THE EFFECTS OF THE INTERIM ACCORD ON THE ECONOMIC RELATIONS BETWEEN GREECE AND FYROM

Christos Nikas

1. Introduction - Methodology

Evaluating the Interim Accord from an economic point of view means developing a comparative statistical analysis of the economic transactions between Greece and FYROM. However, statistical analysis must be done under two almost diametrically opposed institutional frameworks, namely the embargo and the elimination of the embargo that marked the application of the acquis communautaire, as this evolved in the second half of the 1990s. The difference lies between a regime of total administrative restraint, in essence and, prohibition of transactions on the one hand, and a dynamically evolving free business regime that is moving towards full deregulation on the other. This latter is a process which will be completed with FYROM's integration into the European Union.

Indeed, exploring the economic relations between two countries over such a striking metamorphosis of institutional as well as economic environment is indisputably an exceptionally interesting exercise. This is more so the case if one takes into account the fact that the changes came about partly by reason of

the transition process in the neighbouring country and partly by reason of the economic conjuncture,. However the depth of the exploration is conditioned by specific objective constraints, namely:

- The time frame is very short (and diving into the past would be meaningless, since FYROM was then part of Yugoslavia), thereby not allowing for the necessary degrees of freedom for econometric study.
- Many earth-shaking changes affecting FYROM such as war in Yugoslavia, civil war in FYROM, transition process, etc., occurred during the specific time frame. Therefore the isolation of the fact of the Interim Accord, through the application of the ceteris paribus assumption used by economists every time the real world becomes too complicated for their effective range, is not feasible.
- The disparity in the orders of magnitude of the two countries far exceeds their 5:1 population ratio. This is the result of comparing a country that has been a full member of the European Union for 21 years and, based on per capita income and UN figures, is one of the 23 richest economies in the world, to one of Europe's poorest states. Hence, by definition the Interim Accord has a far greater impact on the smaller country with its narrower range of options.

Since the time period (1992–2001) is short, the study will be structured thematically rather than chronologically. This choice has to do with the fact that the given timeframe embraces three sub-periods, two of which are very short. The first timeframe stretches from independence to the imposition of the embargo. The second addresses the embargo period and, the third, the longer period of the Interim Accord. This, of course, makes comparisons both difficult and meaningless. Thus our analysis will, except of course for the final conclusions, be divided into three thematic units:

- The first will look at the progress of trade relations between the two countries. It will distinguish between trade in goods and trade in services since, as we shall see, in some cases the latter depends on various factors.
- The second will focus on Greek investment in FYROM and will distinguish between direct investment and the Greek presence in the process of privatisation of state enterprises. This distinction is made since the former mainly involves private capital, while the latter involves companies with a substantial public element (for example OTE - Hellenic Telecommunications) and is, thus, characterised as a portfolio investment. We are neither concerned with FYROM investment in Greece, nor with movements of labour between the two countries in this paper. This is due to the fact that during the period in question, these are considered negligible both in terms of volume and significance. These two subjects will, however, be discussed in the third section of the study in which future prospects are explored.
- The third unit will look at the prospects for future economic relations between the two countries, particularly with regard to trade and movements of labour and capital. The analysis will be based on the working assumption that economic relations between the two countries will develop smoothly in the medium/long term on the foundation of FYROM's European progress.

2. Trade

2.1. Trade developments

Trade relations between Greece and FYROM existed throughout the post-war period. Given that Yugoslavia was a Federation at the time, we are able to isolate trade transactions between Greece and FYROM. The annual value of this trade was less than USD 1,000,000 in the 1950s, rose to USD 3,000,000-

4,000,000 in the 1960s and then soared to more than USD 70,000,000 in the 1980s[1] before topping out at over USD 150,000,000 in 1990. The drop in 1991 was slight, but by 1992 relations between the two countries deteriorated and trade plummeted to approximately USD 87,000,000.[2] It is worth noting that the balance of trade between the two countries in almost every post-war year showed a surplus in Greece's favour, meaning that even during the period of socialism in Yugoslavia, trade relations did not respect the clearing pattern generally followed in East-West trade.

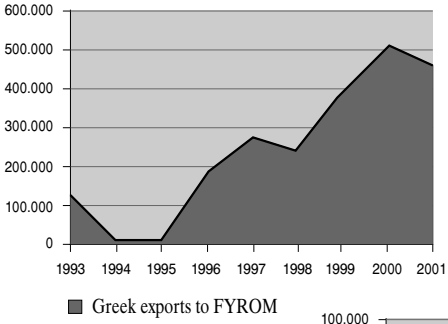
Table 1
Trade between Greece and FYROM (1993–2001)

	Greek Exports to FYROM (in USD)	**Greek Imports from FYROM (in USD)**	**Trade surplus for Greece (in USD)**
1993	127473	24310	103163
1994	12301	4128	8173
1995	10532	4729	5803
1996	183589	30991	152598
1997	274661	53952	220709
1998	240441	53533	186908
1999	401133	56946	344187
2000	509764	75129	434635
2001	460309	86994	373315
1993–2001	2220203	390712	1829491

Source: National Bank of the Republic of Macedonia, downloaded from http://www.nbrm.gov.mk 19/3/2003.

1. See S. Valden, "FYROM's Foreign Trade and Greece", in Ch. Tsardanidis (ed.), *Economic Relations between Greece – Former Yugoslav Republic of Macedonia*, Athens, Institute for International Economic Relations-Sideris, 1996, p. 226 [in Greek].
2. *Ibid*.

Diagram 1
Trade between Greece and FYROM in USD (1993–2001)



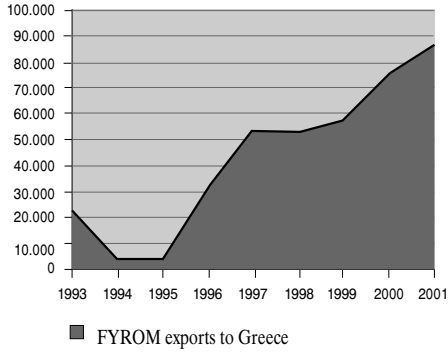


Table 1 and Diagram 1 portray the evolution of trade relations between the two countries during the period 1993–2001. While in 1993 their transactions were worth more than EUR 150,000,000, the imposition of the embargo slashed their value by nearly 90% in 1994 and 1995. It is interesting to note that the embargo did not halt, but merely reduced, trade between the two countries. It is also significant that during the same period Greece's exports to Bulgaria more than doubled only to drop again immediately after the Interim Accord. This confirms that much of this trade was in fact routed to FYROM via Bulgaria.

This also confirms the theory of international economics which maintains that embargoes are ineffective and short-lived means of influencing trade. The use of this measure, as illustrated here, is

clearly political in purpose and does not affect the medium or long-term trade trends, which resume their course as soon as the embargo is lifted.

The figures in Table 2 confirm the conclusions derived from Table 1. Comparing FYROM's overall imports and exports, Greece was a fairly unimportant trading partner for FYROM. Indeed, between 1990 and 1993, Greece was nowhere near FYROM's top five trading partners. This can, of course, be explained by the fact that at the time, FYROM traded principally with the former federal states of the now disintegrated Yugoslavia, Slovenia, New Yugoslavia, as well as with neighbouring socialist countries such as Bulgaria.

During Greece's two year embargo in which its share dropped dramatically (1–2%), Bulgaria's shot up to near the top of the list. This confirmed that Bulgaria was essentially acting as a channel through which to effectuate trade between Greece and FYROM.

After signing the Interim Accord, trade between Greece and FYROM literally skyrocketed. By the end of the 1990s Greece had become FYROM's third most important export market and second most important import market. It is significant to note that Greece ranked just ahead countries like Germany; Europe's mightiest trading power. It also ranked just behind New Yugoslavia which, during the period of its co-existence with FYROM in the framework of the federal state of Yugoslavia, created trade links with FYROM that recent political and other disturbances have not been able to break. Hence, given its position in FYROM's trade relations, Greece may be considered a commercial superpower for FYROM. Does this perhaps fail to take into account FYROM's relatively small economic size? The answer is no. FYROM may be a small economy but considering it is a former socialist country, it is an extraordinarily open one. Indeed, its foreign sector — imports plus exports —accounts

Table 2

FYROM's Main Trade Partners (1992–2001)

	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Ranking	Country % in total	Country % in total	Country % in total	Country % in total	Country % in total	Country % in total	Country % in total	Country % in total	Country % in total	Country % in total
A. Exports										
1	Germany 19.96	Germany 14.05	Bulgaria 22.06	Bulgaria 21.26	Yugosl. 21.4	Yugosl. 22.2	Germany 21.41	Yugosl. 21.36	Yugosl. 25.33	Yugosl. 23.09
2	Russia 8.18	Russia 10.88	Germany 14.43	Germany 12.71	Germany 18.7	Germany 18.7	Yugosl. 18.31	Germany 21.34	Germany 19.47	Germany 20.56
3	Italy 7.46	Italy 8.88	Italy 11.58	Italy 9.83	**Greece 8.9**	**Greece 8**	USA 13.27	USA 11.42	USA 12.52	**Greece 8.77**
4	Slovenia 6.91	Slovenia 8.45	Russia 7.03	Russia 7.24	Slovenia 7.2	USA 6.16	Italy 7.01	**Greece 7.2**	Italy 6.86	USA 8.63
5	USA 6.07	Bulgaria 7.84	Slovenia 6.57	Yugosl. 7.04	Italy 4.5	Italy 3.53	**Greece 6.34**	Italy 6.51	**Greece 6.36**	Italy 7.67
	Total 48.58	Total 50.1	Total 61.67	Total 58.08	Total 60.7	Total 58.59	Total 66.34	Total 67.83	Total 70.54	Total 68.72
	Greece 3.22	**Greece 4.7**	**Greece 1.17**	**Greece 1.17**						

Table 2

FYROM's Main Trade Partners (1992–2001)

B. Imports	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
1	Buglaria 14.34	Slovenia 14.48	Germany 17.14	Germany 16.46	Germany 14.7	Germany 13.44	Germany 13.32	Germany 13.84	Germany 12.09	Germany 12.64
2	Germany 14.2	Germany 13.36	Bulgaria 16.28	Bulgaria 14.89	Yugosl. 10.2	Yugosl. 11.58	Yugosl. 12.82	Yugosl. 10.35	Ukraine 9.82	**Greece 10.92**
3	Russia 13.54	Russia 11.51	Slovenia 10.92	Italy 10.43	Slovenia 7.6	Slovenia 7.73	Slovenia 7.76	**Greece 9.26**	**Greece 9.62**	Yugosl. 9.31
4	Italy 10.17	Bulgaria 10.91	Italy 7.4	Yugosl. 9.37	Russia 7.5	**Greece 7.31**	Ukraine 6.24	Slovenia 8.82	Russia 9.16	Russia 8.25
5	Slovenia 8.08	Italy 6.49	Yugosl. 6.83	Slovenia 6.77	Italy 6.8	Bulgaria 5.56	**Greece 5.89**	Ukraine 6.46	Yugosl 9.09	Slovenia 7.04
	Total 60.33	Total 56.75	Total 58.57	Total 57.92	Total 46.8	Total 45.62	Total 46.03	Total 48.73	Total 49.78	Total 48.16
	Greece 4.05	**Greece 4.35**	**Greece 1.58**	**Greece 1.68**	**Greece 4.8**					

Sources:

1. Karafotakis E., *"The Balkan Economies at an Early Stage of Transition 1990–1996",* Athens, Kritiki, 1999, p. 140 (in Greek).
2. National Bank of the Republic of Macedonia

for 80% of its GDP.[3] Today, Greece exports more to FYROM than it does to France; its exports to FYROM are three times those to Canada, and taken together with its exports to Albania, they exceed Greece's exports to the USA.[4]

Table 3
Trade Growth Rates between FYROM and Greece 1994–2001 (in mil USD)

	1994	1995	1996	1997	1998	1999	2000	2001
A. Exports								
Overall Export Growth Rate		10.83	-4.69	7.78	5.97	-9.11	11.02	-12.67
Export Growth Rate to Greece		11.47	622.2	-3.35	-15.98	3.24	-2.03	20.5
% of Greece in FYROM's Exports	1.17	1.17	8.92	8	6.34	7.2	6.36	8.77
B. Imports								
Overall Import Growth Rate		15.82	-5.35	9.31	7.65	-7.23	17.88	-19.4
Import Growth Rate from Greece		22.93	168.01	67.97	-13.2	45.77	22.51	-8.53
% of Greece in FYROM's Imports	1.58	1.68	4.76	7.31	5.89	9.26	9.62	10.92
C. Trade Balance								
FYROM's Trade Balance with Greece	-10.78	-14.71	24.98	-31.08	-29.72	-78.69	-117.49	-83.03

Sources:
1. National Bank of the Republic of Macedonia
2. Author's calculations

Table 3 confirms what we have already mentioned with regard to trade relations between Greece and FYROM. In the period

3. L. De Haan, A. Naumovska, M. Peters, "MAKMODEL: A Macro-Econometric Model for the Republic of Macedonia", National Bank of the Republic of Macedonia, Skopje, 2001, p. 10, at http://www.nbrm.gov/publications.htm, downloaded 10 December 2002.

4. C. Michalopoulos, "The Western Balkans in World Trade: Some Implications for Greece", *Southeast European and Black Sea Studies*, Vol. 2, No 2, 2002, 107.

1994–2001 FYROM's foreign trade was erratic, with year-on-year changes ranging from –19.4% to +17.88%. These fluctuations were mainly the result of exogenous political events (see Diagram 2). The rates of change of trade relations with Greece also fluctuated between –15.98% to +622.2%, yet the overall trend was clearly buoyantly upward. Greece's share of FYROM's export and import trade grew continuously, while the balance of trade between the two countries indicated a large surplus in Greece's favour.

2.2. Examining Trade between Greece and FYROM

Prior to exploring the composition of trade between Greece and FYROM, we must look at the composition of FYROM's GDP as it evolved over the decade of the 1990s. This will aid us in understanding the margins of complementarity between the two economies which, to a significant degree, determine their trade relations.

Figures from FYROM's Central Bank illustrate that it has the classic structure of a former socialist country in transition. The secondary sector is heavily represented despite the rapid de-industrialisation of the 1990s, when from 46.7% of GDP in 1990 it fell to 32.5% in 1995, and rose again to 35.2% at the end of the decade. This was probably due to an increase in foreign investment. Although this process increased the tertiary sector, from 44.9% in 1990 to 53.2% in 1999, it was also accompanied by a marked net increase in the primary sector which went from 8.5% in 1990 to 13.2% in 1995 and 11.6% in 1999.

The primary sector's growth probably reflects the substitution of imported foodstuffs as a result of the political turmoil and armed conflict in the region. These were probably imported from former partner states in the Yugoslav federation. Another interesting element is the increase in the shares of commerce (to

be expected from an economy in transition) and construction.[5]

Table 4

The Composition of FYROM's Trade per product category (in between 1992 and 2000 according to SITC*)

	1992	1996	2000
A. FYROM's Exports			
0. Food Products	15	8	5
1. Beverages and Tobacco	12	14	10
2. Crude Materials	5	6	4
3. Mineral Fuels	1	1	5
4. Animal and Vegetable Oils and Fats	0	0	0
5. Chemicals	4	6	5
6. Industrial Products classified by materials	30	31	37
7. Machinery and transport equipment	8	8	6
8. Other Industrial products	16	18	19
9. Others	9	8	9
B. FYROM's Imports			
0. Food Products	14	13	10
1. Beverages and Tobacco	2	1	1
2. Crude Materials	9	5	3
3. Mineral Fuels	12	9	14
4. Animal and Vegetable Oils and Fats	1	1	1
5. Chemicals	13	11	9
6. Industrial Products classified by materials	17	19	13
7. Machinery and transport equipment	10	22	20
8. Other Industrial products	10	11	5
9. Others	12	8	25

Source: C. Michalopoulos, 110
** Standard International Trade Classification*

5. See E. Karafotakis, "The Economic Situation in FYROM and its Position in the Balkans", in Ch. Tsardanidis (ed.), *Economic Relations between Greece and the Former Yugoslav Republic of Macedonia*, Athens Institute for International Economic Relations-Sideris, 1996, p. 62 [in Greek].

Table 4 details FYROM's foreign trade sector. FYROM principally exports industrial goods, beverages, tobacco and food. Its imports mostly include industrial products, machinery and transport vehicles, fuels (mainly fuel oil) and food.

FYROM's trade with the European Union is similar in structure, although figures from its Central Bank indicate that the largest single industrial sector for both import and export trade is textiles and clothing. FYROM also exports farm products to European Union countries and imports energy, foodstuffs and vehicles.

Table 5 provides a detailed account of Greece's trade with FYROM. It also illustrates the 20 most popular Greek products in FYROM and, conversely, the 20 most popular FYROM products in Greece. These 20 categories derive from Eurostat's system of classification of products into 99 groups. These 20 basic categories account for virtually all trade between the two countries, since they represent 78.81% of Greek imports from FYROM and 84.42% of Greek exports to its neighbour during the period 1993–2001.

Table 5 records certain important changes over time, with some products gradually losing and others gaining their importance over the period in question. For the overall timeframe, however, the trend is clear. More specifically, the table shows that:

- Textiles and clothing account for 39.5% — more than 1/3 — of Greek imports from FYROM, and 4.64% of Greek exports to FYROM. The only explanation for this is the — documented — growth of piecework relations between the two countries, on account of the lower labour cost in FYROM and the fact that clothing is the classic example of a highly labour-intensive industry. We will return to this point in the context of Greek investment in FYROM.

Table 5
The basic product groups traded between Greece and FYROM (%of their trade) (1993–2001)

A. Greek Imports from FYROM

Product Group	1993	1997	2001	1993-2001
1. Meat	0.09	0	2.29	0.5
2. Fish etc	6.94	7.86	4.11	6.36
3. Vegetables	4.52	0.52	0.86	1.4
4. Salt, asbest, cement etc	1.32	2.37	2.69	2.58
5. Fertilizers	3.68	0.08	0.11	1.2
6. Plastics	2.55	11.41	0.72	2.13
7. Timber and woodwork	5.09	4.05	1.45	2.51
8. Cotton	4.08	1.6	0.72	1.6
9. Garments	0.26	1.61	3.19	2.91
10. Clothes, knitwear	1.04	13.49	22.81	18.76
11. Other Clothes	0.99	10.67	14.43	13.65
12. Used clothes etc	0.07	2.14	5.51	4.25
13. Iron, steel etc	2.5	14.47	21.88	2.68
14. Craftworks of steel, iron etc	4.9	1.02	2.11	2.68
15. Copper and craftwork of copper	2.64	1.36	0	3.99
16. Lead and craftwork of lead	3.45	4.6	0.37	2.36
17. Zinc and craftwork of zinc	4.06	7.11	2.37	4.64
18. Boilers etc	2.87	2.88	1.57	1.87
19. Machines appliances etc.	2.49	1.34	1.36	1.71
20. Furniture etc.	0.79	0.86	1.31	1.03
Sum of 20 groups as % of total				78.81

B. Greek exports to FYROM				
Product Group	**1993**	**1997**	**2001**	**1993-2001**
1. Fresh fruits etc	2.89	5.21	4.87	4.32
2. Coffee, tea etc	3.69	0.83	0.76	0.69
3. Cereals	5.5	0.32	0.36	0.49
4. Fruit and vegetable products	0.88	1.12	1.07	1.17
5. Alcohol drinks etc	0.85	0.52	2.09	1.19
6. Animal food	3.58	1.67	2.35	1.91
7. Tobacco products	4.43	1.67	2	3.39
8. Oil etc	37.86	53.37	43.98	48.22
9. Plastics	2.92	1.82	2.34	2.11
10. Cotton	3.9	1.72	1.89	2.25
11. Garments	0.21	2.13	0.66	1.18
12. Clothes, knitwear	0.06	1.84	3.23	1.99
13. Other clothes	0.21	1.78	1.34	1.47
14. Ceramic products	0.07	0.55	1.87	1.58
15. Iron, steel etc	2.76	2.44	2.26	1.66
16. Craftworks of steel, iron etc	0.93	0.69	1.36	1.28
17. Argile and craftwork of argile	0.15	1.68	1.25	1.31
18. Boilers etc	2.61	2.95	6.45	4.54
19. Machines, appliances etc	0.44	0.83	3.43	1.85
20. Vehicles, tractors etc	1.61	1.34	2.21	1.82
Sum of 20 groups as % of total				84.42

Source: Author's calculations from data provided by Eurostat

- While FYROM is a landlocked country, the surprisingly high share (6.36%) of its fish and molluscs exports to Greece, is due solely due to the fact that this category includes snails. During the period covered by the study, a well-known Greek firm from Edessa expanded its activity in this field with an investment in FYROM.
- The combined effect of these two observations suggests that what Greece chiefly imports from FYROM are the products of affiliates of Greek companies located in that country.
- Fuels, mainly fuel oil, account for the largest share of Greece's exports to FYROM; 48.22% over the period in question. FYROM depends almost entirely on oil imports from Greece, a conclusion confirmed by the fact that oil was the main, if not the only product whose shortage was felt in FYROM during the Greek embargo.
- It is extremely important that FYROM provides a market for a series of Greek agricultural products which are facing problems due to the gradual change in the EU's Common Agricultural Policy. Such products include fruits, tobacco and cotton.
- There appears to be a two-way trade, on a smaller scale, but probably also reflecting a piecework system, in works of art and light machinery, boilers, etc.

2.3. Trade in Services

The services sector is often overlooked in analyses of the economic relations between two countries. This, of course, is a mistake, both generally and specifically, for several reasons.

In general, we must keep in mind that in most developed economies, services dominate over manufacturing and agriculture.

Moreover, one classic service, namely tourism, represents the single most important item of international trade according to world trade statistics.

Particularly in the case of neighbouring countries, services are even more important given that the consumer moves towards the service rather than the service towards the consumer. In addition, given FYROM's socialist past in which the tertiary sector was rejected on ideological reasons, demand for services – as in other transition economies – is particularly high. The limited data available show tremendous expansion in the transport sector which, naturally, follows the trend in trade between the two countries. Another fast-growing area is the banking and financial sector. Given that the activity here is chiefly in the form of foreign investment in FYROM rather than in exports of services, it will be examined in the following section.

Table 6

Arrivals of Tourists from FYROM to Greece (1997–2000)

Year	Number of Tourists	Rate of Change
1997	378,095	
1998	86,910	-77.01%
1999	128,051	47.34%
2000	234,464	83.1%

Source: Hellenic Tourism Organisation, in http://www.eot.gr/, downloaded on 18/3/2003

Table 6 illustrates recent developments in the tourist sector which, even when FYROM was part of Yugoslavia, represented an important component in the trade between the two countries. The reasons for the fluctuations in the number of tourists coming to Greece from FYROM between 1997 and 2000 — the Greek National Tourist Board provides no more recent figures — are

both institutional and procedural. The large drop in arrivals in 1998 (–77.01%) was due to the implementation of the Schengen Treaty. Whereas until 1997 entry into Greece was free, this Treaty required Greek consular authorities to issue visas. The increase in tourism after 1998 at an average rate of more than 60%, reflects the more general rapprochement between the two countries, and the natural growth that was to be expected in the following years. This increase concerned primarily the tourist regions of Northern Greece, the prefectures of Thessaloniki, Halkidiki and Pieria. The influx of Greeks into FYROM was relatively minor, especially after permission for the operation of casinos in Greece was granted, thereby halting traffic towards those in FYROM.

One exceptionally interesting element, to which perhaps not enough attention has been paid, is that Greece and in particular Thessaloniki has become an exporter of education services to FYROM. In recent years there has been considerable interest in studies in Greece on behalf of FYROM students. The fact that this was institutionally impossible in Greek state universities, together with the problem of language, lead these students to enrol in English-language courses, as well as undergraduate and graduate courses offered by private colleges in Thessaloniki.

Figures supplied by the two largest English-language colleges in Thessaloniki, namely the American College of Thessaloniki and City Liberal Studies, suggest that this trend began in the mid 1990s. In 1997 these two colleges counted 36 students from FYROM. In 2002, they increased to more than 220, corresponding to more than 15% of total registrations and comprising by far the largest group of foreign students.

This trend is expected to continue and probably to extend into secondary education. It should be noted that, in addition to living costs, annual tuition fees at these colleges are in the neighbourhood of 5,500 euros for undergraduate and 9,000 euros for post-graduate courses. An additional point of interest is the steady growth in Greek language learning in FYROM.

3. The Evolution of Greek Investments in FYROM

3.1. Greek Investment in FYROM

We have seen that relatively small scale trade relations between Greece and FYROM continued to exist, either directly or indirectly via Bulgaria, throughout the duration of the Greek embargo. This, however, was not true of Greek investment. The embargo proved far more effective in relation to investments than to trade and, while it was in place, investments in FYROM literally dried up. It is true, however, that in the mid 1990s the rate of foreign investment in FYROM was generally low, since the element of business risk was exceptionally high given the wider area's instability, and also in terms of the particularly poor state of the country's economy in the first phase of the transition process.

Table 7

Foreign Investment in FYROM and Greece's Ranking as an Investor

	Foreign Investment in FYROM (in millions USD)	Growth Rate of Foreign Investment	Greek Investment	Growth Rate of Greek Investment	Greek/Total Foreign Investment	Ranking of Greece	First Investor in FYROM
1994	24						
1995	9.49	-60.46%	0.25		3%	7	Germany
1996	11.21	18.12%	1.574	529.60%	21.90%	2	Germany
1997	15.72	40%	4.383	178%	14.2	2	Lichtenstein
1998	117.7	194%	3.539	-181%	3.20%	5	Cyprus
1999	32.09	-73%	13.13	276%	34.50%	1	Greece
2000	175.41	447%	95.581	627.96%	62.80%	1	Greece
2001	443.21	153%	67.394	-89.27%	15%	2	Hungary
1995–2001	828.23	10.67%	185.85	223.55%	23%		

Sources: 1. National Bank Office of the Republic of Macedonia
2. Author's calculations

After signing the Interim Accord and lifting the embargo, however, the dominant role of the Greek capital in foreign investments in FYROM became obvious. As Table 7 shows, foreign investment in FYROM increased during the period 1995–2001 at an average rate of 10.67% per year. although with astonishing fluctuations (from –73% to +194%), and appears to be following a similar course to trade relations which, as Diagram 2 shows, was determined by political events such as wars and crises that masked the period.

Greek investments rapidly increased, with an average of +223.55% per year, and with fluctuations ranging from –181% to +627.96%. Consequently, almost a quarter of foreign capital flowing into FYROM during this period came from Greece. This resulted in Greece moving from the position of seventh-ranking foreign investor in FYROM in 1995 to first in 1999 and 2000, and second in 1996, 1997 and 2001. It is indicative that Greece had clearly surpassed Germany in this field by 1997.

The surprising importance of countries like Cyprus and Lichtenstein is explained, apart from the reasonable suspicion that Greek capital may lie behind the convenient façade of off-shore corporations, by FYROM's small size. Indeed, one major investment in a single year such as that of the Hungarian Telecommunications Organisation which, by acquiring a significant share of FYROM's land-line telephone company, made Hungary the number one investor country in 2001, is enough to change the order of things. Greece's presence, however, is continuous and stable, and shows little tendency to fall back (e.g. plant closures) as has been the case with Greek investment in Bulgaria and Albania.

Although the total value of Greek investments in FYROM for the period 1995-2001 appears to be around USD 186,000,000, in reality it is more around USD 460,000,000, since - according to the data of the Greek Liaison Office in Skopje - many of these

investments are still in progress and the total capital flow is not yet complete. It is also very interesting that according to FYROM Central Bank figures, in 2001 Greece was well in the lead for the re-export of capital in the form of profits, with a rate of 52.23%.

Greek investments in FYROM have created or secured 8,000 jobs. This is a significant number for a country with a total of no more than 550,000 people employed and with a 30-35% unemployment rate.

Greek investments in FYROM are mainly centred in the following sectors:

- Foods & beverages
- Energy, oil
- Cement
- Mining, marble
- Banks
- Mobile telephony
- Tobacco
- Clothing and accessories
- Trading companies and dealers

It is evident that Greek government policy has encouraged investment in FYROM since public corporations like OTE and the National Bank of Greece figure largely among the list of investors, and have certainly carried private sector investment along with them.

3.2. Direct Greek Investment in FYROM

If we make a distinction between direct and portfolio investment in FYROM, it is less for the sake of the typical standard classification of foreign investment as followed in literature than for the sake of the analysis we will be making in the third chapter, when we discuss future prospects on the basis of the preferences shown by the Greek capital actively invested in FYROM.

Direct investment, either in the form of new Greek companies or in the form of joint ventures, takes place to enable the investor to profit from the existence of an abundant and therefore relatively cheap factor of production such as labour or raw materials in the foreign country. Portfolio investment on the other hand, particularly in the former socialist countries, relates to the purchase (whole or partial) of an existing state enterprise that is being partially or wholly privatised.

It is a fact that Greek direct investments in FYROM outnumber indirect ones 21 out of 41 projects according to data provided by the Greek Liaison Office in Skopje. However, they are less important from a purely economic point of view; namely, amount of capital and number of jobs. They are mainly concentrated in the so-called traditional manufacturing sectors and light industry, and specifically in clothing, foods and beverages. There are only 2-3 joint ventures which are purely Greek-owned enterprises, and are concentrated almost entirely in the Greece-FYROM border area (e.g. Gevgeli, Bitola).

The enterprises in the food and beverage sector seem to target the FYROM market, while those in the clothing sector appear to be oriented towards Greece and/or the export market. The purely exporting character of many of these companies is based in part, at least, on the low tariffs applicable to goods produced in FYROM and exported to other countries of former Yugoslavia. The autonomous state of Kosovo, a market of 1.5 million consumers, is a classic example.

In general, the trajectory of direct Greek investment in FYROM seems to coincide with the findings of Pournarakis and Varsakelis,[6] who argue that the Balkan countries are less

6. M. Pournarakis-N. Varsakelis, "Foreign Direct Investment in Central and Eastern European Countries: Do Institutions Matter?", Paper prepared for the EIBA Annual Conference, 2002, pp. 1–5.

successful than those of Central Europe in attracting direct foreign investment. The authors attribute this chiefly to the institutional deficit of the former, and particularly to phenomena like bureaucracy, corruption, etc., but also to their relatively lower per capita incomes, given that the main object of most direct investment projects in former socialist countries is the conquest of their markets.

3.3. The Greek Presence in the Privatisation Process

Greece's investment presence in FYROM is mostly apparent in the impressive influx of Greek capital into the mass privatisation process that is still ongoing. These investments generally take the form of purchasing a majority interest, usually 100%, in the business. In some cases such as OTE where the sale concerned a licence rather than the corporation itself, it is accompanied by an increase in the initial share capital.

The preference of Greek investment capital for take-overs rather than direct investments is probably due to the fact that the institutional deficit is less onerous when the business is already up and running than when it has to be created from scratch. Moreover – an of utmost importance in a foreign market – is that an existing business already has its own distribution network. The most important, by volume of capital, acquisitions by Greek companies during the period in question concerned:

- Hellenic Petroleum's purchase of the OKTA refinery and construction of the Thessaloniki-Skopje pipeline. The total investment amounted to USD 150,000,000 and was completed in July 2002. The pipeline will reduce oil transport costs by at least 15%.
- USJE cement company, bought by TITAN and Switzerland's HOLDERBANK
- PIVARA SKOPJE, bought by BALKANBREW Holding Ltd

(Athenian Breweries / Hellenic Bottling Co).

- STRUMICA TABAK and JUGOTOTUN (renamed Kocani Tabak), bought by Kapniki A. Mihailidis.
- STOPANSKA BANKA, FYROM's largest bank, bought by the National Bank of Greece, and KREDITNA BANKA, bought by ALPHA Credit Bank.
- MERMEREN KOMBINAT-Prilep, FYROM's largest marble quarrying and processing plant, bought by Kyriakidis SA.
- ZITO-LUKS, Skopje (bakery products), bought by the Hellenic Biscuit Co. SA
- Mobile telephone operating licence, acquired by OTE for USD 25,000,000; the further investment required for the operation of the network is approximately USD 90,000,000.

4. Prospects for Economic Relations between the two Countries

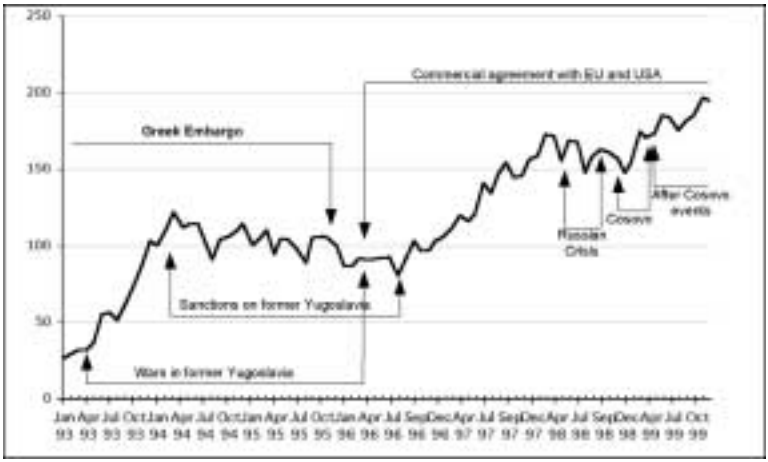
4.1 Trade Prospects

The demise of Yugoslavia and the conflicts that followed resulted in FYROM loosing a large and protected market and having to seek both new suppliers and new outlets for its products. The economic crisis it faced in the mid 1990s reduced its options considerably, as its real GDP dropped by 25% and its industrial production by 50%.[7] However, as Diagram 2 indicates, what really conditioned the country's trade during this period were changes in the political situation. This was both negative (wars, the Greek embargo), as well as positive (lifting of the Greek embargo, trade agreements with the EU and USA).

7. De Haan, *op. cit.*, p. 7.

Diagram 2

Evolution of FYROM's trade (1995 ' 100)



Source: De Haan L. et al., p. 12

The above concludes that, as long as FYROM enjoys political stability and continues to progress towards its integration into the European and global economic environment, it will also continue to expand its trade relations. Moreover, Greece will occupy a preferential position among its trading partners.

In purely economic terms, a recent econometric model of FYROM's overall economy[8] revealed two basic elements relating to the determining factors governing its import / export trade.

First, FYROM's imports are determined to a significant degree by disposable income. To the extent that disposable income is expected to rise after the mid 1990s and, given that this is a very open economy with a high marginal propensity to import, strong import growth is anticipated, for the near future.

8. *Ibid*, p. 13.

Specifically, the experience of recent years suggests that GDP growth rates of more than 5% a year will fuel similar rises in total active demand and in imports.

Second, FYROM's exports appear to have a strong import content. This is due to the fact that much of the country's import trade is in intermediate products which are re-exported after processing. Expanding the country's exports, therefore, presupposes expanding its imports.

In addition, the following points must also be taken into account if one is to form a global image of the economic environment that is taking shape and will obviously determine FYROM's trade relations, both in general and specifically with Greece:

- Although FYROM is an open economy, it is also a very protected one. Its tariffs on agricultural and industrial products average 14.2%, the highest in the Balkans.[9] At the same time, the duties on imports from Greece are generally lower because of the nature of the goods imported, namely oil and intermediate products. As FYROM's economy becomes more globalised, the level of tariff protection will decrease. The country's anticipated entry into the World Trade Organisation will certainly require a thorough overhaul of its trade policy.
- Apart from the anticipated acceleration of the country's economic development, the absorption of much of its unemployment (approximately 30-35% of the active population, according to Central Bank statistics), will increase per capita income. Given that income distribution is still fairly even - a legacy of the country's socialist past - this will lead to increased demand for highly income-elastic imports. Since the

9. Michalopoulos, *op. cit.*, 116.

products Greece exports to FYROM (mainly oil) are considered as such, growth can be anticipated in this sector. FYROM's imports of Greek oil, especially once the pipeline extension is completed, are expected to increase by 50%.

- The implementation of European Union programmes such as Cards and Interreg in FYROM is expected to boost in per capita income levels, as are the activities of the European Agency for Reconstruction. Greece has a clear comparative advantage in this new conjuncture because of its geographical proximity and because of its EU membership.
- Assuming that the differences in labour costs between the two countries — approximately 1:5 — does not change in the near future, the intra-industry trade developing between the two countries, especially in the clothing sector, is expected to continue to grow. No convergence, at least on any significant scale, in real wages between the two countries should be expected in the short or medium term. This is mainly due to FYROM's huge reservoir of unemployed labour.
- Trade between the two countries and particularly Greek exports are expected to increase since FYROM acts as an intermediate supplier to countries like Bosnia and Kosovo, whose trade with FYROM is steadily growing.
- Completion of infrastructure projects, and particularly of the new trunk roads such as Corridor X, is expected to generate a rapid increase in road transport between the two countries, either serving their own trade or trade with Northern and Western Europe. The diversion of road and rail transport caused by the war in Yugoslavia will sooner or latter be reversed.
- The Greek tourist sector, particularly in Northern Greece, is also expected to benefit from economic growth in FYROM, since tourism is a service with a high income elasticity of demand.

- Finally, the influx of students from FYROM is expected to increase, especially once the public Balkan University has opened in Thessaloniki.

4.2 Prospects for Movement of Capital and Labour

Although FYROM attracted significant volumes of foreign and particularly Greek capital after the Interim Accord, the country's performance in this sector is considered generally poor for a transition economy, especially when compared to the Central European states. It is indicative that, according to UN figures, direct foreign investment ranks FYROM 66th on the basis of performance and 86th on the basis of prospects.[10] It is also a fact, nonetheless, that by the end of the 1990s it's ranking had clearly improved compared to the beginning of the decade. Specifically, its prospects ranking had risen from 0.194 out of 1 at the beginning of the decade to 0.250 towards the end.

The country's modest performance throughout the decade was as much due to its institutional deficit as to purely economic factors. Institutional deficit includes bureaucracy, corruption, back-pedalling and delays in the process of de-nationalisation, the quality of public services,[11] political instability, the state of the banking system, the lack of any institutional framework, etc. In the economic reasons one could include the three-digit inflation until the mid 1990s[12] and the declining GDP and total demand in the same period.

---

10. UNCTAD (United Nations Conference on Trade and Development), "World Investment Report", United Nations, New York, 2002.

11. Pournarakis *op. cit.*, p. 4.

12. According to the econometric model proposed by De Haan, *op. cit.* pp. 9 and 16, the relation between inflation and foreign investment in FYROM is clearly negative.

Table 8

FYROM: Basic Macroeconomic Indicators (1996–2000)

Indicator /Year	1996	1997	1998	1999	2000
Population in 000s	1,983	1,997	2,015	2,017	2,031
% of Unemployment	31.9	36	34.5	32.4	32.2
Real GDP Growth Rate		1.4	3.4	4.3	4.3
Per Capita Income in USD		1,732	1,783	1,848	1,921
Living Cost Index		102.6	99.9	99.3	105.8
Average Monthly Income in USD		182	173	170	155

Source:Statistical Service of the Republic of Macedonia, http://www.stat.gov.mk, downloaded 19/3/2003

By the end of the 1990s, however, the picture with regard to the economic environment was totally reversed. As can be seen in Table 8 there were high GDP growth rates and stable prices, while considerable improvement had also been made with regard to institutional matters.[13]

Given its expansion of the market in the region and its abundance of inexpensive and adequately skilled labour,[14] FYROM can now be considered an attractive market for foreign and particularly Greek capital.

Greek investment prospects in FYROM appear to focus on three levels: 1) roads and telecommunications, 2) the banking system, and 3) joint ventures. Considering that investment opportunities in FYROM remain and multiply, the already strong Greek presence is expected to grow even stronger on all three levels.

13. UNCTAD, op. cit.

14. See M. Saritza "The Economic Environment in FYROM and Greek Exports", in Ch. Tsardanidis (ed.), *Economic Relations between Greece and the Former Yugoslav Republic of Macedonia*, Athens, Institute for International Economic Relations-Sideris, 1996, p. 242 [in Greek].

Specifically, FYROM is expected to offer excellent investment opportunities in the following sectors:

A. Agricultural sector: Intensive market gardening, semi-extensive stock-raising.
B. Industry: Food, beverages, clothing.
C. Construction: Public works.
D. Services: Distribution networks, department stores, warehousing, transport, banking, insurance.[15]

With regard to the movement of labour, it is striking that Greece has thousands of Albanian immigrants while immigration from FYROM remains minimal. There are two basic reasons for this. One is that despite the significant wage differences and high unemployment in FYROM, the border between FYROM and Greece and the application of the Schengen Agreement is denser than that between Greece and Albania. Hence, there is no illegal immigration. The second reason is that with the level of Greek investment in FYROM, "the jobs are going to where the labour is rather than the labour to the jobs". What we have, in other words, is clearly a case of substitution rather than complementarity between movements of capital and labour.

It is, of course, likely that some of those who come to Greece as tourists are really in search of seasonal work, but — apart from the fact that no data is available — it is still true that any such movement is negligible in absolute numbers and in economic importance.

We should be expecting a fairly significant movement of Greeks towards FYROM, mainly managers for the Greek companies set up there, to the degree that these apply an ethnocentric staffing policy. Migration from FYROM into Greece is unlikely, at least on any significant scale, before FYROM joins

15. Karafotakis, *op. cit.*, p. 217.

the European Union, although the geographical mobility of those who have studied in Greece (see paragraph 2.3) will certainly be high.

4.3 The Prospects for Joint Business Activity

FYROM's gradual integration into the global and European economic mainstream creates significant opportunities for economic co-operation, particularly in the sector of joint business activity. The concept of joint business activity goes beyond that of joint venture investment, which is a form of foreign investment that is already fairly widespread in the case of Greece and FYROM. Essentially, it refers to the prospects for the unification / integration of the two economies in the framework of the economic environment and institutional foundation of FYROM's relation with the European Union. In other words, within the unity of the economic space, as the regionalists might put it, that has historically functioned as a whole but now displays the characteristic problems of border regions.

The parameters of this framework are clearly positive, and more positive than they were 5–10 years ago. FYROM's economy is recovering rapidly, and the only macroeconomic indicator that remains problematic is unemployment. The changes in former Yugoslavia — fall of Milosevic, gradual elimination of the sanctions — have had a stabilising effect on the entire region and have paved the way for normalisation of the market and reduction of the elements of risk and uncertainty for investors.[16]

There are, of course, still some problems hindering the development of joint business activity, specifically:

16. P. Sklias, *International Political Economy*, Athens, Papazisis, 2001, p. 135 [in Greek].

- The transition itself. Essentially, we are talking about two economies that are operating on different systems, with everything that this implies. We must, of course, take into account that, despite the possible rigidities and malfunctions remnant of the socialist mindset, FYROM is the Balkan country that has moved the farthest and fastest in the creation of an entrepreneurial middle class.[17] This class will act as the locomotive of economic co-operation and joint business activity. The fact that young people from FYROM are studying in Greece is another factor that will reinforce and accelerate economic osmosis.
- The lack of resources for the creation of infrastructures. Solutions to this problem may well be found in international sources of financing such as the World Bank, EU resources, etc. as well as the Hellenic Plan for the Reconstruction of the Balkans.
- FYROM's banking system. Here too we have a problem related to the transition from a state-owned banking system to a commercial banking system. The solution will come from the operation of foreign banks in FYROM with two Greek banks are already active there, and the pressure for structural change and modernisation that will come from FYROM's co-operation with the International Monetary Fund and other international organisations.
- The lack of key export products.[18] Trade and economic co-operation in general between the two countries appears to be inward-oriented, in the sense that the products that are jointly traded or produced are intended for their own markets or, at best, for neighbouring markets. This is to a certain degree due

17. Karafotakis, *op. cit.*
18. *Ibid*, p. 239.

to the fact that in high-risk conditions business activity focuses on the immediate. However it is more due to the fact that, in terms of directives and strategies, economic co-operation between the two countries evolves in an absolute vacuum, since the tone is being set of course by their governments. Indeed, the economic relations and the economic co-operation between the two countries is characterised by the total absence of even the most basic planning. It might of course be argued that the market mechanism will in the end provide the solution, yet the outcome would certainly be better and faster if there were real co-operation.

- Economic co-operation has, to date, been influenced and to a considerable degree determined, by fluctuations in business risk resulting mainly from exogenous factors. Although these factors, which may possibly create new tensions in the region, have not been entirely eliminated, FYROM's participation in international organisations and particularly the prospect of the country's integration into the European Union has clearly had a stabilising effect.
- Greek investment in FYROM does not appear to have been inhibited by hostility and suspicion towards Greek capital. This is because these have usually been mild and expressed in general form, while a more extreme version suggesting that Greek investment was part of a broader strategic plan for the economic take-over of FYROM can only, given the economic situation, be considered picturesque.
- Finally, the pronounced bureaucracy characteristic of all Balkan countries, regardless of their political or economic systems, does indeed constitute a real obstacle to economic co-operation and requires a radical re-organisation of the public sector.
- The prospects for economic co-operation between the two countries are particularly important on the regional level. The

regions of Central and Western Macedonia are expected to benefit most from the progress of economic co-operation, since they extend their vital economic space on the basis of the advantage they derive from their higher level of development and the polarity that only the city of Thessaloniki seems to have.[19]

5. Conclusions - Assessment

The theory of economic integration distinguishes between measures of negative integration – elimination of obstacles – and positive integration – creation of new institutions and mechanisms that facilitate it. The Interim Accord and the lifting of the embargo clearly constitute an instance of negative integration, yet the results produced are, from the economic point of view, entirely positive.

Greece acquired a new vital space for its products and venture capital. FYROM is a trading partner with whom Greece has a growing surplus. For a country characterised by structural deficit in its global balance of trade and with exports hovering around 25-40% of imports, this is particularly important, considering that Greek exports, especially in services, are exceptionally dynamic.

The abundance of cheap labour available in FYROM literally gave the 'kiss of life' to Greek companies struggling to survive in traditional sectors such as textiles. The complaint that these moves cost jobs in Greece is absolutely unfounded. These jobs were lost in any case, since the businesses were no longer viable in Greece.

19. G. Magoulios, *The Role of Thessaloniki in Inter-Balkan Economic Co-operation*, Thessaloniki, University Studio Press, 2000, pp. 143-146 [in Greek].

Greek investments in FYROM are mainly directed toward strategic sectors of the country's economy such as telecommunications and banks. With the Greek construction companies joining in international consortia to bid for these contracts, Greece will also play a decisive role in the construction of large infrastructure works. The implementation of the Hellenic Plan for the Economic Reconstruction of the Balkans will facilitate and accelerate this trend.

From FYROM's point of view, much of its economic recovery has been fuelled by Greek capital. Moreover, while Greek products are essential both as consumer goods on the domestic market and as intermediate products for its exports.

In general, FYROM's foreign policy is based on three strategic pillars:[20]

- Integration into the European Union
- Good relations with the USA
- Good relations with neighbouring countries.

It is obvious that Greece is an essential element of both the first and the third pillars. It is also obvious that the way in which economic relations between the two countries have developed in recent years - with private sector Greek companies dominating the economy of the neighbouring state, either by exporting or by investing - has created a reality that is totally different from that of ten years ago.

This reality is largely due to the signing of the Interim Accord, which was the sine qua non for bilateral economic relations. It is certain, however, that this economic reality has to be taken into account when designing the foreign policies of the two countries.

20. Sklias, *op. cit.*, p. 114.

The Interim Accord did not, in and of itself, generate or determine the economic relations between the two countries. It merely eliminated the institutional technical obstacle of the embargo and permitted economic relations that were beneficial to both sides to reduce or, more optimistically, eliminate the hostility and suspiciousness that existed on both sides.

In purely economic terms, whatever was to be achieved with regard to the progress of bilateral economic relations was achieved with the Interim Accord. Resolution of the name dispute will bring political and diplomatic benefits but, apart from a possible marginal improvement in the business climate, is not expected to deliver tangible, positive economic results. Any return to the conditions that prevailed in the economic relations of the two countries at the beginning of the 1990s, however, would be extremely negative for the Greek economy and literally catastrophic for FYROM's economy.

Political diplomacy differs from economic in that the former compares the losses from a conflict for the two parties, while the latter aggregates them. Thus, the economic assessment of a trade war will always have a minus sign attached and which side has lost the most is, in the end, of minor importance.