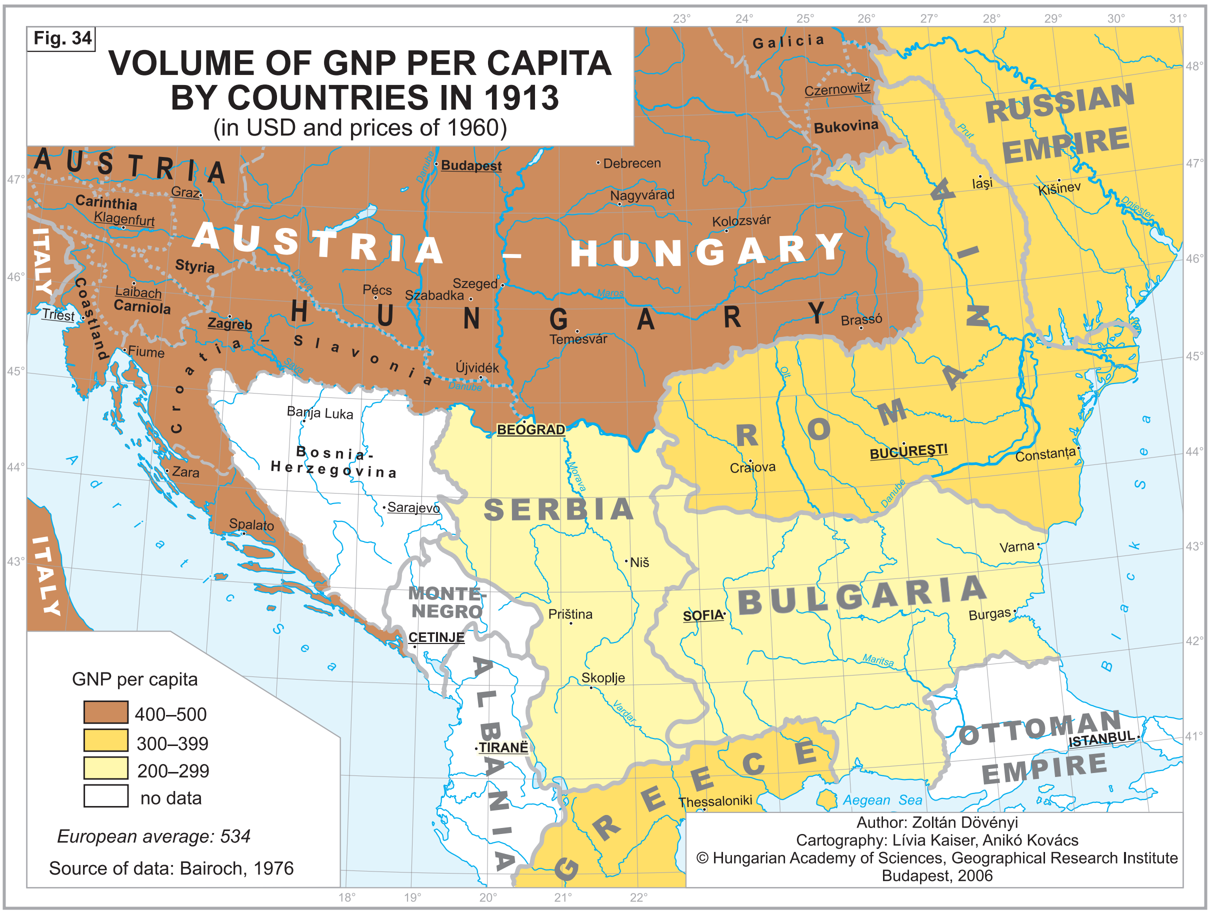
The Level of Economic Development and Regional Disparities in South Eastern Europe

When assessing the level of economic development in this large region, we must take into account the historical processes that have hampered its development for centuries. Of these the following two aspects require closer examination:

– After the great discoveries the roles of centre and periphery changed in the world economy, and South Eastern Europe had become part of the periphery, which was a great disadvantage in itself;

– South Eastern Europe had been under the rule of the parasitic Ottoman Empire, a military and feudal state for centuries, and was thus isolated from European development and the impact of the world economy.

From the turn of the 18th and 19th centuries to World War I, the overwhelming majority of the Balkan peoples gradually achieved independence, and it was only after the formation of sovereign states that the independent economies emerged. However, since the region was far too underdeveloped both economically and socially, and the transformation was rather incomplete, South Eastern Europe remained part of the periphery during the period of ”take-off”. An obvious sign of this is that, in spite of the improvement in terms of economic output during the second half of the 19th century, the gap between the region and the European average became increasingly wide: GNP (Gross National Product) in the region was 70% of the European average in 1860, while by the beginning of World War I this figure had decreased to 60%. This was attributable to the fact that while the average annual growth rate of GNP in Europe was 1% between 1860 and 1910, it was only 0.50–0.86% in South Eastern Europe. As regards economic develop-



ment, South Eastern Europe lagged not only far behind Western Europe, but even behind the Austro–Hungarian Monarchy: in 1913, per capita GNP was nearly USD 500 in Austria–Hungary (calculated at the 1960 exchange rate), while in South Eastern Europe even the highest GNP (in Romania) was only 336 USD (*Figure 34*).

The main reason for the sluggish economic development was the failure of industrialisation. In South Eastern Europe, industrial take-off occurred only at the turn of the 19th and 20th centuries, and owing to this late start the relative backwardness of the region deepened rapidly. This can be shown in terms of per capita industrial production, which was only one third of the European average. The result was that South Eastern Europe could not move on from its pre-industrial phase, and even at the beginning of the 20th century it experienced only the initial stage of industrialisation. This state of affairs was reflected by the meagre 15–20% contribution of industry to national incomes throughout the region. South Eastern Europe was still dominated by agriculture, and had a traditional pre-industrial economic structure at the beginning of World War I.

This backwardness did not change substantially in the interwar period either. The south eastern part of the continent remained far below the European average in terms of economic development. The peace treaties ending World War I also thoroughly redrew the borders of states in the region, which caused serious local tension in some cases, and these circumstances in turn affected economic relations. Per capita GNP, an adequate parameter of economic development, hardly exceeded 50% of the European average in 1938, which meant that the gap between South Eastern Europe and the more developed parts of the continent had not shrunk at all. However, there were important differences between various parts of South Eastern Europe concerning the way in which certain territories developed. Between 1913 and 1918, the rate of economic growth was fastest in Bulgaria, twice exceeding the average European rate of growth in terms of per capita GNP, while it was considerably slower in Yugoslavia, and particularly in Romania (*Figure 35*). Although the industrial revolution, having started with a considerable delay, was still under way, it failed to restructure the economy of the region. At the end of the 1930s, agriculture continued to generate a larger share of national incomes than industry, and 70–80% of the population worked in agriculture.

The real breakthrough in the economic development of South Eastern Europe only occurred after World War II, when the Communist social and political model became the foundation for a profound transformation of the economy. This was the most dynamic period in the history of the region, when structural transformation of the economy began and became mostly completed. This transformation was based on a manifold increase in the rate of investment, which had been low prior to the war. Alternating periods of extremely fast development and subsequent stabilisation resulted in very high growth rates. In the 1950s and 1960s the countries of the region belonged to the most dynamically growing economies of the world. Per capita national income grew at an annual rate of 9% in Bulgaria and Romania between 1950 and 1966, and even in Yugoslavia at a rate exceeding 6%. In comparison to the European per capita GNP growth (at an annual rate of 4.5 on average between 1950 and 1970), this rate was 5.6% in Yugoslavia and 6.5% in Bulgaria and Romania. Owing to these above average growth rates, the gap in the levels of economic development between South Eastern Europe and the rest of the continent had closed perceptibly. This is reflected by the figures for 1973, when Bulgaria's per capita GNP was more than four fifths, Romania's nearly two thirds and Yugoslavia's more than half, of the European average (*Figure 36*).

However, the improvements were still relative, and in terms of economic development South Eastern Europe lagged not only behind Western Europe, but the other countries of the Eastern bloc as well. The gap between South Eastern Europe and the rest of the continent was its narrowest at the beginning of the 1970s. However, the global recession triggered by spiralling oil prices in 1973 brought an end to this favourable trend. South Eastern Europe was unable to adapt to the new challenges in the world economy; its economic output lost its value in the world market. Having depleted the resources necessary for the extensive phase of economic development, it could not embark on its intensive stage. In other words, the industrial phase characteristic of the Communist era was not followed by a post-industrial one. As a consequence, in the last years of the socialist period, South East European countries were struggling

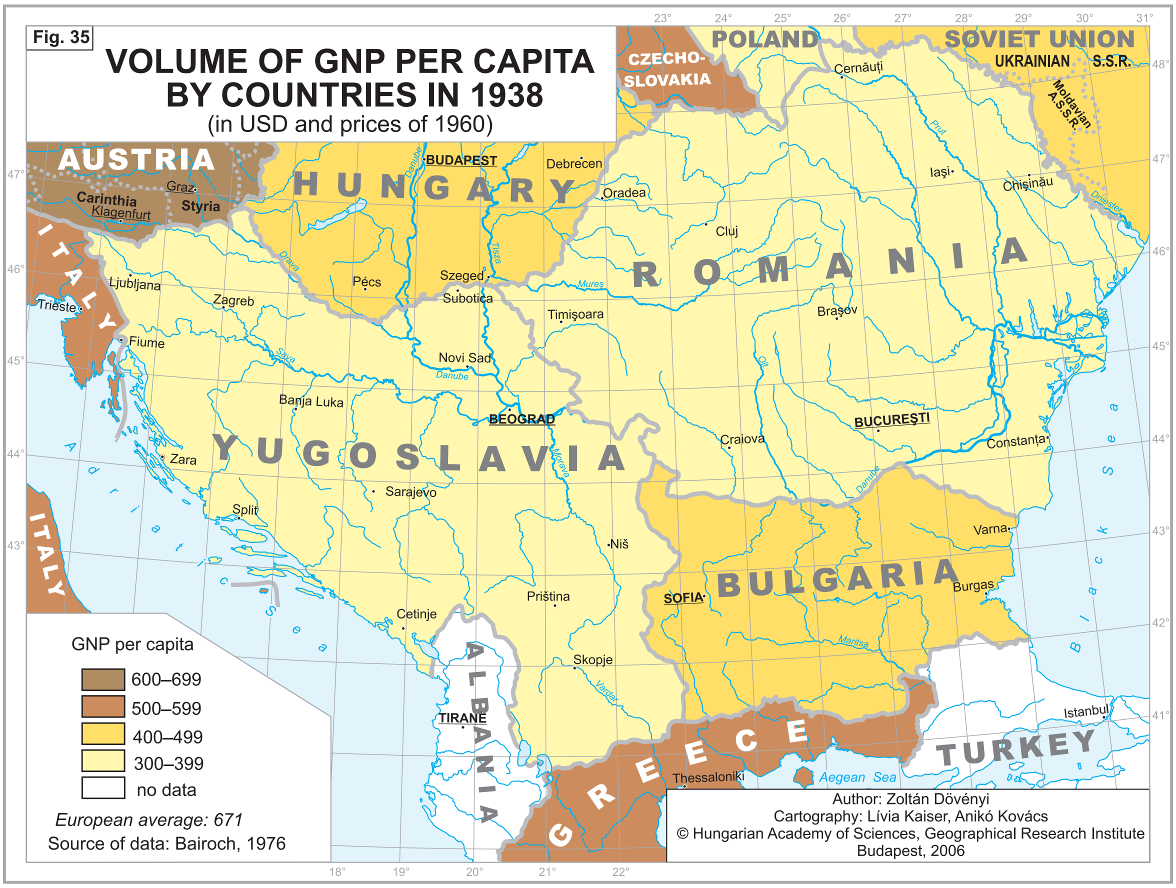


Fig. 35 VOLUME OF GNP PER CAPITA BY COUNTRIES IN 1938 (in USD and prices of 1960)

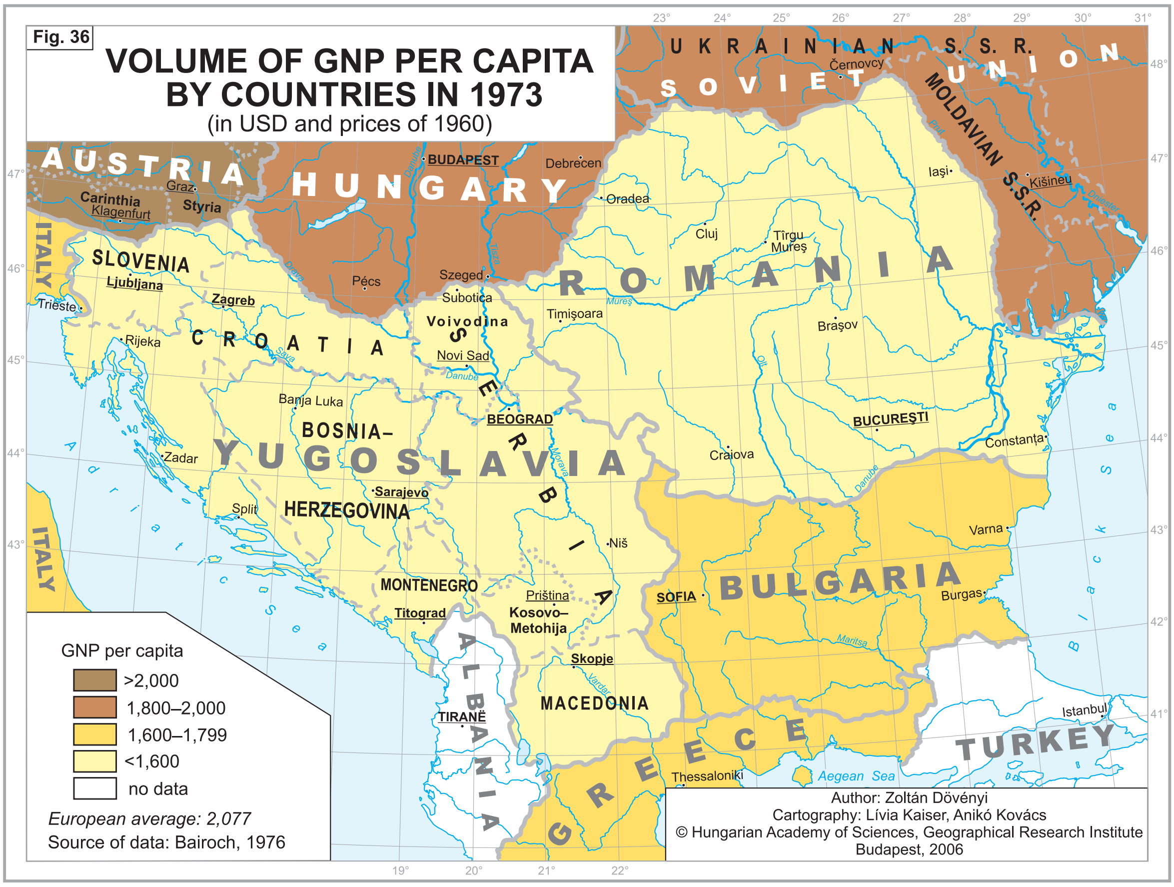


Fig. 36 VOLUME OF GNP PER CAPITA BY COUNTRIES IN 1973 (in USD and prices of 1960)

with serious economic problems and the level of their development came to be dramatically lagging behind that of the developed countries.

Contrasts between the level of economic development in different regions of South Eastern Europe have increased since 1989, being even more striking now than they appeared at the beginning of the 20th century. The disparities are clearly reflected by per capita GDP, which is the most frequently used index to measure differences in levels of development (*Table 14*). Per capita GDP (Gross Domestic Product), at current prices, increased slowly in the Balkan countries between 1997 and 2004. In 1997, these values varied between USD 760 and 9,840. In other words, the difference between per capita GDP of the least developed regional country (Albania) and the most highly developed one (Slovenia) was nearly 13-fold. By 2004, this difference had only slightly decreased to a multiple of 7.

Table 14. ***GDP Per Capita at Current Prices in the Countries of South Eastern Europe (1997–2004, USD)***

Countries	1997	2002	2004
Albania	760	1,450	2,120
Bosnia and Herzegovina	786	1,310	2,040
Bulgaria	1,170	1,770	2,750
Croatia	4,060	4,540	6,820
Macedonia	1,100	1,710	2,420
Romania	1,410	1,870	2,960
Serbia and Montenegro	3,126	1,400	2,900
Slovenia	9,840	10,370	14,770

Source: Der Fischer Weltalmanach 2000, 2005, www.weltalmanach.de

Regional differences within specific countries are not significant, as the low level of development applies across the countries as a whole. Capital cities and their surrounding regions, big cities, and towns with important and functioning industrial facilities are usually more developed, and per capita GDP as a rule is above the national average in these areas. However, per capita GDP is considerably lower in the territories that lie along state borders, or which are less industrialised in addition to those that have encountered a crisis due to the collapse of traditional industry, or have been directly or indirectly affected by war.

At the turn of the 20th and 21st centuries, Balkan countries still faced considerable backwardness and widening disparities between areas with different levels of development. The countries of the region can be divided into two main groups. One group comprises those countries that either have joined or are eligible to join the European Union within the foreseeable future (the former being Slovenia, and the latter being Bulgaria, Romania and Croatia), and which are therefore assured to converge towards the rest of Europe. The other group consists of those countries whose future is highly dubious, for various reasons. It is not yet sure whether they will be able to catch up with other European countries or, owing to their unfavourable political, social and economic situation, will end up isolated and segregated from the European community.