

# Small Countries in West Balkan and their Economic Advantages

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**Abstract:** *In the last few decades the economical, political stability and the peace contributed for the expansion of new small countries in the world. That role is not a minor one. The small countries are not a new phenomena, therefore in our papers we explore two important aspects: 1) If the size of the countries is influential for an economical benefit and success, 2) Which are the economical advantages of the small countries in the Western Balkans and their participation for a successful participation on the European market. The big countries have great political powers, but that is not rule for the economical power. The survey in the biggest countries in the world toward gross domestic product - GDP per capita confirm thesis that it is not a measure for her economical power. So, small countries as Singapore, Luxemburg and other have obvious high economical growth. It is a similar condition in the European Union. Small countries that became later members of the Union, made a very high GDP per capita (Slovakia, The Czech Republic, Slovenia, Hungary). The small countries in Western Balkan (Macedonia, Serbia, Bosnia and Herzegovina, Croatia and others) need economical size, and it can be implemented through economical integration. Better access in the international and European market can be accomplished through their economical and competitive advantages and innovations. The competitive advantages and state wealth are created at microeconomic level. But, the state as a factor can help through economic liberalization, establishing quality public institutions, through developing stable political, system of law and financial system as well. All of them have to stimulate the macro environment and create better organizational contribution and condition.*

**Keywords:** small country, economic cooperation, competitive advantages, small enterprises, entrepreneurship

## 1. Introduction

The last two decades have witnessed expansive growth in the number of small countries in the world. Small states have always existed, and their size does not diminish their importance to the economy. Therefore, in the paper we start with two important paragraphs: 1) That the size of the state is not important for economic success and growth, and 2) What are the economic advantages of small countries in the Western Balkans and their use for successful participation in the European market.

No matter there is no common definition of a size of a state, we use a simplification: large populations are more than 25 million people, medium size populations are more than 10 million people and small ones have less than 10 million people. By this classification there are, on a global level, 100 small countries, almost 35 medium size countries and nearly 50 large countries. Nearly two-thirds of the countries in Europe could be classified as 'small' countries.

The countries in Western Balkans as Macedonia, Serbia, Bosnia and Herzegovina, Croatia and others are small countries. They need economical size for better implementation and participation in European process of integration. Among others, one of the priority tasks of the small countries of the Western Balkans is solving common problems as:

- Building a strong, stable countries.
- Development of regional integration and creating institutions for support.
- Improving the competitiveness of companies.
- Increasing the employment rate (unemployment in this region has an average rate of 22% and the youth unemployment rate is 42%).

- Improving and developing of the business environment.
- Increase the power to negotiate - building promoters and economic diplomacy.

In their own development, the member states of the Western Balkan (Slovenia and Croatia) and the candidate countries (Macedonia, Serbia, Montenegro) use financial assets from the funds of the Union. The European Union has adopted so-called Strategy for smart, sustainable and inclusive growth - "Smart Europe 2020". Its advantages are: increasing employment, strengthening of research and innovation, education, reducing emissions and enhancing energy efficiency, poverty reduction.

## 2. Statement of the Problem

Great state leaders often associated with political power but it is not a rule and economic power. The analysis of several of the largest countries in the world by gross domestic product (GDP) per capita, shows that the United States with 324 million population have \$ 56,115.7 per capita and Japan with 127 million people has \$ 34,523.7 per capita. The other large countries, listed in Table 1, such as India, China and Brazil have lower economic growth and lower GDP per capita. If we analyze small states in the table, for example, Singapore, which has 5 million people, and has \$ 52,888.7 per capita, Luxembourg with 543 thousand population, with \$ 101,450.0 per capita it is obvious the great economic power and development of these small states. This clearly confirms the thesis that the size of the state (spatial and population) has no significant role in economic development.

**Table 1:** Big country – population and GDP per capita

Big country	Population / GDP per capita 2015
USA	324 million / 56.115,7\$
India	1.329 million / 1.598,3\$
China	1.378 million / 8.027,7\$
Brazil	206 million / 8.538,6\$
Japan	127 million / 34.523,7\$

**Source:**

<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>.

**Table 2:** Small country – population and GDP per capita

Small country	Population / GDP per capita 2015
Singapore	5 million / 52.888,7\$
Luxemburg	543 000/ 101.450,0\$
Qatar	2million / 73.653,4\$
Norway	5million / 74.400,4\$
Switzerland	8million / 80.945,1\$

**Source:**

<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

If we analyze the European continent the growing number of new small states has risen from 32 to 48 nations in recent decades as a result of the dissolution of the USSR and Yugoslavia. For some Balkan countries the European Union (EU) entrance is not certain therefore they need an access in EU so that they can increase their economy. As a proof we take GDP growth from 1980 onwards, with approximately 12% (except in Greece). (Campos Nauro et al, 2014). In their research it is proved that the Czech Republic, Slovakia, Latvia, Lithuania, Slovenia, Hungary, Estonia, and others immediately after entering the Union saw huge growth in GDP.

There are more reasons that justify and encourage the role of small states in their economic growth. There are reasons (compensation factors) why is this so [Edgardo M. Favaro, (2015).” *Small state, smart solutions*”, World Bank, Amazon, p.8.]

The expansion of world trade, endowments of human and physical resources, the proximity of some small states to the world market, and the policies, institutions, and regulations some small states have adopted to facilitate integration into world market.

### 3. Theoretical Review

If we know that most of two third in the world are small countries, and a ten the most development countries are smaller, although is logical researcher’s and scientist’s attention concentrated for them.

There is no single definition of a small country because size is a relative concept. For instance, Simon Kuznets in “Economic Growth of Small Nations” used an upper limit of 10 million people — by this measure, 134 economies are “small” today. Other indicators such as territory size or GDP are sometimes used. But population is highly correlated with territory size as well as with GDP; therefore, use of population as an indicator of size helps highlight small states’ limited resources.

Although there is no common definition of a state size. For that, we use a simplification: large populations are more than 25 million people, medium size populations are more than 10 million people and small ones have less than 10 million people. By this classification there are, on a global level, 100 small countries, almost 35 medium size countries and nearly 50 large countries. Nearly two-thirds of the countries in Europe could be classified as ‘small’ countries.

In this paper we use and the Human Development Index (HDI) as condition for compare Western Balkans countries in their development. HDI is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

### 4. Approach

Therefore, in the paper we start with two important paragraphs:

First: a) That the size of the state is not important for economic success and growth, and b) The economic advantages of small countries in the Western Balkans and their use for successful participation in the European market. In this way, we accept three steps in development approach:

- Small countries and their economical challenges,
- Economic situation of small countries of the Western Balkans,
- Regional cooperation as competitive advantages of small countries in the Western Balkans.

Second: In our approach we use results from Economic Chamber of Macedonia and fifteen international organizations. This Economic chamber is a part in association Investment Forum Chamber. Western Balkans’ states for helping the development of small businesses have undertaken an initiative and established Investment Forum of chambers that includes all the chambers of commerce in the region.

The advantages of small countries are similar and comparable with the advantages of small businesses and entrepreneurship. Above all, it is a field to create more new ideas and opportunities to try out. They are looking for quick and effective economic solutions. The application opportunities and solution for the risks belong to them. They are by definition flexible and adaptable for larger systems. This lack in size is supplemented by the power of capital, economic strength, the number of employees, and more.

For better access to the international market of small countries of the Western Balkans there is a necessity for their competitive advantages and innovation. Competitive advantage in performance is achieved through analysis of business and research areas which allows insertion of new profitable ideas. Thus the company becomes more competitive. In this respect, innovation and competitive advantage always go together. Since competitive advantage and wealth of the states were created at the microeconomic level, because the state as a factor can not create a

competitive industry, but it can help through the creation of economic laws, building quality public institutions, development of stable political, legal and financial system, and it stimulates the macro environment to create a better climate for business.

In the European Union different structures of states take place. They vary in territorial size, the extent of economic growth in exports in the structure of production, the social climate, organizational culture and others. In the European Union the domination of small and medium enterprises account for 99% of the total. It has 20 million small enterprises in the gross social product accounted for 60%. They provide employment for 80 million people. Small countries should take advantage of small businesses, and they are [Edgardo M. Favaro, (2015). “ *Small state, smart solutions*”, World Bank, Amazon, p.10]:

- Quality human resources,
- Endowments of natural resources,
- Location close to important market,
- Good policies, institutions and regulations are needed for successful exploitation of international trade opportunities.

## 5. Results and Discussion

In further explaining and answering this part of the views of our work, first we present the current state of the Western Balkans which is our target, such as: Macedonia, Serbia, Montenegro, Bosnia and Herzegovina, Slovenia and Croatia. All of the above mentioned states, only Slovenia and Croatia are members of the European Union, while others are candidates for admission.

According to the data from table no. 3, of these countries, only Croatia and Slovenia have higher GDP per capita, or \$ 11,535 Croatia and Slovenia, with \$ 20,726.

**Table 3: Country in West Balkan (GDP per capita -2015)**

Country	Population	GDP per capita - 2015
Croatia	4.225.000	11.535\$
Macedonia	2.107.000	4.852\$
Montenegro	621.000	6.406\$
Bosnia& Herzegovina	3.829.000	4.249\$
Serbia	7.164.000	5.235\$
Slovenia	2.069.000	20.726\$

**Source:**

<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

Table no.4 presented data for Human Development Index of noticed countries. The HDI is a summary measure of average achievement in noticed three key dimensions of human development. Croatia (0,82) and Slovenia (0,88) have better index than other countries.

**Table 4: Country in West Balkan – HDI [The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.**  
<https://en.actualitix.com/country/wld/human-development-index-by-country.php>, 28.03.2017], 2014

Country	HDI - 2014	Place from 186 countries
Croatia	0,82	44
Macedonia	0,75	76
Montenegro	0,80	50
Bosnia&Herzegovina	0,73	84
Serbia	0,77	65
Slovenia	0,88	25

**Source:** <https://en.actualitix.com/country/wld/human-development-index-by-country.php>, 28.03.2017.

Small states in Western Balkan, as Macedonia and others need economic cooperation and economic size. That is answer of a fifteen international organizations in Macedonia included in analyses. International organization in Macedonia across Economic Chamber association accept:

- The development of regional and economic cooperation of the small states is stimulated by strengthening the relations of economic cooperation, mainly through Chambers of Commerce. In some sectors this cooperation is still insufficient. These include insufficient traffic connections with some cities in the region.
- If the big states main prerogative is the size of the market and political power but the small countries need economic size, which can be achieved through economic integration.
- Western Balkans, states for helping the development of small businesses have undertaken an initiative and established Investment Forum of chambers that includes all the chambers of commerce in the region.
- One thing is clear, that the European business market is less interested in the individual performance of the small countries in the region. Therefore, the economic connection plays a key role for better performance and utilization of the economic potential of the region. We conclude that the cooperation of the business in the region remains as a goal to continuously improve the economic prospects of the businesses of small states. To come to a better solution to the complex socio-economic problems it is important to define the common interests of entrepreneurs and owners of small businesses.
- Strengthening and development of knowledge about innovation, or improving the quality of education is one of the main directions to improve entrepreneurship and small businesses, as an area of increasing economic activity on one hand, and increase employment on the other. Also, research by using information and communication technologies, should provide greater opportunities for access to funds that will focus on research and development.
- One of the main tasks in these countries is continuously stimulate entrepreneurship and development of SMEs. This should contribute to increasing the number of cross-border and transnational initiatives and joint investments between these countries.
- Regional cooperation of small countries is the basis for sustainable economic development in the future.

There is necessity for further structural reforms in these countries and dealing with corruption. Since these countries face common problems and their resolution will be resolved effectively and beyond national boundaries through regional economic integration. Economic openness or trade liberalization means free flow of goods, people, knowledge and capital.

## 6. Conclusion

At the time in which we live we have always been large and small, strong or weak businesses or countries. We are witnessing the existence of large countries with low economic development and on the contrary, small countries with enormous economic power. Therefore, the paper has selected the advantages of small countries in the world and stressed small countries of the Western Balkans through the advantages of small businesses and entrepreneurship. Above all, it is a field to create more new ideas and opportunities to try out. We conclude that the small countries of the region for greater access to the world and European markets need economic size, which can be achieved through economic integration and increased cooperation through economic liberalization. Although, the expansion of world trade, human and physical resources, the proximity to the world markets, and policies, institutions, regulations are facilitators for the integration of small countries into the global market.

## 7. Recommendations

Small states need to invest in contributing to the global debate - both individually and collectively. Small countries need to get organized, and develop an agenda for discussion and action in institutions like the OECD and the IMF. It is important that this would involve small country think-tanks, academics, business organizations and so on, not just small country governments. The focus would be on idea generation, to provide some market competition for the large state voices that currently dominate. (Scilling, D. 2015).

We observed many effective parameters which will contribute for better economical size of these countries. *First*, they have to do a more managed globalization. Increasingly, successful, small open economies – are being more deliberate about the way in which they engage with global flows. *Second*, a more flexible approach to international economic integration is important too. Here the small country experience suggests that bottom-up approaches that take context seriously and allow for local experimentation work better than universal, one size fits all approaches. *Third*, the small countries in Western Balkan (Macedonia, Serbia, Bosnia and Herzegovina, Croatia and others) need *economical size*, and it can be implemented through *economical integration*. *Fourth*, better access in the international and European market can be accomplished through their economical and *competitive advantages and innovations*. The competitive advantages and state wealth are created at microeconomic level. But, the state as a factor can help through economic liberalization, establishing quality public institutions, through developing stable political, system of law and financial system as well. All of them have to stimulate the macro environment and create better organizational contribution and condition.

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