

Nedret DEMIRCI

Asst. Prof. Dr.
Department of Economics,
Kirikkale University, Turkey

Mustafa ACAR

Professor, Dr.
Department of Economics,
Kirikkale University, Turkey

The Role of Economic Freedoms on the Road to the EU: The Case of Balkan Countries**Abstract**

Measurement of economic freedoms and cross-country comparisons based on economic freedom performance has become increasingly popular in recent years. There seems to be a strong positive correlation between economic freedom and the major welfare indicators. Many Balkan nations are either on the way to, or planning to join the EU in a foreseeable future. Economic freedom indices may play a crucial role in shaping the future plans of the Balkans in the context of preparation efforts. This paper looks briefly at the history of EU-Balkan relations and the performance of the Balkan countries in terms of economic freedoms.

Key words: economic freedoms, index of economic freedom, Balkans.

European Union and Balkans**A Brief History of the Relations Between European Union and the Balkan Countries**

Although throughout the Cold War period, the Balkan region was an isolated peninsula, with the collapse of the communist regimes in Eastern Europe and with the strong aim of enlargement of EU that followed the Maastricht Treaty, integration of the Balkans into the EU appeared as a necessity. Today The Balkan Region is an indispensable part of the European area.

EU declared that "the future of the Balkans is strongly associated with the European Union". According to the Thessaloniki Agenda for the Western Balkans that was held in 19-20 June 2003, the Copenhagen European Council in December 2002 confirmed the European perspective of the countries of the Western Balkans, as

potential candidates, and underlined its determination to support their efforts to move closer to the European Union. The European Council in March 2003 reiterated that the future of the Western Balkans is within the European Union and pledged the Union's full support to the endeavors of the countries of the region to consolidate democracy, stability and to promote economic development (EU Council, 2003).

So far Macedonia and Croatia have become candidate countries (Croatia has already started negotiations); Albania and Montenegro have signed Stabilization and Association Agreements (SAAs), an important step in the accession process; and Serbia, along with Bosnia and Herzegovina, has initialed a draft SAA with the European Commission.

However, its incorporation into the New European Architecture has proved particularly problematic with negative consequences for the whole of the European space and the evolution of European integration (Demetropoulou, 2002:87). The EU would consider the Western Balkan states for membership, but it will be on condition that if they reached EU standards. The EU was motivated by the usual economic considerations connected to enlargement and also a desire to increase regional stability. In pursuit of those objectives the EU adopted a strategy based on conditionality, tailored country strategies and regional co-operation (Brown and Attenborough, 2007:7). Conditionality is the principle which makes accession dependent on meeting EU standards. This aims to protect the integrity of the internal market and promote reform in potential candidate countries.

Main Conditions for the Balkan Countries on the Road to the EU

The EU's strategy for the Western Balkans contained a number of key elements which are to be fulfilled and dealt with by potential candidate countries. These responsibilities are specified by the Stabilization and Association Agreement which represents a far-reaching contractual relationship between the EU and each Western Balkan country, entailing mutual rights and obligations. Such an association has high political value. It is based on the gradual implementation of a free trade area and reforms designed to achieve the adoption of EU standards with the aim of moving closer to the EU.

The Stabilization and Association Agreements are tools which provide, much as the Europe Agreements did for the candidate countries in Central Europe, the formal mechanisms and agreed benchmarks which allow the EU to work with each country to bring them closer to the standards which apply in the EU.

The Stabilization and Association Agreements focus on respect for key democratic principles and the core elements at the heart of the EU single market. Through a free trade area with the EU and the associated disciplines (competition and

state aid rules, intellectual property etc) and benefits (e.g. rights of establishment), this process will allow the economies of the region to begin to integrate with that of the European Union. For those areas where the agreements do not impose specific obligations relating to the EU acquires, there are provisions for detailed co-operation and discussion with the EU which again have the purpose of helping each country move closer to EU standards.

EU gives the economic conditions a big importance and treats economic prosperity as essential for long-term stability in the Balkan Region. Although some important progress has been made in all Western Balkan countries to obtain macroeconomic stabilization, implementing modern market economy have a slow process, requiring persistent efforts over a wide front of structural reforms. The transition to free functioning market economies from centrally planned needs further reform efforts in many areas of the economy, by taking into consideration sustainable development objectives.

As it can be understood from the above explanations, Western Balkan Countries are considered in every aspect a complementary territory of the European Union and it is much likely to be integrated to EU in the near future. In the light of The Stabilization and Association Agreements, Thessaloniki Agenda, and Western Balkan Integration and the EU report issued in 2008 by World Bank, some main economic shortcomings that the region countries have to overcome can be showed as in the below table:

Table 1.1. Conditions to Be Fulfilled By the Balkan Countries

| | | |
|----------------------------------|---|----------------|
| <p>Source: Balkan</p> | <ul style="list-style-type: none"> • Macroeconomic Stability • Prudent Fiscal Policies • Stable Monetary Policies • Increasing Competitiveness • Reducing High Level of Unemployment • Implementing an Appropriate Tax Policy • Fostering Human Development and Labor Market Participation • Placing Transparency and Accountability in Public Sector • To Create a Good Business Environment • Simplifying the Bureaucratic Proceedings for FDI • Liberalizing Trade and Developing Free Trade with the Region • Anti Corruption Legislation • Reduce State Intervention in the Economy | <p>Western</p> |
|----------------------------------|---|----------------|

Integration and the EU, World Bank (2008) and EU Conditionality in the Balkans (2002).

The above counted items are the main challenges yet for the Balkan Countries that have to be struggled to reach the directives of the Stabilization and Association Treatment of the EU. With these economic conditions and targets for the Balkans, we may make an evaluation of their efforts on this troubled long journey that they have done so far. Due to the fact that their contents are quite similar, it would be fruitful to follow a recently released “The Index of Economic Freedom 2009” by the Heritage Foundation to make comparison between the conditions that have been put forward for the Balkan Countries to fulfill and the actual level they have reached today.¹

EU Conditionality and the Criteria of Economic Freedom

What Does Economic Freedom Mean?

There are various definitions of the economic freedom, but there is no single and unique definition yet as accepted universally. One major approach to economic freedom comes from the libertarian tradition which is a school of economics emphasizes the importance of markets and the limited role of governments or even abolition of the state. Today the term is most commonly associated with a classical liberal thought (or free market), and defined as the freedom to produce, trade and consume any goods and services acquired without the use of force, fraud or theft.

According to Adam Smith, who is the founder of the Classical Economic Thought and so called “founding father of the modern economics,” competition leads to proper pricing in the economy and there is an “invisible hand” managing the market effectively. Hence he strongly opposed any government intervention into business affairs. Trade restrictions, minimum wage laws, and product regulation were all viewed as detrimental to a nation's economic health.

According to the Heritage Foundation, that releases the “Index of Economic Freedom” on a yearly base, is the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please, with that freedom both protected by the state and unconstrained by the state. In economically free societies,

¹ There is another index called “Economic Freedom of the World” prepared by the Fraser Institute. It uses a slightly different methodology and indicators to measure and compare the economic freedom performance of the countries. Interestingly enough, the two indices reach similar conclusions. For details about Economic Freedom of the World Index, see Gwartney et.al. (2008).

governments allow labor, capital and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself.

The Index of Economic Freedom

The annual report, published by the Heritage Foundation, analyzes and grades the performance of countries on the basis of the following key criteria: business, investment, trade, fiscal and monetary environment, as well as the size of the government, perceived corruption and respect of property and labor rights. In this sense, these criteria show resemblance to the points of EUs Stabilization and Association conditions. In this regard, one can argue that the economic freedom indicators can be taken as a "road map" for a successful preparation process for the Balkan nations. The higher the performance of a country the easier and smoother the adjustment process on the road to join the EU.

The 2009 Index of Economic Freedom covers 183 countries and measures 10 separate components of economic freedom. Each one of the 10 economic freedoms is graded using a scale from 0 to 100, with 100 representing the maximum freedom. A score of 100 signifies an economic environment or set of policies that is most conducive to economic freedom. For example in the case of a country with zero tariffs and zero non-tariff barriers will have a trade freedom score of 100. The data covers the second half of the 2007 through the first half of the 2008. Some component scores are not the exact data for its year and based on historical information. For example, the monetary freedom component is a three-year weighted average rate of inflation.

Consistently, if the overall score of a country is between 100 and 80 the country is considered to be free, countries with score 79.9-70 are defined mostly free, countries with score 69.9-60 moderately free, countries with score 59.9-50 mostly unfree and countries with score between 49.9-0 are described as Repressed.

Economic Freedom Performance of the Balkan Countries

Table 2 below summarizes the economic freedom performance of the nine Balkan nations: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Montenegro, Serbia, and Turkey. The ten areas in which degree of freedom is measured are as follows: business, trade, fiscal freedom, government size, monetary freedom, investment, financial freedom, property rights, freedom from corruption, and labor freedom.

The first column gives the overall rank of a given country in the world while the second column shows the regional rank. Bulgaria takes the top position with a rank of 56 out of 183 countries followed by Albania and Turkey with a rank of 62 and 75, respectively. Macedonia, Greece and Montenegro share middle positions with an overall rank of 78, 81, and 94, respectively. The last three Balkan countries with the lowest economic freedom scores are Serbia, Croatia, and Bosnia and Herzegovina. Over a 0-100 scale, the performance of Balkan countries range between 64.6 (Bulgaria) and 53.1 (Bosnia and Herzegovina). Based on the Index of Economic Freedom classification, top 5 Balkan countries fall into “moderately free” category: Bulgaria, Albania, Turkey, Macedonia, and Greece. The last four countries are categorized as “mostly unfree” category since their score range between 59.9-50. As a general observation, one can see from Table 2 that 6 out of 9 countries slightly improved their performance compared to 2008, Bosnia and Herzegovina being the only exception.²

When looking at the details of the individual countries, **Bulgaria** seems to be most successful at fiscal and trade freedoms with a score of 86.2 and 85.8 respectively. Business, labor and monetary freedom scores are quite good (over 70). Bulgaria’s least scores are associated with freedom from corruption (41) and property rights (30).

Albania seems to be highly good at fiscal freedom with a score of around 93 out of 100, followed by monetary freedom, trade freedom and government size with scores ranging in the upper 70’s. Similar to Bulgaria, Albania has the lowest performance in property rights and freedom from corruption.

Turkey is most successful at trade freedom (86.6) and government size (83.4), followed by fiscal, monetary, and business freedom. The most problematic area for the case of Turkey seems to be freedom from corruption where Turkey has the same score with Bulgaria (41).

Fiscal freedom and monetary freedom are the two areas where **Macedonia** has the highest performance with upper 80’s, followed by trade freedom. Macedonia’s lowest scores belong to property rights and corruption, where its scores are very close to Albania.

Greece has only one area with a score above 80: trade freedom, followed by monetary freedom and business freedom with scores of upper 70’s. Interestingly, Greece has very close performance with regard to investment freedom, financial freedom, property rights, government size, and freedom from corruption.

² There are no data available for Montenegro and Serbia so that comparison is not possible.

Montenegro is most successful at fiscal freedom (89.1), least successful at freedom from corruption. **Serbia** follows the same path with similar scores in both areas.

Croatia has the highest score at trade freedom (87.6), followed by monetary freedom (79) and fiscal freedom. The country has the lowest scores at government size and property rights (30).

Lastly, **Bosnia and Herzegovina** has the highest performance at monetary freedom (79), followed by trade and fiscal freedom. Property rights seem to be extremely problematic in this country.

Overall, trade freedom and fiscal freedom scores are generally high in all countries, where property rights and corruption are the most problematic areas.

Table 2. Economic Freedom in the Balkans

| World Rank | Region Rank | Country | Overall Score | Change From | Business Freedom | Trade Freedom | Fiscal Freedom | Government Size | Monetary | Investment | Financial | Property Rights | Corruption (Freedom From) |
|------------|-------------|------------|---------------|-------------|------------------|---------------|----------------|-----------------|----------|------------|-----------|-----------------|---------------------------|
| 56 | 26 | Bulgaria | 64.6 41 | 0.9 78.4 | 73.5 | 85.8 | 86.2 | 58.7 | 72.8 | 60 | 60 | 30 | |
| 62 | 27 | Albania | 63.7 29 | 1.3 47.2 | 67.0 | 75.8 | 92.8 | 75.6 | 79.6 | 70 | 70 | 30 | |
| 75 | 31 | Turkey | 61.6 41 | 1.6 40.3 | 69.9 | 86.6 | 73.2 | 83.4 | 71.1 | 50 | 50 | 50 | |
| 78 | 33 | Macedonia | 61.2 33 | 0.2 59.8 | 58.2 | 81.6 | 89.4 | 65.1 | 85.4 | 50 | 60 | 30 | |
| 81 | 34 | Greece | 60.8 46 | 0.2 61.2 | 78.7 | 80.8 | 66.5 | 46.3 | 78.8 | 50 | 50 | 50 | |
| 94 | 36 | Montenegro | 58.2 33 | n/a 57.2 | 68.7 | 80.2 | 89.1 | 45.3 | 78.9 | 40 | 50 | 40 | |

| | | | | | | | | | | | |
|-------------------|-----------------------------------|-------------|-------|------|------|------|------|------|----|----|----|
| 109 37 | Serbia | 56.6 | n/a | 56.0 | 78 | 85.9 | 46.3 | 65.8 | 40 | 50 | 40 |
| | | 34 | 70.0 | | | | | | | | |
| 116 38 | Croatia | 55.1 | 1.0 | 59.9 | 87.6 | 68.7 | 31.7 | 79.0 | 50 | 60 | 30 |
| | | 41 | 43.4 | | | | | | | | |
| 134 40 | Bosnia and Herzegovina | 53.1 | - 0.8 | 59.9 | 77.2 | 71.8 | 37.6 | 79.0 | 50 | 60 | 10 |
| | | 33 | 52.1 | | | | | | | | |

Source: Index of Economic Freedom 2009, Heritage Foundation

References

- Brown, Adèle and Michael Attenborough (2007), *“EU Enlargement: the Western Balkans,”* HOUSE of Commons Library, Research Paper, 14 March 2007.
- Demetropoulou, Leeda (2002) *“Europe and the Balkans: Membership Aspiration, EU Involvement and Europeanization capacity in South Eastern Europe,* Southeast European Politics, Vol. III, No. 2-3, pp. 87-106.
- EU Commission (2008), *Western Balkans: Enhancing The European Perspective,* Communication From The Commission To The European Parliament And The Council Commission Of The European Communities, Brussels.
- EU Conditionality in the Balkans* (2002), South East European Studies Program Workshop, St Antony’s College, University of Oxford, 22 November 2002.
- EU Council (2003), 2518th EU Council meeting, Luxembourg, 16 June 2003. Gwartney, J.D., R. Lawson and S. Norton (2008), *Economic Freedom of the World: 2008 Annual Report,* Canada: Economic Freedom Network. www.freetheworld.com
- Index of Economic Freedom 2009, the Heritage Foundation. <http://www.heritage.org>
- Sanjay, Kathuria (Editor) (2008), *“Western Balkan Integration and the EU: An Agenda for Trade and Growth”*, The World Bank.