

ACADEMICIA
**An International
 Multidisciplinary
 Research Journal**
 (Double Blind Refereed & Peer Reviewed Journal)



DOI: 10.5958/2249-7137.2021.02305.3

CORONAVIRUS PANDEMIC AND WESTERN BALKANS

Davirova Sh*; Ruziyev K**

^{1,2}Tashkent Institute of Finance,
 Tashkent, UZBEKISTAN

Email id: dshakhlo2505@gmail.com kamiljonruziyev@mail.ru

ABSTRACT

The article shows the current economic situation in the Western Balkans, gives an assessment of the economic development of the countries at the present time, the development prospects. The “shadow” component that emerged in the 1990s plays a major role in the country's economic life. The unemployment rate in Albania is relatively low for the region. The role of SMEs in economies remains relatively small. In the countries of the third group there is a high level of social protection for society, but the social dialogue between entrepreneurs and their employees is poorly developed. Despite these improvements, per capita income levels are expected to remain 6.5% below pre-pandemic projections through 2022. Tourism-dependent economies, particularly Albania and Montenegro, will continue to struggle with restrictions on international travel.

KEYWORDS: *Western Balkans, Pandemic, Integration, Macroeconomic Indicators*

INTRODUCTION

The Balkan sub-region of Southeastern Europe (SEE) is a permanently complex ethno-confessional and territorial conflict area with a high value of an external factor that can exacerbate “frozen” conflicts at any time. This factor is in the interest of actors like the EU (in an institutional function), the USA, Germany, Great Britain (to a lesser extent a number of other European countries - Italy, Greece, Austria, CEE countries, France), China, Turkey, a Range of Middle Eastern countries (Saudi Arabia, United Arab Emirates, Qatar, Kuwait).

METHODOLOGY

In terms of socio-economic development, the countries of the Western Balkans are inferior to the EU members. According to the UN typology, the states in the region are still countries with transition economies. The process of creating market relationships is still ongoing. One of the

most important prerequisites for joining the EU is the completion of the socio-economic transformation process and the development of a market economy. Four of the five Western Balkans began these processes under very similar conditions, since all but Albania were part of a common state.

DISCUSSION

To date, three types of economic models are being followed that are emerging in the countries of the region.

The first group of countries includes North Macedonia, where the privatization of state property took place earlier than in the other countries examined. Through market-oriented reforms, the government has helped to significantly increase the share of small and medium-sized enterprises (SMEs) in the economy. It is characterized by a high level of protection of the sphere of work and legislation by the state.

Although the picture is ambiguous, the socio-economic model of North Macedonia can be expected to evolve towards building a continental European form, sometimes referred to as the socio-market economy. The weaknesses of the Macedonian model are high levels of corruption and organized crime.

Albania belongs to the second group of countries. It has made rapid progress in privatization, which makes the private sector's share of the Albanian economy the highest of all Western Balkan countries. The "shadow" component that emerged in the 1990s plays a major role in the country's economic life. The unemployment rate in Albania is relatively low for the region. This is because the majority of the population who could not find employment at home emigrated: According to various estimates (Albanian Statistical Agency, World Bank), 1.08 to 1.44 million 37 to 50 left Albania between 1990 and 2010 alone % of the total population of the country. The level of social protection in society is low.

Despite a number of institutional features that are not characteristic of industrialized countries, it can be argued that Albania is on the way to building a liberal market economy with its own peculiarities. Contrary to the classical model, the role of the country's financial sector, including the stock market, is insignificant, very high levels of informal relationships persist in society, public administration is ineffective, and organized crime is thriving.

The third group of countries includes Bosnia and Herzegovina, Serbia and Montenegro. Privatization processes were the slowest in this group of countries and therefore private entrepreneurship is lowest in the Western Balkans. A characteristic feature of all countries in this group is a high level of informal economy and crime. The role of SMEs in economies remains relatively small. In the countries of the third group there is a high level of social protection for society, but the social dialogue between entrepreneurs and their employees is poorly developed. The level of social benefits to the population as well as expenditure on health and education are at a low level. With regard to the "level of carelessness", this country category shows many similarities with the Mediterranean model. Although the differences between the classical Mediterranean model and the group analyzed are so great that they could be ascribed to a particular variety - the Balkan model.

RESULTS

In 2001-2019, the countries in the region managed to slightly narrow the income gap (by 14%) with the EU, but the gap is still very large. In 2019, GDP per capita in PPP for the Western Balkans was only 39% of the EU-27 level. The highest GDP per capita is in Montenegro - 23 thousand US dollars, the lowest in Albania - 11.8 thousand US dollars.

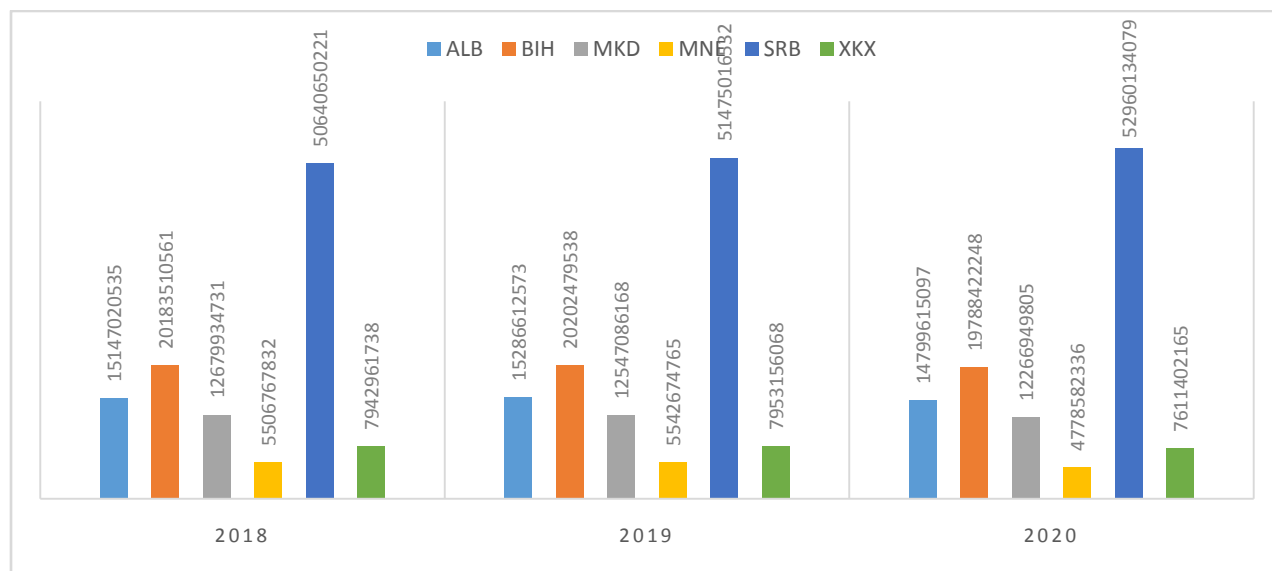


Figure 1. GDP USD¹

The structure of foreign trade between countries in the region is similar. The majority of exports are industrial goods - more than 60%, while the share of high-tech products does not exceed 5%. The exception is Montenegro, where more than 50% of exports are fuel and mining products. In other countries, the combined share of these positions is around 12%. Another important export product of the Western Balkans is agricultural products - more than 15% in the export structure. In the structure of imports of the countries of the region, industrial goods dominate - 64%.

The most important trading partner of all countries in the region is the EU, which supplies over 70% of the export volume of the Western Balkans. Regional trade plays an important role, with the countries of the region accounting for at least 15%. Russia is only one of the five largest export destinations in Serbia (approx. 5% of Serbian exports). The main importer into the countries of the region is also the EU - it accounts for more than 60% of the regional imports. In terms of regional imports, China ranks second with 7.7%, and Turkey ranks third (7.7%). Russia is one of the five most important import partners for three countries in the region: Serbia (7.9%), Bosnia and Herzegovina (4.7%) and Albania (2%) 3.

All countries in the region have trade deficits financed by foreign capital inflows and migrant remittances. The latter play an important role in the economies of the Western Balkans. Due to the high double-digit unemployment rate, the region is an exporter of labor. Remittances from migrants from the Western Balkans are the main source of capital inflow into the economy and even exceed the volume of foreign direct investment (FDI) attracted (with the exception of Albania).

Foreign capital plays an important role in the socio-economic development of the Western Balkans. In 2019, the region received \$ 6.9 billion in FDI, which is 0.4% of the global level. Serbia is the largest capital importer among the countries in the region. They account for over 60% of the inflows of foreign direct investment into the region. Albania is in second place by a large margin - just under 20%.

According to UNCTAD data, in 2019 Serbia became the second among the transition countries to have managed to attract the most foreign direct investment - 4.3 billion US dollars. The main industries that received FDI were: construction (28%), transport (16%), wholesale and retail (8%), information and communication technologies (5%). Serbia continued to develop export-oriented projects in the automobile cluster, which was the subject of foreign capital investment. Most foreign direct investment came from the EU in 2019. China has started to play an increasing role by investing in infrastructure and energy projects. The countries of the region have accumulated FDI of US \$ 73.5 billion (0.2% of the world volume), of which 60% in Serbia, 12% in Albania and Bosnia and Herzegovina. Due to the end of the privatization process of state property and the small size of the national economies, the volume of foreign capital inflow into the real economic sectors is insignificant.

Amid the COVID-19 pandemic, which plunged the global economy into one of the deepest recessions in 100 years, emerging and developing countries in the Europe and Central Asia (ECA) region experienced an economic downturn of 2% in 2020. According to forecasts, the pace of economic recovery in 2021 will be 3.6% slower than previously expected due to the new wave of coronavirus infections. Governments play an equally important role in shaping labor markets in this region: 86 million people work in the public sector, or 25% of the total workforce, well above the global average of 16%.

In the Western Balkans in particular, the proportion of people with higher education in the public sector is more than twice the average for the population as a whole.

The economies of the Western Balkans were hit by one of the worst coronavirus outbreaks in the ECA region in early 2021, with daily peak increases well above the regional average. Similar to Central Europe, the three economies of the Western Balkans (Bosnia and Herzegovina, Montenegro and North Macedonia) are among the top 10 EMDE countries with the highest COVID-19 deaths per capita, further adding to the burden on health systems. In most Western Balkans economies, widespread vaccine rollouts are not expected until the second quarter of 2021 (later than originally expected) as countries wait for vaccines to be delivered through the World Health Organization's COVAX mechanism. The supply of vaccines is hampered by delays in production and imports.

An exception is Serbia, where vaccination started at the end of December and 24 doses per 100 inhabitants were administered until mid-March, which is well above the average for the region and the world.

Economic growth in the Western Balkans is expected to accelerate to 4.4% in 2021 and then slow to 3.7% in 2022, provided that consumer and business confidence rebounds as the COVID-19 pandemic takes control and levels of political instability decrease. Despite these improvements, per capita income levels are expected to remain 6.5% below pre-pandemic projections through 2022. Tourism-dependent economies, particularly Albania and Montenegro,

will continue to struggle with restrictions on international travel. Rising fiscal obligations in the countries of the sub-region have reduced the scope for fiscal support and contributed to the development of macroeconomic imbalances. At the same time, state budget tensions will mount as additional spending will be required to counter the negative economic effects of the COVID-19 outbreak.

Despite these challenges, economic growth and productivity gains in Albania and North Macedonia will be supported in the medium term by accelerated structural reforms in the run-up to EU accession - provided that accession negotiations are not postponed again. The sub-region is also expected to benefit from the recently adopted EU Economic Support and Investment Plan, which calls for funds to be mobilized

Support the development of sustainable connectivity, the development of human capital, the improvement of competitiveness and inclusive growth, the transition to a green economy and digitization.

The COVID-19 crisis underscores the critical importance of investing in digital skills and technology to ensure continuity of the learning process, as well as the need to devote resources to modernizing information and communication infrastructure to enable distance learning for learners, especially children social classes, support vulnerable households. Die Einbeziehung der Ziele der grünen Wirtschaft in das Konjunkturpaket nach der Pandemie wird die Widerstandsfähigkeit gegenüber zukünftigen Schocks erhöhen und die Risiken verringern. Maßnahmen zur Förderung der Einführung grüner Technologien, einschließlich Bemühungen zur Verbesserung der Energieeffizienz durch Nachrüstung von Gebäuden, können hohe steuerliche Multiplikatoren haben, da sie arbeitsintensiv sind und zu Produktivitätssteigerungen beitragen.

In the long term, measures to create an environmentally friendly physical infrastructure, energy modernization, investments in education and training will be effective,

Investing in natural capital, green research and development and in low and middle income countries, spending on rural support (Hepburn et al. 2020). Improving energy efficiency, nature conservation, use of clean energy sources, sustainable development of the transport sector are also among the priority areas for investments that promote green development.

Bridging the gap between current spending and the level required to achieve the Sustainable Development Goals can contribute to sustainable growth in per capita income. Prioritizing investments in high-yield green infrastructure projects and promoting the widespread introduction of environmentally friendly technologies can support higher growth in the long term and at the same time help curb climate change.

Strengthening resilience to the risks of climate change, including the increasing frequency of severe cyclones and droughts, rising sea levels and falling crop yields, is crucial.

For the ECA region, especially since the region has many agricultural exporters and a large part of the population lives on the coast (World Bank 2019a). It is expected that in the coming decades more than 80% of the agricultural area will be exhausted due to lower rainfall (European Environment Agency 2019). Spending on investments in sustainable infrastructure can be offset through targeted rapid job creation measures, including the introduction of drought management

technologies, landscape and water catchment management, ecosystem restoration and sustainable forest management.

Bridging the gap between current spending and the levels required to achieve the Sustainable Development Goals can contribute to sustainable growth in per capita income. Prioritizing investments in high-yield green infrastructure projects and promoting the widespread adoption of environmentally friendly technologies can support higher growth in the long term while helping to mitigate climate change.

Strengthening resilience to the risks of climate change, including the increasing frequency of severe cyclones and droughts, rising sea levels and falling crop yields, is crucial.

For many emerging and developing countries, investments in renewable energies can help improve energy security and at the same time reduce dependence on imported electricity. These investments could also ease the burden on energy subsidy budgets, which are quite high in the ECA countries and averaged more than 3% of GDP in 2019. The tax incentives provided so far in the G20 countries in response to the pandemic are intended to support both carbon-intensive and environmentally friendly activities. In the G20 countries, including the ECA region, support for the electricity sector has focused on CO₂-intensive activities. In the absence of reforms in energy consumption and tariff policies, the transition to low-carbon energy is likely to result in lower household revenues.

For the ECA region, especially since the region has many agricultural exporters and a large part of the population lives on the coast (World Bank 2019). It is expected that in the coming decades more than 80% of the agricultural area will be exhausted due to lower rainfall (European Environment Agency 2019). Spending on investments in sustainable infrastructure can be offset through targeted rapid job creation measures, including the introduction of drought management technologies, landscape and water catchment management, ecosystem restoration and sustainable forest management.

The recession in the Western Balkans region is being driven by a sharp drop in domestic and foreign demand during the pandemic. Traffic restrictions and social distancing measures have a particularly profound impact on the tourism and service industries, with the latter accounting for up to 50 percent of employment in the region (75 percent in Montenegro). Supply-side disruptions and falling demand are affecting many manufacturing industries; Investments are severely affected by liquidity bottlenecks and a high degree of uncertainty.

The main risk for the Western Balkans arises from the fact that the onset of the economic crisis will be difficult to cope with due to the ongoing pandemic in connection with a deep recession in the European Union.

All six governments in the region have announced fiscal and social measures to support communities and businesses in this emergency; its implementation is allocated between 1 and 6.7 percent of GDP. Countries that entered the crisis with larger fiscal and external reserves are better placed to fund larger aid programs.

In the Western Balkans, the proportion of those who are dependent on self-employment, part-time employment and income from informal activities is higher. These categories are vulnerable to crises, but more difficult to support with traditional mechanisms.

Socio-economic models of the countries of the Western Balkans were formed in the 1990s - 2000s. According to a scenario similar to the Eastern Europe scenario, which led to a high degree of dependence of the national economies on the global economic and external economic situation. This underlines the importance of the almost undisputed European election for the states in the region.

SOURCES

1. Vladislav Vorotnikov Andrzej Gabarta The states of the Western Balkans in the era of transformations: European choice and Russian interests. *Modern Europe*, 2021, no. 1, p. 62-73. DOI: <http://dx.doi.org/10.15211/soveurope120216273>
2. Stella Arzumanyan, Zokhida Adilova, Nargiza Khujanazarova, Shakhlo Davirova, Aziza Karimova. Analysis of the transition to an innovative economy in developed countries (on the example of Israel). *International Journal of Advanced Science and Technology*, Elsevier, Scopus 29 2020/5 pp. 1804-1813
3. Weltbank, 2021. "Daten, Digitalisierung und Governance." *Wirtschaftsbericht der Region Europa und Zentralasien, Frühjahr 2021*. Weltbank, Washington DC. Doi: 10.1596/978-1-4648-1698-7.
4. <https://www.welt.de/wirtschaft/article169232212/Die-neuen-Gastarbeiter-kommen-aus-dem-Westbalkan.html>
5. Altmaier: „Verlängerung der Handelserleichterungen für Länder des Westbalkans ist klares Signal der Solidarität“
6. The World Bank, World Development Indicators. <http://data.worldbank.org/indicator>
7. <https://www.imf.org/en/Countries>