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Economic Developments in the Balkan Countries and the Role of Greece: From Bilateral Relations to the Chalenge of Integration

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ABSTRACT

Greece has been confronted in the entire post-war period with a unique unfavorble situation consisting of (a) a perimetric location away from major European markets and (b) distorted economic relations as the northern borders of the country were meant to be real barriers to communication and trade with neighbouring countries. This type of "border conditions" have adversely affected the structure and performance of the economy and its prospects for convergence. This paper examines the post-1989 developments in the Balkan region from the point of view of Greece. Growth rates, development levels, economic structures, trade relations, factor movements and the spatial structure of the region are examined on a comparative basis, in order to detect major trends and developments that are taking place, as a result of an unprecedented integration-transition process. On the basis of the analysis, it is concluded that Greece can overcome isolation and effectively deal with the pressures and difficulties of European integration, by pursuing a strategy that will gradually recompose the economic space in its vicinity, with the creation of a large and accessible regional Balkan market. The appropriate policy mix should include, among other things, a steady and energetic support to all Balkan countries, to join in the future the European Union and the promotion of a EU strategic development plan for the Balkan region, with the active participation of Greece and a special emphasis on issues of intraregional co-operation and integration.

1. INTRODUCTION

Europe is changing in a very fundamental way by the interacting forces of a two-dimensional integration-transition process. On the one hand, a complex, conflicting and challenging process of economic integration is taking place within the European Union (EU) with major elements the Single European Market, the Maastricht policies towards the Economic and Monetary Union and the recent and future EU enlargement. On the other hand, the process of socio-economic and institutional transformation in Central and Eastern European (CEE) countries is a multi-dimensional force that is changing the European economic and political geography in a fundamental way (Hare, 1991; Jackson and Biesbrouck, 1994; Roland, 1993; Weitzman, 1993). The economic gravity center shifts to the East (Petrakos, 1996a), a new environment for economic relations is created and new regional spheres of economic influence and cooperation are rising. Flows of labor and capital, despite various shorts of barriers, cross in the East-West borders following the predictions of a simple neoclassical model (Petrakos, 1996b), while merchandise flows are for the time being unbalanced and of a rather inter-industry type (Landesmann, 1995; Petrakos, 1995). As the artificial barriers in Central and Southern Europe are gradually removed, a larger economic space is created, in which the intensity and the type of economic relations are largely determined by geographical factors such as adjacency and proximity (Peschel, 1990; Krugman, 1993) and often by historical, cultural and other non-economic preference factors.

Although both EU integration and CEEC transition processes are associated with strong expectations for economic prosperity, existing experience indicates that both face serious problems and difficulties. On the one hand, the EU integration process, that involves states and regions with different levels of development and different endowments of resources and technology, is considered to generate severe pressure for adjustment to the less advanced Southern European countries (CEC, 1991; Amin et al. 1992; Camagni, 1992) that have recently internationalized their economies with unsolved, in most cases, problems of efficient organization of their productive bases. Many analysts (including the European Commission) have expressed fears that this process may have a negative impact on the cohesion of Europe, unless serious policies of a structural nature are implemented. On the other hand, the CEE economies have experienced painful adjustments due to the accumulated impact of systemic change (marketization, privatization and internationalization) and the collapse of the previous structure of external economic relations. Available experience indicates that all countries did not adjust or perform in the same way. Some CEE regions and countries, due to a number of factors, including adjacency to, proximity and cultural affinity with the European core (Petrakos, 1996a), have experienced a relatively more balanced type of transition and integration with the West, while some others seem to experience a selective and unequal one (Baldwin, 1994). The later ones, run a danger to be left with weak and shrinking industrial bases and see their prospects for convergence to western standards of living to evaporate, as they gradually form the new European periphery.

Although not explicitly stated, it is beyond any doubt that in this cosmogony of changes that is shaping the new Europe by the interacting forces of integration and transition, the worse performing in all accounts place is the Balkan region. One could argue, that, for some reasons that need to be discussed, in the northern Greek borders we meet those paradigms of integration and transition in Europe that face the greatest difficulties and

have the weaker performance to this point. In this context, the Greek economic relations in the Balkans and the future developments in this region take a special analytical and policy making interest as they concern: (a) relations between EU and CEE countries with an East-West character, that is, important systemic and institutional differences, (b) relations between countries with relatively lower level of development compared to the other EU or CEE countries respectively, (c) relations between countries that are in various degrees perimetric with respect to the geographical and economic gravity center of Europe and (d) relations between countries that have adjusted in a relatively poor way to the pressures of EU economic integration (Greece) and transition (the other BCs) respectively.

In the next section we examine the initial conditions that existed in the BCs in the pre-1989 period and the new conditions in the post-1989 period with respect to structural adjustments and aggregate economic performance, trade relations and regional structures. In the last section we draw our conclusions concerning the policies that are needed in the Balkans in order to successfully overcome the constraints imposed by the new international environment.

2. THE PRE-1989 CONDITIONS IN GREECE AND THE OTHER BALKAN COUNTRIES

Greece was confronted in the post World War II period with a unique unfavorable situation not found anywhere else in Europe. This situation results from the interaction of: (a) a perimetric location in Southeastern Europe, away from major markets and the European development center and (b) distorted economic relations, as the northern borders of the country were, due to the post war realities, meant to be real barriers to communication and trade with neighboring countries. This type of "border condition" where practically the entire continental border-line of the country operated as a barrier to economic and social relations, is a rare situation in the history of international relations.[1]

These two conditions generated an overall unfavorable index of geographic location within the post-war European economic space, with serious long term implications for the economic structure and performance of the country. The isolation and distance from the European core and the other EU members implied in general limited accessibility of domestic products to large foreign markets that (by definition of the EU) were supposed to be accessible, explaining the low export-to-GDP ratios, while the "missing factor" in the trade relations with its neighbors generated serious disadvantages. Theoretical and empirical research has shown the importance of geographical factors such as adjacency and proximity in trade relations (Krugman, 1994; Peschel, 1990, 1992). As a result, it is only natural that the "missing factor" in the trade relations of Greece has caused a significant reduction in the trade potential of the country, limiting market accessibility for exporting industries and limiting the prospects for export-led growth.

Because of these conditions the trade relations of Greece took necessarily an inter-industry character with the more advanced and distant countries of Western Europe, with serious impact on the industrial structure of the country. Trade theory indicates (Grimwade, 1989) that trade with neighboring countries is more intensive and usually takes an intra-industry character, implying greater room for more industries to develop, as international specializations are not mutually exclusive and the division of labor takes place *within* and not *between* sectors. Therefore, the lack of trade relations with the other Balkan countries pushed Greece further towards an inter-industry type of specialization with the technologically more advanced western European countries[2] that was rather unfavorable for the industrial development of the country. In that respect, the post-war "border conditions" of the country have generated a "missing factor" in trade relations that in its turn has imposed additional constraints on the already weak structure of the economy. In addition, due to the small size of the country and the lack of accessible markets of a critical size, industrial firms could not benefit from economies of scale. As a result the industrial base of the country became the most fragmented in Europe, with very small by international standards firms (Petrakos and Zikos, 1996; Petrakos, 1996c) that deteriorated the structural problems of the economy and reduced overall economic efficiency.

Taking into consideration that, due to the ongoing conflict in the Middle-East and the Greek-Turkish dispute, Greece lost in this region significant markets in the early 1970s, the operation of these two factors (limited accessibility to European markets and no

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1. In today's developed world only Israel has found itself in a similar situation.
2. This may explain why from all the EU countries, Greece has the lowest share of intra-industry trade.

economic relations with neighboring countries) may explain some aspects of the Greek economic performance during the last decades. Distance and the "missing factor" in trade relations may explain, for example, why the dynamism of the economy in the 1950s and the 1960s was exhausted so quickly afterwards, or why the public sector in the 1970s and the 1980s became so popular and so large: As export-led growth was not possible due to limited accessible markets and the predominantly inter-industry structure of trade, the industrial sector unavoidably took an inward looking character, became more fragmented, less efficient and of course smaller in size, leaving to the public sector the principal responsibility to absorb the expanding, due to strong urban migration flows, labor force.

Overall, it is claimed here that the post-World War II and pre-1989 period performance of the Greek economy has been affected by the restrictions imposed on the structure and level of the external economic relations of the country by the limitations of geography and the artificial division of Europe into two camps. Although there is no direct empirical evidence to support it, we are confident that a simple spatial trade model would predict for Greece a very different level and structure of trade (in terms of its composition by product and origin-destination by country) than the existing one, should barriers to trade with the neighboring countries have not been imposed.

The post World War II conditions in the other Balkan countries are in many respects similar to the other CEE countries. Besides central planning mechanism, a significant distortion in international economic relations took place with an eastward trade orientation within the CMEA block that caused significant trade diversion[1] from traditional partners, including neighboring countries. The exception to this rule was Albania, which followed for the most period an autarky strategy that led to economic isolation from the rest of the world. Another characteristic of the post-war period in the central planning countries including the Balkan, was a strong reliance on economies of scale and a strong ideological preference to huge industrial plants and mass production. Although this reliance to large scale enterprises was a reasonable outcome of the international division of labor within the Soviet block, it is perhaps a historical accident that it took momentum at a time where the model of mass production and the fordist-taylorist types of industrial organization and growth strategies were in serious crisis and openly questioned in the West (Piore and Sabel, 1984).

While in the 1980s post-fordist strategies of industrial restructuring and development emphasizing on flexibility were discussed or even implemented in the west, in the east, mass production and vertical division of labor were the dominant trends contributing to the bottlenecks, the inefficiency, the failure and the eventual collapse of the system. In the Balkans this divide was even more evident. On the one hand, Greece has practically never followed the fordist mode of large-scale mass production, maintaining the smaller average industrial firm size in Europe,[2] while on the other, the BCs in transition experienced an industrial structure based on extremely large firm sizes, even for the Western European

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[1]. Trade distortions were especially strong in Bulgaria that was the most dependent from all CEE countries to trade with the Former Soviet Union (Totev, 1996).

[2]. Over 93% of the industrial firms in Greece employ less than 10 employees while the average industrial firm size in Greece has been close to 5 employees per firm for the last 20 years (Petrakos and Zikos, 1996).

standards.[1] In addition to that, the command economies in the Balkans followed an industrialization strategy that put a strong emphasis on the development of heavy industry and led to a total neglect of the light, consumer oriented industry and the tertiary sector, failing to develop specializations and branches critical for the development of a modern economy (Petrakos, 1996c).

[1]. The average industrial firm size in Bulgaria was in 1990 close to 500 employees per firm while 47% of the industrial firms employed more than 100 employees in 1993. In Romania the situation is similar, while in a sample of 150 firms the average employment was found greater than 2000 employees per firm (Jackson, 1996). Even in Albania that is a small country, the average firm size in its border regions with Greece ranged in 1992 from 20 to 80 employees per firm (Petrakos, 1996b). For comparison, in the EU only 2.1% of the industrial firms employ more than 100 employees, while the average employment is 18 employees per firm (Petrakos, 1996c).

3. THE POST-1989 CONDITIONS IN THE BALKANS

The recent changes in CEE countries and especially the Balkans have affected in a fundamental way their economic structure and the geography of trade and economic relations in the region, as well as the prospects for regional cooperation and development. In this section we present and discuss the elements of change that are related to economic performance at the macro level, to structural adjustment at the sectoral level, as well as trade relations, factor mobility and the existing spatial structure of the region. In the next section we discuss the policy implications of the new conditions in the Balkans.

3.1. GDP Growth, Inflation and Trade Balance

Examining the basic macroeconomic indicators in Table 1 we observe that all transition countries in the Balkans have experienced a deep recession in the post-1989 period. In 1995 real GDP was equal to a 83% of the 1990 level in Albania, 82% in Bulgaria, 62% in Croatia, 89% in Romania 60% in FYROM, 69% in New Yugoslavia and 96% in Slovenia. The time-path of the recession was not the same for all countries. The worse year for Albania, Bulgaria, Croatia, Romania and Slovenia was 1991, while for FYROM and New Yugoslavia, where reforms were delayed, the worse year was 1993. Three countries (Albania, Romania and Slovenia) have experiences positive growth rates in 1993, while all transition economies (with the exception of FYROM) have experienced positive growth rates in 1994 and 1995. As shown in the Tables, Greece is the only country in the region that has experienced a continuously positive (with the exception of 1993) growth rate of GDP.

Another characteristic of the early stages of the transition process, is the soaring inflation rates that appeared in all countries as a result of market liberalization. Although all transition countries experienced some sort of hyper-inflation during this period, the worse problems appeared in New Yugoslavia, Croatia and FYROM, that were either involved in the Bosnian war or faced an embargo. As shown in Table 1, all countries have managed by 1995 to bring inflation under control. Again here, Greece is the only country in the region that has relatively low and declining inflation rates throughout the period.

A first conclusion from the analysis of these statistics is that after five years of severe recession and crisis, the Balkan region has entered to a period of recovery with high growth rates and controlled inflation. To the extent that the ethnic-territorial arrangements in Bosnia have a permanent character and New Yugoslavia is again accepted within the international community and taking into consideration that practically all Balkan transition countries are found, after the systemic change, to be in relatively early stages of capitalist accumulation, this period of recovery may last for a long period of time. This indicates that a fast growing regional market of 60-70 million people is emerging, with increasing demand for all types of goods and services and significant opportunities for intra-regional economic cooperation.

Examining export-import ratios for each country (Table 1) we can make two interesting observations. First, all countries have, in general, lower than one and declining ratios, indicating (with the exemption of Bulgaria) a (rather increasing) trade deficit. Second, Greece, followed by Albania, has the lowest export-import ratio in the Balkans, indicating a higher degree of penetration of its domestic market by foreign products and a declining ability to successfully compete in foreign markets. Although the poor trade performance of

TABLE 1

GDP Growth Rates, Inflation and Export-Import Ratios for the Balkan Countries

Country	Year	Real GDP Growth (%)	Price Inflation	Export-Import Ratio
Albania	1991	-27,10	36,00	0,61
	1992	-9,70	226,00	0,15
	1993	11,00	85,00	0,19
	1994	7,40	23,00	0,23
	1995	6,00	7,00	0,33
Bulgaria	1991	-11,70	333,50	0,97
	1992	-7,30	82,00	0,95
	1993	-2,40	72,80	0,80
	1994	1,40	96,20	1,05
	1995	2,50	62,00	1,09
Croatia	1991	-20,90	123,00	0,86
	1992	-9,70	665,00	1,03
	1993	-3,70	1517,00	0,84
	1994	0,80	98,00	0,81
	1995	2,00	2,00	0,62
Greece	1991	3,20	19,50	0,40
	1992	0,80	15,80	0,30
	1993	-0,50	14,30	0,28
	1994	1,50	10,90	0,28
	1995	1,70	9,30	0,26
FYROM	1991	-10,00	115,00	0,84
	1992	-12,50	1691,00	0,99
	1993	-14,10	340,00	0,88
	1994	-8,20	122,00	0,73
	1995	-3,00	17,00	0,80
Romania	1991	-12,90	174,50	0,80
	1992	-8,80	210,90	0,76
	1993	1,50	290,30	0,82
	1994	3,90	136,80	0,94
	1995	6,90	32,30	0,86
Slovenia	1991	- 8,10	117,70	0,94
	1992	-5,40	201,30	1,13
	1993	1,30	32,30	0,98
	1994	5,30	19,80	0,97
	1995	4,00	12,00	0,89
New Yugoslavia	1991	14,20	121,00	0,84
	1992	-26,20	9237,00	0,64
	1993	-27,70	116.000.000.000	-
	1994	6,50	72.000.000	-
	1995	6,50	80,00	-

Source: EIU(1996) Country Reports, First Quarter 1996.

Greece is to a large extent affected by its perimetric and isolated position, it should be seen as a possible scenario for the other Balkan countries, to the extent that the internationalization of their economies is not accompanied by restructuring policies that will strengthen their industrial bases. Taking into consideration that these economies have a relatively low level of development (see bellow) and are not (with the exception of Slovenia) as open as Greece,[1] it is almost certain that as internal demand increases and their economy becomes more open, the export-import ratio will fall even further.

3.2. GDP Structure and Change in the Balkan Countries

In Table 2 we present information about the structure of GDP in the EU and the Balkan countries by sector respectively. A comparison of the figures reveals some important characteristics that need to be evaluated.

First, we see that compared to the average EU figures, Greece appears to be a unique case of structurally lagging behind country with a share of primary sector equal to 17% of GDP. which is more than six times the EU average. This high dependence on the primary sector is unavoidably followed by one of the lowest shares of secondary and tertiary sectors in GDP in the EU.

Second, examining the sectoral shares in the same Table, we see a general pattern of structural change in transition Balkan economies with common characteristics the reduction of the share of the secondary sector and the increase of the share of the tertiary sector. The only exemption from this process is FYROM, in which the process of economic reform has not started yet. With respect to the GDP share of primary sector in transition countries the pattern is mixed. Albania, Romania and FYROM, have seen their GDP shares of agriculture to increase - at various rates - in the 1990-1994 period, Bulgaria experienced a slight increase and Slovenia has more or less a constant share of agriculture in GDP. In general it can be stated that the direction of change of the primary's sector share in GDP is affected by the severeness of the industrial restructuring process and the level of development. The greater the decline of the industrial share in GDP the higher the possibility for the share of primary sector to increase, as the return to land is the last resort for displaced labor to avoid open unemployment. Similar trends to that of Slovenia have been experienced also in Poland and The Czech Republic (Petrakos, 1996c). A corollary of this statement is that the more advanced transition economies (with stronger industrial bases) have experienced low and stable or declining shares of primary sector in GDP, while the less advanced transition economies have experienced higher and often increasing shares.

Third, we realize that, from all the Balkan countries, Slovenia is the only one with a GDP structure approaching in 1994 the GDP structure of the EU,[2] in a sense that it has a low dependence on agriculture. The other, however, countries such as Bulgaria, Romania and FYROM are approaching the structure of Greece, having a significantly greater dependence from agriculture. This indicates perhaps a north-south divide in CEE countries,

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[1]. Taking imports per capita as an indicator of the openness of an economy we see that Slovenia and Greece are the more open economies in the region, while Albania the more closed one. Measured in US dollars for 1995, imports per capita are 4,686 for Slovenia, 2,076 for Greece, 1,571 for Croatia, 694 for FYROM, 548 for Bulgaria, 383 for Romania and 178 for Albania.

[2]. From the other CEE countries, the Czech Republic, Poland, and the Slovak Republic also approach the GDP structure of the EU (Petrakos, 1996).

with the Balkan countries having a less advanced economic structure than the Central European ones (Petrakos, 1996c).

Fourth, with the exemption of Albania (which is practically faced with a collapsing industrial base) but also Slovenia, the other Balkan transition economies have a GDP share of industry greater than the EU average, indicating that the process of industrial restructuring has not been completed yet. Taking the superiority of the Western European industry, especially in R&D and capital or knowledge intensive sectors, for granted (Landesmann, 1995), one would expect that adjustment to new international standards, restructuring and import penetration, at least in the foreseeable future, will further reduce the industrial share in the Balkan transition economies bellow the EU share.

Finally, the relatively lower than the EU average shares of the tertiary sector in the transition economies also reveal a similar picture, in the sense that a certain amount of resources is still employed in industry by virtue of the various protection schemes and devices that serve 'national interests' and as a buffer to unemployment, until a sustainable strategy of development is formulated and implemented. Although the increase of the GDP share of the tertiary sector in transition economies is very impressive, its composition is by no means similar to that of the average EU country. Instead of a strong presence of banking, financial and business services highly interacting with industry, as well as activities related to culture, amenity, civilization and leisure or personal services, one would more commonly meet in transition economies a tertiary sector dominated by non-tradable activities such as retail trade and an overmaned public sector. Although there are certain and important differences, this structure reminds some aspects of the internationalization-tertiarization process in Southern Europe and especially in Greece.

TABLE 2
Composition and Change of GDP in the Balkan Countries

Countries and GNP per Capita in USD (1993)	Year	Total	Primary	Secondary	Tertiary
Albania	1990	100.0	37.9	48.4	13.7
340	1994	100.0	55.1	21.9	23.0
Bulgaria	1990	100.0	10.9	59.4	29.7
1.140	1994	100.0	12.0	38.5	49.5
Romania	1990	100.0	19.8	45.9	32.3
1.140	1993	100.0	21.0	40.7	38.2
Slovenia	1990	100.0	5.2	41.8	53.0
5.194[a]	1994	100.0	5.0	39.0	56.0
Greece	1990	100.0	16.0	26.5	57.5
7.390	1994	100.0	16.1	23.9	60.0
EU[b]	1992	100.0	2.6	33.1	64.4

Source: Totev (1996), EUROSTAT (1995), Statistical Yearbook 1995 and World Bank (1995b), Trends in Developing Economies, 1995.

[a]. GDP per capita.

[b]. Composition of Gross Value Added in current prices by sector in 1992.

3.3. The Trade Relations of Greece in the Balkans

The geographical composition of Greek trade in the Balkans[1] has changed significantly in the 1989-1994 period. The Balkan share of Greek exports has increased from 3.16% in 1989 to 8.00% in 1994, while the Balkan share of the volume of trade (exports and imports) has increased from 2.72% in 1989 to 4.02% in 1994. Clearly, the 1994 figures would have been much higher than the ones presented in the absence of the war in former Yugoslavia and the embargoes imposed in the area. As a result of the transition process and the severe structural difficulties in the Balkan countries, their share in total Greek imports has declined in the same period.

Although in 1989 Yugoslavia was the most significant trading partner of Greece in the Balkans, because of the embargoes and the war, this picture has now changed considerably. Bulgaria[2] and Albania[3] appear to be in 1994 the most important trading partners of Greece in the Balkans, followed by Romania[4] while trade with the new States in the territory of former Yugoslavia was until 1994, as expected, virtually non-existing. Examining the export and import shares of Greece with Albania, Bulgaria and Romania (the three countries with uninterrupted by the war trade relations) we can see the impact of factors such as country (and market) size, distance and non-economic preference factors on trade relations. Clearly the adjacency and proximity factors explain the higher shares of Bulgaria and Albania, compared to that of Romania, in total Greek trade, while the size and the capacity of the market explain the higher share of Bulgaria compared to that of Albania. Other factors, such as religious or historical ties, the existence of minorities and various types of implemented policies of external relations have certainly affected in various ways the level and the growth rate of trade between Greece and the other Balkan countries (Petrakos, 1995).

As we can see in Table 3, in the period 1989-1994 the share of Greek exports that go to the rest of the European Union (EU) countries has declined significantly from 65.22% to 54.03%. In the same period the share of Greek imports that come from the rest of the EU countries has increased from 64.72% to 66.19%. As a result, in the 1989-1994 period we have two opposite trends with respect to the geographical distribution of Greek trade relations. On the one hand we observe the declining performance of Greek products in the EU markets, as indicated by falling exports and increasing imports shares and on the other, the improving performance of Greek products in the Balkan markets, indicated by increasing export and stable import shares. These differences in performance are certainly very important and will be examined in more detail in the next sections.

3.3.1 The Evolution of Greek Trade in the Balkans

The evolution of Greek trade with the BCs is given in Table 4. From the examination of the data we observe that the value of Greek exports to the BCs in USD has increased in

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1. Although Turkey (at least in a part) certainly belongs to the Balkans, it is not included in the analysis, as the emphasis is on the Greek economic relations with the transition economies in the Balkans, where significant changes have occurred in the last years.
2. Bulgaria accounts for 4.4% of total Greek exports and 2.3% of total Greek imports in 1994.
3. Albania accounts for 2.3% of total Greek exports and 0.8% of total Greek imports in 1994.
4. Romania accounts for 1.0% of total Greek imports and 0.6% of total Greek imports in 1994.

TABLE 3
The Geographical Composition of Greek Trade in the Balkans, 1989-1994

	Exports		Imports		VOT	
	1989	1994	1989	1994	1989	1994
Balkans	3,16%	8,00%	2,50%	2,23%	2,72%	4,02%
EU	65,20%	54,03%	64,72%	66,19%	64,88%	62,42%
World	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%

Source: Petrakos (1996d).

TABLE 4
Trade of Greece with the Balkans, 1989-1994

	Exports		Imports		Volume of Trade	Balance of Trade	Export/ Import Ratio
Year	Index	Share	Index	Share	Index	Value	
1989	100,00	3,16%	100,00	2,50%	100,00	-144627	0,62
1990	129,67	3,88%	121,09	2,41%	124,39	-154623	0,67
1991	144,16	3,98%	119,03	2,21%	128,68	-112043	0,75
1992	163,31	3,96%	83,30	1,41%	114,02	70872	1,22
1993	289,60	8,21%	85,85	1,60%	164,07	363090	2,10
1994	314,11	8,00%	121,42	2,23%	195,40	285189	1,61

Trade of Greece with the EU, 1989-1994

	Exports		Imports		Volume of Trade	Balance of Trade	Exports/ Imports
Year	Index	Share	Index	Share	Index	Value	
1989	100,00	65,20%	100,00	64,72%	100,00	-4998360	0,50
1990	103,12	63,73%	127,04	65,55%	119,10	-7532522	0,40
1991	111,41	63,51%	129,47	62,36%	123,47	-7363539	0,43
1992	130,49	65,39%	147,36	64,56%	141,76	-8199406	0,44
1993	95,48	55,95%	132,52	63,96%	120,22	-8454041	0,36
1994	102,59	54,03%	138,92	66,19%	126,86	-8739338	0,37

Total Trade of Greece, 1989-1994

	Exports		Imports		Volume of Trade	Balance of Trade	Exports/ Imports
Year	Index	Share	Index	Share	Index	Value	
1989	100,00	100,00%	100,00	100,00	100,00	-7780578	0,49
1990	105,51	100,00%	125,43	100,00	118,84	-11268527	0,42
1991	114,38	100,00%	134,35	100,00	127,75	-11967531	0,42
1992	130,12	100,00%	147,73	100,00	141,91	-12828412	0,43
1993	111,28	100,00%	134,08	100,00	126,55	-12161013	0,41
1994	123,82	100,00%	135,83	100,00	131,86	-11478478	0,45

Source: Petrakos (1996d).

the period 1989-1994 by 214%, accounting in 1994 for 8.0% of total Greek exports. This indicates a major development in the structure of Greek exports in a short period of time when compared to the 1989 figure. This impressive increase comes in at a period when Greek exports to the EU have been almost constant in dollar value but declining as a share to total exports. This development indicates the declining competitiveness of Greek products in the EU markets, which is partly attributed to the structural difficulties of the Greek industry (Petrakos and Zikos, 1996) and partly to the strength of the drachma. The latter is the outcome of anti-inflationary policies applied in accordance with the convergence criteria of Maastricht. As far as total Greek exports are concerned a positive change is recorded in the 1989-1994 period, with some significant variation especially in the last 4 years. The Greek imports however from the BCs as a whole have increased slightly in the 1989-1994 period, a fact that is clearly related to the conflict in former Yugoslavia and the embargoes imposed in the region. As a result the share of Greek imports from the BCs has declined from 2.5% in 1989 to 2.23% in 1994.

3.3.2. The Volume and Balance of Trade and the Export/Import Ratios

As a result of the expansion of exports and imports of Greece with the BCs, the volume of trade (VOT) increased by 95% in the 1989-1994 period. The magnitude of this increase can be better appreciated if compared to the 26% and 31% increase in the Greek VOT with the EU and the rest of the World respectively. This explosive expansion of trade indicates that the economic, geographical, historical, cultural or other factors in operation favor cross-border interaction and trade in the area. As expected due to the difficulties of the transition process, but also due to the conflict in the territory of former Yugoslavia, Greece has increased its exports faster than its imports. As a result, its balance of trade (BOT) in the period 1989-1994 has turned from negative to positive in the case of trade with the BCs.

The export/import ratio measures the degree of relative penetration of a foreign market by Greek products. Looking at the export/import ratio in Table 5, we see first, the Greek export/import ratio with the BCs has turned from smaller than one to greater than one and it keeps increasing. Second, the Greek export/import ratio with the EU has dropped from 0.50 in 1989 to 0.37 in 1994, indicating that for each dollar of imports from the EU, Greece manages to export to the EU countries products worth only $0.37. Similarly, and to a certain extent, affected by the relative weight of the Greek-EU trade, the export/import ratio of Greece with the rest of the World has declined from 0.49 in 1989 to 0.41 in 1993 and 0.45 in 1994.

The observations made above, indicate that in the post-1989 period two different in direction processes take place, with respect to the Greek performance in international markets. On the one hand, there is the deteriorating position of Greek exports in the EU and World markets and on the other hand, there is a successful in all terms, export performance in the neighboring Balkan countries. Interpreting these facts, it becomes obvious that the competitiveness of the Greek economy in the EU and World markets is quite low and declining, while its competitiveness in the Balkan countries is at high levels and increasing. Although higher competitiveness in the Balkans is certainly affected by the difficulties of

TABLE 5
Trade of Greece with the Balkans, the EU and the World by Sector

Greek Exports

		Balkans		EU		World	
		89-94	89-94	89-94	89-94	89-94	89-94
SITC	Sectors	Value in 000 US$	(% Structure)	Value in 000 US $	(% Structure)	Value in '000 US $	(% Structure)
0	Food and Live Animals	622.044	22,8%	7.609.196	23,9%	10.767.995	20,7%
1	Beverages and Tobacco	286.776	10,5%	1.296.116	4,1%	3.003.522	5,8%
2	Crude Materials Inedible	337.199	12,4%	1.579.123	5,0%	2.951.255	5,7%
3	Mineral Fuels, etc.	432.866	15,9%	890.278	2,8%	3.924.269	7,6%
4	Animal, Vegetab.Oils, Fats	20.800	0,8%	1.860.734	5,9%	2.079.983	4,0%
5	Chemicals, etc.	129.472	4,7%	847.623	2,7%	2.121.685	4,1%
6	Manuf.Goods,Class.by Mat.	400.385	14,7%	7.033.153	22,1%	11.558.569	22,3%
7	Machinery and Transp.Equip.	208.706	7,6%	1.197.168	3,8%	2.539.199	4,9%
8	Misc.Manufactured Articl.	267.226	9,8%	8.802.119	27,7%	11.902.434	22,9%
9	Commod.not elsewhere Class.	22.739	0,8%	664.435	2,1%	1.074.308	2,1%
0-9	Total	2.728.213	100,0%	31.779.945	100,0%	51.923.219	100,0%

Greek Imports

		Balkans		EU		World	
		89-94	89-94	89-94	89-94	89-94	89-94
SITC	Section	Value in '000 US $	(% Structure)	Value in '000 US $	(% Structure)	Value in '000 US $	(% Structure)
0	Food and Live Animals	409.170	16,9%	12.198.797	15,8%	15.129.110	12,7%
1	Beverages and Tobacco	5.983	0,2%	2.029.673	2,6%	2.326.208	1,9%
2	Crude Materials Inedible	218.325	9,0%	1.455.953	1,9%	4.942.182	4,1%
3	Mineral Fuels, etc.	251.822	10,4%	655.925	0,9%	11.353.610	9,5%
4	Animal, Vegetab.Oils, Fats	7.510	0,3%	436.154	0,6%	538.024	0,5%
5	Chemicals, etc.	340.339	14,1%	10.416.201	13,5%	13.689.258	11,5%
6	Manuf.Goods,Class.by Mat.	830.750	34,3%	16.735.804	21,7%	23.952.759	20,1%
7	Machinery and Transp.Equip.	261.410	10,8%	24.441.060	31,7%	34.991.379	29,3%
8	Misc.Manufactured Articl.	95.027	3,9%	8.561.069	11,1%	12.093.878	10,1%
9	Commod.not elsewhere Class.	19	0,0%	136.515	0,2%	391.350	0,3%
0-9	Total	2.420.355	100,0%	77.067.151	100,0%	119.407.758	100,0%

Source : Petrakos, 1996.

transition in these countries, the fact remains that Greece has managed to improve its overall export performance in the region while other Southern European countries have not.

It is also interesting to observe in these figures that despite the existence of the single European market and the fact that the Greek products do not face anymore tariff or non-tariff barriers in the EU, their ability to penetrate the EU market is lower, compared to Balkan and World markets, where certain barriers to trade exist. This may be an indication of the difficulties of integration among basically unequal partners and the fact that the qualitative standards of the EU market are higher and more difficult to meet than that of the World (and certainly the Balkan) markets. It may also be an indication that geography is, after all, an important factor that affects the trade performance of a country.

3.3.3. Sectoral Trends in the Trade of Greece with the BCs

Besides the examination of the evolution of exports, imports, export/import ratios and the VOT, a question that frequently arises is related to the sectoral structure and

composition of trade between two countries. The issues usually examined are those of inter-industry or intra-industry specialization, that is whether two countries tend to specialize and trade products that belong to different industries or tend to trade more intensively products within the same industry. The first is known as inter-industry or Heckscher-Ohlin (H-O) type of trade, while the second as intra-industry type of trade (IIT).

The standard international trade theory has shown that in the case of H-O type of trade, where countries specialize in different products and then exchange them, there are well defined welfare gains for them, known as gains from specialization and gains from exchange (Caves and Jones, 1981). H-O type of relations, however, have also been criticized as suitable only for countries with comparable levels of development. This is because in the case of trade between a developed and a developing country, the second will necessarily specialize in labor-intensive or resource-intensive products, missing the opportunity to industrialize and therefore missing the opportunity to develop. Also the H-O type of trade relations are considered to cause, in several cases, severe adjustments to the productive base of a country as some sectors shrink and some others expand, a process that is not always free of social friction.

On the other hand, trade within the same industry is usually associated with welfare gains (Grimwade,1989) to the extent that consumer preference functions have an additive form, that is, consumers derive more satisfaction when offered a greater selection of similar products. IIT is not associated with major structural adjustment (as adjustment takes place within the industry or even within the firm) and it usually characterizes neighboring countries with similar levels of development and similar tastes.

IIT is also often used as a measure of economic integration (Grimwade, 1989). That is, the higher the level of IIT between two countries, the greater the similarities in their productive bases, the more homogeneous their consumer preferences and therefore the greater the degree of economic integration. On the other hand, the higher the level of H-O type of trade between two countries, the higher the possibility to have dissimilar productive bases and development levels.

In Table 5 we present sectoral data for the trade of Greece with the BCs and EU, as well as total trade by one-digit International Standard Trade Classification (ISTC) categories. From these Tables, after making the necessary aggregations, we can estimate exports, imports and the balance of trade for the large categories of agricultural products (SITC 0+1+4), raw materials (SITC 2), fuels (SITC 3) and industrial goods (SITC 5+6+7+8). On the basis of these estimations a number of observations can be made:

The largest categories of Greek exports to the Balkan region as a whole are agricultural and industrial products with a share of 34.1% and 36.9% for the 1989-1994 period respectively. The share of agricultural products has been rather increasing over time while the share of industrial is decreasing up to 1991 and increasing thereafter. Raw materials have a continuously decreasing share in Greek exports, whereas fuels seem to have an increasing one. As a result, fuels are, in 1989-1994, the third largest exporting category claiming 15.9% of Greek exports.

The largest category of Greek imports from the Balkan countries is industrial goods with an increasing share after 1991, equal to 63.1% for the entire 1989-1994 period. Agricultural products is the second largest importing category with a 17.5% share for the period 1989-1994 and diminishing trends, followed by fuels with a 10.4% and raw materials with a 9.0% share of total Greek imports. The share of raw materials is gradually declining, while that of fuels is fluctuating.

The Greek balance of trade with the other Balkan countries is improving over time in all sectors. It turned from negative in 1989 to positive in 1990 and thereafter in agricultural products, it is consistently positive (except 1992) in raw materials, it turned from negative in the 1989-1991 period to positive in the 1992-1994 period for fuels and improves over-time for industrial goods. For the entire 1989-1994 period the negative balance of trade in industrial goods is more than offset by the positive balance of trade in all other categories. Following these trends, the most likely projection for the near future is that Greece will run a positive and perhaps increasing balance of trade with the other Balkan countries in all sectors of production with the greatest one being in the agricultural and the fuel sectors.

Comparing the sectoral structure of Greek trade with the Balkan region as a whole, to that with EU and the World total trade we see that the general orientation of the Greek trade structure is maintained in all cases. Greece has higher export than import shares in agricultural products and lower export than import shares in industrial products in all cases considered. An important, however, differentiation is that the sectoral distribution of trade is smoother and more balanced with the Balkan countries than with the EU or the World. As far as the Greek exports are concerned, fuels tend to become a significant category, contrary to imports where the share of industrial products is not so dominant in the trade with the Balkan countries.

Overall, the most apparent difference in the sectoral structure of Greek trade with the BCs on the one hand and the EU or the World on the other, is the greater diversification and sectoral spread of Greek exports in the first case and the relatively higher concentration in the second. Almost 75% of Greek exports to the EU belong to three sectors, while in the case of Greek exports to the Balkan countries six sectors have a significant share in exports (that is, close or greater than 10%). This indicates that Greek production sectors that have not succeeded, for a number of reasons after fifteen years of EU membership, to show a significant export performance to the European market, find now a second opportunity to expand their activities by increasing their exports to the neighboring countries.

3.3.4. Measures of Revealed Comparative Advantage (RCA)

In an attempt to further analyze the 1-digit SITC data of Greek trade with the BCs, we have estimated in Table 6 the sectoral coefficients of Revealed Comparative Advantage (RCA) for the Greek exports to the BCs and the EU. The RCA coefficients are measured as a share of a sector's i exports to a country j, divided by the share of sector's i total exports $\{RCA=(Xij/Xj)/(Xi/X)\}$. A value of RCA coefficient greater than one (RCA>1) in a sector, indicates a better exporting performance than average and therefore a specialization and a possible comparative advantage (CA).

TABLE 6
The Coefficient of Revealed Comparative Advantage (RCA)
for the Trade of Greece with the Balkans and the EU

RCA	Balkans	EU
Sectors	1989-1994	1989-1994
0	1,10	1,15
1	1,82	0,71
2	2,17	0,87
3	2,10	0,37
4	0,19	1,46
5	1,16	0,65
6	0,66	0,99
7	1,56	0,77
8	0,43	1,21
9	0,40	1,01
Total	1,00	1,00

Source: Petrakos (1996d).

From the examination of the table we can see first, that Greek exports to the Balkan countries appear to have a strong CA in Sector 3 (fuels), an increasing CA in Sectors 1 (beverages and tobacco), 5 (chemicals) and 7 (machinery and transportation equipment), a decreasing CA in Sector 2 (crude materials) and a weak and fluctuating CA in Sector 0 (food). Second, these specializations appear to be complementary to those developed with the EU where Greece appears to have a CA in Sectors 0 (food), 4 (oils and fats) and 8 (miscellaneous manufacturing articles).

This analysis reveals two points with significant long term implications for the trade relations of Greece. First, it indicates that Greece has developed its trade in the Balkans in such a way that more sectors can take the opportunity and expand their activities because of trade, finding a CA in a new market that was not available before. Second, Greece appears to have CA in more sectors (6 in total) when trading with its Balkan neighbors, than when trading with the other EU members (3 sectors).

3.3.5. Measures of Intra-Industry Trade (IIT)

Measures of IIT are usually estimated in an attempt to find the share of the total trade of a country with another country or a group of countries that takes place within sectors (rather than between sectors). On the basis of these estimates, conclusions can be drawn about the existing type of trade relations, with all the implications about the structure and the required adjustments in the production base, as well as the type and the strength of the specific ongoing process of economic integration. Table 7 presents IIT coefficients for Greek trade by 1-digit SITC sectors with the BCs, EU and total trade, estimated from the standard Grubel-Lloyd (1975) equation.

TABLE 7
The Intra-Industry Trade (IIT) Coefficient for the Trade of Greece with the Balkans, the EU and World

	Balkans	EU	World
Sectors	1989-1994	1989-1994	1989-1994
0	79	77	83
1	4	78	87
2	79	96	75
3	74	85	51
4	53	38	41
5	55	15	27
6	65	59	65
7	89	9	14
8	52	99	99
9	0	34	53
Total	67	54	57

Source: Petrakos (1996d).

From the examination of the data we see that for the entire period 1989-1994, 67% of the Greek-Balkan, 54% of the Greek-EU and 57% of the total Greek trade was of an intra-industry character, that is trade within (1-digit SITC) sectors. The trade of Greece with the BCs is characterized by a higher IIT coefficient. About two-thirds of the Greek-BCs trade takes place within industries in the 1989-1994 period, with significant, however, fluctuations over time. A little more than half of the Greek-EU trade takes place within sectors, with a declining tendency, in the same period.

Paradoxically, the IIT figure for the Greek-EU trade is consistently lower than that for the Greek-Balkan countries and total Greek trade for the period 1989-1994. To the extent that the IIT coefficient is an indication of economic integration, this means that 15 years of membership in the EU (EC), have not brought the Greek economy closer to the EU than the World economy, since Greek-EU trade relations basically retain an inter-industry character. This becomes even more clear when one considers that our IIT estimates are upwards biased (so that the real share of IIT with the EU is even lower). This type of integration is probably explained by the large distance (and the lack of adjacency) separating Greece from the other EU members (Petrakos and Zikos, 1996) as well as the significant Greek deviations from the production structure of the average EU country (Gianitsis, 1992; Lyberaki, 1992; CEC, 1993b; EC, 1994; Petrakos and Zikos, 1996).

These figures also indicate that the Greek trade relations in the Balkans have a greater intra-industry component than the Greek-EU or the total Greek trade relations. This fact is probably explained by proximity, similar consumer preferences and tastes, or the technology level and the requirements of the two markets. Although it is rather early to draw any firm conclusions and further examination of this issue is certainly necessary, it seems that this development in Greek-Balkan trade relations has two significant implications.

First, it allows for the expansion of economic relations in a sectoraly more diversified manner, without exerting pressure for a strict H-O type of specialization that would perhaps

require severe structural adjustments in the Balkan region. This leaves some room to restructuring policies in order to reorganize productive resources *within* sectors, maintaining existing specializations and avoiding major sectoral shifts of resources that could generate structural unemployment and reduce the diversity of the production base. Secondly, it offers Greece the missing component in its trade relations, that is cross-border trade of strong intra-industry character that would balance and ameliorate the implications of the existing inter-industry type of specialization and trade with the distant EU markets.

3.4. Factor Mobility between Greece and the Other Balkan Countries

3.4.1. Cross-Border Labor Mobility in the Balkan Region

Besides trade relations that imply cross-border flows of goods and services, another important characteristic of the level of interaction between different countries is the level and the direction of production factors flows. It can be stated that factor mobility in the Greek-Albanian and Greek-Bulgarian borders has followed, in general terms, the predictions of a simple neoclassical model applied for transition economies. Under the pressure imposed on labor markets and labor relations by the transition and restructuring process, intensive labor emigration has been recorded, mainly in Albania but also in Bulgaria, while capital has followed the opposite route, flowing into these countries from various directions, to various destinations and rates.

Cross-border labor migration from Albania to Greece has been much more massive, persistent and mostly illegal (although in most of the period with the tolerance of the Greek State). Estimations of the level of migration range, depending on the source, from 250 to 300 thousand people. This number increases during the summer months, when border crossing is easier and decreases during the winter. A small portion of this number enters Greece with a tourist visa (usually for a month) which is violated, since most of the visa holders stay either for a longer period of time or permanently. The rest of them cross the borders illegally in remote mountainous sites.

On the other hand labor migration from Bulgaria to Greece has been much less and it is estimated to about 50 thousand people mostly concentrated in Northern Greece. The Bulgarian migrants are in fact long-term commuters that stay for a few months in Greece with a tourist visa and "bending" the rules probably with the "understanding" or the tolerance of the State. Most of them work in the fields having rather stable contacts with employers in N. Greece. A very small number of them obtains a work permit. Overall, there are estimated to be more than 500 thousand migrants in Greece from the former Socialist countries. Besides Albanians (that are by far the majority) and Bulgarians, migrants from Romania, Poland, former Soviet Union and former Yugoslavia are found in significant numbers in Greece. In general, it can be claimed that the relatively homogeneous and monocultural Greek society has reacted to the shock of the new post-1989 conditions of population inflows from other Balkan countries in a relatively modest way. Anti-migration, racist or ultra-nationalist movements almost do not exist and of course have no influence on public opinion which seems to consider migration flows as an unavoidable by-product of an overall positive development (the transition process) in the region.

Despite fears of labor displacement in a period where unemployment is rising in Greece, there are no official reports or documentation providing any evidence in support of that allegation. On the contrary, sporadic reports in the press indicate that the migrants have

been absorbed in the informal sector of the economy (irregular or sporadic work, repairs, painting, housekeeping, gardening, hauling, construction, etc.) or in the fields where in several cases, in the absence of Greek farmworkers, their assistance has been gratefully acknowledged by the farmers.

While significant part of migrants (legal and illegal) consider their stay in Greece as permanent, another (perhaps larger) part of them consists in fact of long-distance commuters in a continuous, but irregular, in-and-out of the country motion. Incomes and remittances from Albanian migrants in Greece is estimated to be a significant supplement to the disposable income of Albania. Over-time, labor mobility is expected to have beneficial effects for the entire region. Migration reduces the pressure on limited production resources in Albania and Bulgaria, while in Greece, given the dual structure of the economy, labor immigration has resulted in cost related advantages and has rather improved the efficiency of the informal sector.

3.4.2. Greek-Balkan Capital Mobility

Although capital inflows have been for a number of reasons below the expectations and hopes raised in transition economies, they are recorded to take an increasing and perhaps accelerated process. As is expected, a significant part of this activity is taking place across the Greek borders affecting the relations of the countries. Intra-regional capital flows, as expected, are in fact one way direct investment funds of Greek origin entering basically into Albania and Bulgaria.

According to official sources (MNE 1996), the level of Greek FDI in Albania in the last three years amounted to 120 million USD. This figure represents over 20% of the total capital invested in Albania, putting Greece second in the list of foreign investors after Italy and before Austria, Germany and the US.

Until now, more than 600 foreign firms have been located in Albania of which 50% are of Italian and 20% of Greek interests. Therefore in Albania operate now about 150 Greek or Greek-Albanian enterprises, of which 93 have received financial assistance (grants) from the Greek State (Ministry of National Economy) under the provisions of the (amended) Greek Investment Law. The average size of these investments is small to modest (about 120 million Drs. or 500.000 USD) and in the great majority (93%) represent new enterprises with an Albanian partner. Only 5-7% of Greek investment concerns existing enterprises that have been privatized.

Information on the sectoral composition of Greek investment activity in Albania indicates first that the bulk of the Greek investment in Albania is concentrated in the secondary sector (food, textiles, clothing and tobacco industries), which make up 91.7% of the total capital invested by the Greek firms. Another 7% of investment goes to the primary sector (agriculture and aquaculture), while the tertiary sector attracts very limited investment activity (1.3% of total). The overwhelming majority of Greek investment projects are concentrated in labor-intensive industrial activities, indicating the importance of the labor cost factor in the decision to invest in Albania and revealing a re-exporting character of these activities. According to an estimate, there are about 7,000 new employment positions created in Albania by the Greek investment activity (MNE 1996), which is a significant increase of work positions.

Another interesting fact concerning the Greek investment activity in Albania is that the majority of enterprises and the bulk of investment are located in S.E. Albania, close to

the Greek borders and in an area with a significant presence of the Greek minority. This geographical pattern is explained by the natural desire of Greek entrepreneurs to do business with Albanian citizen of Greek origin, the proximity of the area to the Greek borders and the convenience of a Greek speaking population in a country where international languages (and especially English) are not widely used.

The total stock of foreign direct investment in Bulgaria for the period 1990-1995 is estimated to be equal to 900 million USD. In terms of the country of origin of investment, first is Germany, followed by Switzerland, Greece, Belgium, the Netherlands and the U.S. Greece, although third in terms of invested capital, has the first place in terms of the number of enterprises with about 1,000 or 20% of the total number. The level of invested Greek capital in Bulgaria at the end of 1995 was 90 million USD. The largest share of Greek enterprises (47%) are joint ventures with a domestic firm, which in almost all cases is a private one, a small share (5-7%) represents privatized State firms and the rest is entirely Greek owned (and usually very small) enterprises.

Detailed sectoral data for foreign investment activity in Bulgaria is unfortunately not available from official sources since firms are not required to register in the local Chambers of Industry and Commerce. From unofficial sources, a sample of 283 Greek enterprises operating in Bulgaria and a survey of the Greek economic press, we have estimated that the majority of Greek firms in Bulgaria are active in the fields of trade and commerce. There is also a significant share of Greek enterprises active in Business Services (business advisors, tax and legal consulting, market research, etc.), while some activity is also found in transportation and travel. The industrial firms, that are the larger in terms of capital invested, are mainly concentrated in the food and drink industries. The investments by Delta (dairy products and ice cream), 3E and Athens Brewery (beers and bottling) are among the largest made by foreign firms in Bulgaria. Noticeable (and very crucial for the other Greek activities) is the presence of Greek Banks in Bulgaria. Xiosbank was the first foreign Bank permitted in Bulgaria, followed soon by Egnatia Bank, Ionian Bank, Macedonia & Thrace Bank, National Bank of Greece and Agricultural Bank. Other Greek Banks such as the Industrial Bank and the Commercial Bank are expected to get an operation permit in the near future.

From the information available in a sample of enterprises, we see that the overwhelming majority (80%) of the Greek enterprises are operating in Sofia, about 8% are operating in Plovdiv and the rest of them are spread in almost all the Bulgarian cities. Only a very small percentage (5%) is estimated to be located in the border regions (Petrakos, 1996b). This geographical pattern, which is the opposite from that recorded in Albania, needs some explanation. Sofia is a large urban area and in fact the largest and more developed domestic market. As a result it is natural to attract Greek firms that are more interested in a share of the domestic market and less in re-exporting their products. The sectoral composition of Greek investment with high shares of commercial, business services and banking activities validates this argument. As a result, the absence of any crucial link in the border regions (such as traditional ties, strong interactions or the existence of minority population) makes the comparative advantages of the large cities and especially Sofia unbeatable.

Finally in Romania more than 1,500 Greek enterprises have been established since 1991, with activities in commerce, industry (food, clothes and footwear, wood, furniture, and chemicals), construction, transportation and tourism. The total stock of Greek foreign

direct investment in Romania is according to Romanian sources equal to 42.3 million USD, putting Greece in the 12th place in the list of foreign investors in the country.

Overall, in terms of capital flows, Greece appears to be a serious investor in the Balkan region, ranking in the second position in Albania, the third position in Bulgaria and the 12th place in Romania in terms of its share in the total invested foreign capital. Again here, the role of geography (distance) seems to be a decisive factor affecting the allocation of Greek investment in the region. While many problems and obstacles discourage investors, it is estimated that under normal conditions capital flows from Greece to the Balkan countries will increase over time. Direct investment will flow to Albania mainly due to the support provided by the Greek investment law, the convenience of a Greek speaking population on the other side of the borders and the opportunities provided by a small but emerging market. On the other hand, Bulgaria will attract Greek investment mainly due to the good traditional relations and the positive climate for cooperation, as well as the opportunities that a larger market with a greater capacity provides. As the situation in the territory of former Yugoslavia stabilizes, it is estimated that a strong attraction force will be exerted on Greek firms to invest in the region. All other factors in the region remaining constant, Greek capital inflows to Albania and Bulgaria will continue in larger scale and scope, while labor outflows will gradually diminish and cease. The larger and faster the inflows of capital, the more likely it is that labor outmigration will stop.

3.5. The Regional Geography of Development in the Balkans

The analysis of the economic characteristics of neighboring countries, requires in most cases a geographical perspective and the examination of their spatial economic structure, in order to detect differences or similarities in the existing development patterns. This is particularly important in our case, considering that the existing geographical distribution of activities in the Balkan countries, their location, concentration or dispersion has probably been affected by the fact that borders acted as real barriers to economic and social relations for decades. Given that development and economic cooperation is a geographically determined process (Peschel, 1990; Krugman, 1993; Petrakos, 1995a, 1995b), influenced by factors such as distance, proximity, agglomeration economies, critical market size, etc., it can be asserted that the post World War II artificial division of the Balkan economic space has negatively affected all countries in the region.

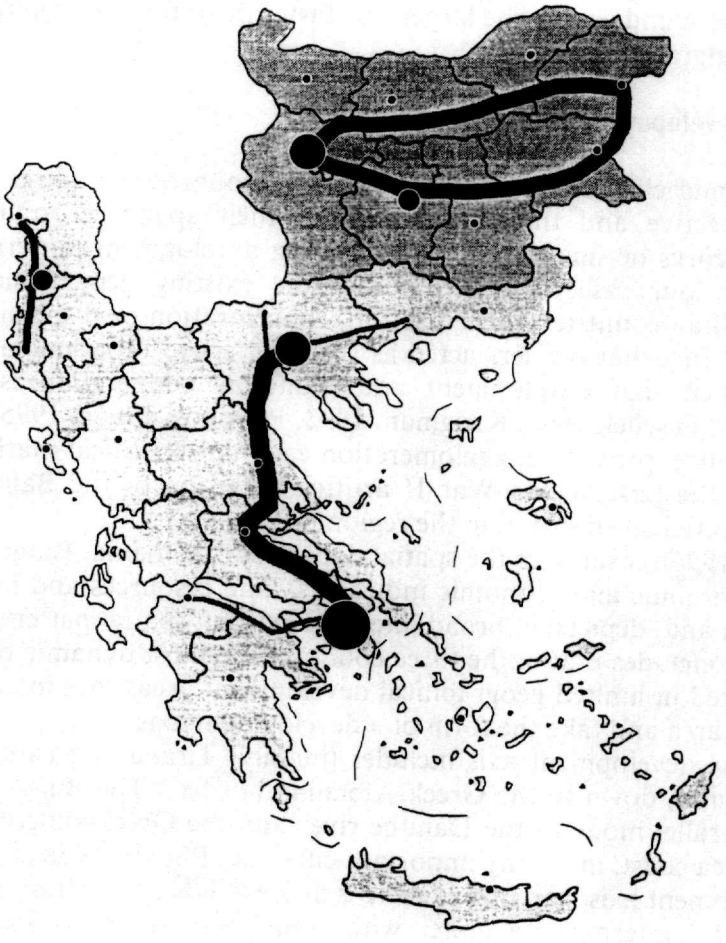
A recent study (Petrakos, 1996b) examines the spatial dynamics of Albania, Bulgaria and Greece on the basis of demographic and economic indicators, land resources and level of infrastructure at NUTS II level and depicts, in broad lines, the existing spatial pattern of development in each country. It concludes that in the three countries the most dynamic part of economic activity is concentrated in limited geographical development areas that include (and start from) the metropolitan area and take the form of a development axis.

In the case of Albania, the development axis includes (mainly) Tirana and extends along the Adriatic sea coastal region, down to the Greek-Albanian borders. The Bulgarian development axis extends in a parallel mode to the Danube river and the Greek-Bulgarian borders from Sofia to the Black Sea coast, including important cities like Plovdiv, Varna and Burgas. Finally the Greek development axis starts from Athens and extends to Thessaloniki, including the major cities in the intermediate zone, with weak extensions to Patras (southwest) and Kavala (northeast) [Map 1].

Another study for the regional structure of Romania (Anton et al., 1996) indicates that the southeastern region is the more densely populated part of the country with important industrial cities such as Bucharest, Costantza and Craiova, although large centers such as Timisoara (in the west), Brasov (center) and Iasi (in the northeast) are scattered throughout the country. Although it seems that Romania has a relatively balanced territorial structure, it is possible to identify a formation of development centers starting from the southeastern part of the country and extending to the western, leaving outside many less developed regions in the central and north.

Finally, in the territory of former Yugoslavia, a north-south pattern of development was present for most of the post-war period (Kukar, 1996), with the northern part of the country having a twice as high level of development compared to the country as a whole. Here a development axis with a rather northwest orientation, connecting Belgrade with Zagreb and Ljubliana is clearly identified, with weak extensions to Skopije and Serajevo.

MAP 1
Developement Axes of Albania, Bulgaria and Greece



Overall, available evidence (Anton et al., 1996; Minassian and Totev, 1996; Petrakos, 1996a, 1996b) indicates that capital regions have a higher share of employment in the tertiary sector and a better mix of activities. On the other hand, regions outside the development axes and regions at the borders either depend on the primary sector as in the case of Albania and Greece, or are excessively dependent on a secondary sector burdened with serious restructuring problems. These spatial differences in sectoral specializations are expected to intensify regional disparities with the process of transition. In addition, the spatial dynamics in the Balkan countries with respect to the development process, has left in several cases (including the Greek-Albanian and the Greek-Bulgarian frontiers) a wide stripe of border land with lower levels of economic activity and development.

Analyzing the Balkan peninsula as a European macro-region (Petrakos, 1995b), a strange but also interesting observation is, that, these development axes do not meet or cross anywhere. The Greek axis is vertical with an eastward orientation ('looking' at the Aegean Sea) since it covers the eastern part of the country, the Albanian axis is also vertical, but with a westward orientation ('looking' at the Adriatic Sea) since it is in the western part of the country, the Bulgarian axis is horizontal, with an orientation towards the Black Sea countries, while the Yugoslavian axis has been (even before fragmented) relatively distant. Neither common orientation nor a point of interaction exists among existing axes of development in the Balkans. It looks as if for each one of them the others simply do not exist, which is an indication that existing axes have grown independently from each other for a long period of time. In a geographic region with no major territorial barriers, this fact, which can only be explained by the interruption of social and economic relations imposed on these countries by the post World War II realities, is seriously affecting the prospects for regional cooperation and development.

4. POLICY IMPLICATIONS AND CONCLUSIONS

After some 40 years of separation by military blocks (and assuming that peace in Bosnia will be permanent) a large regional market of 60-70 million people in Southeastern Europe is shaped, including Greece (a EU member), Albania, Bulgaria, Romania and the territory of ex-Yugoslavia, where significant opportunities for cooperation, specialization and trade exist. To the extent that geography plays a role in shaping preferences in economic interaction (something clearly evident by the bulk and type of relations between countries in Northwestern Europe), a regional market will gradually emerge in the Balkans, driven by distance (of the countries in the region from the European core), size and proximity (to each other). The main characteristic of this new market is the existence of intensive economic relations, especially between bordering countries.

On the basis of the available experience and given that all economies in the region are recovering, we expect for the next 5-10 years a significant expansion of domestic demand in all Balkan countries. With the existing diversity in GDP structures, this trend will favor intra-regional economic cooperation in investment and trade.

Available statistics indicate that the basic characteristic of the Greek-Balkan trade relations is the fast expansion of the volume of trade, a relatively high diversification in sectoral specializations and a relatively high share of IIT compared to the figures of Greek trade with the EU and the World. This implies that from the efficiency point of view, Greece could seek a parallel in nature and complementary to that with the EU, integration process, based on the advantages generated by geographic and other non-economic preference factors, as well as the needs of the Balkan neighbors that have accrued from the transition process.

Factor mobility is also expected have over-time beneficial effects for the entire region. Migration reduces the pressure on limited production resources in Albania and Bulgaria, while capital inflows generate working positions, incomes and entrepreneurial capacity and know-how. For Greece, given the dual structure of it economy, labor immigration has resulted to cost related advantages and has rather improved the efficiency of the informal sector, while capital outflows are associated in most cases with an expansion (and not dislocation) of activities to new markets that are easier to get in than the hard to compete and congested Western European ones. The well known operation of the export-multiplier also guarantees that incomes generated by Greek investment in Bulgaria will have a positive impact on incomes and work positions in Greece, to the extent that the positive business climate encourages the promotion of Greek exports. In other words, a virtuous cycle may be in operation, where Greek investments in Albania and Bulgaria generate incomes that are used for consumption and result to an increase of Greek exports, generating in their turn incomes in Greece, that can induce new investments to, or imports from Albania and Bulgaria, etc. Overall, the higher the level of interaction, the greater the long-term benefits for all the countries in the region.

Finally, existing evidence reveals that the regional structure of the Balkan countries is, in various degrees, characterized by significant concentration of activities and the formation of development axes that, however, due to the interruption of relations among the three countries imposed by the post World War II realities, do not meet or cross anywhere, limiting the prospects, the intensity and the benefits of cooperation.

From this analysis two points emerge and deserve consideration from the policy making point of view, the first one concerning Greece and the second, all the countries in

the region. Perhaps for the first time after its membership in the EU, a real opportunity is given to Greece to effectively deal with the difficulties and the pressures imposed by the process of European integration on its economic structure. This opportunity is related to the prospect of gradually recomposing the economic space in its vicinity with the creation of a regional Balkan market, in which it will have a central and highly influential role. For the first time also, in the post-war period, a real opportunity is given to the Balkan countries to interact and cooperate without systemic or military block barriers, leaving the level and type of their relations to be an affair of markets, preferences and geography.

From the strategic point of view, the long-term interests of Greece and the other countries in the region require stable relations, successful implementation of the policies of transition and a policy mix promoting the unification and coherence, of the European economic space, the development of the European Southeastern region and the facilitation of cross-border cooperation. Since Greece, of all the other Balkan countries, has the higher "degrees of freedom" in influencing policies for the region, it has also the greater responsibility for promoting them.

The appropriate policy mix should include a steady and energetic support to the efforts of all Balkan countries *to join in the future the EU*, according to the progress they make in the requirements and the criteria set. This policy is a cornerstone for the future of the Balkan region and it is the only one that allows in the long run the unification of the Balkan and European space and the better accessibility and connection of Southern with Northern and Western Europe. Secondly, it should include the promotion of an EU *strategic development plan* for the Balkan region at various spatial, operational and sectoral levels with the active participation of Greece and a special emphasis on the issues of intra-regional cooperation and integration. This development plan should include effective transportation and telecommunication networks that will allow the integration of the existing development axes, or areas in the Balkans and reveal the special weight of Southeastern Europe as an emerging regional market with significant size, strong intra-regional relations, efficient infrastructure and a strategic advantage for the expansion of the EU economic relations in the Black Sea region, Eastern Mediterranean and the Middle East.

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