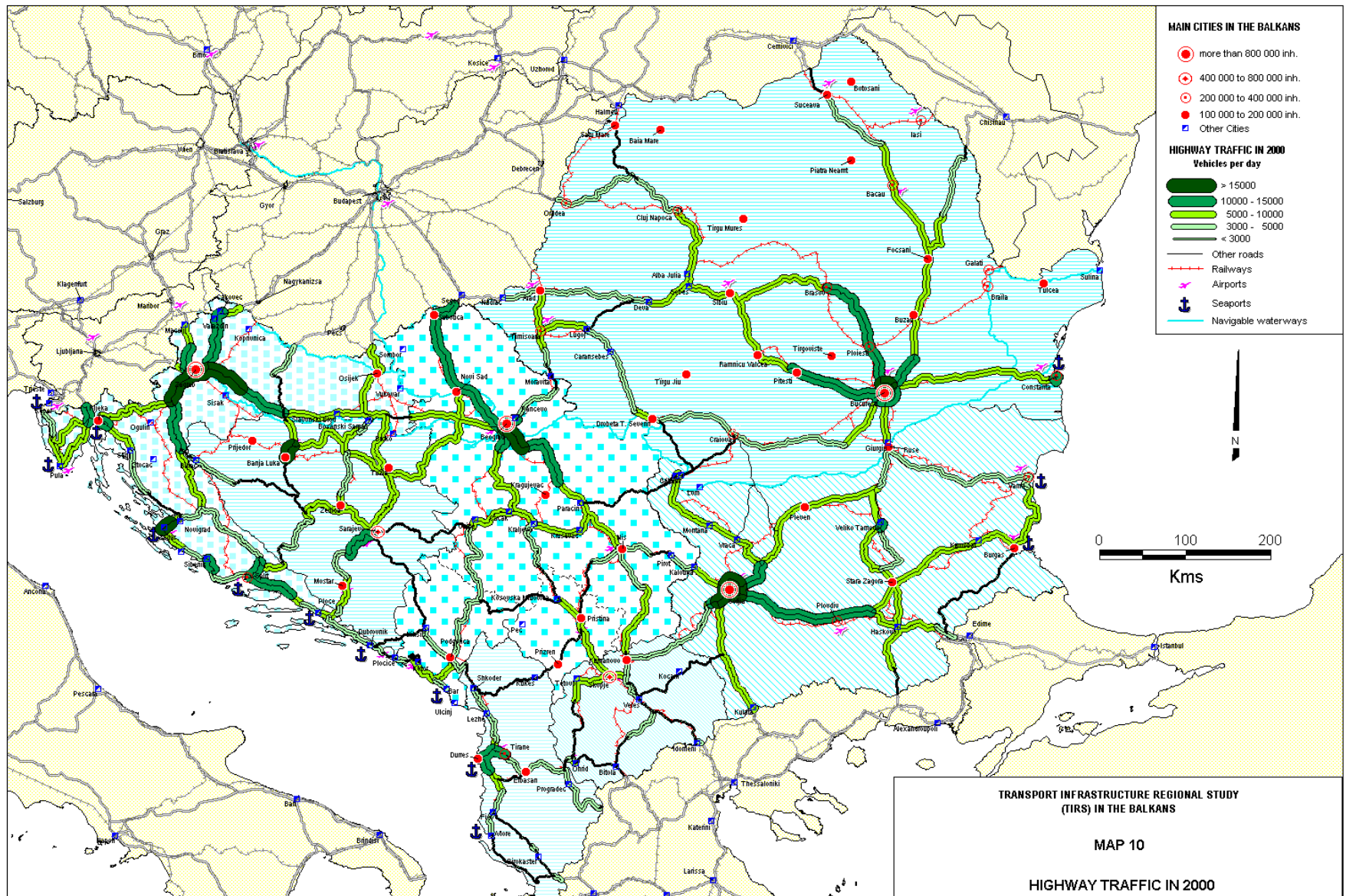
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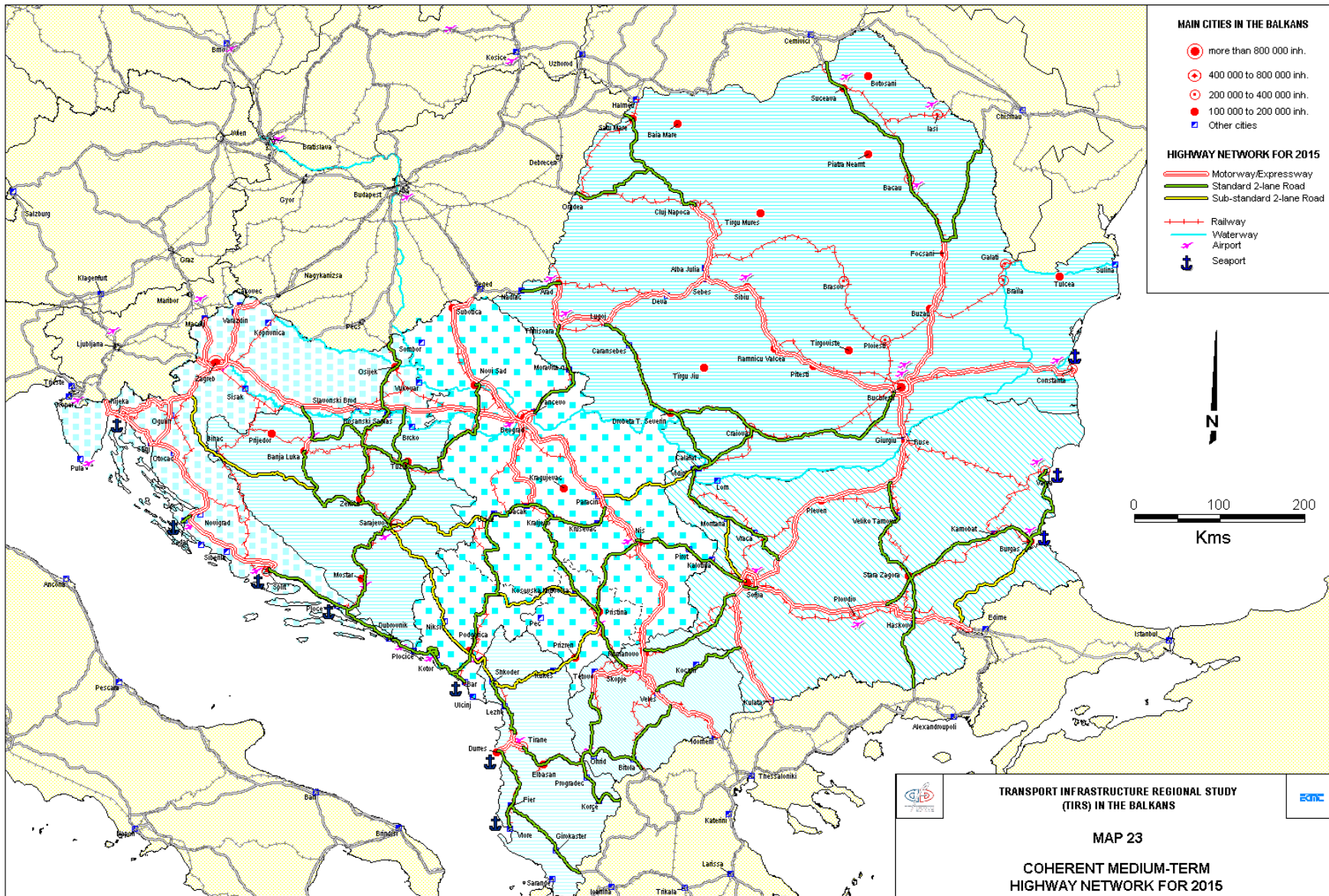
The economic geography of SEE – main characteristics

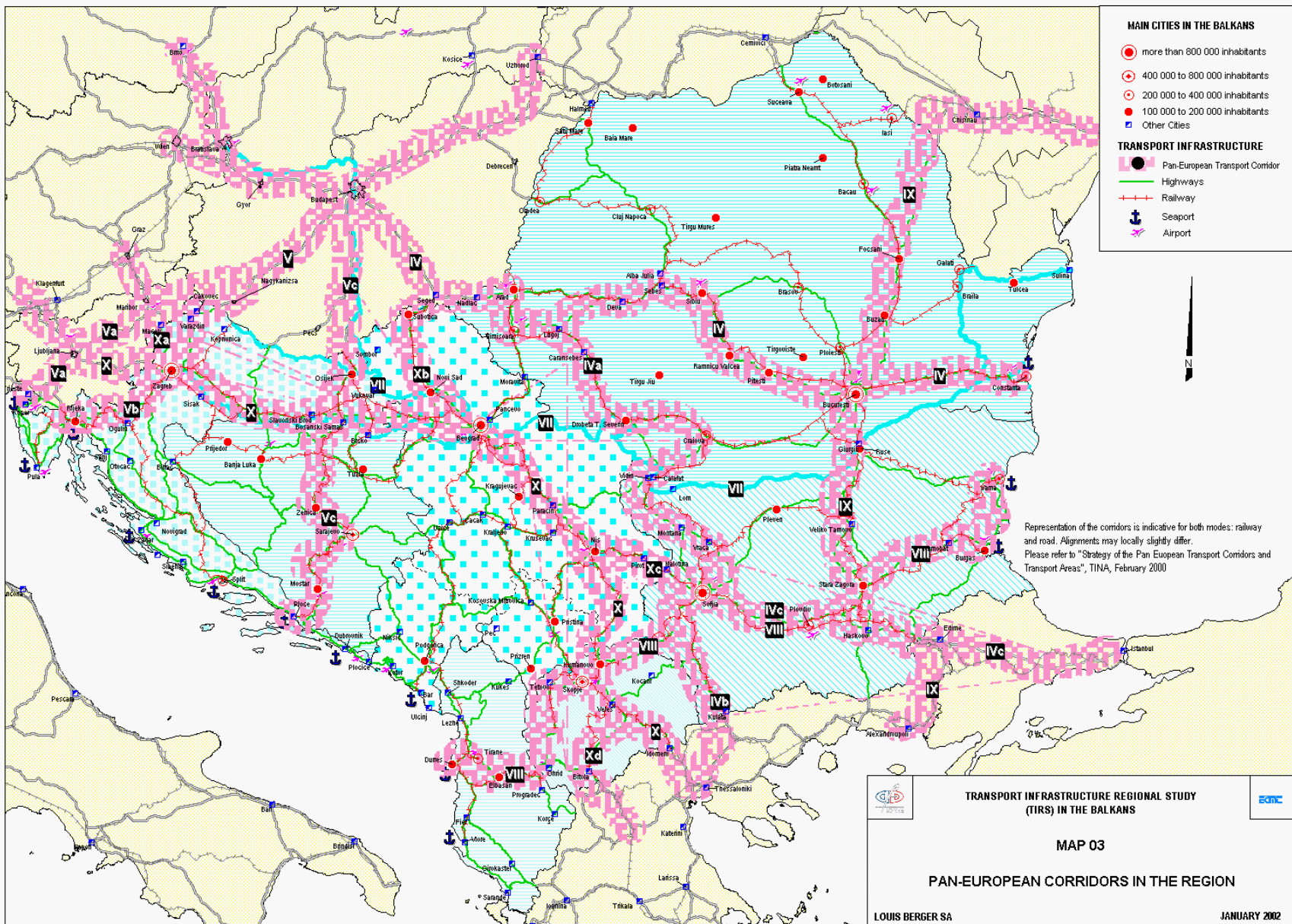
- **Weak connectivity also beyond borders**
 - Connections among SEE countries
 - Political: secessionism, political fragmentation, differentiated integration by EU
 - Economic: weak trade links, despite CEFTA2006 etc (see trade patterns and FDI data)
 - Connections between capital cities (see flights and road networks)
 - Limited correlation of economic performances, despite 'common trajectory' & similar specialisations

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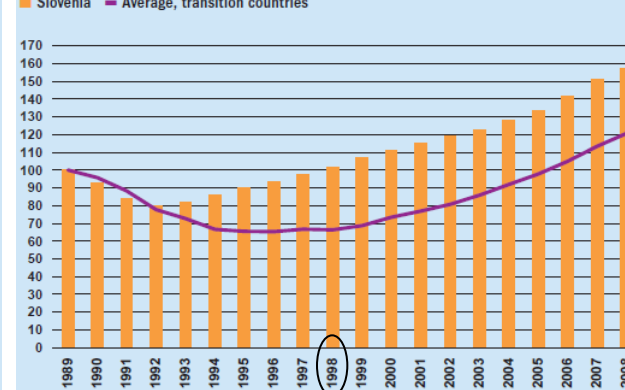
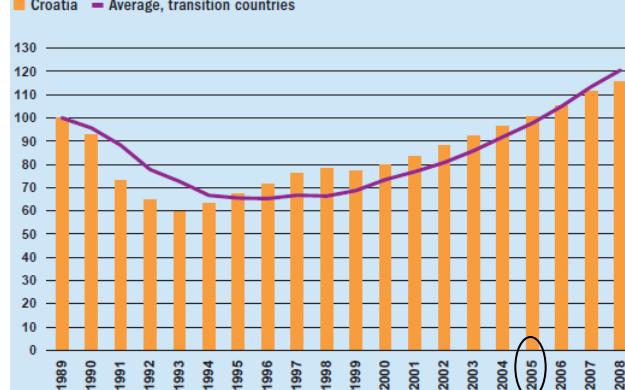
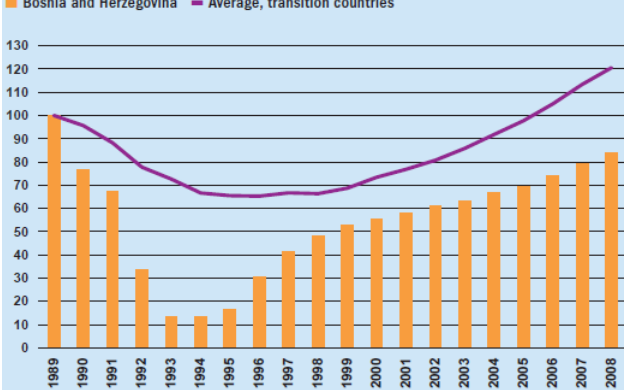
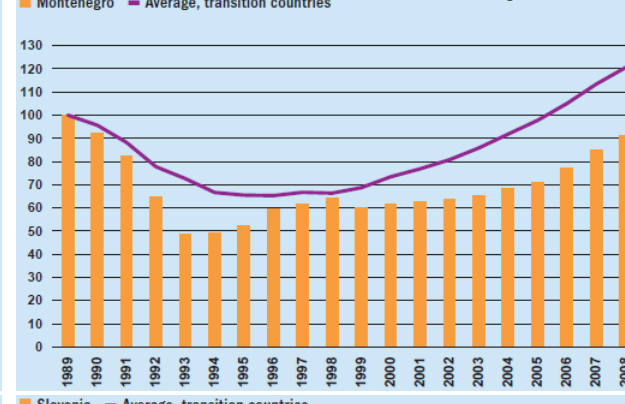
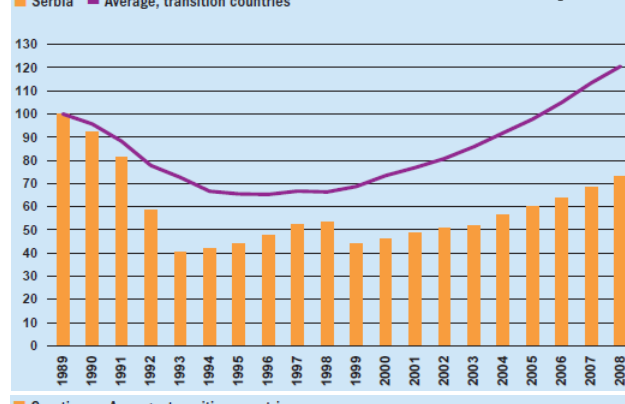
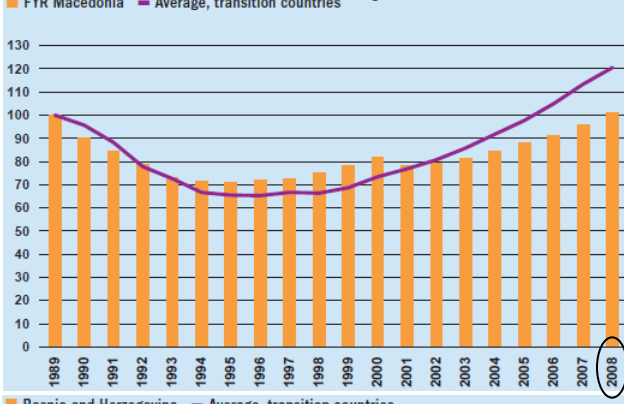
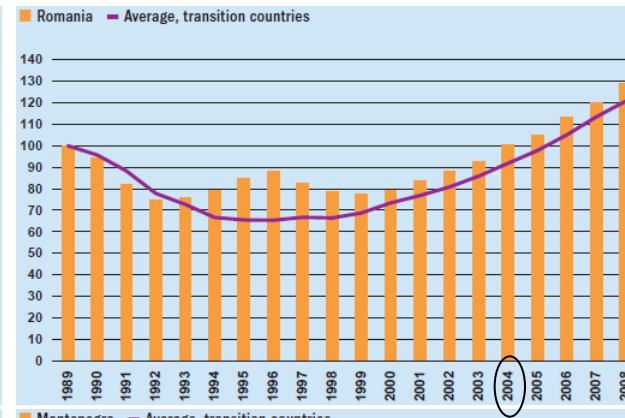
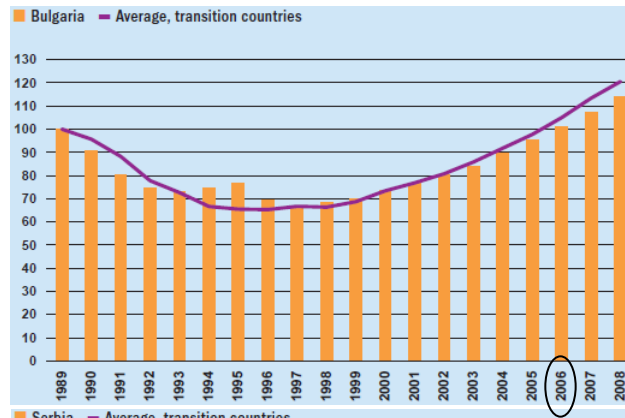
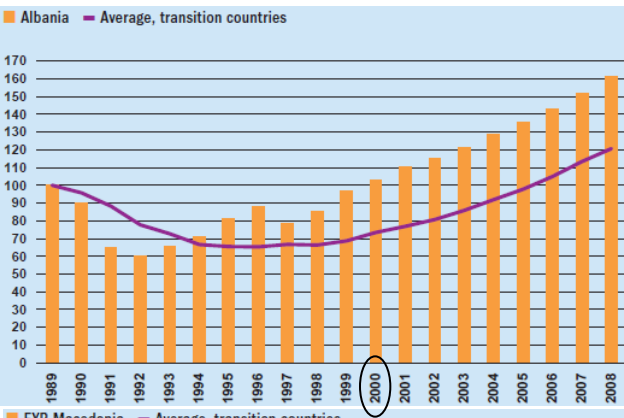






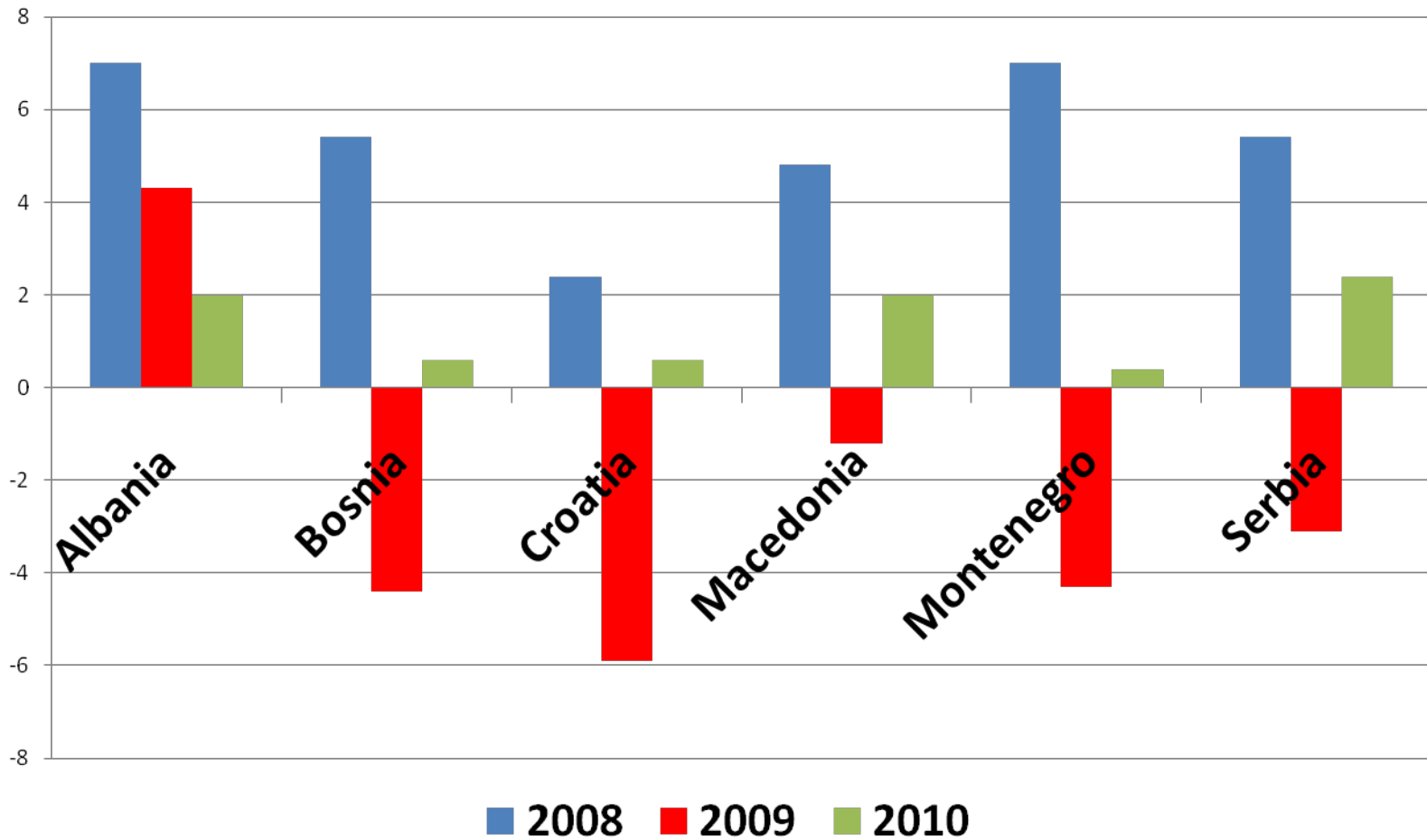


Economic performance since transition

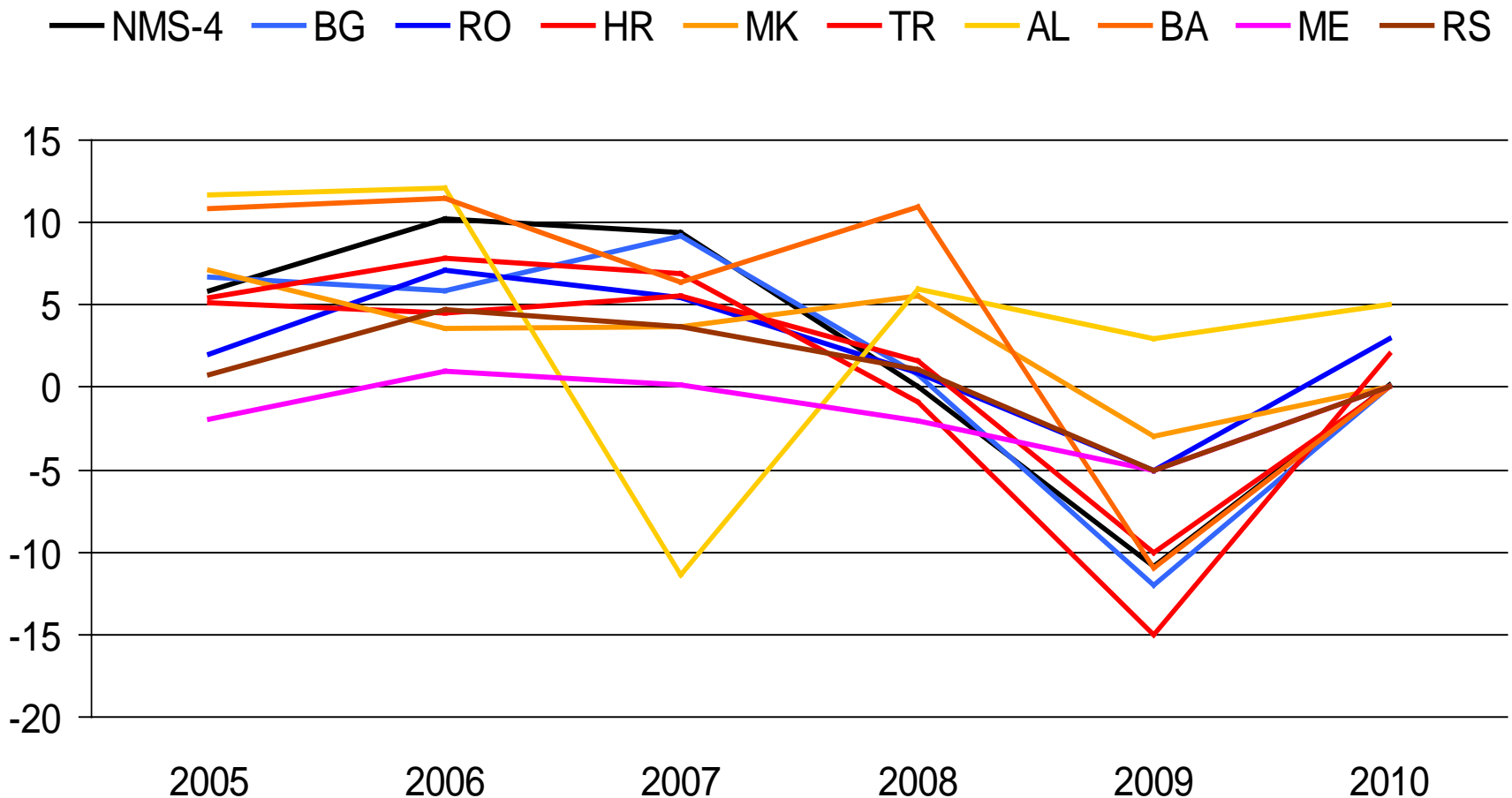


	AL	BG	RO	MK	SB	ME	BH	CR	SL
Unemployment	12.7	5.1	4.4	33.8	28.5	17.5	40.6	8.7	4.3
Budget deficit	5.7	3.0	4.9	1.0	2.4	1.5	3.0	1.4	0.9
Govt debt	55.9	19.6	21.6	21.3	60.4	52.7	42.5	33.6	29.6
CA deficit	15.1	25.2	12.3	12.7	17.2	33.6	14.7	9.4	6.2
Inflation	3.4	12.9	7.9	8.3	11.7	7.4	6.5	6.1	5.7
Population	3.2	7.6	21.7	2.1	7.5	0.7	3.8	4.4	2.0
DGPpc (\$US)	4,006	6,561	9,246	4,633	6,774	7,300	4,943	15,608	27,135
%industry	10.4	25.0	22.9	22.3	20.7	--	20.0	17.5	22.4
%agriculture	21.5	10.0	6.5	9.4	10.1	--	8.0	5.6	2.1

Real GDP growth (EBRD, Jan. 2010)



Industrial production growth, 2005-2010
year-on-year, growth in %



•Source: wiiw Annual Database incorporating national statistics.

Table 4: Intra-regional trade - SEE shares in Exports (in % of total)

	Alb.	B&H	Bul.	Cro.	Mac.	Rum.	S&M	Mol.
1999.	2.1	42.9	8.6	14.7	20.4	2.9	33.8	10.17
2000.	2.1	30.5	12.6	12	30.9	2.3	28.2	8.84
2001.	2.8	31.2	9.8	17.4	38.3	3.1	28.7	7.48
2002.	2.2	37.2	9.3	19.2	20	2.9	31.1	9.53
2003.	4.0	32.0	9.4	19.5	32.6	3.1	30.7	12.4
2004.	3.6	35.2	10.1	20.1	43.6	3.6	31.7	10.4
2005.	3.6	32.4	11.2	21.8	38.6	4.9	34.6	9.3
2006.	7.3	33.5	13.5	19.2	39.1	5.1		n.a.

Table 8: Intra-regional trade - SEE shares in Imports (in % of total)

	Alb.	B&H	Bulg.	Croatia	Maced.	Rum.	S&M	Mol.
1999.	7	32.8	2.2	2.5	20.7	0.9	14.6	15.83
2000.	6.1	21.4	4.4	2.0	19.8	0.7	20.9	17.55
2001.	5.7	27.9	3.0	2.8	18.2	1.4	21.8	13.18
2002.	6.1	22.8	2.5	2.7	11.1	1.1	15.3	11.10
2003.	6.7	32.5	3.0	3.9	20.8	0.9	13.7	9.52
2004.	6.1	34.9	3.2	5.2	24.2	1.2	15.4	7.9
2005.	6.1	35.4	4.3	6.5	26.8	1.4	18.8	9.3
2006.	10.3	35.3	5.7	4.8	19.7	1.4	-	n.a.

SEE exports to...

SEE imports from...

to:	of:	ALB	B&H	BUL	CRO	MAC	ROM	S&M	EU
Albania			0.1	0.4	0.3	1.2	0.1	0.4	0.0
Bosnia&Herzegovina	0.0			0.1	14.1	1.9	0.1	17.7	0.1
Bulgaria	0.0	0.1			0.3	1.8	1.7	1.2	0.2
Croatia	0.1	18.5	0.5			6.8	0.8	4.2	0.3
Macedonia	0.8	0.4	2.2	0.9			0.1	7.2	0.0
Romania	0.0	0.0	3.3	0.7	0.2			1.0	0.6
Serbia&Montenegro	2.6	16.2	3.6	3.6	31.6	0.9			0.1
Austria	0.5	6.3	2.9	9.3	0.5	5.3	4.7	2.5	
Germany	4.0	17.0	11.4	11.0	19.7	15.2	10.2	13.1	
Greece	4.0	0.4	5.7	0.2	9.0	2.6	4.4	0.9	
Italy	73.4	19.0	13.4	22.3	0.7	20.5	19.1	5.8	
Czech Republic	0.1	0.5	0.6	0.7	0.4	0.6	0.0	1.4	
Hungary	0.0	4.1	0.9	1.3	0.2	3.7	3.2	1.1	
Poland	0.0	0.3	0.9	0.5	0.2	1.0	0.7	1.7	
Slovak Republic	0.0	0.2	0.3	0.3	0.1	0.3	0.7	0.6	
Slovenia	0.1	6.1	0.4	7.4	2.0	0.4	2.7	0.4	
Moldova	0.0	0.0	0.3	0.0	0.0	0.8	0.1	0.0	
Russia	0.5	0.8	1.8	1.4	1.7	0.3	3.7	1.5	
Turkey	2.7	0.6	9.5	0.8	3.1	6.9	2.3	1.3	
Ukraine	0.0	0.1	0.8	0.2	0.1	0.4	1.1	0.4	
European Union	84.5	60.0	57.0	62.6	44.6	71.0	51.6		
EU-4*	81.9	42.8	33.4	42.7	29.8	43.6	38.3	22.3	
CEE-5	0.2	11.2	3.1	10.2	2.0	5.9	7.3	5.0	
SEE-7	3.6	35.2	10.1	20.1	43.6	3.6	31.7	1.4	
Total, USD bn	0.5	1.8	9.1	8.1	1.5	22.3	3.4	3641.3	

from:	of:	ALB	B&H	BUL	CRO	MAC	ROM	S&M	EU
Albania		0.0	0.0	0.0	0.2	0.0	0.2	0.0	0.0
Bosnia&Herzegovina	0.1		0.0	2.1	0.3	0.0	2.9	0.0	0.0
Bulgaria	2.3	0.3		0.3	8.7	0.9	3.6	0.2	0.2
Croatia	1.3	22.7	0.2		3.2	0.2	3.0	0.1	0.1
Macedonia	0.9	0.6	0.2	0.7		0.0	3.5	0.0	0.0
Romania	0.9	0.5	2.4	1.2	0.7		2.2	0.5	0.5
Serbia&Montenegro	0.6	10.9	0.3	0.8	11.2	0.1		0.1	0.1
Austria	1.5	5.8	4.0	7.0	3.3	5.7	6.4	2.0	
Germany	5.2	12.6	14.9	15.5	13.3	17.1	13.9	15.4	
Greece	19.8	0.5	7.6	0.3	16.5	1.6	3.0	0.2	
Italy	34.7	10.0	10.4	16.9	0.4	17.6	12.8	5.3	
Czech Republic	0.8	2.3	1.6	2.4	0.6	1.9	0.0	1.3	
Hungary	0.9	5.4	2.2	3.2	3.1	5.8	5.1	1.1	
Poland	0.3	2.3	1.4	1.7	1.3	2.2	1.5	1.4	
Slovak Republic	0.1	0.9	0.7	0.9	0.3	1.0	1.3	0.6	
Slovenia	1.5	13.9	0.6	7.2	9.2	0.5	5.2	0.3	
Moldova	0.0	0.0	0.1	0.0	0.0	0.3	0.0	0.0	
Russia	1.9	0.8	9.7	7.0	0.6	6.2	10.4	2.7	
Turkey	7.7	2.0	7.0	0.9	6.4	4.1	2.4	1.1	
Ukraine	2.6	0.3	3.2	0.4	2.4	2.2	2.4	0.2	
European Union	72.5	50.7	59.4	69.6	59.5	72.0	56.3		
EU-4*	61.1	28.9	36.8	39.7	33.5	42.0	36.0	23.0	
CEE-5	3.5	24.8	6.5	15.5	14.5	11.3	13.2	4.8	
SEE-7	6.1	34.9	3.2	5.2	24.2	1.2	15.4	0.9	
Total, USD bn	2.3	5.5	13.9	16.6	2.5	33.2	9.9	3680.8	

Note: All exports: f.o.b., Serbian-Russian trade data from 2003, *EU-4 = AUT, GER, GRE, ITA.

Source: IMF Direction of Trade Statistics,

Why are spatial disparities bad?

- **Socio-economic** cohesion, fairness, justice
 - Similar opportunities to people living in different areas
- Balanced **production** structures and capabilities
 - Exploit full potential of human and natural resources
 - Exploit different locational advantages in different sectors
- **National** stabilisation and economic performance
 - Marked differences in specialisations can cause BS effect thus higher inflation and below-potential production

Why is spatial un-connectedness bad?

- **Within countries**

- Hinders inter- & intra-industry linkages that can enhance competition, innovation, product quality and diversity, and thus, **overall cost- and quality-competitiveness**
- Leads to ‘thin’ labour markets with local monopolies and monopsonies and thus to **lower economic efficiency**
- Hinders spatial adjustments and price equalisation, thus leading to **higher NAIRU and congestion diseconomies**

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- **Limits the conditions for intra-regional integration**

Why is spatial un-connectedness bad?

- **Across countries**

- Leads to low intra-regional trade/FDI and weak exploitation of agglomeration & scale economies and learning spillovers
 - static comparative advantages and similar specialisations
 - hub-and-spoke relation with the main trading partner (EU)
=> **indirect cost-based competition, deficits, trade dependency**
- Weakens economic synchronicity and cross-country adjustments thus lessening the suitability of common policies and **common policy responses** to external shocks

- Weakens the incentives for, and returns to, investment in / provision of **regional public goods** (stability, infrastructure, etc)

Table 1 Measure $\overline{(B_i)}$ of Intra-industry trade between the Balkan Countries and the EC

Country	1995	1996	1998	2000	2003	2004	2005	2006
Western Balkan countries								
Albania	0.251	0.254	0.247	0.272	0.281	0.302	0.311	0.315
Bosnia-Herzegovina	0.223	0.204	0.241	0.265	0.285	0.272	0.283	0.296
FYROM	0.332	0.327	0.284	0.277	0.297	0.314	0.332 ^a	0.351
Croatia	0.401	0.425	0.414	0.433	0.438	0.443	0.448 ^b	0.467
Serbia-Montenegro	0.268	0.282	0.313	0.335	0.352	0.347	0.364	0.346
Eastern Balkan countries								
Romania ^c	0.292	0.329	0.348	0.392	0.451	0.417	0.433	0.436
Bulgaria ^d	0.348	0.382	0.406	0.392	0.407	0.426	0.423	0.448

Note: Share of manufacturing exports in parts and components is c.10% for SEE (20%+ for EU15)

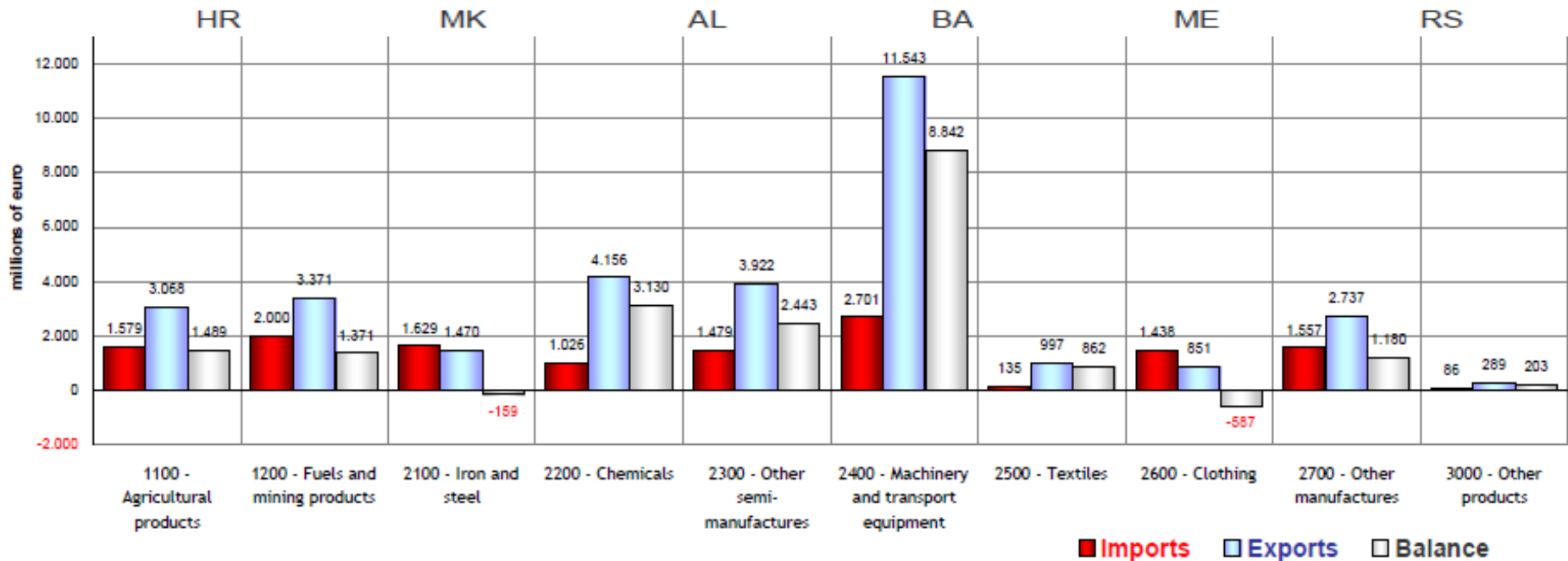
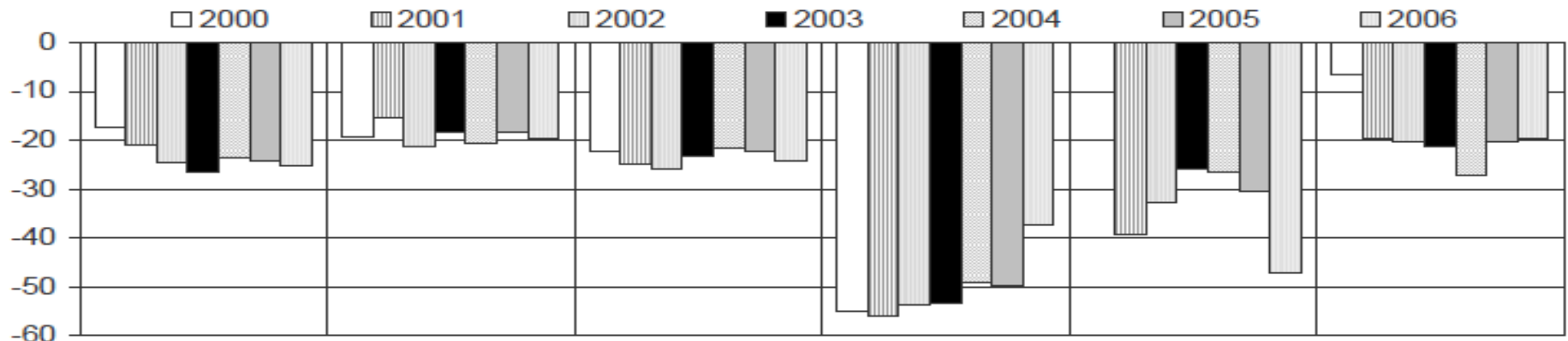
•CEEC: **0.750**

•EU-15: **0.970**

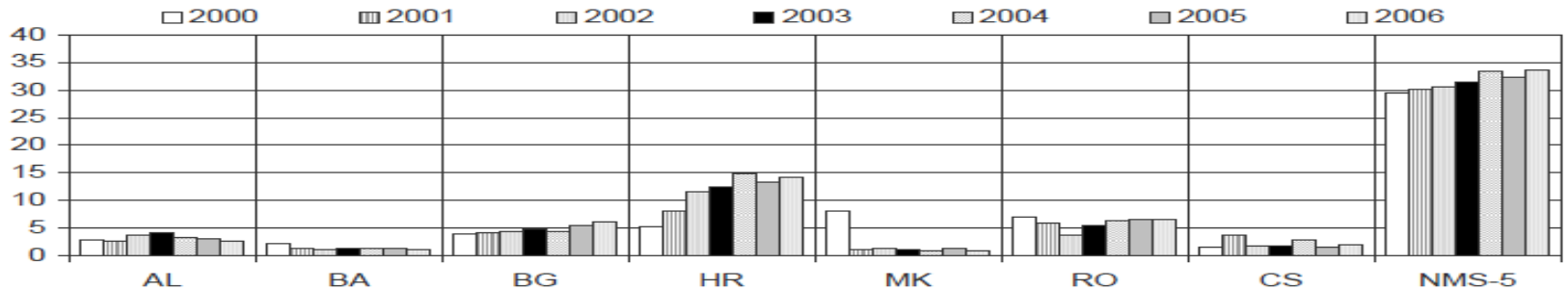
With persistent trade deficits – even in sectors of comparative advantage

Trade deficit, 2000-2006

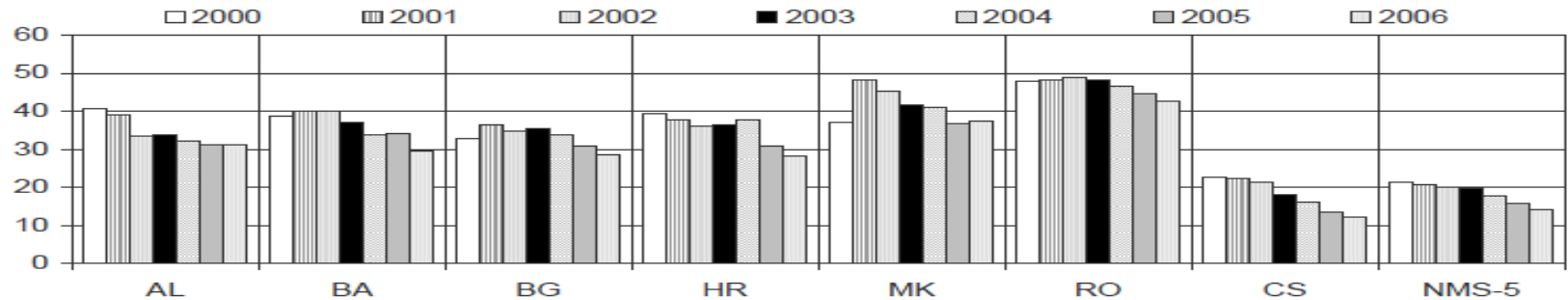
in % of GDP



Technology-driven industries,
as % of total manufacturing exports to the EU



Labour-intensive industries
as % of total manufacturing exports to the EU



Low-skill industries
as % of total manufacturing exports to the EU



Impact on SR growth and LR convergence/development

- Recap
 - Internal spatial fragmentation leading to persistence of underdevelopment pockets and economic inefficiencies
 - Thus weak agglomeration and market-size benefits which hinder intra-regional integration / linkages and lead to non-competitive inter-industry specialisations
- Impacts
 - Trade deficits may lead to constrained growth (Thirlwall)
(here FDI and financial assistance become central for SEE growth)
 - N-S specialisations lead to lower development paths
(here FDI and financial assistance cannot address the asymmetry)

Do spatial structures affect also the development model?

- EU integration appears as the only ‘exit strategy’ and makes regional cooperation secondary / a diversion
→ reinforced problems of asymmetry, disconnect, dependence

Level and Process	Perspective	
	European	Regional
Regional Cooperation	Means for EU accession	Means for restructuring / development
Integration	Substitute to EU accession	Complement to global integration
European Cooperation	Substitute to EU accession	Means for restructuring / development
Integration	Means for restructuring / development	Substitute to regional integration

- **The choice over level and process depends on and determines the prevailing/optimal regional development strategy for the Balkans**

Can regional cooperation address these issues?

- **It already does:** by strengthening cross-border coop, policy harmonisation, capital and labour mobility, trade / production links, joint infrastructure projects, etc
- **It can do more:** by focusing on devising a development model that will prioritise the integration of the *Balkan economic space* and encourage a *regional division of labour* with inter-linked specialisations and advantages

Not a “European Strategy for the Balkans” (Grabbe),
or a “Lisbon Strategy for the Balkans” (Uvalic),
but a “Balkan Regional Strategy for Europe”

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Can regional cooperation address these imbalances?

- **In this sense:** ICT, education, innovation, energy, etc can be of limited help if not addressing issues of internal and external connectedness – they maintain the asymmetries
- **Areas of action:**
 - encourage supply-chain links, commuting, and the even economic development of areas within SEE countries
 - support sectoral diversification in worse-off areas while strengthening spatio-functional complementarities
 - link local, regional and national Development Plans and strategies across SEE, focusing on regional advantages
 - incentivise intra- & inter-country production networks with knowledge exchange and market-sharing

A way forward?

- **Regional coop subject to ‘European process’**
 - Existing structural (spatial cohesion) and systemic (e.g., role of EU) weaknesses imply that SEE development cannot rely solely on:
 - Traditional regional policies for diffusing national development
 - External stimuli (and funding) for growth and competitiveness
- **Towards a Balkan Spatial Development Plan**
 - Provide a wider strategy/vision as a seed for local vision/leadership
 - Establish trans-national polycentricism to integrate Balkan space
 - Enhance existing / create new metropolitan functions and linkages
 - Enhance intra- and cross-border production complementarities
 - Create ‘local identities’ around main urban hubs to build city-regions
 - Utilise SEE-wide cooperation fora to engage local/regional actors