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Long-Term Economic Development Trends In South-Eastern Europe (1850-2003)

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Abstract
The article discusses the long-term trends in economic growth of the countries of south-eastern Europe during the period 1850-2003, their evolving level of growth and their place in the European and global economy, their structural changes and the evolution of their infrastructures. The analysis employs primarily the historical and comparative method, based on GDP, GNP and other indicators.
The analysis leads to two main conclusions. The first is that in the contemporary period the growth of most of the countries of south-eastern Europe has been held back by their under-development and their low ranking in the European and global economy. The sole exception is Greece, which succeeded after the Second World War in making up lost ground and taking its place in the developed world. The second conclusion lies in the fact that the development of the south-eastern European countries was decisively influenced by the international environment: growth was slow when the international environment was unfavourable, more rapid when it was propitious. Their development was also influenced by other factors, such as the slow and incomplete process of industrial and urban (capitalist) transformation, and the unsuccessful experiments in social reform in modern times. The article invites discussion of the reasons for the under-development and relative poverty of south-eastern Europe.

JEL Classification: N13, N14

Keywords: South-eastern Europe, Economic growth, Level of development, Economic structure, Infrastructures, Under-development, Development gap.

1. Introduction

It is useful to look at the long-term development trends of the underlying economies of South-eastern Europe, as examination of their past performance enables us to understand and interpret their present condition and prospects. The roots of the problems these countries are facing today can be found in their past.

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In our attempt to examine a long period (1850-2003) we encounter various difficulties that are primarily associated with the validity and comparability of long-term statistical time series. Comparisons are difficult because of the frequent border and population changes of these countries. To bypass this problem we are using per capita GDP.

Our analysis focusses on Romania, Bulgaria, the Yugoslavian Republics, Albania, Greece and Turkey. For the sake of comparability, we included Hungary in our analysis, as it is part of Central Europe and has borders with both South-eastern Europe and some more developed countries. The analysis is more systematic for the period following the foundation of independent states in South-eastern Europe. For Greece, this period starts in the first half of the 19th century, for Serbia, Montenegro and Bulgaria in 1878 (Berlin Conference), for Albania in 1912 (London Peace Treaty) and for Turkey in 1920-1923 (Sèvres Peace Treaty).

2. Economic growth rates

The main indicators we use in order to examine the rates and level of economic growth are the Net National Product (NNP), the Gross Domestic Product (GDP) and the Gross National Product (GNP), mainly for two reasons: a) They are the only indicators of productive activity for which available data can be found regarding the long study period 1850-2003 and b) It is generally accepted that they express macroeconomic quantities and their evolution in a better and more comprehensive way than other indicators. We are aware of the relative usefulness of these measures among time-periods and countries. One of their weaknesses for example, is that they do not take into account either household production or the black market. This makes comparisons between economies of developed and less developed countries difficult as household labor and the black market represent a greater proportion in the latter. Further analysis includes additional indicators of economic development such as the structure of the underlying economies, the infrastructure, and the human development indicator.

In the period between 1860 and 1910, the annual average growth rate of GDP was 1,88% for Europe: it was the same for Romania, smaller for Bulgaria (1.38%), Serbia (1.58%) and the Austrian-Hungarian Empire (1.16%) and larger for Greece (2.62%). The average annual growth rate of per capita GDP in most European economies of the South-east was lower (ranging between 0.50% and 0.86%) than the average rate for Europe as a whole (0.96%). An exception was the Austrian-Hungarian Empire with a slightly higher rate (Table 1).

During the 19th century, the Ottoman Empire (Turkey and its regions) was in a state of an economic, social and political breakdown. It fell apart, losing 9/10 of its territory by the 1920 Sèvres Peace Treaty, leaving Turkey in chaos. During the Balkan Wars (1911-1913), World War I (1914-1918) and the Greek-Turkish War (1919-1922), the economies of South-eastern Europe suffered grievous losses.

Table 1. Average annual GNP and population growth rates of South-eastern Europe, 1830-1910 (The values of the first and last year are the averages of three years)

Country	Average annual growth rate of GNP (%)		Average annual growth rate of the population (%)		Average annual growth of per capita GNP (%)	
	1830-1910	1860-1910	1830-1910	1860-1910	1830-1910	1860-1910
Austria-Hungary [(a)]	1.51	1.16	0.72	0.78	0.79	0.98
Bulgaria[(a)]	-	1.38	-	0.87	-	0.50
Greece[(a)]	1.98	2.62	1.30	1.92	0.67	0.69
Romania[(a)]	-	1.88	-	1.02	-	0.86
Serbia	-	1.58	-	1.08	-	0.50
Europe	**1.74**	**1.88**	**0.82**	**0.92**	**0.92**	**0.96**

(a) *When examining the data, territorial changes should be taken into account.*

Source:
Bairoch (1976, p. 283)
Berend and Ranki (1987, p. 658)

Between the wars (1918-1940), the economic development of South-eastern Europe was influenced by the world economy, which went through a period of strong growth from 1922 to 1928 but then underwent a major crisis. Although during 1929-1933, output in Greece, Yugoslavia, Romania and Hungary, declined by 10-24% compared to 1928 (=100), output levels increased at a variable rate during 1934-1939 in the range [4%-80%] compared to 1928 (Table 2).

In New Turkey, macroeconomic policy relied on government intervention and central planning. GNP increased by 14% in the six years from 1929-1935 and by 25% in the four years from 1934-1938 (Notis, 1986, p. 44).

During World War II, economic activity declined in almost all countries of South-eastern Europe. As an example, the index of total output for Greece in 1945 represented only 51% of its 1938 level. In the decade 1941-1950, National Income rose by a mere 5.7%, a growth rate of 0.57% p.a. (Gulielmos, 1977; Babanassis, 1985; National Accounts of Greece, 1976).

Conversely, they experienced high rates of economic growth during the first decades of the post-war era. Between 1950-1979, the average annual growth rate of GNP was 6.20% for Greece, 5.81% for Romania, 5.43% for Bulgaria and 3.64% for Hungary. Growth rates were faster in the 1950s-1970s and slower between 1971-1990. Between 1981-1988 for example, the average growth rate of total output was in the range [1%, 1.5%]. In fact, there was an absolute decline for Romania. (Tables 3, 4).

Table 2. Macroeconomic indicators between 1928-1939

Year	Greece			Yugoslavia		Romania		Hungary	
	General Index of economic activity	Industrial production	Agricultural production	Industrial production	Agricultural production	Industrial production	Agricultural production	Industrial production	Agricultural Production
1928	100.0	100.0	100.0	-	-	-	-	-	-
1929	103.5	101.8	97.0	100.0	100.0	100.0	100.0	100.0	100.0
1930	99.8	105.3	100.0	101.4	99.3	119.0	97.3	95.5	98.9
1931	95.2	108.9	95.0	94.0	103.3	112.6	105.6	88.6	96.2
1932	91.5	102.7	132.0	76.1	99.8	119.6	95.2	85.1	90.3
1933	97.3	111.8	166.0	89.0	99.3	133.2	96.6	92.7	99.4
1934	102.2	127.2	156.0	91.0	105.1	145.9	99.9	98.7	97.6
1935	116.4	143.2	163.0	90.0	99.1	146.8	97.7	107.6	99.9
1936	115.3	141.7	160.0	100.3	120.3	137.8	103.8	106.0	108.3
1937	132.9	153.9	215.0	106.9	112.5	147.6	96.7	112.3	102.1
1938	140.1	162.2	206.0	120.8	120.3	150.0	111.6	123.8	104.1
1939	138.0	179.0	-	-	-	-	-	-	-

Sources:

- *The Greek Economy in 1938, Athens 1939, p. 6.*
- *The Greek Economy in 1939, Athens 1940, p. 41. Publications of the Higher Economic Council.*
- *E. Lethbridge: National Income and Product. The Economic History of Eastern Europe. 1919-1975, Vol I, Chapter 8, p. 546, 572, 592.*
- *Valsag, recesszio, tarsadalom. KJK, Budapest, 1987, p. 194.*

Table 3. The growth of GNP and Investment, 1950-1979

Country	Average growth rates p.a. (%)	
	GNP	Capital Investment
Bulgaria	5.43	10.89
Hungary	3.64	8.85
Romania	5.81	11.33
Greece	6.20	7.16
Holland	4.58	5.10
Norway	4.15	4.93
Italy	4.92	4.79
Sweden	3.69	4.18

Source: Pryor (1985, p. 76)

In Yugoslavia, the average annual growth rate of National Income was 1.9% between 1945-1952, 8.4% between 1953-1956 and 13.0% between 1957-1960. The average annual growth rate of GNP was limited to 5.0% between 1960-1980. The Social Product rose by 0.7% in 1982, fell by 1.5% in 1983 and rose by 2.0% in 1984, 0.7% in 1985 and 3.7 in 1986. (Maroudas, 1989).

Table 4. Growth of total output – international comparisons

Country	Average annual growth rate (%)		
	1961-1970	1971-1980	1981-1988
SOCIALIST COUNTRIES			
Bulgaria	5.8	2.8	1.2
Czechoslovakia	2.9	2.8	1.4
East Germany	3.1	2.8	1.8
Poland	4.2	3.6	0.8
Hungary	3.4	2.6	1.0
Romania	5.2	5.3	-0.1
Soviet Union	4.9	2.6	2.0
CAPITALIST COUNTRIES			
Austria	4.7	3.6	1.7
USA	3.8	2.7	3.2
France	5.6	3.2	1.9
Greece	7.6	4.7	1.5
Holland	5.1	2.9	1.3
Japan	10.5	4.6	4.0
West Germany	4.5	2.7	1.7
Italy	5.7	3.8	2.2
Portugal	6.4	4.7	2.2
Spain	7.3	3.5	2.6

Source: Kornai (1993, p. 228).

Over the decade 1951-1961, Turkish GNP grew between 1%-15.1% p.a. with the exception of 1954 when it fell by 8.0%. The average annual growth rate of GNP was 6.7% during 1963-67 and 6.5% in the five-year period 1968-1972. The growth rate accelerated during 1973-77 (7.1%) and slowed down between 1978-1980 (0.9%) (Notis, 1986). In the five-year period 1985-1989, GNP rose between 1.9%-8.1% (Karafotakis, 2000, p. 103).

In the first decades of the post-war era (1950-1970), the economies of Southeastern Europe ranked among the fast-growing world economies. However, growth rates slowed down during 1970-1990 to levels below those of the developed economies of the West (Table 4).

When comparing Eastern and Western economies, differences in the calculation of macroeconomic quantities, such as output, should be taken into account. Differences between official and alternative indicators of total output (NNP and GNP) can be seen in Table 5. The alternative measures are lower than the official ones. The main reason for this underestimation are:

i. Eastern European economies used a National Accounts System that was based on the separation of "productive" and "non-productive" activities and did not take services into account (MPS system), while services are included in the National Accounts System of Western economies.

ii. The pricing system of the Eastern European economies overpriced many industrial products and underpriced the use of infrastructure and houses.

iii. The pricing system and the methodology of calculating macroeconomic quantities neglected qualitative factors of productive activity and relied solely on quantities, simply adding the increase in output volume to total output volume.

iv. The official statistics did not take "hidden" inflation into account so that the chosen deflators were understated, overstating actual economic growth. (Kornai, 1993, pp. 221-224).

Between 1975-2000, per capita GNP falls in Bulgaria, Romania, Albania and Yugoslavia, and rises slightly in Greece and Turkey. The transition from a centrally planned economy to a market economy is characterized by an absolute decline in GDP in most European economies of the South-east. The cumulative decline in GDP over the period 1990-2000 was 33% in Albania, 16% in Bulgaria, 36% in Croatia, 15% in Hungary, 21% in Romania and 14% in Slovenia. The decline was even greater in Yugoslavia. In 2000, real GDP was lower by 19% in Bulgaria and 13% in Croatia, and greater by 10% in Albania, 9% in Hungary, 44% in Romania and 5% Slovenia compared to year 1990 (Tables 6, 7).

Development was different in Greece and Turkey. During the 10-year period 1990-99, the average growth rate of the Greek GDP was 2.1% p.a. (Greek Treasury, January 2001, p. 12) while the Turkish GDP grew by an average rate of around 4.7% p.a. (1990-1998) (Karafotakis, 2000).

Between 2000-2004, rates of economic growth accelerated in most countries of Southeast Europe. The annual growth rates of GDP ranged between 2.0% and 7.8%. These rates exceed those of the Euro-zone for the same period which ranged between 0.7% and 3.5% (Table 8).

Table 5. Official and alternative measures of economic growth, 1961-1989 (%)

	1961-70	1971-80	1981-85	1986	1987	1988	1989
Bulgaria							
NNP (official)	7.7	7.0	3.7	5.3	4.7	2.4	-2.0
GNP (alternative)	5.8	2.8	0.8	4.9	-0.9	2.0	-
Hungary							
NNP (official)	5.3	4.6	1.2	0.9	4.1	-0.5	-1.6
GNP (alternative)	3.4	2.6	0.7	2.2	1.1	1.1	-
Romania							
NNP (official)	8.4	9.4	3.2	3.0	0.7	-2.0	-7.9
GNP (alternative)	5.2	5.3	-0.1	2.9	-0.9	-1.5	-

Source: Kornai (1993, pp. 222-223).

Table 6. Per capita GNP Growth in Southeastern Europe, 1975-2000 (%)

Country	Average yearly growth rate	
	1975-2000	1990-2000
Greece	0.9	1.8
Cyprus	4.8	3.1
Slovenia	..	2.8
Hungary	0.9	1.9
Croatia	..	1.8
Bulgaria	-0.2	-1.5
Romania	-0.5	-0.4
F.Y.R.O.M.	..	-1.5
Turkey	2.1	2.1
Albania	-1.3	2.7

Source: Human Development Report, 2002. UNDP, pp. 190-193.

Table 7. Output and real GDP growth of economies in transition (1990-2000)

Country	Consecutive years of declining output	Cumulative output decline (%)	Real GDP in 2000 (1990=100)
Central, Southeastern Europe, Baltics[(a)]			
Average	*3.8*	*22.6*	*106.5*
Albania	3	33	110
Bulgaria	4	16	81
Croatia	4	36	87
Czech republic	3	12	99
Estonia	5	35	85
Hungary	4	15	109
Latvia	6	51	61
Lithuania	5	44	67
Poland	2	6	112
Romania	3	21	144
Slovakia	4	23	82
Slovenia	3	14	105
Commowealth of Independent States – CIS [(a)]			
Average	*6.5*	*50.5*	*62.7*
Armenia	4	63	67
Azerbaijan	6	60	55
Bellarussia	6	35	88
Georgia	5	78	29
Kazakhstan	6	41	90
Kirgizstan	6	50	66
Moldavia	7	63	35
Russian Federation	7	40	64
Tajikistan	7	50	48
Turkmenistan	8	48	76
Ukraine	10	59	43
Uzbekistan	6	18	95
Output decline in the 1930-34 crisis			
France	3	11	n.a.
Germany	3	16	n.a.
United Kingdom	2	6	n.a.
USA	4	27	n.a.

(a) *Simple average with the exception of the 1990 GNP index which is population weighted.*

Source:

- *World Bank Country Office Data*
- *Maddison (1982)*
- *World Bank (2002, p. 5)*

Table 8. Annual GDP growth rates (%) in Southeastern Europe, 2000-2004

Country	2000	2001	2002	2003[(a)]	2004[(a)]
Turkey	7.40	-7.40	4.80	3.00	4.50
Romania	1.80	5.30	4.80	4.20	5.10
Hungary	5.20	3.84	3.34	4.60	4.10
Bulgaria	5.80	4.00	4.30	4.60	4.20
F.Y.R.O.M.	4.60	-4.70	0.90	3.20	4.40
Serbia and Montenegro	5.00	5.90	4.10	4.90	5.20
Albania	7.80	6.50	4.60	5.90[(b)]	6.10
Cyprus	5.10	4.00	2.00	2.70	3.60
Greece	4.30	4.10	3.80	3.80	4.00
EURO-ZONE	3.50	1.40	0.70	1.30	…

(a) *Forecast by the National Bank of Greece.*

(b) *Forecast by the Central Bank of Albania.*

Sources:
- *National Bank of Greece: South Eastern Europe and Mediterranean Emerging Market Economies. Bulletin, Volume 4, Issue 4, March 2003, pp. 1-60.*
- *National Bank of Greece: Euro Area Monthly, January 2003, p. 6.*
- *Romanian Macroeconomic Developments, January 2003, p. 3 (Official document of the Romanian Government).*
- *Greek Democracy: National Budget 2002. Report by Nikos Christodoulakis, Minister of Economy and Finance. Athens, November 2001, p.7 and November 2002, pp. 3-5.*
- *Greek Democracy, Ministry of Economy and Finance: Seasoned, Program for Stability and Development of Greece: 2002-2006, December 2002, p. 4. (For data concerning Greece).*
- *Balkan Market, 28.1.2003.*

3. The evolution of per capita GNP

Per capita GNP in Bulgaria, Greece, Romania and Serbia in 1850 was within 67%-78% of the mean per capita GNP for Europe as a whole. Six decades later, in 1913, these figures dropped to within 49-63% (Table 9). This means that between 1850-1913 the development gap between the economies of Southeastern Europe and Europe's developed countries widened. In the period 1860-1910, per capita GNP in Europe rose by an average 61% whereas it only rose by 28% in Serbia, 31% in Bulgaria, 41% in Greece, 53% in Romania and 63% in the Austrian-Hungarian Empire. (Bairoch, 1976, and Berend and Ranki, 1979).

The Balkan countries were trapped in the periphery of Europe. The Austro-Hungarian Empire was an exception, as it grew at higher rates and kept its strong position by raising its per capita GNP from 93% in 1890 to 94% in 1910 compared to the European average. Some of its regions are considered part of the developed world (Austria, the Czech Republic, Slovenia and a part of Hungary), whereas others remain underdeveloped (Bosnia-Herzegovina). Hungary's per capita GNP was 74% in 1860 and 70% in 1913 compared to the European average (=100). (Idem, p. 279, 286).

During the 19th century, Turkey turned into an underdeveloped country. "Until Midwar, the level of Turkey's economic and structural development was considerably below that of the developed world". (Notis, 1986, p. 14).

Table 9. The evolution of the per capita GNP in CSE countries, in USD (1960)

Countries, Areas	**1850**		**1913**	
	In USD	**In %**	**In USD**	**In %**
Europe Average	283	100	534	100
Bulgaria	210 [a]	74	263	49
Greece	215	76	322	60
Romania	190	67	336	63
Serbia	220 [a]	78	284	53
Russian Empire	175	62	326	61
Austria-Hungary	283	100	498	93

(a) *1860*

Source: Bairoch (1976, p. 286).

Between the wars (1918-1940), the development gap widened further. Per capita income of the underlying economies of South-eastern Europe was 18%-27% compared to the UK (=100) which was the most developed European economy in the prewar period (Table 10).

During 1946-1980, these countries covered part of their development gap because of their higher economic growth rates. Their per capita GNP was 23%-36% in 1960 and 37%-47% in 1980 compared to the UK (=100) according to estimations by *Ehrlich* and 49%-62% according to estimations by *the United Nations*. However, in later years, the development gap widened once again. In 1996, their per capita GNP was 21%-60% compared to the UK (=100) (Table 10).

The sum of the per capita GNP growth rates of the underlying economies of Central, Eastern and South-eastern Europe represented an average 18.4% in 1937, 30.0% in 1980, and 21.4% in 1990 of the US per capita GNP (=100) (Ehrlich, 1993, pp. 222-223).

Table 10. The level of economic development (as measured by per capita GNP) during 1937-1996 compared to the UK

Country	1937[(a)]	1960[(b)]	1980[(b)]	1980[(b)]	1996[(b)]
	Calculations by Ehrlich[(c)]			ICP Calculations[(d)]	
United Kingdom	100	100	100	100	100
France	61	71	110	113	107
Germany	78	86	130	124	104
Austria	43	62	105	104	107
Czechoslovakia	39	59	73	-	-
Czech republic	-	-	-	-	51
Slovakia	-	-	-	-	36
Hungary	27	36	55	56	36
Poland	24	36	47	52	32
Romania	18	24	37	-	21
Spain	22	28	62	77	76
Greece	21	24	47	62	60
Portugal	-	-	-	-	67
Yugoslavia	18	23	38	49	-
Slovenia			-	-	57
Croatia			-	-	26
Ukraine			-	-	9
Russia			-	-	20

(a) *Per capita National Income*
(b) *Per capita GDP*
(c) *Physical Indicator Method – PIM*
(d) *Calculation results by United Nations program: International Comparison Project (ICP)*

Sources:
- *A gazdasagi fejlettseg.Published by the Hungarian National Statistics Office Budapest, 1989.*
- *Economic Survey of Europe, 1998, No1.*

The average per capita GNP of Central, Eastern and South-eastern Europe was 40% in 1837, 55% in 1980 and 39% in 1990, as compared to the per capita GNP of the EU 12 (=100) (Idem).

The level of the Turkish per capita GNP increased from USD 1,262 in 1981 to USD 2,157 in 1993-1994. The level of the Greek per capita GNP was USD 3,769 and USD 7,051 respectively (Notis, 1986, p. 79, 110).

Yugoslavia is a special case due to its inherent regional inequalities. The per capita Gross Social Product of its more developed regions (Slovenia, Croatia, Serbia, Voivodina) rose from 110% in 1947 to 124% in 1978 compared to the Yugoslavian average (=100), while that of its underdeveloped regions (Bosnia – Herzegovina, Montenegro, F.Y.R.O.M. and Kosovo) dropped from 77% to 59%. The level of the Yugoslav per capita GNP in 1981 was USD 2,790 (Maroudas, 1989, p. 128, 133).

During the 1990-2003 period, the development gap that separates most European counties of the Southeast from the developed countries widened further. Per capita GNP represented 23% in Turkey and 24% in Bulgaria and Romania for the year 2002 and 17% in Albania, 33% in F.Y.R.O.M. and 38% in Croatia for the year 2000 of the EU 15 average. The percentage was higher for Hungary (53%), Greece (64%), Slovenia (70%) and Cyprus (74%). Greece raised its percentage compared to the EU 15 average (=100) from 62.2% to 70.9% as measured in terms of purchasing power units (PPUs).[1]

Table 11. Per capita GNP in Southeastern Europe, 2000-2003 (in USD)

Country	2000	2001	2002	2003
Turkey	2,988	2,171	2,792	3,294
Romania	1,623	1,730	1,953	2,187
Serbia and Montenegro	762	1,023	1,200	1,309
Bulgaria	1,599	1,678	1,943	2,186
F.Y.R.O.M.	1,702	1,665	1,719	1,775
Albania	1,075	1,163	1,243	1,349
Cyprus	13,100	13,388	14,402	15,119
Hungary	4,614	5,119	6,119	6,650
Slovenia	9,105	9,455	9,857	10,360
Croatia	4,152	4,413	5,000	5,717
Greece	10,727	10,656[a]	11,062[a]	11,482[a]

(a) *Calculations based on official data.*

Sources:
- *National Bank of Greece S.A.: South Eastern Europe and Mediterranean Emerging Market Economies. Bulletin, Volume 3, December 2002, pp. 6-61.*
- *Greek Democracy, Ministry of Economy and Finance: Seasoned, Program for the Stability and Development of Greece: 2002-2006, December 2002, p. 4.*
- *"Epilogi", November 2002, p. 107.*

1. Calculations based on: EUROSTAT 2000, p. 11; the Human Development Report 2002, UNDP, pp. 190-193; the Greek Treasury's Division of Macroeconomic Analysis; Kathimerini, 21.1.2003.

Per capita GNP in absolute figures in Southeast Europe during 2002 was between USD 1,200-14,402 which indicates great dispersion. Cyprus, Greece and Slovenia have the greatest per capita GNP (USD 9,857-14,402). Hungary and Croatia follow suit (USD 5,000-6,119) and Serbia-Montenegro, Albania, F.Y.R.O.M., Bulgaria, Romania and Turkey rank last (1,200-2,792 USD) (Table 11).

The development gap is smaller if it is calculated in terms of purchasing power units. In 2000 for example, per capita GNP (in PPUs) fluctuated between USD 23,509-50,061 in developed countries, while it ranged between USD 3,506-20,824 in South-eastern Europe (Human Development Report, 2002, pp. 149-152).

It is interesting to examine the total economic power of South-eastern Europe and its position in Europe and the world. In 1999, total GNP of the Balkan countries was 390 billion USD: Turkey's share was 47.8% and Greece's 32.7%. Greek GNP by itself (127.6 billion USD) exceeded that of Albania, Bosnia-Herzegovina, Bulgaria, Croatia, F.Y.R.O.M., Romania (USD 75.9 billion or 19.5% of total GNP) and Yugoslavia as a whole. The share of the Balkan countries in total Europe GNP is very small, 0.79%. In terms of total GNP, Turkey ranks 22nd, Greece 30th, while the rest of the Balkan countries rank between 56th and 135th among 148 countries. The validity of the above figures is confirmed by the data in Table 13, presenting total GNP and its evolution during 2000-2003 (Tables 12, 13).

Table 12. Total GNP of Balkan countries and their position compared to Europe and the world economy, 1999

Country	GNP (in billions USD)	As a % of the total of the Balkan countries	As a % of the total of European countries	Rank among 148 countries[(a)]
Albania	3.1	0.79	0.03	135
Bosnia-Herzegovina	4.7	1.21	0.05	114
Bulgaria	11.6	2.97	0.12	81
Croatia	20.2	5.18	0.21	64
F.Y.R.O.M.	3.3	0.85	0.03	129
Romania	33.0	8.46	0.35	56
F.R. of Yugoslavia[(b)]	…	…	…	…
Greece	127.6	32.72	1.34	30
Turkey	186.5	47.82	1.95	22
Balkan Total	**390.0**	**100.00**	**0.79**	**-**

(a) *Calculated according to the "Atlas" method of the World Bank. "Rank" corresponds to the rank among the 148 countries investigated by the World Bank. "Rank" is a function of the total GNP of each county.*
(b) *These percentages diverge from the actual values for all of the countries due to the lack of statistical data on the F.R. of Yugoslavia.*

Sources:
- *World Development Report, 2001.*
- *Balkan Markets. 22.2.2002, No 82.*

Table 13. Total GNP of Southeastern Europe, 2000-2003 in billions USD

Country	2000	2001	2002[a]	2003[a]
Turkey	199.0	147.0	176.0	194.0
Romania	36.8	39.6	43.2	45.3
Bulgaria	12.8	13.4	15.5	17.5
F.Y.R.O.M.	3.8	3.5	3.6	3.8
Serbia and Montenegro	8.1	10.9	13.0	14.3
Albania	3.6	4.1	4.6	5.0
Cyprus	8.8	9.1	9.9	10.9
Greece[b]	123.6	131.5	141.7	152.6

(a) *Forecast by the National Bank of Greece.*
(b) *Billions of Euros in current market prices.*

Sources:
- *National Bank of Greece: South Eastern Europe and Mediterranean Emerging Market Economies. Bulletin. Volume 3, Issue 5, August/September 2002, pp.1-44.*
- *"Epilogi" 2002, p. 107.*

4. Economic macrostructure

The countries of South-eastern Europe were primarily agricultural economies for a long time. The development of the secondary and tertiary economic sectors has been weak. This is reflected by the data on macrostructure (intersector), microstructure (intrasector) and macrospecialization of production (intersector) of the underlying economies.

As far as macroemployment is concerned (ie participation rates in national employment as measured by GNP) the participation rate of the laborforce in agriculture was 82%-88% in 1860 and 64%-75% in 1910. Participation rates in the industrial sector were 7%-9% and 7%-10%, respectively.

In terms of macrospecialization of production, the share of agriculture in GNP was around 75% in 1860 (Greece) and around 79% in 1910 (Serbia), while that of the industrial sector was 14%-20% (Table 14). In the post 1910 period, the share of the primary economic sector (agriculture) in employment and national output (as measured by GNP) decreased whereas that of the secondary (industry & construction) and tertiary (services) sectors increased.

Table 14. The European economy: Employment macrostrusture and macrospecialization of production by country (primary and secondary sectors only) 1860-1910

Country	Agriculture				Industry			
	Quantity of the laborforce employed in agriculture as a % of population		Share of agricultural production in national output as measured by GNP (%)		Quantity of the laborforce employed in the industrial sector as a % of population		Share of industrial production in national output as measured by GNP (%)	
	1860	1910	1860	1910	1860	1910	1860	1910
Denmark	55	36	48	30	23	29	26	..
Sweden	72	49	39	25	15	32	19	33
Norway	69	43	45	24	16	25	18	26
Finland	75	66	65	47	7	12	13	25
Hungary	75	64	80	62	5	24	18	26
Italy	53	55	55	47	29	30	20	22
Russia	90	70	..	53	..	..	..	20
Spain	41	71	..	40	..	17	..	26
Portugal	73	57	..	..	..	21	..	..
Greece	88	64	75	..	9	13	..	18
Romania	..	75	..	..	..	10	..	20
Bulgaria	82	75	..	..	7	10	..	15
Serbia	84	75	..	79	7	7	..	14

Note: For some countries, data on 1860 are data available from the 1860-1880 period, while for 1910 they are from the 1900-1914 period. Where data are missing, no acceptable data were available.

Source: Berend and Ranki (1979, p. 158).

As a percentage of the active Greek population, the percentage of working peasants in the primary sector fell from 64% in 1910 to 57% in 1950 and 29.1% in 1981, while those in the secondary and tertiary sectors rose from 13% to 16% and 30.5% as far as the secondary sector is concerned and from 23% to 27% and 40.4% as far the tertiary sector is concerned (Babanassis, 1985, p. 103). In 1976 the percentage of peasants employed in agriculture was 26.7% in Bulgaria, 22.2% in Hungary and 36.4% in Romania, 41.9%, 43.3% and 39.6% for those employed in the secondary sector and 31.4%, 33.5%, and 24.0% for those employed in services (Meisel, 1979, p. 217).

Comparing the years 1938, 1950 & 1980 for Greece and 1950 & 1976 for Bulgaria, Hungary and Romania, we observe the following regarding the contribution of each of the three economic sectors to each country's National Income: i. the contribution of agriculture dropped from 34.3% to 28.6% and 14.0% in Greece, it also dropped from 42.1% to 21.3% in Bulgaria, from 24.4% to 15.9% in Hungary and from 27.6% to 18.9% in Romania; ii. the contribution of the secondary sector rose from 18.6% to

19.9% and 30.2% in Greece, from 43.4% to 58.9% in Bulgaria, from 55.9% to 59.6% in Hungary and from 49.6% to 64.6% in Romania; iii. finally, the share of the services sector rose from 47.1% to 51.5% and 56.0% in Greece, from 10.1% to 17.2% in Bulgaria, from 19.1% to 22.9% in Hungary while it fell from 17.4% to 14.8% in Romania (Table 15).

Table 15. The evolution of economic macrostructure: Sectoral specialization of National Income

Sectors	Bulgaria		Hungary		Romania		Greece			
	1950	1976	1950	1976	1950	1976	1938	1950	1970	1980
1. Agriculture	42.1	21.3	24.4	15.9	27.6	18.9	34.3	28.6	17.8	14.0
2. Industry, construction	43.4	58.9	55.9	59.6	49.6	64.6	18.6	19.9	30.1	30.2
a. Manufacturing	36.8	50.6	49.1	48.3	43.4	56.7	-	14.7	21.8	-
b. Construction	6.6	8.3	6.8	11.3	6.2	7.9	-	5.2	8.3	-
3. Services	10.1	17.2	19.1	22.9	17.4	14.8	47.1	51.5	52.1	56.0

Sources:
- *Meisel (1979, p. 218).*
- *Evelpides (1950, p. 110).*
- *National Accounts of Greece 1979, table 2, 1980, p. 74, 1983.*
- *Babanassis (1985, p. 99).*

In Yugoslavia, the share of industry in the production of national Social Product rose from 21.1% in 1952 to 34.2% in 1965. In 1981, 12% of GNP was accounted for by agriculture, 43% by the secondary sector and 45% from the tertiary sector (Maroudas, 1989, p. 97, 133).

In Turkey, the contribution of industry to GNP rose from 15.6% in 1951 to only 16.1% in 1961 while that of agriculture fell from 47.5% to 37.2% respectively. The share of industry in GNP during 1982 was 27% (Notis, 1986, p. 53, 79).

In Romania, in 2001 agriculture accounted for 13.4%, the secondary sector 30.8%, and services for 46.4% of GNP while 9.4% of GNP was accounted for by other productive activities (Romanian Macroeconomic Developments, 2003, p. 3).

In the 1990-2000 decade, the main trends of macrostructure were the shrinkage of the secondary sector and the expansion of the services sector causing a change in the sectoral composition of GNP. Interestingly, the share of the primary sector remained unchanged. More specifically, in all countries of Central & South-eastern Europe (CSE) and the Baltics, the share of industry fell from 45.1 in 1990-91 to 33% in

1997-98, the share of services rose from 41.20% to 53.1%, while the share of agriculture remained unchanged at 13.7% and 13.9% respectively (The World Bank, 2002, p. 6). Greece is an exception since the share of agriculture in 2001 fell to 7%, that of the secondary sector to bellow 30% while that of the services sector rose to approximately 65%.

As far as microstructure (ie intrasector specialization) is concerned, agriculture was characterized by stockbreeding in some countries (such as Yugoslavia and Hungary) and the production of natural products in others (such as Greece and Turkey). As far the industrial sector is concerned, light industry was expanded at the expense of heavy industry, in most countries. Traditional services prevailed in the services sector while the development of modern services was limited.

With respect to the current trend of macrospecialization of production, most European countries of Southeastern Europe focus on the production of traditional goods and services, while the presence of competitive, high technology innovative products, modern telecommunications and other edge technologies is limited. The above development trends are reflected in the foreign trade components of European countries of the Southeast. Their basic characteristic is that in their majority, they export agricultural products, industrial raw materials and traditional industrial products while they import technological equipment and other capital goods.

5. The development of infrastructure

The economic and social infrastructures are both a major development indicator and a prerequisite for the development of other economic sectors. In European countries of the Southeastern Europe, infrastructure began to develop in the second half of the 19th century but is lagging behind compared to the developed countries of the West.

From this point of view, the development of the transport sector is characteristic. The construction of railroads in these countries preceded their economic needs, and it happened with the collaboration of Germany and other developed countries, due to the rising needs of the latter for easier and cheaper access to the Balkan and Middle-Eastern markets. «The length of the railroad tracks (in ‘000 Km) between 1860-1914 rose from 0.2 to 1.6 in Greece, from 2.2 to 22.0 in Hungary, from 0.3 to 3.5 in Romania, from 0.3 to 1.0 in Serbia and from 0.2 to 2.1 in Bulgaria» (Berend and Ranki, 1979, p. 98). The railroads of these countries became an operational part of the united European railroad network. Despite their development, these countries are generally lagging behind in transport infrastucture. «In 1911, as far developed European countries are concerned, the area covered by 1Km track length was 10.14Km^2, while it was 41.74Km^2 in Greece, 36.0Km^2 in Hungary, 37.66Km^2 in Romania, 51.21Km^2 in Serbia and 49.98Km^2 in Bulgaria. Track length per 100,000 residents was 90.2Km in the developed countries, while it was 59.8Km in Greece, 110.0Km in Hungary, 34.3Km in Romania, 32.6Km in Serbia and 44.6Km in Bulgaria» (Idem, p. 100). The aggregate track length (in ‘000 Km) in the Balkan countries in the period 1880-1914, rose from 2.3 to 8.2, and from 2.5% to 5.5% as a percentage of the track length of developed Europe. In 1911 the area covered by 1Km track length was 432.4Km^2 in the Balkans while it was a mere 10.14Km^2 in developed Europe (Berend and Ranki, 1987, p. 613).

In evaluating the impact of the above changes, we must take into account some peculiarities. In Greece for example, there was a strong development of maritime commerce due to the country’s geographical position and traditions. The capacity of the Greek commercial maritime fleet rose from 110,690 tons in 1840 to 1,001,116 tons in 1914, to 1,304,000 tons in 1950 and 42,488,000 tons in 1981 (Babanassis, 1985, p. 34). The dynamic development of the Greek commercial fleet continued and in March 2002 it was 164,613,935 tons. Proprietary control of the Greek maritime commerce makes Greece rank first in the world with a stake of about 17-19% of the world maritime commerce (The Economic Mail of 1.6.2002; Lloyd’s Register).

The development gap that separated South-eastern Europe from the developed countries of the West remained throughout the 20th century. In 1995, as far as the level of development of the transport sector is concerned, Hungary ranked 34th, Greece 35th, Bulgaria 37th, Yugoslavia 39th, Romania 40th and Albania 48th among 50 countries (Ehrlich, 2001, p. 66). In 1990, as far as the development level of the telecoms sector is concerned, Greece ranked 13th, Bulgaria 15th, Hungary 17th, Yugoslavia 18th, and Romania 21st among 23 European countries (Ehrlich, 1998, p. 125). The density of telecom services in South-eastern Europe varies between 3-35 main connections per 100 residents. Greece is an exception as it showed an upward bias (from the international trend) with 56.4 main lines per 100 residents in 2001 and 94 mobile phone customers per 100 residents in 2003 (ITU, 2001, PP. 13-176; Greek OTE Report 2002, p. 21; Eleftherotypia of 22.01.2003).

As far as the level of development of total infrastructure during 1960-1990 is concerned (in terms of world ranks), Greece and Romania moved up, Bulgaria and Turkey remained unchanged while Hungary and Yugoslavia moved down (Table 16).

6. The trend of Human Development index

The Human Development Index gives us a more complete picture of the Development Level because it is a complex index that includes three economic and social indexes: per capita GNP, life expectancy and the percentage of adult illiterate population or the average of school grades (years) that the population completes. Later on, the index became more complex by including the income distribution index and the environment protection index.

Table 16. The rank of Southeastern Europe amongst 50 countries based on the level of the development of infrastructure, 1960-1990 (scores in pts)

Countries by rank in 1990	1960		1990	
	Rank	Score	Rank	Score
Greece	22	29	18	46
Bulgaria	19	33	19	44
Hungary	18	34	21	42
Romania	25	23	23	38
Yugoslavia	24	26	25	30
Turkey	26	10	26	25

Source: Ehrlich (1998, p. 126).

The United Nations calculates the Human Development index every year. Based on data of year 2000, among 173 countries of the world, a relatively good position is occupied by Greece (24th), Cyprus (26th), Slovenia (29th) and Hungary (35th). Croatia Bulgaria, Romania, FYROM, Turkey and Albania are very far back in the ranks, occupying a position between 48-92 (Table 17). To make comparisons easier, Norway, ranked 1st, is included in the table, as is Sierra Leone, ranked last (173rd).

Table 17. Trends of the Human Development Index: Ranks (total of 173 countries including their scores)

	Country by rank	1975	1980	1985	1990	1995	2000
1	Norway	0.859	0.877	0.888	0.901	0.925	0.942
.							
.							
24	Greece	0.808	0.829	0.845	0.859	0.868	0.885
26	Cyprus		0.801	0.821	0.845	0.866	0.885
29	Slovenia				0.845	0.852	0.879
35	Hungary	0.777	0.793	0.805	0.804	0.809	0.835
48	Croatia				0.797	0.789	0.809
62	Bulgaria		0.763	0.784	0.786	0.778	0.779
63	Romania	0.755	0.788	0.794	0.777	0.772	0.775
65	F.Y.R.O.M.						0.772
85	Turkey	0.593	0.617	0.654	0.686	0.717	0.742
92	Albania		0.673	0.691	0.702	0.702	0.733
.							
.							
173	Sierra Leone						0.275

Source: Human Development Report 2002, UNDP, (2002, pp. 153-156).

7. The main causes of economic backwardness of South-eastern Europe

The main conclusion of the above analysis is that most of the countries of South-eastern Europe were trapped in the periphery during the 19th & 20th centuries which led to the widening of the development gap that separates them from the developed countries of the West. Exceptions are Slovenia and Hungary during the Austro-Hungarian Monarchy and Greece & Cyprus post-World War II, periods during which they managed to overcome the barrier of underdevelopment by establishing procedures of integration into the Western world, yet failed to complete them. Over the first decades of the post-World War II era, Yugoslavia, Albania, Bulgaria, Romania and Hungary accelerated the rate of growth of their economies and covered a small part of the development gap. However, after the 1970s, economic growth rates slowed down and the development gap widened even further. Most of these countries, including Turkey, are still representative of a relatively low level of economic growth.

There are many general and special causes and interpretations for the backwardness of Southern European countries. We will just refer to the general causes without going through them.

1. The economic development of these countries mostly relied on natural, static factors of production, such as land, natural resources and the unqualified or semi-qualified labor force: modern dynamic factors of production, such as R&D, technological know-how, new technologies and innovation, modern organizational structures and management, played a lesser role in economic development. The development model they followed was more one of long-term economic expansion and less of qualitative economic development. It relied more on the increase of employment and less on the increase in the productivity of labor and capital (inputs of production). This model, especially in the post-World War II era, led to the depletion of useful natural resources and environmental pollution, limiting the possibilities of future development.

2. The unfavorable international climate had a negative impact on the development of Southeast Europe. The rule of the Otoman Empire had negative consequences, mainly because it deprived the subordinated nations of almost all of their economic surplus, forcing them to lag behind for centuries. An unfavorable international environment was also created after they declared their national independence and constituted new states because, among others, the ruling countries forced them to adopt an economic model with many elements of free trade yet in an infant development stage which required protectionism. During the post-World War II period, most of the European countries of the Southeast were alienated from the West because of the economic embargo that was imposed on them and the Cold War, which disrupted or restricted to the minimum their economic relations with the developed countries which

could have been a source offering them access to capital, technological know-how, modern technology and management. The creation and operation of COMECON (1949-1989) could not make up for these losses. Exceptions are Greece, Cyprus – and to a lesser extent Turkey – which were integrated into a more favorable international environment (IMF, GATT-WTO, EEC, EE), following a Western European model with positive influences in their development.

3. One of the most basic causes of the backwardness of Southeast Europe is the delayed and unaccomplished industrialization. The countries in question started the process of industrialization with a time lag of almost one century compared to the United Kingdom. They followed part a model of industrialization creating industrial sectors and firms at a comparatively later stage, at a time when they had already lost their technological and economic edge. Their industrialization that took place post-World War II relied, to a great extent, on pre-World War II technology. This is the reason why they never became fully-fledged industrialized nations. They entered the stage of de-industrialization before they even accomplished their industrialization, a process which constituted the most important factor of dynamic growth during the 19th & 20th centuries. Having missed the historical stage of the Industrial Revolution, they almost run the risk of missing the stage of the Modern Technological Revolution of our time; they are already significantly lagging behind compared to developed countries with respect to the introduction and diffusion of new technologies in the areas of informatics, electronics, digital equipments, modern communications and networks.

4. A negative impact was also exercised by the delayed and unaccomplished capitalization or Bourgeois Transformation, which – together with the Industrial Revolution or Transformation – constituted the main modernization factor during the 19th and 20th centuries. Although the post-World War II "Socialist Experiment" initially appeared to promote the dynamic growth of the size of the economy, it later became the stumbling-block of development and, from a historical perspective, proved to be non-operational in the long-run. Moreover, European countries of Southeastern Europe confront difficulties with their transition to the market economy due to the delayed and slow implementation of socioeconomic and political reforms, conflicts, wars and the destabilization these events entail.

As a result, South-eastern Europe suffered a downgrading of rank in the world economy. The underlying countries were forced to specialize in the production and exports of mainly agricultural products, industrial raw materials and to a lesser degree of dynamic industrial products; as a result, they were left with a unequal exchange in World Trade while their economies were characterized by long-run economic disequilibria both at the national and international level (trade relations). For a long time, they were left out of international economic organizations and economic unions, with negative consequences for their economic development.

The above positions are just assumptions. Their confirmation requires further research and discussion.

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