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# ECONOMIC RESTRUCTURING AND INTEGRATION IN THE BALKANS: DILEMMAS, HOPES AND RATIONAL EXPECTATIONS

***George Stubos*[1]**

## INTRODUCTION

This paper is about economies and societies in transition. The term transition will be used in two contexts. On the one hand, to understand the structural transformation of the post-communist economies and societies in South-Eastern Europe and, on the other, to understand the more evolutionary changes adopted by the Greek economy in its effort to respond to the logic of full economic integration in the European Union (EU). In the first case, we have radical discontinuity and in the second, a notable adaptation. In both cases the transition process seems to be inevitable. The need for understanding this transition compels an examination of the serious external and internal challenges faced by the economies in question.

My central contention is that the currently unfolding and future economic restructuring and integration in the Balkan countries can only be meaningfully thought through, and I suggest implemented, within the context of the European market. It is clear that these regional economies cannot escape this simple proposition: the nature and character of their economic restructuring and economic integration will be determined by an economic rationality and logic produced outside the geographical boundaries of the Balkan peninsula. More to the point, the European market is the only economic space within which these economies can exhaust the limits of potential growth and development. The relationship between the Balkan states and the EU will determine the pace and success of the region's future growth and development. This growth and development of the region will depend more on the needs of the EU than the needs and national objectives of the Balkan states. It seems that all the Balkan states, due to their geographical attributes, structure and size of production, are condemned to becoming the periphery of the economic powerhouses of Europe.

It should be stated at the outset that Greece and its Balkan neighbours have followed a

[1]Dr. George Stubos is Assistant Professor of Political Economy at the York University, Division of Social Science

different trajectory in arriving at their present predicament. In spite of their differences, history has brought these countries together again, imposing on them a symbiotic relationship the type of which was absent prior to 1989. It is this new reality that lends itself to a rethinking of each and every Balkan country and how it stands to be affected by the prospects of future collaboration both on a regional and on a continental level. What is undeniable is the omnipotent presence of the European Union's shadow over the whole Balkan peninsula, a union, which is itself in the process of redefinition and of restructuring.

The defining differences between Greece and its northern neighbours should also be identified. First, Greece, being a member of the "western" world, has developed in accordance with market principles and democratic ideals. Conversely, the other Balkan countries are embarking only presently on their journey through the challenging and turbulent waters of the market and the quicksand of democracy. Second, Greece has been a full member of the EU since 1981. It has benefited from the subsidy programs of the Community and has taken gradual steps in all jurisdictions to conform to the rules and regulations of the EU. The process has not always been successful and both Brussels and Athens realize that a lot still has to be done to prepare Greece for full economic integration with other member states. The post-communist Balkan states are preparing and positioning themselves for joining the European Union. They have all entered into some type of formal trading arrangement with the EU; some have even made formal applications for membership. Third, Greece and its Balkan neighbours find themselves presently at different levels of economic development. Differences manifest themselves in terms of level of economic development, structure of production, per capita income and purchasing power. These economic differences are reflected in Table 1. All the Balkan countries have a per capita income less the 35 % of the per capita income recorded for Greece, with the exception of Slovenia which shows a per capita income close to 85% of that figure.

This paper will outline initially the post 1989 economic predicament and level of Balkan integration and in turn will consider the future prospects faced by these countries collectively in relation to the unfolding changes in the European Union itself.

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Two Comments on the Transition Process

The collapse of the socialist bloc in 1989 and the emergence of new nation-states from the Balkans to the far reaches of the former Soviet Union mark the beginning of a difficult and extensive process of dissolution and reconstruction. This cataclysmic event has raised many serious questions concerning all aspects of the transition process. However, the heart of the matter revolves around two questions: the question of economics and the question of politics. In fact, it can be argued that what is happening in the post-communist Balkan states and the new countries that have emerged since 1989, is historically unique.

The economic transition occurring in these countries is a fundamental reordering of the economic sphere. The novelty this time is, that changes in property relations and the structure of production, consumption and distribution are being posed from within the premise of the market. The expectation and belief is that the market will make the system more efficient and more rational. However, this belief ignores a simple fact. Historically, the market in the West developed from within. Its growth followed gradual incrementals in production. The market mechanism was called upon to sort out emerging disequilibria in the commodity, financial and labour supplies when these were expanding to satisfy diversified and increased needs. The market in the East is expected to function in a manner it has not done before. Namely, to transform complex and fairly developed economies based on centralized planning into Western type economic structures. This, if nothing else, raises questions regarding the capability of the market to carry out the project.

The complexity involved in this economic transition is compounded further. For the first time in history, a project of such magnitude seeks legitimacy in the will of the people through the democratic process. This is historically original as well. An economic transition is being carried out with an attempt to establish a viable democratic politics. In the past, a democratic political order was historically negotiated well after economic relations had been established. In the West, the system was capitalist first and democratic much later. In the East, economics and politics find themselves in a simultaneous path of epoch-making radical transformation.

Reflecting upon and assessing the actual changes in the region in the last seven years, it can be suggested that a critical point has been passed. Most importantly, the protracted decline in total output has significantly slowed down and in many cases has reversed itself (See Tables 2 & 3). A word of caution should be added here. The multiplicity of structural and institutional differences between these countries, due mostly to the diverse history[2], size of their economy and geopolitical circumstances are affecting the pace of the transition process and prevent broad sweeping long-term economic and political projections to be made. It seems that the transition logic at work is entrenched and firmly established. The game of the market and democracy is the only viable option for all Eastern European countries.

## Balkan Integration: The Present State of Affairs

The process of Balkan integration manifests itself and will continue to do so at five levels: a) the development of common infrastructure projects, b) the common exploitation of natural resources, c) the expansion of free trade arrangements, d) the development of capital markets and inter-Balkan investments and, e) immigration and demography.

*Common Infrastructure Projects*: There are all sorts of infrastructure projects underway in the Balkans; some supported by member states of the Organization for Economic Co-operation and Development (OECD) [3] and others through EU assistance programs like *Poland and Hungary: Aid for Economic Restructuring* (Phare)[4]. Specifically, support and attention has been directed at the restructuring of the transport, energy and telecommunications sectors. It is the

[2] For a more detailed analysis of the political history of the region look at George Stubos, “Consent and Consensus in Emerging Democracies: The Case of Eastern Europe”, in Bruce Berman and Piotr Dutkiewicz eds. *Africa and Eastern Europe Crises and Transformations*. Queen’s University: Centre for International Relations Program of Studies in National and International Development, 1992.

[3] All of the OECD countries including Greece have contributed and aided in various degrees the post-communist countries not only to adopt market reforms and democratic regimes, but also to improve their infrastructure (OECD: 1996a).

[4] The Phare Program was established in January 1990. Initially it covered only Poland and Hungary but was gradually extended to other Central and Eastern European countries. Phare provides grant finance to support its partner countries through the process of economic and political restructuring. It acts as a multiplier by unlocking funds for important projects from other donors through studies, capital grants, guarantee schemes and credit lines. Phare also invests directly in infrastructure together with international financial institutions. The program provides policy advice and training from a wide range of non-commercial, public and private organizations to its partner countries. During its first year of operation, ECU 495.1 million was made available. By the end of 1995, the Phare program had made available ECU 5,416.9 million to 11 partner countries which include Albania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia (Phare, 1996). At present Phare also covers Croatia (OECDa, 1996: 68). Country shares are based on population, gross domestic product and qualitative criteria. To date, Poland, Hungary and Romania are the largest receivers.

aim of the EU to integrate these sectors into Transeuropean Networks by 2010. The Phare program has financed the elimination of important border crossing bottlenecks to facilitate the movement of goods. New border crossings across the Hellenic-Albanian border and the Hellenic - Bulgarian border have been created by such initiatives (Greek Ministry of Foreign Affairs, 1996b). European Union support has also included the setting up of commercial companies to manage energy production and the supply of telecommunications services, the privatization of road transport, the restructuring of rail companies to facilitate integration into the Transeuropean Rail Network and the preparation of a regulatory framework for the telecommunications and transport sectors (Phare, 1996). Numerous infrastructure projects underway in Northern Greece continue to enhance regional cooperation among Balkan countries and to facilitate regional economic development. One such project involves the construction of the 680 km Egnatia route, which connects the northern Greek provinces (Epirus, Macedonia, Thrace) with the southern routes of the surrounding Balkan countries. (Greek Ministry of Foreign Affairs, 1996b). The Greek state has also granted considerable financial humanitarian and economic aid to Albania. This has taken the form of joint state ventures that upgrade roads and electric installations, increase water supply and build new schools and hospitals (Greek Ministry of Foreign Affairs, 1996a). Such bilateral cooperation is an integral part of the restructuring occurring in the Balkans and is supported through EU development and aid programs.

Modernization projects in a number of ports and airports and the improvement of telecommunications networks in Greece serve to further facilitate trade and communications in the Balkan region. A good case in point is the privatization and restructuring of the Greek Telecommunications Organization (OTE). OTE has undergone considerable internal restructuring and expansion as a response to EU directives on state monopoly (No. 338/90/EEC). It is taking advantage of Greece's geo-political location and the EU support and direction with the purpose of becoming a leading mechanism in the development and modernization of the telecommunications sectors of the Balkan, Central, and Eastern Europe, Black Sea, Middle East and Africa regions. OTE has set up a *General Directorate of International Planning and Cooperation* with the objective of making profitable investments abroad, achieving “strategic alliances” with foreign telecommunications operatives and participating in multinational telecommunications projects in the previously stated regions. Approximately $400 million US dollars (Dr. 100 Billion) in investments aimed to achieve short term return have been earmarked over a five year period with 40% allocated to be spent in 1997. Within the Balkan peninsula examples of OTE expansion and development activities include: a) participation in Zephir SA for the establishment of the GSM mobile telephony in Romania, in cooperation with Telenor, Teledenmark, Motorola and 11 Romanian firms, and b) involvement in smaller telecommunications investments in Bulgaria, Albania and FYROM[5] (The European, 1997: 24-26).

*Common Exploitation of Natural Resources*: The common attempt to explore and exploit natural resources involves joint management and development of water, minerals, oil and gas. Some of these projects are well under way, particularly between Bulgaria, Greece and Russia. These three countries are cooperating in the building of oil and gas pipelines from Russia linking the Bulgarian Black Sea port of Burgas with the Greek port of Alexandroupolis (OECD, 1996b: 33; OECD, 1996c: 122). An effort is also made to integrate Europe's power system. For example, Bulgaria's power system has been connected to that of Romania, Greece, Turkey, FYROM and Serbia. This country is expected to fully join the European power system by the end of 1997 with the aid of a World Bank credit (OECD, 1996b: 33). There are also agreements between Greece and Albania and Greece and Serbia regarding the sharing of electricity and the use a of water supplies. Particular attention has been placed on correcting and preventing environmental degradation. Phare assistance in this area has included the supply of equipment to monitor air and water pollution and the establishment of environmental regulatory standards and legislation, as well as the development of policies for specific sectors such as waste management. EU assistance has also been directed in the area of nuclear energy management and control. Funding has been used to perform safety studies and to develop rapid alert systems (Phare, 1996).

*Liberalization of Trade*: Efforts have been made at various levels to harmonize the trading practices of the region with the rest of the European market. All the Balkan countries have

[5] It should be noted that OTE has an ambitious program of expansion that goes beyond the Balkans. It is involved in: a) extension of the TAOS-S project undertaken by OTE's daughter company Hellascom International, to the Iranian town of Marad by means of a 120 km optical-fiber cable costing $2.1 million, b) another extension of the TAOS-S project for Yerevan in Armenia to the borders of Ukraine, with a 200 km cable costing $3 million, c) participation as the strategic investor in the privatization of Armenia's telecommunications operator Armentel by means of an investment of between $79 million and $100 million dollars which will secure OTE a share in the local consortium and d) the extension of the Black Sea underwater cable (BS- FOCS) by means of an agreement, still under negotiation, for the construction of a 550km optical-fiber cable in Georgia costing Dr. 4.5 billion, to name a few (*The European*, 1997: 24-26).

entered into trading agreements with the EU and/or the European Free Trade Agreement (EFTA) member countries (details are provided in a later part of this paper). Also, the Czech Republic, Hungary, Poland, Romania and the Slovak Republic are GATT contracting parties and members of the World Trade Organization (OECD, 1996e: 33). All these countries have made commitments to undertake trade liberalization measures as decided in the Uruguay Round. Such tariff reductions further consolidate trade liberalization commitments already undertaken by the Balkan countries on a multilateral basis within the framework of the EU. The reality is that all post-communist countries in due course will certainly follow the internationally accepted trade practices (OECD, 1996e: 33). This underscores the fact that an important part of the exports of the East European countries are already benefiting from preferential access to their major market outlets, the EU and the EFTA countries.

In terms of inter-Balkan trade, initially the direction of commercial traffic appears to be unilateral: from Greece to the other Balkan countries. Greece's exports to the Balkan countries increased from 1989 to 1994 by 165% (see Greek Ministry of Foreign Affairs, 1996b; OECD, 1996c: 134). This of course does not include goods purchased directly from the Greek market by the thousands of visitors to the main Greek commercial centers. The future however is not as promising. There is no doubt that the new order of things will change dramatically the present trade flow as Table 4 demonstrates. The growth of consumerism in the Balkan countries and the pending income redistribution in favour of the more affluent will result consequently in the direct importation of high quality consumer goods and services directly from their producers. This will undoubtedly be at the expense of Greek secondary manufactures and commercial entrepreneurs. A window of opportunity is closing fast on them.

*Direct Investment:* Economic integration manifests itself also at the level of direct investment. Between 1989 and 1995 approximately US $2,175 million has been invested in 6 Balkan transition economies (see Table 5). The European Union has allocated aid for the restructuring of state enterprises and the development of the private sector. This has included the development of small and medium sized businesses (see Table 6) and the modernization of banking and financial institutions (Phare, 1996). With the help of Phare numerous small and medium sized businesses in Central and Eastern Europe have formed joint ventures with firms from the European Union. In situations where other donors or financial institutions have not responded because of the high risks involved, Phare has provided capital grants, guarantees and credit lines in an effort to encourage investment. The Phare project has also provided investment support through pre-investment and feasibility studies and through direct financing. Phare made available ECU 33 million for projects with the European bank for Reconstruction and Development. This unlocked an estimated ECU 434 million for investment projects (Phare, 1996). In this manner, Phare acts like a catalyst by unlocking investment funds many times the size of the original support. The EU also encourages its member states to develop incentives for their private sectors to seek economic partnerships with the post-communist Balkan states.

In recent years, the Greek state has encouraged export oriented business initiatives which target the Balkan markets. Incentives for new business plans, for networking, vocational training programs for employees and entrepreneurs, commercial agreements with neighbouring states and the creation of the Stock Exchange in Thessaloniki are some of the measures supported by the Greek State in this instance. In turn, a new law on "venture capital" has been created which is expected to encourage and assist enterprises to participate in business initiatives in the Balkans. The recent upgrading of the Hellenic Export Organization provides investors with insurance against political risks, in an effort to encourage investment in the Balkans (Greek Ministry of Foreign Affairs, 1996b). Greek entrepreneurs have so far invested approximately half a billion dollars both in the Balkans countries and the former Soviet republics. The expectation is to raise that investment to one billion by the end of the century. The importance of this investment lies not only in its magnitude but also in its concentration. In the Balkans the largest concentration is in Romania with 1378 projects, followed by Bulgaria with 513 and Albania with 100. In dollars all these investments total 100 million. Attention should be drawn to the fact that the average investment project absorbs less than 100,000 dollars which says a lot about the size and capacity of these projects. This trend continues as we speak. The Greek government is presently reviewing 2000 new investment projects totaling 126 million (Ministry of National Economy, 1996). The average per project is US $ 60,000. These figures reveal that even though Greek entrepreneurs are vocal players in the Balkan countries and are many in numbers, they are not major players.

*Demographic Trends and Immigration Issues*: The sweeping economic changes of the region have created an acute demographic crisis; local resources and economic activity can no longer sustain the existing populations in terms of meeting their expectations. This demographic crisis has fueled an immigration outflow. The conditions that have given rise to this trend represent serious and sustained “pull-factors”. More explicitly, the economic policies introduced in the region along with the politics involved in their implementation have augmented a number of immigration pressures historically present in the region. Before 1989, strict state immigration policies prevented a large outflow of populations. After the collapse of the communist system, immigration restrictions were no longer applicable and this gave rise to new immigration trends in the Balkans (see European Commission for Europe, 1996: 230). By the end of 1991, approximately 345,000 Bulgarians had left their country legally for other destinations. Between 1990 and 1991 close to 156,000 Romanians emigrated and at least 300,000 Albanians were working in Greece and Italy alone. Numbers for Yugoslavia and Serbia are hard to come by because of the breakup of the Federation and the resulting war. It has been estimated that during the same period approximately 550,000 people emigrated. In response to this outflow, European Union members have requested traveling visas from the nationals of the former communist Balkan countries. This measure testifies to the degree of impact these large outflows of populations have had on the economies of the EU member states. Since 1992, Bulgaria and Romania have restricted the outflow of immigrants. The countries of destination primarily targeted are neighbouring states with relatively high wages. Italy and Greece have received more than 80% of Albanians, 60% of Romanians.  Greece alone has received over 40% of Bulgarian 30% of Serbian immigrants. It has been estimated that 20% of the total Greek workforce is comprised of foreign workers, primarily from the Balkans (European Commission 1995:19 & 111). The immigrants enter the workforce in the countries of destination at the bottom of the occupational pyramid and work for wages that are below the norm for the indigenous populations. As long as the economic and social transition in the Balkans fails to resolve itself into a self-sustaining economic growth and income stability, the present immigration trend will continue, structural controls will be necessary to control the outflow of populations and immigrants from the region will continue to provide cheap labour alternatives for the European market.

## Future Balkan Prospects: In the Shadow of Europe

The following segment of the paper will elaborate on the role of the EU as the primary, actual and external factor that will over-determine the scope, tempo and nature of the economic restructuring project in the Balkans.

Since its formation and up to the Maastricht treaty, the European Economic Community (EEC) has been functioning and understood itself as an assembly of market oriented economies, diverse in their magnitude, wealth and growth pattern. During this period, a centralized authority emerged in Brussels. In the beginning it sought to coordinate in an advisory capacity, economic policy. However, it soon became a powerful interventionist instrument with far reaching jurisdiction and impact on the economies of the member states. After the admittance of Greece in 1981 and later of Spain and Portugal, the EEC has paid particular attention to corrective structure and market measures aimed at bridging the disquieting differences between the "have" and "have-not" economies. Numerous complex and frequently disputed initiatives and programs were introduced to accomplish this always precarious balancing act.

The Maastricht treaty has become the line of demarcation between the past and the future of the EU There are two factors that force attention in this instance. Firstly, let us remind ourselves of an incontrovertible maxim. The EU had to assume a global reality principle. It had to become a truly free market model of economic behaviour. The inescapable direct consequences of this very conscious strategic choice has been, and will continue to be, the irreversible retreat and dismantling of subsidies, protectionism and of the overtly centralized previous structures of decision making.

Secondly, the collapse of socialism in the Balkan countries created an economic hegemonic vacuum that can only be filled by the EU through markets rather than abstract institutional designs. Between 1991 and 1992, Bulgaria, Poland, the Czech and Slovak Republics and Romania signed Interim agreements with the EU for the formation of a free trade area. During the next two years, Albania, Estonia, Latvia, Lithuania and Slovenia signed Trade and Economic Cooperation Agreements with the EU which serve to introduce some aspects of the Europe Agreements. To date, Bulgaria, the Czech Republic, Hungary, Poland Romania and Slovakia have European Agreements in force, Estonia, Latvia, Lithuania, have signed Europe Agreements and one has been initialed with Slovenia (OECD, 1996e: 189-193; EU, 1996a). The Europe

Agreements establish bilateral associations with the EU and are based on political dialogue, economic integration and financial assistance. They serve to further promote the integration of the region into the European market (EU, 1996b). They establish, among other things, free trade of industrial goods and preferential treatment for CEEC exports of agricultural products. The significance of these agreements took on an added dimension in June 1993, when the European Council meeting at Copenhagen first established that those countries which had signed "Europe Agreements" could be eligible for EU membership[6] (EU, 1996c). In turn, the European Council at Essen adopted in December 1994 a Pre-accession strategy aiming at creating a structured process of political dialogue with associated countries (i.e. those that have signed Europe Agreements) in order to prepare them for integration into the EU (EU, 1996d).

The implication of these agreements is very substantial. More explicitly, the associated countries are expected to adopt EU rules and regulations similar and compatible to that of the EU. These include, competition rules including state aid, protection of intellectual, commercial and industrial property and cultural cooperation. A White paper has been developed in an effort to better explain the expectations of the EU in terms of market reform, which formally sets out an implementation and enforcement program for the associated countries to follow in order to properly align their economies with EU standards and facilitate future integration into the Union's internal market (EU, 1996e). The desire to be part of the European Union has eased the process of integration of the post-communist Balkan states into the European market albeit limiting the freedom of deviation of each individual state in terms of economic policy development. Assistance from the European Union translates into following a pre-determined path of economic and political development in order to meet EU standards, receive monetary grants and be considered for future membership.

The interesting question to be raised is what all this means for Greece and its Balkan neighbours. I am prepared to argue that all these processes together will amount to an *architectonic shift* in the European economic pyramid. I am using this metaphorical image to sensitize us to the momentous structural shift both among European economies and in most European industries. The multi-peak pyramid structure that exists now will give way to a single

[6] The European Union has received formal applications for membership from Bulgaria (Dec. 16, 1995), The Czech Republic (January 23, 1996), Hungary (March 31, 1994), Poland (April 5, 1994), Slovakia (June 27, 1995), Romania (June 22, 1995), Latvia (October 27, 1995), Lithuania (December 8, 1995) and Estonia (November 28, 1995). The European Council hopes that preliminary accession negotiations with the Central and East European

peak pyramid. More explicitly, in a unified market the breaking point of profitability will be the only determining factor of economic survival. This market logic is not negotiable. *This logic will introduce a new rationalization.* The main points of tension will be displaced: instead of the tension being between “have” and “have-nots”, the primary conflict will be among the major and strong economies themselves. This will occur for a very simple reason. It is the major economies that will be the cauldron of this strategic economic restructuring. Not only will protectionism of national industries end but the duplication of goods and services will end as well. In a sort of Darwinian selection, the weak industrial units will disappear, only to be replaced by mega-mergers among the survivors. The North American and the Pacific Rim experiences are a kind of harbinger of the European future.

The “have-not” economies will not escape radical change either. The subsidy regime for EU and non-EU members will turn out to be what it was always meant to a transitional intervention without the promise of permanence. This will impact directly EU members like Greece, Portugal and Ireland. The Balkan countries should learn from now to lower their expectations in this regard.

Countries like Greece and the Balkan economies aspiring to integrate into EU economic space, will experience a protracted process of de-manufacturing. In Greece this process is well under way. One aspect of this reality is captured in the following statistical information. According to OECD, Greece is the only member state showing since 1986 an annual decline of its manufacturing output. All other member countries have experienced a combined increase of 22%. Statistics from the Greek government are even more telling. In absolute numbers the input of the manufacturing sector in the GNP has dropped from 21,3% in 1980 to 16,7% in 1993. The total number of workers employed by the manufacturing sector has also dropped by 20% during the same period (ISTAME, 1996: 217). This apparent de-manufacturing process seems to be a chronic one. The value of the drachma in conjunction with low productivity and lack of new technology make Greek products either inferior or expensive or both. Thus a reversal of this trend is not feasible. In fact, the opposite is true. A recent study by KEPE revealed that out of 2400 manufacturing units in Greece, almost half are not viable in a competitive environment because of their mere size. There are only 78 units that employ more than 500 workers, while more than 75% of them employ less than 50 (ISTAME, 1996: 219). The process of de-

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Countries CEEC will coincide with the start of membership negotiations with Cyprus and Malta (EU, 1996).

manufacturing in Greece has also been affected by the slow-moving but, nevertheless, on-going privatization program. Out of 300 manufacturing units earmarked for privatization only 80 have been either transferred to private hands or have closed down due to a lack of private interest. If and when the process is completed, the total size of those 300 units is expected to be cut in half (ISTAME, 1996: 203).

The trend in the rest of the Balkans is similar. Most state industries have become obsolete. From 1989 onwards we have a dramatic decline in total output. With the exception of Slovenia, all other Balkan countries have experienced a drop in their Gross Industrial Output to more than 56% of their 1989 level. This drop is as low as 27.2% for Albania and 37.1% for the New Yugoslavia (See Table 7). What is also worth noting is the fact that this decline has shown no signs of reversal up to now, 1996. As figures from Table 8 indicate, while the share of agricultural output has either been constant or significantly increasing as a percentage of the Gross Domestic Product (GDP), the share of industrial output as a percentage of the GDP has been constantly decreasing. This applies to all Balkan post-communist countries with no exception. This is occurring at a time when consumer demand has been rising and leads to the commonsensical conclusion that the Balkan market for light, medium or heavy industrial goods has been gradually taken over by foreign manufacturers. The future in this are is anything but promising. The lack of investment, foreign or domestic, in capital stock, the lack of know how and technology, coupled with the small size of their domestic markets has more or less condemned the post-communist Balkan economies to a protracted process of de-industrialization. The absence of capital formation and foreign investment, in the context of necessary privatization, has created a vacuum that prevents self-sustaining economic growth in the industrial sector. As well, the proximity of the Balkan markets to the European industrial underbelly, creates a more pronounced comparative disadvantage that brackets out any serious prospect for playing a notable role in the present and coming order of things. Croatia and Slovenia are the only Balkan countries experiencing a different economic fate, largely explainable by the German presence and impact in their economies.

While the prospects for industrial development are somewhat gray for the post-communist Balkan economies, there is, however, a shadow of optimism on the horizon in terms of the magnitude of changes taking place. In particular, the emerging nascent industry is very encouraging notwithstanding all its growing pains. A recent survey conducted by the EU's statistical office, EUROSTAT, estimates that through the Phare program, 3,4 million enterprises are operating under market economy conditions in 11 Central and Eastern European Countries, since 1989 (See Table 6). The survey revealed that the density of the enterprises, 31 per 1000 inhabitants is close to that in the EU, 43 per 1000. Most of the enterprises are situated in urban areas (77%) and are very small. In fact, 62% have no salaried employees, compared with 49.7% in the EU. The average size of the enterprises is 7.4 employees compared to the average size in the EU, 6.5 employees. Furthermore, the proportion of medium and large size enterprises (over 49 salaried employees) is negligible (Agence Europe, Nov. 15, 1996). More than 50% of the enterprises (with slight variations among the different countries) carry out their activities in the home of the person who set up the company. This is a significant development. It is a sign that the previous structures and practices in the manufacturing sector are quickly becoming obliterated and replaced by small units reminiscent of the nascent period of capitalism.

The development of the firms, however, is somewhat problematic. A substantial amount (61%) of the active enterprises admit serious difficulties in surviving or developing and close to half attribute these difficulties to their production conditions as well as the market situation. Major complaints include the absence of resources, lack of credit facilities, defaults in customer payments, absence of skilled labour and difficulties with demand. In terms of their capacity to expand, 65% of recent firms had not carried out an investment in the previous year and only 17% invested more than 10% of their turnover (*Agence Europe*, Nov. 15, 1996). These abnormalities and difficulties point to a type of “Schumpeterian” restructuring process, which is a necessity at any cost if the region is to successfully dislodge itself from its socialist past. On the other hand, the current economic reality foreshadows a difficult future for the Balkan economies. Even if these conditions adjust themselves for the better, industrial activity in the future can only play peripheral role in the emerging new Europe. This activity will fall in line with the architectonic shift that is transforming the European economy.

## CONCLUSION

Let me say once again, that my intention was to call attention to the dynamics of the new economic reality emerging in Europe and some of its consequences in the Balkan region. This logic is imposing a restructuring agenda that calls for precise and particular responses from countries like Greece and its neighbours. Someone else has written the questions and set out the choices they are now facing. The extent to which Greece and its neighbours will meet this impending inescapable challenge depends greatly on the inventiveness, resiliency, adaptability and the capacity of these countries to absorb change creatively. This brings us to an interesting observation. Contrary to the wishful thinking of the Maastricht vision, harmonization of European economies is not the order of the day. In actual fact, the logic we have just developed implies very clearly the creation of a multi-gear economy where differences between national economies are further exacerbated rather than harmonized.

Finally, let us not forget that which many people have said in different times and for different reasons: quite often *economics is simply concentrated politics.* I am reminding us of this historical truth only to call attention to the fact that above anything else, success, in this instance, will be determined by *how* and on *what* basis these countries understand the coming change. In my view, this understanding will be as important in the long run, as the understanding of changes that swept away the communist regimes in Eastern Europe.

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**Table 1**

**Gross Domestic Product (GDP) per capita in US Dollars**

| **Balkan Countries** | **1992** | **1993** | **1994** | **1995** | **1996 Estimate** |
|---|---|---|---|---|---|
| Albania | 196 | 323 | 521 | 725 | 713 |
| Bosnia & Herzegovina | -- | -- | -- | -- | -- |
| Bulgaria | 1,008 | 1,222 | 1,180 | 1,580 | 1,620 |
| Croatia | 1,800 | 2,705 | 2,974 | 3,487 | 3,650 |
| Greece | 9,270 | 8.660 | 9,155 | 10,685 | 10,645 |
| Romania | 852 | 1,089 | 1,260 | 1,447 | 1,355 |
| Slovenia | 6,210 | 6,370 | 7,020 | 8,000 | 8,400 |
| FYROM | 1,527 | 1,429 | 1,415 | 1,918 | 1,919 |
| Yugoslavia[b] | 1,630 | 1,198 | 1,270 | 1,441 | 1,531 |
| **Other European Transition Countries** | **1992** | **1993** | **1994** | **1995** | **1996 Estimate** |
| Hungary | -- | -- | -- | -- | -- |
| Poland | -- | -- | -- | -- | -- |
| Russian Federation | 1,333 | 1,219 | 2,142 | 2,458 | 2,706 |
| Estonia | -- | -- | -- | -- | -- |
| Latvia | -- | -- | -- | -- | -- |
| Lithuania | -- | -- | -- | -- | -- |

Source: *Southeast Europe Factbook and Survey 1996-1997.* Hellenic Foundation for European and Foreign Policy, Athens, 1996.

**Table 2**

**Percentage Change Over Same Period of Preceding Year of GDP, 1992-1996**

| **Balkan Countries** | **1992** | **1993** | **1994** | **1995** | **1996 Forecast** |
|---|---|---|---|---|---|
| Albania | -9.7 | 10.9 | 7.4 | 13.4 | -- |
| Bosnia & Herzegovina | -- | -- | -- | -- | -- |
| Bulgaria | -7.3 | -1.5 | 1.8 | 2.5 | 3.0 |
| Croatia | -9.7 | -3.7 | 0.8 | -1.5 | 6-8 |
| Romania | -8.8 | 1.5 | 3.9 | 6.9 | 4.5 |
| Slovenia | -5.4 | 1.3 | 5.3 | 4.8 | 5.0 |
| FYROM | -13.4 | -14.1 | -8.2 | -3.0 | 2 |
| Yugoslavia[b] | -26.2 | -27.7 | 6.5 | 6.0 | 12.5 |

| **Other European Transition Countries** | **1992** | **1993** | **1994** | **1995** | **1996 Forecast** |
|---|---|---|---|---|---|
| Hungary | -3.0 | -0.8 | 2.9 | 2.0 | 2.0 |
| Poland | 2.6 | 3.8 | 5.2 | 7.0 | 5-6 |
| Russian Federation | -14.5 | -8.7 | -12.6 | -4 | -/-3 |
| Estonia | -14.1 | -8.6 | -2.7 | 2.5 | -- |
| Latvia | -34.9 | -14.9 | 0.6 | -2.7[a] | 0-3 |
| Lithuania | -39.3 | -30.4 | 1.0 | -2-2.5 | 4.2 |

[a] January-September GDP

[b] Figures refer to rate of change in percentage for Gross Material Product (value added of the material sphere including depreciation).

Source: *Economic Survey of Europe in 1995-1996*, Table 3.1.1, UN/ECE: 1996.

**Table 3**

**Balkan and Other Eastern European Transition Countries: GDP/NMP, 1986-1995**

**(Indices, 1989=100)**

| **Balkan Countries** | **1986** | **1987** | **1988** | **1989** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** |
|---|---|---|---|---|---|---|---|---|---|---|
| Albania | 93.1 | 92.4 | 91.0 | 100.0 | 90.0 | 65.1 | 58.8 | 65.2 | 70.0 | 79.4 |
| Bosnia & Herzegovina | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Bulgaria | 93.6 | 99.3 | 101.9 | 100.0 | 90.9 | 80.2 | 74.4 | 73.3 | 74.6 | 76.5 |
| Croatia | 102.6 | 102.5 | 101.6 | 100.0 | 91.5 | 72.3 | 65.3 | 62.9 | 63.4 | 62.5 |
| Romania | 105.8 | 106.7 | 106.2 | 100.0 | 94.4 | 82.2 | 75.0 | 76.1 | 79.1 | 84.5 |
| Slovenia | 104.1 | 103.5 | 100.5 | 100.0 | 91.9 | 84.5 | 79.9 | 80.9 | 85.2 | 89.3 |
| FYROM[a] | 102.7 | 101.4 | 98.1 | 100.0 | 89.8 | 78.9 | 68.4 | 58.7 | 54.5 | 52.9 |
| Yugoslavia[a] | 101.1 | 99.4 | 98.1 | 100.0 | 91.6 | 81.3 | 60.0 | 43.4 | 46.2 | 49.0 |

| **Other European Transition Countries** | **1986** | **1987** | **1988** | **1989** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** |
|---|---|---|---|---|---|---|---|---|---|---|
| Hungary | 95.5 | 99.4 | 99.3 | 100.0 | 96.5 | 85.0 | 82.4 | 81.8 | 84.1 | 85.8 |
| Poland | 94.1 | 95.9 | 99.8 | 100.0 | 88.4 | 82.2 | 84.4 | 87.5 | 92.1 | 98.5 |
| Russian Federation | 92.9 | 94.2 | 98.4 | 100.0 | 97.0 | 92.2 | 78.8 | 71.9 | 62.9 | 60.4 |
| Estonia | 88.2 | 89.2 | 93.8 | 100.0 | 91.9 | 82.7 | 71.0 | 64.9 | 63.2 | 64.8 |
| Latvia | 86.4 | 87.7 | 93.1 | 100.0 | 102.7 | 92.0 | 59.9 | 51.0 | 51.3 | 49.9 |
| Lithuania | 84.9 | 88.9 | 98.4 | 100.0 | 93.1 | 80.9 | 49.1 | 34.2 | 34.5 | 35.3 |

[a] Gross Material Product

Source: *Economic Survey of Europe in 1995-1996*, Appendix Table B.1, UN/ECE: 1996: 184.

**Table 4**
**Greek Exports to Selected Balkan Countries 1990-1994**
**(in Thousands US $)**

| Balkan Countries | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Albania | 11,222 | 4,064 | 4,150 | 1,562 | 4,668 |
| Bosnia & Herzegovina | -- | -- | -- | -- | -- |
| Bulgaria | 15,578 | 12,835 | 21,393 | 11,978 | 10,468 |
| Croatia | -- | -- | -- | -- | -- |
| Romania | 33,322 | 24,184 | 11,598 | 8,740 | 11,538 |
| Slovenia | -- | -- | -- | -- | -- |
| FYROM | -- | -- | -- | -- | -- |
| Yugoslavia | 39,361 | 26,149 | 22,916 | 5,003 | 8,177 |

Source: *"Survey of Defense and Foreign Policy"* (in Greek). Table 2. Hellenic Foundation for European And Foreign Policy: Athens. 1996: p.306-307.

**Table 5**

**Foreign Direct Investment in Balkan**

**and Other Eastern European Transition Countries**

| Balkan Countries | FDI-inflows in 1994 (millions US $) | FDI-inflows in 1995 (millions US $) | Cumulative FDI-inflows 1989-95 (millions US $) | Cumulative FDI-inflows 1989-95 per-capita (in US $) | FDI-inflows per capita in 1995 (in US $) | Ratio of FDI in 1995 to GDP in 1995 |
|---|---|---|---|---|---|---|
| Albania | 53 | 70 | 200 | 63 | 22 | 3.5% |
| Bulgaria | 105 | 100 | 302 | 36 | 12 | 0.8% |
| Croatia | 98 | 68 | 251 | 53 | 14 | 0.4% |
| Romania | 341 | 367 | 879 | 39 | 16 | 1.0% |
| Slovenia | 88 | 150 | 505 | 253 | 75 | 0.8% |
| FYROM | 24 | 14 | 38 | 18 | 7 | 0.3% |
| **Other European Transition Countries** | **FDI-inflows in 1994 (millions US $)** | **FDI-inflows in 1995 (millions US $)** | **Cumulative FDI-inflows 1989-95 (millions US $)** | **Cumulative FDI-inflows 1989-95 per-capita (in US $)** | **FDI-inflows per capita in 1995 (in US $)** | **Ratio of FDI in 1995 to GDP in 1995[1]** |
| Hungary | 1,146 | 4,453 | 11,466 | 1,113 | 432 | 10.2% |
| Poland | 542 | 900 | 2,423 | 63 | 23 | 0.7% |
| Russian Federation | 1,000 | 1,500 | 3,100 | 21 | 10 | 0.4% |
| Estonia | 214 | 204 | 637 | 413 | 132 | 5.8% |
| Latvia | 155 | 160 | 409 | 164 | 64 | 3.6% |
| Lithuania | 60 | 55 | 228 | 61 | 15 | 0.8% |

Source: *Transition Report, 1996*, Table 8.5. European Bank, 1996.

**Table 6**

**Number of Enterprise Established in CEECs,**

**September 1995**

| Country | Number of Enterprises |
|---|---|
| Poland | 1,057,102 |
| Czech Republic | 706,495 |
| Hungary | 519,502 |
| Romania | 362,662 |
| Bulgaria | 302,665 |
| Slovakia | 186,710 |
| Slovenia | 72,387 |
| Lithuania | 57,078 |
| Albania | 57,078 |
| Estonia | 30,397 |
| Latvia | 25,663 |
| **TOTAL CEECs** | **3,362,121** |

Source: *Together in Europe,* European Union Newsletter for Central Europe, No 98 November, 15, 1996.

**Table 7**

**Balkan and Other Eastern European Transition Countries: Gross Industrial Output, 1986-1995**

**(Indices, 1989=100)**

| **Balkan Countries** | **1986** | **1987** | **1988** | **1989** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** |
|---|---|---|---|---|---|---|---|---|---|---|
| Albania | 91.9 | 93.3 | 95.2 | 100.0 | 86.7 | 50.4 | 35.2 | 36.1 | 29.3 | 27.2 |
| Bosnia & Herzegovina | 104.1 | 101.1 | 98.1 | 100.0 | 88.7 | 74.3 | -- | -- | -- | -- |
| Bulgaria | 92.4 | 98.0 | 101.1 | 100.0 | 83.2 | 64.7 | 54.4 | 48.5 | 52.6 | 55.0 |
| Croatia | 99.4 | 102.0 | 100.6 | 100.0 | 88.7 | 63.4 | 54.2 | 51.0 | 49.6 | 49.7 |
| Romania | 96.8 | 99.2 | 101.9 | 100.0 | 81.9 | 63.3 | 49.4 | 50.1 | 51.7 | 56.6 |
| Slovenia | 102.7 | 101.6 | 98.9 | 100.0 | 89.5 | 78.4 | 68.0 | 66.2 | 70.4 | 71.8 |
| FYROM | 95.0 | 97.3 | 95.6 | 100.0 | 89.3 | 73.6 | 62.1 | 53.5 | 47.8 | 43.1 |
| Yugoslavia | 96.8 | 97.6 | 98.4 | 100.0 | 87.2 | 71.9 | 56.5 | 35.4 | 35.8 | 37.1 |

| **Other European Transition Countries** | **1986** | **1987** | **1988** | **1989** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** |
|---|---|---|---|---|---|---|---|---|---|---|
| Hungary | 99.4 | 102.9 | 102.6 | 100.0 | 95.5 | 77.3 | 69.8 | 72.6 | 79.6 | 83.4 |
| Poland | 92.3 | 95.5 | 100.5 | 100.0 | 75.8 | 66.8 | 69.4 | 73.8 | 82.6 | 91.2 |
| Russian Federation | 91.8 | 95.0 | 98.6 | 100.0 | 99.9 | 91.9 | 75.3 | 64.7 | 51.2 | 49.6 |
| Estonia | 93.5 | 96.3 | 99.3 | 100.0 | 100.0 | 92.8 | 56.7 | 40.2 | 38.1 | 38.6 |
| Latvia | 89.9 | 93.7 | 97.1 | 100.0 | 100.7 | 100.0 | 65.4 | 44.3 | 41.3 | 38.6 |
| Lithuania | 87.2 | 91.2 | 95.6 | 100.0 | 97.4 | 94.0 | 65.8 | 43.1 | 31.0 | 33.0 |

Source: *Economic Survey of Europe in 1995-1996*, Appendix Table B.1, UN/ECE: 1996: 185.

**Table 8**

**Percentage Share of Agriculture and Industry in GDP**

**for Selected Balkan and Other Eastern European Transition Countries, 1989-1995.**

| **Balkan Countries** | **1989** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** |
|---|---|---|---|---|---|---|---|
| **Albania** | | | | | | | |
| % share of agricult. in GDP[1] | 26 | 40 | 44 | 54 | 56 | 56 | 56 |
| % share of industry in GDP[1] | 37 | 37 | 32 | 17 | 14 | 13 | 13 |
| **Bulgaria** | | | | | | | |
| % share of agricult.[a] in GDP[2] | 11 | 18 | 15 | 12 | 10 | 11 | 13 |
| % share of industry in GDP[2] | 59 | 43 | 47 | 45 | 39 | 33 | 31 |
| **Croatia** | | | | | | | |
| % share of agricult. in GDP | na | 10.4 | 10.8 | 14.1 | 12.9 | 13.3 | 12.4 |
| % share of industry[b] in GDP | na | 31.3 | 30.7 | 28.3 | 28.5 | 25.7 | 23.8 |
| **Romania** | | | | | | | |
| % share of agricult. in GDP[2] | 13.9 | 21.8 | 18.9 | 19.0 | 21.0 | 20.1 | na |
| % share of industry in GDP[2] | 52.8 | 40.6 | 37.9 | 38.3 | 32.4 | 32.3 | na |
| **Slovenia** | | | | | | | |
| % share of agricult. in GDP | 4.3 | 4.7 | 4.9 | 4.9 | 4.5 | 4.5 | na |
| % share of industry in GDP | 44.3 | 38 | 40.8 | 37.6 | 35.4 | 35.1 | na |

| **Other European Transition Countries** | **1989** | **1990** | **1991** | **1992** | **1993** | **1994** | **1995** |
|---|---|---|---|---|---|---|---|
| **Hungary** | | | | | | | |
| % share of agricult. in GDP | 9.7 | 9.6 | 7.8 | 6.7 | 6.2 | 6.0 | na |
| % share of manufact. in GDP | 30.1 | 28.8 | 26.7 | 25.7 | 26.6 | 27.4 | na |
| **Poland** | | | | | | | |
| % share of priv. sector in GDP | 28.6 | 30.9 | 42.1 | 45.4 | 47.5 | 53.0 | na |
| % share of agricult. in GDP[2] | 11.8 | 10.3 | 9.0 | 6.7 | 6.6 | 6.2 | na |
| % share of industry in GDP[2] | 44.1 | 44.9 | 40.2 | 34.0 | 32.9 | 32.2 | na |
| **Estonia** | | | | | | | |
| % share of agricult. in GDP[2] | na | Na | na | 12.5 | 10.0 | 8.8 | 7.1 |
| % share of industry in GDP[2] | na | Na | na | 23.6 | 18.8 | 18.3 | 16.6 |
| **Latvia** | | | | | | | |
| % share of agricult.[c] in GDP | na | 21.1 | 22.5 | 16.5 | 10.6 | 8.4 | 8.5 |
| % share of industry in GDP | na | 33.4 | 34.9 | 26.5 | 21.1 | 17.8 | 16.8 |
| **Lithuania** | | | | | | | |
| % share of agricult. In GDP[2] | 27.3 | 27.6 | 19.2 | 11.6 | 11.0 | 7.3 | 9.5 |
| % share of industry in DP[2] | 34.5 | 32.8 | 55.7 | 39.4 | 30.4 | 25.8 | 23.5 |

a. Percentage includes share of forestry in GDP.
b. Percentage includes share of construction in GDP.
c. Percentage includes share of fishing in GDP.
1 Based on national accounts at constant 1990-prices.
2 At current prices.

Source: *Transition Report 1996, Infrastructure and Savings*. European Bank: 1996.