

Eleftherios N. Botsas

The Balkans in Transition

I. Introduction

The terms Balkan and balkanization have become synonymous with unnatural division, conflict, and the absence of cohesion. Stereotypes about the part of the world that we call “Balkan” abound, and most of them are critical or derogatory. Even in the age of cultural diversity, the term, as often used outside the Balkans, symbolizes esoteric division to the extreme. Thus, we see titles of articles like balkanization of knowledge, balkanization of reality, and so on even in academic journals. All wish to convey the loss of cohesiveness. Politicians and journalists have used the terms to describe interethnic warfare for long time. David Owen starts his book on the Yugoslav conflict with the observation that “NOTHING IS SIMPLE in the Balkans. History pervades everything and the complexities confound even the most careful study”¹. He is not alone in claiming that the bloody history of the Balkan peoples is the cause of the conflict and civil wars of the area. That is hardly an explanation of the long-term stability of conflict. It fails to explain why some societies are perpetually in conflict while other societies overcome their historical determinism. In the absence of other rational explanations we seek refuge in historical determinism to justify our inaction or our unwillingness to explore beyond the surface.

As long as the world was bipolar, the Balkan countries knew their geographic as well as political borders. They knew that the superpowers would not permit changes in either boundary if the changes affected the relative power of the East or the West. Even Yugoslavia’s refusal, under Tito, to follow the orthodox Stalinist model was accepted as not constituting an important shift in the bipolar model that would require strategic rearrangements. Although Tito violated the political boundary by breaking away from the Comintern in 1948, he remained a communist dictator. His defection was viewed more as a family squabble than a shift

1. David Owen, *Balkan Odyssey*, New York 1995, p. 1.

in political direction. The superpowers would not permit changes that could affect their perceived national or international interests. It is true that this was the case as long as it affected the East-West divide but not necessarily within each bloc. For example, NATO did not consider it its business to intervene in the case of Turkey's invasion and occupation of a neutral mini-country, Cyprus, but it would have considered it its business if, for example, the Soviet Union occupied and dismembered Yugoslavia. The West always came to the rescue of the weak when the weak were threatened by its competitors in the international market place. Thus thanks to the East-West antagonism, all was quiet in the Balkans². However, the implosion of the Soviet bloc created opportunities for subdued Balkan hostilities to resurface, hostilities that were assisted by Germany and Italy.

Although the Balkan countries are not resource rich, because of their geographic location at the crossroads between east and west, as well as north and south, they have been objects of competition for control by the big European powers for a long time. However, there are no big powers left in Europe, and the technological changes that have shaped the military, but not the economic, sphere during the last quarter of this century have further diminished the strategic importance of the region. The absence of the East-West competition for influence and control created conditions for a wider Balkan market for their products as well as cooperation in the sphere of technology and communications. After all, even during the ideological hostilities of the bipolar international system the Balkans showed signs of convergence. However, the absence of an international system can also create instability in the relations among states, and that is what is happening in the Balkans today. History and ethnic hatred are usually cited as the culprits of the Balkan conflicts. While their history may be one of warfare, it has also been a history of common aspirations and common experience.

II. States and Markets

Whether under state planning or not, the hand of the state has been very visible in the Twentieth century Balkan economies. The industrial

2. For purposes of this paper, the term Balkans or Balkan countries includes Albania, Bulgaria, Greece, Romania, Turkey, and the former Yugoslavia.

revolution did not penetrate the Balkans last century, and industrialization became the slogan of hope in the post World War II period. In the absence of domestic financial resources and bigness of firms to exploit internal returns to scale, industrialization could not be achieved in a perfectly competitive environment. Therefore, the region remained underdeveloped, economically backward, and dependent on the western European markets. Industrialization could be forged only with the help of the state. Historically, two completely diverse economic and political masters governed most of the Balkan Peninsula. The Austro-Hungarian Empire governed part of the territory, and the Ottoman Empire another part. In matters of the role of the state in the economy, the former was more enlightened than the latter, but neither was committed to the absolute freedom of economic agents. Thus, upon liberation, the Balkan states had limited experience with the frontiers of risk taking and technological change. For example, the Greeks devoted their talents and time to distributive commerce rather than experimentation with methods of production. In relative terms, however, those territories that were under the Austro-Hungarian control had, and still have, higher per capita output than those formerly under Ottoman control. Liberation from foreign control brought nation-creation but no significant change in industrial development and entrepreneurial freedom. The "Anglo-Saxon" debate about the limited role of the state in the economy did not affect the new Balkan states. The issue was too esoteric to concern Balkan economic or political thought. Centuries of life under foreign rule had made the acceptance of state control natural.

The interwar period witnessed an increase in state intervention throughout Europe. The search for price stability, full employment, and some access to foreign markets reinforced the role of the state in economic management throughout the world. The Balkans were not an exception. Moreover, Germany had developed close relations with Bulgaria, Romania, Turkey, and Yugoslavia³, and nazi Germany had advanced the collaborative life of business and state to new heights. Given the loss of markets due to the depression and the widespread practices of protectionism, the Balkans did not question state intervention in busi-

3. Eleftherios N. Botsas, "The Big Powers and Interbalkan Economic Relations", *East European Quarterly* 12₃ (1978) 257-282.

ness affairs. Therefore, state intervention in the markets was not an issue; the issue was what tools should states use for intervention. Taxation and subsidies, credit, and foreign trade were the usual tools for the Balkans. Acting individually or collectively, the Balkan economies are too small to affect the world interest rates by borrowing more or less. Since the domestic supply of loanable funds was limited by state actions, economic theory suggests borrowers would access the international money market for capital investments. The problem was that neither firms nor Balkan state had a credit-worthy record that would permit access to the international money markets. Even today, only Greek firms seem to have access to those markets. Foreign direct investment (FDI) also avoided the region. Therefore, credit was limited to domestic sources. Since the Balkan states controlled the banking system, credit and subsidies became favorable instruments of state intervention. The Balkan governments, like governments elsewhere, affected foreign trade through import duties and export subsidies. Economic policy meant state monopolies, special taxes, import duties and credit regulation.

State roles were mostly protective or anticompetitive. Somehow, competition was viewed as wasteful and unpatriotic. Additionally, the governments had very limited sources of revenue beyond their ability to collect import duties. Therefore, import duties became their tool for both revenue collection and commercial policy. The spirit of anti-competitiveness took a hold throughout the region. Even today, the Greeks and the Turks demonstrate against privatization of public utilities, because history says it is safer for inefficient workers to strike against the state than it is against privately controlled corporations.

Foreign debts to finance wars of liberation or just wars among themselves made the international trade sector easy target of state intervention in the Balkans. Many times the state itself was subject to foreign control that required state intervention. No matter what the state intentions were, state intervention was mainly protectionistic and irrational. It did not lead to rational allocation of resources according to comparative advantage. Thus, trade among the Balkans remained insignificant engine of economic growth. Nationalism and hostilities added to the resource misallocation. It was only under the pressures of the Great Depression and the loss of western and central European markets in the 1930s that trade among themselves reached about ten percent of

their total trade turnover⁴. Yet, the 1930s were the “golden age” of inter-Balkan cooperation. Four centuries of Ottoman rule had left a heritage of fatalism. As George Hoffman has observed, “in view of the retarding impact of the Turkish occupation of large parts of Southeast Europe, independence per se did not and certainly could not bring sudden change to the backwardness of wide areas of the peninsula, but only to few more-privileged centers. State control or just intervention, especially during the interwar years, became widespread”⁵.

Given the limitations introduced by the smallness of the internal markets, logic dictates that the Balkan economies would pursue cooperation to better integrate their economies. Only Serbia and Romania possessed minerals for large-scale exploitation, and Greece possessed very little beyond sea and railroad transportation. Agriculture was their primary activity, and even that was highly inefficient and unable to compete with the New World giants in the international markets. Nicolas Spulber informs us that the proportion of the population depending on agriculture in 1938 was about fifty percent in Greece and over 70 percent in the rest of the Balkan countries. Unlike small countries in Western Europe, the Balkan countries had not amassed capital and skills necessary for industrialization. According to Spulber “Romania, Serbia, and Bulgaria developed essentially as food producing and food exporting countries”⁶. Although Serbia and Romania were rich in natural resources favorable to industrialization, large-scale manufacturing had to wait for the establishment of communist rule. Somehow, the legacy of Turkish backwardness took a hold of the Balkans long after the Ottoman Empire was gone. Even in agriculture, the regions that were, before independence, under Ottoman rule inherited no special skills in the sector of their special activity. “The Turkish occupation left an almost insuperable backwardness in the Balkan villages”⁷. This was hardly a sector of the economy that could take a leading role in economic development, yet it was the sector that policies tried to protect.

4. *Ibid.*

5. George Hoffman, *Regional Development Strategy in Southeast Europe*, New York 1972, p. 35.

6. Nicolas Spulber, *The State and Economic Development in Eastern Europe*, New York 1996, p. 18.

7. *Ibid.*, pp. 66-67.

The Balkan economies had spurts of economic growth but failed to develop backward and forward linkages that could sustain a permanent “take off”. In the case of Bulgaria, Alexander Gerschenkron informs us that “Between the early years of the century and the end of the interwar period, there was a fair amount of growth of industrial output in Bulgaria, but that growth did not reveal the specific qualities that are usually associated with a great spurt of industrial development in conditions of considerable backwardness”⁸. Every society changes with time, but economic change has been severely affected by social, historical, geographic, and nationalistic environments in SE Europe. To use George Hoffman’s words, in southeast Europe, “The transition of the social processes and economic adjustments is still incomplete and continues at the present time”⁹. However, the globalization of business cannot wait for the Balkans to catch up. The increased international competition will force the Balkan countries to become more efficient.

World War II and its aftermath changed the ideology and the operating methods of the Balkan economics. Three countries —Albania, Bulgaria, and Romania— followed the Soviet path of central planning, while Greece and Turkey stayed on the market path, but, like the rest of Europe, with heavy doses of state intervention, and the polyethnic Yugoslavia adopted a unique experiment of “market socialism”, or workers self-management. Regardless of the system that each followed, all Balkan economies scored important progress in their fundamental economic variables during the post-World War II period. This was due partly to the relative backwardness of the region. It is much easier to achieve high rates of growth when you are on the stage of catching up with the more advanced countries of Western Europe than it is to work on some frontiers with high uncertainty. An overview of the performance reveals that, although they started their postwar drive to development from equal footing, they have achieved quantitatively dissimilar results. There is, of course, no agreement as to how one can judge systems that differed so radically, but there are certain variables that can permit a comparison across systems and time.

8. Alexander Gerschenkron, *Economic Backwardness in Historical Perspective*, Cambridge 1962, p. 213.

9. George Hoffman, *Regional Development Strategy*, p. 32.

Table I - Balkan Economic Profiles

		GDP							
	Per Capital 1994	Rate of Growth		Sector of Origin in 1994 (%)			Labor Distribution (%)		
Country	(PPP\$)	1980-90	1990-95	Agric.	Ind.	Serv.	Agric.	Ind.	Serv.
Albania (α)	2,788	3.0	1.4	55	22	23	55	23	22
Bulgaria	4,533	4.0	-4.3	13	35	53	13	48	38
Greece	11,265	1.4	1.1	16	31	52	23	27	50
Romania	4,037	0.5	-1.4	21	33	46	24	47	29
Turkey	5,193	5.3	3.2	16	54	53	53	18	29
Yugoslavia (*) (former)	4,860	5.2	-2.2	10	42	48	29	24	47
OECD	18,621	2.2	n/a	3	37	60	5	29	66
EU	18,571	2.2	n/a	3	34	63	6	32	62
Croatia	3,960	N/a	n/a	13	25	62	16	34	50
FYROM	3,965	N/a	n/a	n/a	n/a	n/a	22	40	38
Slovenia	10,404	N/a	n/a	5	38	57	6	46	48

Key: PPP = purchasing power parity

Agric = agriculture, Ind. = industry, and serv = the service sector.

(*) = Former Yugoslavia's rates of growth are for 1965-1980 and 1980-1989. The sectoral origin of GDP is for 1988.

(a) = The World Bank 1992 report gives substantially different percentages for shares of GDP. In that report, the share of Albania's industry in net material product in 1986-90 is given as 45% and agriculture as 33%.

n/a = not available or not applicable.

Sources: United Nations, *Human Development Report* (various years) and World Bank, *World Development Report 1997*.

Because it permits improvement in the standards of living, economic growth is a universally accepted criterion of an economic model. It is not value neutral because it tells us not much about the cost of achieving growth. For example, we know now that much of the economic growth of the centrally planned economies of Europe has been at the expense of the environment. Achievement of quantitative targets is likely to be associated with many undesirable side effects, but even in the absence of such effects economic growth is just one of the criteria of

economic progress. In spite of its limitations, economic growth is still the best index of improved standards of living. There is agreement among economists and policy makers that the average product per unit of labor is the best measure of standards of living. Lacking comparable data of labor hours allocated to the production of goods and services, we accept the average or per capita gross domestic product (GDP) as a proxy of economic wellbeing. The overview of the Balkan economies produced in Table I tells us something about relative performance under radically different systems. But the data cannot tell us the full story of the economic effects of changing systems. For example, the penalties for wealth creation in the underground economy differed dramatically between countries under communism and the two market economies. Since the underground economy existed in both systems, the rate by which it changed over time affects the relative performance of the economies. We know that the underground economy is present, but because of its illegal essence we do not know its magnitude. In Greece it's believed to be anywhere from one third to fifty percent of the officially estimated per capita income. In order to describe it the Greeks introduced a new word, "paraeconomia".

Let us examine the officially estimated per capita gross domestic product first. We shall leave Albania out for a moment, because we lack reliable data for the period 1948-1980. The rest of the Balkans, including Turkey, started in the late 1940s with about equal per capita GDP. We can see then that the two market economies outperformed the CPEs as well as Yugoslavia in rates of economic growth in the post World War II. With the exception of Turkey, as a result of the Second World War, all suffered severe loss of productive capacity in terms of both human and non-human capital, and all of them, including Turkey and Albania, received foreign assistance to rebuild their economies. Albania's economic relations with the rest of the world were affected by the shift in informal alliances according to strict adherence to Stalinism. The frequent interruptions in imports of capital equipment prevented consistent building or borrowing of more advanced technology. The case of technological improvements was only marginally better for the rest of the CPEs. The record of the Balkan economies may or may not look impressive, especially in comparison to the Asian "tigers", but we cannot deny the fact that they somewhat closed the gap with the developed

economies. In terms of GDP rates of growth they outperformed the Organization for economic Cooperation and Development (OECD) group.

The trend, however, conceals peculiar phenomena. First, all economies grew very fast in the 1960s, but less so in the 1970s. This follows the same trend observed in the rest of Europe, East or West. Although the causes of the productivity slow-down in the market economies are under dispute, there is agreement that the slow-down in the East was the result of the limitations of extensive growth. Both Romania and Bulgaria, but especially the latter, mobilized resources in favor of manufacturing. Moreover, they reoriented their trade relations from western and central European markets to the Council for Mutual Economic Assistance (CMEA) bloc, also known as Comecon. Furthermore, through specialization agreements Bulgaria became more integrated into the Soviet economy than any other country of the former bloc. About eighty percent of Bulgaria's trade was with the CMEA countries. The Soviet Union alone accounted for over fifty percent of Bulgaria's imports and exports, reaching sixty per cent in 1986. Thus, no other country had such a high percentage of its trade with other CMEA countries as Bulgaria had. Romania started the separation process in 1961, but it was never so deeply integrated to another economy. The break-up of the CMEA market reduced the value of trade of the two CPEs and Yugoslavia by more than fifty percent.

The 1980s were a decade of economic decline for all Balkan economies except that of Turkey. The CPEs had entered a period of stagnation, ex-Yugoslavia saw its average annual rate of GDP fall from 6.1% in 1965-1980 to 1.3% in 1980-1989 and during the same period Greece's rate fell from 5.8% to 1.6%¹⁰. While the rest of the world started questioning the role of the state in the economy in the 1980s, Greece moved in the opposite direction —increasing the dominance of the state¹¹. Turkey, on the other hand, moved, after the third military coup d'état of 1980, more in the direction of the market, which helped retain the high rate of growth of the 1960s. Economic decline or stagnation became the characteristic of all Balkan states except of Turkey.

10. World Bank, 1997.

11. Eleftherios Botsas, "Trade and the Collapse of Central Planning in Europe", *East European Quarterly* 26₂ (1992) 239-259.

Additionally, Turkey experienced the most dramatic transformation of its export mix. While manufactures accounted for 27 percent of the value of exports in 1980, they accounted for 72 percent in 1993, versus 47 and 48 percent in the case of Greek exports¹².

All Balkan countries exhibit some characteristics of underdevelopment. For example, in spite of the progress they made in the economic transformation of their primarily agricultural economies, still the proportion of the labor force tilling the land is very high. The averages of sectoral labor allocation for the European Union are agriculture 6 percent, industry 32 percent, and services 62 percent. Albania and Turkey, as Table I shows, are more like the rest of the developing countries, which, as a group, allocate 61 percent of labor in agriculture. Table I also shows that in Greece, Romania and especially Turkey agricultural labor force is very redundant. Fifty-three percent of the labor force contributed only sixteen percent of the gross domestic product. World Bank data show that Albania's GDP grew by only 2 percent per year between 1980 and 1985¹³. Although in the case of Turkey labor distribution refers to 1990, while GDP shares refer to 1994, it could not be that there was such a drastic change in just four years. On the other hand, Turkey's industrial sector shows high productivity. Yet much more could be done through cooperation and widening of the market. The Balkans have to take lessons from the European Union. As former Ambassador Warren Zimmermann has observed, "Political, historical, and nationalistic factors stand in the way of a more efficient allocation of resources in the Balkans through a broad division of labor within the area"¹⁴. However, this sounds revolutionary to parochial interests of those who stand to gain from the division of peoples rather division of labor.

Given the emphasis central planners placed on heavy industry, one would expect industry to be the leading sector on both labor employment and value added to GDP of the former CPEs. Of all European CPEs, Albania, Bulgaria and Romania were the furthest removed from the market mechanism. Private initiatives were heresies that had to be completely removed from economic calculus. In the case of Romania,

12. World Bank, 1997.

13. World Bank, 1992. *Albania: From Isolation Toward Reform*. Occasional Paper 98.

14. Warren Zimmermann, *Origins of a Catastrophe*, New York 1996, p. 83.

we find that the record is rather mixed except that all industrial plants are underutilized. The fact that foodstuff processing is the most important sector within industry further testifies to the importance of agriculture in the Romanian economy. However, because of the heavy subsidies and regulations that are associated with manufacturing, there is no clear way of saying whether this sector has comparative advantage in the international market. The fact that it requires state support indicates that it is not likely to be able to withstand competition from the flexible European Union firms. Romanian and EU statistics show that although this branch accounts for about fifteen percent of the value of industrial output it employs only ten percent of the industrial labor force. We do not know the extent to which this is determined by low wages, but it does indicate that under conditions of upgraded technology this sector should be able to compete in the international market if the currencies of East Asia return to stability and their pre-crisis exchange rates. Processed foodstuffs are sensitive to final prices.

The second most important branch of Romania's industry is mechanical engineering. This is a legacy of the Ceausescu regime's drive for heavy industry. It is labor intensive, technologically outdated, and almost impossible to compete in the highly efficient and competitive global market. The newly industrialized countries (NICs) of East Asia are strong claimants of supremacy in this sector. On the other hand, Romanian specialization in parts of this sector could be profitable. Romania needed to move faster in the direction of market policies immediately after the fall of Communism. One thing that we know for sure is that central planning produced a highly skilled and disciplined labor force. However, those skills were for tasks that became obsolete long before the peaceful revolutions of 1989. Now the only hope for survival of this sector lies in protectionism, but neither the World Trade Organization nor the EU is likely to tolerate long-term protectionism even for the economies in transition from central planning to market. Moreover protectionism per se has never solved the problems of inefficiency and backwardness. If anything, protectionism perpetuates the problems.

Romania is paying today for the sins of the past. Ceausescu's obsession with the principle of no foreign debt during the 1980s starved the economy of imports of necessary inputs to facilitate technological change and future growth. The ratio of the value of exports/value of im-

ports moved from 1.01 in 1981 to 1.35 in 1988. From 1981 to 1988, Romania exported, on the average, 26.8 percent more per year than it imported¹⁵. The fear of foreign debt was stronger than the fear of shortages and riots.

Originally, Yugoslavia's Tito and his comrades attempted to outdo Staling in detailed planning for industrialization and land collectivization. After their early economic failures and the squabble with the rest of the communist bloc, the Yugoslavs moved to a new political doctrine of neutralism in politics and economic aid from all that cared to give. After the first hostile reactions by the CPEs to Yugoslavia's experimentation with the new environment of neutralism, the Yugoslavs faced at home the problems of a dual economy, an economy that had high-income regions next to backward regions with almost no mobility of resources between the two regions. The Yugoslav State still retained the responsibilities for a "fair" allocation of the investment funds among the various republics. Even in the absence of political abuse of the doctrine of "fairness" the state cannot just wither away. Theoretically, self-management is very likely to lead to greater, no lesser, dualism. The state cannot stay as an observer of economic agents acting according to their self-interest because, as Benjamin Ward and others have shown, all it would take is a simple majority in the workers councils to exploit any minority just below 50 percent of the voting members¹⁶.

The state had to be present if the south were ever going to develop. This required redistribution of income and investment from the rich republics of Slovenia and Croatia to Kosovo and Bosnia. Self-management did not mean retention of the status quo. The problem of efficient allocation of investment funds was at conflict with issues of egalitarianism in a socialist state. As John Moore, one of the earliest students of the Yugoslav experiment put it,

"The motivation for the regional program was undoubtedly more political than economic, as —among other things— the 'political factories', associated with the regional program suggests. The investment fund transfer program, in this per-

15. Eleftherios Botsas, "The State and the Market: The Greek Economy on the Eve of the Maastricht Treaty", *Balkan Studies* 33₂ (1992) 323-337.

16. Benjamin Ward, "The Firm in Illyria: Market Syndicalism", *American Economic Review* Vol. 48 no. 4 (1958) 566-589.

spective, was a means of pacifying the political leadership in the backward areas while devoting the main force of economic policy to the main objective of overall industrialization”¹⁷.

There is however nothing wrong with political decisions as long as they consider the cost and benefits of various alternatives. Yugoslav unification itself was a political decision, and its breakup was a political decision also.

Another common characteristic of the Balkan economies has been the high rates of inflation. The average annual rate of inflation as measured by the GDP deflator between 1985 and 1995 was Albania 27%, Bulgaria 46%, Greece 15%, Romania 69%, and Turkey 65%¹⁸. In order to meet the Maastricht convergence criteria for economic and monetary union (EMU), Greece only recently reduced the rate of inflation to single digit. Since all Balkans aspire to be part of the EU, one of their toughest policy jobs is to deflate their economies.

III. Transition

The aspiration of central and eastern Europe (CEE) is to integrate with the rest of Europe in the European Union. This will take some time because the requirements for the private sector versus the state have changed dramatically since Maastricht. Economic analysis points that both EU and CEE will benefit from such integration, but there are still questions of relative costs and benefits plus the ability of the Union to expand that fast. Widening versus deepening has been a long-running controversy in European integration. Eastward expansion will undoubtedly increase the burden of regional funds as well as of CAP funds. Moreover, free labor mobility may create an excess of backwash effects in the labor-source countries. There is a dual transition in the Balkans, one for the former CPEs to market economies and one for Greece to an equal partner of the European Union. Thanks to the wasteful use of resources in the 1980s, Greece changed position with Portugal as the poorest member of the EU. Like the rest of the Balkans, it needs a drastic shift in

17. John Moore, *Growth With Self-Management: Yugoslav Industrialization 1952-1975*, Stanford 1980, p. 150.

18. World Bank, 1997.

economic priorities if it wishes to avoid marginalization in a wider Europe. As mentioned before, protectionism of one form or another became the hallmark of the Balkan states, but, as a member of the Union, Greece had to drop its protective tariffs and subsidies, as well as to get the government out of the business sector. There is today very little left under state control, and even that will disappear as the Union is moving closer to pure markets. However, the state is still playing an important business role in banking and transportation. Even as late as 1989, state-controlled sectors of the Greek economy accounted for 26% of the non-agricultural labor force employment¹⁹. Katseli emphasized credit control by the state and family control of the important enterprises as determinants of what she called “state-corporatist environment” in Greece²⁰.

The term “economies in transition” is usually reserved for the former CPEs that seek adjustment from planning to market. Since all Balkans except Greece and Turkey had heavy dependence on the Soviet Union for trade, the collapse of the Soviet Union and its trading and finance agencies had dramatic effects on the Balkan economics. Table 2 shows that even the two countries, Albania and Yugoslavia, which had remained outside the Soviet orbit, experienced drastic falls in their economic activities. All economics that had high state control over the allocation of human and non-human resources ended up with resource misallocation.

The shift from planning to no planning was more dramatic for the economies, such as Bulgaria, that depended heavily on the CMEA market. In 1990 central and East Europe absorbed about 80 percent of Bulgaria’s exports and provided about 76 percent of its imports. The Soviet Union was, of course, the single most important trade partner, and Russia is today the single most important partner. But the value of trade of the former CPEs with the rest of the world fell by fifty percent or more between 1990 and 1991. In relative shares, OECD countries used to be the destination of only ten percent of Bulgaria’s exports now account for over fifty percent.

19. Louka Katseli, “Economic integration in the enlarged European Community: structural adjustment of the Greek Economy”, in Christopher Bliss and Jorge Braga de Macedo, eds., *Unity with diversity in the European economy*, Cambridge 1990, pp. 235-309, esp. p. 240.

20. *Ibid.*, p. 241.

Table 2. Balkan Rates of Real GDP Growth, 1980-1997

Country	1980-89	1990	1991	1992	1993	1994	1995	1996	1997
Albania	2.5	-10	-28.0	-7.2	9.6	9.4	8.9	9.1	-7.0
Bulgaria	3.6	-9.1	-11.7	-7.3	-1.5	1.8	2.1	-10.9	-7.4
Romania	1.7	-5.6	-12.9	-8.8	1.5	3.9	6.9	3.9	-6.6
Ex-Yugoslavia	0.7	-7.5	-17.0	-34.0					
Greece	1.8	0.0	3.1	0.7	-1.6	1.7	1.8	2.6	3.3
Turkey	4.2	9.2	0.8	5.0	7.7	-4.7	7.5	7.1	5.7

Source: International Monetary Fund, World Economic Outlook, May 1998.

Romania started diversification of its international markets in the early 1970s but still had important volumes of trade with CMEA countries. Albania had remained reclusive after its break-up with China and its abandonment of the Stalinist model. Therefore, the break up of the CMEA should have no impact on the economy, and perhaps it did not. However, the opening up the reclusive state demonstrated to the people how far back their leaders had pushed them. It was up to the people now to escape what they perceived as a concentration camp in an environment of poverty. Still the loss of access to markets and sources of finance left the three formerly planned economies in a very difficult position.

Bulgaria's declaration of moratorium on servicing previous foreign debt in March 1990 made finance of development through the international credit markets more difficult. In the final analysis, foreign investors invest in a country for profits convertible to their own currencies. The declaration of moratorium scared foreign capital. Still, foreign capital could be attracted in the form of foreign direct investment (FDI). In the case of all three formerly centrally planned economies FDI has been anemic. In these three countries, FDI has been lagging far behind the flows into other European countries in transition. This is so in spite of the reforms that Bulgaria and Romania introduced. According to the OECD economic survey, "Bulgaria was actually among the first of the central and eastern European countries to allow foreign direct investment on its territory, passing a joint venture law in 1980"²¹. Moreover,

21. OECD 1997, p. 125.

“At the outset of economic transition, Bulgaria was again among the first countries of the region to adopt legislation to attract foreign investors”²². FDI declined the invitation.

Profitability and safety of capital are the primary concerns of investors, both domestic and foreign. Investment decisions take some time to evaluate the market. Evaluation requires accurate information before funds are committed. Because of the prolonged adherence of the CPEs to central planning, the amount of accurate information for investment analysis is limited. That, however, is the case for all former CPEs. Yet of all European countries in transition only Russia and Ukraine received lower levels of FDI than Bulgaria (see Table 3). Because of its inter-ethnic wars and international embargoes, Yugoslavia could not expect substantial inflow of FDI. However, Turkey has been experiencing inter-ethnic war and substantial inflow of FDI. The difference is that the West classifies the Kurds as terrorists, but the Bosnians, Croats and other former Yugoslavs as freedom fighters. Investors are mindful of how the United States, Germany, and France deal with international upheavals.

The abrupt systemic changes (shock therapy) of the Balkan CPEs could not overcome the established inefficiencies of the central planning legacies. The hostility to competition was present in all the economies in transition, not just the Balkan ones. Since the Soviet Union provided the CMEA countries with energy priced far below world prices in the 1970s and 1980s, the CPE of Europe had no incentives to economize on bigness and energy consumption. For example, evaluating Bulgaria's application for membership, the European Commission found that until mid-1996 Bulgaria was using two to four times more energy per unit of output than the average of the European Union²³. The CMEA countries had developed energy intensive industries that reflected technology and prices of the 1960s rather than the 1990s. Since the Bulgarian economy was the most integrated with the Soviet Union, it faced more severe difficulties in the process of adjustment, especially when Europe is concerned more with Poland, Hungary, and the Czech Republic than with the Balkans.

22. *Ibid.*

23. The Commission's evaluation can be found in its Agenda 2000 (<http://europa.eu.int/comm/dg1a/agenda2000/en/opinions/bulgaria/b21.htm>).

Table 3. External Indicators of Selected Countries in Transition.

Country	Trade/GDP in 1995 (%)	Per Capita 1996 FDI US\$	External Debt 1995		Servicing Ratio
			Million US\$	% of GDP	
Albania	52	97	709	31.6	1.0
Bulgaria	94	69	10.887	92.3	18.8
Romania	60	84	6.653	19.5	10.6
Croatia	93	268	3.662	20.3	5.7
Hungary	67	1.299	31.248	72.8	39.1
Poland	53	265	42.291	36.1	12.2
Slovenia	113	895	3.849	18.7	6.7

Sources: FDI, OECD 1997, Table 33; rest, World Bank 1997.

Greece has become for the Balkans the bridge to the European Union. Although in the past it had wars with Turkey and Bulgaria, it never had wars with the rest. Except for the 1930s and early 1950s, Greece and Turkey seem to be in perpetual conflict. The conflict will persist as long as Turkey insists pursuing expansionary policies in eastern Mediterranean. I agree with Gianaris observation that "Future socioeconomic and political developments between Greece and Turkey depend primarily on the settlement of the problem over Cyprus"²⁴. There is the name conflict with the FYROM, but under appropriate understanding even this will wither away. The Balkans cooperated in the 1930s and can do the same now when they realize that self-interest requires cooperation.

Greece is seeking much closer cooperation with the rest because in such a case it strengthens its own position in the EU as well as versus the constant Turkish threats. Moreover, the exorbitant defense expenditures deprive the civilian sector of scarce resources. No other European country allocates such a high proportion of its GDP as Greece and Turkey do.

A rational cost-benefit analysis of cooperation can show the way to an economic union of the Balkans. Proper economic analysis could help the Balkans through the maze of conflicting aims that their policy mak-

24. Nicholas Gianaris, *Geopolitical and Economic Changes in the Balkan Countries*, London 1996, p. 149.

ers often pursue for their own vanity. Cooperation among themselves is the only way for them to demonstrate their willingness and ability to join the global markets. It must be remembered that the European Union itself went through the same stages of doubt and conflict. Moreover, it took the EU thirty years to harmonize its laws and policies. Furthermore, both Romania and Bulgaria are very poor in terms of European standards. Their per capita GDP is only 24 percent of the average of the Union. Unification among themselves will give them a more rational base to close the gap.

*Oakland University,
Rochester, Michigan, USA*