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## Economic regional and cross-border cooperation in the South-East Europe for the purpose of its faster integration in the European Union

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***Economic regional and cross-border cooperation in the South-East Europe for the  
purpose of its faster integration in the European Union***

**Abstract**

Territorial borders of the future European Union imply an integration of the South-East Europe into the EU political and economic structures. Such “map of the European Union” should represent the “European perspective” to the countries of the South-East Europe. At the present time, no-one can foresee when exactly shall countries of the South-East Europe join the EU, however the conditions that must be met are more-less well known and harmonized within the European Commission.

Given the political and economic structure of the South-East Europe area, it is primarily “attractive market” for many European producers, as well as for future European investors. To achieve that, it is necessary to create the pre-conditions in the countries of the South-East Europe. Thus, it is necessary to intensify the regional cooperation between the countries in this region, wither by establishing the “classic free-trade zone” or by liberalization of trade through the network of bilateral contracts on free trade. The cross-border cooperation programs should link up all assistance that would be, for this purpose, coming from the EU.

The primary goal of this paper is to research the possibilities and priority-areas of the economic-regional and cross-border cooperation in the South-East Europe in the context of its faster integration in the EU, as well as from the perspective of the optimal synchronization of this cooperation with political and economic strategy fo the EU toward these countries. As it is well known, re-unification of the continent is the joint goal of all citizens of the Europe.

**Key words:** cooperation, South East Europe, European Union

## 1. Countries of the South-east Europe in the context of developing possibilities and demand for investments

The world economy in the last several decades has been, besides the globalization, marked by especially intensive process of so-called “new-regionalism”, which results in accelerated development and strengthening of the international political, economic, cultural and other links between different countries, and especially those linked with geography and complementary economy. The quest for further intensification of regional co-operation results in establishment of various political and economic integrations and regional grouping.

Initiatives for the regional integrative links and creation of closer relations on the regional plan in the South-East Europe have come from the broader European environment, unlike integrative links in other parts of the world. It is the ultimate goal to bring this geographical area of seven countries, with 0.65 million km<sup>2</sup> of area and approximately 60 million population closer to the European integration flows, although in economic way it represents (Croatia is an exemption to this) the area of European poverty. The macro-economic picture of this region indicates it the best:

Table 1. Macro-economic indicators for the countries in the South-East Europe (2002)

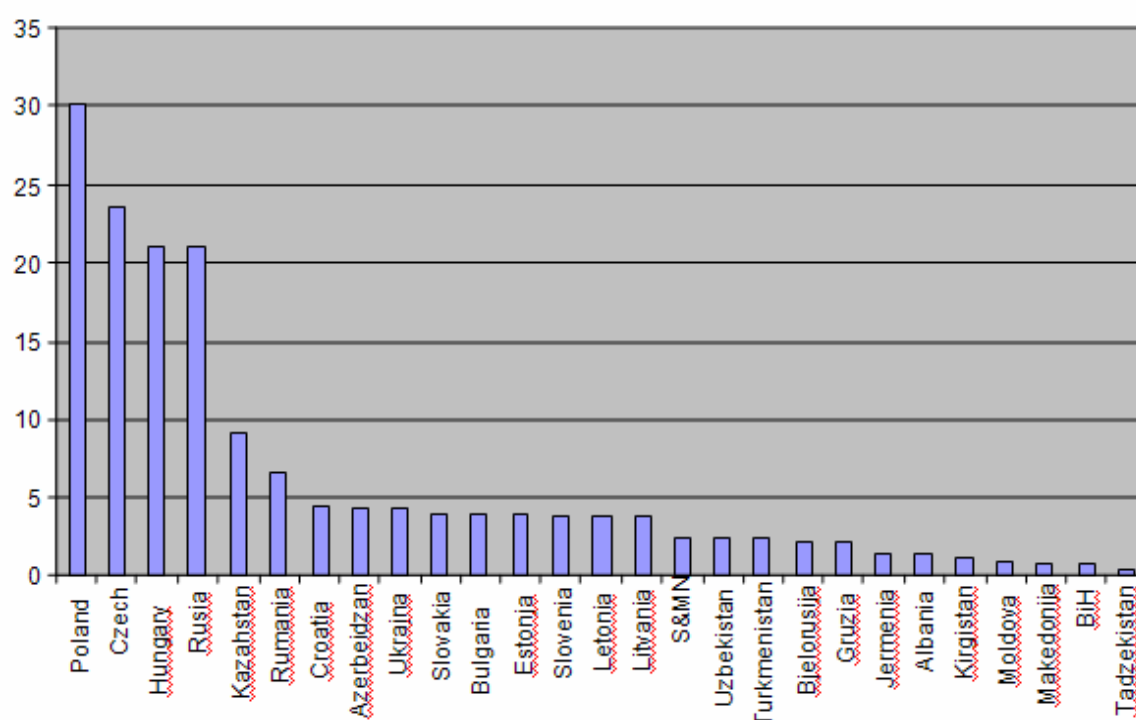
Country	Population (millions)	GDP per capita (USD)	GDP By sectors (%)			Rate of Unemployment (%)	External debt (billions) USD)	Foreign-trade Exchange (USD bill.)	
			Agriculture	Industry	Services			Export	Import
Albania	3,6	4400	49	27	24	17	0,8	0,34	1,5
BiH	3,9	1900	13	41	46	40	2,8	1,5	2,8
Bulgaria	7,5	6500	14	28	58	18	10,3	5,3	6,9
Croatia	4,4	9800	9	33	58	21	16,5	4,9	10,7
Macedonia	2,1	5100	11	31	58	37	1,3	1,1	1,9
Rumania	22,3	7600	15	35	50	8	13,7	13,7	16,7
Serbia and Monte Negro	10,7	2200	26	36	38	32	9,2	2,4	6,3

Source: The World Fact book, 2004. (adapted)

The research conducted by a number of European agencies implies that none of these countries has yet reached the GDP as it was in the 1990. Bosnia and Herzegovina is,

most certainly, in the most difficult situation. “According to many analysts, it will take at least eight more years before Bosnia and Herzegovina reach its pre-war GDP level (10 billion Euros)”<sup>1</sup>. The situations in Macedonia, Serbia and Monte Negro, Bulgaria, etc. is only a little bit better than in Bosnia and Herzegovina. This situation is result of primarily instable political environment, war conflicts or transition depression in some countries in this region. It does not matter because in the last two years the economic growth in the countries of the South-East Europe has been significantly higher than the GDP in five countries of the Central and East Europe, they are still less developed. According to analysis of one relevant Institute<sup>2</sup>, published in many magazines, out-of-date technology is limiting the competitive advantage of these countries in the world market, but also implies the great developing potentials. The use of these available potentials requires higher FDI income than it was before. According to available data, the achieved FDI income in the countries that are in transition is presented in the chart below:

Chart 2. Foreign direct investments in the countries in transition in the period 1990 – 2000 (in billions USD)



Source: “Transition Report 2002” (according to “Politika” Belgrade, 04 November 2003)

<sup>1</sup> *Bilan du monde*, Edition 2003, Paris, page 52

<sup>2</sup> WIIW, Vienna, 2004

As it could be seen from the table above, the countries in the South-East Europe have absorbed in that period significantly smaller FDI than countries in the Central Europe. Situation did not change not even two years after that. According to the available information<sup>3</sup>, the Check Republic in the period 2001 – 2002 achieved the FDI income of approximately USD 15 billion, Poland approximately USD 10 billion, Slovakia approximately USD 5.5 billion, and the Republic of Croatia (USD 2.6 billion) and Romania (USD 2.3 billion) were the only two countries from the South-East Europe that achieved significant FDI income, whereas the FDI income in other South-East Europe countries was irrelevant in relation to the real needs and realistic potentials.

Recently, the foreign investors are more willing to invest in the South-East Europe as a region, rather than in any of the countries individually, which represents the special motivation to the countries in this region to cooperate together. Besides, there is a need for harmonization of legal, taxation and custom systems, as well as completion of privatization and upgrade of conditions for investments with the ultimate goal of “expansion of investments boundaries of Europe” towards these areas as well. However, in order for this region to fully function, to be unique and be even more attractive for foreign investors, it is necessary as soon as possible to build the regional road, communication and energetic infrastructure. There are already some investors who have expressed an interest for investments of this kind. Considering the political and economic structure of the geographical area of the South-East Europe, it is attractive market for foreign investors and market for a number of products from the EU countries, so it should be linked communication-wise with the EU. However, a very little has been done regarding the implementation of the operational investment goals. This is so especially in the field of programmed pan-European transport in accordance with the decisions made on conferences in Crete and Helsinki. It is about a pan-European corridors IV, V, VI and VII and Adriatic-Ionian corridor that should cut through the area of the South-East Europe and represent the most important road infrastructure in the direction West-East that is south of Alps. We should also mention other traffic segments (rail, river and sea transport) that should meet the future transportation needs of the SEECS, but also the needs of the European Union that will derive from the future unique market.

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<sup>3</sup> UNCTAD, World Investment Report 2003

The situation is similar in the air traffic as well. The realistic ambient of the South-East Europe contains many positive things: relatively developed airport network, relatively constant market, a great number of emigrants (diaspora) abroad, etc. The developing limits that need the foreign investments are most of all infrastructure-related issues, air-fleet, etc.

A specific field is an energetic sector of this part of Europe in which, as it is predicted, the integration processes will be the fastest, starting with the regional market of the electrical power in the South-East Europe commencing as of 2006. That will require the significant inflow of the FDI for this purpose, considering that a lot will need to be done after integration of the energetic systems. Within the regional frame of the South-East Europe, and disregarding often too comprehensive academic discussions on networking of enterprises in the field of energetic and energetic policies, a long-term goal must be the creation of new creative and innovative regional energetic environment that would make possible for this region to incorporate as soon as possible into the West-European UCTE, and into the energetic structure of the European Union. It will take a lot of time until that happens, and many documents compiled by the foreign experts and agencies indicate this very point. For example, according to analysis by the World Bank and Economic Commission for Europe<sup>4</sup>, the entirely installed energetic capacities in the region of South-East Europe are around 40,000 MW of thermal-production (including around 5,000 MW from nuclear plants) and around 18,000 MW of hydro-production, and these capacities are way under its technical availability due to the exploitation or political reasons.

The countries in this region are net-energetic consumers since the import represents around 40% of their entire energetic consumption. The energetic consumption per capita in this region is around one half of that consumption in the developed European Countries. Any comparison of that consumption per unit of output in relation to the one in the OECD countries indicates ineffective production, irrational acquisition and irrational use of energy in this region. The price of energy in this geographical region are below economic level and do not reflect the economic efficiency, financial sustainability or the most important social goals. The rate structure (tariffs) is also

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<sup>4</sup> World Bank, *The Road to Stability and Prosperity in SEE, A Regional Strategy Paper*, 2000, page 132 - 134

inadequate, and the regional energy trade is restrained by poor infrastructure and traditional transportation interconnections. Nobody in this region appreciates the importance of those involved in transportation business or the need for accelerated supply of fuel and natural gas. The very same documents point out that ecologically low-quality coal is used for 75% of entire production of energy in Macedonia, and 1/3 of entire productions in Bulgaria, Rumania and Bosnia and Herzegovina. It is estimated that the percentage of low-quality coal in production of energy will decrease over time, so some economically not-sustainable coalmines will have to be closed.

## **2. Integration of trade in the South-East Europe: - the question of modality (format)**

Integration of trade as one of the most important components of broader integrations of countries of the South-East Europe into the economic structure of the European Union implies previous resolution of great number of issues and obstacles, such as protectionist-like policy of most of the countries, payment transactions, taxation policy, etc. The Memorandum on liberalization of trade and establishment of bilateral network of foreign trade of 2001, signed by eight countries (besides the countries of the South-East Europe, Moldavia also signed it) foresees joint resolution of the above-mentioned problems. The main idea is to have this whole region working as one market, ensuring free inter-state flow of goods, services, capital and people with an adequate system of protection. The priority goals of this document are primarily:

- Upgrade of mutual economic co-operation, significant increase of trade exchange, upgrade of competitiveness and preparations for the market of the European Union,
- Attraction of foreign direct investments, considering that this region is dominated by working-intensive sectors, so diversification of its economic structure is required,
- Certain provisions of the bilateral agreements on the free trade (anti-dumping, compensation and protective customs are in accordance with the WTO norms, which will help non-members of this organization, such as Bosnia and Herzegovina and Serbia and Monte Negro, in process of preparations for admission to the WTO,

- Such form of the regional connection is one of important conditions for signing the agreement on stabilization and association to the European Union, which represents additional motivation for any country, etc.

The network of the liberal contracts on the foreign trade is expanding and between certain countries are such contracts already operational and yielding results. However, regardless of advantages of liberalization of trade flows, which are being used to bring closer current unattractive small markets from the southeast parts of Europe, some problems already occurred. Despite the assumed contract obligations, certain countries are trying to avoid some important provisions, so they extend the deadlines or favour different barriers to the free trade (transit fee, discrimination of some goods, damping, etc.). It is the special problem in Bosnia and Herzegovina that, prior to signing such contracts, did not unite its domestic market (there are two independent markets existing) or increased competitiveness of domestic products. All of these are reasons why the goals set in the above-mentioned Memorandum (exchange of 90% of goods without customs, cancellation of quotas, simplification of customs procedure, etc.) have not been met yet. Lately, some European circles have been emphasizing the need to replace the current network of 21 bilateral agreements with the institutionalised and formal regional free trade zone. The EBRD experts, for example, think that bilateral agreements on the free trade signed until now between the countries in the southeast Europe are not sufficient for strengthening of the exchange of goods, so they should be replaced with the zone of free trade and start as soon as possible with preparations for establishment of joint tax-free market. In that way, a respectable market would be established, with relevant human and economic potentials and with a good geo-strategic location. The EBRD analysts point out the special factors that affect in a negative way the integration of economics of the southeast countries, such as: a great number of borders that divide this market, different customs procedures, low-quality communication infrastructure, non-existence of efficient agencies and legal regulations, etc. One of the versions of the Memorandum in question insists, taking into consideration all of the above mentioned, on upgrade of inter-regional trade through harmonization of regulations concerning customs, ecology, institutionalised infrastructure in accordance with the pan-European rules, and also suggests establishment of free trade zone in the southeast Europe based on the CEFTA model. That would accelerate the economic development of this region, enable faster FDI



income and faster incorporation of this region into the globalisation processes. Considering that not all of the countries are in favour of this solution, because this solution, according to them, leads into creation of “Balkans union”, they are more for co-operation through the bilateral agreements on free trade. Therefore, the issue of format of the future intra-regional co-operation is still open. It is for sure, however, that countries in the southeast Europe must, before joining the EU, establish, as one author says, “Europe in the southeast of the continent”, in which the European standards and formats of intra-regional trade will be valid. The sooner this is done, the sooner this area will integrate in the EU, because, as it is known, Europe sees this region of southeast Europe as one unit, as a whole.

### **3. Priority areas and current Euro-regional initiatives for cross-border co-operation in the South-East Europe**

The modern reality, with which the new age of the regional co-operation, projects and programs for future starts and in which process the developed economic relations and democracy should guarantee a peace under supervision of the EU, is starting to be noticeable in the southeast Europe as well, because the joint goal of all countries is to integrate as soon as possible into the European integration flows. Besides this global and long-term goal, more intensified regional co-operation in the southeast Europe in the context of current border relations and documents of the European Commission “The Wider Europe (disregarding the trans-border economy) pertains to many issues, such as:

1. Although all countries in the southeast Europe promoted, at least declaratively, equality and non-discrimination of citizens, the ethnic and religious minorities in those countries (mostly settled in regions close to borders) were under constant pressure of assimilation, voluntarily or were forced into it, and with few exemptions, they did not exercise the rights of minorities. The new age in the southeast Europe raises the greatest expectations regarding this very issue, however what it takes are faster reforms that would lead the way towards the European standards and values.

2. Considering that the border control infrastructure is under-developed in all countries of this region, the border management is being gradually upgraded and the system of proper training is resulting in the establishment of new border structure with border control police, customs service and other border services. The European Union is very interested for development of institutionalised and professional capacities in the field of migrations, and the priority is successful fight against the illegal (including the transit one) migrations from these areas towards the countries of the European Union.
3. The trans-border co-operation regarding the ecology must be more precisely defined, especially between countries of this region where there is a possibility for cause-and-effect connection due to different negative externalities. The new type of regional planning with integrally defined measures and instruments on trans-border level is becoming the operational asset for control and upgrade of living environment between the areas close to borders and model for action. The ecological ethics must always be present in situations such as: change of bonity of rivers and underground waters in the border areas, trans-border transport of sulphur dioxide, extinction of forests in one area due to construction of industrial capacities over the border, etc. Certain activities in this field have already intensifying between some border regions in the southeast Europe, which indicates the protection of environment must not be a problem of the local community
4. Regarding the border and transborder water resources, even the Southeast Europe started insisting more on the integral management in the spirit of friendship and good neighbourly relations in accordance with the Convention on the Protection and Use of the Transboundary Watercourses and International Lakes (Helsinki, 1992) and so-called Espo Convention (1991), taking care of different geographical and climate conditions present in some border areas. All interested parties are aware that they must participate in assessment of impacts of certain projects on border and transborder waters, especially when it comes to the delayed effects of such projects. The examples of different forms of syhronization in this field are often, such as: joint plan for protection of biological diversity of Mura river,

between Slovenia and Croatia, the Hungarian-Croatian agreement on maintenance of bridges over the border, hint on need for agreement on navigation and arrangement of water-way of river Sava between Croatia and Bosnia and Herzegovina, activation of water-way in accordance with the Convention on Regulation of Navigation on the Danube River, etc.

In the context of the transborder co-operation, it is important to point out some Euro-regional initiatives: Euro-region “Furlanija – Julijska Krajina (includes some parts of Italy, Slovenia and Croatia), Euro-region “The Danube 21” (border areas in Rumania and Serbia and Monte Negro), Euro-region “Skoplje – Nis – Sofia” (parts of Macedonia, Serbia and Monte Negro and Bulgaria), Euro-region “The Danube – Drava – Sava” (parts of Hungary, Croatia and Bosnia and Herzegovina), etc. The latter Euro-regional unit is becoming more active. In that way, with gradual expansion in Croatia and Bosnia and Herzegovina and expected joining of West Vojvodina, one geo-economic area would be created, which would get certain economic and social contents. This will be required also by the Euro-regional concept of development, based on competitive advantages. The political connotations, although always, shall be less present in these new conditions.

#### **4. Transition of perception (awareness) as one of the conditions for faster activation of cross-regional co-operation of the BiH border areas and neighbouring countries**

The regional system has existed for a long time in the BiH area, with its differentiated geographical-economic regional units of different hierarchical levels and of different regional identity (east and west Herzegovina, Bosanska Krajina, northeast and central Bosnia, Podrinje, Posavina, etc.), and as such includes also the specific regional perception that, even though not determinable on the basis of quality, implies the joint life of multi-ethnic population in the given area. Already formed regional perception in the multi-century period in Bosnia and Herzegovina includes besides the issues of territory, geography and economy and different psychological, social, cultural and other criteria (sense of belonging to one nation, culture, language variations, business activities in the social, cultural and ecological context, etc.), which more-or-less affects

the pace of further development of some regional identities regardless of destructive factors intensified by the neighbours (especially in the last decade) and gives them a regional-formation character. All of this should be considered in the context of psychological conditions for activation of trans-regional co-operation between BiH border areas with regions in other countries, considering that besides the rational economic-geographical factor, as the one being determinative in this process, certain irrational social and psychological factors (conditions of human existence, different intensity of Euro-regional perception, possibility of different behaviour in the new-formed Euro-regional area, etc.) should also be considered.

An internal world of one modern Euro-region with its intellectual and spiritual levels, as the basis to build a certain system of creative activities, should be focused on the humane development with recognition of individual entrepreneurship, and most definitely not on boundless obsession with making profit, which does not benefit the spiritual life of Euro-regional people. Newly established Euro-regional positive stands among people and society in general should contain most of all traditional ethics values (spirit of coexistence, rational perception of world, honesty, solidarity, respect for other people and religions, etc.), but also should bear in mind its own identity and patriotism, without preferring its own nationality in relation to others nationalities. In that way, a sense of joint responsibility for all developing processes in the given area would be created.

All the above-mentioned factors shall, besides economic and demographic development, have an impact on development of Euro-regional perception, and also on form and development of future Euro-regional co-operation between BiH regions with those in other countries. However, it should be beared in mind that reactions of *homo balcanicus* to such co-operation will indicate that the Balkan is not only geo-political, but primarily civilization and psychological term, ridden with issues of “irrational trefoil”: nation-language-culture and its historical traumas and frustrations.

As for Bosnia and Herzegovina, it is not to expect such reactions considering traditional coexistence of population in its border areas with areas in neighbouring countries. With this pace of development of the Balkans area, those traditional values in Bosnia and Herzegovina, which were neglected in the war and post-war times, shall soon be

reactivated. However, considering that it takes two to achieve it, neighbours of Bosnia and Herzegovina will also have to work on reactivation of those values. The positive example of the Euro-region “Danube-Drava-Sava” indicates that the Euro-regional process is becoming more intensified in these areas as well.

## **Conclusion**

The cross-regional cooperation in some areas throughout the world resulted in heterogeneous factors and is being implemented in specific economic, political and institutionalised conditions. All of that impacts the pace and scope of such co-operation in the given space and time, so it represents very interesting research task.

The focus of this paper are different formats in the process of possible activation of the trans-regional co-operation in the area of the southeast Europe in the time when new regionalism is becoming prevailing doctrine in this part of the world as well. The result of this research indicates that economic conditions are determinative for activation of such co-operation in these areas as well. However, this paper indicates the problems in defining the joint frame of such co-operation, which would be of great benefit to all parties involved in the process of intra-regional connecting.

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