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DEVELOPMENT INTEGRATION IN THE BALKANS

ECONOMIC INTEGRATION OF DEVELOPING ECONOMIES

Obviously the title of the present paper calls for explanations of a definitional nature at the outset. Since the term "Development Integration" is not firmly established in the literature of international trade let us describe it here on a preliminary basis as the regional economic cooperation among developing economics in order to promote the objective of economic development of the participant countries[1]. The use of the concept of economic integration in the present context is quite different from the one found in the traditional theory of international trade where it is meant as a process of eliminating discrimination in trade among different countries at different stages of cooperation.

In general the concept of economic integration is used in the western economic literature quite loosely to cover different types of economisc cooperation with different degrees of closeness in economic and political matters among the participant contries. It would seem that economic integration, as defined by the traditional theory, presupposes identical economic systems of the member countries. Of course, the processes and patterns of integration among market economies differ substantially from those among centrally planned economies. This distinction between "market integration" and integration of centrally planned economies is recognized in the literature of international trade[2]. The integration models of the EEC (Common Market) and CMEA or COMECON provide the two prototypes concerning the actual process of integration under different economic systems. Neither one of the models, however, could be used to approximate economic integration among developing economies regardless of whether the latter are described as market or centrally planned economies. The industrially immature economies

1. The prominent economist Imre Vajda used the term "Production and development integration" referring to economic integration and centrally planned economies as opposed to "market integration" which is used for western economies. See his "Integration, Economic Union and the National State" in *Foreign Trade in a Planned Economy*, edited by I. Vajda and M. Simai, Cambridge University Press, 1971.

2. In a recent article Bela Balassa recognizes the need for the distinction between different types of economic integration at different levels of development and under different economic systems. See B. Balassa, "Types of Economic Integration" in *Economic Integration Worldwide, Regional,* Edited by Fritz Machlup, International Economic Association, 1976.

face a different set of economic problems from those prevailing among developed economies. An attempt to utilize traditional market-integration type theory to evaluate the usefulness of economic integration among less developed countries would lead to very little enlightenment on the subject.

In the traditional theory of economic integration the emphasis is placed on the trade aspects of economic cooperation among mature economies. Customs Union or a Common Market or even an Economic Union would have to lead to the creation of trade on a worldwide basis i.e. both among its members as well as between the union and the rest of the world. Furthermore this "trade creation" would have to occur soon after the formation of the Union. If instead of trade creation the union leads to "diversion of trade" away from the rest of the world into the economic union then economic integration is not successful. Thus, Jacob Viner in his pioneer study on Customs Unions finds no justification for integration unless "it happens between sizable countries with substantially similar industries which enjoy relatively high protection before the formation of the Customs Union"[3].

It is rather well established in the literature that the concepts of "trade creation" and "trade diversion" are too static to be used as the sole criteria to judge the usefulness of Customs Union. In addition, these concepts are void of empirical content due to their definitional vagueness[4]. In the decade of the sixties the center of gravity in the literature of the Customs Union became the so-called "dynamic effects". A side effect of this reconsideration was the examination of the problem of economic development in the context of the theory of customs union. At first the emphasis was placed on the favorable dynamic effects as a prerequisite for economic integration of the less industrialized nations[5]. The next step is the attempt to integrate the dynamic effects in the more general theory of industrialization through integration[6].

3. J. Viner, *The Customs Union Issue*, Carnegie Endowment for International Peace, New York, 1950, p. 135.

4. A survey of empirical works is given by W. Sellekaerts in his "How Meaningful are Empirical Studies on Trade Creation and Trade Diversion", *Weltwirtschaftlicher Archiv*, October 1973, pp. 520-553.

5. See for instance R.L. Allen's "Integration in Less Developed Areas", *Kyklos* 1961, pp. 315-335. R.S. Bhambri, "Customs Unions and Underdeveloped Countries", *Economia Internazionale*, XV, March 1962, pp. 235-258. S. Dell, *Trade Blocks and Common Markets*, A. Knopf, New York, 1963.

6. See C.A. Cooper and B.F. Massell, "Toward a General Theory of Customs Unions for Developing Countries", *Journal of Political Economy*, October 1965, pp. 461-476. Relevant is also H. Johnson's "An Economic Theory of Protectionism Tariff Bargaining and the Formation of Customs Unions" in *Journal of Political Economy*, June 1965, pp. 256-83. In this category a study by four OECD economists certainly deserves mention. F. Kahnets, R. Richards, E. Stout and P. Thomopoulos, *Economic Integration Among Developing Coun-*

In that context the concepts of "trade creation" and "trade diversion" lose the key importance they are assigned in the traditional theory. More relevant are such questions as: Will the participant economies realize significant economies of scale through the broadening of the market and intra-industry specialization? Are the member countries complementary concerning availability of resources? Do the partner countries participate adequately in trade with one another? Are the prospective member countries initially competitive but potentially complementary in their output structure? What are the stages of development of the participant countries? Can the member countries secure low transportation costs in their transactions because of geographical proximity and an efficient regional network of transportation?

All of the above questions revolve around the promotion of the objective of industrialization of the member countries. As long as industrial growth is recognized as a foremost policy objective, trade diversion as a result of import substitution on a regional basis may be unavoidable. Of course, trade diversion in a region is an outcome preferred to import substitution at the national level, since the latter not only does not create trade but it prevents it from happening. Such import-substitution-autarkic policies entail unbearably high costs for industrialization to occur. At the other extreme, subscription to the free trade formula does not lead to industrialization in a more economical way. Developing economies are already convinced that their poor "menu" of export products cannot attract rich customers at acceptable prices. These two alternatives, i.e., purely "outward looking" policies on the one hand and "autarky" on the other have been tried in the past by most developing economies and have produced poor results. A third alternative, that of Tariff Preferences, which was tried in the sixties under the aegis of the United Conference on trade and Development, failed to produce a comprehensive program of preferential treatment when it finally materialized in the early seventies[7]. It was at that time that we witnessed a turn by the United Nations to the encouragement and support of various forms of regional integration among developing economies. With the help of several developed countries, the United Nations lounched a program to facilitate economic integration for countries with and without major differences in their economic system[8].

tries, OECD, Paris 1969. See also. J. Kakamoto's "Industrial Development and Integration of Underdeveloped Countries", *Journal of Common Market Studies*, June 1969, pp. 283-305.

7. For a discussion of the schemes of preferential treatment of developing economies, see E. Pournarakis, "Aid through Trade and Industrialization of the Developing Economies. Ideals and Realities", *Revista Internazionale di Scienze Economiche e Commerciali*, October 1971, pp. 664-678.

8. Under the general heading *Current Problems of Economic Integration*, the United

Up to this point, however, of the various regional schemes[9] very few experienced more than a moderate success. But, while the experience of most of the above regional groupings somehow justifies the reservations of academic economists on the issue in the past, it has not hampered or in any way reversed the pledge of support by national and international organizations of the trend towards regionalization. Actually it is interesting that the scientific community is taking a more active interest in the subject and investigates the reasons why economic integration for development purposes has not been a success story so far. Thus, on the Fourth Congress of the International Economic Association in 1974, which dealt exclusively with the topic of economic integration, the economics of regional integration among developing countries figured prominently in the agenda of the meetings[10].

It is this writer's contention that one of the main reasons for the failure of most attempts for regional integration at low levels of development is that the operational format adopted by these countries has been, for the most part, similar to the one used by the developed market economies. This was so regardless of the degree of homogeneity of the economic systems in the participant countries. The non-applicability of the EEC-type model is beyond doubt, as suggested earlier. Economic integration among developing countries ought to be viewed as a process of development that occurs on a gradual basis over a period of time. The ultimate objective will be the creation of a customs union or common market or even an economic union, but the inter-

Nations Trade and Development Board has put out several studies dealing with specific aspects of economic integration among developing economies. See for instance, *Agricultural and Industrial Cooperation Among Developing Countries* (TD/B/374, 1971). Also, *The Role of Institutions in Regional Integrations Among Developing Countries* (TD/B/374, 1971) and *The Distribution of Benefits and Costs in Integration Among Developing Countries*, (TD/B/394, 1973).

9. The various studies put out by the United Nations Trade and Development Board draw on the experiences of the several regional schemes of integration that have materialized in the post-war period, such as the Latin Free Trade Association (LAFTA), the Andean Common Market (ACM), the Central American Common Market (CACM), the East African Community (EAC), the West African Economic Community (CEA), the Regional Cooperation of Development (RCD) which comprises Iran, Pakistan, Turkey, the Arab Common Market, the Maghreb (Algeria, Morocco and Tunisia), the Caribbean Community (CARICOM), the Central African Customs and Economic Union, and the Arab Common Market.

10. See for instance, E. Lizano, "Integration of Less Developed Areas and Areas of Different Levels of Development", published in the proceedings of the conference under the title, *Economic Integration*, edited by F. Machlup, *op. cit.* See also the comments on the main paper offered by six economists from different parts of the world. Included is a comment by professor D. Delivanis on "Sectoral Integration".

mediate stages that will lead to trade integration are much too important to underestimate. At the early stages the emphasis must be directed on joint ventures in basic fields such as transportation, public utilities, water resources, etc. Next, a regional economic policy would aim at capitalizing on the availability of resources in the region for the creation of as broad-based an industrial structure as possible. It is primarily at this stage during which the participant countries will seek to reap the dynamic benefits of economies of scale, external economies, etc. in production, while creating the attributes of a successful economic integration which would lead to an increased flow of transactions among the participant countries. Obviously, there will be considerable overlapping of investment and trade activities throughout the process of regional integration.

DEVELOPMENT INTEGRATION OF COUNTRIES WITH DIFFERENT ECONOMIC SYSTEMS

As mentioned earlier, the recent trend towards regionalization, in an economic sense, involves also countries with substantial differences in their economic systems. Inevitably, such inter-system economic integration gives rise to a number of problems that may stem both from the differences in the developmental objectives as well as the methods employed for the implementation of the development problems in the individual countries. These "systemic" differences then lie with the organization of the economies and their developmental strategies. The private enterprises economy countries rely more on market forces to dictate allocation of resources in general and patterns of industrialization in particular. Economic planning, on the other hand, is one of the hallmarks in decision-making for the choice of industry promotion in the non-market economies.

Central planning enters the external sector of the Soviet-type economy in determining the extent and composition of imports and exports in accordance with established priorities. The bureaucratic pyramid of external trade is headed by the State trading enterprise which is wholy or in part owned by the State. The State enterprises are found also in market economies, especially developing countries, but they are not as essential attributes of the economy as in the case of the centrally planned economies. In the latter they serve as the sole agent of imports in the country which are distributed (sold) to individual enterprises. The practice of State enterprising in market economies is justified on several grounds such as their use as a suitable tool to promote trade with centrally planned economies, their effectiveness in stabilizing the prices of certain goods and in providing preferential treatment to certain industries that are deemed worthy of protection[11].

Depending on the kind of market structure of the country, the operation of State trading enterprises is subject to different rules and regulations. The degree of autonomy in scope of actual decision-making could vary singificantly. At the one extreme, State enterprises may be executive organs of central economic authorities and, therefore, subject to the rigid decision-making mechanisms imposed by central governments. At the other extreme, they may be given considerable scope of initiative so that they operate in a nanner similar to the private traders[12].

The use of State trading enterprises of different degrees of autonomy is considered particularly suitable in the case of regional integration schemes among countries with different economic systems. State trading then, emerges as a connecting link between countries with different economic systems that could facilitate economic integration. We will return to this point later.

THE CASE OF THE BALKAN COUNTRIES

For the purpose of this paper the Balkans are defined to include only the four more developed countries i.e. Bulgaria, Greece, Romania and Yugoslavia. It will become clear below why I use this definition.

A casual observer of developments in the Balkans might hurry to remark the following considering the theme of this paper: To the extent that homogeneity of socioeconomic system is a requirement for successful integration it could be argued that the coexistence in the same integration scheme of Bulgaria and Greece which stand on the antipode of each other ideologically, poses a serious problem. It is known that in the past even approximation of the Yugoslav system by Bulgaria was taboo in the eyes of the central authorities of the country. Greece, on the other hand, is currently preoccupied with negotiations to enter the EEC and, although she is seemingly far

11. For a detailed discussion of the functions of State trading enterprises, see United Nations, *State Trading and Regional Economic Integration Among Developing Countries* (TD/B/36, 1973).

12. State trading enterprises are recognized by the GATT as a legitimate tool to conduct trade, as long as they satisfy the requirement of non-discrimination by making purchases or sales "solely in accordance with commercial considerations" and as long as "they afford the enterprises of the other contracting parties adequate opportunity in accordance with customary business practices to compete for participation in such purchasing or sales". Samuel Pizar, in his book *Coexistence and Commerce*, examines critically the provisions of the GATT that deal with the practice of State trading. See Chapter 9 of the book, (McGraw-Hill, New York, 1970).

enough in the negotiation process, she just past the stage of the Hamletian dilemma "to enter or not to enter". One could argue, therefore, that it would be untimely for Greece to give the Balkan economic problem serious consideration.

From a layman's point of view then, it would seem that the juxtaposition of countries with different economic systems such as the Balkans raises a variety of problems difficult to overcome. Indeed a casual observer, especially a not well informed one would, in all probability point out to the difficulties associated with the rigid position of Romania and Bulgaria because of deeply rooted ideological differences with the other two countries. Yugoslavia, on the other hand "the most complex nation in Europe"[13] has managed to combine socialism and capitalism in a unique blend of market-socialism. Actually the system is not settled altogether yet since Yugoslav institutions still undergo continuous change[14]. After a decade of intense experimentation, in the late sixties Yugoslavia finally shifted the center of gravity in its economic development efforts from the autarkic model to one that requires reliance on market prices.

A better informed casual observer of the economic life in the Balkans might participate in this preliminary discussion on the possibilities for development integration of the Balkans by updating the knowledge on recent developments in this region. Thus, with respect to Bulgaria's alleged rigidity on matters of substantial economic reform and cooperation with non-Soviet-type economies, a number of developments, which we examine in greater detail later in the paper, supply convincing evidence that there is a greatly increased interest in closer economic cooperation both on an international and a regional basis. At the international level Bulgarian authrorities have taken measures and enacted legislation to encourage industrial cooperation with several developed market countries as well as a large number of developing economies. It is estimated that by the end of 1975 more than one hundred contracts of joint investment projects between Bulgaria and non centrally planned economies were signed[15]. Furthermore, in the Athens meeting of the Balkan countries in January 1976, Bulgaria, along with the other participants, showed a great deal of interest in "strengthening existing bilateral ties and building up

13. See J. Dirlam and J. Plummer, *An Introduction to the Yugoslav Economy*, Charles E. Merrill Publishing Company, Columbus, 1973.

14. For a review of the many reforms of the Yugoslav system see B. Horvat, *The Yugoslav Economic System*, International Arts and Sciences Press, New York, 1976. Quite informative also is the chapter on Yugoslavia by R. Lang in H. Hohmann, M. Kaser, K. Tolheim (Eds.), *op. cit.*

15. *Industrial Cooperation of Bulgaria with Countries having Different Economic and Social Systems*, United Nations, UNCTAD/TSC/23/1975.

a multilateral network of agreements"[16]. These two examples confirm the belief that Bulgaria too has been affected by the intellectual awakening of the Eastern bloc and subscribes to the liberalizing economic reforms so long as they don't interfere with its smooth relations with the U.S.S.R. This last constraint was proved to be much too severe indeed. It accounts for the failure of the attempt to establish close economic ties with Yugoslavia in the past. It is also responsible for the frustration of the original reform plans of the country in the 60's which called for substantial decentralization and liberalization in trade[17].

Romania's reform blueprint was never implemented for the same reason. However, Romania has made a great deal more progress in gaining autonomy in its trade relations. Her rapid drift toward the Western trading world is indicated by her gaining accession to the GATT in 1971, following her commitment to increase its imports from GATT nations by the percentage increase of its total imports. Also, several Western countries, including the United States recently[18], have extended the privilege of most favored nation treatment to Romania, which has reciprocated through import increases from these countries. Unlike Bulgaria, Romania in recent years has redirected its geography of trade substantially in favor of the West. An interesting development in this respect is the direct investment by western countries in Romania, with the latter holding 51 percent of the equity. Finally, Romania's trade westernization to a large extent is shown also by the country's acceptance in the International Monetary Fund and the World Bank in 1972.

Yugoslavia's admission into the GATT organization in 1965 and its subsequent participation in the Kennedy Round of tariff negotiations signaled the rapid integration of the country in the world economy. Although since 1964 Yugoslavia has had official observer status with the COMECON, Western Europe absorbs the largest percentage of its exports. Experimentation with different formats of economic systems did not prevent Yugoslavia from realizing high rates of economic growth and developing a remarkable diversity of manufactured goods which compete now successfully in Western markets.

Greece, the only pure market economy in the region, has initiated in the

16. *The Economist*, January 31, 1976.

17. A review of the reform plans of all CMEA countries can be found in F. D. Holzman, *International Trade under Communism, Politics and Economics*, Basic Books, Inc., New York, 1976.

18. United States International Trade Commission, *Impact on U.S. Imports of granting Most-Favored-Nation Treatment to Romania*, Publication No. 734, Washington, D.C., June 1975.

last few years, especially in the post-Junta years, several attempts to build a Balkan-wide network of multilateral agreements while at the same time she has renewed bilateral agreements with the other three countries. In the last years we witnessed a continuous exchange of visits between Greek officials and their counterparts in the other Balkan countries.

It would seem that our casual observer of recent developments in the Balkans would have to concede the point that the ice has began to thaw in this region and a new phase of economic cooperation is emerging. Having established this point, hopefully, it is time to backtrack and examine more systematically the questions raised by the title of the paper.

THE BALKAN ECONOMIES

Of more importance in the list of "apparent" reservations about development integration in the Balkans is probably the stage of development of the four countries. Bulgaria and Romania are by far the least developed among the centrally planned economies of Europe while Greece and Yugoslavia still need to undergo substantial structural changes in their economies before they are classified as "mature" and industrialized. The inevitable question, therefore, is whether economic integration of a group of semi-developed economies will lead to substantial benefits for the region. Let us then take a quick look at the structure and the stage of development of the Balkan economies.

By the usual conventional criteria the four Balkan economies although not mature enough to be classified as advanced or industrialized, they certainly do not belong in the Third World any longer (Table 1). The four economies exhibit similar structural characteristics. The only notable exception here is the hypertrophy of the service sector of the Greek economy. The historical record of achievements in the postwar period as expressed by the rate of GNP (or Gross Material Product) and structural changes in their economies, is relatively impressive for all four countries. With respect to forward looking economic policies, there seems to be an identity of developmental objectives and it can be summed up in one word: industrialization. In all countries relatively large percentages of GNP were allocated to investment in the past two decades and are quite similar for all countries, with the planned economies showing slightly higher rates. The rates of change in investment in all countries were also quite high (between 10.0 and 13.0) on the average and remarkably close for all countries, with Bulgaria and Romania having a slight edge again. Of particular importance in the present context is the high degree of dependence of the four countries on trade. This dependence is growing every time as shown in Table 1 by the rations of Imports/GNP in recent years. The similari-

Table 1. A Brief Statistical Profile of the Balkans

	Year	Units	Bulgaria	Greece	Romania	Yugoslavia
Population	1973	(000000)	8.619	8.972	20.828	20.956
Average annual rate of growth		in percent	0.5	0.7	0.9	1.0
Area		km²	110,912	131,944	237,500	255,804
Density		inhabitants per km²	78	68	88	88
Employment by Sector	1973		(1975)			
Agriculture		% of total	35.0[1]	34.1	49.3	49.5[1]
Industry		% of total	33.0	25.7	31.7	
Other		% of total	31.0	40.2	20.0	50.5
Production						
GDP (GMP) per capita	1973	$ U.S.	1,590	1,780	890	1,060
Rate of Growth of GNP (GMP)	1960-1974	%	8.0	6.5	9.5	6.8
Percentage Composition by Sector			(1974)	(1973)	(1972)	(1973)
Agriculture			21.0	20.4	22.	19.
Industry			52.0	32.4	57.	46.6
Other			27.0	47.2	21.	34.4
Foreign Trade Exports	1973			(1972)		(1972)
	1973	$ U.S. (000000)	3,301	1,470	3,698	3,480
% of GNP			0.24	12.0	20.0	21.2
Annual rates of grouth	1960-1970		14.3	13.6	10.0	12.0
	1970-1975		18.0	24.1	23.5	19.5
Imports	1973	$ U.S. (000000)	4,464	(1972) 2,530	3,505	(1972) 3,820
% of GNP			0.33	20.7	0.19	23.2
Annual rates of growth	1960-1970		13.9	7.8	13.2	10.9
	1970-1974		23.9	23.3	28.1	24.1

1. National Statistics

Sources: United Nations:
1. *Handbook of International Trade and Development Statistics*, 1976.
2. *Statistical Review of Trade Among Countries Having Different Economic and Social Systems*, TD/B/615, October 1976.
3. *Supplement to World Economic Survey*, 1975, Ch. II, E/58/3, Add I, July 19.

OECD: *Economic Surveys for Greece and Yugoslavia*, several issues.

Republica Socialista Romania: *Comertul Exterior*, 1974, Ministry of Exterior Trade, Bucharest.

ty is also pronounced in the rates of import and export growth in recent years which are quite high and range between 23 and 28 percent for all four countries. The heavy dependence on import growth is reflected in the consistently passive payments balances of all four economies in recent years. Romania and Bulgaria have managed recently to realize surpluses in their trade with developing economies, but they have negative balances with the developed market economies and other centrally planned economies. For the most part, the largest percentage of the Balkan exports belongs in the category of non-industrial goods. This applies more strongly to Greece, whose shift to more industrial exports over this period took place at a relatively slow pace. More substantial changes took place in the exports of Bulgaria and Romania over the same period of time. These two countries, especially Bulgaria, have done quite well in the production and export to developing economies primarily of machinery and equipment. Romania experiences more of a balanced growth while Yugoslavia is the only significant exporter of a relatively large variety of manufactures[19]. With Greece moving in the same direction it would seem that a pattern of specialization is discerned in the categories of more elaborate products with Bulgaria and Romania emphasizing machinery and equipment and Yugoslavia and Greece shifting to more light manufactures.

On the import side the structural characteristics are more homogeneous in the Balkans. A large portion of the countries' foreign exchange is spent on raw materials for developmental purposes. Interestingly enough, there is not as much of an increase in the imports of manufactures by Bulgaria and Romania as is the case with other centrally planned economies. Internal trade between the Balkan countries is strikingly low (Table 2). As a percentage of the countries' total exports trade among the Balkan countries amounted to a meagre 4.45% in 1965 and 5.32% in 1973. The relative share of inter-Balkan trade is even smaller when expressed in terms of imports. In addition, trade among the Balkan states exhibits pronounced instability despite the fact that, for the most part, it is conducted on the basis of bilateral agreements[20]. In 1938 the ratio of inter-Balkan to total Balkan trade was 6.2 in terms of exports

19. Yugoslavia is one of the main beneficiaries of general preferences granted by industrial economies to the non-industrial countries on exports of manufactures and semi-manufactures. Of the other Balkan countries, Bulgaria and Romania were extended preferences on conditions that require substantial changes in their trading relations, while Greece has limited access to preferential treatment because of her association with the European Economic Community. See E. Pournarakis, "New Directions for World Trade and the Developing Economies: The Case of the Balkans". *Balkan Studies*, 13, Summer, 1972, pp. 31-40.

20. See E. Botsas, "Trade Stability of the Balkan Economies, 1956-1970", *Weltwirtschaftlicher Archiv*, June 1975, pp. 574-584.

Table 2. The Balkans' Trade Matrix in (000) dollars

Exports to / *Exports from*	*Greece*		*Yugoslavia*		*Romania*		*Bulgaria*		*All Balkan Countries*		*World*	
	1965	*1973*	*1965*	*1973*	*1965*	*1973*	*1965*	*1973*	*1965*	*1973*	*1965*	*1973*
Greece			5622	19585	3260	30018	7613	13747	16495	63350	327,768	1,443,90
Yugoslavia	22436	64201			12908	73534	23056	44393	55700	182138	1,091,338	2,852,65
Romania	8878	35539	16049	105298			11060	73920	35987	214757	1,186,000	3,698,00
Bulgaria	17975	16237	22249	45455	15680	68260			55904	129952	1,176,000	3,301,00
Total									164,085	590,197	3,691,106	11,295,55
Share in Balkan Trade	10.05	10.73	33.95	30.86	21.93	36.39	34.07	22.02				

Sources: OECD: *Trade Statistics, Series B and C.*

United Nations: *Handbook of International Trade and Development Statistics,* 1976.

and 5.6 in terms of imports. This is indeed an unusual situation, not to use the expression "not normal" as remarked by other researchers[21].

The main products traded among the Balkan countries are shown in Table 3. The structural changes in Balkan trade are similar to the ones of total trade as above. The agricultural component of trade is still one of the largest but there are noticeable qualitative improvements and there is a shift of emphasis to higher value items. A point of importance in the present context is the relatively wide base of trade among the Balkan countries. A relatively large number of products crosses the boarders of the four countries, but the quantities involved are small. This could be interpreted as an encouraging sign concerning potential growing in trade following specialization.

With respect to recent trends in the direction of Balkan trade, in the seventies, western markets command a larger share of the Balkan imports and the same is true with exports for all four countries. Bulgaria's faithfulness to the CMEA group is clearly noticeable and is a contrast to Romanian trade pattern, which has undergone a remarkable westernization. Over 60% of Bulgaria's exports is absorbed by the CMEA countries. Romania's trade with the centrally planned economies is only 35-40%, a percentage comparable to that of Yugoslavia. In the early sixties Romania's trade with CMEA countries exceeded 60 percent, while currently it is considerably below 40 percent[22].

INTEGRATION PROJECTS AND DEVELOPMENT INTEGRATION IN THE BALKANS

As with other developing regions, in the case of the Balkans, while the trade aspects of economic integration are important, one cannot afford to misplace the emphasis in this direction by analogy to the prototype of economic integration among the industrial countries. Since, the potential of the four economies to trade is rather limited one cannot expect substantial benefits to be reaped via the formation of a customs union among themselves, even if something like this was practically possible. Enlarging the market with preferential treatment among the participants and discrimination against the outsiders is only one side of the story. The other is to secure growth in the region's sources of supply. And, of course, since the main reason for inelastic supply curves is inadequate productive capacity it would make sense that this area become the primary target for improvements via regional cooperation. Although demand-supply are meant to interact and complement each other

21. F.W. Carter, "Bulgaria's Economic Ties with her Immediate Neighbors and Prospects for Future Developments", *East European Quarterly*, Vol. IV, 1972, pp. 209-224.

22. See United Nations: *Economic Bulletin for Europe*, Vol. 28, 1976.

Table 3.

Inter-Balkan Trade (Exports), Main Commodities in U.S. $, 1973

Exports to:	*Greece*		*Yugoslavia*		*Romania (in lei)*	
From *Bulgaria*	Total Trade	16,237,000	Total Trade	45,455,000	Total	341.3 mil lei
	Food and live animals	9,579,000	Food and live animals	5,659,000	Eggs	*
	Meat and Food Preparations	1,522,000	Meat and Meat Preparations	2,166,000	Cigars and Cigarettes	*
	Crude material, inedible except fuels	1,582,000	Fruit and vegetables	2,279,000	Ferrous alloy	*
	Wood, Lumber and Cork	1,392,000	Tobacco and Tobacco Manufactures	588,000	Crude Oil	*
	Chemicals	813,000	Pulp and Paper	896,000	Sulphuric Acid	*
	Chemical elements and compounds	511,000	Textile Fibres, not manufactured and waste	2,710,000	Clothing and Linen	*
	Plastistic materials	171,000	Metalliferous and metal scrap	1,470,000	Kitchen glass utensils, porcelain, pottery	*
	Manufactured goods classified chiefly by material	2,350,000	Chemical elements and compounds	3,754,000	Laminates from ferrous metal	*
	Wood and cork manufacturing excluding furniture	522,000	Plastic materials	805,000	Electrical motors from 1 kw to 100 kw	*
	Iron and Steel	1367 (Rm)	Textile Yarn, Fabrics, made up articles, etc.	1,782,000	Electronic equipment	*
	Machinery and transport equipment	1823 (Rm)	Non-metallic mineral manufactures	2,764,000	Lifting and transportation equipment	*
	Machinery other than electric	1,179,000	Iron and Steel	6,365,000	Railroad rolling and metallurgical metal sheet, pipes from ferrous metals	*
	Electrical machinery, appliances and apparatus	632,000	Non-ferrous metals	8,283,000	Bearings	*
			Manufactures of Metal	2,050,000		
			Machinery other than electric	2,421,000		
			Transport equipment	1,277,000		

* no value figures available

(continued)

Table 3
(continued)

Exports to:	*Yugoslavia*		*Greece*		*Bulgaria (in lei)*	
From Romania	Total Trade	105,298,000	Total Trade	35,539,000	Total Trade	369.6 mil lei
	Meat and Meat Preparations	10,883,000	Meat and Meat Preparations	6,113,000	Oil Products	*
	Cereals and Cereal Preparations	13,478,000	Dairy Products and Eggs	2,014,000	Chemicals (medicine)	*
	Sugar, Sugar prep. and honey	11,149,000	Wood, Lumber and Cork	1,112,000	Non-ferrous metal products	*
	Wood, Lumber and Cork	2,890,000	Petroleum and petroleum products	6,469,000	Power Equipment	*
	Petroleum and petroleum products	11,134,000	Wood and Cork Manufactures excluding furniture	2,649,000	Machines	*
	Chemical elements and compounds	2,374,000	Textile Yarn, Fabrics, made up articles, etc.	6,711,000	Electric Power	*
	Non-metallic mineral manufactures	6,169,000	Iron and Steel	873,000	Various industrial	*
	Iron and Steel	12,108,000	Machinery other than electric	2,683,000	Consumer's goods	53.3 mil lei
	Non-ferrous metals	2,647,000	Electrical Machinery, apparatus and appliances	682,000		
	Manufactures of metal (NES)	2,121,000	Transport Equipment	7,995,000		
	Machinery other than electric	11,338,000				
	Electrical machinery, apparatus and appliances	946,000				
	Transport Equipment	11,423,000				

* no value figures available

(continued)

Table 3
(continued)

Exports to:	Bulgaria		Greece		Romania	
From Yugoslavia	Total Trade	68,182,000	Total Trade	39,800,000	Total Trade	118,143,000
	Cereals and Cereal Preparations	4,020,000	Meat and Meat Preparations	500,000	Cereals and Cereal Preparations	15,886,000
	Fruit and Vegetables	1,538,000	Wood, Lumber and Cork	900,000	Pulp and Paper	8,700,000
	Textile Fibres, not manu. and waste	3,608,000	Wood and Cork Manufactures excluding furniture	600,000	Metalliferrous Ores and metal scrap	7,007,000
	Chemical elements and compounds	5,440,000	Iron and Steel (673)	700,000	Electric Energy	4,211,000
	Perfume materials, toilet and cleansing preps.	3,016,000	Transport Equipment (731)	600,000	Chemical Elements and compounds	5,716,000
	Plastic materials, etc.	3,778,000			Non-metallic mineral manufactures	4,835,000
	Textile Yarn, Fabrics, Made up articles	6,783,000			Iron and Steel	19,180,000
	Iron and Steel	11,610,000			Manufactures of metal (NES)	4,160,000
	Non-ferrous Metals	10,050,000			Machinery other than electric	13,575,000
	Manufactures of Metals (NES)	3,180,000			Electrical Machinery, apparatus and appliances	8,283,000
	Machinery other than electric	3,562,000			Transport Equipment	16,549,000
	Electrical Machinery, apparatus and appliances	1,828,000				
	Transport Equipment	1,361,000				

(continued)

Table 3
(continued)

Exports to:	*Romania*		*Yugoslavia*		*Bulgaria*	
From Greece	Total Trade	32,981,000	Total Trade	86,100,000	Total Trade	19,156,000
	Fruits and Vegetables	6,144,000	Food and Live Animals	21,800,000	Fruit and Vegetables	3,881,000
	Hides Skins, and Fur Skins (undressed)	10,772,000	Fruit, Fresh nuts, Fresh dry	7,800,000	Hides, Skins and Fur Skins (undressed)	1,527,000
	Metalliferrous Ores and Metal Scrap	2,938,000	Dried Fruit	10,200,000	Textile Fibres, not manuf. and waste	2,625,000
	Coal, Coke and Briquettes	1,295,000	Fruit Preserved and Prepared	2,000,000	Chemical Materials and products (NES)	2,472,000
	Textile Yarn, Fabrics, Made up Articles	442,000	Textile Fibres, not manufactured and waste	11,500,000	Iron and Steel	2,987,000
	Miscellaneous Manufactured articles	1,523,000	Petroleum and petroleum products	1,100,000	Manufactures of metal (NES)	3,184,000
			Textile Yarn, Fabrics, made up articles	3,600,000	Miscellaneous manufactured articles	677,000
			Iron and Steel	30,900,000		
			Miscellaneous Manufactured articles	1,900,000		

Sources: OECD: *Trade Statistics Series B and C.*
Republica Socialista Romania: *Comertul Exterior* 1974, Ministry of Exterior Trade Bucharest.

in the economic growth of individual countries, in the case of economic integration there is more justification for a chronological sequence in favor of supply.

Investment planning then emerges as the area of prime consideration that takes priority over the trade aspects of economic integration in the Balkans. In this sence, it may be necessary to distinguish between short-run and long-run objectives of economic integration among developing economies. Exact or even approximate specification of the time horizon involved in each case suggests the need for economic planning by approximate regional agencies. Planning, in the present context, is used in a more general macro-sense not to be confused with the detailed central planning for economic integration on the basis of criteria suggested by the market forces.

The main function of such a supranational planning agency would be the identification of the spheres of mutually advantageous cooperation on a regional basis and, more important, the establishment of priorities in terms of chronological sequence. With the supply aspects taking priority over the enlargement of markets, the most difficult task of economic planning for integration will be the identification of the appropriate investment projects. Following B. Balassa and A. Stoutjesdijk we will refer to these projects as *integration projects* or projects that will facilitate the process of integration in the sense that they "...serve a wider than national market"[23]. Such projects would, in most cases, be found in the area of infrastructure investment. It would seem, therefore, that, at this initial stage, preoccupation with the usual microeconomic criteria for project selections will not necessarily expedite the process of economic integration. At a later stage resort to orthodox methods for the selection of industrial investment in the context of economic integration may become necessary[24].

A quick look into the issue of regional cooperation in the Balkans in terms of investment projects of the above type shows that, as is the case with inter-Balkan trade, this area has been slow to develop despite the general recognition that the opportunity cost of delay is very high.

Obviously the geographical proximity of the four countries implies the existence of jointly owned resources. In the area of underground wealth, joint

23. The authors in their article, "Economic Integration among Developing Countries" (*Journal of Common Market Studies*, September, 1975, pp. 37-55) discuss the "Project Approach to Economic Integration" as an alternative to what could be called "integration proper".

24. For an interesting discussion on the use of such criteria see J.B. Nugent, "The Selection of Industries for Regional Coordination among Developing Countries", *Journal of Common Market Studies*, December 1975.

projects for better utilization of mineral resources also present a challenge for the Balkan region. Lead and zinc ore on both sides of the Bulgarian-Greek frontier call for profitable regional investment activity. Also, better exploitation of iron ore through cooperation of the two countries is an obvious possibility. Several other areas present themselves as likely targets for regional cooperation. Gas and oil exploration sites of common interest to Greeks, Yugoslavians, and Romanians could be listed here. Improvements in the networks of transportation and communications through coordinated planning could ensure a completely integrated railway network for the region, an integrated highway system, regional shipping and port facilities, possibly joint airline operations and an improved regional communications network.

Electric power and water resources among public utilities are other examples in the category of integration projects. Joint ventures in the construction of hydroelectric projects in the frontier regions such as the Bulgarian-Romanian hydroelectric complex of the Danube in the Samorit-Islaz district and the Iron Gate are in the category of important infrastructure. A great deal of benefits could be reaped through the development of irrigation projects in the area. Similar projects are overdue along the Bulgarian-Greek frontier and the Greek-Yugoslavian borders, which involve the Koda Maritsa and Vardar rivers correspondingly. Regional cooperation in these projects could secure economies of scale and other advantages that lead to better exploitation and lower production costs. In all four countries there is room for improvement both in power production and more intensive use of irrigation potentials.

Obviously we do not need to make the case for regional cooperation in the Balkans in what we call here integration projects. The existing opportunities and areas have been spelled out in more detail repeatedly in the past, both by the scientific community as well as government authorities[25]. The point to be stressed is that the strictly bilateral character of economic cooperation in this area sets limits to the extent of accomplishments. Commitments at a multilateral level and of a more lasting nature are in order for cooperation to lead to substantial benefits for the region. It is in this context that development integration emerges as a meritorious format of economic cooperation. Integration projects could become the first area to apply development integration in the Balkans.

25. See for instance F.W. Carter, *op. cit.*, and G. Hoffman's several works on the regional development in the Balkans, especially his *Regional Development in Southeast Europe*, Praeger Publishing Co., New York, 1973.

THE WHY'S AND HOW'S OF DEVELOPMENT INTEGRATION IN THE BALKANS

We saw that the area of investment integration could pave the way to more intensive cooperation at a later stage in the area of trade relations among the Balkan countries. This chronological sequence must be understood as one that refers to different degrees of emphasis on regional investment activity and trade at different stages of development integration. The inherent interdependence among these two economic activities calls for a regional economic policy which is consistent with the requirements of the relevant time horizon. Of course, since the ultimate objective is industrialization through economic integration, one must, from the outset, face up to the likely problems to arise because of the ideological diversity in the four countries.

So far, the spasmodic reactions of the Balkan states to the realities of international life throw a dim ray of hope for multilateral cooperation in the form of development integration. This is happening in response to the general trend towards internationalization of economic life following the easing of international tensions. East-West trade is in the center of things. The obstacles posed by the ideological diversities of the two worlds seem to give way to the overwhelming demands for a better utilization of the world's resources. In this sense, it would seem that the Balkans are indeed behind in making headway for multilateralism in the region. Indeed, in the case of the Balkans the issue of regional development is more of a compelling matter than the international exchange between the East and the West. Before dealing with the "systemic" difficulties of development integration in the Balkans it pays to quickly look into the prospects for industrial development of the four countries under their present status of international cooperation. More attention is paid here to the case of the two centrally planned economies Bulgaria and Romania.

The relatively high rates of economic growth in the past do not necessarily imply a continuing improvement in these countries' level of welfare. This is more so if one views the economic progress made in comparison to other countries with the same socio-economic system. When judged on a comparative basis Bulgaria and Romania remain the least industrialized nations and by far the least developed in East Europe. Furthermore, in appraising the economic progress of the two countries on an absolute basis, one cannot overlook the inefficiency entailed by the trade policies of these countries. These inefficiencies can be esily established by quickly reviewing the shortcomings inherent to the present form of integration in the CMEA countries.

The attempts to reform the Stalinist-type system of central planning in the sixties, in the CMEA countries, especially Russia, Bulgaria and Romania, were frustrated and the actual change amounted to simply an improvement of the existing system. Markets and prices are virtually strange to the system, with the only major breakthrough being the institution of interest rate charges as a price for borrowing, although the main sources of investment finance is still taxation. Payments within the bloc take place in terms of world prices, since the irrational prices do not reflect cost differentials in intrabloc transactions. Furthermore, the inconvertibility of national currencies[26] poses several problems that could hardly find their solution via the institution of the "transferable ruble" and the International Bank for Economic Cooperation (1963).

The deStalinization drive of Kruschev and later on the Comprehensive Program in 1971 to promote the CMEA economic integration, have brought about very little change in the way of promoting multilateralism in the bloc. It seems also that the International Investment Bank, instituted in 1971 to make possible the implementation of the Comprehensive Program, has fallen short of its objectives. There seems to exist a general agreement that economic reforms were bound to prove inadequate as long as planning without the aid of the market mechanism remained a central characteristic of the system[27].

In the eyes of most academic economists of the West, the East European countries under the aegis of CMEA have, in effect, failed in their attempt to multilateralize their trade. This point of view is not shared by a large percentage of academic economists in the East, who view the Comprehensive Development Program as a well conceived plan to unify the efforts of the individual countries and open up new possibilities for social economic integation[28]. Others direct their optimism to the use of the recent changes as a stepping stone to the CMEA's cooperation with the West European Countries[29].

26. Domestic currencies cannot be converted by the residents into foreign exchange for imports (resident inconvertibility) while foreigners, except tourists, are allowed to import only the goods offered by the Free Trade Organizations (commodity inconvertibility).

27. This point of view is elaborated in F.D. Holzman's *International Trade Under Communism—Politics and Economics, op. cit.* Also, P. Bryson, "Socialist International Economics. An East European Model of Trade Decentralization and Growth" *Weltwirtschaflicher Archiv*, 1975, pp. 139-157.

28. See for instance B. Krasnoglasov, "The International Economic Institute of Comecon", *Problems of Economics*, January 1975, pp. 48-54; and O. Rybakov, "The Economic Effectiveness of Foreign Trade", *Problems of Economics,* August 1975, pp. 26-27. Also J. Klaus, "Social Economic Integration", *Czechoslovac Economic Digest*, June 1974, pp. 37-67.

29. See J. Szita, "Perspectives for an All European Economic Cooperation", *Acta Oeconomica,* Vol. 12, 1974, pp. 174-294. Also O. Bogomolov, who sees the CMEA not as a "tool of isolation" and maintains that "fruitful cooperation with Western Europe is both feasible and desirable"; O. Bogomolov, "The CMEA Comprehensive Program and Possibilities for Economic Cooperation with Western European Countries", *Acta Oeconomica,* Vol. 12, 1974.

A more eclectic point of view is taken by some Eastern authors who express a guarded optimism on the prospects for improvement of economic relations between Socialist and Capitalist countries on the grounds that "the attitude toward the existing system of contract prices and its methods is gradually changing". It is stressed that "the need has arisen for a value assessment of the product on the basis of objective foreign trade prices directly at the stage of its production and not only in the prospects of its exchange"[30].

In view of the uncertainties surrounding the CMEA future developments and the built-in inefficiency in trade relations, one would be inclined to infer that the picture is even gloomier for the two least developed countries—Bulgaria and Romania. Even if the principles of multilateralism and international division of labor in the CMEA become operative, the two countries will not escape their predetermined economic destiny to lag behind in terms of industrialisation. This has been the case since the late 50's when the pressure was put on these less advanced countries to place emphasis on agriculture for the better utilization of raw materials in the region. Romania has shown repeatedly its dissatisfaction in the past and took actions to disassociate itself from the CMEA but her follow-through action fell short of bringing about results. Of course, considering that Romania is the second richest country in underground wealth after Russia in the CMEA bloc one can see why she has not shared Bulgaria's faithfulness to Soviet prototype.

In reviewing the historical record of performance in recent years of the four economies we saw that it is basically a story of moderate success. In the case of the two centrally planned economies the rigid institutional framework within which they operate sets limits to growth and entails waste of resources. Yugoslavia is probably running out of experiments with its economy and realizes the need to attach itself to a regional organization. Its special status as an OECD member, its access to special treatment by the EEC and its official observer status with the COMECON avail her trade opportunities of a transitional nature and suggest the lack of more permanent orientation. Greece is in a somewhat similar situation, with the recently politicized issue of whether or not she will become a member of the EEC. But regardless of the outcome of their current negotiations Yugoslavia and Greece are called upon to view their regional cooperation in the Balkans as an independent project that is long overdue. We tried to established this point above on several grounds.

Coming back to a possible format of economic cooperation on a multi-

30. N. Mitrofanova, "Prospects for the further Improvement of the Foreign Trade Policies of Socialist Countries", *Problems of Economics*, December 1974, pp. 65-69. Also V. Sedivec, "Economic Relations between Socialist and Capitalist Countries", *Czechoslovac Economic Digest*, June 1974, pp. 69-78.

lateral basis as a prelude to development integration, one would have, I suppose, to rely rather heavily on the role to be played by State trading agencies. As discussed earlier, State trading under different degrees of autonomy can encompass a great deal of economic activity ranging from integration projects to trade of goods and services.

Realistically, in the case of the Balkans State trading seems to be a pragmatic compromise that might promote the objective of development integration. Any attempt by either the market or the planned economies in the Balkans to insist on strict application of their own system in regional trade is likely to end in failure. One would expect Greece and Yugoslavia to use the State trading enterprise system in a way that it would approximate private trading. Within the constraints imposed by the central authorities through monetary and fiscal policies, one can see a relatively large number of State trading enterprises competing with each other. Competition would also take place between State trade enterprises and private firms as suggested by the GATT provisions on the subject. Furthermore, the example of Yugoslavia suggests that such a system could be adapted by the economies of Bulgaria and Romania, the two Balkan countries that practice rigid planning.

Again, without overlooking the many difficulties involved, one could visualize an eclectic approach to the question of trade apparatus among the Balkan countries that could lead to a pragmatic compromise by all four economies in the interest of promoting intraregional trade. More important than the variations in organizational and operational details of State trading, however, is the substantive issue of the extent to which Bulgaria and Romania are willing to use rational prices in their dealings with the rest of the Balkans. This is by far the biggest challenge the two centrally planned economies would face in considering regional integration in the Balkans. Sooner or later development integration would have to be accompanied by rational pricing so that the prices of tradeable goods would organically be connected with per unit costs. The conditions prevailing at the present time where prices are, for the most part, accounting devices set a definite limit to the extent of multilateralism in the Balkans. No matter how good the intentions of the political leaders in the region, the feasibility of true development integration is dependent on rationalization of prices to truly reflect relative scarcities of resources and provide the basis for the linking of national currencies to each other by exchange rates. This would hopefully lead to convertibility of currencies within the region at a later stage.

Such a departure from present practices would mean a substantial transformation in the functioning format of these economies. The market mechanism would enter national planning and provide the basis for a rational allocation of resources. With all industry still State owned, the managers would apply costmaximization criteria in production while demand-supply would be equated at market prices. This model is very close to the one visualized by Oscar Lange and Aba Lerner in the thirties as an ideal combination of planning and market forces to be used in the Soviet-type economies[31]. Lange and Lerner may still prove good prophets in view of the slowly evolving trend in Eastern Europe towards such an ideal "system-mix".

For the two centrally planned economies of the Balkans, the transition to such a system under conditions of development integration should prove to be an earlier task than the one experienced by Hungary. In addition to drawing on the Hungarian and Yugoslavian experience, the opening up of the economies on a regional basis could ensure a more gradual and less risky process of transformation. The Yugoslav and the Greek economies could provide the link to the international economy at the early stages of experimentation. The Yugoslav method of introducing two and three column tariffs could be used as a prototype to prepare these countries' tariff system to be used in the context of development integration[32].

While this transformation will cut deep into the structure of the economic system, it does not necessarily entail loss of sovereignty by the centrally planned states. The issue of loss of sovereignty by the national state because of conflict with the apparatus of development integration assume important dimensions only at advanced stages of integration such as the Common Market or Economic Union. No doubt, since by definition development integration implies economic interdependence it is unavoidable that the independence of the national state may be under jeopardy in certain instances but, on the whole, one cannot use this as an argument against regional cooperation in the Balkans. The late Imre Vajda, in contrasting the revival of nationalism and the growing importance of the role of the national state to the necessity of international economic cooperation, arrives at the following conclusion: "...integration as the international organization of the productive processes does not necessarily encompass the whole of economic activity, does not require the liquidation of the national state and is not the motive force of such destruc-

31. See O. Lange and F.M. Taylor, "On the Economic Theory of Socialism" in B.E. Lippicott Ed., *On the Economic Theory of Socialism*, University of Minnesota, 1938. A.P. Lerner, "Economic Theory and Socialist Economy", *The Review of Economic Studies*, Vol. 11, October 1934; "Statics and Dynamics in Socialist Economies", *The Economic Journal*, Vol. XLV/III, 1937; *The Economics of Control*, New York, 1944.

32. The use of tariffs under the present system in the centrally planned economies is a device to negotiate most nation favored treatment. In response to the granting of MFN privileges the country reserves the lower of the tariff columns.

tion. Integration is not the antithesis of the national state; integration and the national state go well together; the former may be built into the latter and this is even desirable for the latter does not lose its identity in the integration". We find Vajda's ideas quite appropriate for the kind of economic integration we have in mind, i.e. development integration[33].

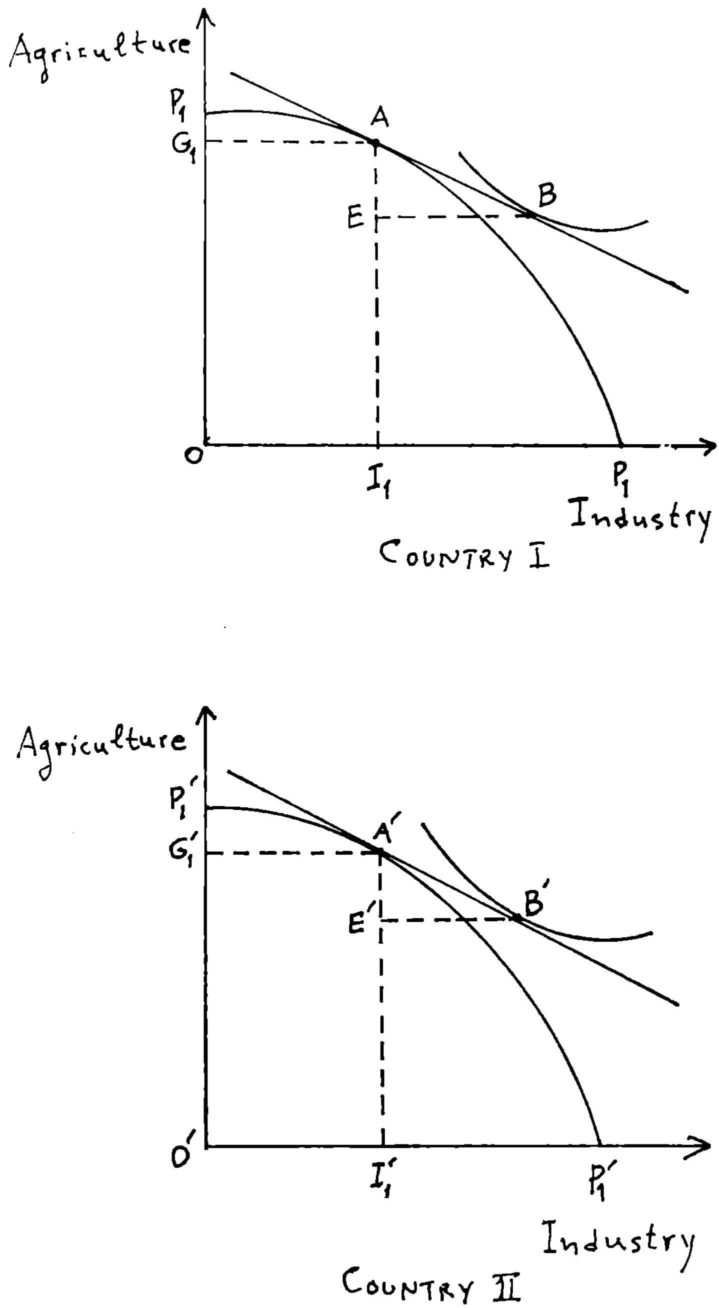
In summary, in the above we tried to establish the point on several grounds, that the Balkans' regional cooperation on a multilateral basis that would lead to "development integration" is long overdue. Of the conventional criteria for successful development integration cited above only one is not met; namely, that the prospective member countries participate adequately in trade with one another. This is indeed an unusual situation, which, when coupled with the pronounced instability of inter-Balkan trade leads to the conclusion that the potential for inter-Balkan exchange is not explored. Somehow the four countries have neglected to exploit the potential in the region.

At the early stages of regional integration when emphasis is to be placed on development projects, cooperation in the areas of exploitation of mineral resources, gas and oil explorations, transportation and communication, and tourism promotion can benefit all four economies. Yugoslavia with the second largest potential of hydro-electric power production in Europe and an already wide base of industrial production has enough to offer in exchange for access to rich underground wealth of Bulgaria and Greece in lead, zinc and iron ores and also to the port facilities of Thessaloniki. Bulgaria, eager to acquire port facilities in the Greek port of Kavalla, can engage in joint ventures with Greece in the aforementioned fields, while Romania's richness in raw materials and petroleum provides a point of attraction for the other three countries.

Multilateralizing trade in the framework of development integration would be the biggest challenge in the region. The use of rational pricing by the centrally planned economies becomes a necessity, while the institution of state trading enterprises would seem an unavoidable development. In addition to the use of scarcity prices, the use of a system of payments which involves a clearing mechanism would be the prelude to eventual convertibility of the national currencies.

The high dependency on trade for all countries prescribes an outward looking policy of economic development for all countries. It would seem that the time has come for the Balkans to exploit long-neglected opportunities

33. I. Vajda, "Integration, Economic Union and the National State", in *Foreign Trade in a Planned Economy,* edited by I. Vajda and M. Simai (Cambridge University Press, 1971).

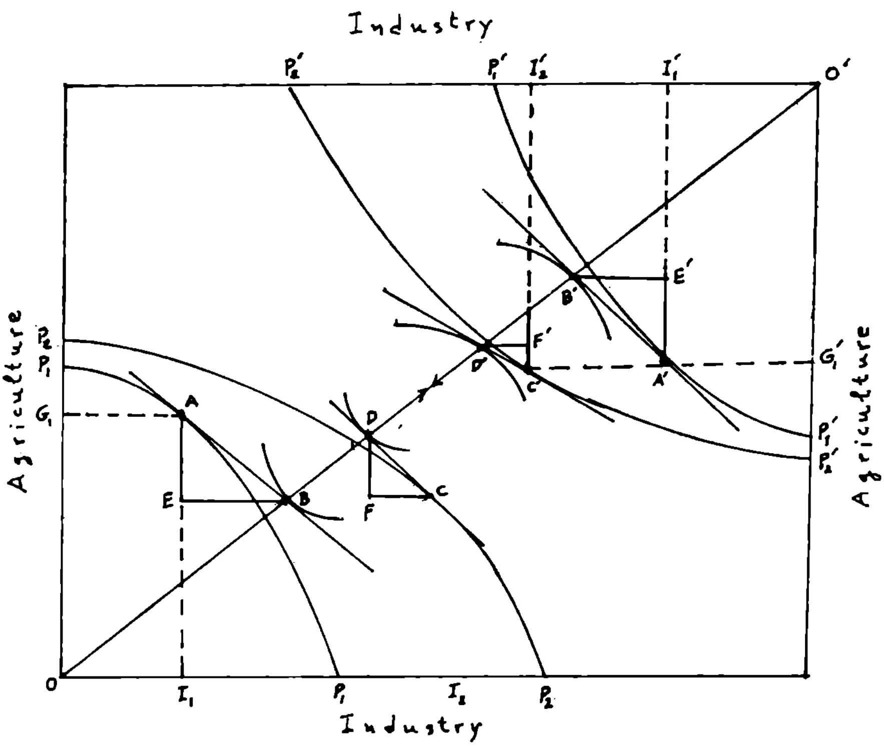

Agriculture
P1
G1
A
B
E
O
I1
P1
Industry
COUNTRY I
Agriculture
P1'
G1'
A'
B'
E'
O'
I1'
P1'
Industry
COUNTRY II

Graph 1.

through international cooperation in their immediate neighborhood without losing their oun identities.

APPENDIX

In graphs 1 and 2, using the technique of the "Box diagram" we can illustrate the argument for development integration regardless of the economic system of the countries involved. In the first figure, P_1, P_1. and P_1', P_1', are the production possibilities curves of two countries, I and II, before their en-



Graph 2.

trance into a development integration scheme among themselves. Production takes place at points A and A′ correspondingly with agriculture being represented heavier. Consumption takes place at points B and B′. Both countries are net importers of industrial products. The trade triangles of the two countries are ABE and A′B′E′ correspondingly.

Now assume that the prime developmental objective of both countries is industrialization, and that this objective is pursued via development integration. Bringing the two countries together in graph 2 in a box diagram with O and O′ being the origins of the production curves of country I and II. For the sake of simplicity we assume that the two countries' consumption patterns are fixed as given by the straight lines OD and OD′. Development integration could enable both countries to undergo shifts of their production possibilities curves to P_2P_2 and $P'_2 P'_2$ correspondingly. The new production points are C and C′ indicating that both countries underwent substantial industrialization. Country I is now a net exporter of industrial products while country II has decreased substantially its imports of industrial goods. This is shown by the two new trade triangles DCF and D′C′F′ for countries I and II correspondingly.

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