

# Investigation of Development Indicators in the Balkan Countries for the Post-Socialist Period

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## **ABSTRACT**

*Since the collapse of central economic planning in the world, former Iron Curtain Countries have been changing as social, economic and political structures. Some former socialist countries (such as Bulgaria, Slovenia and Romania) and Greece became full members of the EU. Some Balkan countries (such as Serbia, Montenegro, Croatia, Bosnia-Herzegovina, and Macedonia) lived through difficult war years. After the wars, they have started to struggle for the economic, social and political reconstruction process. Each country in the Balkan Peninsula wants bigger real per capita income, a better welfare level, and generally to become a developed country. But these countries have some political, economic and social problems in the development process. The aim of this paper is to analyze Balkan countries in terms of development indicators such as per capita GDP, population growth, life expectancy, consumption potential, education, national income and income distribution in the period of the 2000's. In addition, new suggestions for accelerating the development process will be discussed at the end of the study.*

**Keywords:** *Balkan Countries, Development, Development Indicators*

## **Introduction**

The Balkan Peninsula is an important area, having witnessed important historical and political experiences and incidents for ages. But it has been living through a historical alteration in recent decades. Although some Balkan countries (such as Turkey and Greece) were relatively stable in the 1990's, there was war in Serbia, Montenegro, Croatia, Bosnia-Herzegovina, and Macedonia. Some former socialist countries (Bulgaria, Slovenia and Romania) and Greece became full members of the EU. The others have been struggling toward this goal. Although Kosovo declared independence in 2008, many countries have not accepted this situation. Nevertheless the Balkan Peninsula is in a relatively stable condition nowadays, compared with the last ten years. All the Balkan Countries, especially those which have gained independence in recent decades, want to become rapidly developed. But all Balkan countries have some political, economic and social problems in this process.

After a long war and an unstable political period, the Balkans has now seized the opportunity for their development process. This region has been gaining stable structures over time and this stable period has been supporting development indicators. In this paper, the Balkan countries will be analyzed in terms of development indicators such as education, population, national income and income distribution in the 2000's.

## **Conceptual Analysis of Development<sup>1</sup>**

Since World War II, one of the important discussion subjects has been development. However, generally the development concept is accepted as a problem of underdeveloped countries. Underdeveloped countries which have not gone through the industrial revolution do not experience the evolution process that it brings, and do not fulfill the necessities of the development process.

Development is used sometimes instead of concepts such as improvement, modernization, structural changing, and industrialization. This semantic shift complicates the definition of the development concept. According to Peet and Hartwick (2009:1), development as a better life for most people means, essentially, meeting basic needs: sufficient food to maintain good health; a safe, healthy place in which to live; affordable services available to everyone; and being treated with dignity and respect. Another definition of development is innovative changes resultant in the socio-economic structure of a country. It can be understood from these definitions that development is related not only to economic paradigms but also social life, health systems, educational and vocational structures, democracy, freedoms, human rights etc. For this reason, it is multidimensional and it extends over a very long time.

Development is also related to economic growth. A stable economic growth process is very important for development. Unstable economic conditions negatively affect this process. On this point, a stable economic structure comes into question. When there is a stable economic structure, economic growth supports the development process. This concept is more important for developing countries. For example, Turkey had big problems with unstable economic and political structures in the 1970's and 1990's. Also, almost all the Balkans experienced unstable political and economic periods in the 1990's.

There are also new approaches to the development concept. The most important of these belongs to Amartya Sen, who won the Nobel Economics Prize in 1998. Amartya Sen (1993:3) defines development “as a process of expanding the real freedoms that people enjoy”. Again according to SEN, development requires the removal of major sources of unfreedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or overactivity of repressive states (Sen, 1993:3). The approach of Sen combines two important concepts: freedoms and development. Also he recommends developing freedoms before other indicators.

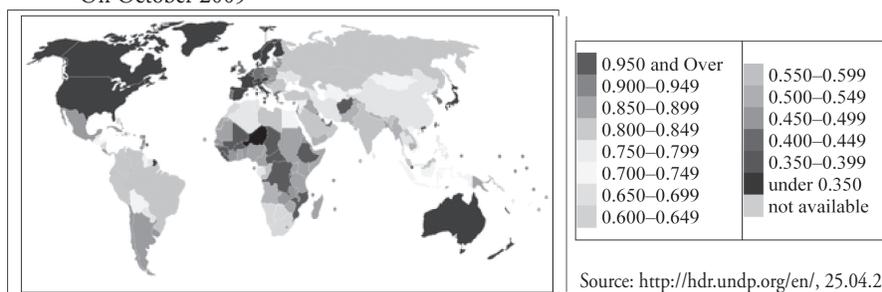
### Main Development Indicators

For years, many indicators have been used by economists in order to explain different levels of development among countries. However, which indicators are the best explanatory indicators of development levels? We need to investigate indicators that are being used to explain the development process by international institutions such as the World Bank (especially World Development Indicators-WDI Online Database) and the UN (United Nations, especially UNDP-United Nations Development Programme, 2010a).

The World Bank uses more than 331 indicators from the World Development Indicators (WDI) covering 209 countries. These indicators fall under 16 headings such as Agriculture & Rural Development, Infrastructure, Aid Effectiveness, Labor & Social Protection, Economic Policy and External Debt, Poverty, Education, Private Sector, Energy & Mining, Public Sector, Environment, Science & Technology, Financial Sector, Social Development, Health, and Urban Development (for details look at The World Bank, WDI Online Database).

UNDP calculates the Human Development Index (HDI). HDI includes some special data such as life expectancy at birth, adult literacy rates, gross primary-secondary and tertiary enrolment, and GDP (gross domestic product) per capita (PPP - Purchasing Power Parity). HDI distinguishes three subgroups as developed (high development), developing (middle development), and underdeveloped (low development) countries. According to Map 1, Africa, Middle East, South Asia and some South American countries have big problems in terms of the level of human development. Especially in Africa, the level of human development is lower than other regions of the world.

Map 1. World Map Indicating the Human Development Index Based On 2007 Data, Published On October 2009



Source: <http://hdr.undp.org/en/>, 25.04.2010

Again UNDP (United Nations Development Programme, 2010b) uses eight topics to determine the development level of each country (particularly developing countries): eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability, and develop a global partnership for development in scope of Millennium Development Goals (for details look at UN - Millennium Development Goals 2009 Report).

Also, each country collects some data on development by using international standards. Hundreds of variables are used by official statistical institutions for this purpose. Some of these variables are per capita GDP, literacy rate, tertiary education, unemployment rate, urban population, population growth rate, public expenditure on education, number of doctor, electric power consumption, number of computer and internet users, final consumption expenditure, daily newspaper, fertility rate, foreign direct investment, life expectancy at birth, etc. Also the Human Development Index and Democracy Index<sup>2</sup> are used to determine the level of development in a country. The next section offers an analysis of development indicators in the Balkan countries by using some of these variables.

### **Analysis of Development Indicators for Balkan Countries**

In this section, the situation of Balkan countries in terms of some indicators of development will be investigated. But due to the wars and unstable political period in the Balkans, not all Balkan countries reached full independence in the same year. For this reason, we have data that has a different initial year for each country (especially in the 1990's). This problem has been almost solved in the 2000's. But Kosovo's independence is not accepted by many countries. This situation complicates the comparison all Balkan countries.

According to UNDP statistics, all Balkan counties (excluding Slovenia and Greece) are within the High Human Development classification. Slovenia and Greece are within the Very High Human Development classification (UN, 2009). According to current economic development literature, the best indicator of development is value of per capita GDP (Gross Domestic Product) in a country. Mostly Balkan countries have low per capita GDP. For example Albania had \$1677 per capita GDP in 2007; Bosnia and Herzegovina had \$2044; Bulgaria had \$2401; Macedonia had \$2061; Montenegro had \$2269; Romania had \$2595 and Serbia had \$1780. Exclusively Greece (\$15052), Croatia (\$5794), Slovenia (\$13333) and Turkey (\$5053) had relatively bigger per capita GDP than the aforementioned countries' (see Chart 1). It is possible that the global crisis in 2008-2009 and the financial crisis in Greece have changed these figures.

The other important indicator of development is final consumption expenditure (% of GDP). High levels of final consumption expenditure (% of GDP) refer low level or intermediate product expenditure, capital goods (% of GDP) in a country. According to Chart 2, we can say that especially Bosnia & Herzegovina, Montenegro, Serbia and partially Albania have high level final consumption expenditures. These countries also have low level saving rates. For this reason the investment amount

in these countries is lower than in the other Balkan countries.

Education<sup>3</sup> level is a very effective indicator of development. Literacy rates are very close to percent 100% (excluding Turkey). Turkey has 88.66%. This figure shows that Turkey is the worst country in terms of literacy rate in the Balkans (see Chart 3). Another important variable is life expectancy at birth. According to Chart 4, Greece has the best figures with 79.7 years. Turkey has the lowest number with 71.8 years. Life expectancy level in the Balkans is on average lower than in the Euro area (80.4 years) and higher than the world average (68.7 years).

Population growth rate is very slow in the Balkans. Especially Bosnia & Herzegovina (-0.14), Bulgaria (-0.48), Croatia (-0.04), Romania (-0.16) and Serbia (-0.43) have negative level population growth figures (see Chart 5). Others (excluding Turkey and Slovenia) have figures very close to zero. This situation is dangerous for the coming years. The demographic structure will be very old in the next decades. This can bring social security problems similar to those of Germany and the other Western European countries.

Nowadays foreign direct investment (FDI)<sup>4</sup> has been accepted by many countries as a fact of the development process. When Chart 6 is investigated, we can see that Serbia (3.95) and Slovenia (3.34) have the best figures of foreign direct investment (FDI). Macedonia has the lowest FDI with (-0.01). The lowest value of per capita electric power consumption is in Albania with 976.1 kWh. The highest value is in Slovenia (7123.5 kWh). Greece has the second highest value of per capita electricity power consumption with 5372.1 kWh (see Chart 7). In order to comprehend the relation between electric consumption and development, Yuan et al. (2007) can be consulted.

Unemployment<sup>5</sup>, as a percentage of the total labor force, is an important indicator of economic development. Macedonia (36.02%) and Bosnia & Herzegovina (31.09%) had very high unemployment figures in 2006. The third highest unemployment figure is in Serbia with 20.84%. But the global crisis may have changed these figures in the Balkan countries as it has in the world generally. For example, the unemployment figure is 14% in Turkey in 2009 (see Chart 8).

Income distribution<sup>6</sup> is another considerable variable of development. The highest value of the GINI index is in Turkey with 43.2. Macedonia (39.0), Bosnia & Herzegovina (35.8) and Greece (34.3) respectively follow Turkey. Croatia has the lowest value of the GINI Index with (29.0). The share of the poorest 10% of population in the GDP is in Turkey with 1.9%. Again Turkey has the highest value in terms of the share of the richest 10% of the population in the GDP with 33.2%. The highest share of income in the poorest 10% is in Croatia (3.6%) and the lowest share of income in the richest 10% is also in Croatia with (23.1%). We can say that Croatia has the best figures in the Balkans in terms of income equality (see Table 1).

Table 1. Share of Income or Expenditure (%) and Inequality Measures in Balkan Countries in 2007

	Share of income or expenditure (%)		Inequality measures	
	Poorest 10%	Richest 10%	Richest 10% to poorest 10%	Gini Index
Greece	2.5	26.0	10.2	34.3
Slovenia	3.4	24.6	7.3	31.2
Croatia	3.6	23.1	6.4	29.0
Bulgaria	3.5	23.8	6.9	29.2
Romania	3.3	25.3	7.6	31.5
Albania	3.2	25.9	8.0	33.0
Macedonia	2.4	29.5	12.4	39.0
Bosnia & Herz.	2.8	27.4	9.9	35.8
Turkey	1.9	33.2	17.4	43.2

Note 1: The GINI index lies between 0 and 100. A value of 0 represents absolute equality and 100 absolute inequalities.

Note 2: Data was compiled from UNDP Human Development Index

Industrial production index is frequently used an indicator of development. When the industrial production index values of Balkan countries are investigated, Romania (120.6) has the highest value of industrial production index and Greece (101.1) has the lowest value (see Table 2). It is interesting that Serbia has lost industrial production capacity, because Serbia had 113.1 index values in 1998, but Serbia had a 108.6 score in 2007. Also Greece has lost production capacity. Besides, we haven't got Albania's index value.

Table 2. Industrial Production index (2005=100) in Balkan countries

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Albania	97.0	111.5	124.8	100.0	110.7	86.6	81.9	..	..	..
Bosnia & Herz.	53.7	59.3	64.8	72.8	79.6	83.3	94.4	100.0	107.4	117.3
Bulgaria	..	..	68.6	70.0	73.3	82.9	93.5	100.0	106.0	116.2
Croatia	80.5	79.5	80.7	85.5	89.7	92.7	95.6	100.0	104.1	109.3
Greece	95.1	95.1	100.8	98.7	99.3	99.8	100.8	100.0	100.8	103.4
Montenegro	91.4	84.4	87.6	87.0	87.5	89.6	101.9	100.0	101.0	101.1
Romania	76.3	74.4	97.0	100.8	100.9	100.5	102.9	100.0	109.3	120.6
Serbia	113.1	84.1	93.7	93.8	95.5	92.6	99.2	100.0	104.7	108.6
Slovenia	81.6	81.1	86.2	88.7	90.9	92.1	96.6	100.0	105.7	113.3
Turkey	77.8	74.9	79.4	72.5	79.4	86.3	94.7	100.0	105.8	110.6

Explanation: Data comes from UNECE Statistical Division Database, compiled from national and international (CIS, EUROSTAT, IMF, OECD) official sources.

Economic indicators are necessary, but not by themselves sufficient for the comparison of all the Balkan countries. For this reason we need other pointers. We investigate Human Development Index values and Democracy Index values for Balkan countries.

Table 3 shows HDI ranks and values for Balkan countries in 2003 and 2009. The highest value belongs to Greece with 0.892 and its rank in HDI was 24 in 2003. Again Greece has the highest values of human development index with 0.942 and its rank is 25 in the world in 2009. Turkey (0.806) has the lowest value of HDI in 2009 and its HDI rank was 79. When 2009 ranks are compared with 2003, Greece, Bulgaria, Macedonia, Bosnia & Herzegovina lost their former positions. But Croatia, Romania, Albania and Turkey obtained better positions.

Table 3. Situation of Balkan countries in Human Development Index Values

Country Name	HDI rank in 2003	Human development index value 2003	HDI rank in 2009	Human development index value 2009
Greece	24	0.892	25	0.942
Slovenia	29	0.881	29	0.929
Croatia	47	0.818	45	0.871
Bulgaria	57	0.795	61	0.840
Romania	72	0.773	63	0.837
Montenegro	-	-	65	0.834
Serbia	-	-	67	0.826
Albania	95	0.735	70	0.818
Macedonia	60	0.784	72	0.817
Bosnia & Herz.	66	0.777	76	0.812
Turkey	96	0.734	79	0.806

Explanation: Data was compiled from UNDP Human Development Report 2009 (calculating with 2007 values) and UNDP Human Development Report 2003 (calculating with 2001 values)

Another important subject for development is the democracy level in country. We can investigate the democracy index to understand this relation. The Democracy Index is calculated by The Economist Intelligence Unit based on the answers to 60 questions for 167 countries (EIU, 2008). According to Table 4, Greece is the strongest democracy in the Balkans. According to Table 4, the weakest democracy in the Balkans belongs to Turkey. While Greece and Slovenia have full democracy; Albania, Bosnia & Herzegovina and Turkey have hybrid regimes. This situation is generally parallel to economic development levels.

Table 4. Democracy Index (2008)

Country Name	Rank in the Index	Kind of Democracy	Score
Greece	22	Full Democracy	8.13
Slovenia	30	Full Democracy	7.96
Romania	50	Flawed Democracy	7.06
Croatia	51	Flawed Democracy	7.04
Bulgaria	52	Flawed Democracy	7.02
Serbia	63	Flawed Democracy	6.49
Montenegro	65	Flawed Democracy	6.43
Macedonia	72	Flawed Democracy	6.21
Albania	81	Hybrid Regime	5.91
Bosnia & Herz.	86	Hybrid Regime	5.70
Turkey	87	Hybrid Regime	5.69

Explanation: Data comes from The Economist, Economist Intelligence Unit

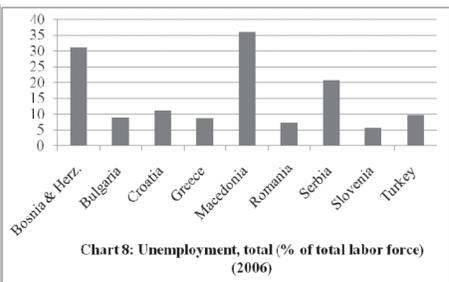
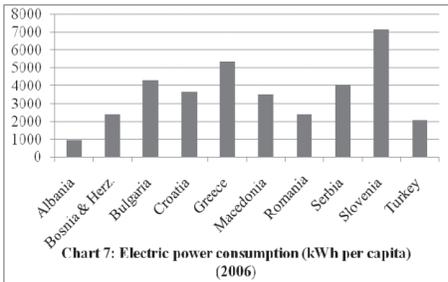
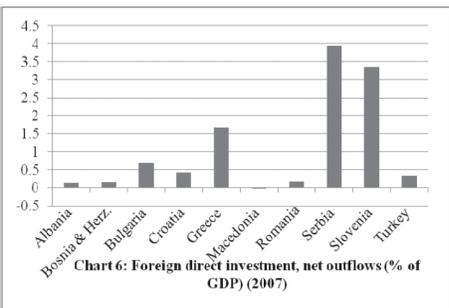
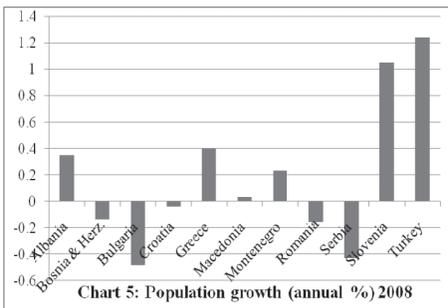
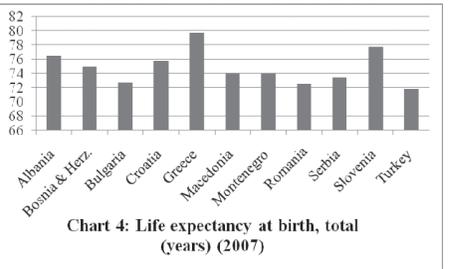
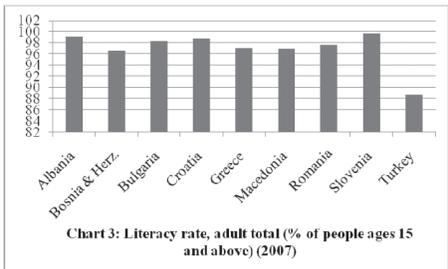
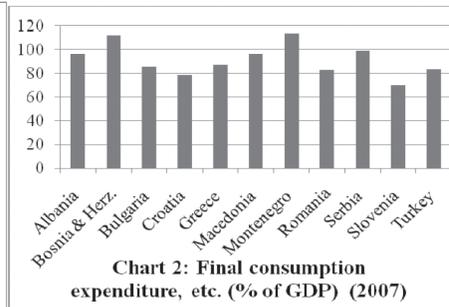
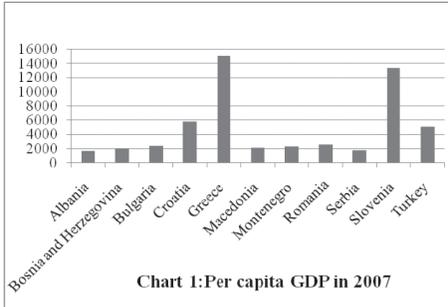
When Democracy Index (2008) values are accommodated in the Map 2 for each country, lighter colors show more democratic countries and darker areas represent authoritarian countries. Especially North America and West Europe have lighter colors. Africa, the Middle East, and Asian countries have mostly darker colors. Balkan countries have average values. After analysis of indicators in Balkan countries, we discuss how can accelerate the development process of Balkan countries in the next section.

Map 2. World Map Indicating the Democracy Index (2008).



Look at [http://en.wikipedia.org/wiki/Democracy\\_Index](http://en.wikipedia.org/wiki/Democracy_Index), 01.05.2010

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## **Discussion of the Development Process in Balkan Countries**

When the special position of the Balkans (multicultural, multi-religious and multi-ethnic) is considered, it is quite difficult to offer new suggestions. Even so, we explain some ideas for the Balkan countries below. The Balkans has had important problems throughout its history. Especially after the Ottoman Empire, an unstable politic and economic life began in all the Balkan Peninsula. With socialism, there came a relatively stable political and economic life. However, after the collapse of socialism, war, blood, tears, and unstable politic and economic life came back to the Balkans.

Nowadays the Balkans has been living more stable days. We know that development is closely related to stable politic and economic structures. For this reason, the first and the most important stage are strengthening of the stabilization process. To strengthen the stabilization process, first of all, the European Union's full membership process should be accelerated for Balkan countries that are not members of the EU. Secondly, by considering the ethnic, religious and cultural structures of the region, bilateral goodwill (bona fides) agreements should be signed among countries. Thirdly, some countries in the region should play a part in this process as mediators. For example, Turkey invited the presidents of Bosnia & Herzegovina and Serbia to talk about the problems between the two countries last April. After that, all Balkan countries should be invited to international institutions. For example, Bosnia & Herzegovina was invited to NATO last April, 2010. The invitation of Bosnia & Herzegovina is necessary, but it is not enough by itself. For this reason, all Balkan countries that are not members of NATO should be invited. And by protecting cultural, ethnic and religion diversity, an interior peace law agreeable to different parts of society should be composed.

EU trade policy should be accepted by all Balkan countries. Free trade should also be improved in the Balkans. Tariffs and other arrangements should be reciprocally dropped. Visa applications should be facilitated to improve trade among Balkan countries, especially for businessman and scientists. Bilateral trade agreements should be improved. Collective science, education and R&D agreements should be signed. A Balkan Commonwealth that includes all Balkan countries should be established in the near future. A substructure of information and communication technologies should be developed.

Manufacture and service sectors should be supported by governments. Productivity levels of industry should be accrued. To support industrial production, transfer of technology should be allowed. Barriers to foreign direct investment should be decreased. A tax system with progressive rates should be established to decreasing GINI Index and social benefits for poor populations should be improved. A banking system should be developed and its trustworthiness level should be boosted. Barriers to touristic travel should be diminished. Especially visa application should be facilitated. Countries that have insufficient capital for investment need foreign direct investment to accelerate economic development. For this, foreign direct investment for whole sectors should be allowed. Democratic reforms such as human rights, constitutional state, economic freedoms, and freedom of thought should be carried out, particularly in Turkey, Albania, and Bosnia & Herzegovina. A bigger part of budgets should go to education and productive investment.

When compared with developed countries, Balkan countries (excluding some full members of the EU such as Greece and Slovenia) have important problems in economic development. Many countries in this region have less level GDP figures. Also human development and democratic levels are not sufficient. Nowadays, the Balkan Peninsula has some opportunities related to the development process after the war and an unstable politic and economic life. These opportunities can be realized in the forthcoming periods. But this is depends on better orientation and management of economic, politic and social processes. Also, protecting and improving the stabilization process will be important in the next decades. It is a reality that war and unstable politic and economic conditions encourage backwardness, poverty and anti-democratic applications of governments. Conversely, peace, trade, and stable politic and economic life will cause better conditions for all nations in the Balkans.

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## Endnotes

**Note 1:** According to the Online Etymology Dictionary, Development concept was used for the first time in 1756, “an unfolding, from develop + -ment). Of property, with the sense “bringing out the latent possibilities” is from 1885. The meaning “state of economic advancement” is from 1902. The meaning “advancement through progressive stages” is from 1836.

**Note 2:** See Przeworski et al. (2000). They investigate relations between democracy and development.

**Note 3:** Self and Grabowski (2003) examine the relationship between education and long-term development.

**Note 4:** See Chen C, Chang L., Zhang Y. (1995). They examine the role of FDI in China’s economic development process.

**Note 5:** Özay (1995) analyzes the job-creating development concept. Also Saviotti and Pyka (2004) investigate the relationship between employment and development.

**Note 6:** For detailed information about income inequality, see Foster and Sen (1997). In this study, Foster and Sen investigate measures of inequality.