RESEARCH ARTICLE

PROTECTING INFANT ECONOMIES VERSUS EU ECONOMIES AN ADVOCATIVE ESSAY

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Abstract
The paper explores the objective behind the main aim that EU candidate countries of Western Balkan should consider before being a member of EU. Although the statistics shows that the macroeconomic performance of this countries regarding to GDP increasing and FDI increasing, it cannot be sad the same for wellbeing of this countries.
It is seen that during the crisis of 2009 even though the GDP of Western Balkan countries is positive, it is also seen that it is the poor people that most share the crisis’s consequences. The increase of FDI plays an important role in economy but in those countries FDI excludes the transfer on knowledge. Even though for government the revenues and employment generated by FDI is justified, most of the foreign firms do not have externalities on transferring knowledge in these countries.
This means that those two variables do not necessary result in an increase of well being. The policy makers that aspire to be member of EU should accompanies the integration process with a different perspective of their countries. Higher GDP does not necessarily mean growth and benefit, it can misguide them. Being a member of EU may cause destroy of jobs and this process should be accompanied by policies that lead to job and enterprise creation. Citizens should have a different approach of wellbeing as a member of EU, which means both social and economic transformation is necessary. Their voice, creativity and dignity achieved by knowledge will lead to wellbeing as EU members. The policy maker should conceptualize their aim and policies of their countries as market on their own, do not ensure this.

Keywords: wellbeing; knowledge; society; transfer;

An Advocative Essay
The integration of Western Balkan countries in EU has become the main aim of all the respective governments. In the paper it will be considered as Western Balkan the countries: Albania, Bosnia Herzegovina, Kosovo, Macedonia, Montenegro and Serbia. As EU is the largest partner for trading in this region, the trade between them accounts for over two third of the region, (in total trade)¹. On the other hand the trade of EU with western Balkan is 1% (in 2003), which means that individual countries share’s are very low, e.g. Albania stands for 0.1%, Bosnia Herzegovina for 0.25%, Kosovo for 0.0%, Macedonia for 0.15%, Montenegro for 0.0% and Serbia stands for 0.5%.²


The imports of EU from Balkan in 2013 where 21.1% (machinery equipments and manufactured goods etc), where as the exports to the Balkan were 22.3% (machinery equipment, mineral fuels etc).
All the six countries have been offered the Stabilization and Association Agreements, which make them, have a crystal EU perspective. The strategy of EU has many financial supports which makes it the main donor for the region. The aim of the agreements is to progressively establish a free trade between Western Balkan and EU. Most of the trade is concerned on liberalizing trade in goods.
In order to further develop a trade the paper tries to give a new perspective to the countries. Before tending to be a member of the EU, it has to be understood that reaching the wellbeing within individual countries is the bridge for integration. In a macroeconomic perspective the wellbeing or welfare is related to the primary indicators as GDP, FDI in the economy.
It is generally thought that they show the country economic health. As each can imagine the production and growth of the economy have a considerable impact within everybody. An increase in GDP usually is associated with low unemployment. Also the foreign investors are interested in the GDP trend, especially in the recession periods. In our day GDP is seen a little different from the above perspective. Not necessarily an increase in GDP (calculated in any of both ways) means a higher wellbeing of the country. From here we can look at the GDP’s per capita for each of the countries.

As it can be seen from the above table the trend of GDP per capita for all the six countries looks similar to each other. There are increases of GDP per capita during the 2005 to 2009 and at the 2009 it can be seen the global crises impact on the GDP of those countries. Again from 2010 to 2012 it seems like the trend is increasing.

As we mentioned before any increase in GDP and in FDI is associated with low unemployment rate and those results in less poverty and higher welfare. Now take a look at the FDI of the Western Balkan countries. The trend of the economy is important to all of us, and we analyze it by looking at the output level, the foreign direct investment and unemployment rate. But as it is the individual which in a way determines the trend of the economy government has to keep in mind that the fiscal policy can influence the economy till at a point. It is important to consider that human behavior is very hard to be forecasted by government and policy makers.

The whole society and the business environment need a stronger focus on the trust proposition between them. The businesses should examine their activities within more ethical elements. The performance of the economy itself should be reoriented by starting with the businesses reorientation of the performance by conducting social responsibility.

The Global Peace Index which is currently used by many international organizations, government and NGOs including World Bank, OECD and the United Nations, shows for the Western Balkan countries the above ranking.

Also if we will look at the poverty gap of this six countries from the World Bank data base the poverty gap for this 6 countries (4 $ per day) we see that the gap for all of them seems deeper during in the period 2008-2010 comparing with the period 2011-2012. The poverty gap reflects not only the depth of poverty but also the incidence of it.

For more you can see on “High GDP which means Economic Prosperity, or does it?” By Lisa Smith, February 2011.

4. L. Saxegaard, Rebuilding the Trust proposition between companies and society through being Business worthy, Business for Peace, Institute of Peace Economics.

5. GDI includes the indicators as: Perceived criminality in society, Security officers & police, Homicides, Jailed population, Access to weapons, Organized conflict (internal), Violent demonstrations, Violent crime, Political instability, Political terror, Weapons imports, Terrorist activity, Deaths from conflict (internal), Military expenditure, Armed services personnel, UN peacekeeping funding, Nuclear and heavy weapons, Weapons exports, Displaced people, Neighboring country relations, Conflicts fought, Deaths from conflict (external)
Table 2. GDP per capita for Western Balkan

Table 3. Foreign Direct Investment for Western Balkan Countries

Table 4. Global Peace Index for Western Balkan Countries

Table 5. Poverty Gap (2.25$)

Source: World Bank Data

Source: Institute of Economics and Peace

Source: World Bank Database
Looking at these infant economies (relative to the EU economy) there rises a question if is there always welfare enhanced by trade. Even thought the fundamental theory of welfare formalized by Adam Smith stands that market economy (liberalization of agreements on trade) leads to efficiency it cannot be said the same for these countries. Also we should remember that the theory of Smith had a presumption where the technology was fixed and exogenous. So we should quest ourselves if we do have the same technology as the other countries with we are trading with. Our economies and the industries in them are infant industries which mean that they need protection. They need to be protected from the market imperfections and imperfect information. Not necessarily it becomes an advantage entering in such markets 6.

Investment policies: in some of the successful countries FDI has played an important role, with some countries with limited access to finance, FDI can be an important source of funds. But even in those countries with high saving rates, champions of FDI extol its virtue in terms of the transfer of knowledge. But this does not happen automatically; the learning spillovers are more important for some forms of FDI than others; and there are ways of transferring knowledge other than by FDI. While FDI may be one way of acquiring knowledge, there may be other ways of doing so, which simultaneously induce more learning. We should keep in mind that foreign firms have both advantages and disadvantages in promoting learning. Government subsidies for FDI have typically been justified in terms of the government revenue and employment generated. But our analysis suggests another rationale: learning. But if this is so, then subsidies should be larger for those sectors and technologies which are likely to have large spillovers and for firms that are willing to engage in practices that enhance the like hood of such learning. Government can also affect the extend of spillovers. Compulsory employment and training programs and domestic procurement (programs that compel firms to source locally) are more likely to lead to learning spillovers.

Success requires not just an economic transformation but a social transformation, and argued that, over the long run, democratic and open societies will be more dynamic. Higher GDP does not necessarily mean benefit as the poor do not share the benefits. Trade liberalization destroys jobs, so that unless liberalization is accompanied by measures that lead to job and enterprise creation, it can be anti poor. Markets on their own do not ensure this. The Scandinavian countries have limited inequalities, have efficient and large public sectors and high standards of living for the vast majority of their citizens, and have succeeded in creating inclusive dynamic economies and societies. There are important differences among the political parties in these countries, but still, there is a broad consensus about most of the elements of the “social contact”.

Creativity, voice, and security are all important ingredients to individual wellbeing and dignity. It was the Commission on the Measurement of Economic Performance and Social Progress message that GDP was not a good measure of well being, and policies which narrowly focused on increasing GDP were misguided7.

It is of course not only the public policies that affect learning and mindsets- so do the decisions made by firms. Firms can decide to cultivate an atmosphere of secrecy, which impedes the flow of knowledge within the between firms, or they can encourage more openness. (not an aggressive competition ). What matters is not only the democracy at the level of nations but democracy within the workplace. Attitudes that question authority can help create a culture of learning at the level of the firm- and that culture can have society – wide benefits. There are those not just “learning” and “technologies” externalities, but mindset externalities.

Conclusions
An infant economy needs protection. Protecting a learning sector with large externalities (typically industrial sector) leads to faster growth and improved welfare and standards of living, and can support convergence between developing countries and the more advance countries. Broader industrial policies are desirable. Policies should be correcting the pervasive market failures, especially those associated with learning.

Such policies should go beyond just creating a business friendly environment. Financial and capital market liberalization may have an adverse effect on learning, both because of the resulting weaker flow of funds to firms and sectors where learning and learning externalities are more important, and because such policies undermine learning in the financial sector. Foreign direct investment can enhance learning.

but the extent to which it does will depend on policies, like requirements concerning domestic procurement and employment, which are often criticized within the standard paradigm and often restricted by trade and investment agreements. There is no presumption that market by their own are efficient. Indeed, there is a lot of market failure associated with learning. Spillovers from the expansion of industrial firms are not just technological. There are institutional spillovers too (e.g. associated with the creation of a financial and educational system).

Leterature

3. Smith, L., 2011. High GDP which means economic Prosperity, or does it?, Posted in Economics,宏观经济学, February 2011, Economics@ITT
4. World Bank Data