

# Economic Freedom And Conflicts Tendencies In The Balkan Countries

Mishko Djidrov, Dejan Mirakovski, Simeon Simeonov, Slavco Cvetkov, Zlatko Sovreski

**Abstract** : The connection between economic freedom and conflicts seen differently by different researchers. This paper explores the relationship between economic freedom and conflict and the tendencies in the Balkan region. The economic freedom index by Heritage foundation was used and it was related to the data from Heidelberg Institute of International Conflict Research (HIIC) and their conflict barometer. The analysis was done in order to determine the current tendencies in the region for the period from 1995 to 2012. The results showed that there are no countries in the groups of "Mostly Free" and "Free" countries, but there is a constant growth in the economic freedom index in the recent years. The analyzes of the conflicts showed that most of the countries are in the group of "Moderately Free" countries with at least one conflict, with high percentage of conflict occurrence and difficulties in finding resolution for long period of time. The relationship of the conflicts and economic freedom showed that Balkan countries have tendency to become economic free countries with less conflicts.

**Index Terms:** Balkan region, Conflict, Economic freedom index, Moderately free countries, Relationship, Tendency.

## 1 INTRODUCTION

THE connection between economic freedom and conflict has been analyzed by different researchers. Some see conflicts as a way of gaining more profits and acquisition of new markets. Others see conflicts as bad for business, because they reduce the profits and bring greater government control. During the history, engaging in a war or conflict with other country was seen as a possible way for improving country's wealth and economic situation. The one that was the aggressor in the most cases had more benefits from the conflict that costs. But in this days engaging in violent conflict is more appropriately viewed as something to be avoided. However, conflict are still present in our modern history, both within the countries and between them. From the academic literature, we can say that there are two primary factors that can be seen as factors that brought reduction in conflict around the world.

Free trade is seen as the first factor that reduces conflict between nations. Immanuel Kant (1795), said that one of the keys to perpetual peace was economic interdependence. Also George Washington saw economic interdependence and political involvement as a key for country's development. The other factor comes from the studies from other scholars, where democracy and representative government are seen as a step to peace (Brawley 1993; Ray 1998). According to Russett & O'neal and their tests on "the Kantian tripod", they found that democracy, economic interdependence, and affiliations with international organizations, matter regarding country's peace. In the recent studies those factors have been challenged, especially their relationship. This justifies our analyzed connection between conflicts and economic freedom.

## 2 ECONOMIC FREEDOM AND CONFLICT

Key components of economic freedom are freedom of exchange and freedom to compete, personal choices and protection of private property, with lack of government intervention, constraint on the production, distribution or consumption of goods and services. Countries' institutions and policies have to be consistent with the economic freedom and provide infrastructure for voluntary exchange, with protection of individuals and their property from violence, coercion and fraud. Meanwhile, the government has to provide legal structure and law-enforcement system for protection of the owners' property rights and enforce contracts in a neutral manner. In this study the Heritage Foundation's Index of Economic Freedom (IEF) was used. This index is a combination of ten components of economic freedom and each has an assigned grade on the scale from 0 to 100. The country's economic freedom score is a simple average from those ten individual freedoms. This index is being measured every year on 185 countries and it is considered as a realisable measure of country's economic freedom. Heidelberg Institute for International Conflict Research (HIIC) defines conflicts as: "Clashes of interest (differences of position) concerning national values (territory, secession, decolonization, autonomy, system/ideology, national power, regional predominance, international power, resources, other). These conflicts have certain duration and scope, involving at least two parties (organized groups, states,

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groups of states, organizations of states) determined to pursue their interests and win their cases. In this study data provided by the Heidelberg Institute of International Conflict Research (HIIC) was used. The Conflict Barometer has been published in 1992 and it observes non-violent and violent crises, wars, coup d'etats and peace negotiations.

**3 REGION SITUATION**

All the Balkan countries (Fig. 1.) had different historical experience during the last 2 decades. After the blood-spattered break-up of Yugoslavia, all those new countries



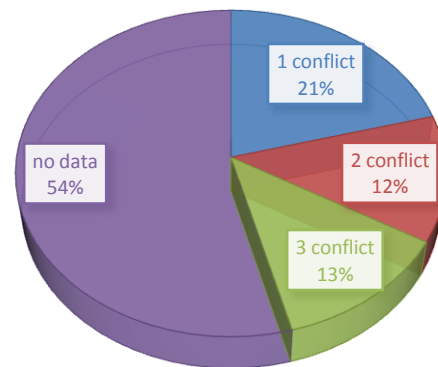
**Fig.1.** Balkan region

became quite isolated from the global markets and disintegrated from EU, especially during the war in Croatia (1991) and Bosnia & Herzegovina (1992-1995). Serbia and Montenegro were insulated because of the international sanction over the Kosovo issue. Greece started to dispute Macedonia's country name and brought embargoes over this country. Situation changed in 2000, especially for Croatia and Serbia after the democratic changes in those countries, but Macedonia had severe conflict in 2001 that affected country's integration in EU and NATO. The Balkan economies entered a period of more or less sustained recovery after the end of the conflict in Kosovo and the democratic changes in Croatia and the Federal Republic of Yugoslavia (Serbia and Montenegro) in 2000. In the recent years, this part of Europe had a steady increase of democracy, economic freedom, but also conflicts, where firstly Bulgaria (2007) and later Croatia (2013) entered European Union (EU).

**4 STATISTICAL RESULTS**

Our analysis of the relationship between economic freedom and conflict uses cross-sectional data on 8 countries for the period from 1995 to 2012. An inspection of the presented data in Fig. 3. shows that there aren't countries from the analysed region in the group of "Mostly free" and "Free countries". This is not disturbing since most of the countries in Europe are in the group of "Moderately free countries". In the period from 1995 to 1997 there is data lack for this region. For the whole analyzed period (each country, every year 1995-2012) we can say that we have 69% of the countries illiberal ("Repressed" and "Mostly unfree"). But in the recent years we have a constant growth in the economic freedom index and in the year 2011 we have 75% and the

years 2012-13, 62.5% "Moderately free countries". And also 62% of the analyzed countries surpass the world average in the last three years of the analyzed period. Analyzing the conflict situation presented in Table 1 (Appendix) in the period from 1995 to 2012 we can see that there is an alarming situation because of the high percentage of conflicts present in 102 fields (one year, one country), which tells us that there is a high percentage of conflict presence in the Balkan region. We have to mention Albania as a country with few conflicts in the recent years, after the turmoil period of 1997-2001 and Bulgaria with no conflicts worth pointing out. Kosovo was left out from this research because of the lack of information for this country. In this research all the analyzed countries and their conflict were connected with the economic freedom index, and in Table 2 we can see the adequate coloring. As for the question how many free countries have conflict, the research showed that there aren't free countries and that is why moderately free countries were analyzed. From all the analyzed cases (one year, one country), we have 38 moderately free country cases, with occurrence of 10 cases with only 1 conflict, 6 cases with 2 conflicts and another 6 cases with 3 conflicts. For the rest of the "Moderately free country" cases there wasn't enough data for the conflicts occurrence (Fig. 2.).



**Fig. 2** Conflict in moderately free country cases in the Balkan region, period 1995 – 2012

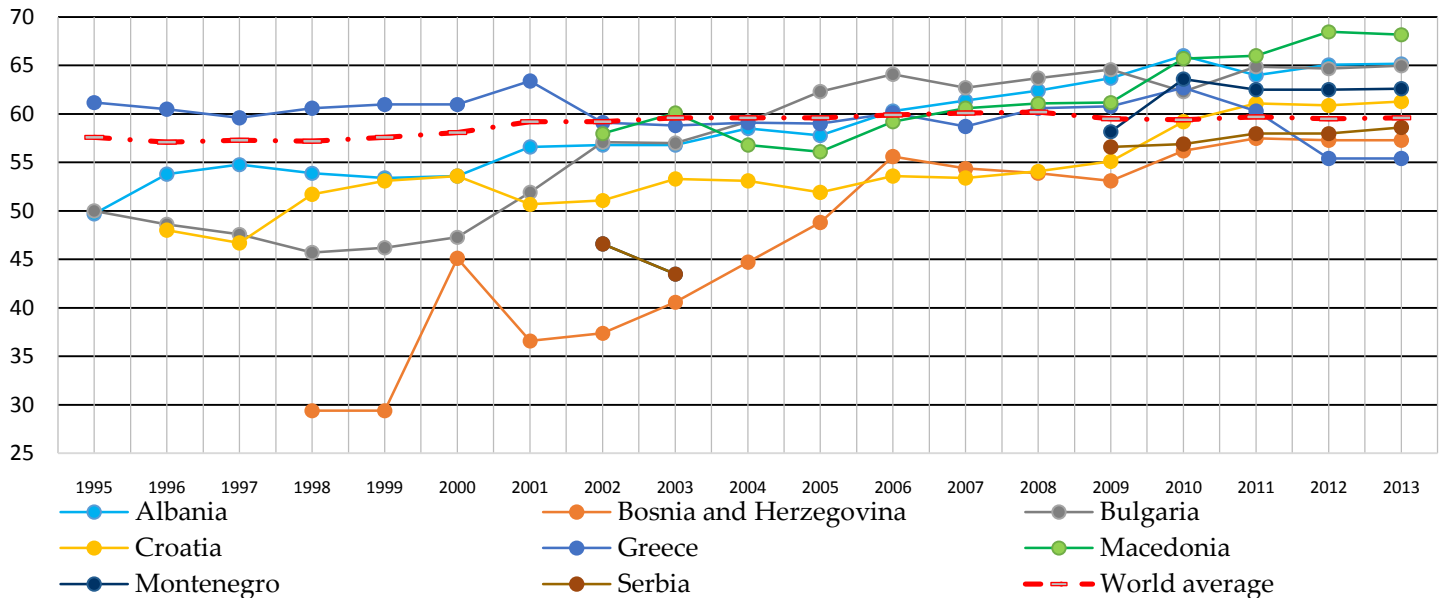
The tendency of the conflict occurrence was analyzed (Appendix, Table 2) and from the results we can see that there is a great tendency of the Balkan countries to move from the upper right corner (where the countries have more conflicts and the country is categorized as a repressed country) to the bottom left corner (where the countries have less conflicts and high economic freedom). In the case of the Balkan countries the shift from upper left corner to the bottom left corner is more visible. Serbia is an extreme case because, while other countries have decreased their conflicts or have one or two conflicts, Serbia has increased the conflict number per year and has a small shift from "Repressed" to "Mostly Unfree" country. The research showed that some of the conflicts were of a short time and some of them are present in every year for the analyzed period, bringing the problem with difficult resolution of conflicts in this region. For example, the Greece – Turkey conflict and Greece – Macedonia conflict are example of challenging conflicts with no visible results for many years.

**5 CONCLUSION**

1990s were conflict “infected” years for the Balkan region that pushed the countries into the European margin, living them far from EU integrations until the first decade of 2000. This research assessed the evidence on the impact of conflicts in the Balkan region and its connection with the economic freedom of those countries. From the results we can see that there are no countries from the Balkans in the groups of “Mostly Free” and “Free” countries defined by the Index of Economic Freedom (IEF) and 69% of the countries are illiberal (“Repressed” and “Mostly unfree”). However there is a constant growth in the economic freedom index in

the recent years with 75% (2011) and 62.5% (2012), bringing them in the group of “Moderately Free” countries. This research studied the conflicts in the region and the results showed that most of the countries in the “Moderately Free” group have 1 conflict, but there is a high percentage of conflict occurrence with difficulties in finding resolution for long time. The connection between the conflicts and economic freedom showed that Balkan countries have tendency to move from the upper right corner, (“Repressed” countries with more conflict) to the bottom left corner, (economic free countries with less conflicts).

**6 APPENDIX**



**Fig.3.** Index of Economic Freedom (IEF) for the period from 1995 to 2013  
Source: Heritage Foundation

	'45-'94	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
Albania	2			1	1	1	1	1													
Bosnia & Herzegovina	4	2	1	1	1	1	1	1	1	1	1	1	2	2	2	2	3	3	3		
Bulgaria	1																				
Croatia	2	2	2	2	3	3	3	2	2	2	2	3	3	3	4	3	3	3	1		
Greece	8	1	1	1	1	1	1	1	1	1	1	2	2	2	2	3	3	3	3		
Macedonia		1						1	1	1	2	2	2	2	3	3	2	2	2		
Montenegro						1	1	1	1	1	1	1	1		1	1	1	1			
Serbia	3	3	5	5	6	6	5	6	4	4	5	6	6	8	8	7	7	7	6		
	Colourin g:	Repressed country					Mostly Unfree					Moderately Free					No info				

**TABLE 1** INDEX OF ECONOMIC FREEDOM (IEF) FOR THE PERIOD FROM 1995 TO 2013

SOURCE: HERITAGE FOUNDATION

**TABLE 2** COMPARISON OF THE CONFLICT OCCURRENCE AND ECONOMIC FREEDOM IN THE BALKAN COUNTRIES

	Year	Number of conflicts						
	2002	0	1	2	3	4	5	6
Economic freedom	Repressed		BA, ME			RS		
	Mostly Unfree	AL, BG	GR, MK	HR				
	Moderately Free							
	Mostly Free							
	Free							
	2012	0	1	2	3	4	5	6
Economic freedom	Repressed							
	Mostly Unfree				BA GR,			RS
	Moderately Free	AL, BG, ME	HR	MK				
	Mostly Free							
	Free							

ABBREVIATIONS: AL – ALBANIA, BG – BULGARIA, BA – BOSNIA & HERZEGOVINA, ME – MONTENEGRO, GR – GREECE, MK – MACEDONIA, HR – CROATIA, RS – SERBIA

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