Tihomir Domazet
Croatian Institute of Finance and
Accounting
Zagreb, Croatia

REGIONAL COOPERATION STRIVING FOR COMPETITIVENESS AND FINANCE

Regionalnom suradnjom do
konkurentnosti i financija

Abstract

SEE economies are faced with solving current crisis and establishing the economic system based on growth and sustainable development. A challenge for the economics has been to find metrics to gauge the extent to which society has become more dependent on knowledge production. Although there is wide recognition of the importance of knowledge and intangible capital in fostering economic growth and social change, devising useful measures of these assets has been difficult. The primary task of each SEE economy is to establish a new economic model within a new economic system, though there is a need to put theory into practice by moving sustainable development into mainstream economics where that knowledge creates relations across sectors and institutions.

Developing, sustaining, and managing knowledge will also require a significant investment in education and knowledge, which indeed constitutes a new economics and development paradigm that should prevail in the global society in the time ahead.

In order to achieve wealthier status by all the people of each SEE country, it is necessary to leave the current economic model and to establish a new one as a new economic paradigm. Economic growth as one part of the new economic model should account for at least 5% of GDP annually in the long term.

The precondition for achieving the above-mentioned is to increase competitiveness of products that should be realized through regional cooperation. How to finance regional cooperation is, however, the next more important issue.

Key words: *SEE countries, economic crisis, new economic model, knowledge economy, regional cooperation*

JEL Classification: E22, F01, G01

Sažetak

Ekonomije JLE-e suočavaju se s rješavanjem sadašnje krize te sa definiranjem novog ekonomskog sustava s održivim rastom i razvojem. Izazov za ekonomiju je pronaći matricu da se ocijeni u kojoj se mjeri društvo temelji na znanju. Iako postoji široka svijest o važnosti znanja i nematerijalnog kapitala u poticanju ekonomskog rasta i društvenih promjena, osmišljavanje odgovarajućih mjera je teško. Da bi se uspostavio novi ekonomski model u novom ekonomskom sustavu, što je prioritetni zadatak svake ekonomije JLE-e, treba prihvatiti teoriju primjenjivu u praksi za održivim razvojem u ovim ekonomijama gdje to znanje stvara odnose između različitih sektora i institucija.

Razvoj, održavanje i upravljanje znanjem također će zahtijevati znatna ulaganja u obrazovanje i znanje te je to doista nova ekonomska i razvojna paradigma, u novim globalnim uvjetima i za vrijeme koje dolazi.

Da bi se postigao bogatiji status svih ljudi i svake zemlje jugoistočne Europe potrebno je napustiti postojeći ekonomski model i utvrditi novi kao novu ekonomsku paradigmu. Ocjenjuje se da ekonomski rast mjeren BDP-om (n)ovim ekonomskim modelom treba biti najmanje 5% prosječno godišnje u razdoblju koje nije kratkoročno.

Preduvjet za postizanje navedenog je konkurentnost proizvoda koji bi trebao biti realiziran kroz regionalnu suradnju. Međutim, financiranje regionalne suradnje, odnosno konkurentnosti, sljedeći je važni korak koji treba riješiti.

Ključne riječi: *zemlje jugoistočne Europe, ekonomska, novi ekonomski model, ekonomija znanja, regionalna suradnja i regionalna konkurentnost*

JEL klasifikacija: E22, F01, G01

Introduction

The countries of South East Europe (SEE: 1. Albania, 2. Bosnia and Herzegovina, 3. Croatia, 4. Kosovo, 5. Macedonia, 6. Montenegro, 7. Serbia, 8. Bulgaria, 9. Greece, 10. Hungary, 11. Romania and 12. Slovenia), or their economies, have been hit hard by the global economic downturn, which started in 2008 [3, p. 3]. The debt crises (of Greece, but also the upcoming crises in Hungary, Croatia, Slovenia, and other countries) are aggravating the downturn. Taking all that into account, it is correct to argue that region of SEE is “most sharply affected by falling capital flows” [26, p. 126] and “worst hit by this economic crisis” [20, p. 17].

Following the political and economic analytical approach, however, the UN ECPD book [3, p. 1] was practically the first amongst a number of analysts that predicted the Greek crisis.

The crisis as a term, however, is used in an inappropriate way. When it comes to “global crisis”, obviously, it is questionable whether it is possible to use term “global”, because some countries from Far East (China and others) are not in crisis. From the beginning, European Union financial and economic crisis has been called “debt crisis”, due to Greece’s sovereign debt amounting approximately 150% of GDP. This is also inadequate, because Greece GDP represents less than 3% of EU GDP, but more important, debt of most EU countries is a consequence rather than a cause of the crisis. Local politicians very often diagnose SEE crisis as a consequence of the Global Recession, the name also given to the global crisis, but that is not the complete truth.

As it is previously mentioned, SEE countries have been hit hardest by the crisis through economic downturn and, in general, the definition of the causes of the crisis (the first item is not directly related to Greece) is as follows:

1. Transformation into capitalist system and private ownership in an inappropriate way, so-called “tycoons’ privatisation” of former state assets or state enterprises;
2. Inadequate economic policy based on neoliberal economic thought;
3. Great Recession’s spillovers;
4. Corruption; and

5. Insufficient knowledge within economic policy [2, p. 57].

It should be reminded that most of SEE countries were hit by the crisis in the 1980s. The crisis was over, as most people thought, and the new states were looking for democracy development and economic prosperity. Today, however, more and more people are convinced of the loss of one decade or two, mostly because economic prosperity has not been achieved as it was expected.

It seems that most SEE countries and their economies are at the new beginning. SEE economies are facing the issue of solving the current crisis and the challenge of establishing the economic system focused on growth and sustainable development. In order to achieve wealthier status by all the people of each SEE country, it is necessary to leave the current economic model and to establish a new one as the new economic paradigm. Economic growth as one part of the new economic model should account for at least 5% of GDP annually in long term. One of the preconditions to achieve some of the above-mentioned is to increase competitiveness of products that should be realized by regional cooperation.

SEE current status as a consequence of its own weakness and influences from abroad

There are a lot of people from different fields of interest including politics, economics, strategy, energy industry, transport, geoeconomics, etc. that have shown their willingness to boost economic and social progress of this region as well as states that share it.

Most of these experts, unfortunately, have not understood history, tradition, relations and other relevant and specific subjects related to SEE.

The traditional SEE, South East Europe, represented a potential geopolitical prize in the struggle for European supremacy. The traditional SEE or the Balkans involved head-on competition among three imperial rivals: the Ottoman Empire, the Austro-Hungarian Empire, and the Russian Empire. There were also three indirect participants who were concerned that their European interests would be adversely affected by the victory of a particular protagonist: Germany feared Russian power,

France opposed Austria-Hungary, and Great Britain preferred to see a weakening Ottoman Empire in control of the Dardanelles than the emergence of any one of the other major contestants in control of this region. In the course of the nineteenth century, these powers managed to contain Balkan conflicts without prejudice to anyone's vital interests, but they failed to do so in 1914, with disastrous consequences for all.

The importance of SEE in the world has been emphasized in many ways. For instance, one of the most prominent analysts in geopolitics, Harold Mackinder, stressed the geostrategic importance of the region. Hence, he popularized his "heartland concept" by the famous dictum:

*Who rules East Europe commands the Heartland;
Who rules the Heartland commands the World-Island;
Who rules the World-Island commands the world.*

Today, SEE is the least developed region which needs new complex paradigm, appropriate economic policies, and sustainable development.

This region represents one-seventh of the total European population, but it is producing only 6% of European GDP per capita – we should conclude that this

region is the poorest in Europe – with widening discrepancy with Europe in the standard of living.

In 1913, the average person in this region had got 53% of European GDP per capita; sixty years later (1973), he/she had 48% of European standard, and in 2010 only 41%.

In these circumstances, where Western Europe economies are more and more lagging behind other developed economies, SEE economies are far below Western Europe and, consequently, the level of development of each SEE economy in the year 2011 is relatively lower than it was in the year 1989, compared to the level of Western Europe. After years of euro integration, economic transition, and similar measures taken by SEE countries, one has to conclude that the economic position of these states and SEE region as a whole is relatively lower than before the beginning of transition.

Economic position of Europe countries measured by GDP per capita related to USA shown in Table 2 suggests that SEE countries like Hungary and Croatia are at relatively lower level as a consequence of economic policy implemented in last two decades, at least.

In order to put more light on the current SEE economic position, Table 3 shows the difference between Gross

Table 1: The Balkans (South Eastern Europe), 1913-2010 and its role in Europe

Year	South Eastern Europe			% in Europe		
	Population (000)	GDP (mil.)	GDP/cap.	Population	Volume of GDP	GDP/cap.
		PPP US\$ from 1990				
1913	42.730	69.223	1.620	12,5	6,7	53,2
1950	57.991	95.403	1.645	14,8	6,0	40,8
1973	71.467	338.693	4.739	15,2	7,3	47,8
2003	77.220	486.720	6.303	15,0	5,6	37,6
2010	75.865	578.947	7.631	14,6	6,0	41,3

Source: [24, p. 9]

Table 2: GDP per capita, some SEE countries compared to other European countries

Country	GDP per capita (US\$ from 1990.)			Indices (US = 100)		
	1913	1973	2005	1913	1973	2005
Austria	3.465	11.235	22.135	65,4	67,3	71,6
France	3.485	13.114	21.554	65,7	78,6	69,7
Germany	3.648	11.986	20.521	68,8	71,9	66,4
Hungary	2.098	5.596	8.612	39,6	33,5	27,9
Italy	2.564	10.634	19.502	48,4	63,7	63,1
Slovakia	1.672	n.a.	10.345	31,5	n.a.	33,5
UK	4.921	12.025	22.709	92,8	n.a.	73,5
USA	5.301	16.689	30.911	100,0	100,0	100,0
Croatia	1.398	5.685	8.099	26,3	34,1	26,2

Source: [24, p. 9]

national income, GNI and GDP. This is a very significant relation that makes the difference between available amount in any country measured by GNI and produced amount measured by GDP. If GDP is larger than GNI, the difference, mostly related to the interest and dividends of non-residents, would outflow from original country. This is explained in System of National Accounts of UN: “Levels of GDP or, alternatively, gross national income (GNI) per head in different countries are also used by international organizations to determine eligibility for loans, aid or other funds, or to determine the terms or conditions on which such loans, aid or funds are made available. When the objective is to compare the volumes of goods or services produced or consumed per head, data in national currencies must be converted into a common currency by means of purchasing power parities and not exchange rates. It is well known that, in general, neither market nor fixed exchange rates reflect the relative internal purchasing powers of different currencies. When exchange rates are used to convert GDP, or other statistics, into a common currency, the prices at which goods and services in high-income countries are valued tend to be higher than in low-income countries, thus exaggerating the differences in real incomes between them. Exchange rate converted data must not, therefore, be interpreted as

measures of the relative volumes of goods and services concerned. Levels of GDP, or GDP per head, in different countries are also used to determine, in whole or in part, the size of the contributions which the member countries of an international organization make to finance the operations of the organization” [19, p. 235].

Gross National Income accounts for these flows in and out of the country. For many countries, the flows tend to balance out, leaving difference between GDP and GNI.

The Table 3 suggests that while all the SEE economies produce a lot of income per inhabitant, GNI shows that less of it stays in the country, which means that GNI per capita is lower than GDP. GDP produced in the country flows out of that country; it means that the portions of GDP available for domestic residence are ranking from 44.9%, in Albania to 96.9% in Greece. The differences are related to interest, dividend etc. On the other hand, all old EU countries (except Luxembourg) have a rather larger GNI than GDP, in the sense that the differences are result of inflow related to the interest and dividends also from SEE countries. In addition, perhaps it may be concluded, although currently without precise data, that the differences between GNI and GDP before transition were not so huge, if they existed. Someone could also conclude that economic, trade, and other relationships

Table 3: Relations between GNI and GDP per capita 2010 of SEE countries

	GNI pc US\$	GDP pc PPP US\$	Index: GNI/GDP
<i>A/ EU Candidates</i>			
Albania	3960	8817	44,9
Bosnia and Herzegovina	4770	8590	55,5
Croatia	13870	19516	71,1
Kosovo	3290	-	-
Macedonia	4570	11159	41,0
Montenegro	6750	13016	51,9
Serbia	5630	11281	49,9
<i>B/ EU Members</i>			
Bulgaria	6270	13780	45,5
Greece	26940	27805	96,9
Hungary	12850	20029	64,2
Romania	7840	14287	54,9
Slovenia	23860	27063	88,2
<i>C/ EU members main trade partners with SEE countries</i>			
Germany	43110	37260	115,7
Italy	35150	31555	111,4
Austria	47060	40005	117,6
France	42390	33820	125,3

Source: World Bank (2012), Golden growth: Restoring the lustre of European economic model. Washington, World Bank.

between SEE countries and the EU, primarily those which run such activities, are in favour of EU members, in this circumstance Germany, Italy, Austria, and France.

The data from the above table suggest that SEE transition under Washington consensus and EU assistance failed.

There are politicians that see the causes of the current crisis in the global crisis, also known as the Great Recession. This paper does not search for the causes of the Great Recession, but today it should be clear that “Collapse of Bretton Woods” was a beginning of this crisis: the collapse of Bretton Woods in 1971 inaugurated a new stage, characterized by the development of globalised production and the domination of international financial market. On the other hand, EU crisis, mostly called the debt crisis, is primarily caused by non-functionality of the EU and, especially, running common currency without appropriate supportive basis. However, these crises do have impact on SEE economic and financial crisis.

What ought to be done in this remote corner of Europe, which itself is in troubles? Something fundamental is happening on the world scale, but this region cannot have considerable influence on those changes. The lesson is that, without any doubt, it should modernize by strengthening multilateralism and not by abandoning it. It must change its old concepts and constructing labels, not its multilateral commitments.

In this part of the old continent, we should find our own way out of the trap in which we are at the very moment. No longer can the old European, Japanese, or American models serve as the guide; it has to emerge now, in different conditions from those in the past successful models.

It is important to realize that the global economy has entered a new danger zone with little running room as some European countries are resisting difficult truths about the common responsibilities for a single currency.

The credibility on debt and budget deficits could restore confidence and with the focus on efficient, now forgotten project, could spur growth of these economies, boost productivity, and create new jobs: under these conditions SEE can start a new upturn, which will break the existing tendencies.

In summary, it can be concluded that SEE position

depends on its own economic and political powers against influence from abroad.

The lesson from all previous crises is that the later you act, the more you will have to do and the more painful it will be.

Regional competitiveness

A well-functioning competition regime is an important component of any modern economy. By ensuring a level playing field for businesses, it helps promote investment and growth, as well as benefit consumers.

One of the key elements of future economic model of SEE economies should be a regional cooperation aimed at enhancing the competitiveness of local industries and products on the global markets.

It should be reminded that “...competitiveness is defined as the ability to produce goods and services which meet the test of international markets, while at the same time maintaining high and sustainable levels of income or, more generally, the ability of (regions) to generate, while being exposed to external competition, relatively high income and employment levels’. In other words, for a region to be competitive, it is important to ensure both quality and quantity of jobs” [from European Union (1999), *The Sixth Periodic Report on the Region*].

It is also necessary to remind of the major schools of economic theory that carry implications – explicit or implicit – for “regional competitiveness” including:

- A. Classical theory
- B. Neoclassical theory
- C. Keynesian economic theory
- D. Development economics
- E. New economic growth theory – Endogenous growth theory
- F. New trade theory

Possible regional competitiveness should be considered from microeconomic and macroeconomic point of view.

At the *micro-economic* or firm level, there exists a reasonably clear and straightforward understanding of the notion of competitiveness based on the capacity of firms to compete, to grow, and to be profitable. At this level, competitiveness resides in the ability of firms to

consistently and profitably produce products that meet the requirements of an open market in terms of price, quality, etc. Any firm must meet these requirements if it is to remain in business, and the more competitive a firm relative to its rivals, the greater will be its ability to gain market share.

At the *macro-economic* level, the concept of competitiveness is much more poorly defined and more strongly contested. Sometimes a nation's or region's competitiveness is presented as a central goal of economic policy, arguments abound as to precisely what this means and whether it is even sensible to talk of competitiveness at a macro-economic level at all. It should be admitted that the concept of national competitiveness is essentially "meaningless". Hence, it is misleading and incorrect to make an analogy between a nation and a firm. In addition, whereas firms can be seen to compete for market share and one firm's success will be at the expense of another's, the success of one country or region creates rather than destroys opportunities for others, and trade between nations is well known not to be a "zero-sum game". Finally, the competitiveness has to be directly connected to productivity or, figuratively speaking, "you are what you do".

A regional component is essential to coping with the global trends in economics, especially in the region with low productivity such as SEE. In spite of their relevance to the understanding of competitiveness, different theories often lack a territorial dimension that is so crucial for understanding regional competitiveness. The obvious source for such theories is the field of economic geography, which may be taken to include three streams of literature: (1) economic geography proper, (2) regional economics, and (3) so-called "new economic geography" within economics.

The economic geography has drawn heavily on neighbouring disciplines. In discussing regional competitiveness, three basic conceptions of regional competitiveness are as follows:

1. *Regions as sites of export specialization;*
2. *Regions as source of increasing returns; and*
3. *Regions as hubs of knowledge.*

Following the above-mentioned, SEE as the *region* has to become a *site of export specialization*. While most economists consider the primary concept as the "production

function", linking a firm's (or nation's) output to key factor endowments (labour, capital, and technology), the economic geographers see the geography of production in terms of a "location function" in which the location of economic activity is to be explained in terms of the geographical distribution of key "location endowments" (availability of natural resources, labour supplies, access to markets, and so on). In essence, regions "compete" with one another to attract economic activity on the basis of their comparative endowments of these "locational factors".

More important, SEE region has to establish and develop its export-orientated industries (tradable sector). This is in fact a range of *regional export-based and export-multiplier models*, many of which are regional extensions of the basic Keynesian income model.

Besides, SEE region has to be perceived *as source of increasing returns* as the concept of a revival of Kaldorian models of *cumulative regional competitiveness* points out.

In summary, regarding competition it is crucially important that SEE region's output growth is assumed to be a function of the demand for its exports, as in the previously mentioned model or Keynesian regional multiplier. The demand for the region's exports – its "competitiveness" – is assumed to be a function of the rate of increase in global demand and the rate of increase of the region's product prices relative to global prices. The latter in turn depend on the rate of wage growth minus the rate of productivity growth (i.e. the change in wages per unit produced), which itself will be higher the faster the growth of SEE region output (the so-called "Verdoorn effect"). The key element in this circular and cumulative process lies in the way in which increased output leads to increased productivity. More important, this approach has to apply on industry or concrete products.

Taking into account the current situation and the fact that foreign savings will not be available in the near future, in order to boost growth economies will have to rely on knowledge, which is very often called the knowledge-based economy. It means that SEE region has to create economic model that regards regions as hubs of knowledge and draws heavily on the notion of innovation, based on Schumpeterian and evolutionary economic insights. Innovation is seen as an interactive learning process that

requires interactions between a range of actors, such as contractors and subcontractors, users and customers, competitors, as well universities and other institutions of higher education, providers of consultancy and technical services, state authorities etc.

Given the fact that regional competition is also based on business strategy economics, we should emphasize the *cluster theory*. Perhaps the most influential representative of business strategy economics is the *cluster theory* of Michael Porter. This micro-economically based theory of national, state, and local competitiveness is put within the context of a global economy. According to Porter, to be competitive, firms must continually improve operational effectiveness in their activities while simultaneously pursuing distinctive rather than imitative strategic positions. His argument is that the existence of geographical clusters encourages both of these requirements for firm competitiveness, by encouraging the formation of regionally-based relational assets external to individual firms but of major benefit to their competitive performance.

SEE region approach to global competition

Any change from the old to the new or any modification in the way a society behaves must have economic consequences, and also must be limited by economic considerations.

Obviously, we live in the world that is simultaneously shrinking and expanding, growing closer and farther apart. National borders are increasingly irrelevant. And yet globalism is by no means triumphant. The economic dimensions of globalization have attracted the most popular attention, much of which has been negative due to the frequency and variety of conflicts for which the process is blamed.

The World, the new one, which is currently in the phase of establishing, is expected to be bipolar and thus consisting of the US and China. The EU intends to be equal player to the ones mentioned previously, but before that it has to resolve the crisis and consolidate its own power.

The New World, an outcome of the transition from the post-WWII era to something New, brings about an evolution in many dimensions, but for SEE the most

important is to take into consideration some quite new dimensions, for example:

1. The new economic *global* model directed towards resolving the excess debt (public and private), managing global capital flows, ending instability in currency valuations;
2. Rebalancing of geopolitical relations, possibly towards a multi-polar world, including China as a new great power;
3. Focus on a new energy regime and navigating through a peak oil to new sources;
4. Recognition of the New world in which 4th generational war becomes the dominant form of armed conflict (like insurgencies, piracy, failed states, terrorism etc.);
5. Demographics changes especially the age wave, meaning aging societies dying gracefully (or not), young societies growing to maturity, and the next fertility collapse following development of a male contraceptive.

In order to act on the new world table, the EU has recently called for the formation of a “banking union”, a proposal which the ECB seems to broadly support. However, like the fiscal union which came before it, the banking union may fail to impress investors sufficiently to end the crisis.

The EU is facing the great challenges, perhaps more than any large part in the world, i.e. it nears the end of its great gamble, attempting economic before political unification. The dilemma of choice nears, to political unification or economic fragmentation. It seems that the political dysfunctionality is Europe’s greatest challenge.

A banking union would need to have several different features, all of which are problematic. The key features are:

1. *Common capital requirements and supervision;*
2. *A common deposit guarantee system (DGS); and*
3. *Common funds to recapitalize banks.*

A banking union would be based broadly on four essential building blocks: (1) integrated financial framework, (2) integrated budgetary framework, (3) integrated economic policy framework, and (4) democratic legitimacy and accountability.

Although the existing problems have not gone away, most obviously, hard decisions still have to be made about whether to give more help to Greece, later Spain etc. Given that agreeing on a banking authority will take several months, the more fundamental constitutional changes needed to back a banking union and Eurobonds seem so remote. The outlook for the European and world economy is darkening. The recession will undermine normal politics and create conditions for markets to take fright.

The latest measures taken to solve EU crisis include establishing so-called banking union and promoting two-speed EU. The latter is an opportunity for SEE.

It seems that the EU took an important step in the right direction by agreeing a pathway towards a banking union, but that they did not do enough on crisis resolution. Still, there are a number of analysts that view this as a very large step – possible in the wrong direction. On the other hand, the Bundesbank stressed that the bank recapitalisation through a full banking union is not possible without a political union. As a consequence, some analysts assume that EU crisis will not be solved for the next two decades. It seems Germany is firmly opposed to a Eurobond and the ECB is not to monetize debt. Renown and most influential German economists believe that the banking union is good for Wall Street and The City of London, and bad for Germany.

One of the great obstacles to establishment of sustainable development is the neoliberal economic system promoted by economic leaders including the US and the EU. Someone stressed that this is the systemic crisis, following the systemic crisis before the Great Depression emerged. A systemic crisis occurred at the end of the 1920s, when an earlier liberal form of capitalism went into crisis following the stock market collapse of 1929. Another developed in the mid-1970s, as the regulated form of capitalism of the post-World War II decades stopped working effectively. In both cases, the crisis was followed by a thorough restructuring of capitalism. Today it appears that we are entering another systemic crisis, that dates to the late 1970s/early 1980s, and a number of people are looking to resolve crisis and save system at the same time.

We should emphasize the importance of the power shifts from West to East and the end of the post-WWII

regime and, as a consequence, we are seeing another western industry ceding dominance to eastern competitors, one more step in a larger process.

There are some specific relations between competition and cooperation that SEE economies have to bear in mind, especially in the view of state intervention. The stronger the competition, the more likely it will become destructive. Such behaviour has been clearly identified with politicians, whose horizon does not go beyond the end of their mandate.

Market failures and some disruptive secondary effects of competition at the institutional level justify the state intervention to ensure that institutions act in a responsible manner. Increasing competition, however, calls for a development of specific cooperation strategies. The stronger competition poses a major threat to be overtaken or even to disappear if one cannot meet the challenge.

Nevertheless, given the above-mentioned specific relations between competition and cooperation, SEE business sector (i.e. regional enterprises) will have to enhance regional advantage that goes beyond infrastructure (mostly transport) and agriculture, at least in the following areas: energy, water and irrigation, tourism, pharmaceutical industry, construction. The project of opening up landlocked countries is more specific and needs support of other countries as well as of the EU.

Financing SEE development based on regional competitiveness

Financing SEE development based on regional competition is crucial, following resolving the crisis and establishing the regional cooperation.

The biggest lenders, including Italy's UniCredit, Austria's Raiffeisen and Erste Group, as well as Italy's Intesa Sanpaolo and France's Société Générale, say they are committed to the region. But UniCredit is shifting the focus of its strategy towards its most profitable markets, including Poland, Turkey, Russia, and Croatia. Pressure on banks' balance sheets is producing a credit "crunch" in certain countries, particularly in Hungary.

In the year 2011, foreign banks clashed with the government over its aggressive measures to reduce the

burden of outstanding mortgages, which forced them to take the currency losses.

Much tighter restrictions on foreign-currency loans have been imposed since the crises in Hungary and elsewhere have become part of broader changes in the business models of western financial institutions. Where many previously relied heavily on wholesale and parent bank funding of regional subsidiaries, now the focus is on funding through local deposits, and reducing excessively high loan-to-deposit ratios in these SEE countries.

SEE countries must start improving competitiveness and continue improving the investment climate. SEE business entities should not remain small and unproductive. Just the opposite, they must become increasingly able to attract foreign investors, capable of taking advantage of a pan-European market that will only get bigger and more competitive, and progressively competitive in the global markets, where they have to contend with enterprises from East Asia and North America.

SEE will have to operate within European labour market that will require a lot: increasing the competition for jobs, improving labour mobility within Europe, fixing how work and welfare interact, and rethinking immigration policies. These changes will not happen without share of regions like SEE.

Given the fact that the competitiveness equals productivity, to help redress growing productivity gaps in SEE countries, their governments will have to quickly improve the climate for doing business. The more dynamic countries in SEE will have to do all this as well as to invest in infrastructure.

Agriculture is one of the greatest challenges, thus, the opportunity for SEE. It should be noted that the opportunity that Europe might really be missing involves regional trade in agriculture. The European Union pays for its agricultural trade policies the roughly €50 billion a year the European Commission spends on agriculture and rural development. The first step in promoting competitiveness of agriculture could be the establishment of SEE agriculture bank that will help deliver regional products to large EU markets.

According to the theory, the capital in the different fields of production, because the supply and demand are

not balanced, brings different amount of profit. This kind of capital movement is the competition. In such approach, SEE has to improve competitiveness of concrete industries and products, and any imbalance which will be accumulated as a result of the supply and demand relations will boost its own production and productivity, create new jobs and accumulation based on real productivity.

SEE has to consider implementing its own regional economic model, dealing with regional competition. It should accept that both the Anglo-Saxon model of *laissez-faire* and the European model of deficit-driven welfare states are failed. It seems the right balance today requires creating jobs partly through additional fiscal stimulus aimed at productive infrastructure investment, and possible agriculture development. It also requires more progressive taxation; more short-term fiscal stimulus with medium- and long-term fiscal discipline; lender-of-last-resort support by monetary authorities to prevent ruinous runs on banks. Real obstacle to this new model based on competitiveness is capacity of knowledge of SEE countries' key players.

As the pre-crisis growth model of relying heavily on domestic demand and massive capital inflows has proven to be unsustainable for SEE, the question arises whether:

- a new growth model may be needed for this region, or
- the existing model should be revised in a way that it will be less exposed to external shocks.

Whatever the form, there are basically three ways in which SEE growth model should be based:

- (i) implementing $S > I$ (Savings – Investment) model where national savings would be dominant in economic model;
- (ii) structural reforms aimed at increasing productivity; and
- (iii) adjustments in macroeconomic and financial policy.

Conclusion

Slowly people become aware that the post-WWII economic and geopolitical order dies a little every day. The transition might be long and difficult. We can only guess at what lies

beyond and continue to manage this transition in the most effective way. Yet we need not fear these things, as they're less dangerous than what we survived in the 20th century.

After the Thessalonica summit of the EU with the Western Balkans, regional cooperation has become one of the conditions of sustainable development.

Regional cooperation is institutionalized via the free trade agreement (CEFTA) and via the Regional Cooperation Council (RCC) based in Sarajevo, but it is expected the EU will to boost SEE cooperation, notwithstanding membership in the EU.

It should be noted that the particular national economy needs, for the sake of its own health at a particular point in history, to shift from local advantage to joint activities in a broad EU enlargement process and globalized economy. However, it would be wise to make distinction between various kinds of comparative advantage – specifically, to distinguish between rent-seeking activity, and activity that provides a genuine advantage for each economy and comparative advantage, which is provided through regional corporative cooperation.

SEE regional labour market integration is expected to increase due to complementarities in supply and demand, and the region as a whole is also faced with significant outward migration.

This region should look towards a sustained period in which the convergence processes, which characterized the decade prior to the current financial and economic crisis, will either not proceed or proceed at a much reduced pace. On the other hand, deleveraging processes, difficult moves to deal with the high debt positions of the private sector, the weak banking system and the feedback effects on sovereign debt will characterize many of the low-income economies in Europe, most of them in SEE. The driving force of foreign direct investment and the build-up of cross-border production networks will also show weaker momentum compared to the period before the crisis. Adjustment processes to deal with the pre-crisis neglect of building-up a viable tradable sector and sufficient and modernizing export capacities will have to gain priority, and the use of different sets of policy instruments (particularly in the areas of training, labour

market, industrial and regional policies) will have to be strengthened.

SEE economies and their key players would soon or later learn that the regional competitiveness is one of the key elements of a new economic model to be implemented. Taking into account that the post-WWII economic model is over and that the new one should be based on new and higher requirements, the competitiveness of SEE enterprises and products on the global markets is crucial.

SEE competitiveness and cooperation have to be achieved by financing based on all stakeholders, primarily on financial institutions, but this model includes government measures too.

Let's remind to the most important: lack of knowledge combined with the political game of voters create a great fear among politicians about how to deal with a shift in societies and the region. All members of society must dare to climb up and watch the glorious view of the top, certainly by knowledge. It is possible to throw the backpack with all the old knowledge away, see the world through new eyes and formulate challenging visions. SEE and its countries have the capacity being in a growing global commitment to a sustainable economy and society, but they need to look more at the big picture than to go into details.

Economies and societies of SEE have to create good and sustainable living conditions for all, even though those people are dissimilar and live in different places on earth. If people feel good, not just in our neighbourhood, we also feel good.

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Tihomir Domazet

is a professor of Economics at the UN European Centre for Peace and Development, visiting professor in a number of universities and President of Croatian Institute of Finance and Accounting. He earned his PhD in London, UK. Recently, he has announced a research on new economic model and new economic theory vision. He wrote more than 100 scientific contributions. His recent book, written in collaboration with other authors, "Facing the future of economic policy – Causes of the crisis from the political economy point of view" (2010) provides more insights on the Great Recession. He is also the author of modern laws and regulations in the fields of finance, accounting, auditing as well as of non-for-profit accounting and internal auditing. He was Deputy Minister of Finance (2000-2004). There are, inter alia, more affiliations: Ambassador for Peace (UN UPF); Vice President of UNCTAD - ISAR; Board Member of European Accounting Association, Brussels; cooperation with EU, World Bank, IMF, UNCTAD, OECD.