

European Strategy for Socio-Economic Recovery of Southeastern Europe after COVID-19 induced crisis



Short Strategy Description



This Strategy Recommendation was formulated through a series of research activities, direct interviews and group meetings to:

- Map the impact of the COVID-19 crisis on socio-economic and political realities from the region.
- Outline a series of immediate actions needed to avoid a long term regional crisis.
- Provide a tentative policy road-map that accounts for specific local realities and provides resilient solutions.

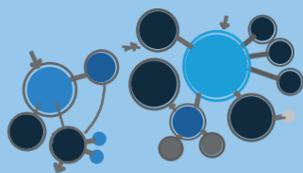
Aim(s)



Outline a working policy proposal that maps a series context sensitive and resilient measures for **post-crisis recovery of the Southeastern European states**.

Communicate the strategy to the relevant policy-makers and wider public in order to open a discussion on the subject and support the **implementation of the best measures**.

Process



This strategy was developed as a joint effort of all the engaged parties and relies on:

- Secondary data analysis.
- Expert interviews.
- Roundtable discussions.
- Policy analysis.

weTHINK.eu coordinated these activities within a network of 8 regional actors and experts.

Strategy Knowledge Network



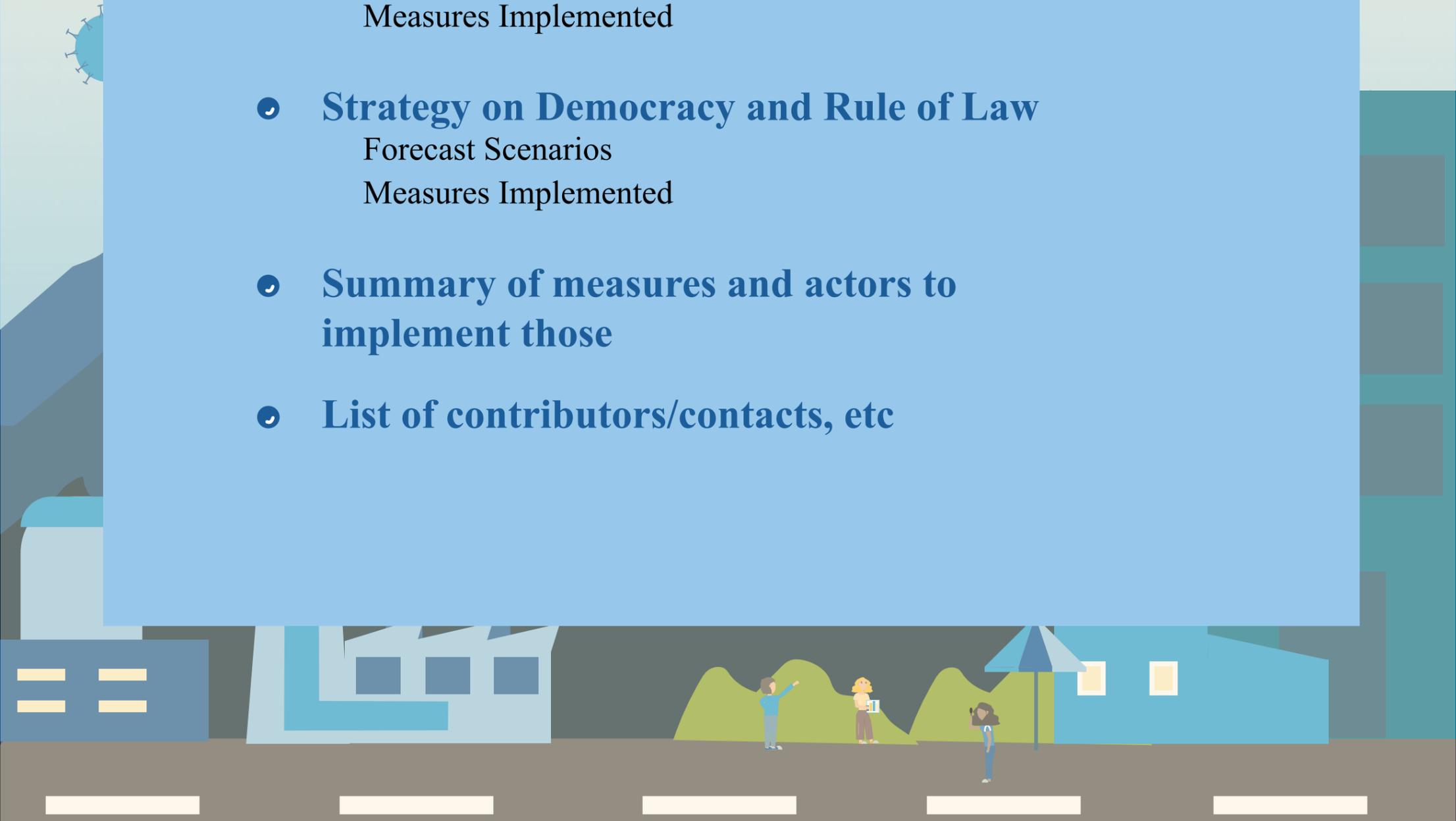
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Context

Southeastern European countries may face the worst economic performance since the 2008/2009 crisis.¹ The socio-economic difficulties of Southeastern Europe (SEE) could be caused by several distinct factors: a) Fiscal deficits, which can increase after the countries signal their willingness to finance the needed measures; b) High dependence on certain sectors, such as tourism, will severely affect income due to the lockdowns; c) Inappropriate quality of digital infrastructure in order to support the transition of traditionally offline to online activities; d) Lack of employment perspective and further brain-drain of the SEE youth; e) Competitive authoritarian patterns due to weak institutional settings and fragile media landscape; f) Shifting geopolitical reality within the SEE. Due to these factors, the forthcoming recession provoked by the COVID-19 pandemic could turn into a long-term economic crisis if appropriate measures are not taken by actors from various sectors (governmental, non-governmental, business, media, etc.).

Considering the region's persistent lack of structural reforms, the existence of bilateral disputes, patterns of competitive authoritarianism, external big power competition, stagnation of socio-economic development and lack of prosperity, this looming economic crisis poses a serious challenge to the region's decision-making capacity. This economic downturn will therefore call on the Southeast European political elites to re-focus their policy approach and prioritize public health, the well-being of citizens and economic recovery of the business sector over political squabbles, both within and outside of their borders. Their capacity to react timely and properly to these challenges could determine the wellbeing of the entire region for years to come.²

The focus on mitigating the socio-economic difficulties by the EU and its Member States is essential for upkeep and maintaining all the efforts that the Central and Eastern European Countries (CEEC) already made during their Euro-Atlantic integrations. Furthermore, both the credibility and flexibility of the future EU endeavours in addressing the region are a central pillar for achieving their social and economic transformation while staying in line with the targets set out in the latest enlargement strategy for the region.

Considering this context, the current strategy, relying on a knowledge network of experts and practitioners, aims to deliver a tentative policy road-map that could support SEE's quick socio-economic and political recovery from the looming crisis. Within these discussions, the policy roadmap highlights the need for the interconnectedness of the economic, social and political pillars.

Geo-Political Strategy

Forecasted scenarios

The COVID-19 pandemic is not just a challenge for the global world order as we know it but is also affecting the established alliances, both within and outside of the European context.³ For this reason, Southeastern Europe, which is predominantly labelled as a crucial region for the European Union, could find itself in a strategic void waiting to be filled by the external big powers, such as China, Russia and Turkey.⁴ In this regard, the expert team echoed the following potential scenarios:

- Russian and Chinese support to the countries in the region should be understood as part of their **soft power strategy**.
- The biggest problem in this regard is the question of **credibility** as there is no joint position on how to deal with COVID-19 even within the EU⁵. Deriving from this, both the image of the EU and its international credibility may suffer considerably.
- The EU's credibility is not just an **endogenously-driven problem** but also depends on quick reactions from China and Russia.
- The opportunity for the EU not just to regain its credibility but to further cement the European perspective for the region comes as a result of the **internal difficulties** that big powers such as China and Russia are faced with.

Consequently, the EU actions will be judged by the steps that are being taken right now. The potential hesitation of the EU to help SEE could harm the long-term reputation of the EU in the region. Lack of concreteness could in turn spur resistance by the domestic local elites towards the European project. Furthermore, the EU should not neglect symbolic actions that can sometimes create trust, which can be effective in certain cases.

Measures to be implemented

The future scenarios on the EU's geopolitical repositioning in the region should focus on reliability and credibility when pursuing its own interest in the region. Deriving from this, there are more questions than answers on how the EU could reposition itself in light of internal changes that other big powers are currently going through. In line with this, the identified measures encompass the following:

- The EU should combine its normative and tangible incentives with **symbolic actions** that are important in certain situations.
- **Redefinition of the big power role** in relation to the national governments' role in providing the financial means for investments in the region, as there are several uncertainties regarding the existing investment initiatives.

- EU should implement more **effective communication** towards SEE's societies as 90% of the assistance money comes from the EU.
- Pursuing the notion of **flexible and autonomous actions** in the region by the EU while considering the future framework of post-pandemic EU-China relations.

Economic Strategy

Forecasted scenarios

Southeastern European countries only recently recovered from the effects of the 2008/2009 global crisis registering robust economic growth. The COVID-19 induced crisis can reverse this positive development and provoke another long-term economic crisis in the region. The most uncertain factors with the potential to severely harm Southeastern European economies, according to the Vienna Institute for Economic Studies, are:⁶

- 1. Fiscal factors:** Countries' fiscal deficits will widen substantially this year, but the biggest problem is the extra financing for the mitigating measures, which can only be assured via crediting, which will be difficult to access for countries from the region. We have to also consider the long-term sustainability of the implemented fiscal relief measures as there is no strategy to transform those into long-term solutions.
- 2. Public debt:** Loads of public debt are not especially high anywhere in the region and have generally fallen since the crisis. The most 'problematic' countries in this regard from the broader region are Albania, Croatia, Montenegro and Slovenia. Croatia, Albania and especially Montenegro could all be vulnerable to external financing pressures as their fiscal deficits widen.
- 3. Tourism dependence:** This sector has already been hammered, and if the lockdowns continue into the summer the situation will become quite desperate for tourism-dependent economies. Deriving from this, three countries in particular stand out, where a significant portion of the GDP comes from tourism: Albania (26,3% of GDP), Croatia (25,1% of GDP) and Montenegro (25,1% of GDP) (Vienna Institute for international Economic Studies, 2020).
- 4. Network readiness:** Across Europe, large parts of professional life are being moved online. The ease and speed with which this can be done, and the quality
5. of the infrastructure that supports it, will be key to determining how countries fare. The Western Balkans is particularly weak here, where Bosnia and Herzegovina and Albania stand out.
- 6. Possible decreased assistance from the Instrument for Pre-Accession Assistance (IPA) programmes:** The EU budget is expected to decrease with $\frac{1}{3}$ per capita, which also means a decrease for the IPA programmes, which in turn will affect budgets of the CEE countries who depend on EU assistance.
- 7. Changes in EU priority funding for non-EU members:** The next Multiannual Financial Framework for the period 2021-2027 could see a possible decrease for non-EU members due to reprioritization. This is particularly relevant for Southeastern Europe, whose social and economic transformation is largely dependent on EU-funding.

⁶ Amat Adarov, Vasily Astrov, Alexandra Bykova, Mahdi Ghodsi, Richard Grieveson, Julia Grüber, et al, Eastern Europe Coronavirus tracker: Preparing for the worst (The Vienna Institute for International Economic Studies, 2020). Available at <https://wiiw.ac.at/eastern-europe-coronavirus-tracker-preparing-for-the-worst-n-430.html>.

Measures to be implemented

There are two types of measures that should be considered as part of a regional recovery strategy:

- a. Financial and Administrative support for recovery, including:
 - Providing **accessible credit facilities and financial assistance** for recovery.
 - Government backed credit-lines with fixed interest rates for businesses.
 - Transforming existing financial relief measures into a **long-term support mechanisms**.
 - Consider a **long-term tax-break** for companies from the affected sectors.
 - Introducing gradual taxation as the crisis recedes.
 - The EU should provide a **financial recovery package** for countries that stay within the EU integration process.
 - Offer **credit lines** for regional governments and ensure **transparency and accountability**.
 - Promote needed **socio-economic reforms** as part of the financial agreement.
- b. Digitalization of the Economy and Technological Leap-Frog. The COVID-19 provoked crisis also offers an ideal opportunity for governments and the EU to support a quick transition to a working digital economy format, ensuring proper scaling mechanisms and providing the needed technological and administrative support. In this regard, the following measures must be considered:
 - All recovery measures should be focused/partially conditioned on the **implementation of digital economy practices**.
 - Prioritise investments in the **Innovation and Tech sector** of the region in order to create an efficient public infrastructure.
 - Support local **R&D efforts** as a way to prevent brain-drain in SEE and build regional innovation networks.
 - The EU should also, through funding and implementation assistance, support the creation of a robust **Digital Infrastructure** and the inclusion of SEE in **Industrial Funding**.
 - Provided the opportunity, the EU and local governments should prioritise **Green Economy Initiatives**.

Social Strategy

Forecasted scenarios

A worsening economic situation will also have a serious impact on the social situation in the SEE region. It is of primary importance for governments to ensure a basic income, reduce the tax burden and avoid high unemployment rates, which has the potential to function as the biggest problem for the region due to its impact on further emigration. There is no certainty in how the governments will cope with these challenges in the long term, however at the moment:

- **Croatia** is putting a lot of effort in preserving jobs via support for salaries and enabling three-month postponement of tax payments, which will still eventually have to be paid. Another good example is **Albania**, which **will reserve 1.2% of their GDP for salaries** in private companies.⁷
- Countries, which do not have the means to implement such stimulus packages for tackling the consequences of the COVID-19 (expressed in their GDP per capita), are **Bosnia and Herzegovina (0,3% of GDP)**, **Kosovo (0,4% of GDP)** and **North Macedonia (0,5% of GDP)**. They all have a small stimulus packages, which mostly come from the EU.

Social expenditures on guaranteed income and tax breaks comes on top of the needed **investments in the public health system**. Investments which put extra pressure on the dwindling national budgets, but which are unavoidable. Given these challenges, there are a series of possible negative outcomes which must be prevented through timely and appropriate policy responses. These negative outcomes are:

- Increasing **socio-economic polarization**.
- Crisis induced **emigration** of younger generations, causing brain-drain from the local economies.
- Long-term unemployment accompanies an increasing number of **defaulting personal loans**.
- **Worsening economic** and social conditions for **marginalized or underprivileged groups**.

Measures to be implemented

Tackling the impact of an economic crisis on social aspects is difficult given the lack of standardized economic and financial tools to solve these problems. Even in a non-crisis environment, social-related challenges are difficult to address. There are nevertheless a series of positive evolutions throughout the region which can be further supported to provide a healthy foundation for social protection and quick recovery. Building on existing initiatives, it is recommended to implement the following measures:

- Support the **NGO and volunteering efforts** (already present in the region) to assist the most vulnerable social groups.
- The EU must consider **directly funding community engaged actors**, avoiding governmental financing, which can be both complex and less efficient.
 - Direct grant and funding lines should be established for local community socio-economic recovery.
 - Measures supporting social integration and community benefits must be prioritized.
- The post-crisis recovery must focus on supporting local and regional **social enterprises** to achieve wider community benefits.
- The EU must consider **opening the European Union Solidarity Fund for the region** to strengthen the social benefits for the marginalized and vulnerable.

Strategy on Democracy and Rule of Law

Forecasted scenarios

The COVID-19 pandemic has, observing the domestic political elites' responses, contributed to the overall trend of democratic backsliding. The already fragile hybrid regimes of the Southeastern European countries are often characterized by weak state institutions, civil society organization and a politicized media landscape. This crisis situation could, if not adequately addressed, further increase the patterns of competitive authoritarianism in the region. In line with that, experts predict the following scenarios:

- Public **institutions in the SEE remain profoundly weak** and many countries in the region already **see China as an effective actor/system** when it comes to countering the pandemic.
- Potential loss of financial means for civil society that holds accountable the political parties could in turn **offer more room for non-democratic practices** of political elites in power.
- The COVID-19 pandemic **could strengthen social solidarity** via volunteerism by individuals.
- Authoritarianism could in turn function as an impetus to **weaken the rule of law** (fight against corruption and organised crimes).
- A **fragile media landscape** can be further politicized due to potential authoritarian turns as a consequence of instrumentalization of the crisis situation.
- An **expansion of the state in the economy** - and a weakened private sector - could lead to a further concentration of the media under government control.

Measures to be implemented

The policy group identified civil society organizations and the EU as crucial actors in mitigating the negative consequences of the pandemic for democratic principles. Measures to mitigate the consequences of the pandemic should be grounded on the following:

- The EU could reframe the logic of financing top-down initiatives, move away from the stabiliocracy criticisms and **support the bottom-up initiatives** in order to reshape institutional settings.
- Fragile state institutions and the media landscape should be subjected to targeted projects from EU funds that could further **consolidate the EU principles** in their institutional settings.
- The EU should **support civil society organizations** that monitor the state of democracy and freedom rights in SEE countries.

- Structural problems of the hybrid regimes should be further addressed by EU programmes (IPA, EIDHR, TAIEX, P2P, LAF, IFS, Creative Europe, Europe for Citizens) in order to contribute to the socio-political transformation of the SEE countries.
- In order to de-politicize the media settings, there should be more focus on supporting the **citizen-led media outlets**.
- The SEE governments should, in the period of the post-pandemic recovery, focus more on **human capital** in order to recognize appropriate people for various important vacancies and tasks.

Summary of measures and actors to implement those

Measure	Actor(s) to be involved	Time-frame
Investing in the innovation and technology sector to strengthen the digital preparedness and resilience of digital services	National government(s), the EU, EU Member States, SMEs	Medium and long-term
Connecting the Digital Agenda for the Western Balkans with the New Green Deal in order to pursue the smart and green economic growth	EU, EU Member States, civil society organizations	Short, medium and long-term
Financing digital preparedness and SMEs to transfer business from offline to online setting	National government(s)EU, EU Member States, SMEs, start-ups	Short and medium-term
Investing in credible and reliable post-pandemic policy approach to the region within the new enlargement methodology	EU and EU Member States	Medium and long-term
Integrating the SEE in the renewed EU-China framework	EU and EU Member States	Long-term
SEE countries should be further integrated into the common EU market to avoid the perceptions on exclusivism	EU and EU Member States	Short and medium-term
Following domestic ownership narrative by supporting bottom-up initiatives by civil society organizations and citizens-led media outlets	the EU, EU Member States, civil society organizations, independent small media outlets, citizens-led media outlets	Medium and long-term
Targeted projects to build institutional capacities in accordance to the EU rules	the EU, EU Member States, national government(s)	Short and medium-term
Post-pandemic programming to capture the civic moment and social enterprises	the EU, EU Member States, civil society organizations, SMEs, start-ups, social enterprises	Short and medium-term
Strengthening the volunteering initiatives through funding	the EU, EU Member States, civil society organizations, social enterprises	Short and medium-term
Investing more in the project that target the mitigation of the post-pandemic difficulties of vulnerable and marginalized groups	the EU, EU Member States, civil society organizations, social enterprises	Short and medium-term

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