American Journal of Economics, Finance and Management
Vol. 1, No. 5, 2015, pp. 445-459
http://www.aiscience.org/journal/ajefm

Development of South-Eastern Europe: The Role of Industrial Policy

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Abstract

In the paper are analysed post-socialist development in South-East Europe (SEE) and the role of industrial policy. Countries of the SEE introduced market and other post-socialist transition reforms applying the so-called 'shock therapy', with subsequent transitory drop in GDP, standard of living and industrial production. Particularly industrial collapse happened to appear as the 'Achilles heel' of the SEE economy. The *SEE 2020 Strategy* tends to reverse current trends from the consumption-led model of growth to export-led and foreign direct investment (FDI) driven type of growth, based on accelerated technological development, growth of competitiveness and completion of socioeconomic reform. However, there has been no evidence that is the FDI type of growth would be more efficient for regional development than that based on regional savings, remittances and resources of domestic investors. We have shown that the FDI in the SEE are three times lower than the amount of regional savings and remittances. In recent years domestic sources tremendously exceeded the total sum of FDI. The current situation and future prospects call for developing a common approach in this region, and concomitant supra-national regulations and institutional arrangements.

Keywords

South-East Europe (SEE), Transitional Economies, Post-Socialist Development, Industrial Policy,
Foreign Direct Investment (FDI)

Received: May 25, 2015 / Accepted: June 10, 2015 / Published online: July 8, 2015

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1. Introduction

The countries in South-East Europe (Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Kosovo and Metohija, Montenegro and Serbia) introduced market reforms in accordance with the so-called 'shock therapy', followed by a transitory drop in almost all macroeconomic indicators, i.e., in GDP, employment, standard of living, industrial production, and so forth. (The geographical scope of this group of countries coincides with the 'Western Balkans'.)[1] Such approach to post-socialist reforms has been the mainstream in ideological and political changes after the fall of the Berlin wall, paralleling the predicaments of the Washington Consensus, viz., privatization, liberalization and stabilization (Williamson, 1990). The very idea of the 'shock therapy' was to introduce quick and irreversible changes towards market economy. The former Yugoslavia had been for a long time an exception to this pattern. In the second half of 1990s, instead of the 'shock-therapy', the so-called 'gradualist approach' was favoured, which paid particular

1 Already at this point we emphasize that this group of countries is heterogeneous, the key differences among them deriving from various historical paths, dominant ideologies, cultural patterns, development phases, demographic characteristics, institutional and organizational cultures, ethnical structures, etc. However, despite these differences, they have all declared, at least nominally, a number of common strategic goals, viz.: a readiness to be better integrate into EU economic flows, in parallel to more intensive cooperation within and/or with the EU, openness to trade, FDI and transfer of know-how, effort to improve on the poor technical infrastructure, integration of domestic and global labor markets, an effort to improve on the current slow competitiveness and productivity, a readiness to combat deindustrialization, a readiness to combat high unemployment, decisiveness to eliminate corruption and crime, etc.

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attention to the significance of institutional and legal framework, while decreasing the social costs of reforms (Nellis, 1999; Stiglitz, 1999).

As for the former Yugoslav Republics, they seem to have failed in attracting the necessary FDI, ostensibly for a lack of intraregional integration and intangible resources (Broadman et al.2004). In sum, the inflow of FDI was limited and insufficient in the majority of Balkan countries (Demekas, et al. 2005a), especially in relation to the CEE (Central-East European) countries (Christie, 2003; Estrin and Uvalic, 2013). Demekas, et al. (2005b) reported that the countries of SEE can attract FDI by adopting FDI-friendly policies (key are the policies that affect relative unit labor costs, the corporate tax burden, infrastructure, and the trade regime). They find that high levels of labor costs, corporate tax and import tax can discourage FDI. Also, they indicated that a liberal trade regime and reforms in the infrastructure sector can encourage FDI, just as improving governance and reducing corruption may not have a major direct impact on FDI.

Gray and Jarosz (1995) pointed to the fact that the majority of the SEE region is considered as the periphery of the EU, in geographical, economic and social terms. In these countries, the so-called transition to a market-oriented economy included a reform of traditional institutions and the introduction of new tools for adapting traditional organizational ways and institutional transformation driven by socio-economic and political change (Tsenkova, 2012).

In this paper, some global challenges of transitional economic development in the seven countries of the SEE are analyzed, together with the role of industrial policy, and the possibilities to reverse the trend from a consumption-led model of growth to an export-led and FDI driven type of growth, vis-à-vis the backdrop of pertinent propositions from the Strategy of SEE 2020. This Strategy focuses on stimulating the key long-term drivers of growth for the region, as compared with the challenges these countries have been facing since the beginning of 1990s, especially those relating to the uncertainties of globalization; the erratic introduction of regulations (reflected either via regional convergence of regulations, similar to the regulatory regimes worldwide, which includes place-based policy and policy-oriented coordination between regulatory authorities; or via highly fragmented regulations used as a protectionist tool at country level); and the barriers pertaining to the rather poor absorptive capacity of the sectors and the SEE economies for effectuating more FDI.

The transitional gap in the SEE countries was widely attributed to international financial institutions and pertinent experts; to the mistakes in the introduction of macroeconomic policies, i.e., non-readiness for market reforms; to some lacking necessary reform steps, and to the limitations of the political system. During the second half of the 1990s, the shock therapy was abandoned in favor of the so-called gradualist approach. This is the main motif and reason why we have chosen to examine the transformation of the socio-economic development of the SEE countries in the transitional period and their future perspectives, bearing in mind their post-socialist contextualizing, as well as the importance of industrial policy.

2. Theoretical Background and Transitional Context

Assuming that the level of FDI depends on the local institutional arrangement, Fabry and Zeghni (2010), pointed to the fact that the weak FDI level in the seven SEE countries has resulted from ill-adapted institutions. Bijsterbosch and Kolasa (2009) have argued that FDI is not the only channel through which international technological diffusion may occur. The connection between FDI and economic growth in developing countries has a theoretical background in the framework of the international technology diffusion (Barro and Sala-i-Martin,1997), in the theory of endogenous growth (Romer, 1990), as well as in the theory of neoclassical growth (Wang, 1990)which assumes that increasing the knowledge applied to industry can be expected as a function of FDI. Cohen and Levinthal (1989) have argued that the capacity of local firms to absorb knowledge from FDI can be conditioned by their innovation effort, as well as by competitive pressure, financial market development and regulations.

The empirical evidence on the role of FDI in transition economies has been different. Mencinger (2003) has argued that the relationship between FDI and GDP growth is negative in eight Central and Eastern European economies (in the period 1994-2001), because of the nature of FDI.

Discourse on economic dynamics and development change in post-socialist countries of SEE has centered on the conflicts between comprehensive vs. incremental planning; centralized vs. decentralized decision-making; top-down vs. bottom-up approaches, and interventionist vs. entrepreneurial market-driven planning (Altrock, et al. 2006). The transition to a market economy includes a reform of traditional institutions, particularly in some regions of SEE (Tsenkova, 2012). The economy in each of the SEE countries was different before the crisis, and, therefore, the consequences of the crisis are different in each of them. In 2008, in Bulgaria, Romania, Slovenia, Albania and Serbia, the growth of GDP was around 3%, while in the other SEE countries the rate was almost zero (GDP growth in the EU-27 was 1.0%). Global economic and financial crisis in SEE has been deeper than elsewhere, with low development regional status, low economic growth, high unemployment, with an informal economy, massive informal buildings, uncertainties relating to the impact of globalization, inappropriate institutional framework for the new development mode, poor technical infrastructure, huge public debt, poverty, refugees, and a prolonged regulatory gap in economy, investment, and development. Also, the completion of post-socialist transition reforms, now more in accord with the EU Community acquis (acquis communautaire), is undoubtedly important, also as a precondition for a subsequent inclusion into the Union. Still, there have been a number of open issues regarding the dominant neoliberal approach to resolving economic and social issues during development.

Concomitant collapse of industrial development appeared to be the 'Achilles heel' of the SEE economy, 'stuck' in transition, especially after the outbreak of the crisis in 2008 and the latter national crises. The crisis persisted despite the fact that these countries were steadily improving their trade within the EU, mostly via massive inflow of FDI, and the economic openness directed to the EU 'anchor'. The economic development of the SEE countries is a reflection of the previous transitional development policy, ingenuity gap and other factors. On average, the socioeconomic performance of this region in the past 5-6 years has been poor, and no effective improvement has been achieved as compared to the pre-crisis period. These countries have experienced an additional decrease in productivity, reform stagnation or reversals, high unemployment, mostly steady inflation, a slowdown in domestic demand, growth of remittances from abroad and regional development imbalances.

In analyzing the dynamics of the development changes in the SEE countries in the post-socialist period, we applied the method of simple moving averages (i.e. growth of GDP, GDP per capita, rates of FDI, public debt, and budget deficit). The method of moving averages is a calculation for analyzing data points by creating a series of averages of different data sets for the relevant fields in short-term or long-term cycles.

A particularly unfavourable characteristic within this mostly bleak development is a strong process of deindustrialization that took place in this region. Its negative consequences were intensified by large territorial differences in industrial development within the SEE countries, stemming either from the socialist period, or were generated under the circumstances of 'proto-capitalism'.

A number of influential European and regional commentators and institutions have recognized that the above-mentioned development trend, apart from its current non-sustainability, has generated a number of other negative impacts on the future development of the region, and, consequently, a new trend is needed - one with a view to redirecting the existing development trend. Such findings and aims have been reflected in a number of strategic documents, which have been recently adopted and promulgated, most notably, in the *SEE 2020 Strategy*. This Strategy focuses on stimulating innovation, skills and trade integration, with five main pillars: integrated, smart, sustainable, inclusive growth and governance for growth. Its basic idea is to reverse the current trends, from the consumption-led model of growth to an export-led and FDI driven type of growth, as a result of accelerated technological development, growth of competitiveness and completion of socioeconomic reform. There has been no mention of a new industrial policy for the SEE region, except that the establishment of industrial zones in some countries has been stipulated.

The SEE countries, like other former centrally planned economies, had been realizing for decades the development strategies based on industrialization, and industry played the most important role in many respects, viz., regarding its contribution to GDP formation, its share in total employment and its share in total international trade. Contrary to this, the neoliberal concept of development, introduced at the beginning of the post-socialist transition period, i.e., in the 1990s, has resulted in a sharp deindustrialization.

The above outlined features and institutional context represent the main theme of this contribution, which comprises a discussion on the following issues: 1) General challenges of socioeconomic development in the SEE countries (policy framework) followed by the presentation and interpretation of general data, key indicators and comparative analyses of industrial development in the SEE countries.; 2) Comparative presentation and assessment of the regional industrial development, also depicting some causes and consequences of this process, and focusing on the issues of deep deindustrialization in the transitory economies; 3) Discussions about development changes in the SEE countries, as well as some possibilities of reversing the current consumption-led model of growth to an export-led and FDI driven type of growth (based on the propositions of the *SEE 2020 Strategy*) and the importance of regional savings and remittances. Roles of FDI, regional savings and remittances are briefly commented; and 4) Comments on the new European reindustrialization strategy and some recommendations for the SEE countries. Conclusions and recommendations for the future industrial policy in the SEE countries are based on previous comprehensive analyses and findings. We are summarizing the challenges that the SEE countries have been facing with regard to their future (Zekovic and Vujosevic, 2014):

- Low development status of the entire region which is also very differentiated.

- Uncertainties relating to the impact of the globalization process, for instance, in terms of global cross-border capital flows, not fully known potential markets, a lack of foreign market knowledge etc.
- Inappropriate institutional arrangements and regulations for the new development cycle, firstly, in terms of the harmonization of solutions among the national legislative systems of the SEE countries. In this respect, at least two options may be in sight, viz, either a regional convergence of regulations, mostly in accord with similar regulatory regimes worldwide, for example, related to place-based policy and policy-oriented coordination between regulatory authorities; or the continuation of highly fragmented national regulations, mostly used as a protectionist tool (at country level). The convergence may be envisaged in a multitude of forms, combining various de iure and de facto arrangements.
- Poor technical infrastructure, particularly the poor links to the European TEN-T core network corridors, also including its bleak prospects until 2030.
- Huge public debt, while public finances are on the verge of collapse.
- Most influential international participants are not always supportive of the integration processes in this region. Since 1990, Central and East European economies have experienced increasing economic integration with the EU via trade and FDI (Traistaru et al. 2002).

3. Methodology

3.1. Comparative Analysis of Industrial Development in the SEE Region

In recent years, the SEE region has been facing a further slowdown of economic activities, with only erratically recorded slight improvements, viz.: a drop in industrial production, consumption and investment; persistent high unemployment, and growth of poverty. The main problems of the SEE economic and industrial development even before the global economic crisis have largely been a consequence of the process of transitional changes and the changes in the wider surroundings. These changes have had an impact on the socioeconomic and territorial concentration of development. The key problems have stemmed from an insufficiently competitive economy (industry), untransformed current structure, and a slow transitional process of privatization and the restructuring of enterprises. Among them, especially important are the relatively low level of economic and industrial activity, slow structural change, large regional disparities in development and disposition of industrial capacities, low level of investments, high unemployment, low competitiveness, a lagging in innovations, know-how, new technologies, a number of inefficiencies in the utilization of material inputs, and a lack of capital regional infrastructure.

Based on the available data or indicators of the structural changes (transition reforms, such as privatization, liberalization, marketization, etc.), at the beginning of 1990s, the SEE countries were on average undeveloped, as compared to the EU average. Despite the boosterish attitude of the leading ‘architects’ of transition policy changes, the reforms rendered a further decrease in economic and social performance. Particularly striking was the dramatic decrease in industrial employment in the period 1989-2012 by 1.33 million employees, as well as a ‘toxic’ decrease in the industrial share of the GDP (from 44.5% to 18.43%, in the same period) and gross added value. Paralleling a general trend of deindustrialization, the largest number of lost jobs was recorded in the industrial sector, particularly in Serbia, i.e., 700,810 (Table 1). Deindustrialization occurred as a direct result of the chosen direction of economic change from the beginning of 1990s, which has been demonstrated as a consumption-led model based predominantly on increasing services, mostly import-based and fuelled by an expansionary credit policy.[2] While industrial production in the countries of Central Europe has doubled in the last 20 years, in the Balkans it fell by 40-70% in the same period. The outbreak of the global crisis in 2008 – and the concomitant national crises – only accentuated the structural flaws, rendering them even more complex as the crisis prolonged.

It was a matter of few years, during which the corporate sector in the SEE region sank even deeper into a crisis, before many commentators were urging its thorough restructuring (see Bartlett and Prica, 2011, Schadler, 2011 Estrin and Uvalic, 2013, Sanfey, 2011, Mencinger, 2003, Kiss, 1997). While various approaches were suggested, they have almost all kept to a common denominator: recovery from recession would not be possible without new industrial development (Gligorov, 2013). Even prior to this, at the political and institutional levels of the SEE region, it was recognized that some common approach would have to be established with regard to investment policy. A document, adopted in Vienna in 2006, comprised the Ministerial Declaration, the statement of Business Advisory Centre for SEE, and the Regional Network of Foreign Investors Council.

2 Another set of factors has also made this course of development to easily materilize, viz.: previously accumulated socioeconomic problems; specific problems in the industrial sector; the impact of some market factors; a lack of an effective national industrial and regional development policy; a lack of competition and innovation policy; general developmental lagging, and poor institutional development.

Table 1. Indicators of Industrial Growth in the SEE Countries in the Period 1989-2012.

	Total employees, 1989	Industrial employees, 1989	Total employees, 2012	Industrial employees, 2012	Difference in industrial employees 2012/1990	Industry in GDP[3] (%, 1989)	Industry in GDP (%, 2012)
1. Albania			933,000	162,000	-	-	19.1
2. Bosnia and Herzegovina	1,085,308	471,955	684,508	128,682	-343,273	50.9	10.5
3. Croatia	1,618,204	566,615	1,395,000	220,376	-346,239	38.9	20.0
4. FYR Macedonia	530,386	213,523	682,448	113,440	-100,083	53.4	11.2
5. Montenegro	168,510	54,590	171,474	17,784	-36,806	36.1	14.65
6. Serbia	2,621,989	1,035,389	1,705,256	334,579	-700,810	45.2	21.8
7. Kosovo	243,441	86,232	115,120	32,885	-53,347	46.7	19.5
SEE-7 Countries	6,024,397	2,342,072	5,686,806	1,009,746	-1,332,326	44.5	18.43

Source: Federal statistics of SFRY, 1990, and National statistical data of the SEE countries (www.instat.gov.al/, www.bhas.ba, www.dzs.hr, www.stat.gov.mk, www.monstat.org/engwww.stat.gov.rs, data.worldbank.org, http://ask.rks-gov.net) http://data.un.org/CountryProfile.aspx?crName=ALBANIA#Economic).
* We will here follow a conventional political notion: 'Designation is without prejudice to positions on status, and is in line with UNSCR 1244, and keep to it throughout this text and tables.

Table 2. Some Economic Data on the SEE Countries (2012-2013).

	Albania	Bosnia&Herzeg.	Croatia	FYR Macedonia	Monte-negro	Serbia	Kosovo *	SEE Countries
1. Population	2,821,977	3,836,377	4,284,889	2,110,000	621,000	7,186,862	1,815,606	22,576,711
2. Total employment	933,000	684,508	1,395,000	682,448	171,474	1,705,256	115,120	5,686,806
3. Unemployment	173,420	552,751	363,411	274,900	167,000	792,888	268,104	2.592,494
4. GDP (in bill. €)	9.7	13.0	43.92	7.58	3.34	27.6	4.91	110.05
5. GDP p.c. (in €)[4]	3,437	3,130	10,294	3,592	3,378	5,279	2,704	4,544
6. Public debt (% of GDP)	60.6	44.3	56.3	33.3	51.1	63.7	23.14	55.5
7.Budget deficit (in % of GDP)	-3.3	-5.7	-5	-3.8	-4	-4.7	-5.1	-4.75
8. Inflation rate (%)	2.0	-1.2	3.0	0.94	0.3	9.5	2.5	
9. Central bank discount (in %)	3.0	7.02	7.3	3.25	7.6	9.5	10.2	

Source: Based on National Statistics of SEE countries, 2013 World Economic Forum, GCI 2013, UNDP, UN, 2013 CIA WORLD FACTBOOK, WB, 2012 http://data.worldbank.org/indicator/FR.INR.RINR and authors calculation.

Table 3. Summary of Comparative Analysis of Industry in SEE Countries (2012-2013).

	Albania	Bosnia&Herzeg.	Croatia	FYR Macedonia	Monte-negro	Serbia	Kosovo*	SEE Countries
1. Total employment	933,000	684,508	1,395,000	682,448	171,474	1,705,256	115,120	5,686,806
2. Industrial employees	162,000	128,682	220,376	113,440	17,784	334,579	32,885	1,009,746
3. Share of industrial employees (in %)	17.36	18.79	15.8	16.62	10.37	19.62	28,56	17.75
4. Level of industrialization (%)	5.74	3.35	5.14	5.37	2.86	4.65	1.81	4.47
5. GDP of industry (in billion €)	1.85	1.36	8.78	0.85	0.49	6.01	0.95	20.29
6. GDP of industry (%)	19.1	10.5	20.0	11.2	14.65	21.8	19.5	18.43
7. GVA[5] of industry (%)	19.0	13.0	26.0	18.0	6.0	16	-	19.5

Source: Compiled from National Statistics of SEE countries, 2013 World Economic Forum, WB, 2012, GCI 2013, UNDP, UN, 2013, and CIA WORLD FACTBOOK.

3 GDP – Gross Domestic Product
4 GDP p.c. – Gross Domestic Product per capita
5 GVA – Gross Value Added

Table 4. FDI, Remittances and Savings in the SEE Countries (2012-2013).

	Albania	Bosnia&Herzeg.	Croatia	FRY Macedonia	Monte-negro	Serbia	Kosovo*	SEE Countries
1. FDI (in % of GDP)	7.7	2.0	2.36	2.94	14.2	0.14	7.0	3.15
2. Remittances (in % of GDP)	10.9	12.9	2.43	4.0	7.5	10.4	8.9	7.0
3. Savings (in % of GDP)	14.0	14.0	20.2	26	0.4	12.5	18.0	16.68
4. Exports (in % of GDP)	31.8	36.2	42.2	52.6	40.3	41.0	20.1	39.95
5. GDP (in billion €)	9.7	13.0	43.92	7.58	3.34	27.6	4.91	110.05

Sources: National Statistics of SEE countries, Central banks, 2013 World Economic Forum, 2013, WB, 2012. http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT and 2013 CIA WORLD FACTBOOK, *First release*.

In the background, there was a general dissatisfaction of investors in terms of investment opportunities in the SEE countries, which instigated the work on this document and its adoption. A number of unresolved issues were addressed by the participants, viz.: the implementation gap in the usage of the key laws in the fields of investment, ownership and spatial planning; administrative barriers for new investment; long procedures for construction permits; long procedures for conversion of land use; insufficient supply of industrial land, particularly for green-field investment; a lack of a common strategy to counter more competitive European regions. In December 2006, Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Moldova, Montenegro, Serbia and UNMIK signed a document to amend and enlarge the Central European Free Trade Agreement (CEFTA), which stipulated an expansion of trade, smoother and faster investment, stable and predictable rules and the elimination of hindrances to investment. It was also recognized as the proper step towards easier inclusion of the SEE countries into the EU integration processes. This Agreement was preceded by the Energy Community Treaty, signed in 2005 by Albania, Bosnia and Herzegovina, Croatia, FYR Macedonia, Montenegro, Serbia and Kosovo, with a view to developing the SEE regional electricity market, as well as to stimulating overall economic development.

Apart from its peripheral position in Europe (a part of the ‘inner peripheries’’ of Europe, cf. Göler, 2005), and its poor competitiveness in the broader international context, the above-mentioned steps towards closer cooperation in the SEE region have been also urged by demographic and socioeconomic characteristics of the SEE countries: individually, they are small and economically weak (Table 2), meaning that better development prospects might be provided by the appropriate harmonization of individual national development policies.

More specific evidence on the state of development of the SEE countries also corroborates this thesis. The attained level of industrialization in the SEE region does not exceed 4.47%, with the industrial sector employing only 17.75% of the total number of employees. The share of industry in the GDP is 18.43%, as compared to that for the EU-27 (24.9%); and it is comparable to those EU countries with debt problems (for example, Spain, Portugal, and Greece). Similarly, the industrial sector in the SEE region generated only 19.5% of GVA (Table 3).

3.2. Interpretation and Discussion of the *SEE 2020 Strategy*: An Attempt to Reverse the Current Consumption-Led Model of Growth

The *SEE 2020 Strategy*, adopted by the representatives of the participating states at the end of 2013, represents an attempt to reverse the now still dominant consumption-led model of growth to an export-led and FDI driven type of growth. It should also direct the future development of this region more in accord with the developed countries of Europe. [6] Intentionally, this switch should be based on accelerated technological development, growth of competitiveness and the completion of socioeconomic reform. This ought to also change the structure of the GDP in this region, more in accordance with the EU average, for example, in terms of the share of industry in total exports. As compared to the EU, with the pertinent share of 80%, in the SEE countries total exports have been 39.95 % of GDP in 2012/2013 (Table 4). The SEE 2020 Strategy stipulates trade liberalization and facilitation, as the key policy that will increase exports and FDI, also implying that this will enhance and speed up the integration of this region into the EU. According to *SEE 2020 Strategy*, the recent development record of the countries of Central Europe should serve as a model for the SEE countries, especially with regard to FDI, being the factor of economic modernization of the former group. The overall FDI inflow in 2010 was 3,396 million EUR, and an increase of up to 8,800 million EUR has been predicted till 2020. In 2012, FDI in the SEE region were 3,467.9 million EUR, or 3.15% of GDP (Table 4).

6 In this respect, one may conceive at least two options. For example, Hall and Soskice (2001, p.9) draw a core distinction between advanced economies in this way: while in the liberal market economies (LME) activities of firms are coordinated via hierarchies and competitive market arrangements, in the coordinated market economies (CME) firms rely more on non-market relationships. ‘In any national economy, firms will gravitate toward the mode of coordination for which there is institutional support.’ Also, the CME mode of arrangements seems to better provide for innovation and coordination between universities and industry, as compared to the LME. On the other hand, as pointed out by Lindquist (2009: 66), an increase in export appears to feature as a priority in the LME group of countries.

There is no evidence that an FDI type of growth would be more efficient for the regional development of the SEE region, compared to the support of regional savings, remittances and domestic investors, as the key drivers of new development. In effect, the SEE 2020 Strategy does not count on remittances and savings, and does not even mention these two sources in the discussion on the investments to boost socioeconomic development of the SEE countries. It is rather surprising, concerning the fact that the average share of remittances and savings in GDP was 23.68%, as compared to only 3.15% for the share of FDI in the regional GDP, i.e., 7.5 times larger (Table 4). This makes the proposed scheme highly disputable, and ultimately unacceptable. There is no single reason for which future development and cohesion should be based on a FDI driven type of growth, keeping in mind its tiny share in the GDP. The model based on FDI (as stated in the SEE 2020 Strategy) may well be workable in some economic sectors, for example, in mining, trade, banking, hotels, or in the service sector. Contrary to this, it seems more promising for sustained growth in other sectors to rest on remittances and savings, especially regarding new SMEs, self-employment, reducing poverty, reducing income disparities, survival of poor inhabitants, and raising the quality of living. The provided remittances and savings will keep their share in the GDP at the same or roughly similar level in the future. There has been no consensus on the influence of remittances on poverty reduction, income inequality, and their role as a source of self-employment or 'engine' of long-run growth. As Petreski and Jovanovic (2012) emphasized, at least two contrasting views could be put forth regarding the effects of international remittances on the economy of the labor-sending country, which they depicted as 'optimistic view' and 'pessimistic view'. While the former highly estimates the role of remittances as a mechanism for economic development, the latter perceives remittances as 'parasitism' that melts the economy. Petreski and Jovanovic (2012) pointed to the fact that remittances have become an ever more interesting source of foreign exchange earnings for developing countries, as compared to some other sources, specifically FDI, foreign aid, and private capital flows.

The role of FDI is particularly debatable with respect to improving the competitiveness of the SEE region. So far, the export-led growth driven by FDI has been confined to the service sector. Further growth of FDI is expected in some SEE countries in the mining and processing of minerals and non-metals. This is indicated by the expansion of concessions and licenses for research, authorizations and exploitations of mineral resources, as well as by the arrival of multinational mining companies, especially in the resource-rich countries, such as Serbia, Albania, Montenegro, and Bosnia and Herzegovina. Development change and growth, which were primarily based on the utilization of natural resources of the kind, nourished the spreading of the 'rentier-state' syndrome in the SEE region. In that respect, it would be safe to state that this model ought not to be qualified as 'sustainable economic growth', and especially not so pertaining to the future development prospects. Further doubts on FDI can be cast regarding their role in improving innovation-based competitiveness. For now, better chances for this, at least till 2020, seem to lie in further improving the low-cost competitiveness model, i.e., in the advantages of the low costs of resources and labor, with a focus on greater volumes and lower prices, in the imported and copied technology, and in following trends. Even this approach would not be easy to follow keeping in mind the similarity of the export range of the SEE countries (based on agricultural products, livestock, timber, mineral raw materials, textiles, building materials), with a low level of finalized industrial products. This problem has been rendered even harsher by a poor intra-regional trade, and a lack of a supra-national industrial policy in the SEE region. Such a policy may well introduce the necessary changes to the current export structure, with a view of increasing the supply of exportable market products, and thereby, departing from the current consumption-led model (based on massive imports). This, at least partially, applies to the need of substituting imported products with own industrial production, without which there will be no improvement of competitiveness. Also, the switch from a consumption-based model to a customer-led model would pose an almost completely different set of challenges to both companies and political authorities, especially regarding investment and credit policy. This issue also carries some important implications as well as a heavy political 'baggage', which will not be taken into consideration herein, except by recognizing its relevance.[7] We believe that the efforts and achievements of the SEE region in the implementation of CEFTA, in initiating regional rules in the energy sector and infrastructure, agreements on trade and duty free exports to Russia, and similar, may play the role of stimulating factors for a strategically important industrial renaissance in the region. Should the elaboration of a common regional strategy prove workable, this would also necessitate a revision of the SEE 2020 Strategy, to comprise a more place-based approach in defining future industrial development.

As for the future development prospects of the SEE countries, even prior to embarking upon the preparation of a common strategic development framework for industrial development,

7 This issue also carries a heavy political 'baggage', which will not be taken into consideration herein, except by recognizing its relevance. It is especially unclear how political authorities and banks will face the need to radically change expansionary credit policy, which characterizes the growth based on imports and domestic consumption.

each SEE country will have to internally change its stance regarding strategic thinking, research and governance (STRG), which is now in crisis in the SEE region. Most probably, there will be no room for improvement without a renewal of STRG, especially with regard to introducing a more place-based policy and policy-based distribution. The purposes of such a change would be as follows: 1) To play the role of the key instrument for integral management of territorial capital of the SEE region; 2) To establish a common denominator for the evaluation of general and sectoral investment policies, with a view to contributing to the betterment of comparative advantages and competitiveness of the SEE region and countries in the international political, economic, cultural and other competition; 3) To integrate key projects and programs into the general strategic framework (for example, within the concept of ITI/Integrated Territorial Investment) and place-based approach; 4) To potentially provide a better inclusion of local active participants and local communities in strategic decision-making; 5) To provide for a departure from the now prevalent 'development visions' to applicable strategic concepts; and 6) To establish the preparation of national and regional strategic documents that have been requested as the precondition for the EU candidate states. Mostly contrary to the currently dominant planning approaches and practices, the 'new economic development model' is in favor of approaches and concepts that are place-based.

4. The New European Reindustrialization Strategy

Those who advocate a modern industrial policy, based on the stronger role of planning, emphasize that the main reason for introducing and implementing the industrial policy is the frequent and severe malfunctioning of the market mechanisms (Adams and Klein, 1985, Savic and Zekovic, 2004). Correspondingly, the rapid weakening of the EU's competitive abilities forced the EU leaders to undertake a comprehensive analysis of the causes, which has ultimately resulted in a series of new directions for change. The analyses have revealed that the EU made a crucial mistake '…when its goal was not to preserve strong industry, but to base its economy on the services, which was the widely accepted (liberal) approach' (Bollino, 1983). Hudson (1986) pointed to the important role of state in capitalist societies in the regional reindustrialization. Faced with stronger US and Chinese competitiveness, the EU political and economic cluster concluded that new solutions would have to be found for preserving the industry and industrial policy at the EU level. This initiative resulted in promulgating the Lisbon strategy 2000, subsequently revised on a number of occasions, and ultimately peaked in adopting The Strategy Europe 2020. Parallel to this, the European Commission launched a new strategy to reindustrialize Europe with the main aim of creating new jobs, and also included appropriate institutional arrangements to support economic restructuring.8 A document titled For a European Industrial Renaissance was adopted on 22 January 2014, by means of which an appeal was launched to the Member States to recognize the principal importance of industry for creating jobs and growth, as well as to mainstream industry-related competitiveness concerns across all policy areas. The Commission suggested to have new proposals on energy, transport, space and digital communications networks adopted, as well as to implement the legislation pertaining to the completion of the EU internal market. The emphasis has been put on industrial modernization, meaning that the EU should continue to invest in innovation, resource efficiency, new technologies, skills and access to finance. The ultimate goals would be: firstly, to achieve a more business-friendly surroundings, which means simplifying the legislative framework; and secondly, to improve public administration efficiency at the EU, national and regional levels, followed by the harmonization of international standards, open public procurement procedures, patent protection and economic diplomacy. This was followed by another Communication (A vision for the internal market for products, 2014), which emphasized the need to rationalize the existing regulatory framework and support SMEs to access finances and strengthen the innovation management capacity of SMEs. This would altogether help further improve EU industrial competitiveness, and overcome the still present challenges, particularly with a view to realizing the goal of territorial cohesion, by applying a place-based approach and policy-coordinated distribution. With a view to 'restoring the attractiveness of Europe as a production location', the place-based approach should provide the following: 1) Increased investments in factories and research and development; 2) Expansion of the internal market and 'the opening of international markets'; 3) 'Open access to international markets' for companies, especially SMEs, through new trading arrangements; and 4) Education and training, and better matching of supply and demand for labor.

In order to revert the current downward trend, and to embark

8 The backdrop of this and similar initiatives was a further loss of jobs after the outbreak of the 2008 crisis, i.e., around 4 million industrial jobs lost, paralleled by a 10 % decrease in industrial production and a decline in manufacturing and competitiveness (http://ec.europa.eu/enterprise/policies/industrial-competitiveness/industrialpolicy/files/20121010_slides_technical_briefing_en.pdf). In the Competitiveness report 2013, it was stated that there would be 'no growth and jobs without industry', and 'without a strong industrial base Europe's economy cannot prosper', in the EU. At the time, Antonio Tajani, Commissioner for Industry and Entrepreneurship, said that, 'We cannot continue to let our industry leave Europe…. European industry can deliver growth and can create employment….Europe must reindustrialize for the 21st Century, because a strong industrial base is vital to a prosperous and economically successful Europe'.

on the course of reindustrialisation in the EU, the share of industry in the EU's GDP should increase to 20% by 2020 (as compared to 15.6% in 2012). The reindustrialization of Europe should follow its 'green way' in coping with the challenges of climate change.

The first document to announce the need to substantially increase the share of the manufacturing sector in the GDP was the European industrial strategy, published in October 2012. The EC proposed to reverse then the growing trend of off-shoring European industrial establishments, as well as to invest more into innovative and/or clean sectors; thereby, at the same time creating wealth (following the slogan 'back to the roots') and giving unconditional priority to the EU's climate targets. In this respect, especially the liasion between energy policy on the one hand, and climate policy and industrial policy on the other, came to the fore. The idea was to soothe the business sector, which was worried about the additional high costs for companies due to climate policies, carbon regulation and the possible increase in energy prices. In this document, it can also be ascertained that some of these goals were contradictory (cf. Die Welt, 2012). Following this track of thinking, in the document the Lisbon calls for EU reindustrialization, 2012, the concept of reindustrialization was presented to the EU Competitiveness Council, particularly vis-à-vis the problem of corporate relocation and pertinent loss of jobs in the EU. At the same time, this switch was also supported by a number of corresponding documents, viz.: Mission Growth: Europe at the Lead of the New Industrial Revolution, 2012; Report on the Member States, 2012; the EU Efficiency Action Plan, 2011 and the EU Climate and Energy Package, 2009. They all stated that European economy would not survive in a sustainable way without a strong and profoundly reshaped industrial base, and stipulated the strengthening of the key pillars of the reinforced industrial policy of the EU, viz.: 1) Investments in innovation with a focus on six priority areas, with the potential for growth in Europe: manufacturing technologies for clean production, sustainable industrial and construction policy and raw materials, clean vehicles, bio-based products, key enabling technologies, and smart grids; 2) Improving market conditions; 3) Improving access to finance and capitals; 4) Improving human capital and skills for industrial transformations, as well as the cooperation between employers, workers and authorities; 5) Improving support to SMEs and reforming public administration; and 6) Increasing the share of new and renewable sources in total energy production (also designated as 'low carbon dioxide, green and resources efficient activities', 'low carbon dioxide economy promotion', 'decarbonisation of economic activities') in the total production to 20% until 2020. These and similar provisions were supported by the EU reforms aimed at improving business prospects and strengthening their competitiveness and industrial performance in the five fields: manufacturing productivity; export performance; innovation and sustainability; business environment and infrastructure; and finance and investment. The Strategy Europe 2020, A European strategy for smart, sustainable and inclusive growth, 2010, featured as an 'umbrella document' for this new approach, otherwise demonstrated in a number of parallel and more specific documents of various nature. The Strategy insisted that the exit from the situation should be searched for in the current crisis, and also included appropriate, credible and supportive policy instruments. The connundrums of current budgetary and monetary policy, as well as the direct support given by governments to the economic sectors, came under the scrutiny of the political, institutional and other participants involved. The new ('exit') approach should rest on the coordination of economic policies (or coordinated market economies),to be comprised of the following segments: 1) Defining a credible exit strategy, instruments and measures, with restored state aid (based on a number of principles and instruments: withdrawal of a fiscal stimuli as soon as possible, and recovery of SMEs; short-term unemployment support; sectoral support schemes with possible distorting effects on the single market; access to financial support to SMEs; withdrawal of support to the financial sector, starting with government guarantee schemes); 2) The reform of the financial system (to comprise: implementing reforms of the supervision of the financial sector; filling the regulatory gaps, promoting transparency, stability and accountability, notably as regards derivatives and market infrastructure; completing the strengthening of accounting and consumer protection rules; strengthening the governance of financial institutions consistent weaknesses because of the financial crisis and risk identification and management; better prevention and management of possible financial crises); 3) Pursuing smart budgetary consolidation for long-term growth, because public finances are critical for restoring the conditions for sustainable growth and new jobs. Reduction of budget deficit below 3 % until the end of 2014 was introduced as the rule, and the consolidation of public finances would have to be supported by appropriate budgetary consolidation programmes. It happened that this course might well jeopardize some other goals of the Union, especially those pertaining to the so-called 'European social model', for example, in the respective spheres of education, pensions, health cares, social protection; and 4) Coordination within the Economic and Monetary Union. The ultimate aim of modernization, initiated by the Strategy Europe 2020, was to establish a sustainable development based on the operative concepts of sustainability in the key sectors, both at the EU level and within the Member States.

5. Recommendations for the Industrial Development of the SEE

The SEE 2020 Strategy**,** following the general guidance of the EU Strategy 2020, stipulated an export competitiveness of industrial products, with high added values. This task should be realized in three consecutive phases, viz.: revitalization and recovery; restructuring and reengineering; and renaissance of development and competitiveness. Industrial development should be based on investments into new technology, innovations, R&D and human capital. These are altogether expected to ensure the achievement of the key development aims, i.e., growth of employment, growth of competitiveness, increase in exports, attracting new investments, applying technical progress, and the creation of new SMEs. Particular measures will have to address a number of specific readjustments, including privatization of public companies, introducing more efficient environmental policies, and so forth. All the stipulated measures should be realized by pertinent improvements in the following thematic clusters: 1) Strengthening competition, productivity and export growth; 2) Industrial restructuring on the basis of implementing knowledge-based economy and sustainable development; 3) Improvement of institutional and legal framework and business climate; 4) Employment growth; 5) Harmonized territorial development; 6) Low carbon-dioxide activities, in line with climate change requirements; and 7) Development of business, innovation and industrial infrastructure (industrial zones, industrial parks, clusters, and others). In this respect, any further delay in defining a new industrial policy may be expected to only further deteriorate the SEE economies. Thereby, until 2020, the average level of GDP per capita in the SEE region should reach 44% of the EU average, from its share of 36% in 2010, also creating 1 million of new jobs. An improved transparency of procedures and institutions in the public sector, through creating appropriate legal framework, has also been stipulated in the Strategy. According to the Strategy, the SEE economies are expected to grow faster than the planned average growth of the EU.[9] This is, however, highly debatable, having in mind the current and predictable limitations these countries have been facing, viz.: a low share of industry in the GDP (18.43%), paralleled by its low share in total employment (17.75%), and low share in GVA (19.5%); a deep lag in terms of the attained level of technological progress and equipment; insufficient investments in the R&D (in the SEE countries 0.3-1% of GDP); poor application of innovations, transfer of know-how and technology; a lack of highly qualified personnel and skills; a lack of capital regional infrastructure; and so forth. Particularly, the poor state of capital technical infrastructure in the TEN-T core network corridors plays an extremely negative role regarding the development of the exportable sectors and services, and even massive FDI are not expected to substantially remove this hindrance until 2030.

Another important issue is the fact that, in the SEE region, there has been no authority or coordinating body commissioned to implement a common industrial policy within a common general strategic development framework. Now, each country expects that the others buy its exportable products or services, following the SEE 2020 Strateg**y,** which suggests that a new development model should be based on appropriate 'free trade area' arrangement. However, this approach is very debatable, primarily, due to poor internal demand and a low share of the SEE exportable goods and services in the highly competitive regional and global export markets. So, under the current and foreseeable circumstances, which activities would be veritably designated as 'regional gazelles'? Or, to put it somewhat differently, where are the true niches of a new industrial policy for this region, which might be expected to feature as the main driver of future dynamic growth? Over a shorter period, this question should be put on another track: high unemployment being the most burning and pressing social, economic and political issue in the SEE region, which industrial activities within the new concept of reindustrialization and the new industrial policy may be expected to provide a sharp increase in new jobs? Our starting-point is that, contrary to the SEE 2020 Strategy, it may well be expected that reindustrialization may play the role of the key driver for overcoming the crisis, provided some obstacles are opportunely removed. We conclude this part by introducing the comments of a number of authoritative academics on the main theme, to reflect the still open issues.

Firstly, it is not easy to expect that public revenues in the future could be materialized – as stipulated and expected – at lower income levels and by introducing more austerity measures and, parallel to these, improving competitiveness. Apart from that, divergence among the SEE countries is also likely to parallel the steady divergence of this group of countries vis-à-vis the entire EU average. These differences will manifest themselves both in terms of territorial inequalities and income inequalities, and they will predictably not be easy to remove under the circumstance of a prolonged crisis.[10] Consequently, the key general challenge

9 At theoretical level, this approach has been corroborated by a metaphor of 'regional lions and gazelles', approximating differences in the growth dynamics among various regions, otherwise popular as of recently (Nijkamp, Zwetsloot, and Van der Wal, 2007). Perhaps, this metaphor may also apply to the (predicted) differences of growth rate between the EU and the SEE.

10 We are predicting a period of a prolonged development crisis for this group of countries, keeping in mind the following characteristics of their economies, viz.: 1)

reads as follows: on the one hand, a new industrial policy coordination is needed at all levels of strategic planning, governance and control, aimed at territorial integration of the SEE region, removal of its spatial fragmentation, and improvement of common competitiveness of the region; on the other, individual participants (regions and countries of the SEE) would have to, out of necessity, base their specific policies on their own understanding of concrete problems, in accord with the place-based approach, and with a view to improving the comparative advantages and competitiveness, respectively. However, both strands of adjustments should rest on the departure from the current still dominant competition model, based on the low-cost approach, to that based on the innovation- approach (Twigge - Molecey, 2012).

Now, we will give a brief account on some open issues pertaining to the new industrial development cycle in the SEE region, mostly starting from a few statements of the axiomatic nature. In the first place, as Hare (2008) emphasized, in the transition economies of the SEE countries, restructuring and diversification are more urgent to undertake – and at the same time more difficult to realize – than in the more developed economies. The state is rarely able to select good sectors for an economy to diversify into, either because of institutional failures, market imperfections, or their combined impact. In any case, the range of needed diversification of industry is almost always broader than that which could be reached by state interventions, which tend to produce rather narrow production patterns. Consequently, we are herein emphasizing that there might be a niche for a more productive approach in designating a new industrial policy for the entire SEE region, by resting on the recent experience of the so-called 'coordinated market economies'. In a rather optimistic and 'enthusiastic' way, we may assume that, after a phase of regression and disintegration, the progressive stages of reintegration and recovery of the SEE region might follow. Should this prove sustainable, then there ought not to be room for further hesitation or delay in the implementation of new industrial policy solutions, as any hesitation or delay would render the current situation even worse in the mid-term and long-term future (periculum in mora). The future prospects in the SEE region are, at least 'nominally', similar to the analogous dilemmas in the EU at large, especially with regard to improving its competitiveness in the international interest power game.

In terms of institutional adjustments, and at least partially contrary to the provision formulated in the SEE 2020 Strategy, more than a model based on free trade areas should be stipulated. In the case of the SEE countries, it is about small open economies that have tremendously suffered from negative influences and external shocks generated by the global crisis. There has been a plethora of evidence (Diao, et al. 1999a) suggesting that welfare gains from trade liberalization may significantly be negated by the liberalization itself, also implying that it should be balanced by supplementary and corrective approaches. These recent findings replicate and further corroborate earlier results of the same authors (Diao, et al. 1999b), who pointed to the fact that this kind of trade policy has had little effect on reallocating resources into domestic R&D activities, and that it could significantly affect the cross-border spillovers of technological knowledge that stimulates growth. In general, trade liberalization may cause a decrease in growth and a long-term loss of social welfare, although it raises revenue quickly.

Similarly, Bartlett and Prica (2012) indicated that transmission mechanisms of the crisis to the SEE region have been identified, viz., contractions of credit, FDI, remittances, and exports, and their variable impact across countries. Their analysis shows that institutional progress (the EU integration, transition reforms, better governance, and so on) has also had a number of negative repercussions, regarding primarily the poor or negative economic growth in the SEE region during the crisis. They concluded that '...the variable impact of the global crisis on the countries of the region can be explained mainly by their different degrees of integration into the EU and global economy', and that '...institutional reforms that were introduced during the boom period only made countries more internationally integrated and therefore more vulnerable to the impact of the global economic crisis'. This raises a question: could this and similar findings nourish further resentments towards the Union, and at the same time pave the road to a stronger inclination towards a 'Europeanizing outside the EU'. This finding also corroborates the earlier findings of the kind, for example, those of Diao and Yeldan (2000), who used an inter-temporal general equilibrium model, in which commodity trade and capital flows link regions and propagate shocks, and they showed that the effects of the crisis were distributed unevenly across countries. They also stated that the industrial economies went largely unscathed, only few were hit in the crisis, and concluded that the concern about the negative effects on industrial economies was almost unjustified.

Erratic and unreliable patterns of investments, basically dependable of the impact of crisis dynamics; 2) Similarly, erratic pattern of market changes on domestic growth and market change; 3) Ever larger capital costs for companies, basically depending on the loans (disinvesting with regard to the non-core assets, rigorous cost cuts, extension of loan return period, reducing some segments of production); 4) A lack of intellectual and human capital, skills, innovations, investments in the R&D, and similar; 5) Extremely negative impacts of international credit rating agencies (decreasing value of shares on stock exchanges of the country, decreasing value of companies in the market, rising interest rates and discouraging potential investors); 6) Inclination of export credit agencies and development institutions financing development to cover 'strong' projects, and so on); 7) Inferior and substandard environmental regulations, especially with regard to the impact of climate change; 8) Infrastructural risks, water management and energy efficiency; 9) Poor economic regulation and institutional framework for growth. For more details on this issue, cf. Zekovic and Vujosevic, 2014).

As for the specific instruments to be used in the appropriate institutional and other adjustments, some researchers (Dullien, 2013) argue in favour of a European Unemployment Insurance, which would offer an answer to asymmetric and symmetric business cycle shocks. Such proposals are of particular relevance – also in the case of the SEE region – in relation to the social implications of the current crisis. In that respect, Vandenbroucke, et al. 2013, appreciate that 'excessive social imbalances' threaten the EU countries as much as 'excessive economic imbalances'. They have indicated that the minimum wage policy could be a tool for stopping deflation, reducing inequalities, limiting nominal competitiveness and current account imbalances.

To conclude this brief list of various opinions on the theme, one should point to the fact that the SEE economies lack the institutional and regulatory structure and arrangements to cope with the increasingly integrated capital markets. The loss of confidence is reflected in poor investment and consumption in the region. This may coincide with a tendency, which had been noticed earlier (Alba, et al. 1998), that economic recession, financial and corporate troubles, liquidity crunch, and political challenges reinforced a propensity to adventurous behaviour, which, should it take place in the SEE region, would be ominous concerning its future development prospects.

6. Conclusion

With the exception of Croatia, the other six SEE countries that have been addressed in this contribution are facing 'Europeanization outside the EU, with its limited assistance and support, under the conditions of a prolonged crisis'. Their economies and public finances are on the verge of collapse, which has been narrowing the maneuvering space for public authorities to intervene in developmental and related matters. This, especially, refers to redistribution and innovation industrial policies and a general shortage of financial, human, institutional, organizational and other resources.

The completion of post-socialist transition reforms, now more in accord with the EU Community acquis is undoubtedly important, also as a precondition for a subsequent inclusion into the Union. The reforms in question are even more important vis-à-vis future socioeconomic development of this region, its territorial cohesion, and with respect to improving its positioning and competitiveness in the international political, economic, cultural and other power game.

Following a sharp decline in economic activities and a subsequent difficult and slow recuperation, still a high rate of deindustrialization and high unemployment feature as the key social, economic and political problems in this region, paralleled by balance of payments and related problems. Predictably, these problems will not be easy to overcome in a shorter time period. A new generation of development concepts is needed together with a new concept of reindustrialization.

The forecast dynamic growth of the SEE, paralleled by creating 1 million new jobs, cannot be realized without a strong industrial revival. In this respect, the EU Strategy 2020 may serve as a starting-point to this end, which will have to be emulated via an appropriate regional strategy of the kind. A reindustrialization should assume the role of the building block in the new strategy, and it will have to be developed urgently. It is not only about a new concept of industrial development. More probably, it is about a necessity of changing the current mode of planning culture, which is substandard and inferior compared with the future development prospects, toward a more strategic thinking, research and governance. More elaborate development policies are needed based on analytic concepts of general categories comprising the SEE 2020 Strategy . For example, a number of concrete arrangements are needed to better utilize remittances and domestic savings as the sources of future investment, with a view to grossly replacing the dependence on the FDI and international loans.

An another set of arrangements will be necessary regarding university education in the SEE region, with a view to both serving a new development and preventing brain drain. More SEE region-centered thinking is also needed in order to establish a common strategic framework for the respective national industrial policies. This would also help achieve another goal; to diminish regional development disparities within the region and develop it, relative to the more developed European regions.

The next step should perhaps be directed to the elaboration of an appropriate strategic framework for the Balkans, or even for the entire 'European South'. So far, there have been few proposals of this kind, which indicates the existence of a number of obstacles (Monastiriotis and Petrakos 2009a).

Key findings and recommendations are:

All the SEE countries found themselves in a 'developmental schizophrenia' after the years in which the neoliberal political and economic agenda dominated the public scene, followed by a prevalent anti-planning and anti-development stance among the elites and in the legislative and economic practice**.** Namely, recently numerous development strategies and similar documents have been adopted, yet these countries have not produced effective and applicable 'exit strategies' to cope with the predictably prolonged crisis and bleak development prospects in the future. Partly, this reflects a general collapse of STRG in these countries, lasting now for a few decades, which will not be easy to renew, keeping in mind the still dominant political ideology of neoliberalism.

The public finances in the SEE countries are on the verge of collapse. This narrows the manoeuvring space for public authorities to intervene in developmental and related matters, especially regarding redistribution and innovation policies due to a general shortage of financial, human, institutional, organizational and other resources.

The SEE countries have all experienced a crisis, almost a total collapse of strategic thinking, research and governance, mostly as a result of poor planning culture and poor will of political and economic elites to implement strategic decisions, this being the most important segment of the ‘soft territorial capital’. This is a key problem on the horizon for the future elites. At the same time, they will have to manage the division between the long-term imperative to renew the strategic thinking, research and governance, and the urge to resolve the burning key development problems.

There have been a number of open issues regarding the utilization of the current still dominant neoliberal approach to resolving economic and social issues vs. developing alternatives.

The effective status of the SEE countries in economic, financial, social, ecological, and almost every other sense – being, in geographical terms, a part of the ‘inner peripheries of Europe’ – will further make their position more vulnerable in this respect.

The SEE elites proved selfish, often incompetent and not interested in the public causes and benefits. Their behaviour has mostly followed the *Pro domo sua* pattern.[11]

Another threat to the development prospects of the SEE countries can be further fragmentation of political space in the Western Balkans. This would especially impede the construction of a common regional approach for improving development prospects, based on the initiatives of veritably sovereign national participants. Schadler (2011) indicates to possibilities of a post-crisis ‘super-integration’ in the SEE countries, as well as rethinking or revamping of the SEE convergence model.

Acknowledgments

This work was supported by the European Commission, FP7, ENV.2011.2.1.5-1 (TURaS).

11 One should always remember a dictum on the entrance of Dubrovnik City Council, dated from as early as the mid 17th century, saying: Oblitiprivatorum, publica curate!

Abbreviations

CEE	Central - East Europe
CEFTA	Central European Free Trade Agreement
CME	Coordinated Market Economies
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GDP p.c.	Gross Domestic Product per capita
GVA	Gross Value Added
ITI	Integrated Territorial Investment
LME	Liberal Market Economy
SEE	South East Europe
STRG	Strategic Thinking, Research and Governance
R&D	Research and Development

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