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TRANSITION COUNTRIES TOWARDS INTERNATIONAL COMPETITIVENESS

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Most of the transition countries in Europe had significant benefits from the EU enlargement but the positive effects depend also from the structure of the economy and reforms of these countries. It's important to analyze: if transition countries ensured sustainable economic reforms or just short term stability and emergent solutions. This paper will address international competitiveness which is the main challenge for the transition countries but also for the EU. First, monopoly position of some international firms in local markets and lack of creativity and innovations of the local firms, especially in Western Balkans due to lack of institutional support and non-stable business environment. The problem of creativity and lack of innovations by the firms is also a serious issue for the EU countries. The second important issue is large productivity gap. The recent global financial crisis as well as EU crises present the difficulties in the Euro zone and highlighted the interdependence of national economies and the convergence problems within European Union. The third challenge is absorption capacity for the structural and cohesion funds. The past experience of Central European countries shows that success in effectively using the EU financial and technical assistance is positively related with the success of countries on creating sustainable economic development and international competitiveness. Fourth issue is that some transition countries achieved economic growth but due to unequal distribution of welfare on these countries there is no significant reduce of unemployment and social cohesion. Last but not least the international competitiveness in most of the countries is harmed by the lack of functional institutions due to high level of corruption, inefficiency, rule of law, the lack of transparency and accountability.

Keywords: transition countries, innovations, technical assistance, social cohesion, stability

1. Introduction

As transition countries in Western Balkans are aiming the European integration these countries should understand the complexity and the role of sustainable development and competitiveness within European Union.

Taking into consideration the current developments in the EU, issue of being EU member state without clear vision for development is not anymore a guarantee for the sustainable economic development and perspective future.

The current experience with the phenomenon called, PIGS' 'especially with financial and economic crises of Greece tackled the issue of economic sustainability and efficiency in order to survive and benefit from the enlargement.

In this paper we will tackle some of the challenges for the region of the Western Balkans such as: dominant position of international firms in local markets and lack of creativity and innovations of the local firms, the productivity gap in some of the EU Member states as well as Western Balkan countries. The other challenge for these countries is also the possibility of benefiting from the International donors and European Union funds in order to achieve the convergence and social cohesion.

Furthermore, the economic growth without reduce of the higher unemployment in these countries is very crucial to be analyzed. This phenomenon is affected by structure of the investments and lack of strategic vision of national governments but also as it is pointed due to lack of functional institutions higher level of corruption, inefficiency, lack of rule of law and lack of transparency and accountability in most of the Western Balkan Countries.

2. Creativity and innovation

One of the main conditions to create a value added services, creative ideas, innovations and new forms of production for the companies is connection of research institutions, universities and academia with real sector of the economy. An additional opportunity for these countries is the creation and promotion of business incubators which will offer professional services and advanced consulting for the enterprise venture, technological issues, as well as market issues. In general, the European Union tries to interlink the business with academia, but not all the countries achieved the sustainable level, especially the transition countries which are candidate and potential candidates for the EU enlargement. The EIM Business & Policy Research Report with regard to innovations for 2007-2013, is categorizing the countries as follow:

- Modest Innovators: Latvia, Bulgaria, Lithuania, Serbia, Turkey, Macedonia and Rumania.
- Moderated Innovators: Croatia, Czech Republic, Greece, Hungary, Malta, Italia, Portugal, Poland, Slovakia and Spain.
- Followers of innovations: Austria, Belgium, Cyprus, Estonia, Franca, Island, Holland, Ireland, Luxemburg, Norway, Slovenia and UK.
- Leader's on innovations': Denmark, Finland, Germany and Sweden.

Based on this report the countries of Western Balkans are not in satisfactory position with regard to creativity and innovations. According to De Long & Eichengreen 1993, the Marshall Plan supported the economic development of the European Countries.

Tabel 1: Economic Growth 1870-2008

Period	West Europe	South Europe	East Europe	USA	Japan
1870- 1913	1.3	1.0	1.4	1.8	1.4
1913-1950	0.8	0.4	0.6	1.6	0.9
1950- 1973	3.8	4.5	3.6	2.3	7.7
1973-1994	1.7	1.9	-0.2	1.7	2.5
1994-2008	1.6	2.7	4.0	1.7	1.0

Source: Madison 1996; Conference Board 2011.

Therefore in table below we could analyse the differences betwen EU and US Model. From these models we could conclude that there are significiant differences betwen two models with regard to social issues and flexibility. In these models we could find answer about the EU and US challenges and crises. One of the main issues is the differences in flexibility betwen EU and US. Based on this table we can notice that US Model is much more flexible compare to EU model.

Table 2: European vs. US Model

	EU	US
Development Strategy	Social issues – Welfare State	Competition
Realisation of Interests	Through Unions.	Through Individuals and markets
The importance of Unions	Significiant	Not significiant
Education	State	Privat Education system
Financial sector	Traditionally not such significiant	Very Important
Profit	Traditionally on real sector	Real dhe financial sector
Economic culture	Capitalism combined with welfare state	Financial Capitalism Silicon Walley & Wall Street Culture)

Source: WiW for Europe- Wiena July 2012

One of the main debates currently is; if the European Model based on social framework could guarantee the economic reforms and sustainable economic development for the future as well as is this model appropriatte in order to overcome the financial and economic crises. Some of the authors pointined out that US Model is much more appropriatte model for resolving the problems of the crises. From other point of view the EU model is not an adequate and flexible framework in order to overcome the financial economic crises as well as political crises within Union.

Taking into consideration these challenges the main issue to be disccussed is : how the EU could support the reforms and manage the democratic and economic transformation of the Western Balkans if they have internal problems with absorption capability.

3. Productivity gap

The main aim of the EU with reagrd to economic issues is the achievemnt of the convergence within European Union.The current situation told that real convergence was ‚mission impossible' due to large productivity gap betwen Eurozone member states. The 2011 Euro Plus Monitor produced by Berenberg Bank and the Lisbon Council is intended to inform and enrich public debate about ways to improve economic performance and strengthen the resilience against financial crises. From the table we can see the economic divergences within Eurozone.

Table 3: Eurozone 17 - according to main economic indicators

Country	Total	Growth	Competitivness	Fiscal Stability
Estonia	7.4	5.6	6.4	9.3
Luksemburg	7.3	7.1	6.4	9.2
Germany	6.8	6.6	7.9	6.0
Holand	6.8	7.5	8.2	5.8
Slovenia	6.6	6.2	6.7	5.6
Slovakia	6.3	5.2	6.7	6.6
Finland	6.2	6.2	4.5	7.1
Austria	5.6	6.1	5.3	5.0
Belgium	5.6	5.5	6.7	5.0
Ireland	4.7	4.7	7.0	3.5
Malta	4.6	4.2	6.4	5.4
Spain	4.5	3.4	3.8	5.8
France	4.5	4.7	3.7	4.1
Italy	4.4	3.2	4.1	4.8
Portugal	3.8	3.2	4.8	3.8
Cyprus	3.8	3.8	2.4	6.3
Greece	3.0	4.0	2.7	2.2
Euro 17	5.5	5.0	6.2	5.5

Source: The 2011 Euro Plus Monitor, 2011, The Lisbon Council

Eventhough, in 2000, European leaders promised to make Europe "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with better jobs and greater social cohesion, as of November 2011 only the six eurozone countries with AAA rating were Austria, Finland, France, Germany, Luxembourg and Netherlands.

From other point of view the business environment in Western Balkans need to be reformed after the long conflict during 90s which resulted in extensive disrupted economic activities.

This experience during the period 1989-1999, was excluded from engaging in an array of commercial activities, forced entrepreneurs into an underground economy. This legacy of the "grey economy" still persists today to some degree. Among other obstacles it deprives the government (of both levels) of much needed fiscal revenues. Informal competition is identified by a large proportion of enterprises as one of the constraints on entry and operation of firms.

4. Absorption Capability

According to Nahtigal (2012), while the EU and especially the eurozone countries are preoccupied with their own financial and economic problems, there is little possibility that the EU institutions will devote sufficient attention and resources to help the Western Balkans to tackle their own financial and economic problems. On the other hand, if the EU and the eurozone in particular show in the near future the ability to successfully address the economic and financial difficulties, this will also help the countries in the region.

Table 4: Financial Assistance - IPA-s (2007-2013) for Western Balkans.

Component	2007	2008	2009	2010	2011	2012	2013
Total Program	1.109.4	1.308.6	1.303.9	1.399.4	1.547.0	1.680.0	1.749.0
Program for Transition	108.9	135.7	166.0	138.9	173.4	168.8	183.8
Program per Cooperation	0	0	0	4.9	5.2	5.6	6.0
Support for Expenditures	44.7	51.9	47.6	52.9	75.0	80.5	84.5
Total	**1.263.2**	**1.496.2**	**1.517.6**	**1.592.7**	**1.796.8**	**1.935.7**	**2.023.8**

Source: Commission of the European Communities, 2008

The past experience of Central European countries shows that success in effectively using the financial and technical assistance is positively related with the success of countries in moving towards the European Union as well as achieving sustainable development and therefore having greater possibilities to deal with the competitive pressure within the Union. Based on the above remarks from the European Commission's Progress Report (2009), the main suggestions for Western Balkan countries in this process are:

- The need to develop and strength the administrative capacities of institutions dealing with the EU integration process. This will be achieved by reducing the inefficiency of highly bureaucratized and over-centralized Government systems, reforming and building human capital so that it better corresponds with European standards.
- The Western Balkan countries must create a partnership with the European Commission and establish local ownership of the process. This component highlights the weaknesses of the use of other funds and issues in the past. This will be achieved by encouraging interaction and co-operation among universities, government, and research organizations to enable them to be much better prepared in their co-operation with foreign counterparts.

5. Unequal Distribution and Welfare

Some of the transition countries achieved economic growth but due to unequal distribution of welfare on these countries there is no significant reduce of unemployment and increase of social cohesion. Mostly in the Western Balkans less attention and concern was devoted to the long-term productive investments.

The prevailing view throughout the transition was that it is enough to secure macroeconomic and stability, whereas economic promotion growth and investments will take place by virtue of privatization. The problem with this approach is the creation of monopoly position of some companies on the market of Western Balkans. There is no doubt that the role of foreign direct investments and the role of the multinational companies can present an important source of finance and know-how for the emerging economies, including the transition economies. Still, many open issues remain. For example, foreign direct investments do not come at least not in sufficient and sustained quantities to a region or country, which is economically and socially stagnating.

The aim of the dynamic effects from the EU Integration is improvement of allocation and use of resources. The critical issue for the Western Balkans is if the foreign investments involve local firms and local employees.

The other problem on Western Balkans is the structure of foreign investments. In some of these countries the main investment flows are directed to infrastructure and other public investments. The second problem is that most of these investments are supported by national budget from these countries and less from the international donors and European Union funds.

6. Institutional Weaknesses

Last but not least the international competitiveness in most of the countries is harmed by the lack of functional institutions due to high level of corruption, inefficiency, rule of law, the lack of transparency and accountability.

According to Norris (2005) a causal relation between development and transparent democratic institutions goes in both directions. Having said that, it is equally important to have in mind an important insight by, based on the comprehensive comparative empirical studies. When analyzing what are the most appropriate institutions for peace-building and democratic transitions in deeply-divided, usually multi-ethnic societies, she came to the conclusion that, no matter how important are the democratic institutions of various forms, "investing in basic human development is a consistently more reliable route to achieve stable democracy and good governance than constitutional design alone.

As Nahtigal pointed in the context of the institutional analysis a very important discussion on the relation between an appropriate institutional design and development should become the focus of any such discussion. An issue of what is needed first: a comprehensive socio-economic development or stable power-sharing institutions to encourage and secure sustainable development, needs to be addressed. The answer is that the relation is mutually dependent. There are scholars who are convinced that development consolidates democracy. There are comprehensive empirical studies which question such hypothesis. Namely, around the world there are many poor democratic countries and regions with good and accountable governance. Examples of good governance from Kerala in India to Ceara in Brazil show that poor countries and regions can be governed in a way which strengthens social cohesion, improves quality of life and runs highly inclusive educational, economic and social policies. On the other hand, there are examples of the fast developing countries which remain largely authoritarian countries.

7. Conclusions

The main issue to be concluded within the paper is that the Western Balkan countries cannot support their economic devlopemnt only with their natural resources and financial assistance from the donors and European Union. These categories could support the economic development only on short term basis but the sustainable economic development in long term should be supported by better level of education which will support the creativity and innovations in business activities. Other important catgeory for promotion of economic development is functional and reformed institutions, the rule of law, investment promotion and strategic vision based on knowledge based economy.

The European Integration is only the path towards better standards and reforms but not the final guarantor for sucess, sustainable economic development and international competetivness.

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