

# THE ECONOMIC SITUATION IN SOUTH EASTERN EUROPE: A POSSIBLE THREAT TO THE SECURITY SYSTEMS

Oana-Andreea PIRNUTA\*, Dragos Nicolae SECAREA\*\*

\*Senior Lecturer Ph.D., TRANSILVANIA University of Brasov, Romania

\*\*LUCIAN BLAGA University of Sibiu, Romania

*The entire world has had to face the draconian effects of the economic recession recently. One of the regions marked by severe economic damages has been South Eastern Europe. The present article aims at analyzing the current economic situation in this particular region by trying to identify the strong and weak points, as well as possible ways to solve these specific issues. This paper lays emphasis upon states, such as: Turkey, Greece and Romania, but also on certain facts about the other states belonging to the previously mentioned region.*

**Key words:** *South Eastern Europe, economy, Turkey, Greece, Romania, recession.*

## 1. INTRODUCTION

The present security context is threatened not only by possible military conflicts, but also by other elements, such as: social, political and mainly economic problems, which could initiate a chain reaction. And this could eventually lead to the risks of a collapsed security system.

Global security has suffered a dramatic change. The old risks and threats have been replaced by more terrifying challenges generated by the instability due to international terrorism, proliferation of mass destruction weapons as well as organized crime networks [1].

Economically speaking, South Eastern Europe is considered to be one of the most vulnerable regions in

the world. And this fact is determined by a series of factors.

Firstly, this particular area lacks natural resources especially when referring to the states from the Balkan area. Indeed, the Balkan area has big problems when it comes to natural resources.

In South Eastern Europe, one could also identify the big deficiencies in the field of agriculture, mainly because of the geographic conditions. Again, it is important to highlight here the states from the Balkan area, excepting maybe countries, such as: Romania, Bulgaria.

It is also worth mentioning that the economy in this area is still based on industrial components, which are old and cannot adapt to the new European and worldwide context.

Due to the fact that many of these states do not belong to any European or transatlantic organizations, there are huge problems in obtaining funds to modernize their industry.

Also, many of the governments from this area are not only inefficient, but also corrupt, when it comes to attracting foreign investors. This fact is highlighted by countries, such as: Romania and Bulgaria. Although they are part of the European Union, they are not able to attract either investors or European funds. This situation originates in the early 1990s when these states were ruled by communist economic ideologies. The economic poverty in this area is also determined by the underground economy.

According to Mihai Zodian (2011:132), this is a traditional field revitalized by the context of military conflicts, the disorganization of the states and the post-communist economies [2].

Obviously, the problems in this area were also caused by military conflicts, especially in the area of the Balkans, which are also affected by crime. Unfortunately, there still are violent clashes in many of the states from this area. These clashes are determined by several types of conflicts, such as: religious and ethnic ones.

The most vulnerable states, from this point of view, are Kosovo, Albania, Serbia or Bosnia Herzegovina. Also, it is important to remember the global recession, which started in 2007 and went onwards up to present and also

affected this area. Any economic problem encountered by the European Union will automatically affect South Eastern Europe.

This region includes Greece, which is in the situation to converge from a rich country into a developing state. A Greek default, accompanied by the exit of Greece from the Eurozone, would have catastrophic effects on the EU and automatically on the South Eastern region.

And specialists have made a forecast having in view a small economic growth for 2012: *“In South Eastern Europe the economic growth is forecast to be at 1%, much lower than the previous data, which shows a 1.6% growth”* [3].

When talking about the factors which could generate economic growth, it is important to remember, again, the foreign investments. These regions should not be influenced by foreign consumption, real estate investments or other factors causing economic bubbles [3].

It is important to see these economic problems as a threat to the states' security environment. The economic difficulties will affect the states' people (low standard of living, austerity measures etc.) and this could lead to social tensions that could destabilize the countries' security environment.

## 2. TURKEY AND FOREIGN INVESTMENTS

The only country from this area, which does not have major economic

problems seems to be Turkey. This state, with a population of 80 million people, had in 2011 a GDP of \$1.232 trillion. Last year, Turkey had a GDP growth of almost 9%. Turkey's economy was developed through foreign investments in industry, for instance, the car manufacturing industry, but also in other fields. Also, many investors from the Far East decided to move their businesses to Turkey. This decision was also determined by the political issues from the Far East. It is worth mentioning that this particular country has several important economic partnerships with powerful countries, such as: Russia and others.

According to Mihai Zodian (2011:150), Turkey is one of Russia's most important economic partners. In 2004, the economic deals between the two countries valued 11 billion dollars. In 2008, the value of these deals reached 40 billion. Russia exports to Turkey products and services which are valued at 27.7 billion dollars [2].

Also, Turkey is part of the G20, being ranked 16 in a worldwide rating. Thus, the EU leaders want Turkey to be part of the Union and the Turkish Government already started the mechanisms of the integration process.

A reason for Turkey's success lays in *"an aggressive privatization program [which] has reduced state involvement in basic industry, banking, transport, and communication, and an emerging framework of middle-class entrepreneurs is adding dynamism*

*to the economy and expanding production beyond the traditional textiles and clothing sectors. The automotive, construction, and electronics industries are rising in importance and have surpassed textiles within Turkey's export mix"* [4].

The only problems which could affect this country's economic prosperity are the internal conflicts, the tense relationships between the Ankara Government and the Kurdish minority from Turkey, but also the poor relations with Turkey's neighbors, more recently Syria.

At this moment, specialists forecast that Turkey will maintain this economic growth path. Some specialists fear that, at one point, Turkey will imitate Greece. It might be possible for the Government to allow its population to request bank loans whose values will be too high for its financial possibilities.

### **3. GREECE – THE SYMBOL OF WORLDWIDE RECESSION**

A completely different situation is encountered when dealing with Greece. The population of this country is about 11 million people and its GDP is €215.088 billion according to 2011 statistical data.

Because of its economic problems, Greece became the symbol of the worldwide recession. About one year ago, Greece's public debt was approximately 30,000 dollars per person. For example, in 2011, this country's GDP growth was of -6.5%.

How did the Greeks get in this situation? It could be said that the roots of these issues are situated in the first years of Greece's entry in the EU. The Government has not taken the necessary measures to control the chaotic way in which the population took bank loans or to control the underground economy, the high value of unjustified salaries awarded to people working for the state. As an example, in the early 2000s, a Greek received salaries as high as those from Germany.

Also, in the first decade of 2000, *"Greece had abundant access to cheap capital, fuelled by flush capital markets and increased investor confidence after adopting the Euro in 2001. Capital inflows were not used to increase the competitiveness of the economy, however, and European Union (EU) rules designed to limit the accumulation of public debt failed to do so. The global financial crisis of 2008-2009 strained public finances, and subsequent revelations about falsified statistical data drove up Greece's borrowing costs. By early 2010, Greece had risked defaulting on its public debt"* [5].

And once Greece was hit by the recession, its population was put in the critical situation in which a person had to pay more than he could earn. The Greek political leaders requested help from the International Monetary Fund and the EU.

Of course, these organizations imposed draconian austerity measures in exchange for financial aid. The problem is that the external loans

created a vicious circle meaning that Greece was always in the situation of requesting aid.

If the country does not receive this loan, then Greece is at the risk of entering default, which, as previously mentioned, would lead to the state's exit from the Eurozone and initiate catastrophic effects on the EU.

This country has a big rate of unemployment and poverty is more and more dramatic. Only in Athens, about 250,000 people, who once had a decent life, are forced basically to go to canteens in order to receive some food [6].

And if Greece remained in the Eurozone, the living standard would drop with at least 70% in this country!

This would affect the EU in many ways. For example, Greece's default would hit, first of all, the French and German banks, the main providers of financial aid for this country. Therefore, the default would create panic in the banking system, which could lead to a similar situation to what happened in 2008 with the Lehman Brothers bank groups.

#### **4. ROMANIA AND ITS MAJOR ECONOMIC POTENTIAL**

Romania was one of the poorest European countries in the 1990s, mainly because of the inefficiency of the economic measures adopted by the communist regime.

But afterwards, the country experienced an important economic growth, generated mainly by foreign

investors from the United States in the 1990s and through the 2000s, through exports to countries, such as: Italy and Germany.

This particular growth was also possible by the political leaders' policies adopted in the 2000s as well as due to the EU integration.

Romania had been expected to join the Eurozone by 2013. Unfortunately, this country was hit by recession and the Government requested financial aid from the European leaders and IMF. Romania received in 2009 about 13.9 billion Euros from the IMF:

*"The Executive Board of the International Monetary Fund (IMF) today approved a 24-month SDR 11.4 billion (about €12.9 billion or US\$17.1 billion) Stand-By Arrangement for Romania to support an economic program designed by the Romanian authorities and intended to cushion the effects of the sharp drop in capital inflows while addressing the country's external and fiscal imbalances and strengthening the financial sector" [7].*

In exchange for this aid, the political leaders were forced to apply draconian austerity measures, which led to social tensions and to a chain reaction after which the Government was replaced. Furthermore, there are small chances for Romania to enter the Eurozone before 2015.

In 2011, the GDP of Romania was of \$264.269 billion and a nominal per capita GDP estimated at \$8,863. Nowadays, almost 50% of Romania's labor force is involved in services, while 23% in industry.

It is worth mentioning that Romania has a major economic potential, especially by enumerating not only more than 10 million hectares of agricultural land, some energy sources, such as: coal oil and gas, but also tourism.

Unfortunately, it seems that Romania is not able to use these resources, probably not even at half of its potential. Also, it is worth remembering that this country has an important potential in industry, highlighting here for example, the production of automobiles.

Romania needs more foreign investors in order to take advantage of this potential. Until the late 2000s, Italy was considered to be Romania's main trading partner.

## **5. THE IMPACT OF OTHER STATES ON THE SECURITY SYSTEMS IN SOUTH EASTERN EUROPE**

There are also some other countries in this part of Europe which could influence, from an economic perspective, in a way or another, the security systems specific to this region.

Albania has a population of 3.2 million people and a nominal GDP of \$13.4 billion. This country had major economic problems in the early 1990s, a fact determined mainly by the transition from communism to democracy.

Also, the economic problems were determined by the conflict from Kosovo, but also by the mass

migration, for example, half a million of Albanians moved to Italy in the 1990s. Since then things got better and better, especially due to foreign investors especially from the United States and Italy, financial aid from IFM.

It is worth mentioning that Albania, along with San Marino and Liechtenstein, were the only European countries which registered economic growth in 2009.

Bulgaria has a population of 7.8 million people and a nominal GDP of \$54.3 billion. This country had difficulties because of the 1990s transition from communism to democracy. In that period, the standard of living decreased with 40% and the leva (n.r. Bulgaria's national currency) collapsed. This country experienced economic growth in the early 2000s, but this process was slowed by the economic recession.

The new Government, led by Boiko Borisov, took efficient measures, which annihilated the effects of the recession. It is worth mentioning that an important part of the Bulgarian economy is the Black Sea tourism.

Bulgaria was supposed to enter the Eurozone in 2013, but the political leaders from Sofia decided, because of the economic context, to delay this process until 2015.

Cyprus won its independence in 1960, but it is important to mention that this country still has a tense status, between the two major populations who inhabit this island, the Greeks and the Turks.

In the 1970s, the Turkish Army intervened in Cyprus and helped the Turkish community to proclaim the northern part of the island as being the Republic of Northern Cyprus. Only Turkey recognizes the existence of this state. The island is situated in the Mediterranean Sea and it is, therefore, a strategic point.

In Cyprus, there are still stationed UN troops and several British military bases. Therefore, this situation has its own effects on the economy.

Nowadays, this country has a nominal GDP of \$24.949 billion. The worldwide economic recession also affected Cyprus, which requested financial aid from the EU and IFM. This situation was determined by the fact that many of Cyprus' economy depends on Greece. Therefore, when Greece has problems, Cyprus has problems, too.

Serbia is the former nucleus of Yugoslavia. It has nowadays 9.5 million people. This country experienced major military operations during the 1990s, conflicts which were penalized by the international community. The penalties brought Serbia to poverty.

In the first decade of 2000, Serbia's economy was revitalized. Throughout this period, the foreign investors injected about seven billion dollars in Serbia's economy.

A big problem occurred in 2006, when Montenegro separated from Serbia, which, in turn, was affected because it lost its only exit to the Adriatic Sea. Serbia lost important funds from tourism.

Nowadays, this country has a nominal GDP of \$80.282 billion. Its economy is based on industry and agriculture. Most of Serbia's exports are sent to Germany, Italy, Bosnia, and Montenegro.

Speaking of Montenegro, this country became independent, as previously mentioned, in 2006. But this country's economy flourished since then. For example, Montenegro has an estimated GDP of \$4.536 billion, which is impressive if we take into consideration its population of 800,000 people.

Russia invested important sums of money in Montenegro. This country's economy is based mainly on services, especially tourism.

Another flourishing country is Croatia, which has, at a population of 4.4 million people, an estimated GDP per capita of \$14,457. This flourishing economy is determined mainly by foreign investors, from Germany especially. Still, Croatia experienced some difficulties because of the recession. In 2011, this country had a GDP growth of -1.3%.

A powerful country in this region is also Slovenia, with an estimated GDP per capita of \$22,916, at a population of 2 million people.

Opposed to these countries are states, such as, for instance, Macedonia, which has a nominal estimated GDP per capita of only \$5,229, at a population of approximately 2 million people. A big problem in this country is corruption and bureaucracy, and there are still left some scars from

the military conflicts that took place in the 1990s.

Montenegro is one of the poorest countries from this region. But, the poorest country in Europe is Moldova. This country has an estimated per capita GDP of only \$1,968.

Speaking of the economy of Moldova, it is important to highlight that about 40% of its economy is based on agriculture while only 16% on industry.

It is also important to remember that Moldova has big problems because of the political leaders from Transdnistria (region of Moldova) which claim their independence.

## **6. CONCLUSIONS**

The present paper analyzes the main economic strong points and weak points in South Eastern Europe. Although the entire area was affected by the global recession, it could be noticed that there are big differences between the countries from this region.

It is worth mentioning here the differences between Turkey, a major economic power and Greece, which is very close to a catastrophic default. Like Turkey, there are other strong countries, from an economic perspective, such as: Croatia or Montenegro. But there are also very poor countries, such as: Macedonia or Moldova, which are important threats to the global security system.

It is very important to remember that the financial aid received from the IFM or other organizations is

not likely to represent the exit from the recession. The economy has to produce and for this to happen it is necessary to attract foreign investors. This financial fund, from the investors, represents the difference between countries, such as: Moldova and Montenegro.

Future work should also be focused on the mechanisms of recovery after the recent economic crisis or the impact of possible future crises or turbulences.

For a better understanding of the impact of different states on the security systems in South Eastern Europe, a transvaluation is required, a reconsideration of the way in which the actors of international relations perceive the political instruments of the integration of present-day and future relations.

## REFERENCES

- [1] Pirnuta, Oana-Andreea, Boscoianu, Mircea (2011) "International Security Repatterned by Globalization", International Conference on Security, Management and Society 2011 held as part of CATE 2011 organized by the University of Defence, 11th -12th May 2011, Brno, Czech Republic, Conference Proceedings published by University of Defence in Brno, pp. 453-458, ISBN 978-80-7231-790-5
- [2] Zodian, Mihai (2011) "Europa de Sud-Est", in Lumea 2011, Editura Centrului Tehnic Editorial al Armatei, Bucuresti, p. 132
- [3]<http://www.buildpress.ro/articole/europa-de-sud-est-are-nevoie-de-reforme-profunde-pentru-a-creste.html>
- [4][http://www.indexmundi.com/turkey/economy\\_profile.html](http://www.indexmundi.com/turkey/economy_profile.html)
- [5]<http://www.fas.org/sgp/crs/row/R41167.pdf>
- [6][http://www.liveleak.com/view?i=1f6\\_1335770036](http://www.liveleak.com/view?i=1f6_1335770036)
- [7]<http://www.imf.org/external/np/sec/pr/2009/pr09148.htm>