TRADE RELATIONS OF THE BALKAN COUNTRIES: A COMPARATIVE ANALYSIS

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Introduction

The trade relations of the Balkan countries during the transition period reflect the progress of their economies and the success of their adaptation to the new economic environment. To a large degree these relations are the result of the free-market policies that were implemented after 1989, but they also reflect the competitiveness or comparative advantage of these economies. Most Balkan transition economies liberated their international trade rather quickly, and developed intense trade relations with the western world and in particular the European Union (EU).

In this essay we will examine the trade relations of the Balkan countries within various dimensions and levels. We shall be interested first of all in the evolution over time of exports, imports and trade surpluses or deficits, so that we can understand the degree, but also the manner in which these economies have opened themselves up to the international market. In addition, we will be interested in the geographic dimension, as well as the sectoral organization of trade relations, which to an important degree determine the intensity and direction of structural change in the productive sectors of the economy. Finally, we will use an overall, but also comparative evaluation of trade relations to determine the position of the Balkans in the new European division of labor and the prospects that are implied by this position.

There is a whole series of important questions related to the effects of international trade relations on the progress of the transition countries during the first decade. How successfully these economies have managed to bear the shock of sudden exposure to international competition? Has openness and internationalization allowed them to maintain existing production and trade structures? If not, what has been the direction of change? In what extent and direction is the experience of the Balkan countries different from the transition countries of Central Europe? On the basis of available data on the structure and evolution of international trade, what are the prospects for the transition countries and in particular the Balkans? Are there policy alternatives and what are they? In order to answer these questions, we must begin with a more basic question related to the necessity of international trade relations themselves.

International Trade Relations: A Review of Theoretical Approaches

Well-known economic theories (and most economists) today consider the development of trade relations among countries – and, thus, the liberalization of international trade – to be a necessary (in the best case), or inescapable (in the worst case) process, which under certain assumptions and conditions results in important economic (though not only) benefits to countries (Krugman, 1987).

These benefits ensue for a number of reasons: First, from the specialization of countries in branches where they have a relative advantage because of differences in the availability, productivity and cost of production factors. Each country specializes in products for which it has lower production costs,

and imports those for which the cost of production is high. In this way it increases the efficiency of its economy by transferring productive resources to more effective export industries. Second, benefits accrue, which are not so much related to production as to consumption. These result from the higher standard of living which derives from a higher level of consumption (primarily of usually cheaper imported goods), as well as from the widening of consumption choices, the increase in variety, and the differentiation of products. Third, there are benefits, which are related to stability and security at the international or regional level. Countries that have developed trade relations, rarely involve themselves in conflict, given that there are reciprocal interests in the peaceful resolution of any disputes. The more intense the trade relations between two countries are, the greater their interdependence, and the smaller the probability of non-peaceful resolution of disputes.

Generally, both the Classical Theory of Trade (Ricardian Theory), which is based upon relative advantage, as well as modern Neo-classical (Hecksher-Ohlin) Theory, which is based upon opportunity costs, consider that the liberalization of trade and the abolition of every form of restriction is beneficial for all the countries involved and promotes development. All of the post war efforts to reduce customs duties and restrictions, within the framework of GATT in the past and the World Trade Organization (WTO) more recently, have been based upon precisely this theoretical base. All of the efforts to create regional trade and economic unions, such as the EC (EU) and the EFTA in Europe, the North American Free Trade Area (NAFTA) in North America, and quite a few others in Central and South America, in Africa and Asia, have also been based upon this theory.

Recently, however, the widely accepted perception that the liberalization of trade is beneficial to all countries without exception (positive sum game) has begun to be criticized at various levels. First of all, at the theoretical level the simple models of international trade are beginning to be questioned by more recent ones which take into consideration imperfections in the market, the cumulative effect of economies of scale in production, as well as the role of transportation costs and geography on economic relations (Krugman, 1991, 1994, 1995). The existence of production systems that deviate from full competition (such as oligopolistic and monopolistic competition), and the development of internal and external economies of scale in production processes can lead to trade relations between two or more countries which do not contribute to balanced development, but instigate a cumulative process that can evolve in favor of one country and at the expense of another.

This fairly recent theoretical consideration is now being added to older, but equally serious, arguments that doubted the mutual favorable effects that would derive from the complete liberalization of global trade. Among countries with differing levels of development, the less developed countries must, by necessity, specialize in labor-intensive products or in raw materials, since the more developed countries have an advantage in products that are technology, capital and knowledge intensive. Specialization in these economic sectors to a large degree restricts developing countries to existing level of development, and does not permit them to promote the industries that separate them from the developed countries. Thus, the total liberalization of trade between two countries at different levels of development imposes on the less developed country forms of specialization, which in essence severely restrict – in the medium term – the possibilities for organizational evolution and development in those branches of production that characterize the developed economies.

Experience has shown that these reservations are not completely unfounded. Any developing countries in Africa, Central and South America and Asia that have engaged in inter-industry trade with developed countries in Europe and North America have not been able to reduce significantly the differences in level of development that have separated them from the latter. In a number of cases these differences actually increased, creating serious problems of credibility among international financial organizations, such as the World Bank, which had supported (or imposed) a development strategy on these countries that favored their specialization in the primary sector.

On the other hand, some countries in Asia (the best examples being Japan, South Korea and Taiwan) did not depend upon existing comparative advantage (which related to traditional and not modern sectors), but sought to create new cutting edge sectors of strategic importance in a systematic way.

This policy of strategic trade, which was based upon a mixture of (often selective) openings in the market, and which attracted foreign capital but, at the same time, reinforced designated sectors of the economy, appears to have been more effective. This is not to argue at all in favor of the idea that protectionism is a better choice than free trade for a developing country. On the contrary, developing countries, which tried during the early post war period to replace imports from developed countries with local industrial production by imposing strict protectionist measures, suffered a painful experience.

It's clear that the picture, at both the theoretical and empirical level, is quite complex and does not allow simplification. In short, we could say that there are some points on which all tend to agree, and one point that must be approached with greater care. The points of conceptual and empirical agreement are two. First, both theory and experience agree that withdrawing from the international market can be quite harmful for a developing country. It is clear that no country, especially not a developing country, can be self-sufficient. The example of Albania, which chose isolation for four decades and drove its population to a desperate level not found anywhere in Europe today, indicates that this is true. The same is suggested by the imposition of trade sanctions by the United Nations on autocratic regimes as a means of exercising international pressure for their democratization. Isolation, thus, has serious costs.

Second, both theory and experience agree that the liberalization of trade among countries with similar levels of development is a mutually beneficial process which encourages development. The experience of the developed countries of the EC during the decades of the 60's, 70's and 80's, and of the EU during the decade of the 90's supports this position absolutely. Even the most recent theories of international trade, which demonstrate the role of internal and external economies of scale, come to the conclusion that there is no better choice than free trade. Even though within the framework of these theories free trade is not the optimum Pareto solution, it is, nevertheless, the best solution when compared to any other protectionist proposal, which, among other things, can lead to trade wars.

One important advantage of trade relations among developed countries is that they constitute to a large degree intra-industry and not inter-industry trade. What is the difference between these two types of international trade and what is the importance of this difference? Intra-industry trade refers to exchanges within industries. That is, a country imports, while simultaneously exporting, automobiles, computers, clothing or any other type of product. It is clear that these types of exchanges are outside of the classical perception of trade and are not based on differences in the cost of labor and capital among countries. On the contrary they are based upon the desire in modern societies for free choice among differentiated products with the same basic use, where the differentiation may be based upon more or less essential features of the products. Essential differences are those that are related to the quality and functioning of the product. A car of 1600 cc with all the accessories is different from one of 1000 cc with standard accessories; a Pentium III computer differs from a simple PC. Less essential features are those that relate to design, to appearance, to packaging, etc. The advantages of these exchanges are not related so much to the optimum division of resources (which would be true if the economies were specialized in products or industries according to cost advantages), but are related to the improvement in standard of living of consumers. This, in turn, is related to choice and derives from the availability of a greater variety of more or less differentiated products. Another, equally important, advantage of intra-industry trade is that there are no serious pressures exerted on the production system of the transacting countries. In contrast to inter-industry trade which requires specialization in different branches of production and thus constitutes a threat to those industries in which the country does not hold a comparative advantage, intra-industry trade is more benign. The redistributive effects resulting from the competition of imports with domestic products are taking place either within the branches of industry or, even within firms themselves, such that they are absorbed more easily by the economy (Grimwade, 1989).

When the discussion refers to the relations between developed and less developed countries, then experience records serious problems, and theory indicates intense differentiation. We have already mentioned one serious problem in the trade relations between countries that are at greatly differing

levels of development (North-South relations as they are often referred to), and which refers to the specializations that trade imposes. The liberalization of trade would inescapably lead less developed countries (or the South) to specialize in labor- or raw material-intensive products, and to import most of the products that embody technology and high quality physical and human capital. Such a division of labor (which is considered optimal by the dominant school of economic thought with respect to trade) does nothing more than condemn these countries to intransigent and long-lasting underdevelopment, which blocks the industrialization of their production system and insures that the gap between them and the developed countries will not be closed. Thus the most important problems in North-South relations are these intense inter-industry characteristics which largely impose a geographical division that does not favor convergence in the productive sectors nor in the levels of development.

Even for countries at intermediate levels of development, whose economies have passed through the first stage of industrialization, and which have become industrialized to a certain degree (without being characterized as developed), the complete liberalization of international trade could create serious problems. This is recognized in part by international trade policy, as there are exceptions in favor of developing countries within the GATT/WTO framework and the various trade preferences agreements between developed and developing countries.

Here, the experience of Greece, which became a member of the EC (EU) in 1981 without any essential preparation, is perhaps indicative. During the entire decade of the 80's and at least half the decade of the 90's it experienced an abrupt increase in its trade deficit with the EU (which deficit, in monetary terms, was not covered by the inflow of EU funds), and simultaneously a significant contraction of its industrial base, especially in sensitive sectors. These two parallel and interconnected developments were due – among other things – to the inability of Greek companies (based primarily on traditional organization and small size) to withstand the competition from larger and more technologically advanced European firms (Petrakos and Zikos, 1996).

Thus, the first negative effect resulting from the internationalization of the Greek economy was a decline in manufacturing which took the form of a deindustrialization of those regions whose production system was more exposed to international competition (Petrakos and Saratsis, 2000). The second negative effect was that trade relations with the EU took on a largely inter-industry character, which created serious pressures on the few capital intensive industries of the country. Thus, under the pressure of competition, the country besides its rapid accumulation of trade deficits, returned to production specializations which had characterized earlier stages of its development. In short, we can say that the negative effects (though there were surely positive ones as well) of Greece's openness and economic integration into the EC were, on the one hand, a general decline of industry and, on the other, an increased emphasis on labor-intensive industries and/or a significant contraction of capital-intensive industries.

The results of the liberalization of trade, following the implementation of the Single European Market after 1992, have been also discussed in a literature that has focused on the spatial and redistributive effects of economic integration in Europe (Amin, et al, 1992, Camagni, 1992). It appears that the integration of markets has an inherent cumulative logic, such that competition among unequal members reinforces the existing divisions in levels of development at the national and regional level. This argument has been recognized to a large degree by the European Commission and has provided the reasoning for the Community Support Framework (CSF), as well as the actions in support of EU countries experiencing developmental lags and structural difficulties.

Greece's experience during the process of European integration should be of great interest to the transition Balkan countries, and will thus be examined in the following sections of this paper. Of course, and this should be emphasized, this experience has had not only negative, but positive aspects as well. The opening of markets had favorable effects on the quality and level of consumption, as European products are now available to the majority of the population. It also had positive effects on these Greek companies that were able to adjust soon enough to the new conditions, and secure a place

in the European market. Finally, and this is very important, the opening of markets and the process of integration were accompanied by significant support for the Greek economy (CSF I, CSF II, CSF III, various Initiatives, Cohesion Fund, etc.). Should these funds, been taken advantage of properly, would at least have contributed to the essential improvement of the infrastructure, as well as (a partial) reorganization of the production system of the country. This is mentioned, not so much to point out the existing administrative weaknesses of the country but to emphasize something which is often considered self-evident or escapes our attention altogether. The EU is the only international economic union that has adopted a series of important measures to support its weaker members.

In the final analysis, however, and in spite of this support, the Greek economy recorded negative change for a whole series of economic indicators, such as the export deficit, industrial production, and the rate of development for the first 10-15 years after its entry. Indeed, for a substantive period it was the only country in the European South whose level of development was systematically below the average level of the EU and at the same time diverging. Although the quality of the economic policies that were followed in the 1980s has also been blamed for this negative change, alternative explanations have also been provided for this performance.

Petrakos and Christodoulakis (1997, 2000) have expressed the view that some of the effects of the European integration on Greece would not have been so negative if the country was not so peripheral and so cut off from the rest of western Europe. Beyond the differences in level of development, it was also maintained that the absence of a common border and the great distance from the other countries of the EU did not allow the development of cross-border economic relations, which often have a strong intra-industry character and milder structural effects. Indeed, it is well known from the literature that countries with common borders and similar high levels of development tend to develop mainly intra-industry trade (Grimwade, 1989, Greenway and Milner, 1986). In Greece, the absence of these conditions forced inter-industry types of trade, which intensified the gaps and distortions in the already weak production structure of the country. The importance of the Greek experience in relation to the transition Balkan countries is to point out the problems of integration among *unequal partners*, on the one hand, and of *distant partners* on the other.

Having in mind this experience, we examine, in the remainder of this paper, how the rapid development of trade relations between the Balkans and the developed countries of the West, and mainly the EU, will influence or alter the organization of their external relations and the organization of their productive base, as well as the effects of this influence on their development prospects.

Basic Tendencies in the International Trade of the Balkan Countries.

In Table 1 we present the exports (X), imports (M), the trade surplus or deficit (X–M) and the export-import ratio (X/M) of the transition Balkan countries for the period 1990-1999. In Table 2 we present the same figures for a series of geographic regions such as the transition Balkan countries, all Balkan countries (including Greece in this case), the countries of Central Europe, and of the European Union. Table 3 includes information for the transition Balkan countries, which refers to the evolution of exports (X) and imports (M) in relation to the base year (1990 = 100). Table 3 also includes information on the share of exports in GDP, as well as the significance of the trade surplus or deficit for each economy, that is, its ratio as a share of GDP [(X–M)/GDP]. Finally, Table 4 presents the same information as Table 3 for the entire Balkan region, the countries of Central Europe, and the EU.

Table 1. Exports, Imports and Balance of Trade for the Transition Balkan Countries (mil.US dollars), 1990-1999

Countries/Regions		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Albania	X	354	82	90	189	220	304	373	222	205	523
	M	485	314	630	763	734	836	1111	809	826	1382
	X-M	-131	-232	-539	-574	-513	-533	-738	-586	-621	-859
	X/M	0.73	0.26	0.14	0.25	0.30	0.36	0.34	0.27	0.25	0.38
Bulgaria	X	6950	4137	5027	4898	5192	6776	6256	6277	4293	5816
	M	3086	2330	4169	4612	3952	5224	4673	4932	4995	6940
	X-M	3864	1807	858	286	1240	1552	1583	1345	-702	-1124
	X/M	2.25	1.78	1.21	1.06	1.31	1.30	1.34	1.27	0.86	0.84
FR Yugoslavia	X				2900	1500	1400	2018	2677	2858	1498
	M				3000	1900	2400	4119	4849	3296	3296
	X-M				-100	-400	-1000	-2101	-2172	-438	-1798
	X/M				0.97	0.79	0.58	0.49	0.55	0.87	0.45
Bosnia	X	1990	2120	495	7	91	152	336	450		650
	M	1953	1673	429	60	894	1082	1882	2950		2500
	X-M	37	447	66	-53	-803	-930	-1546	-2500		-1850
	X/M	1.02	1.27	1.15	0.12	0.10	0.14	0.18	0.15		0.26
Croatia	X	4020	3292	4597	6271	7158	7252	8024	8199	8565	7976
	M	5188	3828	4461	4666	5229	7510	7790	9435	8773	9803
	X-M	-1168	-536	136	1605	1929	-258	234	-1236	-208	-1827
	X/M	0.77	0.86	1.03	1.34	1.37	0.97	1.03	0.87	0.98	0.81
FYROM	X	1113	1150	1199	1055	1086	1204	1302	1302	1302	1330
	M	1531	1375	1206	1227	1272	1439	1464	1779	1914	2210
	X-M	-418	-225	-7	-172	-186	-235	-162	-477	-612	-880
	X/M	0.73	0.84	0.99	0.86	0.85	0.84	0.89	0.73	0.68	0.60
Romania	X	6380	4946	5023	5691	7195	9404	9648	9853	9108	9847
	M	5107	4495	5659	6012	6550	9487	10368	11260	11838	12143
	X-M	1273	451	-636	-321	645	-83	-720	-1407	-2730	-2296
	X/M	1.25	1.10	0.89	0.95	1.10	0.99	0.93	0.88	0.77	0.81
Slovenia	X	4120	3870	7900	7475	8635	10373	10497	10450	11143	10551
	M	4730	4130	5900	6240	7170	9300	9220	9366	10111	11521
	X-M	-610	-260	2000	1235	1465	1073	1277	1084	1032	-970
	X/M	0.87	0.94	1.34	1.20	1.20	1.12	1.14	1.12	1.10	0.92

Sources: World Bank (2001), EBRD (1996, 1997), Yugoslavian Statistical Office

Table 2. Exports, Imports and Balance of Trade for the Balkans, Central Europe and the European Union, 1990-1999 (in mil. U.S. dollars)

Countries/ Regions		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Balkan Transition Countries	X	20,807	15,727	16,431	21,011	22,443	26,492	27,957	28,981	26,331	27,640
	M	17,350	14,015	16,554	20,340	20,531	27,978	31,407	36,014	31,642	38,274
	X-M	3,457	1,712	-123	671	1,912	-1,486	-3,450	-7,033	-5,311	-10,634
	X/M	1.20	1.12	0.99	1.03	1.09	0.95	0.89	0.80	0.83	0.72
Greece	X	13,018	14,133	14,773	13,326	14,551	15,523	15,238	14,863	14,863	21,198
	M	19,564	20,126	21,338	19,132	20,385	24,711	25,633	25,601	25,601	35,191
	X-M	-6,546	-5,993	-6,565	-5,806	-5,834	-9,188	-10,395	-10,738	-10,738	-13,993
	X/M	0.67	0.70	0.69	0.70	0.71	0.63	0.59	0.58	0.58	0.60
Balkan countries	X	33,825	29,860	31,204	34,337	36,994	42,015	43,195	43,844	41,194	48,838
	M	36,914	34,141	37,892	39,472	40,915	52,689	57,040	61,615	57,243	73,465
	X-M	-3,089	-4,281	-6,688	-5,135	-3,922	-10,674	-13,845	-17,771	-16,049	-24,627
	X/M	0.92	0.87	0.82	0.87	0.90	0.80	0.76	0.71	0.72	0.66
Central Europe	X	46,892	45,763	52,204	62,556	74,590	102,396	107,838	115,507	127,107	124,505
	M	43,842	51,149	54,054	68,205	74,572	102,753	117,803	125,880	139,278	144,742
	X-M	3,051	-5,386	-1,849	-5,649	18	-357	-9,965	-10,373	-12,171	-20,237
	X/M	1.07	0.89	0.97	0.92	1.00	1.00	0.92	0.92	0.91	0.86
European Union	X	1,974,520	1,977,633	2,133,515	1,970,826	2,202,522	2,654,615	2,737,167	2,722,719	2,545,847	2,856,415
	M	1,948,667	1,980,100	2,112,557	1,866,719	2,076,752	2,493,967	2,544,501	2,522,433	2,653,525	2,784,528
	X-M	25,853	-2,466	20,959	104,107	125,770	160,648	192,667	200,287	-107,678	71,887
	X/M	1.01	1.00	1.01	1.06	1.06	1.06	1.08	1.08	0.96	1.03

Sources: World Bank (2001) and estimations from Table 1

As we can see, the juxtaposition of data from larger regions has as its purpose the comparison of the characteristics and progress of the Balkan countries with those of Central Europe and the EU. The comparison with the countries of Central Europe, which also find themselves in a transition process, seeks to illustrate possible differences in the adaptation of the two groups of countries to the new international environment. We must point out here that Slovenia is presented in Tables 1 and 3 as part of the Balkan countries for historical reasons (part of former Yugoslavia) and for comparison purposes. Since, however, the country belongs in geographic and economic terms in Central Europe, any time we use aggregate figures such as Balkan Region and Central Europe, Slovenia will be considered as part of Central Europe. The comparison with the EU (with its 15 member countries) has as its purpose to illustrate the differences, between the type of trade activity of the Balkan countries and that of the developed economy of the European Union, which all of the Balkan countries have expressed an interest in joining in the future.

Table 3. Exports, Imports (1990 = 100), the Ratio of Exports to GDP and the Balance of Trade to GDP for the Transition Balkan Countries, 1990-1999

Countries/Regions		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Albania	X	100.0	23.2	25.5	53.5	62.3	85.9	105.5	62.9	58.0	147.9
	M	100.0	64.8	129.8	157.4	151.2	172.4	229.2	166.8	170.3	284.9
	X/ΑΕΠ	16.8	7.3	12.7	15.5	11.1	12.5	14.1	9.0	6.7	14.2
	(X-M)/ΑΕΠ	-6.3	-20.6	-76.1	-47.0	-25.8	-22.0	-27.9	-23.8	-20.2	-23.4
Bulgaria	X	100.0	59.5	72.3	70.5	74.7	97.5	90.0	90.3	61.8	83.7
	M	100.0	75.5	135.1	149.4	128.1	169.3	151.4	159.8	161.9	224.9
	X/ΑΕΠ	33.5	37.8	48.5	45.2	53.1	51.7	63.6	62.2	35.2	46.9
	(X-M)/ΑΕΠ	18.6	16.5	8.3	2.6	12.7	11.8	16.1	13.3	-5.8	-9.1
FR Yugoslavia	X				100.0	51.7	48.3	69.6	92.3	98.6	51.7
	M				100.0	63.3	80.0	137.3	161.6	109.9	109.9
	X/ΑΕΠ				5.1	2.6	4.5	8.7	17.7	18.3	9.3
	(X-M)/ΑΕΠ				-0.2	-0.7	-3.2	-9.1	-14.3	-2.8	-11.2
Bosnia	X	100.0	106.5	24.9	0.4	4.6	7.6	16.9	22.6	0.0	32.7
	M	100.0	85.7	22.0	3.1	45.8	55.4	96.4	151.0	0.0	128.0
	X/ΑΕΠ		24.5		0.3	4.6	7.0	10.1	10.1	0.0	14.8
	(X-M)/ΑΕΠ		5.2		-2.4	-40.9	-43.1	-46.5	-56.1	0.0	-42.2
Croatia	X	100.0	81.9	114.4	156.0	178.1	180.4	199.6	204.0	213.1	198.4
	M	100.0	73.8	86.0	89.9	100.8	144.8	150.2	181.9	169.1	189.0
	X/ΑΕΠ		26.6	46.2	53.6	50.3	40.1	42.1	41.2	39.5	39.0
	(X-M)/ΑΕΠ		-4.3	1.4	13.7	13.6	-1.4	1.2	-6.2	-1.0	-8.9
FYROM	X	100.0	103.3	107.7	94.8	97.6	108.2	117.0	117.0	117.0	119.5
	M	100.0	89.8	78.8	80.1	83.1	94.0	95.6	116.2	125.0	144.4
	X/ΑΕΠ			61.0	54.4	57.7	57.9	59.1	59.1	60.4	38.5
	(X-M)/ΑΕΠ			-0.4	-8.9	-9.9	-11.3	-7.4	-21.7	-21.7	-25.5
Romania	X	100.0	77.5	78.7	89.2	112.8	147.4	151.2	154.4	142.8	154.3
	M	100.0	88.0	110.8	117.7	128.3	185.8	203.0	220.5	231.8	237.8
	X/ΑΕΠ	16.7	17.1	20.0	21.6	25.7	28.6	30.9	28.3	7.8	8.6
	(X-M)/ΑΕΠ	3.3	1.6	-2.5	-1.2	2.3	-0.3	-2.3	-4.0	-7.4	-6.7
Slovenia	X	100.0	93.9	191.8	181.4	209.6	251.8	254.8	253.6	270.5	256.1
	M	100.0	87.3	124.7	131.9	151.6	196.6	194.9	198.0	213.8	243.6
	X/ΑΕΠ		30.6	63.1	59.0	60.0	55.3	55.7	57.4	56.9	52.7
	(X-M)/ΑΕΠ		-2.1	16.0	9.7	10.2	5.7	6.8	6.0	5.3	-4.8

Sources: estimations from Table 1

Based upon the analysis of the data in Tables 1 and 3, we can make the following observations. First, total exports were reduced significantly in the first years of transition, to slowly recover afterwards. Slovenia and Croatia were the only countries in the region that experienced a quick recovery and a rapid expansion of exports by 1999. Albania has recorded a significant increase (47%) compared to 1990, starting from a really low base and following a rather unstable path. Bosnia, because of the war, and New Yugoslavia because of the war and the UN sanctions have experienced substantial reductions in exports during this period. Bulgaria is still behind the 1990 exports level, but total exports remain high as a share of GDP. Romania, starting from a relatively low export base, has managed to increase exports substantially (54%), while Croatia (98%) and Slovenia (156%) have recorded the highest increase and the best export performance in the region.

Table 4. Exports, Imports (1990 = 100), the Ratio of Exports to GDP and the Balance of Trade to GDP for the Balkan Countries, Central Europe and the European Union, 1990-1999

Countries/Regions		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Balkan Transition	X	100.0	75.6	79.0	101.0	107.9	127.3	134.4	139.3	126.6	132.8
Countries	M	100.0	80.8	95.4	117.2	118.3	161.3	181.0	207.6	182.4	220.6
	X/AEΠ	14.5	10.9	12.6	18.9	19.6	26.0	30.6	32.5	27.3	29.3
	(X-M)/AEΠ	2.4	1.2	-0.1	0.6	1.7	-1.5	-3.8	-7.9	-5.5	-11.3
Greece	X	100.0	108.6	113.5	102.4	111.8	119.2	117.1	114.2	114.2	162.8
	M	100.0	102.9	109.1	97.8	104.2	126.3	131.0	130.9	130.9	179.9
	X/AEΠ	15.7	15.9	15.0	14.5	14.7	13.5	12.4	12.4	12.4	16.9
	(X-M)/AEΠ	-7.9	-6.7	-6.7	-6.3	-5.9	-8.0	-8.5	-9.0	-8.9	-11.2
Balkan countries	X	100.0	88.9	103.1	110.2	120.3	138.1	141.5	143.1	137.9	156.5
	M	100.0	91.9	105.2	109.8	115.5	148.9	159.1	170.4	161.7	204.1
	X/AEΠ	16.8	13.7	16.2	19.4	20.0	22.3	23.0	23.9	22.1	24.8
	(X-M)/AEΠ	-1.6	-1.8	-1.9	-1.8	-1.1	-4.1	-5.4	-7.4	-6.3	-10.7
Central Europe	X	100.0	97.6	111.3	133.4	159.1	218.4	230.0	246.3	271.1	265.5
	M	100.0	116.7	123.3	155.6	170.1	234.4	268.7	287.1	317.7	330.1
	X/AEΠ	33.7	29.0	30.0	34.7	36.9	40.9	39.4	42.6	43.6	42.0
	(X-M)/AEΠ	2.2	-3.4	-1.1	-3.1	0.0	-0.1	-3.6	-3.8	-4.2	-6.8
European Union	X	100.0	100.2	108.1	99.8	111.5	134.4	138.6	137.9	128.9	144.7
	M	100.0	101.6	108.4	95.8	106.6	128.0	130.6	129.4	136.2	142.9
	X/AEΠ	37.6	27.4	27.2	27.5	29.0	30.6	30.7	32.4	29.6	32.6
	(X-M)/AEΠ	0.5	0.0	0.3	1.5	1.7	1.9	2.2	2.4	-1.3	0.8

Source: Estimations from Table 2

Second, imports have increased for all these countries irrespective of the progress of their exports and/or their involvement in war. In 1999, four countries had more than doubled their 1990 figures, while the others had increased their imports from 9% to 89%. More specifically, in 1999 Albania had increased its imports by 184% over the 1990 levels, Bulgaria by 124%, the New Yugoslavia by 9%, Bosnia by 28%, Croatia by 89%, FYROM by 44%, Romania by 137% and Slovenia by 143%.

Third, the more rapid increase in imports as compared to exports for the majority of the Balkan countries has led to an increase in their trade deficit. As seen in Table 3, the trade deficit as a share of GDP has had a tendency to increase substantially for most of these countries and had reached levels which ranged from –4.8% of GDP (Slovenia) to –42.2% of GDP (Bosnia). Even though the rapid increase in imports would have been expected to produce a deficit, the countries which have shown the least progress in improving their trade balance are those which have suffered the greatest decline and even collapse in their production system, and hence in their exports. Bosnia, which suffered directly from the war, but also Albania, New Yugoslavia and FYROM, which were also either directly or indirectly involved in the conflict, had the most severe problems in their trade balance by the end of the period under study.

Tables 2 and 4 provide aggregate figures for the Balkans, Central Europe and the EU. On the basis of this data we can make a series of observations regarding the evolution of the trade relations of the Balkan countries as compared to those of Central Europe and the EU. The first group of Balkan countries includes only those under transition, while the second group also includes Greece. The data on Greece are presented separately for purposes of comparison. First of all, with respect to absolute figures, both the exports and imports of the CEE (especially at the end of the period under examination) are significantly greater than those of the Balkan countries (including Greece), in spite of the fact that the population in both groups of countries is roughly the same.

Second, we can observe that the countries of Central Europe reveal a greater potential in their foreign trade, as they more than doubled their exports (increase of 166%) and more than tripled their imports (increase of 240%) during the ten-year period. The comparable increase in exports and imports for the transition Balkan countries was 33% and 121% respectively.

Third, in spite of the rapid increase in imports, the countries of Central Europe maintained in 1999 a trade deficit as a share of GNP (-6.8%) which was less that that of the Balkan transition countries (-11.3%).

Fourth, we see that the export orientation of the transition Balkan countries expressed by the export-to-GDP ratio (X/GNP) is lower than that of the countries of Central Europe but significantly higher than that of Greece for the entire period.

Fifth, the ratio of exports to imports (X/M) in the Balkan countries is smaller than that of the countries of Central Europe, but larger than that of Greece. This ratio denotes the value of products that each country is able to export for each dollar of imported goods, and is a measure of competitiveness in international commodity markets. Thus, in similar trade regimes, index values, which are less than one, indicate trade deficits and limited potential for offsetting the penetration of foreign goods into domestic markets. Conversely, index values greater than one indicate trade surpluses and a competitive production system[1].

Sixth, in contrast to the transition economies both in the Balkans and in Central Europe (as well as Greece), the EU-15 does not show a trade deficit, but on the contrary has maintained an X/M ratio greater than one, and a trade surplus for eight out of the past 10 years.

There is a series of interesting conclusions from the above analysis which are worth discussing. In the first place, we can compare the progress of the EU with that of transition countries in the area of trade relations. On the one hand, in the countries of Central and Eastern Europe, the transition from central planning to a market economy has been accompanied, without exception, by an increased deficit, owing, in large degree, to the opening of these economies, to their limited competitiveness and to the collapse of a significant part of their production system. Another factor, which may have had a negative influence on the fate of exports from the transition countries, is the 'Association Agreements' that they signed with the EU. These agreements include regulations on free trade that exclude a series of sectors and industries which are 'sensitive' for the EU (e.g. agricultural products, textiles, iron and steel, etc.), but in which the transition economies had traditionally a strong presence and a comparative advantage.

On the other hand, the EU appears as a highly competitive economy that produces a trade surplus. It's interesting to observe here that the EU surplus increased after 1993, when the transition countries began to open their economies. Clearly this fact is related in some degree to the increased potential for EU goods to enter the new markets.

Given the liberalization of trade, which should be completed along with the first expansion of the EU, and given the greater competitiveness of EU companies, the forecast on the evolution of trade deficits for the transition countries cannot be very favorable. If there is a lesson from the experience of Greece in relation to its integration into the EU, it is that weak (and peripheral) economies, which liberalize their foreign trade without the necessary preparation, will suffer an intense pressure on their production systems as a result of increased competition. This pressure translates into a contraction of manufacturing and into a sharp increase of trade deficit.

The second general conclusion relates to the transition Balkan countries, whose foreign trade record is less auspicious than that of the central European countries. Their lower rate of increase in exports, their lower ratio X/GNP and X/M, and their larger deficits, suggest lower productivity and weaker economic systems. This is an indication that the North-South economic divide that has been detected within transition countries in Europe, is also reflected in their foreign trade sectors.

Here Greece (with its peripheral location, its traditional production system, its small market and its technological dependence), which experienced a process of integration between unequal and, at the

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[1] Obviously, this interpretation of the X/M ratio is not taking into consideration developments in the capital market. Several advanced economies (like USA) have increasing trade deficits and still a very competitive economy. In the case of transition countries however, capital inflows have been limited (and below expectations), while the Balkans have almost been ignored by international capital. As a result, the evolution of commodity trade balances can be used as a rough indicator of international competitiveness.

same time, distant partners, should provide the most likely scenario for the adaptation of the foreign trade sector in its neighboring countries. Without being absolute, we could say that the low level of competitiveness of the Greek economy (small X/M ratio), with its large deficits, should forewarn the other Balkan countries providing a possible scenario of their foreign trade sector, as they internationalize their economies under much more adverse internal conditions than those of Greece[2].

The Geographic Distribution of Trade among Balkan Countries

The macro-geographical distribution of trade among Balkan countries is important for a series of reasons, which we will examine in this section. We will be concerned in this section mostly with the degree to which Balkan countries have developed intra-Balkan trade, and especially that between neighboring countries.

Why and when is it important for a country to develop, or not, economic trade relations with neighboring countries? Generally speaking, we can say that trade is directly influenced by location and especially by the distance between two countries, as well as the transportation costs that are incurred as a result of this distance. Probable exceptions to this rule would relate to trade based upon the exclusive possession of scarce raw materials (e.g. petroleum), or upon huge cost differences in the production of goods. If we examine the trends in world trade, we can discern that the largest volume relates to intra-regional trade, or trade between neighboring countries. For example, the main volume of trade by EU countries takes place within the EU. This has one obvious advantage, which is related to the cost of transportation i.e., the shorter the distance (and the lower the cost of transportation), the greater the margin for mutual benefit between the trading countries. Since transport costs are generally apportioned between producers and consumers, lower costs translate into greater competitiveness for the companies of the exporting country and lower prices for consumers in the importing countries.

In addition to this general argument, there are other equally important reasons that argue in favor of intra-regional and cross-border trade, which may be even more important to small peripheral countries, such as the Balkans. The first is related to the assurance of internal and external economies of scale and to the resulting efficient operation of companies, and the second to the operation of regional multipliers.

Beginning with the first, we can say that in order for a company to benefit from internal economies of scale (i.e., to operate with the least possible cost) requires a critical scale of production and thus a critical size of market. In order, therefore, for a company to be competitive and to survive, it must operate within large domestic markets (which are rarely available in small countries) or, in the case of small countries, must be in a position to market its products in larger regional markets beyond its borders. These larger markets must, of course, be accessible, in the sense that the transport costs must not generate prices that are prohibitive for the final consumers.

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[2] There is an important difference between Greece and the other Balkan countries, which has to do with the role of tourism in the Greek economy. Tourism in Greece is n important sector that now exceeds 10% of GDP and provides, besides income and employment, a significant support to the country's current account deficit. The fact that Greece is the most advanced service economy in the region explains on the one hand its weak performance in tradable commodity markets (i.e. low X/M ratio) and provides on the other the country with options that are not available yet to the other Balkan economies.

Table 5. Geographic Distribution of Exports and Imports of Balkan Countries by Country and Region of Origin and Destination (1997)

Share of exports going to Balkan countries and the EU

Countries	Albania	Bosnia	Bulgaria	Croatia	FYROM	Greece	Romania	Serbia	Slovenia	Balkans*	EU	Total
Bulgaria	0.5	0.1		0.3	2.0	8.8	1.4	0.0	0.2	13.2	45.0	100.0
Croatia	0.1	15.0	0.2		1.8	0.3	0.3	0.0	12.2	30.1	51.3	100.0
FYROM	1.1	0.1	1.9	3.5		1.7	0.4	10.1	4.7	23.4	43.1	100.0
Greece	1.7	0.0	2.0	0.2	0.4		1.9	0.3	0.2	6.7	54.7	100.0
Romania	0.0	0.1	0.7	0.2	0.1	2.1		0.2	0.2	3.7	56.6	100.0
Slovenia	0.1	3.4	0.2	10.0	1.8	0.3	0.3	1.3		17.4	63.6	100.0

Share of imports coming from the Balkan countries and the EU

Countries	Albania	Bosnia	Bulgaria	Croatia	FYROM	Greece	Romania	Serbia	Slovenia	Balkans*	EU	Total
Bulgaria	0.0	0.0		0.2	0.6	4.9	1.4	0.0	0.2	7.3	41.9	100.0
Croatia	0.0	1.5	0.2		0.5	0.3	0.3	0.0	8.3	11.1	59.4	100.0
FYROM	0.2	0.1	5.3	4.7		2.0	0.7	11.4	9.1	33.5	41.5	100.0
Greece	0.1	0.0	1.5	0.1	0.1		0.7	0.0	0.1	2.5	67.9	100.0
Romania	0.0	0.1	0.5	0.1	0.0	1.7		0.1	0.2	2.7	52.5	100.0
Slovenia	0.0	0.3	0.2	5.0	0.6	0.2	0.2	0.4		6.8	67.4	100.0

Source: Estimated from IMF (1998)
* except Turkey

On the other hand, a company benefits from external economies of scale when dense inter-enterprise relations are developed with other companies in the same production sector (e.g., shared research programs, or training programs, joint supplies, subcontracting relations, etc.) or input-output relations with companies in the same production chain. Thus, for a company to realize cost, technological or other advantages from its co-existence with other production units, it must operate within a country with a prosperous and differentiated production system (a condition that is usually not satisfied in small economies), or in a country which is open to cooperation and exchange with neighboring countries.

Based upon the above, it is clear that for some small countries such as those in the Balkan peninsula, the development of efficient enterprises that would benefit from internal and external economies of scale, presupposes, on the one hand, open borders and, on the other, intense trade relations within a larger region and, especially, with neighboring countries, something which would in turn result in the development of their own production systems. For those production units that seek wider markets for their effective operation, neighboring countries offer the best mutual solution for two reasons. The first has to do with consumer preferences. It is well known that for a series of historical (though not only) reasons, consumers in neighboring countries tend to have similar preferences. This fact facilitates the export activities of enterprises (and countries) in neighboring markets, since it requires less effort (and cost) to promote goods. The second reason relates, as we have already stated, to reduced transport costs, which increases the benefits of cross-border trade.

The second factor, which argues in favor of cross-border and intra-regional trade, relates to the regional multipliers of these exchanges. The existence of regional multipliers is based upon two conditions. First, (as we have already seen) trade between neighboring countries is substantial because of similar consumer preferences and low transport costs. Second, significant interdependence is also associated with the fact that a high rate of growth in one economy can easily and quickly contribute to development in neighboring economies because of increased demand for imports. Thus, the growth of one country can to a certain degree be driven by an increase in exports to rapidly developing neighboring countries that direct some of their increased demand into imports. In other words, the basic idea of regional multipliers is that in a large geographical region with significant commercial interaction, each country benefits from the progress experienced by neighboring countries and at the same time contributes to this progress and to the overall development of the region. This argument is

especially important and relevant for small countries, which, by their very nature, can expect limited regional multiplier effects from the development of their domestic trade[3].

Based upon the above arguments, we can say that small countries have every reason to promote trade relations in their larger geographic region and, especially cross-border types of trade with neighboring countries. Beyond the general arguments mentioned in the beginning (such as transport costs, which delimit the range of the market, and consumer preferences within a broader region), two additional factors seem to favor such trade. The first refers to the efficient operation of the production system, and the potential for benefiting from internal and external economies of scale in production. The second refers to the degree of intra-regional trade and the potential for benefiting from the development of the larger region.

A third argument for supporting cross-border trade refers to the sectoral composition of trade. As we have already mentioned, international experience shows that cross-border trade tends to have a significant intra-industry character. Of course, in the developed economy of the West the greater part of trade has, in any case, an intra-industry character. For developing economies, however, or for transitional economies with serious structural problems, the maintenance of intra-industry trade is of particular importance. The major part of their international trade with developed countries is of an inter-industry nature and, thus usually tends to create pressures on their production system to specialize in labor and raw material intensive industries. Thus, the development of intra-industry types of trade contributes to the preservation of existing specialization and helps to maintain the differentiation in the production systems, forestalling the tendency to a productive 'monoculture'. This is of particular importance for developing or transitional countries that are peripheral with respect to developed countries, for a simple reason: As the main part of their trade is (inescapably) with developed countries, the lack of common borders imposes a purely inter-industry character to this trade. Thus, the development of cross-border trade with neighboring (and peripheral) countries is the only means offered to them for balancing the effects of inter-industry trade. In other words, the more peripheral the location of a developing or transitional economy, the more important is cross-border trade for maintaining variety and sectoral differentiation in the production system.

In summary, we maintain that there is a whole series of important reasons why countries – and especially small, peripheral countries – benefit from the development of intra-regional and, in particular, cross-border trade.

In Table 5 we present the regional distribution of exports and imports of Balkan countries, by country and by region of destination for 1997. Calculation of the percentages is based upon official IMF (1998) data. The first column of the Table presents the percentage of total exports of each Balkan country going to other Balkan countries and the EU (in the upper part of the Table), and the percentage of total imports coming from other Balkan countries and the EU (in the lower part of the Table).

Beginning with exports, we observe that a very limited amount of trade is registered among Balkan countries. If one excludes the exports of Bulgaria to Greece (8.8% of its total exports), the exports of FYROM to Serbia (10.1%), of Croatia to Bosnia (15.0%) and Slovenia (12.2%), and of Slovenia to Croatia (10.0%), the remaining percentages range from insignificant to non-existent. One is impressed by the total lack of trade between Bulgaria and Romania, Bulgaria and Serbia, Romania and Serbia, FYROM and Albania, etc.

Among these are countries with extensive borders between them (e.g. Bulgaria and Romania, Serbia and Romania), which, in spite of this, register little trade. Petrakos and Totev (2000) have shown that the level of trade between these countries was very low even before 1989. The process of transition,

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[3] Small countries have necessarily small regions with usually a low degree of regional interaction due to limited market size and limited variety in production bases. Cross-border trade expands the market for most regions, increases variety and allows for greater interaction, which usually generates greater multiplicative effects from a given amount of expenditure.

however, has substantially worsened an already problematic situation, because of the sudden change in orientation of trade relations between these transition countries and the EU.

Overall we observe in Table 5 that the percentage of exports to and imports from other Balkan countries is especially low. Higher shares have the countries having common borders only with other Balkan countries (Croatia, FYROM). In contrast to this, Balkan exports to (and imports from) the EU have increased in a relatively short time to percentages that range from 45% to 65%. Thus, the EU has quickly proven to be the most important trading partner of the Balkan countries, with imports and exports that often exceed those of Greece, which has been a member of the EU since 1981.

In order to illustrate how limited cross-border trade in the Balkans is, we can usefully compare it with that of a series of the EU countries. Based upon IMF data, Petrakos (1999a) has calculated that exports from Austria to neighboring countries accounted in 1997 for 59.2% of its total exports, while its imports from neighboring countries reached 60.6% of its total imports. Comparable percentages for Belgium were 46.9% and 49.9% and for France 43.7% and 42.9% respectively. By contrast the percentages for the Balkan countries are clearly lower. For example, Greece directed in 1997 only 8.1% of its total exports to other Balkan countries and received only 2.8% of its total imports from them. Comparable percentages for Bulgaria were 22.1% and 9.4% and for Romania 4.7% and 4.2%. Even though for Greece these shares have clearly improved in more recent years because of the establishment of trade relations with FYROM, the picture is the same: For various reasons, the Balkan countries have not developed cross-border trade to a satisfactory degree and have, therefore, not benefited from the advantage that such trade would bring[4].

Of course, no one would expect that the Balkan countries would develop cross-border trade to the same degree as the EU countries, since all of them border on countries with moderate to low levels of development. By contrast, the countries of the EU as a rule border on at least 1 to 2 developed economies. Thus, the potential that derives from the level of development and the market demand of these countries is completely different. In addition, international experience seems to suggest that regional trade associations among less developed countries have in fact limited importance or impact. This, of course, implies that for under- and less-developed peripheral countries there is a 'natural' limit to the benefits to be derived from cross-border trade. In addition, this means that trade with (often distant) developed economies is a necessary (though often painful) ingredient in their development, because it embodies the necessary components of high quality equipment, innovation and technological progress which are not always available in the cross-border trade of peripheral countries.

Thus, a balanced approach to intra-Balkan trade relations must be based upon two important findings. First, trade with the EU (in spite of its inter-industry character) is to a certain extent the inescapable outcome of the technological and developmental gap that separates Western and Southeastern Europe, and cannot be replaced by cross-border or intra-regional types of trade. Second, intra-regional or cross-border trade, which is by definition benign and does not entail intense structural pressures (because of its relatively greater sectoral dispersion and more intense intra-industry character), is very important for peripheral countries, since it tends to counter the negative aspects of the asymmetric trade with the EU.

Unfortunately, intra-regional antagonisms, tensions and conflicts in the Balkans have reduced cross-border trade, and, thus, have limited or eliminated the benefits mentioned above. Balkan economies are by and large incapable of functioning in an open regional market that would insure both the efficient operation of their firms (with internal and external economies of scale), and the presence of regional multipliers, as well as intra-industry trade. In fact, Jackson and Petrakos (2001) have shown, through the use of an econometric gravity model of the spatial distribution of trade at the European

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[4] In a recent paper, Chionis and Liargovas (2001) have estimated using a gravity model that the ratio of actual to potential exports and imports of Greece with Bulgaria is 0.52 and 0.40 respectively and the same ratios with Albania are 0.65 and 0.31 respectively. This indicates that there is a lot of room for an expansion of the cross-border trade of Greece.

level, that of all the transition economies, the Balkans have the most distorted regional distribution of trade.

The Sectoral Structure of Balkan Trade with the EU

The sectoral structure of trade of transition countries, and especially the Balkans, is of interest for two main reasons, which are related to the adaptation of their production systems to the opening of their economies and the liberalization of trade with the countries of the West, and in particular the EU. The first reason refers to tendencies of sectoral differentiation or concentration of exports in a few industries. It refers, that is, to the breadth and types of export specialization of a country. The key question here is whether and to what degree the Balkan countries have lost some areas of specialization during the transition process and whether and to what degree they are tending to specialize in labor and raw material intensive products and industries, and to 'depart' from those which are capital and technology intensive. The changes themselves, but more importantly the speed at which they are taking place, are critical for the labor markets of these countries, since it is likely that they will result in serious problems of structural unemployment.

The second reason – which is directly related to the first – refers to the types of relations that are established between the Balkan countries and developed countries, especially the EU. We have already stated that the prospects for a forward structural adjustment, and thus a positive developmental prospect, depend largely on the intra-industry and inter-industry composition of trade relations.

The following analysis is based upon a series of tables. Table 6 presents the sectoral composition of exports from individual Balkan countries to the EU. It is important to examine the structural aspects of Balkan-EU trade because the EU has emerged as the principal trade partner of these countries and because this relation involves partners being at different levels of development. Therefore, knowledge of the actual evolution of trade structures will be helpful to evaluate on the one hand the future prospects of this relationship and on the other the aspects of the EU policies for the Balkan that are related to trade liberalization or regulation. The data refers to national exports in three 4-year periods: 1988-91, 1992-95 and 1996-99. The first period describes more or less the 'initial conditions' of each country with respect to its trade structure with the EU, while the last period describes the structure of exports that has been shaped in a relatively advanced stage of transition[5]. The presented figures concern fourteen 2-digit NACE sectors and are based on sectoral trade data provided by Eurostat (2000). The definition of the sectors is given in the Appendix of the paper. Also, at the bottom of the table are listed three general categories of sectors: consumer, intermediate and capital goods, for which are also given their percentage share in total exports for the same periods. Table 7 has exactly the same format, with the difference that it provides aggregate sectoral exports figures and compares the Balkan countries with Central Europe and the EU.

Here we must point out that our sectoral analysis is restricted to exports and does not include imports since our interest is focused on the adaptation of the production system of the Balkan economies to the new conditions of international competition. As for the imports, we can say that all transition countries tend to have a similar structure, which has been influenced by the extension and consolidation of Western European consumer prototypes.

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[5] We use 4-year period instead of the first and the last year of the period in order to minimise the influence of random or irregular events as well as the volatility that characterises annual trade data. In that respect, comparisons based on 4-year export figures are more safe.

Table 6. Sectoral Composition of Exports from Individual Balkan Countries to the E.U. 2–Digit NACE Sectors for the Periods 1988-91 and 1996-99.

	Albania		Bulgaria		Romania		Slovenia		Croatia		FR Yugoslavia		FYROM		Former Yugoslavia	Greece	
	88-91	96-99	88-91	96-99	88-91	6-99	92-95	96-99	92-95	96-99	93-95	96-99	93-95	96-99	88-91	88-91	96-99
DA	16.3	9.8	25.5	11.7	4.2	3.5	2.1	1.5	5.2	3.4	7.3	16.3	19.5	10.3	8.3	32.7	33.9
DB	14.1	32.9	13.2	25.1	20.4	36.8	17.7	12.1	28.2	26.7	2.8	16.0	33.5	41.0	24.0	29.4	26.8
DC	3.6	32.9	2.4	6.1	2.9	12.1	4.3	2.9	8.3	10.2	2.4	6.4	8.2	5.2	5.9	4.4	2.2
DD	2.4	3.5	2.2	2.6	3.0	2.8	5.3	4.4	7.3	9.0	0.9	4.5	2.0	1.5	4.5	0.3	0.2
DE	0.0	0.7	2.1	1.2	0.8	0.4	4.6	4.0	2.2	2.6	0.2	0.3	0.2	0.1	2.6	0.4	0.6
DF	8.3	1.5	5.7	1.3	26.5	1.0	0.0	0.1	5.7	2.8	4.3	0.1	0.1	0.2	1.9	4.5	2.1
DG	2.6	0.9	11.0	8.5	3.9	2.5	2.9	2.9	5.4	5.6	2.1	3.7	0.8	0.8	4.2	2.4	3.6
DH	0.3	0.6	3.2	3.1	1.5	2.2	4.1	4.7	8.9	8.5	0.6	8.6	0.9	0.7	4.4	1.2	2.2
DI	17.1	1.0	3.0	3.8	4.0	2.7	2.5	2.6	4.2	4.3	0.2	1.8	2.6	2.7	2.7	5.5	4.0
DJ	31.8	10.4	14.3	23.5	11.5	14.5	11.7	12.2	6.6	6.8	12.3	30.8	12.9	28.1	14.8	12.3	11.1
DK	0.4	1.1	7.2	3.9	3.2	5.3	9.4	10.8	3.1	5.1	1.8	3.6	1.6	1.6	5.8	1.4	2.4
DL	0.7	2.2	4.3	3.4	2.0	5.1	12.5	14.0	5.1	7.6	2.3	2.9	3.8	2.9	6.5	2.4	3.9
DM	0.0	0.4	1.5	1.2	1.9	2.8	14.4	17.6	3.0	1.3	57.8	2.0	11.6	4.0	9.3	2.0	2.6
DN	2.3	2.1	4.4	2.5	14.3	8.2	8.3	10.1	7.0	6.1	5.1	2.9	2.5	1.0	5.0	1.0	4.4
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
consumer	38.68	31.89	49.86	49.22	45.65	63.90	42.38	34.96	58.11	58.01	18.59	46.39	65.78	59.03	50.33	68.24	68.19
intermediate	60.18	14.39	37.23	40.28	47.35	22.92	21.31	22.62	30.74	28.01	19.51	45.12	17.28	32.40	28.08	25.93	23.02
capital	1.13	3.73	12.91	10.49	7.01	13.19	36.31	42.42	11.15	13.98	61.91	8.49	16.94	8.56	21.59	5.83	8.79

Source: own estimates from Eurostat cd (2000)
Consumer branches: DA, DB, DC, DD, DE, DN
Intermediate branches: DF, DG, DH, DI, DJ
Capital branches: DK, DL, DM

Based on the data in Table 6 we can make a number of important observations about each of the Balkan countries. First, it is clear that both at the beginning and at the end of the period most of the Balkan countries tended to concentrate the greatest volume of their exports in a limited number of industries. For example, in the 1996-99 period, 75% of the exports of Albania to the EU were concentrated in industries producing food-beverages-tobacco, textiles and leather. Similar circumstances hold for other countries. In Serbia (FRY), FYROM and Greece, 63%, 79% and 71% of exports respectively derived from industries producing food-beverages-tobacco, textiles and metals. This tendency to depend on exports from only a few, indeed, problematic industries (such as textiles and metals) creates serious dangers for the labor markets in the Balkan countries, given that the natural tendency in these industries is to 'migrate' to countries with low costs of labor and energy, such as those of Central and Eastern Asia. Though the problem is not so immediate (given that the Balkan countries are considered to be low cost countries), nevertheless in the long term the process of economic recovery and improvement in the standard of living will necessarily be accompanied by structural problems that are due to this one-sided dependency on certain exports. Here we must note in addition that the potential for broadening exports to the EU in these industries is in any case limited, given that the EU continues to protect its markets in many of them.

Second, we note that the transition process in most of these countries was accompanied by tendencies of rapid contraction in many industries. For example, exports from Albania in the metallurgy industry shrunk from 31% to 10% of total exports in this period. The same reduction can be noted in the fuel industry in Romania (from 26% to 1%). The rapid decrease in the export base of these industries is very likely to be accompanied by a reduction in production with serious structural effects on employment and unemployment.

Table 7. Sectoral Composition of Aggregate Exports from the Balkan Countries and Central Europe to the EU and Intra-EU Trade. 2–Digit NACE Sectors for the Periods 1988-91 and 1996-99

| | Transition Balkans | | | Central Europe | | | EU | | |
	1988-91	1992-95	1996-99	1988-91	1992-95	1996-99	1988-91	1992-95	1996-99
DA	8.6	8.4	6.5	18.6	7.9	5.9	12.8	13.0	11.4
DB	22.6	27.9	31.1	12.8	14.9	10.9	6.6	6.0	5.1
DC	5.0	8.3	10.4	3.6	3.5	2.3	1.7	1.5	1.4
DD	4.0	3.7	4.2	4.5	4.6	3.7	1.2	1.2	1.1
DE	2.2	1.3	0.9	2.1	2.5	2.1	4.4	4.3	3.8
DF	7.2	2.6	1.3	7.0	4.3	3.3	3.5	3.0	2.7
DG	4.6	5.2	4.2	6.9	4.7	3.6	8.5	9.2	9.7
DH	3.7	4.1	3.8	4.0	4.3	4.3	6.0	6.1	5.9
DI	3.1	4.2	3.1	5.6	5.2	3.7	3.4	3.2	2.9
DJ	14.2	14.1	16.9	15.3	15.5	11.9	9.1	8.7	8.1
DK	5.3	4.0	5.0	5.7	7.7	13.4	13.6	13.2	14.5
DL	5.4	4.4	4.8	4.4	8.8	14.6	10.5	11.1	12.4
DM	7.3	4.3	2.1	4.3	8.6	13.2	15.2	15.7	16.4
DN	6.8	7.5	5.7	5.2	7.6	7.2	3.4	3.7	4.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consumer	49.25	57.05	58.87	46.84	40.91	32.10	30.16	29.71	27.41
Intermediate	32.83	30.20	29.25	38.73	33.98	26.72	30.52	30.22	29.33
Capital	17.92	12.75	11.87	14.43	25.11	41.18	39.33	40.06	43.26

Source: own estimates from Eurostat cd (2000)

Third, we can observe that all Balkan countries without exception maintain a high percentage of exports in consumer industries, which in some cases reaches 60% - 80% of total exports. On the other hand they maintain a relatively small percentage in capital industries, which – with the exception of Slovenia – rarely surpasses 10-15% of total exports.

Fourth, we can observe that as far as sectoral changes in the export sector are concerned, the Balkan countries seem to be following a variety of paths. On the one hand, countries such as Albania and Romania show a tendency to increase the relative size of the consumer goods sector as a proportion of total exports to the EU, and to decrease the share of intermediate and capital goods. On the other hand, countries such as Greece, Bulgaria and Croatia express a relative stability in the sectoral composition of their exports, showing little change among the three aggregate sectors. A third group of countries includes FYROM and Serbia, which are characterized by a relative increase in exports from the intermediate sectors and a decline in those from the capital sectors. Finally, Slovenia constitutes a special case, because it has managed to increase an already high share of exports from the capital sectors, while also increasing exports from the intermediate sectors.

We see, then, as has already been noted elsewhere, that the Balkan countries exhibit many similarities but also differ in a number of respects in their trade relations with the EU as a result of the liberalization of trade. The country that stands apart completely in all this is Slovenia, which has retained a remarkable sectoral spread and an important concentration of exports in the capital goods sectors. In this sense Slovenia has an export (and production) structure, which diverges from that of the Balkans and approaches that of the EU.

How does the overall export structure of the Balkans compare with that of the countries of central Europe and the EU? Table 7 portrays the relevant information. In addition to exports from the Balkan countries and from the countries of Central Europe (CE) to the EU, this Table presents, for the sake of comparison, exports from the EU to itself (i.e. intra-European trade). We observe, first of all, that CE maintains a greater sectoral spread of exports than that of the Balkans. In the 1996-99 period it exhibits a significant export activity (sectoral percentage of exports above 10% of the total) in five sectors, compared to three in the Balkans.

Second, we observe that CE exhibits a sectoral composition of exports that is similar to that of the EU. If we examine the division of exports among consumer, intermediate and capital goods sectors, we see that the Balkans have a composition which differs considerably from that of the EU, while the CE is similar to that of the EU. Where are the differences found? They are found basically at two points.

First, in the 96-99 period, the Balkan countries exhibited a large concentration of exports in the consumer goods sectors (58% of the total), and a very small concentration in the capital goods sectors (11% of the total). On the contrary, the CE and the EU exhibit a relatively smaller concentration in the consumer goods sectors (32% and 27% of the total respectively) and a clearly larger concentration in the capital goods sectors (41% and 43% of the total respectively). In addition, while the tendency over time in the Balkan countries has been to increase the share of the consumer goods sectors and withdraw from the capital goods sectors, the tendency in the CE and the EU has been exactly the opposite.

Thus, it becomes evident from the above that the transition process for the Balkan countries has taken a completely different route from that of the CE countries. The Balkan countries started the process of transition with an export composition characterized by a limited share of capital goods sectors. Judging from the presented data, we can say that at the end of the period this share has become even smaller. The Central European countries, in spite of the fact that they started with an export composition that was quite similar to that of the Balkans, have increased significantly the participation of capital goods sectors in their exports. Thus, two different paths characterize the transition process. While the Central European countries are developing an export structure that is converging with that of the EU, the Balkan countries present an export structure that is diverging from that of the EU.

It should be clear from the analysis of Table 7 that the opening of the Balkan economies to international competition has been accompanied by a tendency for them to diverge from the composition of exports (and thus production) of that of the EU. Thus, the expectations that have been encouraged by mainstream economic analysis about the potential of markets to correct the structural weaknesses of all economies – irrespective of initial conditions – and steer them to a rapid convergence with the countries of the EU, has been anything but realized. The immediate and complete liberalization of international trade (which was the unanimous goal of the leading transition school of thought and the EU as well) simply made more obvious the structural weaknesses (but also the faulty transition policy choices) of the Balkan countries, and has resulted in serious contraction in all industrial sectors, but especially in the capital goods sectors. This decline in exports from the capital goods sectors reflects less obvious processes that contribute to the consolidation (and reinforcement) of the North-South development and structural gap, not only within the EU but within the transition countries of Central and Eastern Europe as well.

In Table 8 we estimate the share of intra-industry trade between the EU and each Balkan country separately, between the countries of Central Europe and the EU, and within the EU (i.e. intra-industry trade among the EU countries themselves) for the period 1988-99. The estimation uses export and import data for 2-digit sectors and is based upon the classic equation of Grubel-Lloyd (1975). The data in Table 8 present information on the share of trade for each country that takes place within sectors (intra-industry trade) for the period 1988-99. Obviously the residual percentages refer to trade between sectors (inter-industry trade).

We observe, first, that, with the exception of Slovenia, the remaining transition Balkan countries are characterized by a very low share of intra-industry trade with the EU, and thus, a very high share of inter-industry trade. For example, trade between Albania and the EU in 1999 was such that only 34% of trade was intra-industry (referring to trade within industries), while the remaining 66% was inter-industry. The comparable percentage for Bulgaria is 39%, for Bosnia 25%, for Croatia 46%, for FYROM 27%, for Romania 39%, for Serbia 33%, and for Slovenia 72%.

Table 8. Index of Intra-industry Trade (IIT) in the Trade of the Balkan Countries with the European Union (2-digit sectors)

Countries	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Albania	0.17	0.17	0.26	0.19	0.18	0.21	0.28	0.29	0.30	0.25	0.37	0.34
Bulgaria	0.34	0.36	0.40	0.38	0.40	0.46	0.44	0.39	0.42	0.42	0.41	0.39
Bosnia-Herz.					0.28	0.23	0.15	0.19	0.16	0.19	0.24	0.25
Croatia					0.38	0.38	0.46	0.45	0.43	0.39	0.41	0.46
FYROM						0.35	0.39	0.39	0.29	0.27	0.25	0.27
Romania	0.24	0.23	0.32	0.39	0.31	0.30	0.34	0.35	0.36	0.37	0.36	0.39
FR Yugoslavia						0.06	0.05	0.06	0.27	0.33	0.34	0.33
Slovenia					0.58	0.61	0.65	0.69	0.71	0.70	0.73	0.72
Former Yugoslavia	0.50	0.53	0.57	0.57	0.60							
Greece	0.36	0.33	0.33	0.33	0.30	0.31	0.32	0.30	0.29	0.30	0.28	0.28
Balkans	0.48	0.50	0.54		0.52	0.20	0.16	0.24	0.28	0.28	0.25	0.22
Balkans + Greece	0.47	0.48	0.50			0.33	0.31	0.32	0.40	0.38	0.37	0.38
Central	0.46	0.45	0.47	0.50	0.51	0.53	0.56	0.60	0.61	0.65	0.69	0.73
EU	0.97	0.96	0.97	0.97	0.97	0.96	0.96	0.97	0.97	0.96	0.97	0.96

Source: Estimations from Eurostat (2000)

Second, we can observe that overall the transition Balkan countries exhibit a tendency for their intra-industry trade with the EU to decline over time (but especially since 1991). Greece exhibits the same tendencies. The data on Greece's intra-industry trade are quite interesting and have been analyzed in more detail elsewhere (Petrakos 1996, 1997, 1999b, Petrakos and Christodoulakis, 2000). It's worth mentioning here, however, that the low and declining rates portrayed in Table 8 imply a continuous slide by the country towards a marked inter-industry type of trade with the EU, which intensified precisely from the time of the country's entry into the EU in 1981. The fact that Greece, which internationalized its economy with clearly more favorable conditions than the other Balkan countries has not been able to reverse this inter-industry type of specialization which was imposed upon it by the new competitive environment along with its peripheral location in relation to the EU, provides the framework of prospects and expectations for the sectoral evolution of trade between the other Balkan countries and the EU.

In contrast with the Balkan countries, the countries of Central Europe have managed to improve considerably the share of their intra-industrial trade with the EU. Though they also began in 1988 with as low a share of intra-industry trade as the Balkans (46% of their trade in 1988 was intra-industry), they managed within a few years to develop their intra-industry trade with the EU, increasing it to the level of 73%. As we have already explained, this relatively high share is due in large part to the proximity of all the CEE, without exception, to the countries of the EU, which has allowed the development of cross-border trade relations. Though the explanation of this divergence between Balkan countries and the CEE in relation to the indices of intra-industry trade is rather obvious, the depressing fact remains: the Balkan countries are receding over time into trade relations with the EU that have an increasingly inter-industry character. Given the declining share of capital goods industries in the exports of the Balkan countries, it is clear that this will lead these countries to specialize in labor, and, in all likelihood, raw material intensive sectors, insuring and preserving specialization in capital, technology and knowledge intensive industries for the EU. It is also clear that this new (after 1989) division of labor at the European level will maintain and intensify the structural divide of national economies, not only between the West and the East, but also within the East itself.

Conclusions

The preceding analysis has shown that the adjustment of the Balkan economies to the international environment after 1989 has been anything but satisfactory. Cumulative deficits, a distorted geographic distribution of trade, labor intensive export structures, and low (and declining) rates of development of intra-industry trade, constitute factors which imply a defensive type of adaptation, limited

competitiveness and economic systems which are diverging as much from those of the EU as from those of the CE.

In a recent work, Jackson and Petrakos (2001) estimate the effects of structural changes in the external trade of transition countries on the rate of recovery of their economies. Using a series of variables such as the coefficient of asymmetry between exports and imports, which measures the degree to which a country exports in industries different from those in which it imports), the coefficient of structural change (which measures the rate at which the proportion of exports of a country changes), and the coefficient of irregularity in exports and imports (which measures the degree to which trade among transition countries diverges from that which would be predicted by the gravity model). The results of the application of these models suggest that countries which are characterized by export asymmetries are those which have suffered rapid changes in their production and export systems and are those which have the fewest possibilities for economic recovery. In other words, their entrapment in inter-industry types of trade, the rapid withdrawal of their export sectors into labor-intensive and material-intensive industries, and the excessive trade dependence on the EU (with a parallel abandonment of every effort at cross-border trade) constitute structural rigidities which to a large degree neutralize the development efforts of a whole series of countries.

It appears that a large part of the responsibility for the structure of trade of the Balkan countries is due to their initial conditions and the manner in which they were emancipated after 1989. The adjustment of the Balkan production systems to the conditions of modern market economies has taken place in a violent manner, as a result of the pressures exercised by the almost complete liberalization of trade with the developed countries of the West.

This adjustment reflects worse initial conditions of transition when compared to CE, less favorable regional coordinates, a more unstable political environment with smoldering conflicts related to inter nation arrangements which were not resolved prior to the war. Under the weight of these factors, it is clear that the Balkan countries had less potential to adjust to the competitive conditions that were imposed upon all the transition economies after 1989 by the uniform market liberalization policies.

Here exactly one finds the paradox, as much in the liberal approach, which supported immediate liberalization of trade, as in the policies that were finally imposed by the EU. While it was rather clear that there was not one single set of initial conditions and processes of transition in all the countries, a single set of policies was imposed. In other words, irrespective of the type and degree of ailment, the therapy was the same everywhere. The concept of 'infant industry' which has been taught for over two generations in universities, as an important reason for protecting 'young' industries does not seem to have convinced of the need for its application to 'young' economies. The liberal (Shumpeterian) choice to support restructuring through the 'creative destruction' forces of competitiveness and internationalization has brought, in the medium term at least, serious negative results.

So what remains? What remains is a lesson that restructuring and internationalization, the two basic processes of transition must take into consideration the conditions and limitations of each economy, and be combined with discretion in ways, doses and choices of temporal lead that will free domestic economic forces without being fatal for many important elements of its productive base.

The findings of this paper may be of interest to international organizations (which are still dominated by mainstream economic thinking about the possible range of effects of internationalization and free trade), as well as the EU, which negotiated Association Agreements with Balkan transition countries that were clearly in its favor. Yet, we should not be pessimists. There is now some evidence that the EU shifts gradually to more reasonable and effective approaches regarding its Balkan policy in general and its trade relations with the Balkan countries in particular (Patten 2001). This gives us hope that future research and debate will reveal to a greater extent the complex (and especially the negative) aspects of internationalization of peripheral economies and contribute to the formation of a 'new policy consensus' addressing the real barriers that prevent them from seeking a better place under the (globalized) sun.

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APPENDIX

NACE	Sectors
DA	Food, beverage, tobacco
DB	Textiles & textile products
DC	Leather & leather products
DD	Wood products
DE	Paper, Printing, Publishing
DF	Fuels production
DG	Chemicals
DH	Rubber & plastic products
DI	Mineral materials
DJ	Basic metals & fab products
DK	Machinery, exc electrical
DL	Electrical & optical equip (EO)
DM	Transport equipment
DN	Other