Development, Integration and Fragmentation in Southeastern Europe

George Petrakos* and Steve Bakalis**

The purpose of this paper is to present a critical and comparative overview of adjustment of the Balkan region. The paper considers the "initial conditions" inherited by the Balkan countries from the previous economic system, and the resulting implications for their subsequent adjustment of their economic structures under the pressures of the transition and integration force. In this context, we also consider "unfavorable" aspects of fragmentation that relate to strong migration movements and out-migration from the Balkan countries. On the basis of the results of a questionnaire survey that was conducted in 2004 we argue that out-migration from the Balkan countries can become a source of competitive advantage by contributing towards the strengthening of economic links between the host countries and their countries of origin. The survey results reveal the importance of international connections in economic development to 'learn' from others and to gain know-how. Such international connections can be further enhanced through the creation of "effective" diaspora entrepreneurial networks. Indeed, there is ample evidence in the academic literature of successful diaspora paradigms in economic development which supports the need (from a policy perspective) to maintain or revive the emotional bonds of ethnic entrepreneurs from the Balkan countries. Finally, we provide policy suggestions for consideration as part of efforts to develop a framework for the understanding of the challenges faced by the countries of the region in the new international setting.

Field of Research: International Development, Economic Development and Policy

1. Introduction

The European economy has changed in many important ways during the last decade, either due to market forces and dynamics or institutional change and policymaking. In addition, Europe itself has changed, as the old divides – both actual and perceptual – are in the process of being altered and replaced by new ones. The driving forces of change are the process of EU integration and enlargement and the economic transformation of the Central and Eastern European (CEE) countries. Both processes have been associated with strong expectations for growth and prosperity both have faced a number of difficulties and both have a strong spatial dimension.

*George Petrakos, Director, South and East European Development Centre, University of Thessaly, Volos-Greece. email:petrakos@uth.gr

** Steve Bakalis, Faculty of Business and Law, Victoria University, Australia
email: steve.bakalis@vu.edu.au

A set of critical questions arises, related to the emerging European geography of the twenty-first century. They address issues such as the north-south and east-west divides, the likely patterns of convergence or divergence, the spatial allocation of costs and benefits of the integration-transition process, migration movements, regional trade patterns, regional co-operation and cross-border dynamics.

These questions become even more pressing when the discussion turns to the Balkan region. Despite early euphoria about a rapid transition to western type of economies and levels of development, the 1990s have been characterized by disappointing outcomes. The overall record in the Balkans is well below initial expectations and by no means enthusiastic. Serious contractions in output, repeated recessions and a mix of policy and market failures in a number of countries have resulted to a painful and diverging process. Relatively slow economic growth patterns have also been associated with a serious contraction of labor force due to strong migration movements. Despite recent progress in a number of countries, the Balkans still have an inferior performance compared to the countries of Central Europe.

The purpose of this paper is to present a critical and comparative overview of adjustment of the Balkan region in a number of economic domains. This analysis will provide the necessary framework for the understanding of the challenges faced by the metropolitan centers of the region in the new international setting. In the next section we present an account of the economic performance of the region with the use of selected development indicators.

In section 2 we present an overview of key aspects of structural transformations taking place in the Balkan economies, critical aspects of the internationalization experience of the region, issues that arise from fragmentation and integration in the Balkan region, and discuss a number of unfavorable characteristics of the Balkan region related to its fragmentation and unbalanced type of integration. In section 3 we present a southeastern perspective of the development and integration prospects in the region as well as considering the implications for policy development that arise from migration movements in the new environment. Finally, in section 4 we summarize our findings and present some concluding remarks.

2. Performance and Economic Development

A number of recent reports and studies (Petrakos 2000, Petrakos 2001a, Petrakos and Totev 2000, 2001, Petrakos 2002, Kotios and Petrakos 2002, Petrakos 2003) indicate that the transition path of the Balkan countries has been very distinct compared to that of the countries in Central Europe for a number of reasons ranging from initial conditions, geographical coordinates, policy and market failures. In this section we are going to present in a synoptic way the information and the analysis that is behind these claims.

For example, when comparing the Balkan region[1] with the Central European region[2] and the EU, there is evidence of divergence in the Balkan region in terms of performance and structure with respect to economic size or capacity, GDP growth, contraction/expansion of labour force, and welfare indicators. More importantly, the contraction of GDP in the region has coincided in the 1990s with a serious contraction of labor force due to strong migration movements (King 2000). An East-West pattern of (mostly illegal) migration has evolved, where the countries of origin are all Balkan Transition countries, but especially Albania and the countries of destination are all Western European countries, but especially Greece and Italy[3].

Indeed, the experience of this decade has shown that not all the transition countries have suffered the same fate, nor do they face the same difficulties today. The transition process has created (or uncovered) inequalities previously unknown in the European context, inequalities which exceed greatly those existing between the North and the South within the EU. The most negative characteristic of the new economic space is the serious gap between the EU and the Balkan countries, and the lack of any immediate prospect for its elimination (Petrakos and Totev 2001).

It is also important to note that regarding the relation of geography to economic performance and development it seems that more central and accessible transition countries (Gallup et al 1999, Jackson and Petrakos 2001) have had a better growth performance and a higher level of development. In other words, the geographical coordinates of each country play a significant role in affecting final outcomes in terms of economic performance. Countries that are better placed in the new European economic space, are, ceteris paribus, more likely to be growing faster and have a higher development level than perimetric ones (Petrakos 2003).

For example, from this perspective it is worth considering the dual character of Greece in the Balkan region. On the one hand, Greece is one of the less advanced countries of the EU-15 with its GDP per capita being 57 percent of the average level of the Union and its performance in a number of

1 The Balkan region in our analysis includes the following transition countries: Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Federal Republic of Yugoslavia, Former Yugoslav Republic of Macedonia and Romania. Greece is not included in the Balkans in this analysis for obvious reasons. Slovenia is not included both by virtue of geography and choice. Should Croatia be also excluded, the figures of performance and structure would be worse.

2 The Central European region in our analysis includes the following countries: The Czech Republic, Hungary, Poland, Slovakia and Slovenia.

3 Albania has lost due to out-migration in the 1990s nearly 1/3 of its labor force, which has caused a significant reduction of population. Bulgaria and Romania have also experienced a contraction of their population due to migration, while other countries in the region such as Serbia, Bosnia, Croatia and FYROM have experienced a mix of out-migration and immigration movements in the 1990s, comprised by ethnic minorities, refugees and internally displaced people (Kotzamanis 2000). On the other hand, Greece has turned from a labor-exporting country in the 1960s and 1970s to a labor-importing country in the 1990s (Lianos et al 1997). In fact, it has become the sole recipient country in the region with immigrants amounting to a figure close to 1 million people, which is equal to about 9 percent of the population of the country and about 12 percent of its labor force (Labrianidis et al 2003). On the basis of immigrants' applications for legalization, it is estimated that about 65 percent of the immigrants are Albanians, about 7 percent are Bulgarians and about 5 percent are Romanians. Overall, immigrants from Balkan countries are about 77 percent of the total number and make up the large majority of immigrants in Greece (Kavounidi 2002, Labrianidis et al 2003). It seems that in the new geography of migration in Europe, the Balkans have experienced this phenomenon in a relatively more intense way, either as countries of origin, or a countries of destination.

development indicators is also behind. On the other hand, Greece is the fastest growing and the more advanced country in the region with its GDP is greater than the GDP of all the non-EU members of the region taken together, while its GDP per capita is 5 times higher than the average GDP per capita of the other Balkan countries. Its figures in all development indicators are also higher. Therefore, Greece appears with a dual identity in the region. On the one hand, it is one of the lagging old members of the EU, but on the other, Greece is a regional leader in terms of economic size and development level (Petrakos and Christodoulakis 2000).

The performance of the Balkan economies in the new economic environment depends, to a large extent, on the economic structure that they have inherited from the previous political systems and the adjustments that have taken place in this structure during the period of transition. A general characteristic of all transition economies in the first period[4] is the artificially high share of industry and the low share of services in GDP. Another characteristic of the early period is that most transition countries in the Balkans had uncommonly high GDP shares of agriculture, if one compares with the GDP share of agriculture in the EU. Dependence on agriculture is often used as an indication of the level of development, since higher shares of agriculture in GDP are associated with economic structures that correspond to earlier stages of development, while lower shares correspond to more advanced economic structures. From a trade perspective, there is strong belief that the post-1989 internationalization of transition economies is a necessary (in the best case), or inescapable (in the worst case) process, which, under certain assumptions and conditions, results in important economic (though not only) benefits to these countries.

However, the picture for the impact of internationalization on transition countries is quite complex and does not allow simplification. On the one hand, recent experience has shown that full-scale trade liberalization may be associated with a shift towards inferior productive structures[5]. On the other hand, there is an agreement among experts that withdrawing from the international market can be quite harmful for any country as it is clear that no country, especially a developing one, can be self-sufficient. Although lack of trade is a serious problem for any less advanced or even advanced country, the type of trade relations, or the type of integration into the international economy maters. Inter-industry trade, export dependence on a few low technology sectors and unbalanced relations may reduce the long-term prospects of less advanced countries to follow a western type of industrialization and development.

In the Balkans, transition from central planning to a market economy has been accompanied by increased deficits, explained by the limited competitiveness

[4]Which basically shows the situation that existed before the reform process had any impact on the economy.

[5] Here, the experience of Greece, which became a member of the EC (EU) in 1981 without any essential preparation, is perhaps indicative. During the entire decade of the 80's and at least half the decade of the 90's it experienced an abrupt increase in its trade deficit with the EU (which deficit, in monetary terms, was not balanced by the inflow of EU funds), and simultaneously a significant contraction of its industrial base, especially in sensitive sectors. These two parallel and interconnected developments were due – among other things – to the inability of Greek companies to withstand the competition from larger and technologically more advanced European companies (Petrakos and Zikos 1996, Petrakos and Pitelis 2001).

of these economies and the collapse of a significant part of their production base. On the other hand, there is a clear differentiation in performance among formerly planned economies, with Balkan countries having a lower rate of increase in exports, lower X/GNP ratios and larger deficits compared to the EU-15 and the CE countries. These figures suggest greater difficulties of adjustment in the new international economic environment[6].

Furthermore, there is an apparent lack of cross-border trade in the Balkans is very different from the trade experience of among neighbors in Western European countries. Petrakos (2001) reports that in the late 1990s in Austria roughly 60 percent of its exports and imports were with neighboring countries. Similarly, Belgium and Luxembourg had roughly 50 percent of their exports and imports directed to neighboring countries. Obviously, in understanding the real magnitude of these differences, one has to take into consideration several factors, such as the size and the development level of neighboring countries, or the existence of the Single European Market among EU members. Nevertheless, it remains a fact that intra-regional and cross-border trade in the Balkans is very limited compared to the other countries and regions in Europe.

The “missing factor” in the trade relations among neighbors generates a significant reduction in the trade potential of the region, limiting market accessibility for exporting industries and limiting the prospects for export-led growth. This type of “border condition” where borderlines in the region operate as barriers to economic and social relations is a rare situation in the history of international relations (Petrakos and Christodoulakis 1997). It is very likely that each Balkan country would have a different level of development, should barriers to trade with neighboring countries had not been imposed.

Because of these conditions, the trade relations of the Balkan countries have necessarily taken an inter-industry character with the more advanced and distant countries of Western Europe (Grimwade 1989, Petrakos 1999b), with a serious impact on the industrial structure of the region. International economic theory indicates that trade with neighboring countries is more intensive and usually takes an intra-industry character, implying greater room for more industries to develop. Therefore, the lack of trade relations among Balkan countries pushes them further towards an inter-industry type of specialization with the technologically more advanced western European countries that is rather unfavorable for the prospects for industrial development in the region.

Foreign direct investment (FDI) stocks also indicate the attractiveness of a country or a region to international investors. Regarding the Balkan region, international investors (small and large private foreign firms, multinational corporations or even foreign public sector firms) are, under present conditions, less willing to invest in the Balkans than in other competing destinations like the countries in Central Europe. Taking into consideration that the vast size of the region and its low cost production base[7] is a real

[6] Although the wars in Bosnia and Kosovo have certainly affected economic and export performance, it would be a methodological mistake to attribute most or all difficulties of the region to the war. Countries like Bulgaria and Romania, which have not been directly affected by the war, have faced similar problems.

[7] Labour cost in the Balkan countries is the lowest in Europe.

advantage for foreign firms operating in global markets, there must be some other offsetting factors hindering the expansion of foreign firms in the region. These factors are the fragmentation of the region in many small, unstable and at times conflicting countries. Fragmentation implies small and insignificant market sizes, while conflict implies an uncertain business environment. These two factors are the most important ones in explaining the absence of FDI in the region[8].

The limited amount of FDI in the region has several negative effects, as foreign capital is an important supplement to domestic capital formation and a potential avenue of technological progress and structural change in host economies. It is not accidental that all countries, even the most advanced ones, have adopted special promotion programs and openly compete with each other in order to attract a significant volume of FDI. As the economy becomes more and more globalised, FDI will play an increasingly more important role for the development, technological advancement and structural change of host countries. The fact that the Balkans risk being left outside this trend is a measure of the marginalization of their economy with long term consequences for growth and prosperity in the region.

Clearly, there are a number of key factors behind this performance. The most important relates poor development prospects to the prevailing fragmentation and conflict in the Balkan region, which impede economic growth for at least three interacting reasons (Petrakos 2003b). First, they generate *uncertainty* that does not allow economic agents to plan for the future and commit themselves to specific economic activities, as their expectations about the future are formed not on the basis of competitive advantages, specialization and available opportunities, but on the basis of political factors and external forces that are largely independent from market processes and unpredictable.

Second, fragmentation generates serious inefficiencies in the productive sector of each country. Most industries, in order to operate efficiently and be competitive, require *internal and external economies of scale*, not available in small markets. Small economies are required to be open and allow their firms to operate in a larger geographical market. For firms operating under economies of scale, neighboring countries are the best markets for their products. This is because consumers in neighboring countries usually have similar preferences implying an easier and deeper market penetration. In addition, adjacency and proximity between two countries implies a lower transportation cost.

Third, fragmentation and conflict in a region is a major obstacle to growth and development, as it restricts the operation of regional multipliers and does not allow for the benefits of regional interaction and export-led growth to be fully realized. The concept of regional multiplier is based on two conditions: First, trade is more intensive among neighbors because of the benefits of similar preferences and lower transportation cost. Second, this intensive interaction implies that high growth rates in one country can be quickly transmitted to neighboring countries due to increasing demand for imports. Therefore,

[8] Other factors that have been found in the economic literature to have an impact on the direction of FDI are proximity or adjacency of host countries to the large and more developed EU markets, as well as cultural affinity.

growth in one country can partly be driven by exports to expanding neighboring economies that experience a fast increasing demand.

Overall, these disappointing facts explain why the Balkan region has had an unfavorable adjustment in the new economic environment of the post-1989 Europe. They are in absolute contrast with the diverse environment and resources of the region, its historical and cultural heritage and the fact that large parts of the region were for centuries the civilization and development centre of the known world. In the minds of many people there is still a question why in the post-1989 European architecture the Balkan region has been such a profound case of failure and why from all possible development paths, the one that eventually materialized seems to be the worst.

3. Development and Integration Prospects: A Southeastern Perspective

Given the economic and structural weaknesses of Southeastern Europe, there are two interesting questions to address: The first is related to its future development prospects. The second is related to the impact of the new economic environment on a number of related and critical aspects of the region's economic landscape, especially in relation to the "missing factors" in trade and FDI.

We address these two questions with the use of the results of a questionnaire survey that was conducted for the Regional Integration and etropolitan Development (RIMED) project in Southeastern Europe in 2004[9]. The analysis in this section is based on the answers of 261 respondents that were high ranking officials from the public sector, businessmen and people from the academia in Skopje, Sofia, Thessaloniki and Tirana. Obviously the sampling method is a selective and not a representative one, seeking to benefit from the expertise and the superior knowledge of a highly qualified sample.

The first question is related to the development prospects of a number of countries in Southeastern Europe and also a number of regional groupings and the EU-15 (Table 1). We observe that an optimistic view prevails about the future. A significant majority of the respondents (79.8 percent) believe that there will be some short of growth in the European Union during the next five years. A relatively small share of the respondents (19.8 percent) believes that there is going to be stagnation in the same period, while only 0.4 percent of the respondents expect a recession in the EU-15.

The picture improves even more when the question comes to Central Europe. About 94 percent of the respondents believe that there will be either growth or strong growth in Central Europe in the next five years. Only 4 percent of the respondents expect stagnation and 2 percent expect a recession in Central Europe. The view changes slightly when the question comes to Southeastern Europe. While 75 percent of the respondents believe that there will be some short of growth in Southeastern Europe, 21 percent expect stagnation and 4 percent expect a recession. National forecasts are in the same line, although

[9] Details about the survey and the characteristics of the sample are provided in the reports of the RIMED project: http://www.seed-center.org/rimed/en_index.html

there are some noticeable variations. The general view indicates that Europe is expected to be an area of growth in the next 3-4 years period. In the formerly planned economies the prospects of growth are strong, with Central European countries having a clear lead over the Balkans.

We now turn to Table 2, which provides the results of the survey on the effects of internationalization, privatization and structural change on regional and social inequalities, poverty levels, development prospects, income and the efficient operation of the economy. During the last 10-15 years, significant changes have taken place in the economy of each country. The result of these changes is that all economies have become more open to international economic relations, have undergone significant transformation in their economic base and have experienced the contraction of the public and the expansion of the private sector. Although these changes are considered in the economic literature as necessary steps for development, they also have undesired side effects, that their study has been neglected in the literature.

Overall, the respondents believe that the changes that took place in the last 10-15 years have increased regional inequalities. The majority (71 percent) believes that regional inequalities have increased or have increased significantly. Only 14 percent of the sample believes that the situation has been the same and approximately the same percentage believes that inequalities have decreased or decreased significantly. The views are also divided when the question focuses on the effects of internationalization, privatization and structural change on the efficiency of the operation of the economy and the public sector. About 41 percent of the respondents expect an increasing and 34 percent a decreasing efficiency of the economy as a result of changes. Also, about 36 percent expect an increasing and 33 percent a decreasing efficiency of the public sector. It is interesting that in these two questions a large share of respondents does not expect any real impact. When the question comes to future opportunities for future generations, the respondents become again optimistic. About 50 percent consider the changes that occurred in the last 15 years will increase the opportunities of the future generation. A significant percentage however is either pessimistic (29 percent), or declares that does not expect any change.

Table 3 shows that on average the opportunities arising for the four metropolitan areas are: a) Use wisely European Union funds allocated to the metropolis (61,7%), b) Establish better road, train and air connections with the other metropolitan areas in South eastern Europe (55,9%), c) Take advantage of EU policies for cities (49,4%), d) Establish stable and peaceful relations with neighbouring countries (42,1%), e) Use the European experience to design and implement a Master Plan for the development of the city (42,1%), f) Use international connections to 'learn' from others and gain know-how (42,1%), g) Attract FDI in services, banking and commerce (29,9%), h) Export high quality products to international markets (26,8%), i) Attract FDI in technology intensive industrial sectors, and finally (26,8%), j) establish formal relations with other cities in the Balkan region (23%).

Table 4 shows that on average the threats arising for the four metropolitan areas are: a) Inability of local firms to compete with the more experienced international firms (59,4%), b) Difficulties to adopt EU institutional requirements (59,4%), c) Inability to 'learn' and adjust to the new conditions as fast as necessary (47,1%), d) Inability to attract FDI (35,6%), e) Use the European experience to design and implement a Master Plan for the development of the city (47,1%), f) Large numbers of immigrants from smaller cities and rural areas (37,9%), g) Attract A refusal of the EU and international organizations to continue funding (35,2%), h) Failure of economic policies and a new recession (34,9%), i) Attract Environmental threads by the uncontrolled use of industry (34,9%), j) A new political crisis in the country (31,4%) and k) A new wave of emigrants (skilled, young and educated) leave the city (27,2%).

Table 5 provides an overview of policies that are considered by the respondents to be important for the development of the four metropolitan areas in the new environment. We observe that the most frequently selected (66,7%) policy which is considered to be important for the development of the four areas is the technical infrastructure policy. Policies for unemployment, poverty and social education is second in terms of priorities (54%), while policies to attract foreign direct investment is third (44,1%). Other policies which are considered to be important in the development of the four metropolitan are: Social Infrastructure policies (schools, hospitals, etc.)(32,6%), policies for the development of human capital (education, vocational training) (24,1%), and urban planning, land uses, urban renewal, restoration and city marketing policies (24,1%).

Table 6 presents some selected responses in the areas of threats, opportunities, and development policies. These responses relate directly to migration movements as well as to some of the development policies which were considered by the respondents. Regarding opportunities related to migration movements, we observe that 40.2 % of the respondents consider that international connections are important to "learn" from others and gain know-how. Other opportunities associated with migration movements relate to using migrants as a force of cooperation with other countries and cities (19.2 %) as well as using diasporas (16.1 %) to establish economic and other links. These responses can be related to the importance of policies to attract FDI (44.1 %), given that there is ample evidence in the literature that highlights the importance of international connections (via successful diaspora paradigms) in the area of economic development. This is a key area that deserves policy attention and can go some way towards dealing with the previously mentioned "missing factors" of trade and FDI in the Balkans. Indeed, practical interest in the role diasporas has increased as evidence has accumulated that emigrant groups can be become agents for economic development by promoting trade, investment, or technology transfer between one or more host countries and the country of origin. For example, there has been the spectacular economic growth of China and the obvious role played in that growth by trade and investment facilitated by the Chinese.

I

Regarding threats arising from migration movements, we observe that 27.2 % of the respondents consider a new wave emigrants (skilled, young and educated) leaving the city as a threat in the new environment. This is consistent with observations reported in the previous section regarding the presence of unfavorable expectations for employment prospects for skilled people and young graduates. However, the inevitability of the so-called “brain drain” should be seen as part of a process leading to “brain circulation”. Research commissioned by the Public Policy Institute of California and undertaken by Annalee Saxenian (2006) demonstrates that the tremendous growth in Silicon Valley was directly linked to the circulation of high-skilled immigrant labour. The research highlights the importance of the involvement of foreign-born professionals in the regional entrepreneurial economy, the nature of the professional connections immigrants are building with their countries, and the extent to which immigrants are establishing business operations in their countries. For example, the majority of Silicon Valley’s Indian (76 %) and Chinese (73 %) immigrants, reported in the survey that they would consider starting businesses in their native countries in the future.

In the same spirit, Bakalis and Joiner (2006) argue that the onset of globalisation has vastly increased the possibilities for cross-border small business activity. Increasingly, governments come to recognise that their diaspora communities can enhance their host country’s international competitiveness and economic development. In Australia, new migrants are likely to have strong links with business communities back in their homeland (e.g., friends, family and business contacts). Using preliminary findings from two pilot studies, Bakalis and Joiner (2005, 2006a) show that the feeling of altruism (defined here as a desire to contribute to one’s homeland) may be an important motivating factor for immigrants and an incentive to participate in and cultivate social networks with their homeland. For example, the desire to ‘give back’ to the homeland may provide a strong incentive for diaspora students to succeed. Also, young entrepreneurs from southeast European immigrant communities in Australia appear to retain a strong sense of social responsibility (an altruistic feeling) and incentive to engage in business activity with their homeland. The authors suggest that migrants in Australia experience a strong pull to their homeland which manifests as a strong social responsibility towards the homeland. Fostering ethnic altruism and the desire to put something more permanent back into the development process in the homeland, as well as the concomitant development of ethnic social networks is likely to benefit not only the individual concerned but also, more broadly, the host country through the potential for increased international business activity.

For example, the Greek diaspora has played a very significant role in the institutional transformation and economic development of its home country. According to Minoglou and Bitros (2006) the Greek diaspora has been strongly involved in the formation of Greek business and, particularly, entrepreneurial networks. In many respects, it has acted as a substitute for the weak state and without its strong support and influence Greece would not be able to accede to the EU in 1979. The Greek diaspora, while very successful in and well adapted to its various host countries, has retained strong cultural and educational links with Greece and has been a conduit for knowledge transfers, particularly the diffusion of technological innovation.

In this context, Hugo (2005) argues that there are lessons for policymakers in countries such as Australia, who are increasingly aware of the importance of diaspora-enabled linkages between countries. These communities keep ties with their homeland, including economic links. But more research is needed to understand how these linkages actually work given that there is a progression, from the first generation that sends back remmitances, through to the second that (sometimes) sells the family home and brings the cash back to the host country, and to the third that decides to put something more permanent back into the development process. Hugo (2005) argues that if factor mobility, such as the migration of skilled labour, is to be of mutual benefit to sending and receiving nations, both origin and destination countries must coordinate their policies, particularly their migration and development policies. Policy making has to be highly tailored to issues to be addressed as a single overarching policy is unlikely to succeed – one size doesn't fit all.

Table 13 also reveals that another perceived threat by the respondents (16.1 %) is the large number of immigrants from other countries in their city. On the other hand, 14.9 % of the respondents see an opportunity of a multicultural city that uses ethnic differences as an asset in the international markets. One implication to be drawn from these two responses is that migration movements in the Balkans provide challenges for policymakers that strive to make ethnic diversity an asset and a source of competitive advantage. There is a clear role here for the development of programs that encourage cooperation and promote the need for internationalisation and multiculturalism to be developed as parallel and mutually supportive ideas. The Brain Gain Program and the Balkan Case Challenge are such programs (developed by the World University Service) that are worth noting for their role in promoting ethnic diversity as an asset[10].

5. Conclusions

The preceding analysis has shown that the adjustment of the Balkan economies to the international environment after 1989 has been anything but satisfactory. Inferior growth performance, weak economic structure, cumulative deficits, labor intensive export structures, and low (and declining) rates of intra-industry trade, constitute factors which imply a defensive type of adjustment, a limited and declining competitiveness and economic systems which are diverging as much from those of the EU as from those of the CE.

This adjustment reflects worse initial conditions of transition when compared to the CE, a less favorable geography and an unstable political environment with smoldering conflicts related to inter- and intra-national arrangements that were not resolved prior to (or right after) World War II. Under the weight of

[10] The World University Service (http://www.wus-austria.org/default2.htm) is an association committed to the promotion of the human right to education on the basis of academic freedom and university autonomy. The Brain Gain Program (BGP) is aimed at opening the higher education sector in SEE by inviting emigrated academics from the region to lecture courses. The Balkan Case Challenge (BCC) project is targeted at enhancing the academic labor market in SEE by bringing together the academic population on one side and the economic/business sector on the other with the long term aim of establishing cooperation between these two parties.

these factors, it is clear that the Balkan countries had less potential to adjust to the competitive conditions that were imposed upon all the transition economies after 1989 by uniform market liberalization policies.

We argue that as a result of strong migration movements, there is an opportunity for diasporas from the Balkan region to be mobilised to support expanded economic relationships with their original homelands and assist in the development of the EU accession capacity in their home countries. The potential is there but its realisation depends on national and international co-operation, studying those who have done well in recent years, a task in which the European Union itself could take a fruitful role. According to Jupp (2006) “if the EU could persuade these communities and their organisations to think in terms of Europe and its economic benefits they would be making an invaluable contribution both to the Balkans and to Australia”.In the same spirit, Hugo (2005) also argues that in a globalising world, which places a premium on linkages between countries, there is increased scope for Australia to introduce policies to enhance those linkages and utilise them for increasing economic and social activity between nations. This is because several of the migrants’ communities and their descendents in Australia have strong linkages with their home countries and hence represent considerable potential for enhancing economic, social and cultural ties in a globalising world. One implication to be drawn from this study is that internationalisation and multiculturalism should be developed as parallel and mutually supportive ideas.

Finally, the ‘initial conditions’ of history, geography and structure will of course continue to play an important role, but they do not need to be the main determinants of the countries’ performance. The international development experience has shown examples of less advanced countries or regions that have managed to overcome their disadvantages and escape or partially overcome ‘a lagging behind destiny’.

References

Bakalis, S. and Joiner, T. A. (2006) “The role of ethnic networks in export activities: The case of Australia”, *Journal of International Business and Entrepreneurial Development* Vol 3, No1/2, pp 85-108.

Bakalis, S. and Joiner, T. A. (2006a) The role of altruism as a pathway towards the development of diaspora entrepreneurial networks: Evidence from Australia, *European diaspora – exploring opportunities for its involvement in economic development of countries in South-East Europe and their accession to European Union,* FH Joanneum, Graz, Austria, 3-4 April 2006

Bakalis, S. and Joiner, T. A. (2005) ‘The Role of People-to People Links in Australia’s Economic Engagement with the European Union’, International conference, *Global Political Economy and the New Challenges for development, 2nd Pan-Hellenic Conference on International Political Economy*, 16-18 September 2005, Athens - Greece.

Bitros, G. and Minoglou, I. (2006) 'Enterpreneurship and the Endogeneity of Institutions: Some Historical Evidence', European Diaspora Research Network International Conference, *European Diasporas and their Involvement in Future Enlargements of the European Union,* 17-18 July 2006, Canberra - Australia

Gallup, J., Sachs, J. and Mellinger A. (1999) 'Geography and economic development', *International Regional Science Review*, Vol. 87, No. 2, pp. 179-232.

Grimwade, N. (1989) "*International trade: new patterns of trade, production and investment*", Routledge, London.

Hugo, G.J. (2005) Australian Diaspora: A Demographic Perspective, Paper presented to a conference on the "Global Political Economy and the New Challenges for Development", 2nd Pan-Hellenic Conference on International Political Economy, Athens-Greece, 16-18 September.

Jackson M. and G. Petrakos (2001) Industrial performance under Transition: the impact of structure and geography, in Petrakos and Totev (eds.) *The Development of the Balkan Region*, Aldershot: Ashgate, pp. 141-174.

Jupp, J. (2006) 'South East European Diasporas in Australia end the Enlargement of the European Union', European Diaspora Research Network International Conference, *European Diasporas and their Involvement in Future Enlargements of the European Union,* 17-18 July 2006, Canberra - Australia.

King R. (2000) ‚Southern Europe in the changing global map of migration' in King R., Lazaridis G. and Tsardanidis C. (eds.) Eldorado or Fortress? Migration in Southern Europe, London: MacMillan.

Kotzamanis B. (2000) 'Demographic changes and migration movements in the Balkans' in Petrakos (ed.) *The Development of the Balkans*, University of Thessaly Press (in Greek).

Labrianidis L., Lyberaki A. and Hatziprokopiou P. (2003) 'Inflow of migrants and outflow of FDI: Aspects of interdependence between Greece and the Balkans', *Journal of Ethnic and Migration Studies*, May 2003.

Landesmann M. (1995) The pattern of East-West European Integration: Catching up or falling behind? , Paper No 212, *The Vienna Institute for Comparative Economic Studies.*

Lianos T., Sarris A. and Katseli L. (1997) 'Illegal immigration and local labor markets: the case of Northern Greece', *International Migration*, Vol. 34, pp. 449-469.

Lyberaki A. (1996) Greece-EC comparative performance at the National and regional level: Why diverge?, *European Planning Studies*, Vol. 4, pp. 313-329.

Petrakos G. and Christodoulakis N. (1997) "Economic Development in the Balkan Countries and the Role of Greece: From Bilateral Relations to the Challenge of Integration", Discussion Paper Series, No 1620, *CEPR*, University of London.

Petrakos G. (1999) ‘Fragmentation and Conflict or Integration and Cooperation in the Balkans? Options and Strategies of Development for the 21st Century’, *Defensor Pacis*, **3**:77-92.

Petrakos G. (2000) ‘The Spatial Impact of East-West Integration in Europe’ in Petrakos G., Maier G. and Gorzelak G. (eds.) *Integration and Transition in Europe: The economic geography of interaction*, London: Routledge, pp. 38-68.

Petrakos G. and S. Totev (2000) "Economic Structure and Change in the Balkan Region: Implications for Integration, Transition and Economic Cooperation", *International Journal of Urban and Regional Research*, **24**(1):95-113.

Petrakos G. and N. Christodoulakis (2000) “Greece and the Balkans: The Challenge of Integration”, in Petrakos, Maier and Gorzelak (eds.) *Integration and Transition in Europe: The Economic Geography of Interaction*, London: Routledge, pp. 269-294.

Petrakos G. (2001a) ‘Fragmentation or Integration in the Balkans? Strategies of Development for the 21st Century’, in Petrakos and Totev (eds.) *The Development of the Balkan Region*, Aldershot: Ashgate, pp. 219-234.

Petrakos G. and S. Totev (2001) ‘Economic performance and structure in the Balkan region’, in Petrakos and Totev (eds.) *The Development of the Balkan Region*, Aldershot: Ashgate, pp. 3-29.

Petrakos G. and Ch. Pitelis (2001) "Peripherality and integration: The experience of Greece as a member of the EU and its implications for the Balkan economies in Transition", in Petrakos and Totev (eds.) *The Development of the Balkan Region*, Aldershot: Ashgate, pp. 283-316.

Petrakos G. (2002) ‘The Balkans in the New European Economic Space: Prospects of Adjustment and Policies of Development’, *Eastern European Economics,* **40**(4):6-30.

Petrakos G. (2003a) ‘Peripheral European Transitions: The Trade Relations of the Balkan Countries’ *South-Eastern Europe Journal of Economics,* **1**(1): 41-64.

Petrakos G. (2003b) ‘The development of the Balkan region: strategies and policies in a fragmented economic space’ in Christos Kolias and Gulay Gunluk-Senesen (eds.) *Greece and Turkey in the 21st century: Conflict or Cooperation? A Political Economy Perspective*, New York: Nova Science Publishers, pp. 89-101.

Petrakos G., Psycharis Y. and Kallioras D. (2004) ‘Regional inequality in the EU Accession Countries: Evolution and challenges’ in Bradley J., Petrakos G. and Traistaru J. (eds.) *Integration, Growth and Cohesion in an Enlarged European Union*, New York: Springer, pp. 45-64.

Saxenian AnnaLee., 2000. *The New Argonauts,* Harvard University Press

Table 1: Development prospects during the next five years in the EU-15, Central Europe and Southeastern Europe.

Regions or countries	*Strong growth* (5 – 8%)	*Growth* (2 – 4%)	*Stagnation* (0 – 1%)	*Recession* (-2 – 0%)	*Serious recession* (-3 – -6%)
In the European Union (EU-15)	21,3	58,5	19,8	0,4	0,0
In Central Europe (PL, HU, CZ, SL, SK)	34,0	60,1	4,0	1,6	0,4
In South-eastern Europe (AL, B-H, BU, CR, FYROM, GR, SER-M, RO)	12,3	62,7	21,0	2,4	1,6
In Albania	12,3	41,5	36,4	8,3	1,6
In FYROM	12,3	51,6	29,9	4,9	1,2
In Bulgaria	27,8	58,8	9,4	3,1	0,8
In Greece	17,6	66,4	13,6	1,6	0,8

Table 2: The effects of internationalization, privatization and structural change

	Increased significantly	*Increased*	*Same/not affected*	*Decreased*	*Decreased significantly*
On Regional inequalities	22,0	49,4	14,5	12,9	1,2
On Social inequalities	46,2	36,2	3,8	11,5	2,3
On Poverty levels	35,6	36,8	10,3	13,8	2,7
On the Development prospects of the economy	7,0	60,9	12,9	15,2	3,9
On Average citizen income	2,7	31,4	22,5	32,9	10,5
On the Efficient operation of economy	2,8	38,2	24,4	29,1	5,5
On the Efficient operation of public sector	3,1	32,7	30,7	26,4	7,1
On Opportunities for the future generation	12,1	38,7	19,5	21,9	7,8

Table 3: Opportunities arising for the four metropolitan areas in the new environment

	Skopje	*Sofia*	*Thessaloniki*	*Tirana*	***Average Score***
Use wisely European Union funds allocated to the metropolis	43,3%	74,6%	59,4%	67,7%	**61,7%**
Establish better road, train and air connections with the other metropolitan areas in South eastern Europe	51,7%	79,1%	42,0%	50,8%	**55,9%**
Take advantage of EU policies for cities	40,0%	62,7%	50,7%	43,1%	**49,4%**
Establish stable and peaceful relations with neighbouring countries	53,3%	20,9%	43,5%	52,3%	**42,1%**
Use the European experience to design and implement a Master Plan for the development of the city	41,7%	46,3%	33,3%	47,7%	**42,1%**
Use international connections to 'learn' from others and gain know-how	41,7%	38,8%	49,3%	30,8%	**40,2%**
Attract FDI in services, banking and commerce	28,3%	41,8%	30,4%	18,5%	**29,9%**
Export high quality products to international markets	31,7%	25,4%	27,5%	23,1%	**26,8%**
Attract FDI in technology intensive industrial sectors	23,3%	46,3%	26,1%	10,8%	**26,8%**
Establish formal relations with other cities in the Balkan region	15,0%	17,9%	36,2%	21,5%	**23,0%**
Use emigrants as a force of cooperation with other countries and cities	0,0%	4,5%	20,3%	50,8%	**19,2%**
Export cheap products to international markets	35,0%	6,0%	8,7%	29,2%	**19,2%**
Attract FDI in industrial sectors seeking low cost areas	43,3%	7,5%	15,9%	7,7%	**18,0%**
Use residents in Diaspora to establish economic and other links with European cities.	13,3%	4,5%	15,9%	30,8%	**16,1%**
Become a multi-cultural city and use ethnic differences as an asset in the international markets	31,7%	7,5%	14,5%	7,7%	**14,9%**

Table 4: Threats arising for the four metropolitan regions in the new environment

	Skopje	*Sofia*	*Thessaloniki*	*Tirana*	***Average Score***
Inability of local firms to compete with the more experienced international firms	48,3%	76,1%	59,4%	52,3%	**59,4%**
Difficulties to adopt EU institutional requirements	58,3%	74,6%	29,0%	49,2%	**52,5%**
Inability to 'learn' and adjust to the new conditions as fast as necessary	38,3%	64,2%	56,5%	27,7%	**47,1%**
Inability to attract FDI	61,7%	28,4%	47,8%	15,4%	**37,9%**
Large numbers of immigrants from smaller cities and rural areas	28,3%	52,2%	8,7%	53,8%	**35,6%**
A refusal of the EU and international organizations to continue funding	40,0%	9,0%	33,3%	60,0%	**35,2%**
Failure of economic policies and a new recession	60,0%	13,4%	42,0%	26,2%	**34,9%**
Environmental threads by the uncontrolled use of industry	30,0%	26,9%	42,0%	40,0%	**34,9%**
A new political crisis in the country	41,7%	11,9%	10,1%	64,6%	**31,4%**
A new wave of emigrants (skilled, young and educated) leave the city	40,0%	31,3%	5,8%	33,8%	**27,2%**
A new conflict or war in the Balkans	18,3%	6,0%	42,0%	7,7%	**18,8%**
Large number of immigrants from other countries	5,0%	10,4%	42,0%	7,7%	**16,9%**
A gradual reduction of remittances from Diaspora	6,7%	10,4%	8,7%	38,5%	**16,1%**

Table 5: Important policies for the development of the four metropolitan areas

	Skopje	*Sofia*	*Thessaloniki*	*Tirana*	***Average Score***
Technical infrastructure policies (roads, water, sewage, energy telecommunications)	35,0%	80,6%	60,9%	87,7%	**66,7%**
Policies for unemployment, poverty and social exclusion	70,0%	25,4%	49,3%	73,8%	**54,0%**
Policies to attract Foreign Investment	70,0%	37,3%	31,9%	40,0%	**44,1%**
Social infrastructure policies (schools, hospitals, etc)	16,7%	28,4%	42,0%	41,5%	**32,6%**
Policies for the development of human capital (education, vocational training)	28,3%	38,8%	17,4%	12,3%	**24,1%**
Urban planning, land uses, urban renewal, restoration and city marketing	6,7%	40,3%	39,1%	7,7%	**24,1%**
Policies to support SMEs development (finance, know-how transfer, cooperation)	16,7%	13,4%	23,2%	4,6%	**14,6%**
Policies of reorganization and modernization of city management	15,0%	19,4%	13,0%	4,6%	**13,0%**
Policies for the restructuring and modernization of the private sector	16,7%	7,5%	2,9%	12,3%	**9,6%**
Policies for culture, tourism, amusement, entertainment and free time	11,7%	9,0%	11,6%	4,6%	**9,2%**
Privatization policies	13,3%	0,0%	0,0%	10,8%	**5,7%**

Table 6: Implications of migration movements in the new environment
Opportunities related to migration movements in the new environment

	Skopje	*Sofia*	*Thessaloniki*	*Tirana*	***Average Score***
Use international connections to 'learn' from others and gain know-how	41,7%	38,8%	49,3%	30,8%	**40,2%**
Use emigrants as a force of cooperation with other countries and cities	0,0%	4,5%	20,3%	50,8%	**19,2%**
Use residents in Diaspora to establish economic and other links with European cities.	13,3%	4,5%	15,9%	30,8%	**16,1%**
Become a multi-cultural city and use ethnic differences as an asset in the international markets	31,7%	7,5%	14,5%	7,7%	**14,9%**

Threats related to migration movements in the new environment

	Skopje	*Sofia*	*Thessaloniki*	*Tirana*	***Average Score***
A new wave of emigrants (skilled, young and educated) leave the city	40,0%	31,3%	5,8%	33,8%	**27,2%**
Large number of immigrants from other countries	5,0%	10,4%	42,0%	7,7%	**16,9%**
A gradual reduction of remittances from Diaspora	6,7%	10,4%	8,7%	38,5%	**16,1%**

Important policies related to migration movements in the new environment

	Skopje	*Sofia*	*Thessaloniki*	*Tirana*	***Average Score***
Policies to attract Foreign Investment	70,0%	37,3%	31,9%	40,0%	**44,1%**
Policies for the development of human capital (education, vocational training)	28,3%	38,8%	17,4%	12,3%	**24,1%**
Policies to support SMEs development (finance, know-how transfer, cooperation)	16,7%	13,4%	23,2%	4,6%	**14,6%**