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Balkans and Europe: Identifying spatial development dimensions

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Abstract

The perspective of the Balkan countries' integration in the economic and political space of the enlarged EU necessitates the unification of the Balkan space, through the unification of the areas' spatial development axes. This fact is of major significance since the economic integration process in the Balkans does not have a discrete spatial dimension, phenomenon being in contrast to the respective one that takes place in Western Europe. This absence derives from political and historical reasons and is enforced by the creation of social diversifications in the Balkan countries' internal environment. Furthermore, the implemented policies, especially in the last 15 years, have proved to be incompatible to the solution of the spatial integration problem.

The purpose of this article is to investigate the level of the areas' spatial integration process, to audit the main problems of this process and to propose specific development policies in order to confront these problems.

Key- words: spatial integration, development policies, Balkans

JEL: R10, R11, R58

Economic and spatial integration in western Europe

Western European countries have faced a variety of economic and social changes, especially the last thirty years. Since the '70s, but mainly in the '80s, particular types of economic agglomerations were developed in European regions (Petraikos, 2000:186-212; Thisse, 2000). These agglomerations were closely connected to new technologies and to new production intensive sectors that affect the consumers, the enterprises, the localities and the

states, through the creation of a 'New Economy' type. This 'New Economy' was characterized by the development of the services industries (banking, insurance and market services) [Champion^{1, 2, 3}, the operation of flexible production systems and flexible accumulation strategies of capital⁴, the rapid development of innovation as one of the main factors of enterprises' and regions'/ cities' competitiveness^{5, 6}.

With the establishment of the Single European Market and the increase of cities' competition phenomenon in Europe^{7, 8, 9, 10}, several attempts have taken place to map the changing economic space of Europe in the level of cities¹¹. Especially in the '80s, these studies focus their analysis on the definition of new urban hierarchies, by using a variety of traditional economic indicators (GDP, unemployment, production structure, etc)^{12, 13}.

These studies constitute a first attempt considering some of the theoretical and conceptual problems associated with the construction of composite indicators designed to measure spatial economic and social differences. The analysis focused on the development of a methodology that measures the comparative incidence of urban problems in the largest 117 Functional

¹ T. Champion, J. Mønnesland and C. Vandermotten, 'The Regional Map of Europe', *Progress in Planning*, vol. 46, 1996, pp.1-89

² M. Pohjola, 'The New Economy: facts, impacts and policies' *Information Economics and Policy*, vol.14, 2002, pp.133-144

³ H.Siebert, 'The New Economy – What is really new?', Kiel Institute Working Paper, no. 1000, 2000

⁴ S. Borrás-Alomar, T. Christiansen, and A. Rodríguez-Pose, 'Towards a Europe of the Regions? Visions and Reality from a critical perspective', *Regional Politics and Policy*, vol. 4(2), 1994, pp.1-27

⁵ A. Kangasharju, and P.Nijkamp, 'Innovation dynamics in space: local actors and local factors', *Socio-Economic Planning Sciences*, vol. 35(1), 2001, pp.31-56

⁶ J. Simmie., Trading Places: Competitive cities in the global economy, *European Planning Studies*, vol. 10(2), 2002, pp. 201-214

⁷ P.C. Cheshire, 'Explaining the Recent performance of the European Community's Major Urban Regions' *Urban Studies*, vol. 27 (3), 1990, pp. 311-333

⁸ P.C Cheshire and P.I. Gordon, 'Territorial Competition and the predictability of collective (in)action' *International Journal of Urban and Regional Research*, vol.20, 1996, pp.383-399

⁹ F.W. Lever, 'Competitive Cities in Europe', *Urban Studies*, vol.36 (5-6), 1999, pp.1029-1044

¹⁰ F.W. Lever, and I. Turok, 'Competitive Cities: Introduction to the review' *Urban Studies*, vol.36 (5-6), 1999, pp.791-793

¹¹ P.J Taylor and M. Hoyler, 'The spatial order of European Cities under Conditions of Contemporary Globalisation', *Tijdschrift voor Economische en Sociale Geografie*, vol. 91(2), 2000, pp. 176-189

¹² P.C. Cheshire, G. Carbonaro and D.G. Hay 'Problems of urban decline and growth in EEC countries: or measuring degrees of elephantness' *Urban Studies*, vol. 23, 1986, pp. 131-149

¹³ P.C Cheshire and S. Magrini, 'Evidence on the impact of territorially competitive policy and the role of transactions costs in conditioning collective (in) action', *Research Papers in Environmental and Spatial Analysis*, no.57 (dept. of Geography and Environment, London School of Economics), 1999

Urban Regions (FURs) of the European Community (EC). The results showed that between the 70's and the 80s' the most competitive cities were the administration poles (Brussels, Strasbourg, Bonn) and a number of cities in Germany, Denmark and Northern Italy, joined with a small number of cities which benefited mainly from the development of tourism (Venice, Palma, Brighton). In the '90s, the studies focus on the use of soft indicators (quality of life, leisure, growth promotion policies)^{14, 15, 15}, recognizing the significance of these factors on cities development and competitiveness.

Generally, the spatial integration process can be seen as an all -encompassing concern, presenting obvious links with criteria such as geographical position, economic strength and social integration, and also with other research fields like the concept of European Functional Urban Areas (EFUAs), or Functional Urban Regions (FURs). Spatial integration certainly deserves an in-depth conceptual analysis. The clarification of concepts and methodological development has been fuelled by exploratory studies in three fields: flows and barrier effects, spatial homogeneity and discontinuities, and co-operation between spatial entities. The studies identify various spatial patterns according to topic and scale, such as the effect of national borders on goods flows, and the relative decrease in wealth differences between countries rather than within them. Differences between regions provide opportunities for trade and exchanges and can create flows between them. Flows can reduce spatial differences as well as increase them. This is a challenge for the European integration project, and pinpoints the importance of cooperation between spatial entities in order to achieve balanced spatial integration. It also underlines the necessity of *comprehending the issue of spatial integration simultaneously at several different geographical levels and on different domains, keeping in*

¹⁴ C.Wong, 'Determining Factors for Local Economic Development: The Perception of Practitioners in the North West and Eastern Regions of the UK', *Regional Studies*, vol.32 (8), 1998, pp. 707-720

¹⁵ R.J Cuadrado-Roura and L.Rubalcaba-Bermejo L., 'Specialisation and competition amongst European cities: A new approach through fairs and exhibitions activities' *Regional Studies*, vol. 32 (2), 1998, pp. 133-147

*mind the numerous factors that play a role - from physical and cultural distances to political and administrative structures*¹⁶.

One of the most characteristic spatial images of cities in Europe is the so-called 'dorsal' or 'blue banana' (figure 1), first mapped before the coming down of the Berlin Wall in the study for the French regional planning authority DATAR¹⁷. This study concerned 165 European cities, characterizing by the dominant axis from London to Milan ('the blue banana'), including the cities of the Randstad and the West Germany, but excluding Paris and most of France.

-----[Insert Figure 1 around here] -----

As locational advantage spread southwards, the Mediterranean axis – the 'golden banana' developed from Barcelona to Milano¹¹. In France, an "L" Arc Nord Est was defined, a 'French banana' promoted by the government to counter German economic influence¹³. A relevant study of European cities' ranking concerning their position to the western European urban hierarchical system was presented from the EU¹⁸ for central and capital city regions – where the differentiation of development between the urban economies of European north in relation to the ranking lowness economies of the European south is something very obvious.

According to Lever¹¹, the enlargement of the European Union has suggested a third corridor- somewhat unkindly called the 'grey banana'. This spatial structure of competitive Europe has described by van der Meer¹⁹. The 'blue banana' remains the core economy based on science, technology and innovation. However, this will be integrated in a larger system of

¹⁶ Study Programme on European Spatial Planning, Nordregio, 1999, pp 14-15

¹⁷ DATAR, (1989) '*Les Villes Europeenes*', Montpellier: *Maison de la Geographie*' in W.F. Lever 'Competition within the European Urban System' *Urban Studies*, vol.30 (6), 1993, pp. 935-948

¹⁸ EU, 'EUROPE 2000 The perspective development of the 'Central and Capital City Regions', final report to the Commission of the European Communities Directorate-General for Regional Policies-DG XVI, 1994

¹⁹ L. Meer van der, 'The Red Octopus' in: W. Blass (eds) '*A New perspective for European Spatial Development Policies*', 1998, pp. 9-26, Aldershot: Ashgate

axes expanding to northern, eastern and southern parts of Europe. Under this option, the traditional urban centers of Europe are combined and linked with other regions and cities. This van der Meer calls the 'Red Octopus' (figure 2).

In the 'Red Octopus' the number of the 'islands of innovation' has almost doubled. New islands of innovation connected with the ten traditional islands Copenhagen, Berlin, Warsaw, Vienna, Beograd, Budapest, Roma, Barcelona and Madrid, with intermediate agglomerations/regions, specialized in distinctive economic and innovative sectors, such as Hamburg, Braunschweig-Gottingen, Poznan, Salzburg-Linz etc¹¹.

-----[Insert Figure2 around here] -----

The sub-title of "Red Octopus" is: *A European Spatial Cohesion Scenario*. Basically, van der Meer²¹ tries to combine the EU's policy goals with some trends and research results (from other research initiatives of the Commission), into a planning scenario, which is politically oriented and comprised of the following elements:

- achieving socio-economic cohesion: creating a better balance between peripheral regions in central regions,
- making Europe more competitive by connecting poor and rich regions and making use of endogenous potentials in the outer-regions,
- developing new markets in Eastern Europe, where economies are catching-up quite fast (Poland, Czech, Hungary),
- using Trans European Transit Networks as catalysts for development focused on the outer-regions,
- directing overspill from the central European conurbation to new corridors,
- making use of corridor-developments already existing and developing,

- using the growing political and economical power of city-regions and regional cooperation,
- aiming at the development of new islands of innovation (i.e. European centers of research and technology).

The spatial organization of Europe according to the RED OCTOPUS SCENARIO can be imagined on the MAP of EUROPE 2046.

By ending this section we could support that, the last thirty years and especially the '90s were an eventful period for Europe in the field of political, economic and spatial integration. In Western Europe, the process of integration within the EU deepened with the introduction of the Single Market, the entry of three new members (Austria, Finland, and Sweden), and finally the formation of the EMU²⁰. At the same time, the policies of transition in countries of Central and Eastern Europe (CEE) have released economic forces that have left a permanent mark on the continent by opened up to trade with Western European countries, and several of them concluded association agreements (Europe Agreements) with the EU¹. Economic stability and sustainable economic growth consists a precondition for the long-term political stability also for the countries of South-Eastern Europe (SEE)²¹. Especially in the case of the Balkan region, the processes of integration and transition face great difficulties, since the region is characterized by unfavorable structural adjustments²² and certain special characteristics in relation to the other countries of Central and East Europe²³.

The spatial discontinuity of the Balkans.

²⁰ J. Fidrmuc, and J. Fidrmuc J., Integration, Disintegration and Trade in Europe: Evolution of Trade Relations during the 1990s', *Working Papers Series*, Oesterreichische Nationalbank, Wien, 2000, no. 42

²¹ V. Samardzija, 'Economic recovery and integration of south-eastern Europe into the EU: A Croatian view', *South-East Europe Review*, 1999, pp. 19-28

²² G. Petrakos G. and S. Totev S, Economic Performance and Structure in the Balkan Region, in *Petrakos G. and Totev S. (eds): The Development of the Balkan Region*, 2000, London: Ashgate, pp. 3-29.

²³ A. Kotios, European Policies for the Reconstruction and Development of the Balkans, in *Petrakos G. and Totev S. (eds): The Development of the Balkan Region*, Aldershot: Ashgate, 2001, pp. 235-280.

Already from the era of the Roman Empire, Balkan Region is Europe's most destabilized area. Wars of liberation and national revolutions in the Balkans brought into conflict nations, religions and civilizations, causing large waves of population migrations and furious ethnic and religious animosities. Only in the twentieth century, seven great wars took place in the Balkans²⁴, having as their motive the "unsettled national issues" i.e. the creation of ethnically homogeneous nations-states. Especially the Yugoslav War destabilized (even more) the Balkan Region and sent shock-waves worldwide²⁵.

Historically, two "Balkans" can be discerned: the first one consists of the area of the former Yugoslavia (Serbia, Montenegro, Croatia, Slovenia, Bosnia and Herzegovina, Kosovo, FYROM) which has been developed as a unique economic space until the Yugoslav War, and the second one encompasses the other countries (Greece, Albania, Bulgaria, Romania) which were separated during the Cold War era²⁷. Of course, in the Balkans there is always a problem with definitions: how people define themselves and how they defined by others²⁶. The fear that the "Iron Curtain" in Europe will be replaced by a "Golden Curtain" between the rich and the poor countries has already motivated Slovenia in a flight from the Balkans²⁷.

Having such a legacy of disintegration, the Balkan Region has begun to discover its chances to link its growth prospects with the process of the enlarged EU integration. With the exception of Greece, the Balkan countries are still in transition participating, each one at a different pace²⁸, in the new European structures being shaped after the collapse of the bi-polar world²⁵. The old structures of internal economic organization and external economic relations

²⁴ The first and the second Balkan War, the first and the second World War, the Greco-Turkish War, the Greek Civil War and the Yugoslav (series of) War(s).

²⁵ P. Simic, Do the Balkans exist? in *Triantaphyllou D. (ed): The Southern Balkans: Perspectives from the Region*, Chaillot Paper, 2001, n. 46.

²⁶ V. Gligorov, M. Kaldor and L. Tsoukalis L., Balkan Reconstruction and European Integration, *Meeting on the Balkans Follow-Up LSE and WIIW Survey*, Vouliagmeni (08–10/07/1999).

²⁷ The first highway in former Yugoslavia (the Vrhnika–Postojna highway in Slovenia, in the early '70s) was not built on the main route leading from Austria and Italy via Slovenia, Croatia, Serbia and FYROM towards Greece and Bulgaria, but on the route between Austria and Italy, countries with which Slovenia had (and still has) intense economic relations (Simic, 2001:25).

²⁸ Bulgaria and Romania managed to be acceded in the European Union (EU) context following the successful paradigm of Greece.

have collapsed while new economic, political and institutional structures have been, often forcefully and painfully, in the making²⁴.

A review of the Balkans spatial development, however, leads to the major conclusion that natural, normal and rational spatial development is absent^{29, 30, 31}. In addition to its “unfavourable geography” (concerning the European core), the Region is characterized by high degree of fragmentation, comprising of many (relatively small) countries having poor economic interaction^{32, 33}. This fact is of major significance since in the Western European area the European economic integration process has taken a discrete spatial dimension (as discussed above)³⁴. As historical and political divides are being removed in Europe and a new economic geography emerges, with several open questions concerning the Region’s economic and structural characteristics (Petraokos, 2001a), the elimination of the Region’s spatial discontinuity is going to enforce the interaction and integration between its sub–regions, strengthening its stability³⁵.

The present economic geography status in the Balkans reveals the discontinuity of the Balkan countries’ axes of development since the areas’ economic map does not reveal any continuum of concentration of people and activities³⁶. Map 1 presents the population density of the area at the NUTS III spatial level as a percentage of the national average (=100), for the

²⁹ M. Uvalić, , European Economic Integration: What Role for the Balkans, in *Bianchini S. and Uvalić M. (eds): The Balkans and the Challenge of Economic Integration - Regional and European Perspectives*, Ravenna: Longo Editore, 1997, pp. 19-34.

³⁰ G. Petraokos G. and D. Economou D., The Spatial Aspects of Development in South–Eastern Europe in *Petraokos G. and Liargovas P. (eds): Regional Development and Cross-Border Co-operation in Southeastern Europe*, Volos: SEED Center, University of Thessaly Press, 2003, pp. 13-42.

³¹ This basic picture is supported by reports for Albania (Petraokos, 1996), Bulgaria (Minassian and Totev, 1996; Petraokos, 1996) and Romania (RAMBOLL Consulting Group, 1996; Constantin 1997).

³² G. Petraokos G., The Spatial Impact of East–West Integration in Europe in G.Petraokos, G. Maier G. and G. Gorzelak (eds): *Integration and Transition in Europe: The Economic Geography of Interaction*, London: Routledge, 2001a, pp. 38-68.

³³ G. Petraokos G., The Balkans in the New European Economic Space: Problems of Adjustment and Policies of Development, *Eastern European Economics*, vol. 40 (4), 2002, pp. 6-30.

³⁴ In the scientific bibliography the Western European spatial pattern of development has been characterized as “banana”, “blue star”, “green grape” and “house with seven apartments” (Nijkamp, 1993).

³⁵ A. Kotios, European Policies for Regional and Cross Border Economic Co–Operation in Southeastern Europe, in *Petraokos G. and Liargovas P. (eds): Regional Development and Cross Border Cooperation in Southeastern Europe*, Volos: SEED Center, University of Thessaly Press, 2003a, pp. 149–179.

³⁶ High population densities are not always accompanied by large amount of economic activities with Kosovo being the most characteristic case.

year 2004. The conclusions of a research made previously by Petrakos and Economou³² are completely verified as the (relatively) low population densities in the border zones still exist, continuing to constitute the Balkan Region the most fragmented space in Europe. The Athens–Thessaloniki axis of development in Greece practically has no immediate communication with the Sofia–Varna (Black Sea) axis of development in Bulgaria, the Skopja–Bitola axis of development in FYROM and the Tirana–Shkodra (coastal) axis of development in Albania³⁷. Romania has not a discrete main axis of development on the basis of the concentration of population while the former Yugoslav countries are still trying to develop some kind of economic activity. Map 2 depicts of the spatial development axes of the Balkan countries, showing this somehow chaotic situation.

----- *[Insert Figure 3 around here]* -----

-----*[Insert Figure 4 around here]* -----

Combined with (or caused by) the implemented protective international trade policies, the discontinuity of the Balkan space has contributed to the poor level of intra–regional trade preserving the tendency of the lack of closer regional integration³⁸. Figures 5 and 6 present the data concerning trade flows (imports and exports, respectively) among the Balkan countries, for the year 2003. More specifically, the total exports of each Balkan country going to other Balkan countries are provided in the first column (corresponded to each country), whereas the total imports from other Balkan countries to each Balkan country are provided in the second column (corresponded to each country). Emphasizing on this rather unpleasant

³⁷ An exception to this general rule is the Alexandropolis–Burgas (- St. Petersburg) highway.

³⁸ D. Kyrkilis and E. Nikolaidis E., Regional Integration in Southeastern Europe in G. Petrakos., A. Kotios and D. Chionis (eds): *International and Monetary Aspects of Transition in Southeastern Europe*, Volos: SEED Center, University of Thessaly Press, 2003, pp. 269-282.

situation, Petrakos³⁹, presenting data for the intra-regional trade of other European Regions, stressed the fact that the level of intra-Balkan trade is extremely low comparing to the respective level of Western Europe. Furthermore Jackson and Petrakos⁴⁰ have shown, through the use of an econometric gravity model, that the Balkan Region has the most distorted regional distribution of trade.

-----[Insert Figure 5 around here] -----

-----[Insert Figure 6 around here] -----

Regional cooperation in the Balkans (and in any given region) is the outcome of the interplay between external factors and internal dynamics. The first refers to the extra-regional environment, which favours and facilitates regional cooperation by a range of mechanisms and is particularly important in cases of conflictual, developing and aid-dependent societies like those in the Balkans. The second refers to the existence of a consensus among local actors on the importance of regional cooperation, their willingness and ability to identify initiatives of common and mutual interest, which will translate to common projects⁴¹.

The intra-Balkan spatial integration has been recognized (on behalf of the EU and other international organizations) as sine qua non in the process of the Region's economic integration with the EU. This is exactly the thinking behind the Stability Pact announced at the European Council in Cologne (10/06/1999), in an effort to offer a way out of the Balkans vicious cycle of disintegration. The Stability Pact offers a framework for dialogue and a

³⁹ G. Petrakos G., Fragmentation and Conflict or Integration and Cooperation in the Balkans? Options and Strategies of Development for the 21st century, *Defensor Pacis*, vol. 3, 1999, pp. 77–92.

⁴⁰ M.Jackson and G. Petrakos G., Industrial Performance under Transition: The Impact of Structure and Geography in G. Petrakos and S. Totev (eds): *The Development of the Balkan Region*, Aldershot: Ashgate, 2001, pp. 141–174.

⁴¹ O. Anastasakis and V. Bojicic-Dzelilovic, *Balkan Regional Cooperation and European Integration*, London: LSE Hellenic Observatory, 2002.

channel for action on behalf of the Balkan countries, being the expression of the international concept for coherent and integrated global policies to support peace, freedom, stability, reconstruction and development in the Balkans^{42, 43, 44}. Through intensification of regional and cross-border economic co-operation the Balkan countries could expect more intra-regional market integration, increasing returns and economic growth^{45, 46}. Unfortunately, intra-regional tensions and conflicts have not led things yet on the desired direction.

Concluding remarks and policy recommendations

Through an intensification of regional co-operation the Balkan states could expect more intra-regional market integration, increasing returns and economic growth⁴⁸. The implied regional increase in trade and investments can enforce dispersion of ideas, know how and technology and greater understanding between people. Finally it can support political co-operation and contribute to political stabilisation in the region. Further expected effects of regional co-operation in SEE could be the promotion of spatial integration and revitalisation of remote areas as well as more employment and better social development in these areas.

It is argued that the prevailing fragmentation (in an economic, political and spatial sense) and conflict in the SEE region, as well as the existing ethnic rivalry and regional instability

⁴² There is an analogy with the EU phrase about “stability and growth pact”, which designates the agreement that if in the euro-zone a government runs a fiscal deficit of above 3% of respective country’s GDP, it must be fined up to 0,5% of its GDP. The Stability Pact for the Balkans lacks such a strong “enforcement treat” but it contains a treat of anticipated humiliation of a country (leadership, politicians) that fails to demonstrate its commitment to the Pact’s values. In a sense, the Stability Pact for the Balkans enforcement mechanism is more rooted in the political ritual rather than political decision-making (Dimitrov et al, 2002).

⁴³ G. Petrakos, Fragmentation or Integration in the Balkans? Strategies of Development for the 21st Century, in G. Petrakos and S. Totev. (eds): *The Development of the Balkan Region*, London: Ashgate, 2001b, pp. 219-234.

⁴⁴ A. Kotios, Strategies for Regional Integration and Cross Border Economic Co-operation in Southeast Europe in A. Defner., D. Konstadakopoulos and Y. Psycharis (eds): *Culture and Regional Economic Development: Cultural, Political and Social Perspectives*, Volos: University of Thessaly Press, 2003b, pp. 183-215.

⁴⁵ D. Gros and N. Whyte, *An Economic System for the Post-War South Eastern Europe*, Brussels: CEPS, 1999.

⁴⁶ S. Totev S., Economic Performance and Structures of South Eastern European Countries – Albania, Bulgaria, FYROM and Greece, *Paper prepared for the final report of the Project P97 – 8196 – R: Overcoming Isolation: Strategies of Development and Policies of Cross-Border Co-Operation in Southeastern Europe after Agenda 2000, 2001.*

are major factors that impede investments, trade, structural changes, economic reforms and growth^{45, 47}. Further obstacles for lacking regional economic integration in SEE are insufficient or to some extent incompatible cross border infrastructure networks, different economic structures and development levels, the "balkanisation" of regional trade relations ("multiple regional and sectoral trade regimes") and trade barriers, insufficient trade supporting services (e.g. financing and insurance of foreign trade, custom services), political uncertainties and political risks concerning investment activities, currency risks, different institutional and administrative frameworks etc⁴⁸.

In order to achieve the advantages of regional economic integration the SEE region needs active relevant policies and initiatives. These policies and initiatives should aim at:

- Building connected and compatible cross border networks and linkages
- Promoting common projects in the field of energy, environment, telecommunication
- Liberalisation of external economy for trade in goods and services, capital movement, foreign investments and persons
- Creating facilities for the promotion of trade and investment (e.g. Border crossing, custom offices, Free Trade Areas, Free Investment Zones)
- Institutional proximity
- Closer co-operation between regional bodies and between private organisations
- Transfer of experience and know how
- Financial and technical assistance to the countries and the enterprises etc.

⁴⁷ M. Jackson, "Politics and Transition Lags in South Eastern Europe: Will, Ability, or Possibility", paper presented for the final report of the project, P97-8196-R, *"Overcoming Isolation: Strategies of Development and Policies of Cross-border co-operation in South-eastern Europe after Agenda 2000"*, 2001.

⁴⁸ S.Totev, G. Petrakos, T. Slaveski, I. Gedeshi and M. Boyadjieva, "The Possibilities and Barriers for Economic Relations Between Enterprises in Neighbour Countries-Policies for Cross-Border Co-operation", paper presented for the final report of the project, P97-8196-R, *"Overcoming Isolation: Strategies of Development and Policies of Cross-border co-operation in South-eastern Europe after Agenda 2000"*, 2001.

Because of their urgent needs, the costs of system transformation and the mentioned political problems, the SEE transition countries were not very reluctant and may be not able to provide the "public good" regional integration sufficiently. This is the reason why the European Union and some other donor countries, international institutions and organisations are called to contribute essentially to the enforcement of regional integration and cross border co-operation in this area of Europe.

Recent analysis has indicated that regional initiatives and European policies in the '90s were not sufficient to promote effectively regional integration in SEE⁴⁶. On the contrary, after the War in Kosovo the European Union supported by other countries and relevant international institutions and organisations has developed a new comprehensive strategy to support regional and cross border co-operation in the SEE region. The main instruments of this new strategy are the Stability Pact for SEE and the Association and Stabilisation Process for the integration into European structures of the Western Balkan countries. Both instruments include concrete policies and programs for market integration, cross border infrastructure and new regional institutions. Through a quick and effective implementation of the new policies and programs regional integration and cross border co-operation will be significantly boosted.

The process of regional integration and could be accelerated and enforced through further policies and measures like:

- Contribution to a diplomatic solution of the remaining political problems in the region (e.g. in FYR of Macedonia, in Kosovo and in Bosnia-Herzegovina).
- Improvement of regional trade integration through the creation of "SEE Free Trade Area" (SEE-FTA) as a first best solution, or the accession of all SEE countries to CEFTA as a second best solution, instead of creating a complicated network of bilateral free trade agreements.

- Support of regional monetary integration to avoid competitive devaluations and free up long-term capital movements. Instead of having different exchange rate regimes, the SEE countries could either bind their currency exchange rates to the Euro through a "Currency Board", or in co-operation with EU they could agree to replace their national currencies by Euro ("Euroization")⁴⁹.
- Enhancement of Stabilisation and Association Process by signing SAAs with all countries of the region and accession to WTO of the three non-member countries.
- Increase of financial assistance for cross border networks especially in the neglected fields of energy, water and telecommunications and for the creation of new cross border infrastructures (e.g. Free Trade Zones and Free Investment Areas in border regions).
- Harmonisation of national regimes in the fields of taxation, capital movement, customs, company and competition law, technical standards, state enterprises and state subsidies, movement of persons etc. It can be achieved smoothly through the progressive adoption of "acquis communautaire" in the framework of accession partnership with Bulgaria and Romania and in the framework of the SSAs with the countries of Western Balkans.

The successful implementation and the effectiveness of the introduced and proposed measures for regional integration and cross border co-operation depend decisively on the attitude of the SEE countries concerning these forms of promoting economic co-operation and development in SEE. All the countries of the region have to realise that their peaceful co-existence and economic prosperity can be provided by an extended regional political and economic co-operation. The main instruments to obtain this objective are market integration and cross border co-operation.

⁴⁹ A. Kotios, A., "Southeastern Europe and the Euro Area: The Euroization Debate", paper presented at the International Conference on "*Restructuring, Stability and Development in Southeastern Europe*", organized by the South and East European Development Center, University of Thessaly, 1-3 June 2001, 2001b, Volos, Greece.

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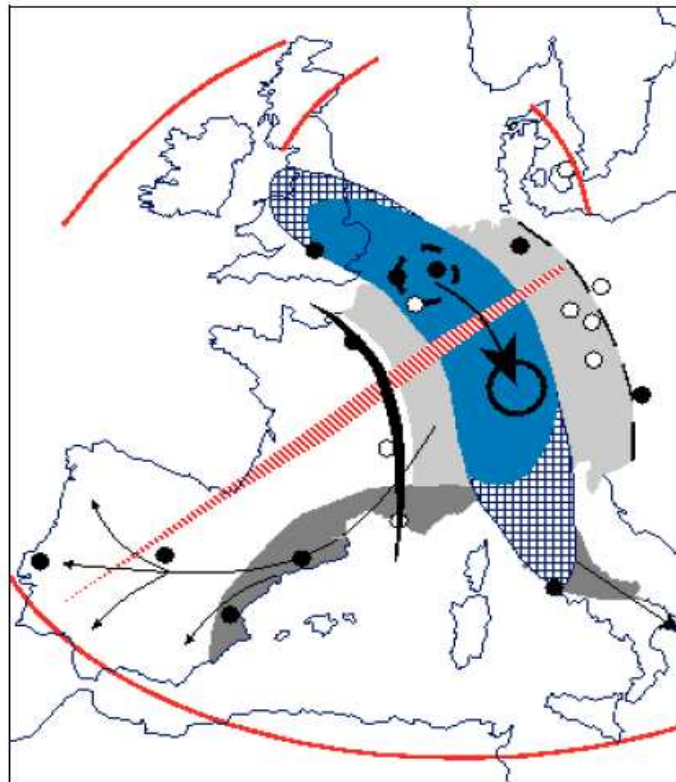
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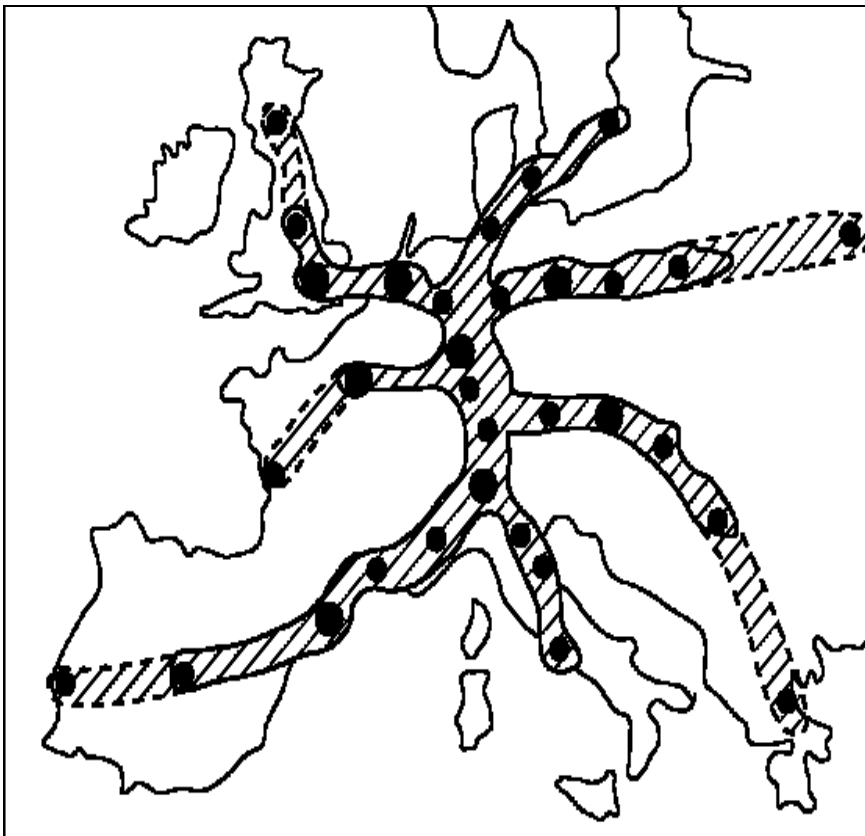
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Figure 1: The 'Blue Banana'



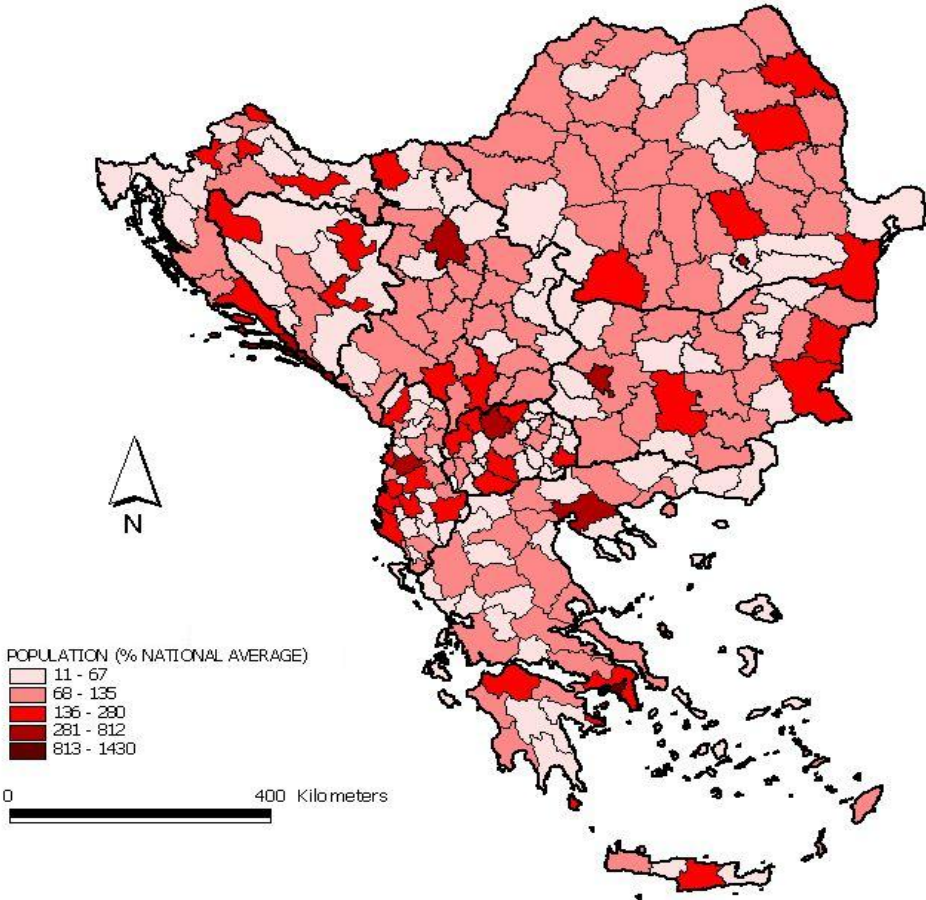
Source: Nordregio (2003) [Territorial Effects of Structural Funds]

Figure 2: The 'Red Octopus'



Source: van der Meer (1998) in Lever (1999)

Figure 3: Population Density (inhabitants / sq. km) in NUTS III spatial level as a percentage (%) of national average (=100), year 2000.



Sources: SEED Center Database – Authors’ Elaboration.

Figure 4: Balkan Countries' Spatial development patterns

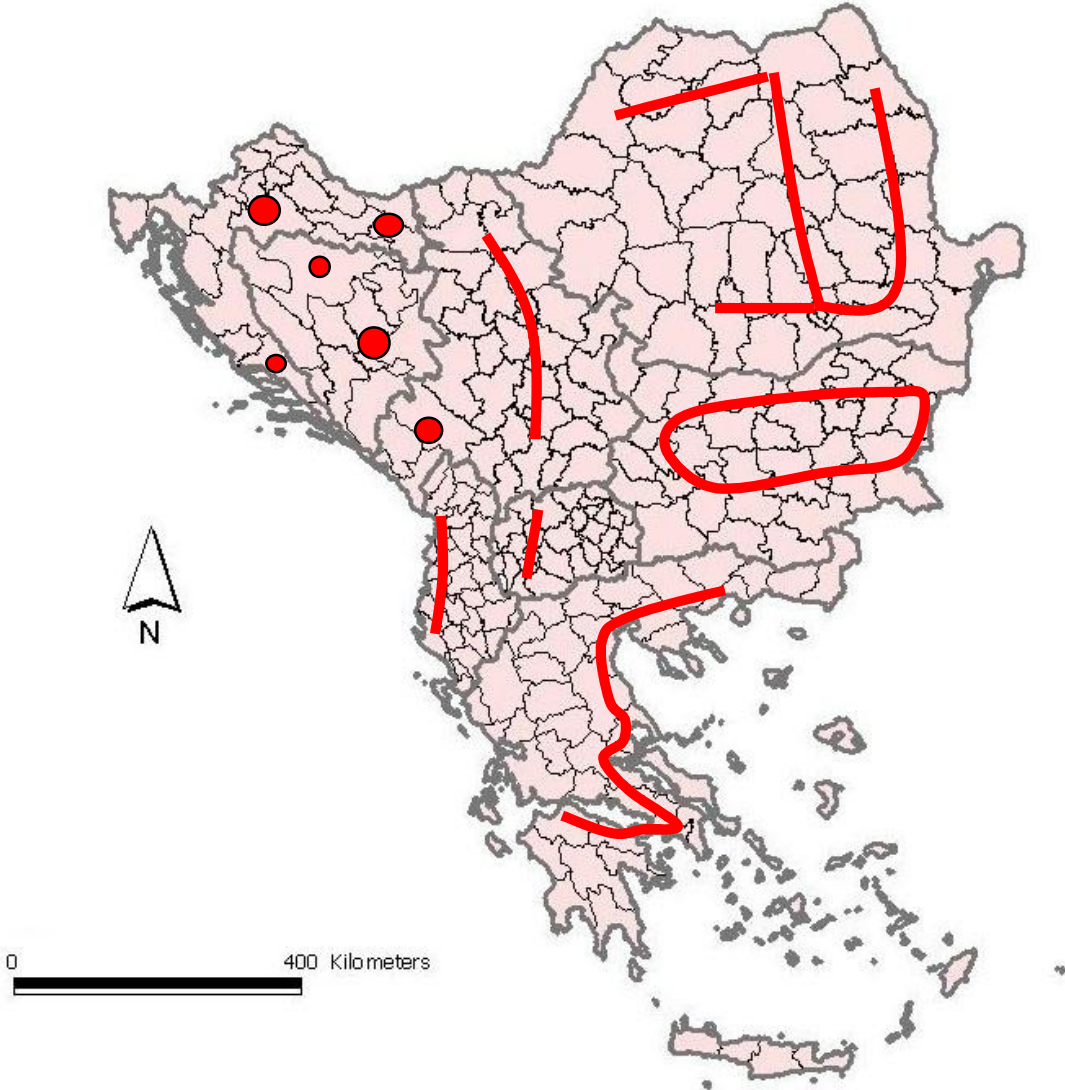


Figure 5: Intra –Balkan trade (exports as percentage (%) of total), year 2003

Exports to →	Albania	Bosnia	Bulgaria	Croatia	FYROM	Romania	Greece	Serbia	Non-Balkan countries	TOTAL
Albania		n/a	n/a	0.1	0.6	n/a	12.6	2.5	84.2	100.0
Bosnia	0.1		0.2	18.2	0.8	n/a	0.1	n/a	80.6	100.0
Bulgaria	0.4	0.1		0.6	2.0	3.0	9.6	3.9	80.4	100.0
Croatia	0.4	14.5	0.4		1.1	0.3	0.6	n/a	82.7	100.0
FYROM	1.3	1.7	1.9	4.9		0.1	13.3	27.1	49.7	100.0
Romania	0.1	0.1	1.6	0.7	0.1		2.4	0.9	94.1	100.0
Greece	2.7	n/a	6.3	0.4	2.8	2.6		1.9	83.3	100.0
Serbia	0.9	n/a	1.8	n/a	n/a	1.6	5.4		90.3	100.0

Source: IMF Data – Authors' Elaboration

Figure 6: Intra –Balkan trade (imports as percentage (%) of total), year 2003

Imports from →	Albania	Bosnia	Bulgaria	Croatia	FYROM	Romania	Greece	Serbia	Non-Balkan countries	TOTAL
Albania		0.1	2.2	1.5	0.8	0.8	19.9	2.5	72.2	100.0
Bosnia	0.0		0.3	24.5	0.6	0.5	0.5	n/a	73.6	100.0
Bulgaria	0.0	0.0		0.3	0.2	2.4	6.5	0.3	90.3	100.0
Croatia	0.0	1.6	0.3		0.5	0.9	0.5	n/a	96.2	100.0
FYROM	0.3	0.2	7.5	3.4		0.6	17.4	9.2	61.4	100.0
Romania	n/a	0.0	0.9	0.1	0.0		1.3	0.1	97.6	100.0
Greece	0.0	0.1	0.9	0.2	0.2	1.0		0.2	97.4	100.0
Serbia	0.2	n/a	4.7	n/a	n/a	2.9	4.4		87.8	100.0

Source: IMF Data – Authors' Elaboration

