ECONOMIC PERFORMANCE AND STRUCTURE OF SOUTHEASTERN EUROPEAN COUNTRIES – ALBANIA, BULGARIA, FYR OF MACEDONIA AND GREECE[1]

STOYAN TOTEV
Institute of Economics, Bulgaria Academy of Science

Introduction

This paper analyses the ability of the Albania, Bulgaria and Former Yugoslavian Republic of Macedonia's (FYR of Macedonia) economies to respond positively and to adapt their economic structures to the new economic environment to face the level of international competition.

Various economic indicators are observed, in order to present a picture of the economic evolution as well as the structural adjustment over time. The conformity to changing conditions of the structural composition on different economic levels is analysed – broad sector's composition (GDP and Employment); main economics sector composition (value added and employment); industrial composition (value added and employment), as well as the export and import composition by manufacture sub-branches.

Also, analysed are the differences between the structure of manufacture of the South East European countries (Albania, Bulgaria, FYR of Macedonia and Greece) and the other Central European countries, as well as certain EU countries. The specificity and the common within the South East European countries (SEEC) on one hand, and the region on the other hand, are outlined.

The next objective of the paper is to discuss the potential benefits of a policy of regional cooperation within the SEEC, focusing on the benefits from the development of the industrial sector – the sector that has a crucial role for the recent performance of the SEEC. Possible future scenarios and prospects are also analysed in the light of the problems and the difficulties that the SEEC are facing with their encountering of the European market. Finally, an attempt is made to draw some conclusions and policy implications about the future prospects of the SEEC and the region.

Recent Economic Performance of South East European Countries – Broad Sector and Main Sector Composition

After a significant decline in the GDP with the start of the transition process, a certain increase in the rate of the GDP in the last 2-3 years is observed for the SEEC for Bulgaria and Albania starting since 1998, and for FYR of Macedonia starting since 1996. The countries of the region have also been enjoying financial stability over the last three-four years, which is an important prerequisite for sustainable development, (Minassian, 2001). The recent development still should not be recognised as the desired stable GDP trend that can start the process of recovery of the SEEC, since the region and the countries are well known to experience repeated economic and political crises.

Specific to the SEEC in transition is the high share of agriculture in the GDP, that increased during transition and which is typical for the so-called negative structural adaptation when countries are facing serious difficulties with the structural reform.[2] On the contrary, the process of adjusting in the

[1] This research was undertaken with support from the European Union's Phare ACE Program.

[2] There is a negative structural adjustment when the decline of the industry share goes in parallel with the increasee of the share of agriculture, and a positive one, when this decline goes mainly with the increase of the

Central European countries goes with the successful restructuring of industry, which also created the necessary ground for the development of the service sector.

What the future adjustment on broad sector level will be, and what difficulties the SEEC will face, will depend on their ability to respond to the economic pressure they undergo with the opening of their economies and the need to compete on the open European market.

One main projection from previous[3] analysis is that the Balkan countries will develop a structure that will tend to the one that Greece has. Table 1 presents the evolution of the GDP structures of the SEEC.

Table 1. SEEC'S GDP composition by broad sectors

Countries	Bulgaria		FYR of Macedonia		Albania		Greece	
Broad sectors Years	1990	1999	1990	1999	1990	1999	1990	1998
Agriculture & Forestry	18.3	17.3	9.2	12.5	37.9	52.5	14.5	7.4
Industry	50.9	26.8	47.9	35.3	48.4	25.4	27.9	20.4
Services	30.8	55.9	42.9	52.2	13.7	22.1	57.6	72.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Statistical Yearbooks of Bulgaria (2001) and other issues;
Statistical Yearbook of FYR of Macedonia (2000) and other issues;
Albanian Institute for Statistics (INSTAT), 1999, 2000;
World Bank (2001) World Development Report (Greece).

After a significant rise in agriculture share in 1995 (up to 24%), Bulgaria is tending to stabilise at the level of the early 90s. At the same time, the share of the industry sector is showing a decline of around 25 percentage points.

FYR of Macedonia still has a high share of industry compared with that of the EU countries, having in mind of course the difference in the quality of Western European industry. The FYR of Macedonia does not show the same process of increasing the share of agriculture as Bulgaria had in the mid 90s. This is not due to the positive structural adaptation, but because the country is in a very initial phase of its structural adjustment on broad sector levels. In other words, a rise in the share of agriculture with the deepening of structural reforms can be expected for the country.

Albania is an exception, not only for the SEEC but also for all Central and Eastern European countries (CEEC) in transition, with a very high decline of its industry share and with a very high share of the agriculture.

By estimating the sums of the squared differences (SSD coefficient)[4], it is possible to compare the structural differences between the countries. The sum of the squared differences estimated for Bulgaria, FYR of Macedonia and Albania with Greece as follows:

Bulgaria 1990 -	Greece 1990 -	SSD = 1277	Bulgaria 1999 -	Greece 1998 -	SSD = 405
FYR of Macedonia 1990 -	Greece 1990 -	SSD = 653	FYR of Macedonia 1999 -	Greece 1998 -	SSD = 648
Albania 1990 -	Greece1990 -	SSD = 2921	Albania 1999 -	Greece 1998 -	SSD = 4569

service sector (Petrakos and Totev 2000).

[3] Ibid.

[4] $SSD_t = \sum_i^n (a_{it} - b_{it})^2$, t = 0, 1 time periods; i = agriculture, industry, service; a, b – pair countries.

Since it is expected, that the FYR of Macedonia will start its restructuring by increasing the share of agriculture, one can say that, from the neighbouring to Greece countries, only Bulgaria is tending to a broad sector level approaching the GDP structure of Greece.

The employment composition on broad sector level differs significantly from the one for the GDP.

Table 2. SEEC's employment composition by broad sectors

Countries	Bulgaria		FYR of Macedonia		Albania		Greece	
Broad sectors Years	1990	1999	1990	1999	1990	1998	1990	1999
Agriculture & Forestry	18.9	25.8	8.3	5.7	47.0	70.8	24.4	17.7
Industry	43.5	28.8	50.5	46.9	29.6	8.8	27.5	22.4
Services	37.6	45.4	41.2	47.4	23.4	20.4	48.1	59.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Statistical yearbooks of Bulgaria (2001) and other issues.
Statistical yearbook of FYR of Macedonia (2000) and other issues
Albanian Institute for Statistics (INSTAT), 1999, 2000.
Epilogi (2001) *Nomoi*, special annual edition, June 2001 (statistical magazine) (Greece)

The first thing that can be outlined from the comparison of Table 1 and Table 2 is that for Bulgaria and Albania the shares of those employed in agriculture and forestry are respectively higher – with 7.5 percentage points and 18.3 percentage points – than the corresponding share for the GDP; while for the FYR of Macedonia, this share is twice less. This phenomena for the FYR of Macedonia can be explained by the fact that the shown level of employed in agriculture and forestry is somehow biased due to the fact that a lot of people officially declare that they are unemployed (in FYR Macedonia the officially unemployment rate was 32.4% for 1999), whilst they are actually engaged in the agriculture sector. So, the reported number of employed in agriculture for the FYR of Macedonia is an underestimation of the real percentage engaged in that sector.

The estimation of the SSD coefficients for Table 2 shows:

Bulgaria 1990 -	Greece 1990 -	SSD = 944	Bulgaria 1999 -	Greece 1995 -	SSD = 317
FYR of Macedonia 1990 -	Greece 1990 -	SSD =1228	FYR of Macedonia 1999 -	Greece 1995 -	SSD = 905
Albania 1990 -	Greece 1990 -	SSD = 2242	Albania 1999 -	Greece 1995 -	SSD = 4565

For Bulgaria a certain decline of the engaged people in the agriculture sector could be expected, a process that is predicted to start with the all-over improvement of the economic situation in the country. For the FYR of Macedonia, the restructuring on the broad sector level will go in parallel with an increase in those engaged people in agriculture, this rise would be quite significant if the figures provided data for those who are actually employed in agriculture. For Albania, the general economic performance can significantly influence the structure of the employed; future improvements in the economic situation in Albania will give the population the opportunity of finding other activities instead of working in agriculture – activity that is connected with the need for survival of the population (DeSoto, Gordon, Gedeshi and Sinoimeri, 2001). This need can somehow also explain the decline of the share of the employed in the services in Albania in the last years.

Overall, we can generalise by saying that the process of restructuring on the broad sector levels is at quite different stages for the countries observed. It seems that Bulgaria will manage to adjust its structure in the foreseeable future, which will mean it will also approach the structure of Greece, while the completing of this adjustment for the FYR of Macedonia on the broad sector level is still ahead. This process can be influenced by the political and ethnic crisis in the FYR of Macedonia, which plays a certain role in economic life. Albania will remain with a quite different structure at the broad sector level from European standards; its structure will diverge significantly in the foreseeable future, even in

comparison with the ones of the other Eastern European Countries in transition, (Totev, 2001).

At the main economic sector level, the information does not give a very different picture (see Table 3 and Table 4). It becomes obvious that the adjustment in Bulgaria and the FYR of Macedonia is occurring mainly because of the decrease in share of manufacture. The changes are significant for the service sector in Bulgaria, while the increase of the service sector for the FYR of Macedonia is mainly due to the increase in the trade repairing activities, which is typical of the earliest stages of the structural changes for all Central and East European countries (CEEC).

Table 3. SEEC's value added composition by main economic sectors

Economic Sectors	Bulgaria		FYR of Macedonia		Albania		Greece	
	1990	1999	1990	1999	1990	1999	1990	1995
Agriculture and Forestry	18.3	17.3	9.2	12.5	37.9	52.5	14.5	14.4
Incl. Agriculture	18.1	16.9	8.3	11.9	--	--	14.3	11.3
Forestry	0.2	0.4	0.9	0.6	--	--	0.2	3.3
Industry	50.9	26.8	47.9	35.3	48.4	25.4	27.9	27.8
Incl.: Mining and Quarrying	3.3	1.7	5.00	3.3	--	--	1.5	1.7
Manufacturing (exc.Electr. Gas & Water Supply)	43.9	16.6	33.2	20.7	--	--	16.4	16.6
Electricity Gas and Water Supply	2.3	4.8	1.4	4.5	--	--	2.7	4.8
Construction	1.5	3.7	8.3	6.7	6.6	13.5	7.3	4.7
Services	30.8	55.9	42.9	52.2	13.7	22.0	57.6	57.8
Incl.: Trade Repairing activities	7.8	7.5	6.4	13.1	--	--	12.5	12.1
Transport and Communication	7.2	8.7	6.0	8.6	--	--	7.6	13.1
Transport	5.7	4.8	-	-	3.3	3.3	5.3	6.6
Communication	1.5	3.9	-	-	--	--	2.3	6.5
Financial intermidation	0.5	2.9	3.4	6.6	--	--	3.0	4.3
Other Services	8.2	36.8	27.1	23.9	10.4	18.7	26.6	15.2

Sources: Statistical yearbooks of Bulgaria (2001) and other issues. Statistical Yearbook of FYR of Macedonia (2000) and other issues Albanian Institute for Statistics (INSTAT), 1999, 2000. National Statistical Service of Europe (1997) *Statistical Yearbook of Greece*, Athens (Greece). Own calculations

Table 4. SEEC's employment composition by main economic sectors

Economic Sectors	Bulgaria		FYR of Macedonia		Albania		Greece	
	1990	1999	1990	1999	1995	1998	1991	1999
Agriculture and Forestry	18.9	25.8	8.3	5.7	67.2	70.8	22.2	17.7
Incl. Agriculture	18.4	25.0	-	-	-	-	-	17.4
Forestry	0.5	0.8	-	-	-	-	-	0.3
Industry	43.4	28.8	50.5	46.9	10.2	8.8	27.5	22.4
Mining and Quarrying	2.7	1.6	6.0	6.0	1.8	1.5	0.5	0.4
Manufacturing (exc. Electric. Gas & Water Supply)	31.4	21.1	33.1	29.7	5.6	5.0	19.2	14.2
Electricity Gas and Water Supply	0.9	1.8	2.0	3.3	0.8	1.3	1.0	1.0
Construction	8.4	4.3	9.4	7.9	1.8	1.0	6.8	6.8
Services	37.6	45.4	41.2	47.4	22.9	20.4	50.3	59.9
Incl.: Trade Repairing activities	9.3	11.5	11.6	6.5	5.4	6.0	18.2	22.9
Transport and Communicatiomn	7.1	7.6	5.2	6.2	2.6	2.4	6.9	-
Transport	6.0	6.1	-	-	-	-	-	6.4
Communication	1.1	1.5	-	-	-	-	-	-
Financial intermidation	0.6	1.1	-	-	-	-	5.3	-
Other Services	20.5	25.2	24.4	34.7	14.9	12.0	19.9	30.6

Sources: Statistical yearbooks of Bulgaria (2001) and other issues. Statistical Yearbook of FYR of Macedonia (2000) and other issues Albanian Institute for Statistics (INSTAT), 1999, 2000. National Statistical Service of Greece (2001) *Employment*, Internet site: www.statistics.gr (Greece) Own calculations

There are two facts that should be outlined. The first is that employment in the service sector, not related with trade, transport and communication, has declined by more than 20% in only three years in the FYR of Macedonia. This decline can be somehow related to the starting of a specific negative adjustment in the FYR of Macedonia at the main economic sector level. The second is that the share of other services in Bulgaria is 2/3 of the entire service sector. The composition of employment at the main economic sector level shows that an impressive difference exists in Bulgaria between the value

added produced in the sub-sector 'other services' and those employed in this sub-sector. If this is not a problem of statistical calculation, this will mean that the effectiveness of this sub-sector is very high. However, it can be expected that this share will decrease in the way it has in Greece, together with a rise in the share of transport and communication. Actually, for Bulgaria the future structural adjustment can be expected to take place mainly at the service sub-branch level.

Industrial Composition – Value Added and Employment

Industrial development is preparing the ground for the successful development of both the agriculture and service sectors. The recent situation in the SEEC is such that a future development of the service sector cannot be expected without the recovery of industry and its stabilisation (Landesmann, 2000**).** Landesmann argues that the general economic recovery in the CEEC is closely related to the more or less successful structural adaptation and stabilisation of industry. As a result, the observed fluctuations of the GDP rates in the CEEC, more specifically those of the SEEC, are due to the fluctuation of the development of the industrial sector. The analysis at broad sector and main economic sector levels for the SEEC is proof of this.

A process of decline of the share of industry occurring along side the integration processes can be expected, a process observed in Greece when the country became a member of the EU. This process continues for Greece and this is the most likely scenario for the development of the FYR of Macedonia and Bulgaria, a process that is expected to be more intensive for the FYR of Macedonia.

The SEEC will face significant difficulties when restructuring their industrial sectors in order to face the level of international competition comparable with Greece. The potential for development of the service sector and the economy as a whole in the SEEC is quite different from the situation in Greece, where tourism, the merchandise fleet and trade as a whole put things on quite another footing. One cannot expect that the problems of SEEC will be the same as those Greece had when joining the EU. It can be stated that without obvious recovering and restructuring of industry and its adjustment to the new economic environment, the SEEC will face significant difficulties in their near future development.

The industrial compositions of value added and employment for Albania, Bulgaria and the FYR of Macedonia differed significantly (see Tables 5, 6). The first fact that should be outlined is that the manufacturing share of industry in Bulgaria is almost 95%, while for Albania and the FYR of Macedonia it is around 86%. This is indicative of the important role that the primary sector plays for Albania and the FYR of Macedonia.

While the other countries, including Greece, are increasing their share of the sub-branches 'food, beverages and tobacco', there is a significant decrease of this sub-branch in Bulgaria. The share of light industry[5] in manufacture is decreasing in Bulgaria, while in the FYR of Macedonia and Albania this share is increasing – Bulgaria 38%, FYR of Macedonia 62%, Albania 59% (of which 53% is 'food, beverages and tobacco').

We can try to estimate the changes that happened in the industrial composition of the observed SEEC in transition following the indicators used by Landesmann and Szekely (1995)[6], as well as the criteria

[5] It can be accepted that the light industry branches are – food, beverages and tobacco; textiles; clothing; leather and fur clothes, footwear; pulp, paper, publishing and printing; manufacturing n.e.c.

[6] See Landesmann and Szekely (1995):

labour intensity – number of employees/output
capital intensity – cumulative investments/number of employees
R&D intensity – R&D expenditure/output
skill intensity – non manual labour/total employment
energy intensity – energy costs/output

for "Mobile Shumpeters' Industries" (Klodt, 1991)[7], we can conclude that a kind of adjustment in the FYR of Macedonia and Albania, which follows the Landesmann M., I. Szekely labour intensity model has taken place. While in Bulgaria we can apply the criteria of the "Mobile Shumpeters' Industries" in parallel with Landesmann and Szekely (1995) labour intensity and energy intensity criteria.

Table 5. SEEC's composition of value added by industrial branches

	Bulgaria		FYR of Macedonia		Greece		Albania	
	1990	1999	1990	1999	1985	1997	1995	1998
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Mining and Coal, extraction of petroleum	-	3.1	0.1	0.1	-	-	12.8	10.0
Mining of ores	2.6	1.9	9.6	11.4			7.5	3.2
Other mining and quarrying	-	0.8	4.2	2.2	-	-	-	-
Manufacturing	97.4	94.2	86.1	86.3	88.3	89.1	79.7	86.8
Food, beverages and tobacco	26.8	19.7	19.4	30.0	18.3	23.4	10.9	33.6
Textiles	6	2.4	6.7	2.8	14.5	7.4	2.2	1.1
Clothing	2.6	2.9	7.5	6.4	4.5	3	-	-
Leather, leather and fur clothes, footwear	1.5	1	5.1	2.1	1.9	1.3	0.4	0.7
Wood, product of wood, plaiting materials	2.2	1.1	3.0	1.0	1.9	2.1	1.5	0.1
Pulp, paper, publishing and printing	1.7	3.3	1.8	1.4	3.7	4.9	1.1	0.6
Coke, refined petroleum	4.8	11.8	1.1	3.3	3	5.7	18.3	13.3
Chemicals, chem. prod. and man made fibr.	5.3	11.8	4.4	6.1	7.9	10.4	3.2	0.8
Rubber and plastic products	2.4	1.7	0.0	0.0	2.9	3.8	0.2	0.0
Other non-metallic mineral products	3.7	4	5.1	5.3	6.5	6.9	6.0	3.9
Basic metals except cast metals	8.9	8.1	8.9	3.7	11.6	8	15.0	7.5
Metal prod.,machin. and equipment, castings	5.6	9.1	3.7	0.4	1.5	1.7	1.4	1.3
Electrical and optical equipment	11.8	3.4	6.2	4.5	4.2	5.8	1.5	0.4
Transport equipment	5.3	1.5	4.6	3.6	5.1	4.2	0.0	0.1
Manufacturing n.e.c.	4.3	1.2	1.2	0.6	0.8	0.5	0.2	0.0
Electricity, gas and water supply	4.5	11.2	7.5	15.2	-	-	17.8	23.6

Sources: National Statistical Institute of Bulgaria and own calculations. Statistical Yearbook of FYR of Macedonia (2000), different issues and own calculations. Albanian Institute for Statistics (INSTAT), 1999, 2000 and own calculations. UNIDO (2001) Greece, Internet site: www.unido.org, (Greece) Own calculations

[7] According to Klodt (1991), Mobile Schumpeters' industries in the developing countries are those where "a geographical separation of R&D and production is technically feasible without substantial losses of synergy effects" (p, 4). In other words, it is possible to invest in this country without significant investment for creating a R&D environment for production. The immobile Schumpeters' industries are those, which need such an environment. So it is supposed that the Western countries will prefer to invest in the Eastern countries in the branches which can be classified as Mobile Shumpeters' industries.

Table 6. SEEC's composition of employment by industrial branches

	Bulgaria		FYR of Macedonia		Greece	
	1990	1999	1990	1999	1993	1997
Total	100.0	100.0	100.00	100	100.0	100.0
Mining and Coal, extraction of petroleum	--	4.1	0.9	0.1	0.2	0.2
Mining of ores	6.9	1.3	9.4	9.5	0.8	0.6
Other mining and quarrying	--	1	4.4	6.1	2.9	3.2
Manufacturing	93.1	93.5	85.3	84.3	96.1	96
Food, beverages and tobacco	11.7	15.2	11.2	14.4	20.1	20.3
Textiles	8.2	4.6	11.2	7.1	5.6	5.3
Clothing	4.7	12.8	18.6	18.8	3.9	3.1
Leather, leather and fur clothes, footwear	2.3	2.9	5.5	5.6	0.3	0.3
Wood, product of wood, plaiting materials	3.4	2.1	4.3	2.2	2.2	2.1
Pulp, paper, publishing and printing	1.7	3.5	2.3	2	7.9	8.1
Coke, refined petroleum	1	1.6	0.7	1	3.4	3.1
Chemicals, chem. prod. and man made fibr.	4.7	5.3	6.3	6.6	10.5	10.6
Rubber and plastic products	2.3	2.5	0	0	3.1	3.2
Other non-metallic mineral products	4.3	4	4.1	3.7	6.6	6.5
Basic metals except cast metals	2.8	4.4	5.3	5.6	2.5	2.4
Metal prod., machin. and equipment, castings	16.2	16.5	1.4	0.8	6.6	7
Electrical and optical equipment	15.2	5.2	5.5	6.2	4.7	4.9
Transport equipment	6.1	2.4	4.5	3.4	9.6	8.7
Manufacturing n.e.c.	5.7	2.9	0.6	0.3	0.5	0.5
Electricity, gas and water supply	2.8	7.7	3.8	6.6	8.6	9.9

Sources: National Statistical Institute of Bulgaria and own calculations. Statistical Yearbook of FYR of Macedonia (2000), different issues and own calculations. Albanian Institute for Statistics (INSTAT), 1999, 2000 and own calculations. National Statistical Service of Greece (2001) *Employment*, Internet site: www.statistics.gr, (Greece) Own calculations

For Albania and the FYR of Macedonia, the industrial structure is typical of countries with a comparative advantage, depending largely on production conditions related to the primary sector. While for Bulgaria, the industrial structure accords mostly to the Heckscher-Ohlin type, where we find comparative advantages resting largely on factor endowments (Timothy, Tangermann and Walkenhorst, 1996). It is well known from international trade theory that the H-O type of trade is more appropriate for countries with comparable levels of development, which gives Bulgaria higher possibilities for trading with Greece.

More information about the differences in the structure can be obtained by estimating the SSD coefficients of countries. The information in Tables 7 and Table 8 provides a cross-data for the estimated SSD coefficients. The comparison is made within the SEEC as well as with the Central European countries in transition and Austria, the EU North (average manufacture composition of UK, France, Germany and Belgium) and the EU South (average manufacture composition of Spain, Portugal and Greece).[8]

[8] The following composition of the manufacturers branches was used: food, beverages and tobacco; textile and clothing; leather, leather and fur clothes, footwear; wood, product of wood, plaiting materials; pulp, paper, publishing and printing; coke, refined petroleum; chemicals, chemical products and man made fibre; rubber and plastic products; other non-metallic mineral products; basic metals except cast metals; metal prod., machines. and equipment, cast metal prod.; electrical and optical equipment; transport equipment; manufacturing n.e.c., (Landesmann, 2001, p. 106).

Table 7. Differences of the composition of the Value Added of the Manufacture branches estimated by SSD coefficients

	Bulgaria		FYR of Macedonia		Greece		Albania		Czech Rep.		Hungary		Poland		Romania		Slovakia		Slovenia		Austria		EU – North	EU-South
	1990	1999	1990	1999	1985	1997	1995	1998	1993	1998	1993	1998	1993	1998	1993	1998	1993	1998	1993	1998	1993	1998	1996	1996
Bulgaria – 1999	319	0	490	667	506	217	687	1210	289	501	106	613	157	276	103	203	193	460	378	436	392	462	388	202
FYR of Mac. – 1999	324	667	425	0	617	314	1740	677	848	1068	377	984	384	517	538	513	957	1156	940	1039	941	1286	1113	467
Greece – 1997	152	217	179	314	169	0	1026	1244	288	428	93	456	101	140	125	148	284	419	259	344	332	472	404	49
Albania – 1998	1148	1210	1607	677	1883	1244	1521	0	1648	2004	983	2088	1007	1364	1211	1153	1631	2092	2203	2342	2013	2338	2206	1367
Check Rep. – 1998	354	501	426	1068	475	428	1060	2004	43	0	345	300	254	132	238	169	149	33	120	117	198	120	139	230
Hungary – 1998	302	613	564	984	685	456	1403	2088	350	300	373	0	383	258	350	392	459	247	275	257	281	247	152	321
Poland – 1998	112	276	250	517	336	140	1070	1364	92	132	88	258	47	0	93	63	170	159	123	147	180	218	169	52
Romania – 1998	141	203	239	513	292	148	721	1153	65	169	76	392	32	63	38	0	96	185	207	270	245	308	286	69
Slovakia – 1998	406	460	483	1156	485	419	921	2092	60	33	338	247	272	159	229	185	129	0	111	117	194	93	94	211
Slovenia – 1998	337	436	369	1039	400	344	1396	2342	143	117	336	257	291	147	256	270	224	117	17	0	129	87	63	192
Austria – 1998	400	462	531	1286	580	472	1087	2338	167	120	387	247	348	218	273	308	174	93	103	87	113	0	96	279
EU- North – 1996	378	388	545	1113	580	404	1244	2206	159	139	302	152	295	169	253	286	229	94	95	63	182	96	0	226
EU-South – 1997	138	202	172	467	187	49	906	1367	132	230	79	321	50	52	66	69	161	211	133	192	197	279	226	0
Total	4510	5636	6280	9801	7195	4636	14782	20084	4282	5241	3883	6317	3623	3495	3773	3759	4854	5264	4965	5409	5396	6006	5337	3665

Sources: Table 5 and own calculations, Economic Survey of Europe, 2000 No.2/3 p. 106 and own calculations.

Table 8. Differences of the composition of the Employment by Manufacture branches estimated by SSD coefficient

	Bulgaria		FYR of Macedonia		Greece		Czech Rep.		Hungary		Poland		Romania		Slovakia		Slovenia		Austria		EU – North	EU-South
	1990	1999	1990	1999	1985	1997	1995	1998	1993	1998	1993	1998	1993	1998	1993	1998	1993	1998	1993	1998	1996	1996
Bulgaria	212	0	638	551	413	421	369	376	198	242	163	221	177	217	189	284	360	317	490	519	507	285	388
FYR of Mac.	852	551	45	0	760	821	1018	970	473	462	543	581	606	460	848	836	601	662	1019	1189	1139	308	1113
Greece	524	421	1034	821	3	0	624	544	223	292	277	269	545	517	446	494	647	553	522	555	405	327	404
Check Rep.	296	376	1081	970	536	544	26	0	206	213	112	124	136	169	72	25	119	89	68	56	104	280	2206
Hungary	184	242	621	462	280	292	295	213	42	0	90	100	236	203	198	166	190	153	196	266	243	137	139
Poland	296	221	717	581	256	269	196	124	49	100	13	0	139	102	144	104	179	135	186	192	226	72	152
Romania	319	217	485	460	478	517	163	169	182	203	75	102	24	0	136	133	93	111	288	315	329	103	169
Slovakia	229	284	932	836	488	494	52	25	156	166	93	104	108	133	37	0	76	41	57	54	126	225	286
Slovenia	258	317	718	662	537	553	125	89	180	153	132	135	116	111	96	41	16	0	83	115	172	173	94
Austria	343	519	1323	1189	563	555	123	56	265	266	214	192	288	315	138	54	182	115	26	0	90	375	63
EU- North	307	507	1271	1140	404	405	137	104	279	243	220	226	282	329	150	126	221	172	87	90	0	393	96
EU-South	449	285	406	308	297	327	350	280	93	137	83	72	193	103	270	225	182	173	320	375	393	0	0
Total	4269	3941	9271	7981	5014	5197	3478	2949	2345	2476	2014	2126	2850	2658	2724	2488	2865	2521	3341	3728	3734	2678	4269

Sources: Table 6 and own calculations, Economic Survey of Europe, 2000 No.2/3 p. 106 and own calculations.

First of all it should be outlined that, compared with the other countries, Bulgaria, the FYR of Macedonia and Albania are observed as having one of the highest changes in structure (even considering the larger period for Bulgaria and the FYR of Macedonia).[9] Only Hungary shows a change that is higher than that of Bulgaria. The estimated SSD coefficient for Bulgaria between 1990 and 1999 is 319.3, for the FYR of Macedonia it is 425.9, and for Albania 1521.3, while the highest coefficient for the countries observed, if we exclude Hungary, is for Slovakia at 128. It is interesting that Greece shows also a relatively big change – the SSD coefficient being 168.

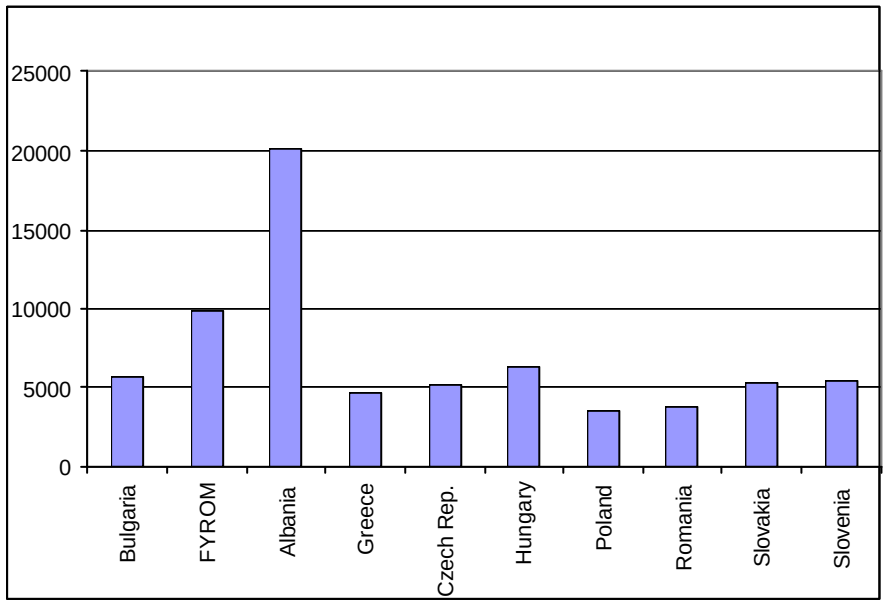
If we compare the composition of the SEEC with the EU North and EU South, we will see that their structures are closer to the one of the EU South. Romania and Poland are also closer to the EU South, while the Czech Republic, Slovakia, Slovenia and Hungary are closer to the composition of the EU North.

The Bulgarian structure is closer to the following countries – Greece, Romania, Poland and the EU South. The divergence in 1999 increases a little bit, compared to 1990. The total coefficient for the FYR of Macedonia differs significantly from the others (9801); the sum of its SSD coefficients is the second biggest after Albania's sum (20084). For the FYR of Macedonia, the divergence rises significantly, compared with 1990 and for all countries, with the exception of Albania (see Chart 1). Albania differs considerably. There is no manufacturing structure close to its.

If we rank the sum of the SSD coefficients for the value added of the SEEC, we will have the following picture – Albania, the FYR of Macedonia, Bulgaria, Greece. If we rank the CEEC (including Greece) countries, we will have the following order: Albania, the FYR of Macedonia, Hungary, Bulgaria, Slovenia, Slovakia, Czech Republic, Greece, Romania and Poland (see Chart 1).

The FYR of Macedonia and Albania have the greatest shares of light industry (see footnote 4), respectively denoting the divergence of composition from the other countries. The shares of light industry for the SEEC are: Bulgaria 38%, the FYR of Macedonia 62% and Albania 57%. By comparison, the greatest shares of light industry are found in Poland, Romania and the EU South – Poland 44%, Romania 43% and the EU South 47%.

Chart 1. Sum of SSD coefficients (Value Added composition)



Source: Table 7

[9] The estimation shows that during the different periods the estimated coefficients for Bulgaria and the FYR of Macedonia do not change significantly.

It is interesting that for Bulgaria and Greece a process of a declining share of light industry is observed, while for the FYR of Macedonia and Albania it rises significantly – the only other country that increases its share is Romania.

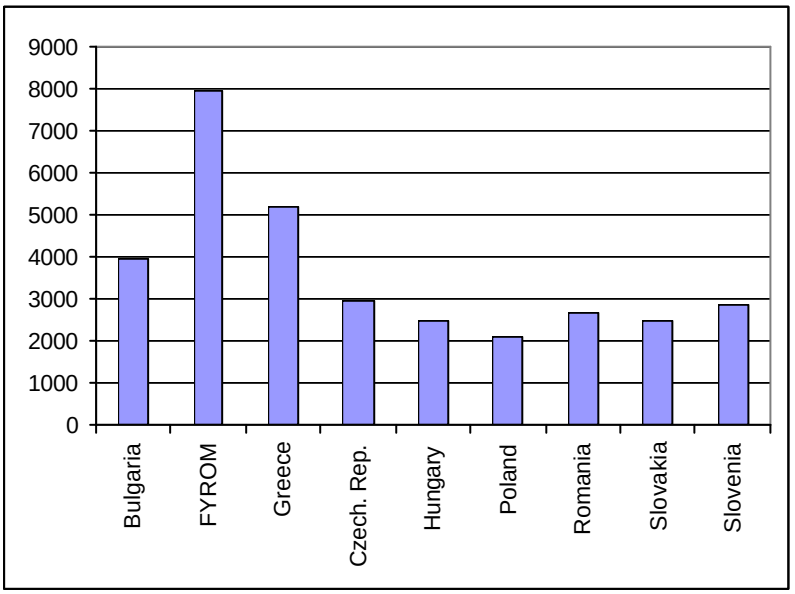
The picture for employment is quite different. It is obvious that the differences in the composition of employment are lower than the one's for the value added – the value added levels are influenced also by the differences in productivity.[10] The share of those employed in light industry compared with manufacturing as whole is a follows: Bulgaria - 51%, the FYR of Macedonia stabilised at 65%, Greece - 46%, and Albania - 85%.[11] Poland and Romania have 50% shares. Indicative is the EU South, where the share is also 50%.

Here the changes for the observed periods are as follows: Bulgaria 1990 – Bulgaria 1999 – SSD = 212; the FYR of Macedonia 1990 – the FYR of Macedonia 1999 – SSD = 45; Greece 1997 – Greece 1987 – SSD = 3. The highest one for the other CEEC in transition is for Hungary (Hungary 1993 – Hungary 1998 – SSD = 42).

It is obvious that significant changes in employment composition by industrial branches occurred for Bulgaria. Bulgarian divergence with other countries declined in 1999, compared with 1990. One can say that the Bulgarian composition of employment in 1990 was closer to the EU North, while now it is going closer to the EU South. The Bulgarian structure is also closer to those of Hungary, Poland and Romania. The FYR of Macedonia's divergence has also declined but still the employment structure shows a big difference, compared with all other countries (see Chart 2).

As a whole it can be generalised: Bulgaria will have a structure of the value added that will tend to be closer to those of the EU South, and this process is expected to finish in the next few years. From the CEEC, the Bulgarian composition of industry will be closer to those of Poland and Romania. Although the figures show that, compared with the other SEEC, its structure will be closer to that of the EU North.

Chart 2. Sum of SSD coefficients (Employment composition)



Source: Table 8

[10] There are no data for the employment composition in Albania by industry branches.
[11] Approximate estimations made from different sources.

The process of the FYR of Macedonia's restructuring is still ahead. There is a strong evidence that the manufacturing sector of this little country will actually not be able to create a stable structure and it will tend mainly to develop light industry. That will produce quite a biased structure compared with the one of the other CEEC, as well as with the EU South, not to mention the EU North.

Still the industry sector in Albania is too narrow. The future will show what industry this country will be able to develop and how it will be to the comparative advantage of the country. However it is quite obvious that, in foreseeable future, Albania will not be able to create a stable and competitive industry sector.

It seems that from the observed SEEC only Bulgaria can face the challenge restructuring of its industry, and the success of this process will depend on the way the country's economic development goes in the next 4-5 years.

Conformity between Production Structure and Export Structure

Another indicator of the successful restructuring of the industrial sector of the transition countries is the conformity between the structure of production and the export structure (Landesmann, 1996).

The SSD coefficients are estimated by comparing the composition of the value added for a given country with its export composition by manufacturer's branches (see the used aggregations for exports in Table 9).

For small countries like Bulgaria, the FYR of Macedonia and Albania, which are supposed to have an open economy, it is expected that the composition of production should be adjusted to the composition of exports. It can also be accepted that the export composition for these countries should show (by being higher) their comparative advantages. So, by estimating the SSD coefficients, some information about the conformity of the production structure with the revealed comparative advantages of the country can be obtained.

It can also be assumed that, for the countries that have successfully restructured their industrial sector, the conformity between the production structure and the export structure will not differ significantly.

Table 9. SEEC's Export Import by manufacture's branches

Countries	Bulgaria		FYR of Macedonia		Albania		Greece	
	1999	1999	1999	1999	1999	1999	1998	1998
Manufacture branches	Export	Import	Export	Import	Export	Import	Export	Import
Food, beverages and tobacco	10.3	6.7	19.0	18.2	10.5	26.1	25.4	15.0
Textiles, Wearing apparel	19.8	14.1	3.8	3.7	35.7	12.6	13.0	10.1
Leather, leather and fur clothes, footwear	4.0	2.3	0.9	0.8	27.3	6.1	3.4	2.3
Wood and product of wood and cork, plaiting materials	2.6	0.5	5.2	6.1	2.3	1.7	2.5	3.8
Pulp, paper and paper products, publishing and printing	1.5	4.2	3.6	3.8	1.7	1.4	0.5	3.4
Coke, refined petroleum	8.6	4.2	3.4	5.7	--	--	4.8	1.4
Chemicals, chemical products and man made fibers	13.4	13.4	18.0	16.8	0.3	5.5	10.8	13.0
Rubber and plastic products	1.8	4.0	1.7	1.7	0.5	2.9	4.9	3.0
Other non-metallic mineral products	2.7	1.6	2.8	2.7	6.6	12.4	2.4	2.3
Basic metals and metal products, machinery and equipment	27.2	20.5	20.1	20.0	10.2	20.0	19.2	19.0
Electrical and optical equipment	4.1	13.8	8.6	9.0	--	--	7.5	13.8
Transport equipment	2.0	12.9	12.2	10.6	1.8	7.5	4.3	8.8
Manufacture n.e.c.	2.0	1.8	0.7	0.9	3.1	3.9	1.3	4.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: National Statistical Institute of Bulgaria and own calculations, Statistical Yearbook of FYR of Macedonia (2000), different issues and own calculations. Albanian Institute for Statistics (INSTAT), 1999, 2000 and own calculations. ITC (International Trade Centre) for Greece

The estimate of conformity is given in the following figures – Greece, for 1998 SSD – 133.6; Bulgarian, for 1999 SSD = 454.1; FYR of Macedonia, for 1999 – SSD = 1011, while for Albania the SSD coefficient for 1999 is 4134.7. Only for Bulgaria a kind of conformity was observed, which Bulgaria managed to achieve in the last ten years.

This analysis proves that the process of restructuring of the SEEC is on a quite a different level – if we accept that Bulgaria is somehow managing in general to successfully complete this process, it is obvious that for the FYR of Macedonia this process lies ahead. Speaking for Albania, it can be said that the fate of industrial development is not clear in the foreseeable future, which means that Albania will not manage to develop its industrial sector in conformity with its comparative advantages.

SEEC Prospects for Economic Relations

If we follow the scheme of comparative advantages – capital, labour, skilled labour and R&D intensive industries, (Quevit, 1992), the cheap labour can play the main positive role for the SEEC in transition, especially for the branches of the light industry that are more labour intensive. So, according to Sengerberger and Pyke (1992), the option for the SEEC in transition will be the "low road" development of the branches of light industry, development, which creates comparative advantages in cheap labour cost and deregulated labour market environment that can neglect the social conditions. Such development can improve the competitiveness, but as a rule this improvement is not long-lasting.

The countries cannot realise labour skill comparative advantages like the ones realised by the Central European countries in transition. It is possible that only Bulgaria will benefit from having labour skill, but this advantage the country is expecting will allow the country successfully to compete with other developing countries. At this stage it should not be expected that the SEEC in transition will develop comparative advantages on the basis of developing capital intensive and R&D intensive industries.

In the framework of heavy industry, the Bulgarian chemical industry is expected to have high effectiveness and good prospects for development. It is a branch with a high consumption of energy and labour, which with the opening of the markets will increase its competitiveness. Practice shows that foreign investments are channelled to this branch. Its development can be enhanced by the existence of enough qualified personnel so as to allow this branch to be classified as one of the "Mobile Shumpeters" branches. The fact that the environmental restrictions are not very high, firstly, and, secondly, their strict fulfillment can be avoided, is also helpful for the competitiveness of the chemical industry. An example of this is the high share this industry has in Bulgarian production, and the relatively high share of exports of chemical products.

In the short-term, the branches that do not require high investments will be more competitive than those with higher labour consumption;[12] at the same time, the limitations on material consumption will be strong. A decrease in the high-energy consumption per unit of GDP is expected to allow the branches, which are energy-consuming, to be assured of resources at the present level of production of the electrical and thermal industry for Bulgaria, and respectively to be competitive.

The narrow internal demand of the market, the very low level of the capital stock, and the restrictions and difficulties that face the SEEC in exporting to the Western countries will all play a negative role. This is forcing the countries to search for alternatives, one of which is the development of inter-regional trade relations.

Estimating the index of dissimilarity, (IDX), (Jackson and Petrakos, 2001) of the export structures by

[12] Because of investment limitations and unemployment, the branches that need highly technical equipment will have a lower competitiveness.

sectors gives some information for the possibilities for intra-trade relations within the SEEC. IDX coefficient is measured as:

$$IDX_{c,b} = \sum_{i}^{n} (S_{ic} - S_{ib})^2,$$

where S_{ic} and S_{ib} are the shares of sector *i* in the export of country *c* and country *b* and *i* are the manufacture branches (see Table 9).

The estimated IDX coefficients are: Greece – Albania = 1750; Greece – Bulgaria = 651; Greece – the FYR of Macedonia = 454; Bulgaria – Albania = 1247; Bulgaria – the FYR of Macedonia = 567; the FYR of Macedonia – Albania = 2383.

It is obvious that there are significant divergences in the export structures of Albania, while the coefficient between Greece and the FYR of Macedonia is the lowest. If we compare this data with that estimated by Jackson and Petrakos (2001) for the CEEC, it will be observed that the IDX coefficients can be defined as high.

The Spierman's rank correlation coefficient of the export structures shows similar figures.

Greece has a rank coefficient with Bulgaria where $r = 0.74$, and with the FYR of Macedonia where $r = 0.68$. The coefficient between Bulgaria and the FYR of Macedonia is $r = 0.55$. All countries have a low coefficient with Albania; respectfully Greece – Albania $r = 0.15$; Bulgaria – Albania $r = 0.25$; the FYR of Macedonia – Albania $r = -0.10$.

The stable negative trade balance with the EU will force the countries to search for possibilities for intra-regional trade relations – this fact concerns all of the countries observed, including Greece, (Petrakos, G., S. Totev, (2001).

The above estimated IDH coefficients and rank correlation coefficients are indicators of the possibilities for inter-industry trade. The structural differences between the export compositions of the SEEC presuppose the development of inter-industry trade, the potential for which can, at least at the initial stage, be defined as good. Conversely of course, a coincidence could not yet presuppose a development of intra-industry trade.[13] However, the structural analysis of the countries observed indicated that the potential for intra-industry trade could be realised only between Greece and Bulgaria. It is obvious that only Bulgaria, of the neighbouring countries to Greece, managed to adjust its production to conform with the exports of the country, which helped the country to create a stable basis for trade relations with Greece.

Albanian prospects for export from industrial branches are the most limited, and those of Greece can be considered the most favourable.

The analyses of the trade orientation and the economic structure of the SEEC defined the following possibilities for economic relations, specified by broad sectors.

For Greece, the inter-industry trade with neighbouring SEECs will allow the country to easily realise its industrial production, not with standing the competitiveness of the EU markets, (Petrakos, 2001a). That's why the development of the SEECs' relations may prove to be most favourable for the industrial sector of Greece, which is stagnating and even shows a certain decrease over the last years. Such a forecast can surely be made in terms of a short- and mid-term perspective. There are certain

[13] Intra-industry trade between Greece and the Balkan countries is observed by Petrakos G. (2001b), Labrianidis and Kalogeresis (2001). They foresee that the possibilities for its development will be favourable, but these papers examine the Greek trade relations with all Balkan countries, not only Bulgaria, the FYR of Macedonia and Albania.

possibilities for Greece to realise a kind of intra-industry trade only with Bulgaria.[14]

Greek agriculture production may also sell well on the SEEC markets because of the character of its export – mainly citrus fruits, olives, etc. The effect of economic relations in this sector is expected to be smaller than its effect an industrial production, because Greece does not face the same difficulties in realising this production within the other European markets as it does in realising its higher technology industrial production.

The service sector is the area through which economic relations, mainly with adjacent countries (Albania, Bulgaria and the FYR of Macedonia), can be realised, though its development in the short-term will be hindered by the difficulties that the economies of these three countries face in the transition period. In spite of this, the process of integration among the SEEC presupposes a quick development of infrastructure and communications. Greece's better technologies, as well its membership of the EU, give the opportunity for these processes to be realised, which presupposes a favourable development of the service sector, especially in the short-term. The main difficulty that the service sector is facing is the low incomes in the other SEECs. Again, Bulgaria should be classified as a main point of interest for Greece regarding the development of the service sector.

It is obvious that Greece, being more developed than the other SEECs, will play the main part and will, consequently, benefit significantly from the development of economic relations with its neighbouring countries.

Concerning the industrial sector, Bulgaria has difficulties in the realisation of its production. The increase in turnover among the SEECs could have a positive influence on this sector, especially in the short-term. Bulgaria is the only country that is prepared to develop trade relations and compete with the Greek industrial sector – at this stage Greece is in a favourable situation, but the development of neighbouring relations will help Bulgaria to find its openings. For this a certain role will play also the fact that Bulgaria is supposed to develop industrial structure that will probably be more complementary than competitive with the Greek industrial structure.

Bulgarian agriculture production finds good markets in Greece, and in fact the agriculture production of both countries is, to a great extent, complementary. The markets with the FYR of Macedonia are mostly competitive for Bulgaria since both countries can realise easily comparative advantages in the agriculture sector, (Totev, 2001).

The service sector in Bulgaria, in spite of its respective growth during the transition period, shows a certain hesitation in the last years. Recently the general economic recovery in the Central and East European countries is tightly related with the more or less successful structural adaptation and stabilisation of the industry.

The structural adjustment in the FYR of Macedonia concerning the broad sector level, main economic sector level and industrial sector level is lying ahead. An increase in the share of agriculture, with deepening structural reforms, can be expected for the country. This will also confirm the adjustment of its production structure *vis a vis* the export structure.

At this stage, the agriculture sector can be expected to develop in the FYR of Macedonia, where the country can realise comparative advantages. It is very doubtful whether the country will manage to run the road of other Central European countries – i.e. to successfully restructure its industry. The political and ethnic crisis may create such a divergence between this country and other countries in transition that it will not be possible for the FYR of Macedonia to catch up with them.

[14] The survey of Blagoevgrad and Serres regions shows that some intra-industry trade is realised through cross-border economic relations – see the part "Enterprise Sector Survey" from the final report of the PHARE, ACE, Project P97-8196-R: "Overcoming Isolation. Strategies of Development and Policies of Cross-Border Cooperation in South Eastern Europe after "Agenda 2000""

The FYR of Macedonia's economic structure and trade compositions show that the country can realise trade relations with its neighbours mainly in the area of light industry. Due to its central location, the FYR of Macedonia may benefit greatly in overcoming its economic backwardness by the development of stable economic relations with its neighbouring countries.

Albania may also benefit greatly in overcoming its economic backwardness by the development of economic relations with its neighbours. Albanian export is not competitive, and the country can benefit from developing economic relations based on the specific advantages, given by the development from the economic relations with neighbouring countries. Concerning industrial trade, Albania's relations will probably be restricted to the export of raw material, in which Albania is rich, compared with other European countries. The industrial sector in Albania, with the observed decrease of over 60 percentage points, makes it impossible to put significant production on the market in the short-term (practically, industry in Albania is technologically very old and almost disabled). Stronger foreign economic relations can be achieved by increasing the exports of the agriculture sector. With regard to Bulgaria and the FYR of Macedonia, Albania provides a good possibility for trade in their industrial products since they can find market gaps for their not very competitive goods.

The geographical characteristics of Albania – its upland area, together with its stronger economic backwardness – will hinder the development of the infrastructure and the other services with reference to the scale, in which they can be realised in the other countries. The country's potential for development in this area relates mostly to Greek interests.

Conclusions

In spite of being adjacent in location, the SEECs differ significantly in their level of economic development and structural composition.[15] Concerning the industrial and export compositions, Bulgaria gives indications that it will manage to adjust its structure and create enough competitive economy in order to face the level of international competition.

The FYR of Macedonia will experience a serious difficulty with the restructuring of its industry sector. All evidence shows that this little country will most probably create quite a biased structural composition of the industrial sector compared with that of the other Central and East European countries. The inability to manage to develop a competitive industrial structure will influence the whole economic development in the country.

For Albania, the process of development of the industrial sector lies ahead. It is difficult to make projections for this sector, but in the next decade it will not be a feasible goal for the country to recover and restructure its industry.[16]

What could be a policy that would be beneficial to all those countries – Greece as an EU country, Bulgaria with the strongest economy within the other SEECs in transition, but still in one of the last positions amongst those countries negotiating for EU membership, the FYR of Macedonia, a country that will have significant difficulties in creating a stable economic structure that can face the challenge of being competitive on the European market, and Albania with an economy that is having difficulties providing competitive exports even for its agriculture sector? (Totev, 2001).

From a strategic point of view, the long-term interests require stable relations between the countries in the region, which will help the SEECs' economies to recover their industries using the opportunities of intra-regional trade. The development of intra-regional economic relations will allow searching for

[15] They are at quite different stages concerning different aspects of their pre-accession processes to the EU structures (Kotios 2001).
[16] Greece also faces structural problems in its economic development (Petrakos, 2001c).

trade possibilities without highly competitive industrial production. This would be the only possible alternative for the SEEC, which could be mutually beneficial for all these quite different countries. Inter-industry trade would be favourable, because the industrial composition of the countries is more complementary than concurrent. The effect of merchandise trade development is expected to be a long-term one as a whole, but it will be highest in the beginning, because the potential for these kinds of relations decreases with the increase of turnover. Also, it is well known that the trade possibilities are less within countries that differ in their level of economic development on one hand, and are less developed, on the other hand. However, specific to the region is the fact that the importance of intra-regional trade is likely to rise for the SEEC; this is because of the expectation that the difficulties which these countries in transition, and face in their integration to the EU, will increase in the course of time compared with those of the Central European countries.

Another, probably more important, role of the development of merchandise trade is that it offers an opportunity for the development other economic relations, typical of the integration processes, and their effect will be realised at a later stage. Practice shows that the less-developed countries benefit from regional cooperation through so-called non-traditional gains (Fernandez, 1997). The main benefit of the SEEC' cooperation is also expected to come mainly from these non-traditional gains. The cross-border relations are the kind of specific non-traditional gains that merchandise trade is paving the way for.

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