

Paper analysis on terms of the efficient institutions as the key to
economic growth in the Western Balkans

Global Trends in Economy, Dženita Šiljak

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Introduction

The basis of this analysis is the paper of Dženita Šiljak, in which they give a strong statistics-based stand on why efficient institutions would be the key of FDI in Western Balkan states, with that, breaking the vicious circle of no FDI because of no functioning market-economy, and no functioning market-economy because the lack of FDI (Šiljak, 2022). While the comparison with the EU and the CEE countries shows the differences between the Western Balkans and the EU, it also shows the closeness the CEE still has with the previous group. In order to understand this proximity and the differences, let us make an analysis of Hungary based on examples of the same kind as Šiljak (2022) did with the Western Balkan countries.

Analysis with attention on the examples and similarities with Hungary

Probably the reason behind why Hungary has been able to be competitive is also what it has been criticized for in Western circles: its government. Although there seem to be continuous processes and signals showing the West of the EU, or the body is unhappy with the way PM Viktor Orban thinks, still the internal political stability of the last 12 years seems to attract FDI and increase competitiveness even after the stand the government continues to take against the EU. And, even in opposition with the country's reputation towards corruption, or as (as Dávid Jancsics says), "Hungarians accepted the corruption that is everywhere, the same way as they accepted communism" (Szabad Európa, 2022; 1). Based on him, it is unlikely the EU or Hungary would take real steps to tackle Hungarian corruption, as it even involves the multinational companies. This shows that even when institutions are corrupt, if the country managed to get into the EU (or has something that is unique economically for them), it might continue its way to a certain point, member states are also motivated by economic reasons. As it seems, countries can violate the rules of the EU more than they can the companies' that are investing in their countries.

Or to phrase it differently, or give another example, even at the peak of disagreement during the 2015 migrant crisis between the two heads of state, somehow the German car industry in Hungary just kept expanding, with no real talks about them moving elsewhere. Without EU funding, the Hungarian economy would probably collapse, as the funding was the basis and driver of the moderate growth for the last 12 years, even though it mainly did not go to real investment, which can also be seen as the government blames the low salaries of teachers on the EU holding back funds – we know that paying salaries from a loan (even if it does not need to be paid back) is not an investment. The EU has no gain of a collapsed Hungarian economy however, it is unlikely it would take measures that would lead to said collapse.

Still, we can see by every given measure, that the Western Balkans is behind compared to CEE. Maybe some hope for the region could be that even without managing to reach a state with little or no corruption, it is possible to become a functioning EU member state. There seems to only need to be a couple of years of political stability and less corruption (at least on the surface), and the vicious circle resulting in low percentage of FDI mentioned by Šiljak (2022) can be broken.

Sadly, corruption around ventilators and other covid-related equipment (e.g., the national health agency not testing, while the expensive tests are sold in pharmacies connected to the governing party, and also by companies connected to the governing party), as well as recent arms deals connected to the past and current government (Szabad Európa, 2022; 2) are not unknown in Hungary either. Based on this it could seem to be a wonder how the country still attracts FDI, that is mainly due to low taxes, educated and cheap workforce, as well as not a lot of protection for workers by law. This creates an attractive environment for FDI, even though the concrete cases of e.g., the German car industry are filled with suspicious or proven corruption scandals (e.g., the purchase of what would later become Audi's fields near Győr).

It is also somewhat alarming that Montenegro and Kosovo in the recent years could have a higher JDI than the CEE, only for the latter to reach the same level in 2021 - we can see that this is a field where being in CEE, or being an EU member state does not necessarily mean that the judicial system is flawless or significantly better than those of the Western Balkan's. However, that is not the case when we look at the EU-14.

Hungary has also introduced an anti-corruption board late October 2022, although just as it happened in most Western Balkan countries, there are flaws from the start with this new institution, namely that choosing the board has been made by a institute under the Ministry of Finance – so it might have been easy to appoint members on a political basis more than on a professional one. However, with this institute, Transparency International's Hungarian sub-body will work together, which has not been a regularity in recent years, as the civil sector had a target on its back since at least the 2015 migrant crisis. In theory, this could mean that something efficient is happening to tackle corruption, however, as an expert stated, it is unlikely it will lead to changes of the fundamental corruption that has been poisoning the country.

Conclusion

There is no need to deny the fact that efficient institutions would be the key to economic success in the Western Balkans, because although the CEE countries are not flawless either, their institutions seem to be the reason of their relative success in the last thirty years, especially when compared with

non-EU Western Balkan states. When we compare the Western Balkans to the CEE countries, probably the two most important points we need to realize is that even though in the latter category countries might continuously deserve significantly lower indices than the EU average, and it might actually mean that they have high levels of corruption, flawed judicial system etc., they still receive and have been receiving better results than of the Western Balkans (which indicates FDI, hence economic growth), and that they are 'at least' already in the European Union, which – even if as we have seen with the example of Hungary, has not been going very efficiently, but – can take steps to improve these, to tackle corruption, to hold funds and so on. So while the Western Balkan countries have to try to introduce effective institutions for and by themselves, with no “Big Sam” watching them from over, it might be of less immediate consequences and exclusion of benefits, than (in theory) it is for the EU member states, such as CEE countries. We could see that at every index, although overall Western Balkan countries tend to do worse than EU-average or CEE average, individually they might have differences in certain indices, which results both from the lack of common rules towards these, and the special individual system each country has. For example, while Kosovo could fulfill all 95 criteria given by the EU (even if in the end having a mild result), some states might not be so motivated, for example because of dreaming short-term political success, or enjoying the benefits of corruption, or the close ties to Russia (Szabad Európa, 2022;3). Ideally, there would not be a different choice for Western Balkan states but to aim for joining the EU as soon as possible. Let's hope they keep an eye on this goal, and succeed soon.

References

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