METU Studies in Development, 41 (December), 2014, 297-322

The Economic Crisis of 2008: Reproduction of the Core-Periphery Relations between the European Core and the Balkans

İnan Rüma
İstanbul Bilgi University, Department of International Relations
e-mail:inan.ruma@bilgi.edu.tr

Abstract

The 1990s were marked with the transition process that aimed to transform the central command economies to liberal free market economies and the single party regimes to multiparty democracies. The result has been mostly the reproduction of the peripheral characteristics of the Balkans. The shortcomings of the process have been asserted as if the deficiencies were local and hence the Balkan countries were to blame for it. Few could predict that the core would be in crisis. The 2008 crisis in the core directly affected the periphery - the Balkans - where GDP decreased and unemployment and budget deficits rose up. Following a decade of destruction through violence and a decade of destruction in the name of neo-liberalism, the Balkan region has once again been experiencing peripheralisation. This study attempts to examine the way in which such a reproduction of the peripheralisation occurred.

Keywords: Political economy, Balkans, transition, crisis, core-periphery.

1. Introduction

"… [Between the end of war and economic crisis] most states in the Balkans opted to rebuild by rejoining the liberal international economy. They established independent central banks, joined the gold standard and tried to attract foreign investors by keeping budgets tight and repaying their debts. French, British and American funds poured into the region. However, international capitalism was a hard task-master…" (Mazower, 2000: 128.)

The Balkans have often been perceived as the periphery of Europe. In the late pre-modern period and early modern period, it was the common periphery of

Ottoman and Habsburg Empires, beginning with 16th century (Lampe and Jackson, 1982: 578). As a matter of fact, it can be said that at each stage, the newly independent Balkan states had seen the day with the claim of being a core European state, no matter if it was Serbia of 1878 or Slovenia of 1991. The eventual fate seems as post-pessimist despair as of March 2014, since the effects of the global economic crisis are still creating pains in the region, both in terms of macro-economic indicators and mere human life.

In the quotation above, the war and the crisis that Mazower mentioned is not the Cold War and 2008 economic crisis. Notwithstanding its striking similarity to these later events, it refers to the I. World War and 1929 crisis. Indeed, Mazower's analysis concluded, also concerning the contemporary period, that the main threat to Balkan nation-state has come from the international economy, which ended "the old idea of socioeconomic transformation through the domestic policies of the individual state" (Mazower, 2000: 143). This has been indeed observed most clearly after 2008.

All that has been written about the effects of the 2008 global economic crisis in the region seems quite similar to the Great Depression of 1929. In the context of 1929 (as well as of 2008), it was stated that the Balkan countries had been mostly exporting primary products, and were drastically influenced by the fall of the prices of primary products in the international market and by the decrease in international lending: "Previously, with credit easily available, interest rates low, and markets for produce seemingly assured…At the state level the policy of the 1920s of borrowing foreign capital to cover trade deficits now became impossible, because export earnings could no longer be guaranteed to service any further loans" (Crampton and Allcock, *Encyclopaedia Britannica*, 2014). Similarly, Jelavich observed that by 1926 Balkan countries regained the level of production at pre-war years, which lasted only until 1929 (Jelavich, 1983: 184). The historical perspective presented by Crampton, Allcock and Jelavich, can very well be repeated for the analysis of the post-2008 period. The period of pre-Communist Party rule was also marked by the Western economic penetration into the Balkans and resulted in a significant dependence, as can be seen in the public debts: by 1914, around one-third of the government revenues were used to service repayments (Stavrianos, 1958: 419).

As a matter of fact, the change in the system without a significant change in the political-economic structure can also be seen in the post-independence period, as well as post-Communist Party period. Mazower (or Stavrianos among others), argued that the Turkish landlords were replaced by a new governing elite (similar to the replacement of Communist Party elite by the neo-liberal elite or a nationalist one in some Yugoslav examples); and that the arbitrary and corrupt Ottoman tax officials had been replaced by a salaried and modernizing bureaucracy (similar to the replacement of arbitrary and corrupt rule of the late Communist Parties by international bureaucracies and yet again modernizing national ones).

It can be said that the difference lies in the composition of the disappointed population: large peasant masses under the pre-Communist Party rule were replaced by the urban middle and lower classes (for instance, the peasant population in Yugoslavia fell from 78% to 29%). Likewise, a majority of labour and capital structurally shifted to non-agricultural activities (Lampe and Jackson, 1982: 576). Mazower noted that peasants' political triumph at the beginning of the 20th century, namely independence, led to their economic ruin (Mazower, 2000: 35-6). Moreover, Palairet observed that the independence did not necessarily mean economic development (Palairet, 2000: 414-5). In the same manner, one can say that the political victory of urban middle class in 1989 in accordance with western liberal values, resulted in their economic ruin with neo-liberal transition and its eventual/current downfall.

2. Theoretical framework and transition process

One of the biggest issues in the post-Cold War world politics has been the integration of the former centrally planned economies to the world. The collapse of the centrally planned economies in Eastern Europe has led to the search of these states for the redefinition of domestic economic and power reconfigurations as well as their external integration (Türkeş, 2004: 1). This signified the economic and political transition process, which aimed at transforming these countries into a Western type of liberal economy and multiparty democracy. In other words, bad old modernisation theory reappeared as a structurally adjusted zombie, and presented the market economy (as liberal as defined in the Washington Consensus) as the ultimate goal for the development of these countries.

This transition process can be analysed within the framework of the expansion of the world capitalist system at its then current stage marked by the Washington Consensus. In a brief theoretical overview, it seems convenient to remember Wallerstein who argued that the modern world is marked by the capitalist world-economy which has "expanded to cover the entire earth (and thereby eliminating mini-systems and world-empires), and brought about a technological and ecological 'explosion' in the use of natural resources." In this sense, the world system is governed by "a singular logic and set of rules within and through which persons and groups struggle with each other in pursuit of their interests and in accordance with their values." The guiding principle in this capitalist world system is the "ceaseless accumulation of capital". Furthermore, capitalism and the modern state system are not two separate historical inventions according to Wallerstein; "neither is imaginable without the other" (Wallerstein, 1976: 349). The transition process reshaped the Balkans according to the global economic and political system, designed to sustain the accumulation of capital in the neo-liberal period marked by the Washington Consensus.

The operation of this capitalist world economy has carried out two basic dichotomies: The first is the dichotomy of the class, "bourgeois *versus* proletarian" within the states; and the second is the dichotomy of "the spatial hierarchy of economic specialisation, core *versus* periphery", among the states. The latter is marked by¸ "an approbation of surplus from the producers of low-wage (but high supervision), low-profit, low-capital intensive goods by the producers of high-wage (but low supervision), high-profit, high-capital intensive goods". The capitalist system resolves its cyclical downturns by expansion: "outward spatially, and internally in terms of the 'freeing' of the market...via the steady proletarianisation of semi-proletarian labour and the steady commercialization of semi-market oriented land." (Wallerstein, 2000: 350-1). This final point is particularly important on the grounds that the transition process in Eastern Europe has signified the expansion of the capitalist system into the countries of former Communist Party rule. It can be argued that it continues as it started, despite the crisis of the economic system beginning in 2008.

In addition to Wallerstein, it seems fruitful to rely on the approach and argument by Robert Cox on the correspondence between the production, the world order and the form of state. Cox considered the production as a "universal human activity that conditions all other human activities" (Cox, 1987: 397). He argued that production should be understood in the broadest sense. Therefore, it does not solely concern physical goods. It also covers "the production and reproduction of knowledge and of the social relations, morals, and institutions that are prerequisites to the production of physical goods" (Cox, 1989:39). The accumulation of resources that sustain power and authority takes place through the production of institutions and relationships. In this sense, production is both a social process and a power relationship. He substantiated this argument by attempting to demonstrate different modes of social relations of production in human historical record. For instance, in a self-regulating market without any institutional protection for labour, the relations are defined by the market. Then a variety of institutionalised relationships can be observed: state corporatism, central planning, etc. Each signifies a balance of power between the dominant and subordinate elements in the production process. Additionally, each is associated with technology, institutions, norms, and rationalities (Cox, 1987: 397). In this manner, the Balkan states have evolved in line within the framework of the world order defined by capitalism, and its contemporary stage of neo-liberal globalisation following the end of the Communist Party rule.

This evolution has reached yet another stage following the 2008 economic crisis. Joseph Stiglitz, famous for analysing the roots of and predicting crises, argued, indeed in 2008, that "The region cannot avoid the global crisis…Some countries will be hit directly on the trade level, others because of the fall of the price of raw materials…This crisis began at the centre, in the U.S., but the periphery will be hit the most, because exports and direct foreign investments will suffer. The region depends on Europe, which will suffer even greater consequences than the U.S." (Zimonjic, 2008, referred to in Panagiotou, 2010; the emphasis is mine). The rest of this paper is to be the modest analysis of how the Balkans, as one periphery, has been hit. To illustrate the peripheral character of the region, one may look at the world rankings of these countries in GDP and GNI per capita (World Bank), and the use of high technology in exports as shown in the Tables 1-3 below.

Table 1
GDP Per Capita

GDP Per Capita (current US$) World Bank 2013		
Country	Per C.	Rank*
Greece	21,910	51
Croatia	13,530	69
Turkey	10,946	77
Bulgaria	7,296	90
Romania	9,499	82
Serbia	5,935	97
Macedonia	4,851	104
Bosnia and Herzegovina	4,656	107
Albania	4,652	108
Kosovo	3,816	117
Montenegro	7,126	91

* Rank is formed by the author based on the data provided by the World Bank. http://data.worldbank.org/indicator/NY.GDP.PCAP.CD/countries/1W?display=default

Table 2
GNI Per Capita

GNI Per Capita (World Bank, Atlas Method, US$, 2013)	
Country	Per C.
Greece	22,530
Croatia	13,330
Turkey	10,950
Romania	9,060
Montenegro	7,260
Bulgaria	7,030
Serbia	5,730
Macedonia	4,800
Bosnia and Herzegovina	4,740
Albania	4,700
Kosovo	3,890
Euro area	38,333
European Union	34,277
Central Europe and the Baltics	12,877
OECD members	38,376
World	10,564

Prepared by the author based on the data in World Bank.
http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

Table 3
Use of High Technology in exports

High Technology in % of manufactured exports	2011
Country	%
Romania	10.2
Greece	9.7
Croatia	7.6
Bulgaria	7.5
Macedonia	3.9
Bosnia and Herzegovina	3.0
Turkey	1.8
Albania	0.5
EURO Area	15.3
Lower Middle Income	9.3

Prepared by the author based on the data in World Bank.
http://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS

3. Anatomy of the crisis in the region

The 1990s marked the identification of the region with poor economic growth, high unemployment, budget and/or current account deficits and high foreign indebtedness (Welfens, 2000, 102). One can read it as the re-assertion of the peripheral character of the region, considering for instance that Yugoslavia recorded the world's second highest economic growth between (overall) 1957 and 1960 (Crampton, 2002: 123).

It seems generally agreed that the region was hit by the global economic crisis when it was just recovering from its own crisis-prone transition process and looked to be on the right path, particularly in the EU integration process. Since the 'right path' has been under crisis, the repercussions in the region have been dramatic to such extent that few can be objectively optimist, as in the following impressive summary:

"After all their reform achievements, which had been pursued at enormous social and political costs throughout the course of their transition process, they are now confronted with yet another profound crisis-not of their making-the outcome of which is uncertain…Twenty years after the collapse of the communist regimes, there may be a growing popular sentiment in the region that the introduction of capitalism represented a disastrously regressive step." (Panagiotou, 2010: 193-4).

Indeed, in a study conducted by scholars in the region, the concern over the uncertainty of the duration and the cost of the crisis is pronounced explicitly (Nikolic *et al*., 2013: 54-5). One can outline the manifestations of the crisis in the region as falling GDP, rising unemployment rates, declining rates of investment, falling industrial output and growing current account deficits, decline in remittances, declining foreign direct investment (Panagiotou, 2010: 190). The situation does not seem convincing in some other variables either: external and internal imbalances, low savings rate, and inadequate investment (Nikolic *et al.* 2013: 55). The weakening of economic activity is also confirmed by the reduction of foreign exchange reserves and increasing fiscal deficit (Ganic, 2012: 182). As a result of the decrease in the credit growth, domestic demand also shrunk (Risteski and Trpkova, 2012: 96). After all, it is observed that Serbia, Montenegro and Bosnia and Herzegovina had lower GDPs than the level achieved in the 1990s, while Croatia and Macedonia have pretty much the same. Only Albania has a higher GDP growth rate, mostly due to the low base rather than economic progress (Nikolic *et al*., 2013: 54-5).

Simply said, all that can turn out to be a problem, did indeed turn out to be one. The combined effects of these problems can also be observed in the foreign trade and current account deficits of these countries (Tables 4-6). An additional set of figures to illustrate the deficiency with the integration into the neo-liberal world economy can be seen in the placement of Balkan countries in the global competitiveness index, as shown in Table 7 below.

Table 4

Trade Balance as % of GDP

Trade Balance (% of GDP) (World Bank, 2012)	
Country	Balance (negative if not specified otherwise)
Bulgaria	3.7
Greece	5.0
Turkey	5.1
Romania	7.3
Albania	17.8
Macedonia	22.4
Bosnia and Herzegovina	24.0
Croatia	0.7 (positive)
Serbia	not available

Prepared by the author based on the data in World Bank.

Table 5

Current Account Balance

Current account balance (current US$ million) (World Bank, 2012)		
Country	Deficit	Rank
Croatia	-186.1	63
Macedonia	-300.4	70
Kosovo	-484.5	76
Bulgaria	-735.3	81
Montenegro	-769.2	83
Albania	-1314.1	96
Bosnia and Herzegovina	-1632.7	103
Serbia	-4001.9	121
Greece	-6171.9	129
Romania	-7487.0	136
Turkey	-48507.0	148

Prepared by the author based on the data in World Bank.
http://data.worldbank.org/indicator/BN.CAB.XOKA.CD

Table 6
Current Account Balance As a Proportion to GDP

Current account balance (% of GDP) (World Bank, 2012)	
Country	Balance (negative)
Croatia	0.3
Bulgaria	1.4
Greece	2.5
Romania	4.4
Turkey	6.1
Kosovo	7.5
Bosnia and Herzegovina	9.7
Serbia	10.5
Albania	10.6
Montenegro	19.0

Prepared by the author based on the data in World Bank
http://data.worldbank.org/indicator/BN.CAB.XOKA.GD.ZS

Table 7
The Global Competitivenes Index Ranking

The Global Competitiveness Index 2013–2014	
Country	Rank
Turkey	44
Bulgaria	57
Macedonia	73
Croatia	75
Romania	76
Bosnia and Herzegovina	87
Greece	91
Albania	95
Serbia	101

Prepared by the author based on the data in The Global Competitiveness Index.
http://www.weforum.org/reports/global-competitiveness-report-2013-2014

It can be argued that the neo-liberal reforms of the last two decades have become part of the problem, rather than the solution. For instance, free trade damaged Balkan companies in sectors they used to be stronger such as steel, detergents, pulp, iron, chemicals, agriculture and apparel; because they lacked the capacity for economies of scale which would allow for international competitiveness (Fouskas, 2011: 641). For instance, the fall in demand of primary goods also affected the mines and thus the miners negatively, such as the copper mines in Macedonia, and nickel in Kosovo. It also affected the industry, such as the steel factory in Zenica, Bosnia-Herzegovina, or the aluminium factory in Montenegro. It eventually affected the income of the bulk of the societies (Dérens, 2009). The 1990s fashion of small nation-states, as signified by the dissolution of Yugoslavia, turned out to be detrimental to economic performance after 2008, at least in terms of economies of scale.

For instance, Croatia has often been considered as the most successful country in the region, crowned by EU membership. However the current picture is controversial: high unemployment and high public debt with a negative trade balance; while low inflation and stable currency that must be also influential in higher FDI. (Nikolic *et al.* 2013: 55). The economic growth has been negative since 2009 (World Bank, 2013). Furthermore, the banking sector in Croatia performs badly on the measurement of liquid assets in total assets with 11.63%, which possibly makes the economy vulnerable to adverse effects from the financial markets (Ganic, 2012: 191). The unemployment rate was 16.1% and an alarming 41.8 % for those under the age of 25, in the third quarter of 2014. (*Eurostat*, September 2014). Moreover, the agriculture sector accounts for just 4% of GDP but employs 14% of the labour force. The crisis has increased poverty from 10% to 14% and the profile of the poor has changed: the educated and younger people living in richer urban areas have also been affected (World Bank, 2013).

Another problem has been the significant dependence on Western Europe, as will be analysed in the cases of Serbia and the Republic of Macedonia in this article. The share of Western European foreign trade in the Western Balkan trade is approximately three-fifths. Additionally, commercial banks in the Balkan countries are generally owned by Austrian, Italian, Slovenian, Greek and French banks (Causevic, 2011: 366). The privatisation of banking sector had almost been completed. However, the low credibility of the Balkans, forced banks to borrow abroad at unfavourable conditions (Ganic, 2012: 178; 182). This had not been perceived as a problem before 2008, since the credit boom years between 2003 and 2007 resulted in economic growth; yet in 2008-2010 the absence of these credits marked a downward trend in economic growth, which thus raised the cost of financing external debt (Ganic, 2012: 178). Therefore, worsened current account deficits and the efforts of monetary stability resulted in the fall in private investment and consumption credit, thereby decreasing labour demand (Risteski and Trpkova, 2012: 105). According to the Global Financial Integrity Report, in 2011 alone, €1.74 billion was transferred out of Serbia, €1.08 billion out of Croatia, €677.4 million out of Macedonia, and €161 million from Montenegro (Likmeta, 2013). In addition to the disappointing picture of deficits, the foreign direct investment that was supposed to be the pillar of the neo-liberal reforms has fallen short of expectations, as can be seen from the Table 8 below.

Table 8
Foreign Direct Investment and World Rankings

	Foreign direct investment, net inflows (BoP, current US$ million) (World Bank 2012)	
Turkey	12868.0	22
Romania	3729.0	45
Greece	2694.7	55
Bulgaria	1887.7	67
Albania	1477.8	79
Serbia	1377.4	80
Croatia	588.4	108
Montenegro	446.5	114
Macedonia	376.5	118
Kosovo	343.2	125
Bosnia and Herzegovina	322.1	127

Prepared by the author based on the data in the World Bank
http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD

To complete the analysis of balance of payments problems within the framework of the anatomy of the crisis in the region, the of indebtedness problem should also be considered. The external debt relative to the GNI must be also taken into account in order to grasp the importance of the level of indebtedness. The 2012 figures of total external debt and the 2011 figures of public debt are as follows (Tables 9-10). Moreover, the public debts of all countries in the region increased in 2008-11, despite the fact that the average level of indebtedness of Balkan countries was well below the average public debt level in the Eurozone countries (Causevic, 2011: 360; 366).

Table 9

External Debt Volume and as percentages of GNI

EXTERNAL DEBT (2012)		
Country	$ billions	% of GNI
Macedonia	6.678	70.0
Albania	6.934	53.1
Bosnia and Herzegovina	10.577	61.1
Serbia	34.438	94.8
Bulgaria	50.750	102.9
Romania	131.889	78.9
Turkey	337.492	43.1
Croatia	?	?
Greece	?	?
http://wdi.worldbank.org/table/6.8		

Prepared by the author based on the data in the World Bank.
http://data.worldbank.org/indicator/DT.DOD.DECT.GN.ZS

Table 10

Public Debt Burden and World Rankings (2011)

PUBLIC DEBT (2011)		
Country	% of GDP	Rank
Bulgaria	16.3	137
Macedonia	34.0	107
Romania	37.2	98
Turkey	37.6	97
Bosnia and Herzegovina	43.8	79
Croatia	53.7	52
Albania	58.8	47
Serbia	62.0	43
Greece	156.9	3

Prepared by the author based on the data in CIA World Factbook.

To conclude the anatomy of the crisis in the region, its effects to ordinary human life must be mentioned. The clearest of these effect can be seen in the unemployment rates in these countries, as shown in the Table 11 below.

Table 11
Unemployment and World Rankings

Unemployment, total (% of total labor force) (modeled ILO estimate) World Bank, 2012		
Country	rate	rank
Romania	7.0	78
Turkey	9.2	120
Bulgaria	12.3	139
Albania	14.7	149
Croatia	15.8	156
Serbia	19.6	162
Montenegro	19.6	163
Greece	24.2	168
Bosnia and Herzegovina	28.2	172
Macedonia	31.0	173

Prepared by the author based on the data in World Bank.
http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS

As one can expect, the ordinary human response has been to spend less and try to save more. The drop in income, loss of jobs and other effects of the crisis resulted in the decrease of consumption, personal investments and spending on higher-priced goods (Koci, 2012).. In fact, the economic growth after 2003 had strengthened the expectations about future incomes and profits, which had led to a further increase in demand for loans (Ganic, 2012: 179). Eventually, from 2009 to the end of 2011, the average share of non-performing loans in the total loan jumped from 3% to as high as 15% (Causevic, 2011: 366). One final point to be noted is that foreign aid has been an important component; ranging between 6 and 6.5 billion euro per year from 1995 to 2006. However, it has been wasted due to corrupt officials, bad coordination and bureaucracy (Huliaras, 2011: 423). The next sections will try to elaborate these problems in the cases of Serbia and (FYR) Macedonia.

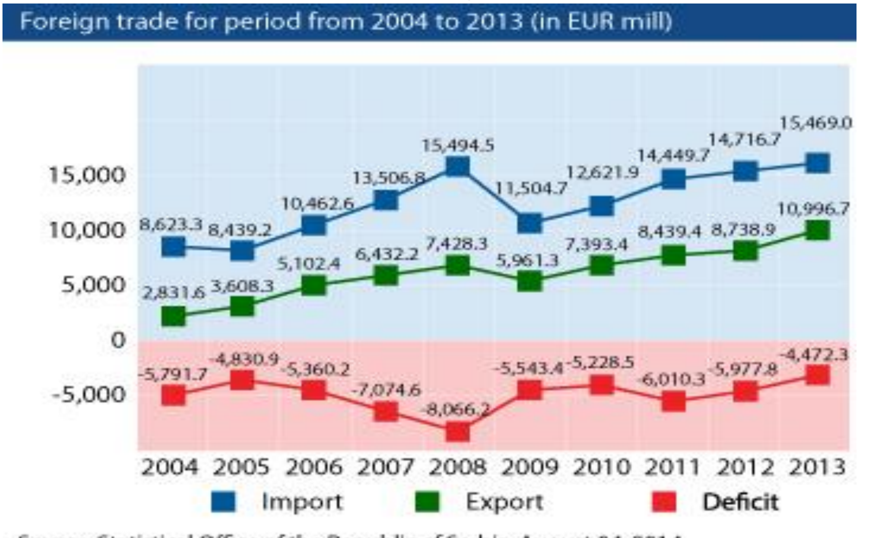
4. Serbia

Serbia has been an important example, not only because it is a significant regional power, but also because it is the one who has manifested the dramatic causes and consequences of the horrible 1990s. Serbia has been perceived as the biggest political problem in 1990s with the nationalist aggression and currently displays the risk of becoming the biggest economic problem in the region. Serbia is a country with a high trade deficit, increasing public debt, inflation and unemployment, and decreasing FDI (Nikolic *et al*., 2013: 54,55). While the average growth rate of credit to households in Bosnia and Herzegovina and Croatia was about 25%, respectively, it was 67.7% in Serbia (Causevic, 2011: 365). Then, it was considered normal since Serbia had a GDP growth rate of 5.4% between 2001-8 (Nikolic *et al*., 2013: 54)

It seems reasonable to continue with the analysis of trade, as one of the main sources of external deficit. Serbia recorded a chronic trade deficit, and the significant increase in exports in the 2000s did not change the level deficits even slightly, since imports also increased, as can be seen in the Chart 1 below.

Chart 1

Serbia's Foreign Trade

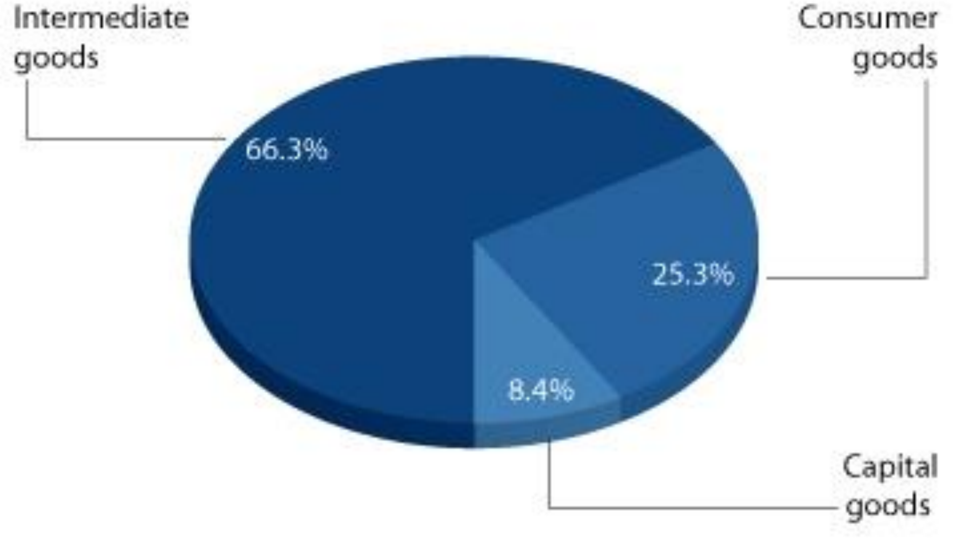


Source: Statistical Office of the Republic of Serbia, August 04, 2014

http://siepa.gov.rs/en/index-en/import-from-serbia/foreign-trade-data/2013.html

Serbia's production and trade structure seems to be a typical semi-peripheral one with relatively unsophisticated levels of technology and composition of industrial output, as can be observed in the Charts 2-7 below. Serbia has relied on exports of food and industrial intermediates such as copper and iron, which makes significant part of its exports. Unfortunately, the price of copper dropped by half in 2008 (Zimonjic, 2008). The Minister of Economy Sasha Radulovic publicly declared the aim of financing innovation, especially in the IT sector, in the 2014 budget (Veljovic, 2013d), which seems to address this very structural problem, though not very successfully. Indeed, those working in the construction, textile, metal and hospitality (tourism) industries have been the hardest hit by the job losses after 2008 (*Balkan Insight,* 2012). Unemployment has become the worst in the region, after the long-standing examples of Bosnia-Herzegovina and Macedonia. For instance, Novi Sad, the second largest town of Serbia, has been a typical example of Yugoslav deindustrialisation. It is now marked with unemployment and small IT enterprises that have been mostly dominated by larger European and other foreign companies. However, even this scheme provides employment and hence, relief to young and educated citizens (Eddy, 2013).

Chart 2
Serbia's Exports by Major Product Groups



http://siepa.gov.rs/en/index-en/import-from-serbia/foreign-trade-data/2013.html

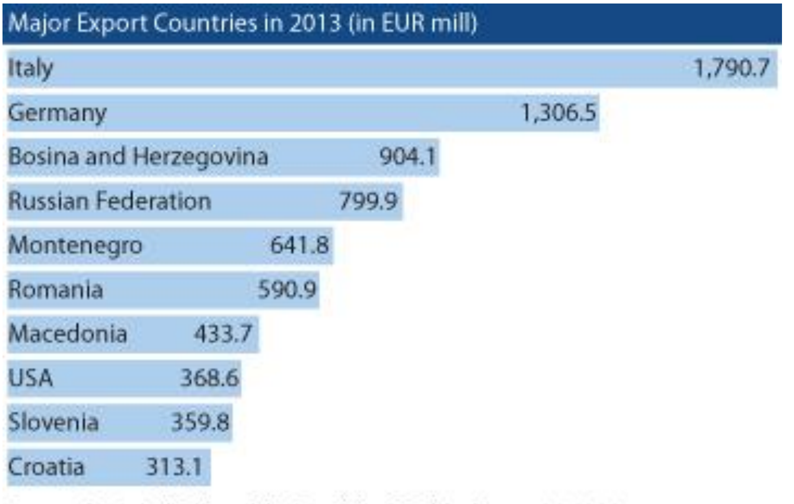
Chart 3

Serbia's Export Products

Source: Statistical Office of the Republic of Serbia, August 04, 2014
http://siepa.gov.rs/en/index-en/import-from-serbia/foreign-trade-data/2013.html

Chart 4

Serbia's Export Destinations



Source: Statistical Office of the Republic of Serbia, August 04, 2014
http://siepa.gov.rs/en/index-en/import-from-serbia/foreign-trade-data/2013.html

Chart 5
Serbia's Imports by Major Product Groups

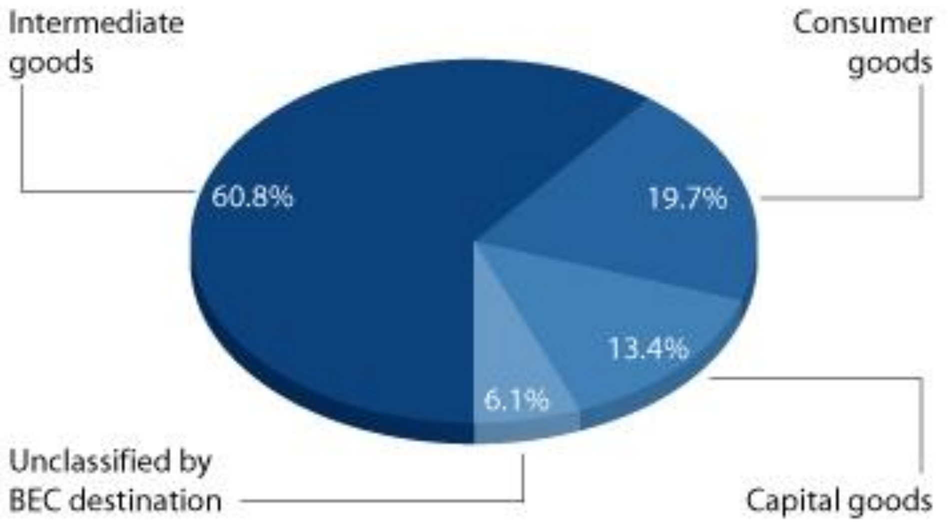


Chart 6
Serbia's Import Products

Major Import Products in 2013 (in EUR mill)	
Road vehicles (including air-cushion vehicles)	1,901.4
Petroleum and petroleum products and related materials	1.458.8
Gas, natural and manufactured	693.7
Electrical machinery,apparatus and appliances	661.4
Medicinal and pharmaceutical products	576.2
General industrial machinery and equipment	498.0
Iron and steel	481.6
Plastics in primary forms	459.7
Non-ferrous metals	447.6
Miscellaneous manufactured articles	436.7

Source: Statistical Office of the Republic of Serbia, August 04, 2014
http://siepa.gov.rs/en/index-en/import-from-serbia/foreign-trade-data/2013.html

Chart 7
Serbia's Import Destinations

http://siepa.gov.rs/en/index-en/import-from-serbia/foreign-trade-data/2013.html

As a result of these problems, Serbia had to announce 'hard-hitting austerity measures', including tax rises and cuts in public sector wages on the grounds that the country was close to bankruptcy as openly declared by its deputy premier. It was argued that it had gone backward in the reforms due to the wars of the 1990s, particularly in privatisations (Buckley, 2013). The then Minister of Economy Radulovic seems to agree with this argument, since he similarly claimed that "Serbia conducted a failed economic policy in the last ten years… based on public consumption, imports, a state-run economy, subsidies, throwing money into a pit, corruption, an absence of meaningful reform and the eternal hope of foreign investors reviving Serbia." The minister thought that foreign direct investment would solve all the problems of the Serbian economy (Veljovic, 2013c); while 80% of the foreign investors in Serbia consider the Serbian economy to be in a bad state and are generally not expecting much change in the near future (Franze, 2013). Moreover, this claim on FDI, typical to the basic neo-liberal formula of the 1990s, has not necessarily corresponded to expectations, not only for Serbia, but for the entire region, as shown in the Table 8 above.

Austerity measures and new taxes were not considered enough to avoid a probable debt crisis. Accordingly, easier borrowing of €3 billion from the United Arab Emirates and potentially higher privatization revenues could not replace reforms. A sharp decline in tax revenues was observed, most probably due to the weakened discipline of tax collection and of increased activity in the so-called 'grey economy.' The possible reforms include a cut in the number of employees in the public administration, and pension reform (Veljovic, 2013d). As well as eliminating subsidies for 179 companies, risking a significant social cost, as more than 20,000 workers from 600 companies are expected to lose their jobs in the consolidation and privatisation processes (Veljovic, 2013c).

One consequence of privatisation can be seen in electricity production. Following the reform, 4,000 Serbian companies, which make up to 23% of the total energy market, are to buy electricity on the open market instead of the wholly state-owned EPS (*Elektroprivreda Srbije*- Electric Power Industry of Serbia). It is likely that the outcome of market opening will be an increase in electricity prices. It is doubtful whether privatisation brought in the fruits of competition so far, since companies that are already buying electricity on the market show few signs of any benefits (Markovic, 2013a).

The reform attempts included the restructuring of the Serbian Development Fund that is a state-run financial institution responsible for providing cheaper loans for business and helping the development of the poorest regions. It turned out to be a corrupt institution to finance the tycoons and companies close to politicians, to the level that around 60% of the €2 billion in loans that the Development Fund issued could not be collected. One critical view on these reforms has been that Serbia has to improve its infrastructure, labour laws, tax system and protection of competition, and deal with corruption (Andric, 2013).

The tax reform has indeed been discussed within the framework of a possible progressive system of taxation of salaries. The declared aim was to make work in the so-called shadow economy unprofitable, and to make manufacturers more competitive compared to importers by reducing the cost of labour. Employers' associations generally supported reducing the tax burden on low earners, considering that it could have positive effects on employment and on the competitiveness of labour-intensive industries. Indeed, a progressive tax system for wages can favour low-skilled, low-paid workers and employers in labour-intensive industries, such as textiles. However, the doubtful points seem to be concerned with the increase in the already high budget deficit and/or excessive increases in other taxes. It can harm moderate, middle-class earners more than the very wealthy, on the grounds that a progressive tax is easier to implement on salaries than on those whose wealth comes from capital. Moreover, it is argued that the highly skilled workers, such as engineers and IT experts, would have problems with higher taxes (Veljovic, 2013a). In this sense, the reform attempts with considerations of social peace may well result in the sustainment of periphery status due to the fact that labour-intensive sectors would benefit more.

After all, squeezed by all these problems, Serbia has interestingly tried to enlarge its international capability of maneouvre, although it is difficult to argue whether it was abandoned by Europe. For instance, in one survey on foreign investors in Serbia, presented by the German Ambassador to Serbia, the ambassador indeed said that "Serbia is a crucial country in the Balkans for Germany, both politically and economically"; yet this arises from the peripheral position of the country that has a skilled workforce coupled with low labour costs (Franze 2013).

The 'return to' Russia after a hopeful relation with the EU should not be that surprising, especially when the United Arab Emirates (UAE) is in question. The energy cooperation with Russia has resulted in constructing part of the South Stream natural gas pipeline through Serbia, though it does not have the proper industrial and technological capability for this investment. Therefore, Russian Gazprom will dominate this partnership both with expertise and capital; Serbia will finance its part by taking out loans from Gazprom itself and commercial lenders, mainly Russian banks. Serbian President Nikolic, in order to demonstrate the economic benefits of the project, claimed that around 25,000 workers will be hired to work while 100,000 other workers will benefit indirectly. This so-called 'pro-Russian turn', which disturbed Western European ambassadors in Belgrade, was explained by the Serb officials that the West did not respond to Serbia's needs of a 'strategic partner' (Markovic, 2013b). However, this search for an alternative does not necessarily change the peripheral status as evident in Gazprom's dominance in this partnership.

One may argue that indeed Serbia has not been essentialist in its search for international support for its unsuccessful economy. The fear of imminent bankruptcy reached such a level that Serbia sought loans from the UAE, despite its anti-Islamist rhetoric since the 1990s. The UAE extended loans with interest rates lower than those of the international markets and has been particularly interested in the defence industry and even bought 49% of the loss-making Yugoslav airlines JAT (Buckley and Kerr, *Financial Times*, 2013). The new company, Air Serbia, begun operations after the decision of partnership with Etihad, to succeed the Yugoslav JAT, after 66 years of its existence. The expectation is obviously profit and a possible regional leadership in air travel. It should also be noted that the Serbian state will have to cover the debts left by JAT Airways, amounting to around €170 million (Veljovic, 2013b).

It would not be in line with the *Zeitgeist* if China is not mentioned in the framework of searches for new international partners. Indeed, China has expressed a sustained interest in expanding trade and investment in the region, particularly in infrastructure such as roads, ports, high-speed railways, and strategic sectors such as telecommunications and nuclear energy. Although tempting amounts such as 10 billion US dollar have been mentioned, actual investment has so far remained limited. It seems that Chinese investments in the region are to be an issue in near future, considering also the appetite of the region's politicians (Chiriac, 2013).

5. Republic of Macedonia

Macedonia has been an interesting example, as it is the only former Yugoslav republic in the Balkans which could avoid extensive wars. Indeed, it is now considered as one of the least influenced by the economic crisis. It has implemented a ‘shock therapy’, adhered to a liberal model of economy, and was crowned with WTO membership (Nikolic et.al., 2013: 56). The establishment of the market economy can be seen in the privatisations: the share of the private sector in GDP quadrupled in one decade, from 15% in 1990 to 60% in 2001; and private bank capital in total became 77%. However, at the end of this rapid liberalisation, the GDP was still 77% of the 1989 level (Jeffries, 2002: 348; 352; 356). It should be noted that Macedonia received international aid at about $400 million per year from 2001 to 2003 and $250–300 million per year in the following years (Fery, 2005: 20, referred to in Huliaras, 2011).

The mainstream narrative of the Macedonian economy has portrayed also a positive outlook with serious problems. *CIA World Factbook* summarises the Macedonian journey starting from its status of least developed Yugoslav republic producing just “5% of the total federal output of goods and services” through the deadly early years of independence marked by the absence of infrastructure, UN sanctions on the rump Yugoslavia, and the Greek economic embargo which delayed economic growth until 1996. However, it is noted that since then, Macedonia has maintained macroeconomic stability with low inflation, although the lack of FDI and high rates of unemployment have often been serious problems.

The *Economist* carries out the same picture in 2014 in the context of 2008 economic crisis. It considers Macedonian recovery relatively successful by regional standards. Its contraction by 0.9%, is followed by an average 2.9% growth in 2010-1. However, the economy continues its dependency on external factors for growth and especially on FDI inflows, remittances, and export demand (*The EIU Country Report*, 2014). One should not think that the existing foreign investment could be taken for granted as it was introduced. For instance, the Greek banks benefited from a 28 billion euro government bailout package, yet this did not include their investments in Macedonia (Panagiotou, 2010: 192). Finally, Macedonia is vulnerable to economic developments in Europe due to its trade linkages.

However, the problems outlined in some studies are also striking. Major problems were outlined such as increase in foreign trade deficit and a decrease in manufacturing employment (*CPRM National Report*, 2012). Macedonia has been faced with a deficit in trade balance, although it improved its export-import ratio up to the level of around 55%. (Nikolic *et al*., 2013: 56.). By August 2013, through issuing state bonds, the public debt to domestic creditors reached 39% of

GDP (Marusic, 2013b), which is still the second-best in the troubled region. The deficit is to be financed through continuous debts from Deutsche Bank and the World Bank as well as through domestic borrowing.

The biggest problem has been observed in the manufacturing sector, particularly in the ferrous metal industry, parts of the automotive industry and textiles. To note, metals and textiles are the biggest export sectors of the country. The Macedonian economy is rather small and non-competitive, and has been highly dependent on imports and certainly on the demand for exported primary and intermediate goods. Therefore, the decrease in the demand for metals in the world markets in 2009 seriously affected the economy (*CPRM National Report*, 2012). The output dropped by 6.6% in 2012, and the decrease in the industrial output was 8.8%. Exports have dropped by 10.2%. The metal and construction industries, which represent the core of the economy, have been seriously affected, while the mining and textile industry slightly improved after significantly shrinking in 2011. The metal industry made up 35% of Macedonia's exports and employed 15% of the country's workers. The industry saw a drop in output of 11% in 2012 due to decreased demand in Europe (Marusic, 2013a).

Macedonia's major exports have been Reaction and catalytic products (15%), ferroalloys (10%), non-knit women's suits (4.3%), Centrifuges (4.0%), and refined petroleum (3.6%). Major export partners have been Germany (28%), Serbia (14%), Bulgaria (7.2%), Italy (6.6%), Czech Republic (4.6%), and Greece (4,2%). Import partners have been nearly the same: Greece (13%), Germany (10%), United Kingdom (9.0%), Serbia (7.1%), Italy (6.0%), and Bulgaria (5,8%). (*Observatory of Economic Complexity*, http://atlas.media.mit.edu/country/mkd/). Most Macedonian exports are intended for the German market which creates a dependence on the demand there for the Macedonian economy (Kotevska, 2013). This dependence shows the peripheral status of the production.

The repercussions on poverty and unemployment have already been alarming. Macedonia has already been notorious in the international mainstream media for its unemployment, which is the highest in Europe. The poverty rate grew slowly in 1997-2002, when it stabilized to as high as 30% in the period from 2002-9. The 2008 crisis came onto an already high unemployment problem: the employed mostly remain employed, and the unemployed remain unemployed for a long time in any case. Unemployment has reached the highest levels in the food industry, mining, transport, storage and communications. The constant high level of unemployment is partly explained through the gray/informal economy, which was officially assessed to be 35% of the GDP (in 2004) in which 30% of the unemployed were actually working (*CPRM National Report*, 2012). A recent study estimates the informal economy lies around %24 of the total GDP in 2010 (Garvanlieva *et al.*, 2012).

Finally, Macedonia has portrayed a different picture also concerning the real estate sector. The economic crisis resulted in the drastic shrinking of the real estate business; the cost of real estate has fallen by 30% to 50% across the region. However, in Macedonia, the economic crisis did not affect the real estate sector even when the Macedonian Stock Exchange lost approximately 20 percent of its value in the past year (Koci, 2012). As a matter of fact, the GDP growth which is the essential point of the recovery after 2009 was based mostly on construction. Indeed, the *Economist* noted that “construction was a key driver of growth, with this component of GDP expanding by an average of 34% year on year.” The major construction work "Skopje 2014" which includes the construction of a number of monuments, museums and government buildings will be finished (*EUI Report*, 2014). This gives the impression that Macedonia can also suffer from bursting of the construction bubble, at least when “Skopje 2014” is over.

6. Conclusion

Looking from a political economy perspective, the Balkans have manifested a peripheral character. The Balkan states of the early 1990s wanted to escape from the peripheral status that the late Communist Party rule of the 1980s seemed to condemn. This would be done with the transition process that aimed to transform the central command economies to liberal free market economies and the single party regimes to multiparty democracies. The shortcomings of the process have been interpreted through the deficiencies of the Balkan countries. The problem was located in the incompatibility of the periphery to the core; few could predict that the core would be in crisis. The relative success of the Balkan countries in the 2000s, which gave the impression that the peripheral character had been eased, was undermined by the 2008 global economic crisis. The reflections of the crisis can be seen in decreasing GDP, domestic production and rising unemployment, budget deficit and indebtedness in Balkan countries, which had already been grappling with considerable problems even before the crisis under neo-liberal transformation. This study aimed at outlining this gloomy picture in order to grasp the framework in which the social forces of Balkan countries are bound to operate in order to be able to influence decision-making. Following a decade of destruction through violence and a decade of destruction under the name of reconstruction through neo-liberal policies, the conclusion is the reassertion of the peripheral character of the Balkans. One can only hope that the gloomy path signified in the mainstream by Sarajevo 1914 (eruption of the First World War) will be changed by Tuzla 2014 that has been the locus of widespread social protests against both neo-liberalism and nationalism.

References

CAUSEVIC, F. (2012), "What Type of Fiscal Policy for the Western Balkans during the Crisis?", *Southeast European and Black Sea Studies*, 12(2), 357-72.

COX , R.W. (1987), *Production, Power and World Order, Social Forces in the Making of History,* New York: Columbia University Press.

————(1989), "Production, the State and Change in World Order", in J. Rosenau, E. O. Czempiel (eds.), *Global Changes and Theoretical Challenges*, Massachusetts/Toronto: Lexington Books.

CRAMPTON, R.J. (2002), *The Balkans since the Second World War*, London: Pearson.

CRAMPTON R.J. and ALLCOCK, J. B. (2014), "The Balkans", *Encyclopaedia Britannica*, <http://www.britannica.com/EBchecked/topic/50325/Balkans>.

FOUSKAS, V.K. (2011), "Dealing with Sovereign Debt Crises Today: Lessons from Eastern Europe and the Balkans", *Debatte: Journal of Contemporary Central and Eastern Europe*, 19(3), 633-48.

GANIC, M. (2012), "The Impact of the Global Financial Crisis on the Banking Sector of Western Balkans: Cross-country Comparison Analysis", *Journal of Economic and Social Studies*, 2(2), 177-96.

HULIARAS, A. (2011), "Foreign Aid to the Balkans (1990–2010): The Dynamics of the 'Silent' Human Security Agenda", *Southeast European and Black Sea Studies*, 11(4), 421-34.

JELAVICH, B. (1983), *History of the Balkans*, 2, Cambridge: Cambridge University Press.

JEFFRIES, I. (2002), *The Former Yugoslavia at the turn of the Twenty-first Century, A Guide to Economies in Transition*, London: Routledge.

LAMPE, J. R. and JACKSON M. R. (1982), *Balkan Economic History, 1550-1950*, Bloomington: Indiana University Press.

MAZOWER, M. (2000), *The Balkans*, London, Weidenfeld and Nicolson.

NIKOLIC, R., FEDAJEV, A., RIZNIC, D., DAMNJANOVIC, Z. and KOSTADINOVIC, A., (2013), "Economic Crisis In The Western Balkans", *Metalurgia International,* vol. XVIII Special Issue no. 8.

PALAIRET, M. (2000), *Balkan Ekonomileri 1800-1914*, İstanbul: Sabancı Üniversitesi Yayınları.

PANAGIOTOU, R.A. (2010), "Effects of the Global Economic Crisis on South-east Europe", *Journal of Balkan and Near Eastern Studies*, 12(2), 187-94.

RISTESKI, S. and TRPKOVA, M. (2011), "Global Economic Crisis and Its Impact On The Western Balkan Countries Labor Markets*", Revista Tinerilor Economişti* (The Young Economists Journal), 96-107.

STAVRIANOS, L.S. (1958, 1999), *The Balkans since 1453*, London: Hurst and Company.

TÜRKEŞ, M. (2004), "Double Processes: Transition and Its Impact on the Balkans" in I. Hadjsky (ed.), *Towards Non-violence and Dialogue Culture in Southeast Europe*, Sofia: The Institute for Social Values and Structures Publications, 13-28.

WALLERSTEIN, I. (2000), "World Sytem School", in A. Linklater (ed.), *International Relations: Critical Concepts in Political Science*, London: Routledge, 2000.

WELFENS, P.J. (2001), *Stabilising and Integrating the Balkans, Economic Analysis of the Stability Pact, EU Reforms and International Organizations*, Berlin-Heidelberg: Springer-Verlag, 2001.

WALLERSTEIN, I. (1976), "A World System Perspective in Social Sciences", *The British Journal of Sociology*, Special Issue History and Sociology, 343-52.

Reports

"The Impact of Economic Crisis on Industrial Relations System in Macedonia: Policy Responses as Key Recovery Tools", National Report, *Center for Research and Policy Making (CRPM)*, Skopje, 2012

Economist Intelligence Unit, *Country Report / Macedonia*, February 6th 2014.

Eurostat, *Unemployment Statistics*, September 2014.

World Bank Croatia Overview, http://www.worldbank.org/en/country/croatia/overview

Observatory of Economic Complexity, Macedonia Country Profile, http://atlas.media.mit.edu/country/mkd/ .

FERY, B. (2005), *Coordination & Harmonization in the Western Balkans*, United Nations Development Programme, Regional Bureau for Europe and the CIS, March.

GARVANLIEVA, V., ANDONOV, V. and NIKOLOV, M. (2012), "Shadow Economy In Macedonia",

Center for Economic Analyses (CEA), Skopje, April 2012.

News and News Analysis

BUCKLEY, N. and KERR, S. (2013) "Serbia seeks billions in loans from UAE amid bankruptcy fears", *Financial Times*, 7 October. http://www.ft.com/intl/cms/s/0/672a7b1c-2f4a-11e3-8cb2-00144feab7de.html#axzz3JcUCsdaU.

BUCKLEY, N. (2013), "Serbia proposes tough austerity measures", *Financial Times*, 8 Oct.

KOTEVSKA, A. (2013), "Signs of Recovery? The Macedonian Economy in 2013", PECOB, June.

LIKMETA, B. (2013), "€201m Spirited Out of Albania in 2011", *Balkan Insight*, 12 Dec.

Balkan Insight (2012), "One Third of Adult Serbs Now Unemployed", 19 Dec.

FRANZE, F. (2013), "German Investors Keep Faith With Serbia", 24 Apr., *Balkan Insight*.

ANDRIC, G. (2013), "Alarm Over Threat to Serbian Investment Agency", *Balkan Insight*, 06 Nov.

ZIMONJIC, V.P. (2008), "Economy-Balkans: Just When Hope Was At Hand", *IPS News Agency*, http://www.ipsnews.net/2008/12/economy-balkans-just-when-hope-was-at-hand/

DÉRENS, J.A.. (2009), "Balkan, la potion qui tue", l'*Humanité Quotidien*, 10 Apr.

KOCI, J. (2012), "As Economy Slides, Regional Savings Accounts Grow", 03 Sept. http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/articles/2012/09/03/reportage-01

MARKOVIC, K. (2013a), "Free' Electricity Market Leaves Businesses Gloomy" *Balkan Insight*, 04 Oct.

———— (2013b), "Serbia Pays Dear for Share in Russia's Pipeline", *Balkan Insight*, 29 Nov.

Macedonia Tops Balkan Economic Freedom List, *B92*, 15 Jan. 2014.

CHIRIAC, M. (2013), "China Raises its Game on Europe's Eastern Flank", *Balkan Insight*, 28 Nov.

Perspective: Magazine of the American Chamber of Commerce in Serbia, 24, Dec. 2008.

MARUSIC, S.J. (2013a), "Macedonia's Output Drops for Entire Year", *Balkan Insight*, 01 Feb.

———— (2013b), "Macedonians Win Prizes For Collecting Receipts", *Balkan Insight*, 19 Nov.

VELJOVIC, S. (2013a), "Serbia Plots Path Through Tax Minefield", *Balkan Insight*, 25 Sep 2013.

———— (2013b), "Airline Launch Puts Serbia into Overdrive", *Balkan Insight*, 05 Nov.

———— (2013c), "Economy Minister Tackles Serbia's Subsidy Culture", *Balkan Insight*, 19 Nov.

———— (2013d), Serbia's Tough Budget Leaves Debt Crisis Unsolved, *Balkan Insight*, 13 Dec.

Özet

2008 Ekonomik krizi: Merkez-çevre ilişkilerinin Avrupa merkezi ve Balkanlar arasında yeniden üretimi

1990'lara damgasını vuran, merkezi planlama ekonomilerini serbest piyasa ekonomisine ve tek parti yönetimini çok partili demokrasiye dönüştürmeyi amaçlayan geçiş süreciydi. Sonucu daha ziyade Balkanlar'ın çevre ülkelerine ait özelliklerinin yeniden üretimi oldu. Sürecin sıkıntıları sanki bu ülkelerden kaynaklanıyormuş ve onların hatasıymış gibi sunuldu. Merkezin krize gireceğini pek az kişi öngörebilmişti. Merkez'de başlayan 2008 krizi doğrudan Balkanlar gibi çevreyi etkiledi ve işsizlik ile bütçe açıkları arttı. Savaş yıkımları ile geçen bir onyılın ardından, bir onyıl da neo-liberalizm altında yıkım ile geçtikten sonra, Balkanlar gene çevreleşme süreci yaşamaktadır. Bu çalışma bu çevreleşmenin yeniden üretiminin nasıl gerçekleştiğini incelemeyi amaçlamaktadır.

Anahtar kelimeler: Siyasi iktisat, Balkanlar, geçiş, kriz, merkez-çevre.