

Relationship between economic freedom and conflict in the Balkan region

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

Abstract – There has been a great debate over the relationship between economic freedom and conflict. Some scholars see conflicts as a way to increase profit and obtain new markets for their domination. But this in modern history is not acceptable by many values and that is why other scholars see conflicts as bad for business, that bring reduced profits and larger government control. This relationship is interesting for the Balkan countries because of the 1990s, when all those countries were conflict infected. This study assess the evidence on the impact of the turmoil in this region on the economic freedom of those countries, for the period from 1995 to 2012. The outcomes showed that there is a constant growth in the economic freedom with high percentage of conflicts occurrence and with difficulties in resolving them.

Index Terms – Balkan, Conflict, Economic freedom, Relationship.

1 INTRODUCTION

IN the second half of the twentieth century, the economies of the Balkan (Figure 1) countries had different historical experiences. After the break-up of Yugoslavia, Ex-Yu countries became quite isolated from global markets as a result of the wars in Croatia (1991) and Bosnia and Herzegovina (1992-1995). International sanctions isolated Serbia and Montenegro, including Kosovo and in the south, Greek dispute over the Macedonia's country name brought embargoes and effectively isolated the country for many years. Until the democratic changes in Croatia and Serbia in 2000 this region begin engaging with the global market, yet some countries, like Macedonia, continued to disrupt its integration into global markets after the severe conflict in 2001. After the end of the war in Kosovo and the democratic changes in Croatia and the Federal Republic of Yugoslavia (Serbia and Montenegro) in 2000, the Balkan economies entered a period of more or less sustained recovery. All of those conflicts had impact on their economy and economic freedom.

This brings to light the question of this research, the relationship between economic freedom and conflict and what has happened after the turmoil period in this region

and are there any trends in the economic freedom and development.

2 ECONOMIC FREEDOM AND CONFLICT: ALLIES OR OPPONENTS

Different researchers see conflicts differently. During the history, conflicts were seen as a way to increase country's wellbeing, where the researchers point out the importance of new market domination true wars. Other scholars say that conflicts are not encouraging businesses, at least not legitimate ones and they bring larger government control over the country's economy. A combination of historical evidence, modern theorists, and statistical findings, indicates that a reduced conflict level in the country is associated with an increase in the economic freedom. In addition, modern writers approve the benefits of freedom, especially commercial freedom. Sen (1999) contends that economic growth emerges more from a friendlier economic climate than a harsh political system, that is associated with conflict situation in the country, in no matter what form: a coup d'etat, revolution, rebellion, or war. Barbara Crossette (1997) finds a relationship between the economic growth, globalization and peace. She said that during times of peace, people are free to channel their energies into economic activities. Similarly, Michael Klare (2001) argues that global market forces have encouraged the nonviolent resolution of conflicts. People during the history have realized that the economic benefits of cooperation are greater than the costs of any kind of conflict, especially war.

Defining and understanding the economic freedom tends to be complex and often quite deficient, but we cannot say that the economic freedom is not understood. The main foundations of economic freedom are freedom of exchange and compete, personal choices and protection of private property. All of this has to be with absence of government intervention, constraint on the production, distribution or consumption of goods and services. Single definition of economic freedom yet has to be agreed by the scholars because of the wide range of components that comprise the economic freedom (Hanke, Walters, 1997;

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Gwartney et al., 1996; Johnson, Holmes, Kirkpatrick, 1998): security of property rights; freedom to engage in voluntary transactions; access to sound money; freedom to engage in voluntary transactions outside the borders of a nation; restrictions in the market and freedom to compete; personal choice.



Fig. 1 Balkan region

Main constituents of economic freedom are personal choice, voluntary exchange, freedom to compete, and protection of person and property. Institutions and policies have to be consistent with the economic freedom and they have to provide an infrastructure for voluntary exchange, where they will protect individuals and their property from violence, coercion, and fraud. In the same time governments have to provide a legal structure and law-enforcement system to protect the property rights of owners and enforce contracts in an unbiased manner. However, governments must refrain from many activities that interfere with personal choice, voluntary exchange, and the freedom to enter and compete in labor and product markets.

According to James Gwartney and Robert Lawson "the index of economic freedom should measure the extent to which rightly acquired property is protected and individuals are engaged in voluntary transactions". Where, "individuals have economic freedom when property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others".

In this research the Heritage Foundation's Index of Economic Freedom (IEF) was used. This index is combined out of ten components of economic freedom, assigning a grade for each on the scale from 0 to 100 (max). The 10 economic freedoms are grouped into four broad categories: Rule of Law (property rights, freedom from corruption); Limited Government (fiscal freedom, government spending); Regulatory Efficiency (business freedom, labor freedom, monetary freedom); and Open Markets (trade freedom, investment freedom and financial freedom). Then each of them within the four categories is individually scored on a scale (0 to 100) and a country's overall economic freedom score is a simple average of its scores on those ten

individual freedoms. This index is measured every year on 185 countries.

The connection between conflicts and economic freedom has been analyzed many times and researchers argue about it. Schumpeter in his research came to the conclusion that conflicts tend to impoverish national economies, with costs dramatically outweighing any potential economic gains that might come from military pursuits. With the presence of economic freedom and free trade, countries can purchase desired goods instead of conquering another country. His research also showed that economically free countries have strong foundations with less support for expansion and rejection of politically dominant armies.

Rudolph J. Rummel conducted a five-year study which found support for the hypothesis that economically free countries are less likely to engage each other in conflict. His research proved that free market systems tend to encourage an exchange of goods and services, not clashes.

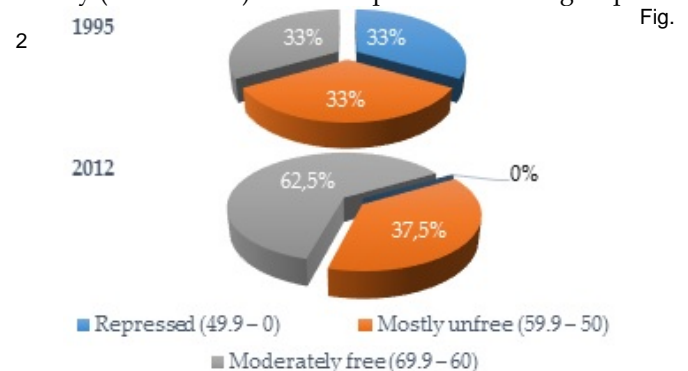
Heidelberg Institute for International Conflict Research (HIIK) defines conflicts as: "Clashes of interest (differences of position) concerning national values (territory, secession, decolonization, autonomy, system/ideology, national power, regional predominance, international power, resources, other). These conflicts have certain duration and scope, involving at least two parties (organized groups, states, groups of states, organizations of states) determined to pursue their interests and win their cases.

In this research the CONIS dataset provided by the Heidelberg Institute of International Conflict Research (HIIK) 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.

All the said arguments were tested in this research, using data on economic freedom and conflicts occurrence in the Balkan countries, more specifically: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Macedonia, Montenegro and Serbia. Kosovo was left out because of the absence of data.

STATISTICAL RESULTS

A check of the data shows (Table 1, Appendix) that there are no countries from the Balkans that are in the group of mostly free (79.9 – 70 score) and free countries (100 – 80 score). We can say that this is understandable, especially for free countries, because there is only one country (Switzerland) from Europe that is in that group.



Growth in the economic freedom index, comparison between 1995 and

2012

From the research we saw that there is insufficient data for the Balkan countries in the beginning of our analyzed period (1995). But from what is available we can see that 33% of the countries were either repressed (49.9 – 0 score), mostly unfree (59.9 – 50 score) or moderately free (69.9 – 60) (Figure 2). But from that year onwards we have a constant progress in the economic freedom index and from the available data we can see that in year of 2011 we have 75%, and the years 2012-13 62.5% moderately free countries.

Greece represents an insulated case, where we have declination of the index of economic freedom, due to the recent economic crisis situation in this country. It is obvious that during the war and conflict years in the Balkan region, in the period from 1995 to 2002 the economic freedom index was very low, even compared with the world average, but after that the stable increase is present (except for Greece). This index shows that Macedonia, a country that had severe conflict in 2001, has a steady increase in the period after the conflict and in the recent years it is a leader in the Balkan region.



Fig. 3 Conflict occurrence in the Balkan region for the period from 1995 to 2012

In Table 2, presented in Appendix, we have an analysis of the conflict occurrence for each country in the period from 1995 to 2012. From 144 possible fields (one year, one country – country cases) analyzed, we have 29% with 0 conflict, also 29% with 1 conflict, 17% with 2 conflicts and 13% with 3 conflicts per year. The rest (12%) of the cases were with 4 and more conflicts per country in one year. It is alarming that from all the country cases (one year, one country) we have 102 fields with conflicts, which tells us that there is a high percentage of conflict occurrence in the Balkan region. Albania is a country with few conflicts in the recent years, after the turmoil period from 1997 to 2001 and Bulgaria with no conflicts worth pointing out. 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 perceptible results in the last years.

CONCLUSION

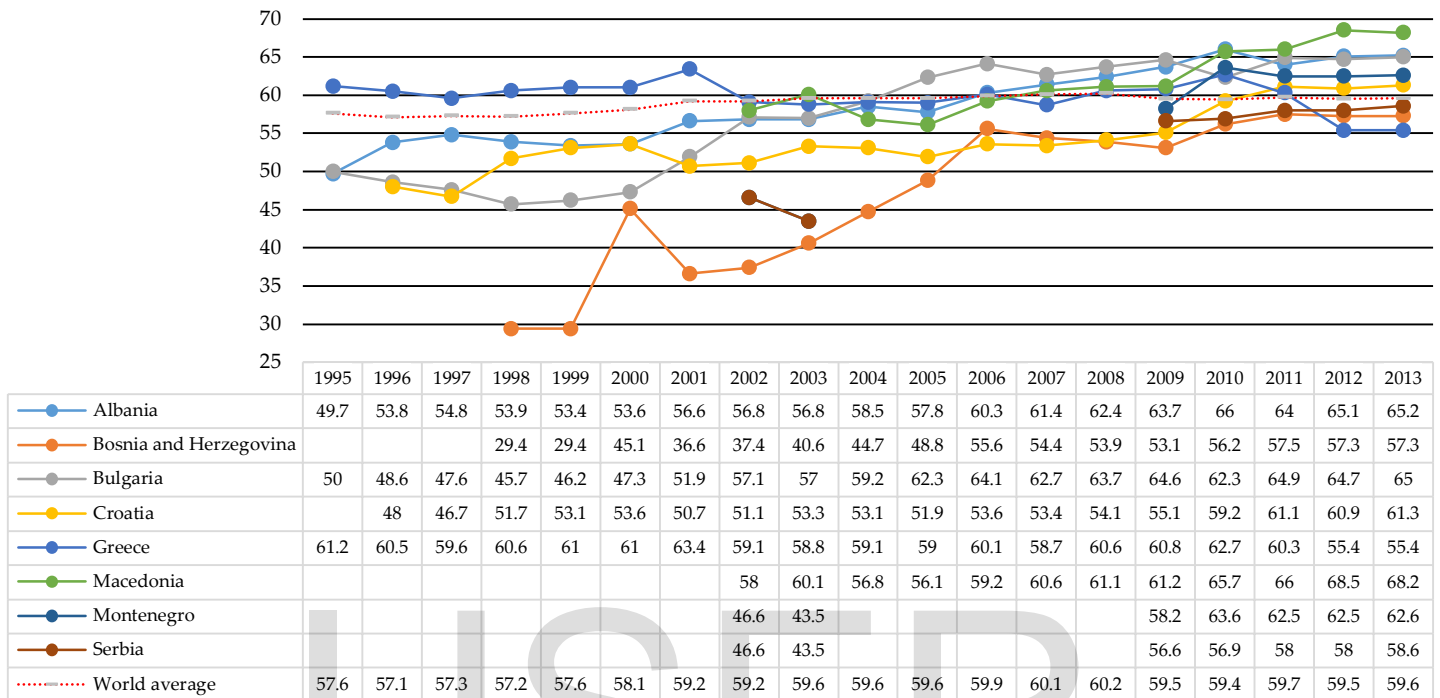
Conflicts that afflicted the Balkan region in the 1990s pushed the countries into the European “super-periphery”. In the recent years number of indicators for economic freedom and conflict have become available, which made it possible to test the connection between them for this region. This research included comparison and evaluation of those indicators and careful analysis of the close and robust relationship between those measures. The evidence on the impact of turmoil in the Balkan region and the economic freedom of those countries was accessed. It is concluded that though these measures differ somewhat in their coverage, they show similar rankings for the countries covered. 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). Yet there is a constant growth in the economic freedom index, where more than 60% of the analyzed countries are in the group of moderately free countries in the recent years. This research studied the conflicts in the region and the results showed that there is a high percentage of conflict occurrence with difficulties in finding resolution of the conflicts for a long period of time in some cases. It is clear that economic freedom is strongly connected with conflict reduction and free countries have fewer conflicts and wars in general. The relationship strongly suggest that economic freedom fosters also the economic growth, which can be seen from the constant development of the Balkan countries in the periods with less conflicts.

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APPENDIX

TABLE 1 HERITAGE FOUNDATION'S INDEX OF ECONOMIC FREEDOM (IEF) FOR THE PERIOD FROM 1995 TO 2013



Source: Heritage Foundation

TABLE 2 CONFLICT OCCURRENCE IN THE BALKAN COUNTRIES

	'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

Source: Conflict Barometer Heidelberg Institute of International Conflict Research (HIIC)