ECONOMIC STRUCTURE AND THE CHANGES IN THE BALKAN REGION AFTER INTEGRATION IN EUROPEAN UNION

Carmen Penelopi Papadatu, Assist., PhD, "Dunărea de Jos" University of Galaţi

Abstract: There are some recent reports written by international organizations which have indicated that during transition countries in Europe, the Balkan countries have an inferior economic performance - compared to the Central Europe. The Balkan Countries (South-eastern Europe) have not been able to recover from the shock of the transition, talking about the market economies. This process had lasted more than ten years (talking about Greece).
Some countries in transition, from Balkan Peninsula, had economic crises during this period. These crises caused serious divergences in comparing with the other European transition countries.
This paper presents some aspects of the economic structure and the changes in the Balkan region after integration in the European Union, talking about GDP Growth, inflation and Trade Balance evolution.

Keywords: economic structure, development, integration, inflation, GDP Growth.

Introduction.

The European Union integration and CEEC transition processes are associated with strong expectations for economic prosperity. The experience indicates that both provoked serious problems and difficulties:

a).The European Union integration process involves states and regions with different traditions, different levels of development, different domains of technologies and different resources. This problem generated a pressure for adjustment to the less advanced Southern European countries, because these countries had problems with efficient organization of their productive basis.

b).After integration in E.U., the Balkan countries had a serious impact regarding the systemic changes: marketing, privatization, internationalization and the collapse of the previous structure of the external economic relations. It's possible that this process of integration in E.U. may have a negative impact on the cohesion of Europe.

The year 1989 was an important moment regarding the development of European Union and it was obtained the increase of the possibility to have more adepts for this concept. In 1989 the Communist Block was putted down and the democracy was the winner, theoretically, for all the countries from Balkan Region.

The pre-1989 conditions in balkan countries

In Balkans, Greece-for example- was confronted in the post World War II period with an unfavorable situation which resulted from the interaction of the following facts:

a).A location in South-Eastern part of Europe, away from major markets and the European development center;

b).Distorted economic relations, as the northern borders of the country were meant to be real barriers to communication and trade with neighboring countries. This type of "border condition" represented the continental border-line of the country which operated as a barrier to economic and social relations in Balkan areas.

The isolation and distance from the European core and the other European Union members implied limited accessibility of domestic products to large foreign markets. This is the explanation for the low-export-to-GDP rations.

This barrier represented a significant reduction in the trade potential of the country, limiting market accessibility for exporting industries and limiting the prospects for export-led growth.

Because of these conditions, the trade relations of Greece took necessarily an inter-industry character with the other more advanced and distant countries from Western Europe, with serious impact on the industrial structure of the country. Taking into consideration that, due to the ongoing conflict in the Middle –East and the Greek-Turkish dispute, Greece lost in this region significant markets in the early 1970's, the operation of these two factors (limited accessibility to European markets and no economic relations with neighboring countries) may explain some aspects of the Greek performance during the last two decades [6].

The distance and the "missing factor" in trade relations can explain – for example – why the dynamism of the economy in the 1950's and the 1960's was exhausted so quickly afterwards, or why the public sector in the 1970's and the 1980's became so popular and so large.

So, in the post - World War II period and Pre-1989 period the performance of Greek economy has been affected by restrictions imposed on the structure and level of the external economic relations of the country by the limitations of geography and the artificial division of Europe into two camps (democratic camp and communist camp).

In the post World War II and Pre-1989 period, the conditions from the other Balkans countries were similar to the other CEE countries. Besides central planning mechanism, a significant distortion in international economic relations took place with an eastward trade orientation within the CMEA block (Communist Block) that caused significant trade diversion from traditional partners, including neighboring countries.

For example, the trade distortions were especially strong in Bulgaria. This country was the most dependent from all CEE countries to trade with the Former Soviet Union.

Albania followed for the most period an autarky strategy and provoked an economic isolation from the rest of the world.

In this period, we can find a strong reliance on economies of scale and a strong ideological preference to huge industrial plants and mass production. This reliance to large scale enterprises was a reasonable outcome of the international division of labor within the Soviet Block; it's considered a historical accident that it took momentum at a time where the model of mass production and the ford-ist – taylor-ist types of industrial organization and growth strategies were in serious crisis and openly questioned in the West.

In the 1980's post-ford-ist period, the strategies of industrial restructuring and development emphasizing on flexibility were implemented in the West part of Europe. In the East, mass production and vertical division of labor were the dominant trends contributing to the bottlenecks, the inefficiency, the failure and the collapse of the system.

Greece never followed the ford-ist mode of large scale mass production, maintaining the smaller average industrial firm size in Europe while on the other. For example, over 93 % of the industrial firms in Greece employ less than 10 employees while the average industrial firm size in Greece has been close to five employees per firm for the last 25 years.

The average industrial firm size in Bulgaria was in 1990 close to 500 employees per firm while 47 % of the industrial firms employed more than 100 employees in 1993.

In *Romania*, the situation was similar, while in a sample of 150 firms the average employment was found greater than 2000 employees per firm.

In Albania, the average firm size in its border regions with Greece ranged in 1992 from 20 to 80 employees per firm.

For comparison, in the European Union, only 2.1 % of the industrial firms employ more than 100 employees, while the average employment is 18 employees per firm.

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

Post-1989 conditions in the balkans. Gdp growth, the inflation Evolution and the trade balance

After December 1989, the Communist ideas were replaced with the transition ideas for a new democracy. But this democracy wasn't a real one because the people couldn't understand –from the beginning- what's happened in their countries. After more than 15 years, people realized what is mean the democracy.

In last 25 years, in Romania were produced big changes in economical life and in social life. The society was modified because the conceptions of the life were modified too. The young people from Romania lives and speaks as west Europeans. The traditions were forgotten –most of them- and were replaced with other influences from the other cultures.

All the transition countries in the Balkan Peninsula have experienced in a deep recession in the post – 1989 period (see table 1). In 1995, real GDP was equal to a 83 % of the 1990 level in Albania, 82 % in Bulgaria, 89 % in Romania, 62 % in Croatia, 60 % in F.Y.R.O.M., 69 % in New Yugoslavia, 96 % in Slovenia. The time-path of the recession was not the same for all the countries. The worse year for Romania, Bulgaria, Albania, Croatia and Slovenia was 1991. Three countries: Albania, Romania and Slovenia, had experiences positive for growth rates in 1993, before the other countries from Balkan Peninsula. As shown in the table nb.1, Greece is the only country in the region which had a continuously positive growth rate of G.D.P. (with the exception of 1993).

In figures 1…4, are presented the price inflation and the Real GDP evolutions, after 1989. It were considered the following countries: Albania, Bulgaria, Greece and Romania, for the purpose of analysis.

Table 1: The GDP Growth Rates, the Inflation and Export-Import Rations In the Balkan Countries [6]

Country	Year	Real GDP Growth[%]	Price inflation	Export-Import Ratio
Albania	1991	-27.10	36.00	0.61
	1992	-9.70	226.00	0.15
	1993	11.00	85.00	0.19
	1994	7.40	23.00	0.23
	1995	6.00	7.00	0.33

Bulgaria	1991	-11.70	333.50	0.97
	1992	-7.30	82.00	0.95
	1993	-2.40	72.80	0.80
	1994	1.40	96.20	1.05
	1995	2.50	62.00	1.09
Croatia	1991	-20.90	123.00	0.86
	1992	-9.70	665.00	1.03
	1993	-3.70	1517.00	0.84
	1994	0.80	98.00	0.81
	1995	2.00	2.00	0.62
Greece	1991	3.20	19.50	0.40
	1992	0.80	15.80	0.30
	1993	-0.50	14.30	0.28
	1994	1.50	10.90	0.28
	1995	1.70	9.30	0.26
FYROM	1991	-10.00	115.00	0.84
	1992	-12.50	1691.00	0.99
	1993	-14.10	340.00	0.88
	1994	-8.20	122.00	0.73
	1995	-3.00	17.00	0.80
Romania	1991	-12.90	174.50	0.80
	1992	-8.80	210.90	0.76
	1993	1.50	290.30	0.82
	1994	3.90	136.80	0.94
	1995	6.90	32.30	0.86
Slovenia	1991	-8.10	117.70	0.94
	1992	-5.40	201.30	1.13
	1993	1.30	32.30	0.98
	1994	5.30	19.80	0.97
	1995	4.00	12.00	0.89
Ex- Yugoslavia	1991	14.20	121.00	0.84
	1992	-26.20	9237.00	0.64
	1993	-27.70	116.000.000.000	-
	1994	6.50	72.000.000	-
	1995	6.50	80.00	-

Source: EIU (1990), Country Reports, First Quarter 1996 [1].

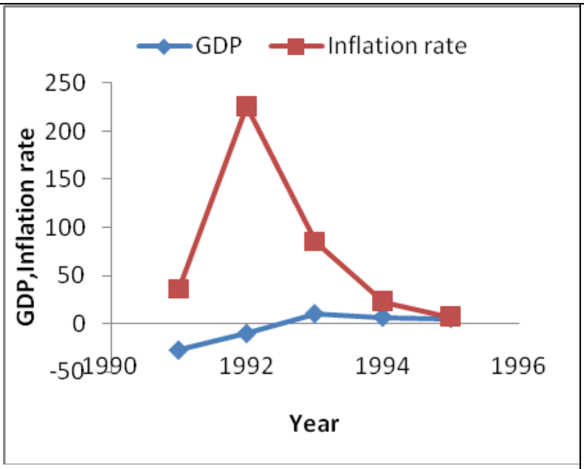

Fig.1. ***Real GDP Growth [%]*** *and* **the inflation price evolution**, *for Albania*

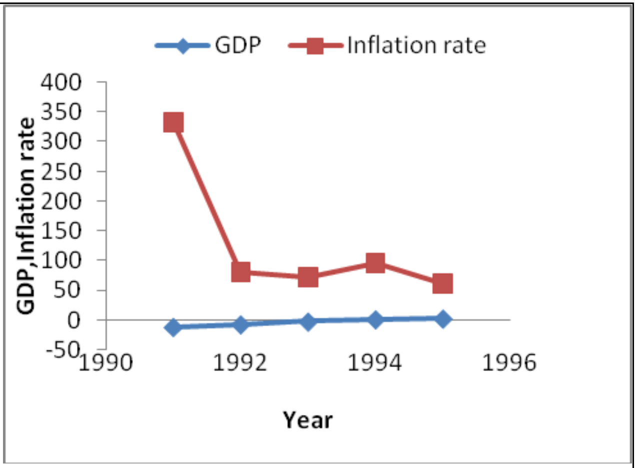

Fig.2. ***Real GDP Growth [%]*** *and* **the inflation price evolution**, *for Bulgaria*

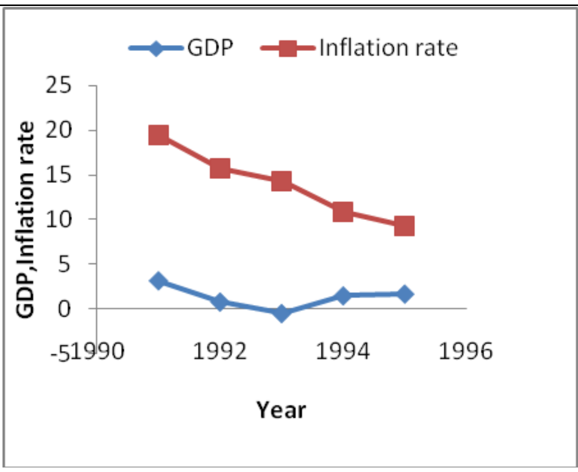

Fig.3. ***Real GDP Growth [%]*** *and* **the inflation price evolution**, *for Greece*

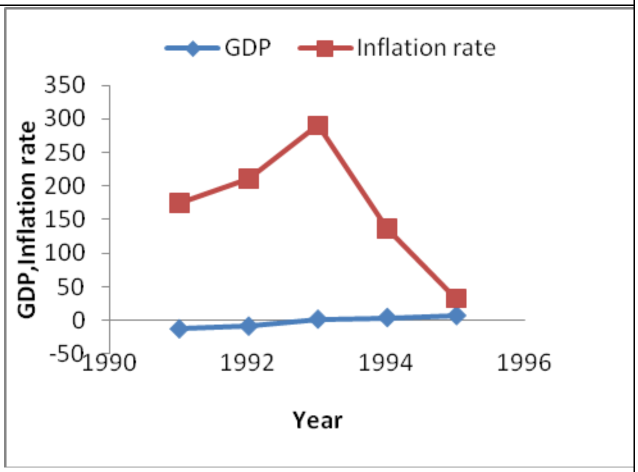

Fig.4. ***Real GDP Growth [%]*** *and* **the inflation price evolution**, *for Romania*

In Albania, after 1989, the Inflation price increase until 1992. After that year, the inflation decrease and the GDP evolution was constantly.

In Bulgaria, the real GDP evolution was almost constantly and the inflation price decrease very strong until 1992. During the period: 1992-1996, the inflation price was almost constantly, at the same level, about 100 [%] as value.

In Greece, the inflation price decrease constantly until 1996.

In Romania, we had a decrease for the inflation price until 1993 and then, we can observe a decrease for this indicator. The Real GDP growth was not so spectacular after 1989.

Another characteristic of the early stages of the transition process is the soaring inflation rates that appeared in all countries as a result of market liberalization. All the countries from Balkan Peninsula had hyper – inflation during this period, especially Ex-Yugoslavia (New Yugoslavia).

As a conclusion, after five years of severe recession and crisis, the Balkan region has entered to a period of recovery with high growth rates and controlled the inflation.

Examining export-import ratios for each country we can make two observations:

1. All countries from this region have lower than one and declining ratios, indicating (with the exception of Bulgaria), a (rather increasing) trade deficit.
2. Greece, followed by Albania, had the lowest export-import ratio in Balkans, indicating a higher degree of penetration of its domestic market by foreign products and a declining ability to successfully compete in foreign markets.

Taking imports per capita as an indicator of the openness of an economy, we can see that Slovenia and Greece are the more open economies in the region, while Albania- the more closed one. Measured in US dollars for 1995, imports per capita are 4.686 for Slovenia, 2,076 for Greece, 1,571 for Croatia, 694 for F.Y.R.O.M., 548 for Bulgaria, 383 for Romania and 178 for Albania.

Gdp structure and changes in the balkan countries

Some information about the structure of GDP in the European Union and the Balkan Countries by sector respectively, are presented in table 2.

Table 2: Composition and Change of GDP in the Balkan Countries

Countries and GNP per Capita in USD(1993)	Year	Total	Primary	Secondary	Tertiary
Albania 340	1990 1994	100 100	37.9 55.1	48.4 21.9	13.7 23.0
Bulgaria 1.140	1990 1994	100 100	10.9 12.0	59.4 38.5	29.7 49.5
Romania 1.140	1990 1993	100 100	19.8 21.0	45.9 40.7	32.3 38.2
Slovenia 5.194 (a)	1990 1994	100 100	5.2 5.0	41.8 39.0	53.0 56.0
Greece 7.390	1990 1994	100 100	16.0 16.1	26.5 23.9	57.5 60.0
E.U.(b)	1992	100	2.6	33.1	64.4

Source: Totev (1996), EUROSTAT (1995) [2],Statistical Yearbook 1995 and World Bank (1995 b)[3].
Trends in Development Economies, 1995
a =GDP per capita
b = Composition of Gross Value Added in current prices by sector in 1992.

Greece appears to be a unique case of structurally lagging behind country with a share of primary sector equal to 17 % of GDP, -is more than six times the E.U. average. This high dependence on the primary sector is followed by one of the lowest shares of secondary and tertiary sectors in GDP from the E.U.

In table 2, it was presented a general pattern of structural change in transition Balkan economies with common characteristics the reduction of the secondary sector and the increase of the share of the tertiary sector. Romania, Albania and F.Y.R.O.M., have seen their GDP shares of agriculture to increase – at various rates – in the 1990-1994 period, Bulgaria experienced a slight increase.

Slovenia had more or less a constant share in agriculture.

The direction of changes for primary's sector share in GDP was affected by the industrial restructuring process and by the level of development.

From all the Balkan countries, Slovenia is the only one with a GDP structure approaching in 1994 the GDP structure of the European Union [6], - in a sense that it has a low dependence on agriculture.

Romania, Bulgaria and F.Y.R. Macedonia are approaching the structure of Greece. These countries had a significantly greater dependence from agriculture and industry development.

In 1995, all the countries from Balkan Peninsula with transition economies, had a GDP share of industry greater than the E.U. average, indicating that the process of industrial restructuring had not been completed yet.

The increase of GDP share of the tertiary sector in transition economies is very impressive.

The regional geography of development in the balkan area

The Balkan share of Greek exports has increased from 3.16 % in 1989 to 8 % in 1994, while the Balkan share of the volume of trade (exports and imports) has increased from 2.72 % in 1989 to 4.02 % in 1994. The 1994 figures would have been much higher than the ones presented in the absence of the war in former Yugoslavia and the embargoes imposed in the area.

In 1989, Yugoslavia was the most significant trading partner of Greece in the Balkans. Because of the embargoes and the war, the picture has changed considerably.

Bulgaria and Albania appear to be in 1994 the most important trading partners of Greece in the Balkans, followed by **Romania** while trade with the new States in the territory of former Yugoslavia was until 1994, as expected, virtually non-existing.

The exports and imports shares of Greece with Romania, Bulgaria and Albania were not interrupted by the war. In this case, we can explain the higher shares of Bulgaria, Albania and Romania in total Greek trade.

Other factors, such as religious or historical ties, the existence of minorities and various types of implemented policies of external relations, have affected in various ways the level and the growth rate of trade between Greece and other Balkan countries.

The analysis of the economic characteristics of neighbouring countries, requires in most cases a geographical perspective and the examination of their spatial economic structure, in order to detect differences or similarities in the existing development patterns [6]. This is particularly important in our case, considering that the existing geographical distribution of activities in the Balkan countries, their location, concentration or dispersion has probably been affected by the fact that borders acted as real barriers to economic and social relations for decades.

In the case of Albania, the development axis includes Tirana and extends along the Adriatic sea coastal region, down to the Greek-Albanian borders. The Bulgarian development axis extends in a parallel mode to the Danube river and the Greek-Bulgarian borders from Sofia to the Black Sea coast, including important cities like Plovdiv, Varna and Burgas. The

Greek development axis starts from Athens and extends to Thessaloniki, including the major cities in the intermediate zone, with weak extensions to Patras and Kavala.

Figure 5: Development Axes of Albania, Bulgaria and Greece [7,9]

Another study for the regional structure of Romania *(Anton, and others, 1996)* [8] indicates that the southeastern region in the more densely populated part of the country with important industrial cities such as Bucharest, Constanta, Craiova, although large centers such as Timisoara (in the west), Brasov (center), Iasi (north-east) are scattered throughout the country. Romania has a relatively balanced territorial structure, and it is possible to identify a formation of development centers starting from the southeastern part of the country and extending to the western, leaving outside many less developed regions in the central and north.

In the territory of former Yugoslavia, a development axis with a rather northwest orientation, connect Belgrade with Zagreb and Ljubliana, with weak extensions to Skopje and Sarajevo.

The capital regions have a higher share of employment in the tertiary sector and a better mix of activities. The regions from outside of the development axes and the regions at the borders, depends on the primary sector (in Albania and Greece), or are excessively dependent on a secondary sector – and they have serious restructure problems.

Analyzing the Balkan Peninsula as a European macro-region, a strange observation in, that, these development axes do not meet or cross anywhere. The Greek axis is vertical with an eastward orientation since it covers the eastern part of the country. The Albanian axis is vertical, but with a westward orientation since it is in the western part of the country. The Bulgarian axis is horizontal, with an orientation towards the Black Sea countries. Neither common orientation nor a point of interaction exists among existing axes of development in the Balkans. It looks as if for each one of them the others simply do not exist. These axes have grown independently from each other for a long period of time. This fact, can be explained by the interruption of social and economic relations imposed in these countries by the post World War II realities. This fact affected seriously the prospects for regional cooperation and development.

Conclusion

After 40 years of separation by military blocks, a large regional market of 60-70 million people in Southeastern Europe is shaped, including Greece (E.U. member since 1982), Albania, Bulgaria, Romania and the territory of ex-Yugoslavia. In this case, exists significant opportunities for cooperation, specialization and trade.

From the strategic point of view, the long-term interests of Romania, Bulgaria,Greece and the other countries in the region require stabile relations, successful implementation of the policies of transition and a policy mix promoting the unification and coherence, of the European economic space, the development of the European Southeastern region and the facilitation of cross-border cooperation.

It is necessary to develop strong intraregional relations, efficient infrastructure and a strategic advantage for the expansion of the European Union economic relations in the Black Sea region, Eastern Mediterranean and the Middle East.

BIBLIOGRAPHY:

EIU (1990), Country Reports, First Quarter 1996 **(**Price and cost competitiveness 1st quarter 1996. Quarterly report on the price and cost competitiveness of the European Union and its Member States. II/005/1/96-EN)-Archive of European Integration (AEI);
EUROSTAT 1995;
Statistical Yearbook 1995 and *World Bank* (1995 b);
G. *PETRAKOS*- "*Fragmentation and Conflict or Integration and Co-operation in the Balkans? Options and Strategies of Development for the 21- st Century ",* Discussion Papers Series, University of Thessaly, 2005;
G.*PETRAKOS, N. CHRISTODOULAKIS* – "*Economic Developments in the Balkan Countries and the Role of Greece: From Bilateral Relations to the Chalenge of Integration",* Discussion Paper (nr.66), Centre of Planning and Economic Research, Athens, 1997;
CRANOS: "Economic Impact Models", Papazisis Publisher House, Athens, Greece, 1989;
GRZEGORZ GORZELAK, GUNTHER MAIER,GEORGE PETRAKOS - Integration and Transition in Europe: The Economic Geography of Interaction, ,2000.
ANTON, D. DANCIU, C. MITU: "*The Role of SMES-s in the Regional Development of Romania"*, M. Jackson and G. Petrakos:*"Regional Problems and SME Development of Transition Countries"*, Eastern European Economics, vol.34, Nb.2, Special Issue;
PAPADATU,C.-P.: "The Environment Politics in Balkans", Editura Fundatiei Universitare "Dunarea de Jos" din Galati, Romania,107 pag., 2008, ISBN 978-973-627-414-5;
E.LOUKA-"*Conflicting Integration*", The Environmental Law of the European Union, - Oxford, New York, Ed.Intersentia, 2004, ISBN 90-5095-360-3.