

Europe's Troubled Region

Economic development, institutional reform and social welfare in the Western Balkans

William Bartlett

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The countries of the Western Balkans – Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia and the province of Kosovo – form a core European region. The region is known for its instability and recent history of wars and civil conflicts, but far less is known about the changes that have taken place in the economic and social welfare systems and the dynamic processes of transition, development and European integration that have been taking place over the last twenty years.

Although economic growth has been firmly established, many problems remain in relation to the labour markets where there is high unemployment, large informal economies and widespread poverty. This book discusses the role of welfare reforms, international aid and European integration in addressing these difficulties. The author argues that the resistance to reforms which were initiated under the communist system in former Yugoslavia led to the break-up of the country but that since then a group of early reforming countries have made fast progress in institutional reform and have been at the forefront of EU integration. He also acknowledges that the main problems have been among a group of late reformers including two international protectorates where aid dependence has held back progress with institutional reforms. This book concludes that the resolution of these problems will unblock the completion of the transition, development and EU integration in the region and open the way for a more stable and prosperous future.

This book is relevant to all those studying Development Economics, Economics of Transition, International Economics and European Studies and may also be useful to consultants and government officials working in these areas.

William Bartlett is Reader in Social Economics at the School for Policy Studies, University of Bristol.

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To Djurdja, Esther, Madeleine, Matthew and Thomas

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Preface

In the early 1990s, I carried out a research project on the development of small firms in South East Europe funded by the ESRC East-West Research Programme, following which the British Council, the British Academy and the Leverhulme Trust provided crucial support for the research carried out for this book. It would be an understatement to say that the research process has been a more than usually interesting experience as it covered a period of dramatic economic, political and social change in one of Europe's most turbulent yet fascinating regions. Especially memorable were the sight of the long stand-off between the high-spirited but determined student demonstrators and riot police in the centre of Belgrade in the winter of 1996–7 after giving a lecture at the British Council offices in Knez Mihailova street; a visit to Prizren in autumn 1999 to teach a group of clever and enthusiastic pre-university students during a summer school organized by the Soros Foundation; seeing the depth of poverty in rural Albania following a tense journey by car through western Macedonia in the autumn of 2002, and empty and idle wood-processing factories among the forested mountains of North-east Montenegro in 2003. There have been a few practical difficulties in writing this book linked to the changing international position of the countries which have emerged from the former Yugoslavia, especially regarding the names of some countries. The most awkward have been the names of Serbia and Montenegro, which have changed from the 'Federal Republic of Yugoslavia' from 1992 to 2002, to the 'State Union of Serbia and Montenegro' from 2003 to 2006, to their own singular names following independence for Montenegro in 2006. I have used all these names as appropriate to the relevant time period when discussing the countries in the text, hoping that this will not lead to any confusion. I have also used the abbreviations FRY for Federal Republic of Yugoslavia and 'Serbia and Montenegro' for 'State Union of Serbia and Montenegro' for convenience. The name of the Republic of Macedonia has also been problematic since the international agreement to name the country the clumsy 'Former Yugoslav Republic of Macedonia', which I have abbreviated to 'Macedonia' again for convenience, and following the usage that has been adopted by the USA since 2004. I have also used the usual abbreviation 'BiH' for the post-Dayton state of Bosnia and Herzegovina.

The research for this book was carried out through several interrelated research projects funded by the British Academy, the British Council, the European Commission, the Economic and Social Research Council, the European Training Foundation, the Leverhulme Trust, and the UK Know-How Fund in all the countries concerned. The British Council Academic Links and Interchange Scheme (ALIS) provided invaluable support for a collaboration with Vojmir Franičević at the Economics Faculty in Zagreb from 1997 to 1999. The British Council also funded visits to Macedonia and Serbia in the mid 1990s and a Leverhulme Trust Study-Abroad Research Fellowship supported research based at the Institute of Economics in Skopje in 2002 which allowed for a longer and more reflective period of research activity. I have also benefited from participating in conferences and seminars on the region, including a series of conferences on Economic Development in South East Europe at the Inter-University Centre in Dubrovnik from 2002 to 2004 co-organized with Iraj Hashi and Maja Vehovec and the bi-annual Enterprise in Transition conferences organized by the Economics Faculty at the University of Split. I also benefited from my participation as a unit coordinator in a series of Winter Schools organized by the Coimbra Group of European universities held at the University of Split from 2003 to 2005. I am especially grateful to many friends and colleagues in the Western Balkan countries and elsewhere for their support in research and discussions of the issues presented in this book. They include, among others, Biljana Acevska, Mihail Arandarenko, Milford Bateman, Boris Begović, Gojko Bežovan, Ivo Bičanić, Nenad and Snježana Brkić, Božidar Cerović, David Coombes, Drago Čengić, Nevenka Čučković, Marija Donevska, Tim Edmunds, Anastasia Fetsi, Taki Fiti, Vojmir Franičević, Ilir Gedeshi, Iraj Hashi, Gabrielle Hogan-Brun, Milena Jovičić, Michael Kilkommons, Marija Kolin, Mirosljub Labus, Ljubomir Madžar, Sanja Maleković, Mustafa Muhamet, Katarina Ott, Jovan Pekovski, Mario Polić, Geoffrey Pridham, Višnja Samardžija, Peter Sanfey, Trajko Slaveski, Vesna Stojanova, Paul Stubbs, Božidar Šišević, Enkeleida Tahiraj, Ilija Todorovski, Milica Uvalić, Verica Hadži Vasileva-Markovska, Maja Vehovec, Mirela Xheneti, Merita Xhumari and Siniša Zrinščak. My thanks also to Djurdja Bartlett for critically reading the manuscript and for moral support through the ups and downs of such a large project. It goes without saying that any errors or misinterpretations are my own responsibility. I am also grateful to the School for Policy Studies at Bristol University for providing a stimulating and supportive intellectual environment in which this book could be completed and to the Institute for Advanced Studies at Bristol University for supporting a series of seminars and conferences on themes related to this book.

Abbreviations

APL	Albanian Party of Labour
APP	Agency for the Promotion of Entrepreneurship (Macedonia)
BAS	Business Advisory Service
BiH	Bosnia and Herzegovina
CARDS	European assistance programme to the Western Balkans
CEDB	Council of Europe Development Bank
CEFTA	Central European Free Trade Area
CEI	Central European Initiative
CHIFs	Cantonal Health Insurance Funds
DfID	Department for International Development
DM	German mark
DOS	Democratic Opposition of Serbia
DPS	Democratic Party of Socialists (of Montenegro)
DS	Democratic Party
DSS	Democratic Party of Serbia
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
ECHO	EU aid programme
ECU	European Currency Unit
EES	European Employment Strategy
EIB	European Investment Bank
EPL	Employment protection legislation
ESC	Economic and Social Council
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign direct investment
FRY	Federal Republic of Yugoslavia
FTA	Free Trade Agreement
GDP	Gross Domestic Product
HAMAG	Croatian Agency for Small Business
HBOR	Croatian Bank for Reconstruction and Development
HDZ	Croatian Democratic Union
HGA	Croatian Guarantee Agency

HIF	Health Insurance Fund
HRK	Croatian kuna (unit of currency)
IC	Investment Compact
ICTY	International Criminal Tribunal on the former Yugoslavia
IFC	International Finance Corporation
IFI	International financial institution
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
KLA	Kosovo Liberation Army
KM	Clearing mark
KPST	Kosovo Pensions Savings Trust
KTA	Kosovo Trust Agency
LDK	Democratic League of Kosovo
LFS	Labour force survey
LIP	Local Initiative Project
LSMS	Living Standards Measurement Survey
MVP	Mass voucher privatization
NATO	North Atlantic Treaty Organization
NEPA	National Enterprise Promotion Agency
NGO	Non-Governmental Organization
NSSSD	National Strategy for Social and Economic Development
OBNOVA	European assistance programme to the Western Balkans
OECD	Organization for Economic Cooperation and Development
OHR	Office of the High Representative
OMC	Open Method of Coordination
OSCE	Organization for Security and Cooperation in Europe
PHARE	EU assistance programme to Eastern Europe
PHU	Primary Health Unit
PIF	Privatization Investment Fund
PISG	Provisional Institutions of Self Government
PPP	Purchasing power Parity
PRSP	Poverty Reduction Strategy Paper
RS	Republika Srpska
SAA	Stabilization and Association Agreement
SAP	Stabilization and Association process
SDP	Social Democratic Party
SDSM	Social Democratic Alliance of Macedonia
SECI	Southeast Europe Cooperative Initiative
SEECF	South East European Cooperation Process
SIDA	Swedish International Development Agency
SME	Small and Medium-sized Enterprise
SMEA	SME Agency (Albania)
SNP	Socialist People's Party (of Montenegro)
SPA	Serbian Socialist Party

SPO	Serbian Renewal Party
SRS	Serbian Radical Party
SRSG	Special Representative of the Secretary-General (in Kosovo)
SSSH	Croatian trade union association
TAM	Turn-Around Management
TTFSE	Trade and Transport Facilitation for Southeast Europe
TWG	Trade Working Group
UK	United Kingdom
UNDP	United National Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNMIK	United Nations Mission in Kosovo
UNRRA	United Nations Relief and Rehabilitation Administration
USA	United States of America
USAID	United States Agency for International Development
VET	Vocational Education and Training
VMRO-DPMNE	Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity
WHO	World Health Organization