THE ECONOMIC AND FINANCIAL RELATIONS OF TURKEY WITH EAST EUROPEAN COUNTRIES (1990-2012)

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ABSTRACT

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This thesis analyzes the economic and financial relations of Turkey with East European Countries (EECs) since the transition period of those countries till 2012. Having gone through the Cold War background of the subject in question with the insight provided by “uneven and combined development” approach, the thesis examines economic and financial relations of Turkey with each of East European countries and then explores to what extent the European Union (EU) leaves a leverage room for Turkey to exercise a role of being a sub-regional power in the region. The findings suggest that Turkey had similiar advantages in entering those new emerging markets that of the EU’s by signing Free Trade Agreements. However, the bilateral trade figures with EECs and foreign direct investments of Turkey in the region have not achieved the desired levels beginning from their transition period. This situation has persisted even after the 2008 crises with the overall decline of the confidence in the European integration project. It is, however, argued here that as long as the outer framework of economic and financial relations of Turkey with the EECs are defined by the EU’s regulations based on neoliberal restructuring, this structural rationale does not give a large leverage room for Turkey to exercise a role of being sub-regional power.

Keywords: Eastern Europe and Turkey, Trade and Financial Figures, Sub-regional Power

ÖZ

TÜRKİYE'NİN DOĞU AVRUPA ÜLKELERİ İLE
EKONOMİK VE FİNANSAL İLİŞKİLERİ
(1990-2012)

Akoğlu Şişman, Melda

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Bu tez Türkiye'nin, geçiş dönemlerinden bugüne kadar Doğu Avrupa Ülkeleri ile olan ekonomik ve finansal ilişkilerini analiz etmektedir. Bu tez "eşit olmayan ve bütünleşmiş kalkınma yaklaşımı" anlayışıyla soğuk savaş dönemini temel alarak, Türkiye'nin her bir Doğu Avrupa Ülkesi ile ekonomik ve finansal ilişkilerini incelemekte ve ne dereceye kadar Avrupa Birliği'nin Türkiye'ye ikincil bölgesel güç olması için iltimas alanı sağlayabileceğini araştırmaktadır. Bulgular, Türkiye'nin yeni ortaya çıkan bu pazarlara girişte Serbest Ticaret Anlaşmaları imzalamasıyla Avrupa Birliği ile benzer avantajlara sahip olduğunu öne sürmektedir. Diğer taraftan, geçiş dönemlerinden itibaren Doğu Avrupa ülkeleri ile ikili ticaret rakamları ve bu bölgedeki Türk doğrudan yatırımları istenilen düzeylerde gerçekleşmemiştir. Bu sav 2008 ekonomik krizinden sonra Avrupa bütünleşme projesine dair güvenin azaldığı dönemde de geçerlidir. Ancak, Türkiye'nin Doğu Avrupa ülkeleri ile ekonomik ve finansal ilişkilerinin çerçevesi Avrupa Birliği'nin neo-liberal yapılandırmaya dayalı düzenlemeleri tarafından belirlendiği sürece, bu yapısal neden Türkiye'ye bölgede ikincil bir güç olmasını sağlayacak kaldıraç etkisini sağlamayacaktır.

Anahtar kelimeler: Doğu Avrupa Ülkeleri ve Türkiye, ikincil bölgesel güç, eşit olmayan ve bütünleşmiş kalkınma yaklaşımı

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LIST OF ABBREVIATIONS

ARIS	Romanian Agency for Foreign Investment
BiH	Bosnia-Herzegovina
BFIA	Bulgaria Foreign Investment Agency
BSEC	Black Sea Economic Cooperation
CEFTA	Central Europe Free Trade Agreement
CIS	Commonwealth of Independent States
COCOM	Coordinating Committee for Multilateral Export Controls
COMECON	Council of Mutual Economic Assistance
Cominform	Communist Information Bureau
Comintern	Communist International
EBRD	European Bank for Reconstruction and Development
EECs	Eastern Europe Countries
EC	European Community
EFTA	European Free Trade Agreement
ERP	European Recovery Program
EU	European Union
ERT	European Round Table of Industries
EUPM	European Union Policy Mission
EUSR	External Action Service
FTAs	Free Trade Agreements
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IA	Interim Agreement
ITC	International Trade Center
IMF	International Money Fund
NATO	North Atlantic Treaty Organization
NGOs	Non-Governmental Organizations
NIEO	New International Economic Order

OECD	Organization of Economic Cooperation and Development
OPEC	Organization for Petroleum Exporting Countries
SAA	Stabilization and Association Agreements
SEE	South East Europe
SFYR	Socialist Federal Republic of Yugoslavia
SP	Stability Pact
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNMIK	UN Interim Administration Mission in Kosovo
USA	United States of America
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

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CHAPTER 1

INTRODUCTION

With collapse of the state socialism and bi-polar international system, European Construction stretching from the Atlantic to the Urals and the possibility of accession of some of former state-socialist countries to the European Union (EU) suddenly seemed if not probable in the short term at least possible. Thus, the period that the Eastern Bloc countries had been cut off from the European integration process by virtue of their bloc position for more than 40 years was over by "the new beginning" in 1989[1]. However, the signs of normalization of the relations and cooperation between the Eastern and the Western part of the continent had their roots almost two decades earlier. Nevertheless,

> The trade and cooperation agreements finalized just before the end of the cold war had already set the groundwork for any future engagement of East European Countries with the European Community (EC). That is to say, when the dissolution of the Eastern Bloc took place, it was most probable that the EU's precursor, the EC, would fill the vacuum, a vacuum that existed in more than just ideology.[2]

That vacuum would be filled through new waves of enlargements. In each enlargement of the EU the main purpose was to ensure expansion and creation of new free markets area and consolidate European capitalism in the continental Europe. Enlargement towards Eastern European Countries had the same objective, however, the situation was pretty delicate due to different economic, political and social fundamentals that those countries inherited were in a rapid change.

It is beyond doubt that, for both EU and Eastern European Countries the road was rocky. Although the corporation of Eastern Europe Countries (EECs) in European integration the essence of the objective was the same, but the forms were different.

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[1] John O'Brennan, *Eastern Enlargement of the EU,* Routledge, London,2006, p.1.

[2] Mustafa Türkeş & Göksu Gökgöz, "The EU's Strategy Towards the Western Balkans: Exclusion or Integration?*", East European Politics and Socities*, 20/4, p.659.

It would be appropriate to look into the historical background of Eastern Europe. This would enable us to take the enlargement within a larger process. The uneven development of Eastern Europe goes back to 16^{th} century. The development gap and the peripherization of those countries are the central problems in any economic relations between the Western and Eastern part of the continent, as well as within the Eastern Europe countries. Nevertheless, the state socialism that was practiced during the cold war did not solve peripherization of EECs. Following the end of cold war EECs faced a similar challenge, though not a new one, an external integration. Given the fact that Soviet Union was no longer an option, EECs would argue to turn back to Europe, meaning that they wish to integrate to European capitalism. Such a desire overlapped the motives of the EU's enlargement objective that was the creation of an integrated European economic space. However, like EECs, the European Union also faced a big challenge of how to incorporate the Eastern part to its integration model.

Looking at the history of the EU, the European Community passed through several important transformations from common market to single market and lastly monetary union. But above all the EU was in a process of restructuring itself in neoliberal forms of European capitalism. So both the European Union and Eastern Europe countries have experienced a process of big transformation.

In the case of Turkey, she also has preserved its periphery status since 17^{th} century, from the times it was ruled under the Ottoman Empire. Though various forms of transition, establishing a secular republic, first a development strategy based on import substitution industrialization and then from 1980 onwards restructuring herself with free market conditions, becoming founding members of liberal institutions and translating all its regulations, like World Trade Organization (WTO) and Organization of Economic Cooperation and Development (OECD), establishing economic ties with the EC and EU, most importantly being a loyal alliance of the Western Bloc, Turkey has never been able to overcome its under developed and periphery situation.

In the historical concept, the two regions of the Eastern Europe, Turkey and EECs share some similarities. The big transitions of those countries in the 20^{th}

century have their mark in the history. Due to the indigenously and exogenously political and economic challenges, with the inherited uneven developments prevent those countries to adhere the developed status. It wouldn't be wrong to indicate that for both Turkey and Eastern Europe countries, to integrate with European economy has vital importance for their economic survival and growth. Nevertheless, on the one hand the integration process of Eastern Europe countries, including Turkey, composes cooperation among them while it generates competition on the other hand.

Given the under developed and periphery status of both, the efforts of Turkey and EECs to integrate with the Western Europe is best understood within the framework of "uneven and combined development" approach. According to this approach capitalist social relations and political forms are historically unique in their capacity to generate both combination and unevenness.[3] The uneven and combined development can be analyzed within the relations, processes and tendencies of the capitalist mode of production and its determinacy on the developments of states. In this system states are formed within the international relations and world economy in a competitive, evolving, uneven and combined totality[4]. Capitalist states ensure the reproduction of economic and social relations as a whole, and simultaneously operate at economic, political and ideological levels. Nevertheless, the distinctive dynamics of capitalist relations and political forms create the world economy and international division of labor. This division incorporates some states and regions on a subordinate colonial basis and places historically unprecedented pressure on others to catch up[5]. The advanced and developed exert pressure on the less developed and advanced through both the international division of labor and international system of states[6]. So the efforts of Turkey and EECs within the European integration, that all aimed to be linked to a developed capitalist system, best situated to take their places in the division of international labor.

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[3] Sam Ashman, "Capitalism, uneven and combined development and the transhistoric", *Cambridge Review of Internatonal Affairs*, Volume 22, Nm 1, March 2009, p.42.

[4] Ibid

[5] Ibid

[6] Ibid

The efforts in the integration process of Turkey with the European Union that have been spread out for decades, shows the forms of integration strategy of the EU. Turkey is the farthest Eastern enlargement project of the EU, as being considered to be the longest-standing membership applicant. Although Turkey is a special case in the enlargement process of the EU since the full membership of Turkey was kept open ended, in their journey with the EU, Turkey and EECs have some similarities. First of all historically it was inevitable for these countries to be a peripheral element of the core Western Europe, this time EU. As a matter of fact, some conditions were created by the EU different than other enlargements for both. For Turkey the conditionality was established by the Union on various subjects, like democracy, human rights and relations with Greece, that have always created a burden on membership and it seems that conditionality for Turkey is becoming a "moving object".

Nevertheless with the possibility of accession of EECs to the Union, a "conditionality mechanism" was established through the Copenhagen criteria in 1993, which had not existed before in the previous enlargements. Upon meeting the criteria, the first group of candidates was able to integrate with the Western part of the continent, namely the Visegrad group, the most politically coordinated – i.e.Visegrad platform- advanced sub-region. Later on the accession of the second sub-region came on the agenda, the Southern Eastern Europe when they have assumed to have met the Copenhagen criteria.

As for the EECs; the differentiated economic and political status of the small countries within the region, which are totally less advanced and developed than the Union, paved the way for the different approaches of the EC towards the region. Thus the EECs have been regarded in three sub-regions by 1990's which also reflected the political considerations of the EU. Firstly Central Eastern Europe Countries consisted of Hungary, Poland and Czech and Slovak Republics, the most developed sub-region also called as Visegrad group. Secondly followed by Southern Eastern Europe, which are Romania and Bulgaria. And lastly the least developed and advanced sub-region, the only part that is out of EU membership till today; Western Balkans, the small countries derived from the dismantling of the former Federal

Republic of Yugoslavia and Albania. The EU's policy towards the third sub-region, Western Balkans, has a distinctive feature aiming to keep the countries in the region at arms' length, with the strategy of "neither total exclusion nor rapid integration"[7], which can also be considered as the strategy towards Turkey.

On the other hand, when we consider the relations of Turkey and EECs with the Western Europe, besides those similarities there is a distinguishing point. Although throughout the cold war, Turkey was a loyal ally of the Western Bloc, putting into practice parliamentary democracy and free market conditions long before those EECs had practiced, Turkey is still not a full member of the EU. However, EECs were representing the other side of the cold war and implementing the state socialist economies, other than Western Balkans, the region mostly became part of the Western integration much earlier than Turkey.

Historically the relations of Turkey and EECs date back to early ages of history, to the times of Ottoman Empire. With the dismantling of the Ottoman Empire by the I. World War, consequently the countries in the Balkans gained their independence which had been under the sovereignty of the Empire. So, to examine the relations between Turkey and the region should begin from the inter war times. During the world wars, Turkey was implementing an active foreign policy in order to sustain the stability in the region and to prevent any hostile rise against its security[8]. However, in the cold war Turkish foreign policy was in line with the route of the US's, where Turkey was taking its place with the Western bloc so it would not be wrong to indicate that Turkey didn't apply a separate policy on her own right towards the region other than the Western alliances, in general after the cold war till today within the space provided by the US and EU. "Turkey adopted a Balkan

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[7]Mustafa Türkeş & Göksu Gökgöz, "The EU's Strategy Towards the Western Balkans: Exclusion or Integration?*", East European Politics and Socities*, 20/4 p.683.

[8]Mustafa Türkeş, "Türk Dış Politikasında Bölgesel Meseleler ve Obama Yönetiminin Olası Politikaları:Açmazlar ve Açılımlar" *Yeni Dönemde Türk Dış Politikası, Uluslararası IV.Türk Dış Politikası Sempozyumu Tebliğleri,* Edited by, Osman Bahadır Dinçer, Habibe Özdal, Hacali Necefoğlu, Şubat 2010, p.67.

strategy based on harmony with the policies of global actors, while preventing any regional actor from becoming a hegemonic actor in the region".[9]

After the collapse of the Eastern Bloc, when it comes to the establishment of economic relations with the newly liberal democracies, we can observe the escalation of the agreements between Turkey and the countries of the region like; Joint Economic Commission Agreements, Free Trade Agreements (FTAs)- under the supervision of the EC/EU- and Bilateral Investments Agreements. Accordingly, the trade volume with the region and the Turkish investments in those countries had developed through the years. Whether the developments of economic and financial relations are proportional due to the Turkish foreign policy towards the region needs to be explored in a descriptive way.

In the case of Free Trade Agreements the legal frame work of those agreements has been settled in harmony with the Decision Numbered 1/95 of the EC-Turkey Association Council of 22 December 1995 on implementing the final phase of the Customs Union. According to the Decision of 1/95 Article 16, in order to harmonize its commercial policy with that of the Community, Turkey should align itself progressively with the preferential customs regime of the Community which concern both the autonomous regimes and preferential agreements with third countries. Furthermore Turkey is obliged to take the necessary measures and negotiate agreements on mutually advantageous basis with the countries concerned. In other words, Turkey can sign FTAs only with the countries that the EU had signed with.

In relation with the above noted focus of this thesis, it is worth of asking whether and how far do the Western countries [EU], acting as the global power on the continent, want to share its economic hegemony with other regional powers, especially with Turkey, in the ongoing neo-liberal structuring of the region? Given the fact that whether Turkey can be regarded as the sub-regional power, taking into account the official declarations of the Government towards the region and thereof the development of the economic and financial relations between some of the

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[9] Mustafa Türkeş, "Türkiye'nin Balkan Politikasında Devamlılık Ve Değişim*", Avrasya Dosyası,* 2008 cilt 14 sayı:1, p. 7.

selected countries of the EECs and Turkey from the transition period till today. In this course, the country selection depended on the sub division of the Eastern part of the continent. While Hungary is from the Central Eastern, Romania and Bulgaria are from Southern Eastern and Bosnia Herzegovina, Serbia, Macedonia and Albania are representing the Western Balkans division.

In order to answer those questions, the development of economic and financial ties of EU and Turkey with Eastern Europe countries will be analyzed, especially in terms of mutual trade and development of FDIs towards the region beginning with their transition period till today.

Having introduced the subject in general and pointing out the main question in the introduction, the chapter 2 gives the historical background of the economic relations between the EECs and Turkey. At the beginning, the economic aspects of the cold war and its consequences to the World economy will be analyzed within the frame of the economy policies and institutions established within those policies. Thus, mainly their structures, goals and rules for membership of both blocs' institutions during the post-war period will be briefly exposed. Later on, dealing with the international relations and its consequences in the world economy in 1970s and 80s, will highlight the events of the 1990s economic order that shaped the political economy till today. The overview of the process of relations with global actors with US and EC during the cold war will be another subject of this chapter. At the end of the chapter 2, I want to expose briefly the view of the economies of the EECs before their transition period began with 90s, as well as Turkey whose economic transition to a full liberalized market economy began in 1980.

Taking into account of overall the economic situation of the region and Turkey during the cold war and their relations with the two blocs and their economic institutions will guide in better understanding the background of the economic and commercial political aspects of the both sides, especially within the last decade.

In chapter 3 the transition period of those countries and the EU after the cold war will be examined. In that context also, the individual economies of the region, that are also the subject matter of this thesis, namely Hungary, Romania, Bulgaria, Albania, Serbia, Macedonia and Bosnia-Herzegovina (BiH) will be briefly analyzed.

Subsequently, the establishment of the economic relations with Turkey will come to the agenda. As Turkey established a customs union with the EU in 1996, she also had the responsibility to conclude free trade agreements that the EU had already concluded or would conclude in the future. As a matter of fact, signing the Free Trade Agreements with the countries of the region was the turning point of the economic relations between Turkey and those countries which created similar advantages for Turkey as of the EU's, in entering those new emerging markets. In that frame the bilateral relations of Turkey with those selected EECs will be exposed only till their membership for Hungary, Bulgaria and Romania, till 2008 economic crises for BiH, Serbia, Macedonia and Albania in this chapter. If Turkey established strong economic relations with those countries and created a sub-regional power during their transition period will be probed at the end of this chapter.

In chapter 4, I want to deal in general the consequences of the 2008 economic crises/euro-zone crises to the EECs, namely for Hungary, Romania, Bulgaria, Bosnia-Herzegovina, Serbia, Macedonia and Albania, by analyzing the development models that those countries had been following from their transition periods. Subsequently I want to expose the general picture of the economies of those countries and Turkey briefly, such as their growth rates, inflow of FDIs, export, import figures and the position of the EU in their economic relations beginning with 2008, in order to evaluate the recent bilateral relations of those countries with Turkey vigorously. Afterwards, examining their relations with Turkey beginning with 2008, I want to expose if current economic and financial relations of those countries and Turkey had developed after their transition periods assumed to be over. In the conclusion part, after giving current statistics regarding the Turkish FDI in the region and bilateral trade relations, whether under the shadow of the crises spread to the region as a consequences of the neo-liberal structuring of the EU, and with a change in the Turkish foreign policy in the last decade paved the way to enhance the Turkish economic existence or created a sub-regional power for her in the region which was escaped during their transition period, will be clarified.

CHAPTER 2

HISTORICAL BACKGROUND

2.1 Introduction

With the end of the World War II, the international relations were captured between two blocks differentiated basically in the implementation of the economic models, either planned-socialist or capitalist economies that created a period of cold war. Although the roots of the creation of the blocs heavily based on differentiated political economy approach and thereof its social and political consequences, the process of the development of the relations during that period depended on not only a rivalry in economic aspects, but also in strategic- security aspects. Notwithstanding security aspects and economic interests are linked correspondingly, they are inextricable and both economic systems had to provide resources to sustain the military confrontation and subsidize their allies[10], in this chapter I want to limit my analyze focusing more on the economic aspects of the cold war and its consequences to the World economy.

In this regard, firstly touching upon the general outlook of the World economy during the cold war, then I want to analyze the economy policies and institutions of both East and West Bloc that had been established during the post-war period, their structures, goals and membership. Subsequently, dealing with the international relations and its consequences in the world economy by 1970s and 80s will highlight the events of the 1990s economic order that shaped the political economy till now. Later on I want to expose briefly the view of the economies of the EECs before their transition period began with 90s, as well as Turkey whose economic transition to a full liberalized market economy began in 1980. The over view of the process of relations with global actors with US and EC during the cold

[10] Charles S. Maier, "The World Economy and the Cold War in the middle of the 20th century*,"* *The Cambridge History of the Cold War*, Melvyn Leffler and Odd Arne Westad, eds. vol. 1, Cambridge, 2009, p.45.

war will be another analysis of this chapter with emphasizing the rifts and the détente emerged during that period.

Mentioning overall the economic situation of the region and Turkey during the cold war will guide in understanding the background of the economic and commercial political aspects of the both sides, especially within the last decade.

2.2 A Brief Outlook of the World Economy During the Cold War

During the cold war for the Soviets; the domination meant constructing an economic bloc of centrally planned economies that was designed to resist the seduction of the Marshall Plan and reemerging Western European capitalism. In the case of United States, it was to spread capitalism and free markets thereof, and to help its alliances' economies in order to integrate as much as practical the residues of older imperial economic zones-German and British above all- into a sphere of trade and exchange that posed no barriers to United States economic doctrines or ambition[11]. Where the capitalist model preserved its main aim throughout the cold war, the socialist economic model varied greatly over time[12].

Nonetheless, for both economic approaches the creation of new areas of influence had utmost importance, over the resources and raw materials, especially the oil. However, it has been observed that the importance of the some commodities has changed during the cold war. Once the coal and steel were the basis of industrial power, the industrial structures based on them are no longer crucial for progress[13].

Europe's economic situation in 1945 was desperate. Many countries were facing severe food shortages, disrupted communications, low production and unemployment. Such as after the First World War, it would take the world and individual economies some time before they could recover. So the urgent need in economic terms of both blocs was to recovery from the damage of World War II, either in their country and in their alliances. In Soviets this task was harder. The loss

[11] Charles S. Maier, "The World Economy and the Cold War in the Middle of the 20th century" p.45.

[12] Ibid p.46.

[13] Ibid p.54.

of the population was 20 million, while the Western part of the country was devastated and it had to be removed to East- Urals[14]. The economic consequences of the war were much more drastic also for the Eastern part of the Europe, due to the inherited less favoured economies of the region for centuries. Only for the US it was on the contrary, since its economy had grown during the war. However the economic crisis in its alliances -in Europe- would threaten prosperity in the USA as well. Without a general recovery within the Western World, the accumulation of capital and the international trade would be damaged. Nevertheless, the US was ready to extend its hand for its alliances in the Europe as the American Secretary of State General George C. Marshall proposed that the USA should help to rebuild European economies by giving them assistance. His European Recovery Program (ERP) offered economic and financial assistance wherever it was needed. "Our policy", he declared, "is directed not against any country or doctrine, but against hunger, poverty, desperation and chaos." Over the next four years over 13,000 Million Dollars of Marshall Aid flowed only into Western Europe, promoting economic recovery. A total of 16 West European countries joined the Organization for European Economic Cooperation (OEEC precursor of today's OECD, established to ensure trade liberalization by the Marshall countries), which distributed the American aid.

During the cold war competition was also around the policies of "Fordism" until late 1960s. Fordism realized capitalism's potential for mass production at the same time that it fostered a rising standard of living for many production workers[15]. By the late 1960s, the engine of "intensive accumulation" was stalling[16]. Nevertheless Fordism broke down, where Western economies experienced slow or nil economic growth, rising inflation and growing unemployment.

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[14] Ibid p.55

[15] Mark Rupert, "Critics for Fordism", *Center for Digital Discourse and Culture* (accessed on 21/03/2013) http://www.cddc.vt.edu/digitalfordism/fordism_materials/rupert.htm

[16] Ibid

2.2.1 Developments in the Eastern Bloc

The Soviet's hegemony over the Eastern part the Europe after the World War II, was crucial and non-negotiable not only for it security concepts but also for its economy. Although the Eastern part of the continent was less developed and advanced, the people's democracies of the region were to be foreseen in order to function as suppliers of capital to facilitate the recovery of the war that devastated Soviet economy.[17] But Soviet's administration in the region was radical and totalitarian, without any rationality. The uniformity dictated by the Moscow was not taking into account the economic and social differences of the region that those countries had inherited for years. Nevertheless, Stalin had insisted that each people's democracy to collectivize agriculture and to press rapid industrialization, with an emphasis on heavy metallurgical industry[18]. The economies of the EECs countries were linked to that of Soviet Union through a series of bilateral agreements, but deliberately discouraged from regional integration, just as Stalin prohibited multilateral political discussions once the Cominform had been formally launched[19].

The "Cominform" (Communist Information Bureau) was launched in 1947 by Stalin and it was the first official forum of the international communist movement since the dissolution of the Comintern[20] by Stalin in 1943, that confirmed the new realities after World War II – including the creation of an Eastern Bloc. The gathering communist parties of the region by Stalin, including French and Italian communist parties, in 1947 had two main reasons. Firstly, it was a response to divergences among Eastern European governments on whether or not to attend the Paris Conference on Marshall Aid in July 1947. Stalin saw the plan as no more than a capitalist device for gaining control over Western Europe and, worse still, for

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[17] Joseph Rothschild and Nancy Wingfield, *Return to Divesity: A Political History of East Central Europe Since World War II,* Oxford University Press, Oxford, 2000, p.77.

[18] Joseph Rothschild, *Return to Diversity,* p.162.

[19] Ibid p.127.

[20] The Communist International, abbreviated as Comintern, also known as the Third International (1919–1943), was an international communist organization

interfering in Eastern Europe, which Stalin considered to be in his 'sphere of influence'. Soviets rejected the offer of help and neither her alliances nor Czechoslovakia, which was showing interest in the beginning, was allowed to take advantage of Marshall Aid. The establishment of the Cominform was clear evidence that the lines between East and West were hardening[21].

And secondly, Stalin's aim was to tighten his grip on the dependents with the aim of bringing the region the only valid style of socialism in a single country like USSR. States were expected to trade primarily with Cominform members and all contacts with non-communist countries were to be discouraged. Only Yugoslavia objected, and was consequently expelled from the Cominform in 1948, though she remained another form of socialism. The Cominform was dissolved in 1956 after Soviet rapprochement with Yugoslavia and the process of De-Stalinization. Before its dissolvent, in 1949 an offering aid program to the dependents within another organization known as COMECON (Council of Mutual Economic Assistance) was set up to coordinate the Eastern Bloc economic policies. The COMECON was the Eastern Bloc's reply to the formation of the Organization for European Economic Co-operation. In 1949 members were; Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Albania till 1961 and Soviet Union. In 1950 East Germany, 1962 Mongolia, 1972 Cuba, 1978 Vietnam became members. There were also observer statuses of some countries[22]. The stated purpose of the organization was to enable member states "to exchange economic experiences, extend technical aid to one another, and to render mutual assistance with respect to raw materials, foodstuffs, machines, equipment, etc." Collectively, the members of the COMECON did not display the necessary prerequisites for economic integration: their level of industrialization was low and uneven, with a single dominant member (the Soviet Union) producing 70% of the COMECON's national product, possessing 90 % its members' land and energy resources, 70 % of their population, 65 % of their national

[21] The Library of Congress, American memory, Federal Research Division (accessed on 22/03/2013) http://memory.loc.gov/frd/cs/germany_east/gx_appnb.html

[22] 1964 Yugoslavia, 1972 Finland, 1975 Iraq and Mexico, 1984 Nicaragua, 1986 Afghanistan, Laos, South Yemen

income, and holding the second rank in the world industrial and military capacities[23]. Because of the wide variations in economic size and divergent interests among the member countries, the unity among the COMECON members was provided by ideological factors. Until the late 1960s, “cooperation” was the official term used to describe COMECON activities[24].

From 1949 to 1953, COMECON's function consisted primarily of redirecting trade of member countries toward each other and introducing import-replacement industries, thus making members economically more self-sufficient. However, little was done to solve economic problems through a regional policy[25]. Bilateral ties with the Soviet Union quickly began to dominate the East European members' external relations. In trade among COMECON members, the Soviet Union usually provided raw materials, and EECs provided finished equipment and machinery[26].

For the USSR foreign trade was not the economic imperative with her great mineral wealth and geographic size, but “an additional source of aid for the development of production”[27]. But the situation was not likely in Eastern Europe countries, as they have small areas and lack of minerals. Consequently, foreign trade was vital for their economic survive and growth.

When we examine the structure of the organization, the "sovereign equality" of members, as described in the COMECON Charter, assures members that if they do not wish to participate in a COMECON project, they may abstain. East European members have frequently invoked this principle in fear that economic interdependence would further reduce political sovereignty. Thus, neither COMECON nor the Soviet Union as a major force within COMECON had

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[23] Adam Zwass, *The Council for Mutual Economic Assistance: The Thorny Path from Political to Economic Integration*, M.E. Sharpe, Armonk, NY and London 1989, p.4.

[24] The Library of Congress, American memory, Federal Research Division (accessed on 22/03/2013) http://memory.loc.gov/frd/cs/germany_east/gx_appnb.html

[25] Ibid

[26] Ibid

[27] Frederic L. Pryor, “Foreign Trade Theory in the Communist Bloc”, *Soviet Studies,* Volume 14, Issue 1, 1962, p.41.

supranational authority. Although this fact ensured some degree of freedom from Soviet economic domination of the other members, it also deprived COMECON of necessary power to achieve maximum economic efficiency[28].

With the adoption of International Socialist Division of Labour in 1962, although the principles of specialization were generally favoured by the more industrial, northern-tier states, the less developed East European countries were concerned that such specialization would lead to a concentration of industry in the already established centers and would thus thwart their own ambitious industrialization plans[29]. Nevertheless, the aim was to create an environment for a division in labour within COMECON, interrupting the extended production of "Socialism in one country", which led to protests from the countries still in the early stages of development, like Romania. Romania rejected the supra-national planning as this would have transformed the country into a reservoir of oil, a granary, and a supplier of raw materials[30].

With the international developments and the conflict between planned approaches to regional specialization and the principle of sovereign equality, led to a compromise in the form of the 1971 Comprehensive Program. The aim was further Extension and improvement of cooperation, and further development of "Socialist Economic Integration"[31] which caused a transition within COMECON functions and structure. Although in this new program the effects of the Western European integration was clear, it was setting limits to the integrative process in the following terms: "Socialist economic integration is completely voluntary and does not involve the creation of supranational bodies."

At the end of 1960's, instability in Eastern Europe, their isolation from the rest of the world and the dominance of intra-bloc trade in their external relations,

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[28]The Library of Congress, American memory, Federal Research Division (accessed on 22/03/2013) http://memory.loc.gov/frd/cs/germany_east/gx_appnb.html

[29]Ibid

[30] Kees van der Pijl, *Global Rivalries from Cold War to Iraq,* Pluto Press, London, 2006, p. 224.

[31] The Library of Congress, American memory, Federal Research Division (accessed on 22/03/2013) http://memory.loc.gov/frd/cs/germany_east/gx_appnb.html

made these countries inevitably centred on new forms of regional cooperation. For small, centrally planned economies, this meant the need to develop a mechanism through which to coordinate investment and trade policies[32]. Thus, the Comprehensive Program emphasized the need for multilateral projects to develop new regional sources of fuels, energy, and raw materials. Such projects were to be jointly planned, financed, and executed[33].

Then the Comprehensive Program was laying the guidelines for COMECON activity until 1990 which changed the organization into a mixed economic system, combining elements of both planned and market economies with bilateral and multilateral agreements on trade and co-operation. Under the Comprehensive Program, there have been renewed efforts to extend plan coordination beyond foreign trade to the spheres of production, investment, science, and technology.

Thus, there were several multilateral development projects that were concluded under the Comprehensive Program. First came the constraction of Orenburg natural-gas pipeline-project, -2,677 kilometers from Western Siberia to Western border of USSR-, and the construction of a pulpmill in Ust' Ilim (in Central Siberia) with an estimated cost ranging from the equivalent of US$5 billion to US$6 billion which was the most expensive programme of the COMECON thus far[34]. Later on 5,600-kilometer natural-gas pipeline from the Yamburg Peninsula (in northern Siberia) to Eastern Europe; the Krivoy Rog (in the Ukraine), a mining and enrichment combine that will produce 13 million tons of iron ore annually; the production and exchange of 500 million rubles' worth (approximately US$650 million) of equipment for nuclear power plants; and joint projects for extracting coal in Poland, and magnesite in Czechoslovakia were all completed in the frame of the 1971 programme[35]. In these latter projects, Eastern Europe provided machinery,

[32] Ibid

[33]The Library of Congress, American memory, Federal Research Division (accessed on 22/03/2013) http://memory.loc.gov/frd/cs/germany_east/gx_appnb.html

[34]Ibid

[35]Ibid

equipment and manpower for Soviet multilateral resource development[36]. Those joint-development projects were usually organized on a "compensation" basis, a form of investment "in kind". For the Eastern Europe countries it has no doubt that the most important advantage from participation in joint projects, was the guarantee of long-term access to basic fuels and raw materials in a world of increasing uncertainty of supply of such products[37].

When we examine the trade related policies of the Eastern Bloc, the foreign trade prices were administratively set which did not reflect real world prices. Then by 1971 a price system governing exchanges among members had developed, under which prices agreed on through negotiation were fixed for five-year periods[38]. However, this evolution of COMECON prices after 1971 went in the opposite direction. After the oil price explosion of 1973, COMECON foreign trade prices were still further away from world prices to the disadvantage of COMECON suppliers of raw materials, in particular the Soviet Union. In view of the extra-regional opportunities opened up by the expansion of East-West trade, this big deviation between COMECON and world prices could no longer be ignored[39]. Hence in 1975, at Soviet instigation, the system of intra-COMECON pricing was reformed with the prices were fixed every year and were based on a moving average of world prices for the preceding five years[40].

Another feature of the state trading systems of was exchange rates and comprehensive exchange controls that severely restricted the convertibility of members' currencies. An earlier system of bilateral clearing accounts was replaced in 1964, by accounts with the International Bank for Economic Cooperation[41], using

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[36]Ibid

[37] Ibid

[38] Ibid

[39] Ibid

[40] Ibid

[41] International bank for economic cooperation was instituted by an agreement signed by Eastern Bloc countries in 1963 to facilitate economic cooperation among the member countries and to promote their development.

the transferable Ruble as the unit of account[42]. Currency inconvertibility in turn dictated bilateral balancing of accounts, which has been one of the basic objectives of intergovernmental trade agreements among members. Although the bank provided a centralized mechanism of trade accounting and swing credits to cover temporary imbalances, it could not establish a system of multilateral clearing because of the centrally planned nature of the members' economies and the inconvertibility of their currencies. In 1987, the transferable Ruble remained an artificial currency functioning as an accounting unit and was not a common instrument for multilateral settlement. For this reason, this currency continued to be termed "transferable" and not "convertible." Hungary was an exception to this while the country was using “the preferential exchange rate system”[43]. There were two exchange rates in Hungary, the non-commercial exchange rate which was used for the sale and purchase of currencies used in small scale mostly private transactions such as the sale of currency to tourists; and then there was the commercial exchange rate, used in foreign trade transactions. The ratio of commercial to non-commercial exchange rates was about 2:1[44]. Hungary transacted trade mainly with one of two currencies, the Russian transferable Ruble, and the US Dollar. The Dollar was used when doing business with the West.

The Comprehensive Program also established a timetable for the improvement of monetary relations. According to the timetable, which has never met, measures would be taken "to strengthen and extend" the functions of the "collective currency" (the transferable ruble), and the conditions would be studied and prepared "to make the transferable ruble convertible into national currencies and to make national currencies mutually convertible.

The liquidity shortage in the early 1980s forced the European COMECON countries to work to strengthen the importance of intraregional trade. In the early

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[42] The Library of Congress, American memory, Federal Research Division (accessed on 22/03/2013) http://memory.loc.gov/frd/cs/germany_east/gx_appnb.html

[43] Eric Rothman, *"Trade Policy and Practice in Hungary"*, OK Economics (accessed on 11/12/2012) http://econc10.bu.edu/economic_systems/Economics/Command_Econ/trade/comec_trade_hung.htm

[44] Ibid

1980s, intraregional trade rose to 60% of foreign trade of COMECON countries as a whole; for individual members it ranged from 45 to 50% in the case of Hungary, Romania, and the Soviet Union.

Besides all these economic factors and developments, the technological rivalry in military equipment and space race affected both blocs, but especially the Soviets, which was also linked to ideological rivalry. To catch up with the West, especially with USA, caused Soviets to make unnecessary huge expenditures which did not earn the country the championship also, but extended the economical gap with the West.

2.2.2 Developments in the Western Bloc

After the World War II, in the Western Bloc where the USA was the dominant actor, some necessary internationally adjustments were putting into force in order to create an environment to ensure the capitalist order and create new free markets.

In order to analyse the economic developments in Western part of the cold war rivalry, it is better to begin with the Bretton Woods system that was a landmark system for monetary and exchange rate management established in 1944. The Bretton Woods Agreement was developed at the United Nations Monetary and Financial Conference held in Bretton Woods, in 1944 during the time even as World War II raged on, 730 delegates from the 44 Allied nations attended the conference. Major outcomes of the Bretton Woods conference included the formation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development. In an effort to free international trade and fund postwar reconstruction, the member states agreed to fix their exchange rates by tying their currencies to the US dollar while the US assured the rest of the world that its currency was dependable by linking the US dollar to gold. Nations also agreed to buy and sell US dollars to keep their currencies within 1% of the fixed rate. And thus the golden age of the US dollar began.

Though it came on the heels of the Great Depression and the beginning of the end of World War II, the Bretton Woods system addressed global ills that began as early as the first World War, when governments (including the US) began controlling imports and exports to offset wartime blockades[45]. This, in turn, led to the manipulation of currencies to shape foreign trade.

Following the end of World War II in 1945, Europe and the rest of the world embarked on a lengthy period of reconstruction and economic development to recover from the devastation inflicted by the war. At the same time post-war world capitalism was suffering from a huge dollar shortage. The modest credit facilities of the IMF were clearly insufficient to deal with Western Europe's huge balance of payments deficits. The United States set up the European Recovery Program (Marshall Plan) to provide large-scale financial and economic aid for rebuilding Europe largely through grants rather than loans. As the United States was running huge balance of trade surpluses, the US reserves were immense and growing. This inevitably made the US Dollar leave the United States and become available for international use, in other words, the United States had to run a balance of payments deficit.

When the Marshall plan began in 1948, the amount of assistance was about 2% of US gross domestic product; later on by 1951 it was close to 1%[46]. As for the recipient countries the Marshall aid alleviated their balance of payments or budgetary constraints. The national incomes of European countries tended to recover the levels of 1938 by 1948[47].

The return to convertibility of the Western European currencies at the end of 1958, the decline of US hegemony (and US Dollar) with the Vietnam failure, eventually led to the breakdown of international monetary management in the 1960s.

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[45] Time Business&Money-Brief History of Bretton Woods-21/10/2008 (accessed on 15/03/2013) http://www.time.com/time/business/article/0,8599,1852254,00.html#ixzz2MVHAiELk

[46] Charles S. Maier, "The World Economy and the Cold War in the Middle of the 20th century" p. 58

[47] Ibid

Against all expectations, the dollar shortage became dollar abundance[48]. The Bretton Woods system collapsed itself in 1971, when President Richard Nixon severed the link between the dollar and gold, a decision made to prevent the gold reserves of US, which contained only a third of the gold bullion necessary to cover the amount of dollars in foreign hands[49]. By 1973, most major world economies had allowed their currencies to float freely against the dollar. It was a rocky transition, characterized by plummeting stock prices, increasing oil prices, bank failures and inflation[50]. But there were also some ideas about the era of the weakening of the dollar till 1973, may have contributed to unprecedented length of real economic expansion throughout the non-communist world[51].

Although theoretically, the lending decisions of both the Bretton Woods institutions -IMF and World Bank- are to be non-political in nature, they make decisions on the basis of political and ideological as well as economic considerations[52]. In fact at the beginning although she was fearful of capitalist encirclement, USSR signed the Bretton Woods agreements, in order to gain access to economic and financial aid to reconstruct its war damage economy[53]. However after the first IMF/World Bank board of governors meeting in 1946 and did not become a member of these institutions[54].

The other important institutional development in the Western Bloc during the cold war was "The General Agreement on Tariffs and Trade (GATT)" a multilateral agreement regulating international trade. According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of

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[48] Ibid

[49] Time Business & Money-Brief History of Bretton Woods-21/10/2008 (accessed on 15/03/2013) http://www.time.com/time/business/article/0,8599,1852254,00.html#ixzz2MVHAiELk

[50] Ibid

[51] Charles S. Maier,"The World Economy and the Cold War in the Middle of the 20th century" p.58.

[52] Theodore Cohn H., *Global Political Economy Theory and Practice*, Longman, 2000,USA, p.47.

[53] Ibid p.46.

[54] Ibid

preferences, on a reciprocal and mutually advantageous basis." It was negotiated during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO). GATT was signed in 1947 and lasted until 1995, when it was replaced by the World Trade Organization. GATT defined and enforced rules of liberal trade as well as to coordinate negotiations aimed at lowering tariffs and removing other trade barriers to trade. As the architects of the postwar order assumed a direct link between peace and freer trade, the work of GATT was thought to be tied to international stability[55].

The result of the GATT accession debates was to reposition the GATT as a forum and instrument of the Western alliance, rather than the universal organization it was supposed to be[56]. During the cold war the accession or exclusion from the GATT was seen as a reward or enticement to countries. The US confrontation to Hungarian application in 1958 can be regarded in that context whereas the aim of the US was to weaken the Eastern bloc. The hostility ended the withdrawal of Hungarian application from accession, followed by Romania by withdrawing its application as a reaction to USA. At the same time USA also sought to bring Yugoslavia and Poland to the GATT in order to attenuate their connections relations with USSR[57].

Among the East European socialist countries, Czechoslovakia was the first and only member of the GATT with the founder status. Czechoslovakia became the member just before the Communists seized power in February 1948. Although at the beginning there were clashes with the US, the presence of Czechoslovakia did not continue to polarize GATT[58]. Such as during the accession negotiations of West Germany in 1951, which was objected by Czechoslovakia as the status of the

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[55] Francine Mckenzie, "The GATT and the Cold War Accession Debates, Institutional Development, and the Western Alliance, 1947–1959", *Journal of Cold War Studies Summer,* 2008, Vol. 10, No.3, p.78 http://www.mitpressjournals.org/doi/pdf/10.1162/jcws.2008.10.3.78

[56] Ibid

[57] Ibid

[58] Ibid p.93.

country was controversial as it was under the occupation of Western alliances and not a fully sovereignty state[59].

As we can see from the below table, Soviet Bloc countries were non-members of IMF and World Bank at the early staged of the post-war period. With the debt crises they have faced at the beginning of the 1980s, they became the members of these institutions to gain access to their credits. Only Yugoslavia remained a member from the beginning they have been established with its nonaligned foreign policy and defection from the Soviet Bloc. The Yugoslavs were also adopting policies such as workers' self-management and market socialism that were compatible with the liberal- economic orientation of the Bretton Woods institutions[60].

Romania was also atypical like Yugoslavia. The country was the first central planned economy to join these IMF and World Bank after the withdrawals or expulsions. As mentioned in the previous section, Romania also distanced herself from USSR although she was a member of the Eastern Bloc. For Romania, Comecom were hindering its industrialization, and membership in the IMF/World Bank would enable her to benefit from their loans and upgrade the relations with the West[61].

In the case of GATT, for the liberal economies, lowering tariffs does not increase access to EECs markets, as central planned economies had excluded foreign products from their market through administrative controls. Thus, their accession was conditional, where it was let to European Community to impose discriminatory quantitive restrictions towards Hungary, Poland and Romania with their accession agreement to the GATT[62].

Poland joined GATT in 1967 soon to be followed by Romania in 1971 and Hungary in 1973. But Bulgaria did not apply for membership until 1986 and joined

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[59] Ibid p.88.

[60] Theodore Cohn H., *Global Political Economy Theory and Practice,* p.175.

[61] Ibid

[62] Ibid p. 225.

the GATT system a decade later in 1996. Yugoslavia became a signatory in 1966[63] where Turkey signed the agreement in 1951 with West Germany. Although the relations of EECs with the GATT were often difficult, the problems were limited due to their relatively small impact on the world trade[64].

To sum up, the liberal economic institutions of the post-war period were yet another factor contributing to the East-West split[65].

Table 1: The participation of Eastern Bloc Countries and Turkey to the Bretton Woods institutions.

	IMF/ WORLD BANK	GATT
1946	Poland, Czechoslovakia, Yugoslavia	
1947	Turkey	
1948		Czechoslovakia
1950	Poland withdraws	
1951		West Germany, Turkey
1954	Czechoslovakia ousted	
1966		Yugoslavia
1967		Poland
1971		Romania
1972	Romania	
1973		Hungary
1982	Hungary	
1986	Poland	
1990	Czech and Slovak Republics Bulgaria	East Germany accedes by virtue of German unification

[63] Christina Davis L. & Meredith Wilf, "Joining the Club:Accession to the GATT/WTO" Princeton University, 14 November 2011(accessed on 12/03/2013) http://www.princeton.edu/politics/about/file-repository/public/joiningtheclub_DavisWilf.pdf

[64] Theodore Cohn H., *Global Political Economy Theory and Practice,* p.223.

[65] Ibid p.47.

Table 1 (Continued)

1991	Albania	
1992	Serbia, Macedonia, BiH	
1996		Bulgaria
2000 2003		Albania Macedonia *BiH and Serbia**

Source: Theodore Cohn H., Global Political Economy Theory and Practice.
**Observer Status at the moment*

Other than Bretton Woods's institutions, the other important leg of the liberalism after the World War II was the European integration. The creation of the European Community constitutes a good example for liberalism which combined the famous three legs: democracy, international institution and economic integration[66].

The story of the European integration began with the cold war, when the US also urged its allies to integrate and thus be stronger in economic terms, in order to bring stability to the Continent for the accumulation of capital. However integration outlasted the cold war and expanded far beyond the initial Cold War Allies and become deeper[67]. For the Western Europeans after the World War II, the European integration was meant to bring peace to the continent. As Europe had been in the center of another devastating war caused by the ambitions of nation states once more, it was thought that to bring those states for a common goal would prevent any more wars. Secondly, the war left Europe economically exhausted, and this led to the view that if Europe were to recover, it would require a concerted effort on the part of the European states[68]. Third, the Second World War also revealed that for a long time Western Europe would have to face a new contender state that they have never meet before, the USSR and its dependents in the Eastern Europe. So if the Western countries do not merge and create a more divided Europe this gap would be

[66] Tim Dunne, Milja Kurki, Steve Smith, *International Relations Theories Disipline and Diversity,* Second Ed., Oxford University Press, 2007, p.111.

[67] Ibid p.109

[68] Ali El-Agraa, *The European Union Economics and Policie,* Cambridge University Press, Eight Ed UK, 2007, p.24.

filled in by the USSR. And lastly, after the war world was divided under the hegemony of two major powers; conflicting with each other for the world supremacy. Hence, it should not be surprising that members of the European Movement, who wanted to get away from intergovernmental cooperation by creating institutions leading to a Federal Europe, felt the need for a third world force: 'the voice of Europe'[69]. This force would represent the Western European viewpoint and could also act as a bridge between the Eastern and Western extremities[70].

Thus, economic integration in Europe began with industries important for an economy's war potential which was the European Coal and Steel Community to ensure that Germany could not turn again its heavy industries into a war machine[71]. A similar plan for the nuclear industry was put into force namely the Euroatom. The other leg of the integration was the development of trade among the countries and create environment for free trade and abolishment of any barriers. The solution was the European Common Market, that later became European Community and finally European Union. The journey from common market to a single market and then to the monetary union was successful that attracted other countries also to join in order to be a part of a developed economic model that can be an alternative to Soviet's or American influence.

2.2.3. The World Economy in 1970s and 1980s

When briefly analyzing the world economy during the cold war, it will be appropriate to look at also the OPEC (the Organization for Petroleum Exporting Countries) crises and the drive for New International Economic Order (NIEO) at the beginning of the 1970's that preserved its affects till now.

[69] Ibid

[70] Ibid

[71] Tim Dunne, Milja Kurki, Steve Smith, *International Relations Theories Disipline and Diversity,* p.110.

The drastically increased oil prices in 1973[72] hit all oil importing countries whether developed or not. However most least developed countries viewed OPEC as an example of what they might do to increase their power and wealth vis a vis the developed North thus which paved the way for NIEO as the rise of Third World[73]. Nevertheless, NIEO was meant to be a revision of the international economic system in favor of Third World countries, replacing the Bretton Woods system. Although the NIEO was based on the mercantilist idea that international trade would be a zero-sum game and also proposes central planning, as opposed to free markets[74], the main tenant of the NIEO was to establish a control regime for transnational corporations under the UN auspices[75]. The Third World was trying to defend their sovereignty over their resources.

At the same time in Europe, after the decline of USA -due to its intervention and failure in Vietnam-, and for some reasons with the aim to be separated from the influence of the other side of the Atlantic, the anti-US and anti-imperialism expressions were on the agenda which contributed to several social episodes, such as May revolt in 1968. Nevertheless, the movement of social protests in 1960's gave rise to the social and economic democracy when the May revolt was also assumed to be the beginning of the transition from capitalism to socialism[76]. In Europe in 1969, socialists were in government in 14 countries[77]. That movement of 1960s also contributed to the idea of real democracy in social-political life is possible only with the limitation of capitalism. But on the other hand in 1970's there was another thesis

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[72] The increasee in the oil prices by OPEC was fundamenttaly a reaction to the supporters of Isreal in its conflict with Egypt.

[73] Theodore Cohn H.,*Global Political Economy Theory and Practice,* p. 44.

[74] Harry G. Johnson, "The New International Economic Order", Graduate School of Business University of Chicago, Woodwart Court Lecture, Selected Papers No.49, Oct 5, 1976, p.2 (accessed on 20/03/2013)
http://www.chicagobooth.edu/~/media/0ABF9E91CCDB42C4BBA92737DCE91EEA.pdf

[75] Kees van der Pijl, *Global Rivalries from Cold War to Iraq,* p.104

[76] Ibid p.108

[77] Ibid

that some the neoliberals agree, real capitalism is only possible with the limitation of democracy.

Thus,

> international relations in those years played a key role in igniting the democratic radicalism and its ramifications at the global level. The rise of Third World also gave fresh meaning to concepts like socialism and imperialism a world away from the stale formulae of the cold war[78].

The major economic issue of the 1980s was the "debt crisis" which was closely related with the OPEC oil price increases. The rich oil exporters deposited their dollar revenues in big international banks mainly in the USA and Britain where those banks recycled these "petro-dollars" by extending massive loans to oil importing countries[79]. With some other international events, the over-borrowing from those banks was observed, including EECs and Turkey which I will touch upon in the next section. This over-borrowing created a debt crisis where IMF/World Bank came to the stage as "the rescuer" but with some conditions regarding liberalization, privatization and deregulation[80]. Thus in international relations once again the power was shifted in favor of developed countries.

So it would not be wrong to indicate that "the May 1968 events and the drive for a New International Economic Order also served to mobilise the neoliberal ground swell that restored heartland primacy in the global political economy, sweeping away all before it in the 1980s and 1990s"[81].

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[78] Kees van der Pijl, *Global Rivalries from Cold War to Ira,q* p.105.

[79] Theodore Cohn H.,*Global Political Economy Theory and Practice,* p.45.

[80] Ibid p.45

[81] Kees van der Pijl, *Global Rivalries from Cold War to Iraq*, p.104.

2.3 A General Outlook of the Economies of Turkey and the EECs Before 1990's and their Relations with US and EC

2.3.1 The Détente and Rifts Between the Blocs

Although the relations of Western and Eastern Bloc were based on hostility to each other and a strict rivalry almost in every area, the possibility of a proliferation of a devastating nuclear conflict/war caused to a deterrence effect during the cold war.

In the USSR the main diplomatic aim of the period of Brezhnev was the détente. Although the Soviet "Peace Offensive" of 1969 was met with distrust with the West with the Prague Spring[82], after the Moscow's acceptance of the US's and Canada's attendance to a conference in Europe let the process begin, namely the Helsinki conference.

The Helsinki Act adopted at the end of Conference on Security and Co-operation in Europe held in Helsinki, in 1973. Although the accords signed by all the countries of Europe (except Albania) including Eastern Bloc as well as USSR, the US and Canada, were nonbinding and lacked treaty status, the document was seen as a significant step toward reducing Cold War tensions. It was an attempt to secure common acceptance of the post-World War II status quo in Europe, including the division of Germany.[83] The Helsinki records was meant to the Soviet Union to gain implicit recognition of its postwar hegemony in Eastern Europe. In return, the U.S. and its Western European allies pressed for respect for human rights and cooperation in economic, scientific, and other humanitarian areas[84]. Its economic goal was, "to create durable links and reinforce long term economic corporation". The USSR was looking primarily to Europe or even the US to work towards this, when at the same time his support to the NEIO tended to be tactical and political[85].

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[82] Kees van der Pijl, *Global Rivalries from Cold War to Iraq,* p. 225.

[83] The Answers-Helsinki records (accessed on 21/03/2013) http://www.answers.com/topic/helsinki-accords#ixzz2OCsMEct9

[84] Ibid

[85] Kees van der Pijl, *Global Rivalries from Cold War to Iraq*, p. 226.

Another détente initiative was the "Ostpolitik" especially in 1969-1974 period with the efforts of the Willy Brandt in the West Germany which also feared some politicians whether this initiative to become a new "Rapallo"[86] [87]. On the other hand the détente would be considered to begin in 1966 with an increase in trade relations as West Germany's exports to EECs doubled, while exports to Third World stagnated.[88] Initially, this initiative was greeted with suspicion in the East and enthusiasm in the West. The singing of trade, cultural and sporting contacts in that period gave both East and West the opportunity to 'develop normal good-neighborly relations with each other on the basis of equal rights'. Further "all along Brandt's aim was to let the necessities of modern production prevail over their political distortion in Eastern Europe and thus activate the centrifugal forces in those states into direct interaction with West"[89]. "Indeed East-West economic corporation switched from individual types of goods to large scale of long-term agreements providing for the import of integrated industrial plant and technological processes."[90] The consequences of that shift were very important and welcomed in the development efforts of the Europe that were under the shadow of 1970 crises.

Besides those initiatives aiming to reduce tension, there were also some other implementations regarding trade restricting issues towards Eastern Bloc which could be seen a catalyzes for growing the tensions. Following World War II it became apparent to the West that any strategic advantage it held over the Soviet bloc countries was greatly dependent upon its technological superiority[91]. In this context, The

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[86] Ibid p. 217

[87] Rapallo Agreement was signed between Germany and Russia on 16 April, 1922 under which each renounced all territorial and financial claims against the other following the World War I. The two governments also agreed to normalize their diplomatic relations and to co-operate in a spirit of mutual goodwill in meeting the economic needs of both countries.

[89] Kees van der Pijl, *Global Rivalries from Cold War to Iraq*, p.109.

[90] Ibid p.228.

[91] Reference for Business, Encyclopedia of Business, 2nd ed. Coordinating "Committee for Multilateral Export Controls" (accessed on 21/03/2013) http://www.referenceforbusiness.com/encyclopedia/Con-Cos/Coordinating-Committee-for-Multilateral-Export-Controls-and-the-Wassenaar-Arrangement.html

Coordinating Committee for Multilateral Export Controls (COCOM) was created in 1949 for the purpose of preventing Western companies and countries from selling strategic goods and services to the Eastern bloc countries with an initiative of the US. Turkey was also a member of the COCOM. According to its implementation member states would meet to update three lists of controlled items: the International Munitions list; the International Atomic Energy list; and the third and most controversial, the International (Industrial) list. It was felt that items appearing on these lists, if acquired by the Soviets and their allies, would greatly enhance the strategic military potential of the Warsaw Pact countries. The International (Industrial) list was controversial because it included what came to be known as "dual use" items. These were goods, services, and technologies that have a known commercial use, as well as a known military use or a known use in weapons of mass destruction[92]. The United States, however, always considered its export policies to be in compliance with COCOM regulations[93]. Even though COCOM never officially published a list of its "target countries" they were undoubtedly the non-Western Alliances. COCOM was formally dissolved in 1994.

Another initiative made by the Reagan administration in 1982 is also worth to indicate which exposes a more strict approach in the US policy towards the Eastern Europe Countries. With The National Security Decision Directive 54[94], the US policy for the region was approved as the primary long term US goal for the Eastern Europe was to loosen Soviet's hold and facilitate its eventual integration in the European Community. According to Reagan's administration, the differentiated approach that US implemented towards the region for 20 years would go on with some variations. In the Directive it wrote that "While the impact of differentiation in some cases may be marginal, it offers the best vehicle for achieving the primary US goal of weakening Soviet's control in the region". US were calibrating its policies to discriminate

[92] Ibid

[93] Ibid

[94] Ronald Reagan Presidential Library Archives (accessed on 20/03/2013) http://www.reagan.utexas.edu/archives/reference/Scanned%20NSDDS/NSDD54.pdf

carefully in favor of governments which resist associating themselves with Soviets and show liberalization. Thus US would tailor its rewards, “rewards must be earned”. The decision advocated "expanded efforts to promote a 'quiet revolution' to overthrow Communist governments and parties," while reintegrating the countries of Eastern Europe into a market-oriented economy.

2.3.2 Relations with the EC

When we consider the Community approach to the East European Countries before the collapse of the communism and Soviet bloc, we observe that the Community has already shown its willingness to establish relations with COMECON itself', alongside the bilateral agreements with the COMECON member countries. EC governments also used trade policies to encourage individual EECs to take more independent position from the Soviet Union, such as Yugoslavia in the early 1970’s and Romania in 1980.[95] Concurrently, negotiations for the conclusion of an agreement between the Community and COMECON began in 1977. Then economic links had grown up over the years between the Community and the COMECON countries. For example; five textile agreements and voluntary restraint arrangements on steel exports have been concluded with Bulgaria, Czechoslovakia, Hungary, Poland, and Romania. Afterwards the joint EC-COMECON declaration, which represents a significant step towards normalizations of relations between the Community and Eastern Europe, was signed at Luxembourg on June 25 1988. EU also removed long-standing import quotas on a number of products and extended its GSP scheme[96].

On the other hand, at the end of the 1980s, the consequent moves towards democracy in Poland and Hungary brought the issue of EECs onto the agenda of the 1989 Paris summit at the last moment. Following a suggestion by the US president

[95] Ulrich Sedelmeier,“Eastern Enlargement: Towards a European EU?“, *Policy-Making in the European Union*, edited by Helen WALLACE, William Wallace and Mark Pollack, Oxford, Oxford University Press, 2005, 401-428., p. 406.

[96] EU press relase (accessed on 21/11/2012) http://europa.eu/rapid/press-release_MEMO-88-97_en.htm?locale=en

George Bush, the key decision of the Paris summit was to create the 'Group of 24' to coordinate assistance to Poland and Hungary, with all OECD countries as members and the European Commission in the chair[97]. With the IMF and World Bank, the G24 has become an established and valued part of the machinery for mobilizing help for Eastern Europe[98]. The European Bank for Reconstruction and Development (EBRD) had been created and most East European countries were building up relations with the IMF. In fact, EBRD was set up in order to provide public loans for investment until private capital became available in the region.[99]

For the EECs, the Europeans were also ready for extending their hand for the reconstruction of the region through a "PHARE" program as the pre-accession instrument financed by the EU to assist the applicant countries of Central and Eastern Europe in their preparations for joining the European Union. Although, it was originally created in 1989 for Poland and Hungary: Assistance for Re-structuring their Economies, PHARE then has been expanded to cover all the ten countries for 2004 accessions. But in fact PHARE was limited regarding the previous pre-accession aids offered by the EU. Later on after difficult negotiations, Association/Europe Agreements firstly with Poland, Hungary and Czechoslovakia were concluded in 1991.

2.3.3 The Process of the Turkish Economy During the Cold War

Turkish economy was composed of a mixture between the planning and state involvement in entrepreneurial functions, namely etatism, and market economy. Although the mixed economic system had been transformed during the years, it existed until the liberalization of 1980's.

During the Cold War, Turkey allied itself with the United States and Western Europe. After the World War II, although Turkey was trying to maintain a

[97] Bayne, Nicholas "The Course of Summitry" The World Today 48, No.2 (February 1992): 27-30 (accessed on 21/11/2012) https://tspace.library.utoronto.ca/retrieve/1099/defar.htm

[98] Ibid

[99] Ulrich Sedelmeier, "Eastern Enlargement: Towards a European EU?" p. 408

quasi-neutral stance with a tilt towards the allied powers, she was not able to escape the devastating economic effects of the external environment and faced severe commodity shortages[100]. By that time, two major factors shaped the economic performance. Firstly, the Marshall Plan and US bilateral assistance which were partly based on defense considerations and secondly the turn to a multiparty parliamentary system. With these developments, the Turkish economy shifted its priorities from industrial development which was implemented till 1930's, to primary production, in order to favor agricultural production and free enterprise[101]. The development plans were not on the agenda. In fact the creation of that shift was another conditionality in Marshall Plan, stating that Turkey should concentrate on mostly on agriculture and raw materials production within the needs of European and world markets rather than industrialization[102].

After the 1961 constitution, there was a turn again to the planned economy and industrialization but the strict foreign trade policies were valid, such as annual import programs. However, those restrictions in imports did not evolve import-substitution pattern in economy, only were used to limit more foreign exchange availability. Notwithstanding the heavy use of a restrictive trade regime, an important long-term policy choice was made in 1963 as regards integration with the European Economic Community[103]. Also in the beginning of 1960s Turkey became one of the founding members of the Organization for Economic Co-operation and Development (OECD).

At the beginning of 1970s the hospitable world economic environment, surge in world trade and the devaluation of Turkish lira favored exports and GNP

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[100] Merih Celasun & Dani Rodrik, "Turkish Economic Development: An Overview", *Developing Country Debt and Economic Performance, Volume 3: Country Studies - Indonesia, Korea, Philippines, Turkey (1989)*, Jeffrey D. Sachs and Susan M. Collins, editors (p. 617 - 629) Conference held September 21-23, 1987 Published in 1989 by University of Chicago Press, p.619. http://www.nber.org/chapters/c9057.pdf

[101] Ibid

[102] Senem Üstün, "Turkey and the Marshall Plan: Strive For Aid", *Ankara Üniversitesi Dergiler,* Veri tabanı (accessed on 18/03/2013) http://dergiler.ankara.edu.tr/dergiler/44/1569/17035.pdf pg 35

[103] Merih Celasun & Dani Rodrik, "Turkish Economic Development: An Overview", p.622.

expansion. This caused unpredicted rise in foreign exchange and adaptation of capital intensive import-substituting industrialization plan[104]. We can also observe an intensive private sector involvement in the economy by 1970s. However in 1977, Turkey found itself in another unpredicted situation: a big debt crisis where the short term debts reached a level of 52% of the total dept[105]. Nevertheless, with the devastating effects of the debt crises, the 24 January 1980 decisions were taken in order to make the economy re-function.

In Turkey the trend towards liberalization goes back to the 1950s, but related action became more prominent in the early 1980s when many radical changes and structural reforms have been made in the field. The main components of this economic reform were reducing government intervention; implementing a flexible exchange rate policy; liberalizing import regulations; increasing exports; encouraging foreign capital investment; establishing free trade zones; deregulating financial markets; privatizing State Economic Enterprises, and decentralizing government activities. As a result of January 24 Decisions Turkey began to implement an export-oriented growth model.

The relations of Turkey with the European Community began with the application for associate membership in 1959, and later on with the signing of the "Agreement Creating An Association Between The Republic of Turkey and the European Economic Community" in 1963, also known as the Ankara Agreement. Ankara Agreement envisaged two consecutive stages (preparatory and transitional) before Turkey's eventual accession to a full member status. Upon the completion of the preparatory stage at the end of the 1970s, the Additional Protocol was signed in November 1970. This protocol specified the ground rules for the transitional stage, which projected the establishment of a customs union before the full membership stage. Following the 1978-86 period of somewhat cold and strained relations (partly due to Turkey's internal political difficulties), Turkey formally applied for full membership in the European Community in mid-1987. The European Commission responded in December 1989 by confirming Ankara's eventual membership but also

[104] Ibid p.622.

[105] Ibid

citing Turkey's economic and political situation, as well its poor relations with Greece and the conflict with Cyprus as creating an unfavorable environment with which to begin negotiations. This position was confirmed again in the Luxembourg European Council of 1997 in which accession talks were started with central and Eastern European Countries and Cyprus, but not Turkey. During the 1990s, Turkey proceeded with a closer integration with the European Union by agreeing to a customs union in 1995. Moreover, the Helsinki European Council of 1999 proved a milestone as the EU recognized Turkey as a candidate on equal footing with other potential candidates.

2.3.4. EECs and Their Economy Before the Transition

When we analyze the overall economy of the EECs before their transition, -besides some other economic problems as increased trade deficit and stagnant economic growth-, the debt crises in 1980s also affected those countries drastically. They borrowed heavily on international financial markets to finance industrial investments. However with poor investment decisions, economic inefficiency, lack of export competitiveness and high interest rate on their foreign debt created severe economic problems[106]. Despite the different development strategies implemented by the EECs, their debt problem also resulted from some external events[107] like the Gulf war and the war in Yugoslavia which also disrupted their export routes and thus revenues. Their dependence on imports to promote economic growth and investment from non-socialist countries increased after 1985 and especially with the collapse of USSR and COMECON the deterioration in their terms of trade increased as USSR ended to subsidize its oil exports[108]. At the same time the transition of those countries

[106] Theodore Cohn H., *Global Political Economy Theory and Practice,* p.186.

[107] Ibid p.187.

[108] Ibid p.188.

to market-oriented economies produced further instability and domestic output in EECs fell by 25 percent in 1990-1991[109].

From table 2, the trade performance of the COMECON countries can be seen. The primary role had belonged to the USSR in the total exports and imports of the group, where she was followed by Poland in imports by Hungary in exports with huge differences in the value. From 1984 to 1987 a sharp decrease in imports with 32 per cent and 13 per cent in exports of the total trade of COMECON is also seen.

Table 2: The Trade Performance of the COMECON Countries Importations

(Million d'Ecus)	**1984**	**1985**	**1986**	**1987**
USSR	22 959	20 686	13 158	13 116
POLAND	3 457	3 573	2 947	2 907
ROMANIA	3060	2 911	2 483	2 429
CZECHOSLOVAKIA	2 157	2 271	2 108	2 055
HUNGARY	1 884	2 013	1 888	1 996
RDG	1 721	1 832	1 626	1 390
BULGARIA	556	586	549	518
TOTAL	35 794	33 872	24 759	24 411

Exportations

(Million d'Ecus)	**1984**	**1985**	**1986**	**1987**
USSR	12 483	12 505	9 874	9 195
HUNGARY	2 206	2 486	2 450	2 372
POLAND	2 428	2 734	2 388	2 332
CZECHOSLOVAKIA	1 668	1 959	1 944	2 078
BULGARIA	1 253	1 640	1 472	1 453
RDG	937	949	1 072	1 086
ROMANIA	1 058	1 158	987	651
TOTAL	22 033	23 431	20 187	19 167

Source: Europe press release[110]

In this regard, briefly I want to expose individually the economic situation of those selected EECs economies before their transition of 1990s which are the subject point of this thesis. In Romania, as being a member of Eastern Bloc and COMECON, the country experienced a rapid industrialization in the frame of division

[109] Ibid p.188.

[110] Europe press release (accessed on 10/10/2012) http://europa.eu/rapid/press-release_MEMO-88-97_en.htm?locale=en

of labor which she did not happily support as I have mentioned in the previous section. Before World War II, the West accounted for more than 80 percent of Romania's foreign trade. During the postwar period up to 1959, however, nearly 90 percent of its trade involved COMECON nations[111.] Economic growth was further fueled by foreign credits in the 1970s, but this eventually led to a growing foreign debt, which peaked at $11–12 billion[112]. Romania's debt was largely paid off during the 1980s by implementing severe austerity measures which deprived of Romanians basic consumer goods[113.] In 1989, before the Romanian Revolution, Romania had a GDP of about $53.6 billion. Around 58% of the country's gross national income came from industry, and another 15% came from agriculture[114]. In 1980 Romania became the first COMECON nation to reach an agreement with the European Economic Community (EEC), with which it established a joint commission for trade and other matters[115]. But during the 1980s, trade relations with the West soured. In the 1970s and 1980s, the primary exports were metallurgical products, especially iron and steel; machinery, including machine tools, locomotives and rolling stock, ships, oil-field equipment, aircraft, weapons, and electronic equipment; refined oil products; chemical fertilizers; processed wood products; and agricultural commodities[116].

Before its collapse, due to its non-aligned stance the Yugoslav economy was able to access to loans from both blocs. This contact with the United States and the West opened up Yugoslav markets sooner than in the rest of Central and Eastern Europe. However, despite its non-alignment stance and extensive trading relations with the west, the U.S. Policy towards Yugoslavia in 1984 reversed the situation with the aim of to overthrow Communist governments and parties, while reintegrating the

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[111] Federal Research Division of the Library of Congress as part of the Country Studies-Romania (accessed on 21/03/2013) http://countrystudies.us/romania/56.htm

[112] Ibid

[113] Ibid

[114] Ibid

[115] Ibid

[116] Ibid

countries of Eastern Europe into a market-oriented economy[117]. This policy had the basis in the 1982 National Security Decision Directive 54 that have been previously mentioned. Thus, Western economic barriers caused severe problems in the economy and Yugoslavia took on a number of IMF loans and subsequently fell into heavy debt during 80s.

On the other hand, Yugoslavia's most important economic problem was unemployment. In 1965, Yugoslavia introduced radical economic reforms and in an attempt to reduce unemployment opened its borders, allowing initially unskilled and later also skilled workers to immigrate to West Germany as temporary guest workers[118]. In 1973, one in ten migrant workers in Western Europe was a Yugoslav that their earnings accounted a large proportion of Yugoslavian total currency earnings. Yugoslav remittances reached US$ 5.53 billion in 1988, according to OECD statistics [119]. In Hungarian case, from the 1960s, there were elements of free market economics, which was called Goulash Communism or Kadarism (after János Kádár) refers to the variety of communism as practiced in the Hungarian People's Republic[120]. The party, under János Kádár, introduced a relatively liberal cultural and economic course. In 1966, the Central Committee approved the "New Economic Mechanism" which eased foreign trade restrictions, gave limited freedom to the workings of the market, and allowed a limited number of small businesses to operate in the services sector, which were though liberal in comparison to Stalinist socialism[121].

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[117] Mine Aysen Doyran ,"Dismantling Yugoslavia; Colonizing Bosnia", *World System Archives*, 18 January 2001, (accessed on 21/03/2013) http://wsarch.ucr.edu/wsnmail/2001/msg00198.html

[118] Ivana Bajić-Hajduković & Max Weber Fellow, " Serbian Remittances in the 21st century: Making sense of the interplay of history, post-communist transformation of social classes, development policies and ethnographic evidence*",European University Institute (Florence)*, Paper for the Migration Working Group Seminar, 27 January 2010, p.11 http://www.eui.eu/Documents/RSCAS/Research/MWG/200910/MWG2010-01-27Bajic-Hajdukovic.pdf

[119] Ibid p.14.

[120] Federal Research Division of the Library of Congress as part of the Country Studies-Hungary (accessed on 21/03/2013) http://countrystudies.us/hungary/39.htm

[121] Ibid

Hungarian government during the mid 1970s used the same instruments that the Western governments used to manipulate foreign trade. Some economic reform measures were introduced to integrate limited market mechanisms into the framework of the planned socialist economy. Unfortunate results of this policy were the high indebtedness which became evident by the late 1980s. With the cheap credits Hungary started to incur substantial external debt to finance modernization its outdated machinery[122]. Yet these economic crises were prevalent throughout the collapsing communist world.

After World War II, Bulgaria followed the Soviet model of economic development more closely than any other East Bloc country with becoming one of the first members of COMECON. The new regime shifted the economy from mainly agrarian type towards industrial economy. Among direct results was the decision to reduce dependency on pre-war Western trade partners[123]. Over half of Bulgaria's foreign trade was with members of the COMECON. Bulgaria imported equipment, fuels and minerals from other COMECON members to produce capital goods such as electronics and engineering products for export to the bloc; in addition, Bulgaria was a major exporter of farm and processed food products. Bulgaria has therefore been heavily dependent on foreign trade in goods and services for many years.[124] Bulgaria's economy contracted dramatically after 1987 with the dissolution of the COMECON, with which the Bulgarian economy had integrated closely. Until late 1989, Bulgaria had a command economy based on centralized planning rather than on market forces.

During its post-war rule of forty-six years, the Albanian government turned first to Yugoslavia, then to the Soviet Union, and then to China for assistance in

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[122] Joachim Becker, *"Development Models and Crises in Eastern Europe",* Manuscript.

[123] Federal Research Division of the Library of Congress as part of the Country Studies-Hungary (accessed on 21/03/2013)
http://countrystudies.us/hungary/39.htm

[124] WTO- Trade Policy Review Mechanism of Bulgaria, 2003 (accessed on 15/05/2013).
http://www.wto.org/english/tratop_e/tpr_e/tp220_e.htm

imposing a Stalinist economic system[125]. Albania's leaders prescribed autarky when China shut off aid in 1978 and the country had no choice but to stimulate exports to make up the shortfall in the hard currency needed to purchase essential supplies[126]. However, the country remained on an agriculture base economy.

For decades Albania had maintained no representative commercial offices in Western countries, and regarding the relations with the Soviet Union also the two countries carried on no trade at all for decades after their split in the early 1960s[127]. The Hoxha administration created a formidable barrier to economic relations with the West in 1976 by incorporating into the country's constitution an amendment banning borrowing from capitalist countries[128]. Trade with the West increased after Hoxha's death in 1985, but it was not until the end of the decade that Albania's government surrendered its monopoly on foreign trade[129].

2.3.5. The Trade Performance of Turkey, Hungary, Romania, Bulgaria, Albania and Yugoslavia before 1990s

During the cold war period when we compare the trade figures of Turkey and the selected economies of EECs till the 1990s, the export performance of those Soviet Bloc countries were much more strikingly better than Turkey (see table 3). Although it is hard to find the country allocation of their exports during that period, it would not be surprising to see the biggest share of their foreign trade were among the COMECON members, that it has been mentioned in the previous section. Only after 1980s due to the 80s debt crises and some external events (the situation of USSR and becoming alone in the Eastern Europe), the export capacities of EECs had fluctuated or stagnated through the decade. Especially in the case of Bulgaria and

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[125] Federal Research Division of the Library of Congress as part of the Country Studies-Albania (accessed on 21/03/2013) http://countrystudies.us/albania/index.htm

[126] Ibid

[127] Ibid

[128] Ibid

[129] Ibid

Romania drastic decreases, around half of the total, in the export figures are observed in 1990.

In fact similar economic models with the EECs were not implemented; there were also signs of state-planning in Turkey. Moreover Turkey was a loyal alliance of the Western Bloc, especially the US. However, getting access to Marshall Aid and thereof shifting her production priorities along with the US interest, then signing the Ankara Agreement to establish more integrated commercial relations with the European Community, did not result in a progressive export performance in Turkey. After the package of economic stability measures which came to be known as the January 24 Decisions introduced in 1980, the situation of Turkey began to reverse. The main aim of the package concentrated on foreign trade and economic liberalization after which Turkey began to apply export-oriented development model that had reflected an increase in the export figures of the country.

In the import figures after 1948, again we observe the difference between Turkey and EECs till 1980s (see table 4). As Turkey was implementing import substituting economic policies, the low level of imports is not surprising. Although the commodity distribution of imports is not available during that period in EECs, the distribution of industrial production and reliance on natural resources among COMECON members made those countries relied on importation of necessary commodities in order to sustain their production line and economic power. During 1980-1990 period, there are also fluctuating figures in import figures of Romania, Hungary and Yugoslavia which also make us taking into consideration of the 80s debt crises and thus severe economic conditions. Especially in Bulgarian imports a drastic decrease is observed in 1990. But on the other hand after 1987 the continuing increase in the importation of Yugoslavia with a rate of around 50 percent from 1987 to 1990 is noteworthy to indicate. The low level of production and unemployment which made the country depended on imported goods, with other economic problems is not surprising which took the country to dissolution in 1990s. In the case of Turkey, by the 1980s with the liberalization of foreign trade the escalation in imports was also inevitable.

In those countries we observe that most of the time there was a chronic deficit in the trade balance. Among those countries only Hungary's trade deficit was slightly endurable, as her export and import figures were more or less similar. Romania economy began to give a positive balance by 1980s till 1990. The situation of Yugoslavia and Turkey were the worst, while Bulgarian trade balance was fluctuating through the decades. In the case of Albania, because of the closed economy, from 1964 till 1988 no trade data is available on UNCTAD data base. From 1988, maybe after the death of the Enver Hoxca, there is resurgence in foreign trade but with a deficit in the total balance of the foreign trade.

2.4 Conclusion

Notwithstanding the world was divided under the hegemony of two super powers after the World War II which created a cold war with the domination of the high politics, this rivalry never turned to a real military conflict in Europe. With the devastation of the war, the Europe was trying to restructure itself while at the same time trying to prevent any more wars to harm the continent. Both sides of the cold war have ensured differentiated economic spaces and thereof institutions in harmony with their ideologies. The Western economic institutions were in line with the liberal thought and did not deviate from its main objectives from the very beginning. However, the economic policies applied in the Eastern side had to be reviewed over the time with taking into consideration of the economic conditions of its members and the overall situation of the World economy. As the World economy was, and still, becoming more and more depended on each other as a whole and to create new areas of influence over the resources and on the raw materials, especially oil, had growing importance; to implement isolated and "closed" economic policies within the Bloc was becoming also inevitable through the years. Thus, the small and central planned economies of the Eastern Europe needed to develop new mechanisms with the aim of coordination of investment and trade policies in the region. This also paved the way to reshape the objectives of the COMECON to a mixture of economic systems, combining elements of both planned and market economies with bilateral and multilateral agreements on trade and co-operation.

In the Western side, the domination of the US was shaping the economic policies and relations. It would not be wrong to indicate that, not only in the Western Bloc, but also in the whole World economy the influence of the US was structuring the related economy policies of the countries, in line with the interest of the Americans' own capitalist goals.

However, the creation of economic institutions in both Blocs paved the way to create another factor contributing to enhance the tensions during the cold war. In fact COMECON was established by the USSR as a reaction to Marshall Plan and to the US, in order to not to lose control of the Eastern part of the continent which was considered to be "sphere of influence" of the Soviets. In the Western side also the same kind of containment policy was being implemented. In fact the exclusion or the accession of the Eastern Europe countries from/to Bretton Woods institutions were considered to be a reward or an enticement to those countries, on the contrary of their establishment goal of assumed to be non-political and universal.

Other than Bretton Woods's institutions, another institutionalization process was observed in the Western part of the Europe, the integration of Europe. The fundamental purpose of this Europe project was to bring stability to the continent and prevent any other devastating wars that the continent was heavily suffering their economic consequences. Although this European integration process began with the cold war, it expanded far beyond a "cold war initiative" and became deeper and wider after a while, that attracted also many other countries to join. The attraction of an integrated Europe also affected the Eastern Europe countries after the collapse of the Soviet Bloc. Taking into account of their under developed and periphery status, having the target of being a member of this European Economic Bloc could be considered within the uneven and combined development approach that will be examined in the next chapter.

The World economy in 1970-80s had an important effect in both Blocs. The NIEO and the OPEC oil crises paved the way for the big debt crises that most of the countries suffered in 1980s and furthermore in the case of EECs had forced those countries to experience different models of transition periods depended on the degree of reliance on the external debt and thus capital to recover their economies.

Consequently after 1970s, the oil crises demonstrated that political economy emerged as a major area of the international relations. Thus “the low politics” began to dominate international relations with the growing importance of trade, foreign direct investment, monetary relations and financialization.

Before their shift form planned economy to market economy with the collapse of the USSR in the early 1990s, the relations of Eastern Europe countries with the capitalist Western countries had already been settled with some developments. In fact, the escalation of the economic problems within the COMECON members and the dependence of EECs on Western markets for their exports were growing. And more importantly there was political desire to gain more independence from USSR in the EECs[130].

In the case of Turkey, during the cold war, Turkey was a loyal alliance of the Western Bloc. Her economy was not a developed one such as the Eastern Europe countries’ economies. Although Turkey was implementing semi-liberal policies till 1980s, she suffered similar economic and political problems that EECs had enjoyed during the cold war. The EECs economies were depending on the Soviet economy, where Turkish economy was on the American’s. The overall effects of the World economic developments began by 1970s could also be observed in Turkey as well as in the EECs. The heavy external borrowing mainly from the Western banks, created economically and politically negative environment inside those countries that pushed the governments to implement either some austerity or more liberal policies. In Romania those austerity policies caused a revolution where in Turkey neo-liberal 24 January decisions. In both sides, Turkey and EECs, there was a chronic deficit in their trade balances, with the effect of the heavily rely on importation, where the industries lack efficient production.

Nevertheless there is a distinguishing point in the case of Turkey within the EU/EC relations. The process of the Turkey’s intention to be a part of the integrated

[130] Theodore Cohn H., *Global Political Economy Theory and Practice,* p. 49.

European began with 1960 at least two decade earlier of the EECs' which never constituted an advantage for Turkey to be full member of the Union before the countries of the region.

During that period as we cannot see a separate Turkish foreign policy other than her Western alliances, the economic and financial relations of EECs and Turkey can only be analyzed after the end of the cold war which gained a real momentum.

Table 3: Imports of EECs and Turkey Before 1990s

US Dolars at current prices and current exchange rates

	1948	**1949**	**1950**	**1951**	**1952**	**1953**	**1954**	**1955**	**1956**	**1957**	**1958**	**1959**	**1960**	**1961**	**1962**	**1963**
Turkey	348	366	311	402	556	533	478	498	407	397	315	470	468	507	619	688
Hungary	168	286	313	391	456	488	532	554	481	683	631	793	976	1.026	1.149	1.306
Yugoslavia	316	298	230	384	373	395	339	441	474	661	685	687	826	910	888	1.057
Romania	96	..	..	..	..	385	338	384	352	531	520	542	700	880	1.016	1.104
Bulgaria	124				158	200	196	250	251	332	367	580	633	666	785	933
Albania			22	40	32	40	25	43	39	53	79	85	81	72	65	71

	1964	**1965**	**1966**	**1967**	**1968**	**1969**	**1970**	**1971**	**1972**	**1973**	**1974**	**1975**	**1976**	**1977**	**1978**	**1979**
Turkey	537	572	718	685	764	801	948	1.171	1.563	2.086	3.778	4.739	5.129	5.796	4.599	5.070
Hungary	1.495	1.521	1.566	1.776	1.803	1.928	1.877	2.248	2.356	3.018	4.453	5.400	5.533	6.531	7.990	8.682
Yugoslavia	1.323	1.288	1.575	1.707	1.797	2.134	2.874	3.252	3.233	4.511	7.542	7.697	7.366	9.634	9.988	12.863
Romania	1.262	1.163	1.310	1.670	1.738	1.880	2.117	2.278	2.827	3.738	5.555	5.769	6.583	7.579	9.638	11.789
Bulgaria	1.062	1.178	1.479	1.572	1.782	1.750	1.831	2.120	2.567	3.239	4.326	5.949	6.228	6.329	7.651	8.514
Albania	98															

	1980	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**
Turkey	7.910	8.933	8.843	9.235	10.757	11.344	11.105	14.158	14.335	15.792	22.303
Hungary	9.190	9.160	8.870	8.555	8.130	8.185	9.595	9.860	9.370	8.865	10.340
Yugoslavia	15.076	15.727	13.453	12.154	11.996	12.207	11.750	12.632	13.171	14.829	18.871
Romania	13.200	10.980	8.320	7.640	7.560	8.400	8.080	8.310	7.640	8.435	7.600
Bulgaria	9.670	10.800	11.540	12.290	12.720	13.630	15.200	16.160	16.700	15.180	5.100
Albania									318	387	380

Source: UNCTAD

Table 4: Exports of EECs and Turkey Before 1990s

US Dolars at current prices and current exchange rates

	1948	**1949**	**1950**	**1951**	**1952**	**1953**	**1954**	**1955**	**1956**	**1957**	**1958**	**1959**	**1960**	**1961**	**1962**	**1963**
Turkey	348	366	311	402	556	533	478	498	407	397	315	470	468	507	619	688
Hungary	168	286	313	391	456	488	532	554	481	683	631	793	976	1.026	1.149	1.306
Yugoslavia	316	298	230	384	373	395	339	441	474	661	685	687	826	910	888	1.057
Romania	96	..	..	..	..	385	338	384	352	531	520	542	700	880	1.016	1.104
Bulgaria	124				158	200	196	250	251	332	367	580	633	666	785	933
Albania			22	40	32	40	25	43	39	53	79	85	81	72	65	71

	1964	**1965**	**1966**	**1967**	**1968**	**1969**	**1970**	**1971**	**1972**	**1973**	**1974**	**1975**	**1976**	**1977**	**1978**	**1979**
Turkey	537	572	718	685	764	801	948	1.171	1.563	2.086	3.778	4.739	5.129	5.796	4.599	5.070
Hungary	1.495	1.521	1.566	1.776	1.803	1.928	1.877	2.248	2.356	3.018	4.453	5.400	5.533	6.531	7.990	8.682
Yugoslavia	1.323	1.288	1.575	1.707	1.797	2.134	2.874	3.252	3.233	4.511	7.542	7.697	7.366	9.634	9.988	12.863
Romania	1.262	1.163	1.310	1.670	1.738	1.880	2.117	2.278	2.827	3.738	5.555	5.769	6.583	7.579	9.638	11.789
Bulgaria	1.062	1.178	1.479	1.572	1.782	1.750	1.831	2.120	2.567	3.239	4.326	5.949	6.228	6.329	7.651	8.514
Albania	98															

	1980	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**
Turkey	2.910	4.702	5.746	5.727	7.133	7.958	7.456	10.190	11.662	11.624	12.959
Hungary	8.610	8.730	8.860	8.770	8.620	8.470	9.170	9.580	10.000	9.670	10.000
Yugoslavia	8.978	10.940	10.284	9.914	10.254	10.700	10.353	11.443	12.663	13.460	14.308
Romania	11.400	11.180	10.120	10.160	10.720	10.175	9.760	10.490	11.390	10.490	4.960
Bulgaria	10.390	10.700	11.440	12.140	12.860	13.310	14.140	15.850	17.290	16.220	5.030
Albania	..	..	..	..	..	..	..	..	258	305	230

Source: UNCTAD

CHAPTER 3

THE TRANSITION OF EECS AND RE-ESTABLISHING THE RELATIONS WITH THE WESTERN EUROPE AND TURKEY

3.1. Introduction

With the collapse of the USSR and the Soviet Bloc in 1989, a new era for the Eastern European countries has started. In fact the process of access to Western markets and implementing a mixture of planed and market economies had started - with varying dates for each individual country-, from late 1960s. Till then it can be considered as those economies were in a "semi-transitional" period. As their slogan of "Back to the Europe" or "Return to Europe" was the ultimate goal of the former socialist countries of Eastern Europe, they welcomed the painful transition they have experienced less than two decades after the 90s. Nevertheless in 50 years they experienced both socialist and capitalist economies, which was a very unique experience in the history of Europe. Furthermore for some scholars also they became or at least their governments much drawn to the American market model and neo-liberalism than the old EU members[131].

Their integration with the Western European was regarded as only choice for those economies as opposing views were rare.[132] Above all of this, taking into account the under developed and periphery status of EECs, their target of integration with the Developed Western Europe is best understood within the frame of "uneven and combined development" approach. Once this approach was suitable for their dependency on USSR as one of the biggest powers of the cold war, then this dependency shifted towards the Western side of the Europe as the new emerging international actor/power, after the collapse of the former.

By the 90s, the transition of the Europe continent was not only experienced in the Eastern part, but also in the Western part with the transition of the EU to the

[131] Joze Mencinger, "From Socialism to EU Membership*", Dollarization, Euroziaition and Financial Crises*, edited by Joachim Becker and Rudy Weissebacher, Metropols-Verlag, Marburg 2007, p. 30.

[132] Ibid

neo-liberal structuring. The process to neo-liberalism and thereof change in its structure in the EU began with the Maastricht Treaty in 1993 and had been reflected in the Lisbon strategy in 2000. The Lisbon firstly sought to accelerate the introduction of neo-liberalism in privatization and flexibilation that aimed to lower the control of the national governments. Second aim was the completion of the internal (single) market, where the third one was the competition with the US. All those policy changes were shifting the power balances inside the EU that were inherited through its survival. After one decade the other important development in the EU integration project that made the future of the EU became fogy had been realized by the Lisbon Treaty signed in 2007 and entered into force in 2009, with the Article of I-59 extending the right to any member state to secede from the Union. Thus the international economic integration literature faced a new content and a shift from the general purpose of "joining/ acceding" to "withdrawing"[133].

Furthermore by 90s, with the establishment of World Trade Organization (WTO) that intends to supervise and liberalize international trade and solve disputes among its members, the strongest institution of neo-liberal policy in terms of world trade has been created. Thus becoming a member of the WTO eventually forced the EECs (not all of them) to integrate with the settled multilateral trade rules. WTO also paved the way for those adopt the "common commercial policy" of the EU promptly.

The position of Turkey in 1990s is crucial in the relations with EECs. With the transition period those countries were shifting from planned and controlled economies to liberalized, free market economies thus becoming as new emerging markets for investment and trade. Although the gap left from Soviet dominance had been filling in by the EU, Turkey had also acquired some advantages in entering those emerging markets. As Turkey established a Customs Union with the EU in 1995, she also had the responsibility to conclude free trade agreements that the EU had already concluded or would conclude in the future in order to prevent any deviation in the traffic of the goods between the customs areas of Turkey and the EU. In that regard, Turkey signed free trade agreements with most of the EECs, covering

[133] Ali El-Algraa, "Macroeconomics of Regional Integration.Withdrawal from a Custom Union", *Journal of Economic Integration* ,23 (1), March 2008; 75-90, p.76.

mainly the industrial goods with the aim of opening the markets with the lowering and mostly "zeroing" the tariffs. The opening of those markets was a real opportunity for Turkey to enhance the mutual trade and thereof the relations with the EECs. Also during their transition the most used method of privatization and the enhancement of foreign trade relations were all opportunities for Turkey to get into those markets and create a sub-regional domination. In fact the Turkish outward investments grew together with the opening up the Turkish economy and growth in the FDI inflow, especially after the Customs Union. However, Turkey's general economy policy has been based on attracting foreign investments to the country. According to a study done by Foreign Economic Relations Board (DEİK) on January 2011, "the outward FDI is still seen as "capital flight" and perceived as an activity that steals jobs from Turks. There exists no insurance coverage for companies investing abroad. Neither there is a government body providing information about the local conditions in host countries. The general attitude of the government towards Turkish FDI abroad can best be described as inattentive."

Moreover, taking into account the historical ties with the region and the existence of Turkish and Muslim citizens in those countries, if Turkey had succeeded will be analyzed in this chapter.

At the beginning of this chapter, I want to deal with the abovementioned international developments affecting the transition period of EECs and their relations with the EU, as the only biggest international actor in the region. Later on, I want to expose the individual economies of EECs, Hungary, Romania, Bulgaria, and their relations with Turkey during their transition period, before becoming member countries of the EU. In the case of BiH, Serbia, Macedonia and Albania the period till 2008, when the economic crises occurred in the EU, will be examined.

3.2 The Transition of Europe

The transition of EECs varies from one to another as they had acquired differentiated levels of development and economy patterns. Although the "transformatology literature" groups the transition models namely in "shock therapy model" and the "gradualist model", this does not provide real grounds for their grouping.[134] Where one policy should be considered as a shock for an economy, like full trade liberalization in some countries, for another it should be assessed as a gradual approach. However according to this grouping it was assumed that shock therapy model was followed by former East Germany, gradualist model by CIS countries and rapid adjustment in the middle of two models presumably was followed by Central and Eastern Europe[135].

Notwithstanding the procedures of transition have some similar policy grounds. First of all the main policy in transition was the "privatization", which led the flow of foreign direct investments, and consequently liberalization of related regulations.

When the transition period began many had expected that foreign investors would play a crucial role.[136] The dominant state strategies in the region were to promote competitiveness by attracting foreign direct investment. However only after mid-1990s, a surge of investors began to relocate their activities in Eastern Europe[137]. Thus, foreign led economies began to grow in the region, with the foreign control of leading export industries, most public utilities and unprecedented levels of foreign dominance in the finance sector.[138] Thereby the accumulation of domestic capital was not able to be materialized. The main reason of the foreign led growth in the former Socialist countries lies in the neo-liberal strategy of the region's integration into the global capitalism or the "American approach" to whom FDI was considered to be the Marshall Plan for Eastern Europe[139].

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[134] Joze Mencinger, "From Socialism to EU Membership", p. 19.

[135] Ibid p.20.

[136] Jan Drahokoupil, "From Naional Capitalsm to Foreign –Led Growth; The Moment of Converge ,in Central and Eastern Europe", *Dollarization, Euroziaition and Financial Crises,* edited by Joachim Becker and Rudy Weissebacher, Metropols-Verlag, Marburg 2007, p.87.

[137] Ibid

[138] Ibid

[139] Ibid p.89.

Second policy in transition was the creation of “macro-economic stabilization”. Thus the success of the transition of EECs had been elaborated by the inflation, interest rates, exchange rate regimes, existence of financial institutions, absence of restrictions on capital flows, the state of privatization and liberated foreign trade[140]. However, when we analyze the sustainable economic growth of those countries, other than with the effect of current account deficit, there were signs of “transformational depression” in 1993 with low or negative levels of growth[141]. Later on with a short recovery period ended with the 1997, comes a revival period began in 2003. In 1998, the GDP level in the region surpassed the level in the 1989, and in 2005 it was nearly 30 per cent higher than the 1989 level[142]. Consequently the unemployment rate remained high, which is still a problem in many EECs. The other big problem was the current account deficit of those countries with the liberalization of foreign trade and the reliance on imported goods with the lack of sufficient production facilities. So it would not be wrong to indicate that at the beginning of their transition period the EECs countries suffered heavily, on the contrary of the views of judging their big success only on the above mentioned privatization and liberalization criteria.

During the transition period there was also a sub-regional cooperation among the EECs known as Visegrad Group, established by Hungary, Poland and Czech and Slovak Republics in 1991. The initiative, under the Visegrad Declaration, sought to create a political consultative platform among them. Nevertheless, all four nations in the Visegrad Group have enjoyed more or less similar steady economic growth since the revolutions of 1989.

One year later the establishment of the Visegrad Group, Central Europe Free Trade Agreement (CEFA) was signed among the group countries, which aimed to gradually establish a free trade area in a transitional period ending on 1 January 2001, at the latest. Through CEFTA participating countries hoped to mobilize efforts

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[140] Jan Drahokoupil, ”From Naional Capitalsm to Foreign –Led Growth; The Moment of Converge ,in Central and Eastern Europe”, p. 23.

[141] Ibid p.25.

[142] Ibid

to integrate Western Europe. When they set the system and prepare the agreement, they made references to the related GATT article, number XXIV, which creates the rules for regional free trade agreements as a waiver in the GATT system of multilateral trade rules. This initiative for a free trade area also spread to other EECs and Baltic Countries[143] which were in force since they have become a member of the EU. The very important point here is that, when we analyze the free trade agreement signed in 1992, just a few years after the dissolution of the socialist state order we can observe all the references to GATT norms available to world trade with free market conditions.

3.3. The Relations of EECs with the European Union

The end of cold war necessitated a radical reorientation of the EU's policy towards the EECs[144]. In fact the EU found itself promptly to fill in the position or gap that was left blank with the collapse of the USSR and COMECON for which the EU was unprepared. Although the former Socialist countries were eagerly stating their ultimate goal of eventual membership, the member governments were reluctant even to discuss possible adjustment to the settled integration model[145]. This long list of applicants at very different stages of social-economic development -not only EU versus EECs but also among the EECs- was a big challenge. As a matter of fact after the conclusion of the Europe Agreements, despite the conflicting arguments between the Commission and the member states, Commission successfully shifted the policy perspective to Eastern Enlargement[146], developing firstly the Copenhagen Criteria

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[143] The parties of CEFTA agreement as of 1 May 2007, Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and UNMIK on behalf of Kosovo. Former parties are Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. Their CEFTA membership ended when they became member states of the European Union (EU).

[144] Ulrich Sedelmeier, "Eastern Enlargement: Towards a European EU*?"*, p.401.

[145] Ibid

[146] Ibid

and then a "pre-accession strategy" to prepare those countries for the membership. In fact the US administration also repeatedly encouraged the Commission in its Eastern Project.

The turning point of the relations with the former Socialist countries was the Associate/Europe Agreements (EA) that the EU had concluded firstly with Poland, Hungary and later with Czechoslovakia in the beginning of 90's, the most advanced Eastern Europe countries in terms of democratic and market reforms[147]. Then by 1993 with Romania and Bulgaria, the EAs were concluded. Although the EAs did not establish a clear link and a firm commitment for the future membership, the prospective membership served as incentives for these democracies in EECs to continue their difficult and socially disruptive reforms, which became crucial for the stability of the whole continent. However as the trade liberalization was the ultimate aim of the EAs, the EU considered "textile, agriculture, coal and steel" as sensitive sectors and implement a slower and more limited liberalization in those sectors. On the other hand the ECCs had competitive advantage in those sectors and those products were also crucial in their export capacities. And furthermore those limitations also deterred potential foreign investors towards these Eastern Europe Countries.[148]

The imbalances in the development paths among the Eastern Europe countries also affected the Commission's report on enlargement at the Lisbon European Council in June 1992 which at the same time also reflected differences among the member states and those inside the Commission. The report indicated that relations with the EECs might develop beyond the EAs, but did not outline an agreed form of such a new partnership. Thus the uneven development and periphery status of the region which dates back in the history established an asymmetric relationship with the Union. Nevertheless, the outcome was the Copenhagen criteria defined at the meeting of the European Council in Copenhagen in 1993 that set general

[147] Ivaylo Gatev, "The EU and Eastern Union", *The European Union and Global Governance*, Routledge-2011

[148] Ulrichi Sedelmeier,"Eastern Enlargement", p. 410.

requirements for establishing effective democratic institutions, respect for human and minority rights, and appropriate mechanisms for guaranteeing a market economy. Upon meeting the criteria, the first group of candidates was able to open the accession negotiations in 1998. Thereby the perspective of policy had shifted from association and pre-accession to an Eastern Enlargement Policy, albeit conditional on successful reforms.[149]

The Copenhagen criteria made it possible for Central Europe (Visegrad Countries) to enter the EU by 2004 as the first wave of accession, while leaving South Eastern part of the continent, Romania and Bulgaria for the second wave. In this process the transition of Visegrad countries from a state- socialist regime to a liberal democracy, can be regarded more quick than the other EECs, which paved the way to meet the Copenhagen criteria in the first hand as the economies of those countries had already been the most developed and industrialized ones in the region. And with the expression of "Back to Europe", they could be assessed as the most enthusiastic states in the region, to put in force any reform in order to obey the new liberal regimes and to change the direction of the foreign trade, from a non-competitive market under the state planned/control regime, to a full-competitive market with liberal conditions.

In fact de facto integration of EECs in Western Europe started as early 1989-1990, concurrently to political change and economic transformation. Of all fields' integration, trade was the first to start[150]. This is a unique feature of Eastern Enlargement as compared to the previous enlargements: trade-creating and trade-diverting effects of joining the EU had emerged in their entirety before full membership of the new comers was attained[151]. The changes in the national trade regimes of EECs, related regulations in accordance with the liberal policies and concluding free trade agreements with non-member countries made it easier for these

[149] Ivaylo Gatev, "The EU and Eastern Union", *The European Union and Global Governance,* Routledge-2011

[150]Andras Köves, "Economic and Political Relations after the EU enlargement", *ICEG European Center,* edited by: Kalman Deszeri and Pal Gaspar, p.40.

[151] Ibid

countries to adopt “common commercial policy” of the EU, with only minor changes and adaptations by the membership.

On top of this, if we want to expose the main rationale behind the Eastern enlargement of the EC/EU besides its political, ideological and security dimension, we face the other side of the coin with the main objective of neo-liberal structuring the Eastern part of the continent, which basically begin after the Kosovo war[152]. As a matter of fact, before the events of the dismantling of Yugoslavia, the Western part of the Europe was eager to re-shape the relations with EECs, like the “Ostpolitik” initiated by Willy Brant, which was not happily welcomed by the US. Not surprisingly, the US was not in the mode of leaving the continent in the hands of the Western part/EU completely. The establishment of Marshall Plan constituted a good example in that context. In fact, the years from 1989 to 1991 passed with lack of unity and determination on the EU side[153]. Thus the crises in the Western Balkans paved the way to potentiate the American influence on the continent just after the Kosovo war with the help of the NATO intervention, mainly under the control of the USA. This time US involvement did not hinge on productive investment as in the 1960s, instead it revolved around investment banking and management consultancy which make their money from privatization and flexibilisation[154]. However, especially in the case of Western Balkans, the US influence gradually decreased towards the region as the developments in international arena forced US interests to shift its priorities to other regions.

The mismanagement and the lack of common purpose and interest of the European Union in the addressing the collapse of the Yugoslavia,[155] caused a war in the region and gave rise to a new structure in the Union. Thereby, the most important

[152]Kees von der Pijl, *Global Rivalries From Cold War To Iraq,* p. 279.

[153] Ibid

[154] Ibid

[155] Branislav Radeljic, *Europe and the collapse of Yugoslavia: The Role of Non-State Actors and EU Diplomacy,* Tauris&CO Ltd. London, 2012, p.4.

effect of the Kosova war was "the EU turn to neo-liberalism"[156] in terms American interpretation. It was firstly reflected in the Lisbon Strategy in 2000, a ten-year program, at revitalizing growth and sustainable development across the EU by economic and social reforms which combines competitiveness and social cohesion, was adopted in order to offset the challenges Europe was facing from globalization, an ageing population, and the emergence of a worldwide information society. There was a contradiction in the Lisbon however. On the one hand it sought to accelerate the introduction of neoliberal privatization of American style and flexibilisation in the EU; on the other hand there was a thrust towards rivalry with the US[157]. "The basic problem with the EU's Lisbon strategy is that it takes a destructive approach to Europe's existing strengths and places all its hopes on a strategy of competing with the US by adopting the American model wholesale."[158] Furthermore "the EU was always more neoliberal than the national governments could afford"[159] which was proved by the denial of the EU Constitution in 2004 by France and Nederland.

With regard to the two sub-divisions of the region, the Central and South Eastern Europe, the development of their relations with the Union expose a different attitude rather than the Western Balkans, as those two sub-regions eventually became the members of the EU. But the EU approach to the third sub-region, the Western Balkans, has a special magnitude. Especially the war in the Federal Republic of Yugoslavia has affected the political and economic perspectives of Western countries in the enlargement process. Looking at the former Socialist Federal Republic of Yugoslavia (SFRY), it is difficult to find another country in Europe whose relations with the European Union (formerly the European Community-EC) had such drastic ups and downs[160]. Interestingly, Yugoslavia was the first country among the EE

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[156]Kees von der Pijl, *Global Rivalries From Cold War To Iraq,* p. 290.

[157] Ibid p.287.

[158] Ibid

[159] Ibid p.288.

[160]Dusko Lopandic, *"*The Development of Bilateral Relations Between the State Union of Serbia and Montenegro/the Republic of Serbia with the EU*",* Agora Without Frontiers Volume 12 (2) 2006:84-91

countries to accredit an ambassador to the European Communities' in 1968.[161] Foreseeing the political significance of this economic integration and pursuing her own trade interests, Yugoslavia was ready to establish economic ties with the EC. Although the 1970's were supposed to be a period of economic cooperation, due to numerous agreements signed between the EC and Yugoslavia, the success of the such agreements in fact were very limited[162]. At the end of the 80's, relations between the two parties were further advanced through the signing of some other agreements (Financial Protocols, the agreement on transports), and by initiation of exploratory talks concerning the signing of an Association Agreement. Prior to the crisis that occurred in former Yugoslavia, the EC orientation toward Yugoslavia was to treat it in same manner as other countries of Central and Eastern Europe[163]. Unfortunately the process of integration of the Western Balkans has coincided with the dismemberment of the Yugoslavia[164]. The German and then the EU recognition of Croatia and Slovenia was a turning point that provided the incentive for the EU become more involved in the Western Balkans[165]. However the continuation of the instability in the region caused EU to reconsider its policy. Thereby it can be observed that the EU wants to keep the Western Balkans at arms' length, with the strategy of "neither total exclusion nor rapid integration"[166].

The Western Balkans has a special mosaic of combined social forces and structures that were living together under the former Socialist Yugoslavia. However

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http://www.idec.gr/iier/new/tomos%2012/Lopandic.pdf

[161]Branislav Radeljic, *Europe and the collapse of Yugoslavia: The Role of Non-State Actors and EU Diplomacy*, p. 4

[162] Ibid

[163]Dusko Lopandic, *"The Development of Bilateral Relations Between the State Union of Serbia and Montenegro/the Republic of Serbia with the EU"* Agora Without Frontiers http://www.idec.gr/iier/new/tomos%2012/Lopandic.pdf

[164] Mustafa Türkeş& Göksu Gökgöz, "The EU's Strategy Towards the Western Balkans: Exclusion or Integration?", p.662.

[165] Ibid p. 673.

[166] Ibid

those inherited social forces and structures were underestimated by the EU during the creating of a neo-liberal structure in the region. The new "authoritarian elite class" was established who was in cooperation with the capital and the NGOs within the aim of neoliberal structuring of the region which does not take the democracy to the region, on the contrary a new form of authoritarism. So "the Commission formula neoliberal economy and liberal democracies have not fed one another, just the opposite, the policies of the Commission impeded the process of democratization in the Western Balkans."[167]

In the Western Balkans hopes were linked the Dayton Agreement to establish the peace and stability in the region after the war in 1995. But Dayton did more than that. "Dayton brought to an end one of the most difficult periods in the history of U.S.-European relations, helping to define a new role for NATO and restore confidence in American leadership after a period during which it been cast into doubt"[168]. However the failure of the Dayton proved that the EU had to handle the issue in different ways and had to take the control back to her hands. Firstly, the Commission recognized that it has to increase its involvement in the Balkans as its credibility was at stake and secondly, there was a risk of the spillover effect of the instability of the region that would be imported in the EU[169]. So there were some attempts done mainly by the EU and the Commission in order to create the stability and to restructure the region for neo-liberalism: The Royaumont Process in 1996 and the Regional Approach in 1997. But the real turning point of the relations with the Western Balkans of the EU was the Kosova crises that pushed the EU for launching the Stability Pact (SP) in 1999 and assumed to be the main responsible structure for its implementation. To materialize the aim of the Stabilization in the region the EU established a new generation of Stabilization and Association Agreements (SAA) for

[167] Mustafa Türkeş & Göksu Gökgöz, *"The EU's Strategy Towards the Western Balkans: Exclusion or Integration?"*, p. 690.

[168] Derek Chollet and Bennett Freeman, "The Secret History of Dayton U.S. Diplomacy and the Bosnia Peace Process, 1995*"*, National Security Archive Electronic Briefing Book No. 171, November 21, 2005 http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB171/

[169] Mustafa Türkeş & Göksu Gökgöz, *"The EU's Strategy Towards the Western Balkans: Exclusion or Integration?"*, p.674.

the Western Balkans that were slightly similar to the Europe Agreements it had done so far with other EECs. But, as usual, there were some conditions of signing the SAAs with the Western Balkans whether they had meet the criteria in SP conditions. On the other hand SP and its process was not giving any firm prospect for membership[170] to the countries in the region stating that "SAP countries are potential candidates".

In addition to the bilateral agreements under the Stabilization and Association Process, in 2000 the European Union established for the first time exceptional unlimited duty-free access to the EU market for nearly all products originating in the Western Balkans (Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and Kosovo) in Regulation (EC) No 2007/2000)[171.] These arrangements were more favorable than those granted under the respective bilateral agreements (e.g. for fruits and vegetables)[172]. Only wine, sugar, certain beef products and certain fisheries products enter the EU under preferential tariff quotas, as negotiated under the SAAs[173]. The regime was renewed in 2005 and lastly in 2010 till 31 December 2015.

> Free trade and preferential trade agreements are a major element in EU foreign policy and are at the forefront of EU policy towards developing countries as well as Eastern Europe. As the free trade partners are often economically very small relative to the EU capacity, for the EU, free trade agreements are a means of increasing economic integration through improved access to the EU market, which is seen as important in achieving other political, foreign policy and security objectives. For free trade partners, on the other hand, improved access and security of access are key elements in the

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[170] Ibid p. 681

[171] The Web page of European Commission, *"EU reinstates trade preferences for the Western Balkans until 2015"* (accessed on 10/5/2013) http://trade.ec.europa.eu/doclib/press/index.cfm?id=772

[172] The Web page of European Commission, EU Export Help Desk (accessed on 10/5/2013) http://exporthelp.europa.eu/thdapp/display.htm;jsessionid=8398158DBE63999A7AA9FEE169039089?page=cd%2Fcd_AutonomousTradePreferences.html&docType=main&languageId=en

[173] The Web page of European Commission, *"EU reinstates trade preferences for the Western Balkans until 2015"* (accessed on 10/5/2013) http://trade.ec.europa.eu/doclib/press/index.cfm?id=772

> desire for an agreement with the EU. This entails that a key element of the EU's free trade and preferential trade agreements is the extent to which they deliver improved market access.[174]

However, the achievement of those agreements for the trade partners of the EU is highly doubtful for improved market access as it was envisaged at the beginning, due to the strict rules of origin that those regulations certainly imposed on developing countries above all. In fact the situation of Western Balkans, gaining improved market access to the EU shall be considered in that frame which will be discussed in the following part.

Besides the US role in the enforcement of the Eastern project, the influence of European Round Table of Industries (ERT) had the major role in the enlargement which till today preserved its position. In its report "ERT Position Paper and Analyse of the Economic Costs and Benefits of EU Enlargement" the industrialists of the Europe send their message to the European Council in Gothenburg, June 2001 with a generally strong support for enlargement in business circles. The report was stating that most ERT members had substantial investments in the applicant countries, and they had seen the positive impact of European integration on growth, trade and employment in both West and East. They were also emphasizing that they had participated in Local Business Enlargement Councils (BECs), where they had a dialogue and action programs with national governments to prepare for admission to the EU and to improve the investment climate. They were also mentioning in the report that,

> In recent years we have observed declining enthusiasm and public support for enlargement in the EU-15 Member States. The EU is in danger of over-reacting to current anxieties that enlargement will cost too much and that it will be followed by waves of immigration from the accession countries.

By now still the ERT is the strongest NGO of the EU creating a substantial influence in every other business/economy integrated topics.

[174] Paul Brenton and Miriam Manchhn, "Making EU Trade Agreements Work: The Role of Rules of Origin", *CEPS Working Document*, No. 183, March 2002, p. 7.

3.4 The Individual Transition Economies: Hungary, Romania, Bulgaria, Albania, Serbia, Macedonia And Bosnia-Herzegovina And Their Relations With Turkey

3.4.1. The General Outlook of the Hungarian Economy Till Membership

From the 1960s, there were elements of free market economics, which could be considered as a deviation from the Stalinist principles in Hungary. It was called Goulash Communism or Kadarism (after János Kádár[175]) refers to the variety of socialism as practiced in the Hungarian People's Republic[176]. Hungary was the fastest working country among the pre-socialist World, adopting the free-market economy. It was from Kadar period, the country began to apply the semi-market socialist economy. During the transition period, Hungary began to open up its economy to the unfettered competition,-trusting its experience in semi-market economy-, excitingly and willingly. The systemic changes in the turn of the 1990s led to the dissolution of non-market based trade regulations, thus making Hungarian trade policies uniform vis-à-vis its Western partners. Starting from this new basis Hungary undertook a number of autonomous liberalization measures and entered into commitments under multilateral and regional agreements that substantially lowered the level of protection accorded to domestic operators. Hungary also eliminated most of non-tariff measures, like import licensing.

By 1995 Hungary also became a founding member of WTO. As the trade mechanism ruled by the WTO was also an obligation of the EU to obey, the process of the necessary legal harmonization for liberal policies were mostly done so far in full respect of the multilateral disciplines embodied in the WTO agreements by Hungary. As these rules constitute the basis of trade regulations both in the EU and Hungary, it is not likely that implementation the EU legislation would produce any

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[175] Janos Kadar was the General Secretary of the Hungarian Socialist Workers' Party, presiding over the country from 1956 until his retirement in 1988.

[176] BBC News, By Dan Payne- Budapest "Hungary divided over Janos Kadar and his legacy", 16 August, 2010 (accessed on 17/03/213) http://www.bbc.co.uk/news/world-us-canada-10984873

difficulties in Hungary's trade relations with third countries. Hungary also became a member of OECD in 1996.

In 1994 Hungary officially submitted its application for membership in the European Union. On the basis of the positive reaction given by the 1997 EU summit meeting in Luxembourg, the accession negotiations have been commenced in April 1998. As a part of the accession process of Hungary to the European Union, intensive work had been done to harmonize the trade policy regulations of Hungary with those of the EU. Accordingly, on the 1 July 1997 Hungary introduced the system of European cumulation of origin, which meant that Hungary applied the same rules of origin as the EU[177]. In Hungary it was hoped that the emerging small and medium sized enterprises emerging from micro-entrepreneurial seeds from the Kadarist period, would quickly make use of freeing of the state control and create a flourishing economy[178]. But in fact the reality was different. The state owned industry was very out dated and used to produce for a non-competitive market of Soviet bloc. Only those companies survived which were bought by strategic foreign investors or served to the more niche markets dominated by the government procurement[179]

Then it was left to direct foreign investment to send their capital, modern technology and best business practices to Hungary[180] which had its roots from Kadarist regime from 1970's with the aim of renewal of Hungarian technology. The capital was also a dire need to cover the debts of the pervious regimes. With the thought of effective competition rules were essential for the smooth functioning of a market economy, the new Hungarian Competition Law of 1996 was replaced the 1990 legislation, regulated company behavior by prohibiting anti-competitive

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[177] World Trade Organisation-WTO, Trade Policy Review Mechanism- Hungary,1998 (accessed on 11/12/2012) http://www.wto.org/english/tratop_e/tpr_e/tp77_e.htm

[178] Andras Toth, Laszlo Neumman and Hortenzia Hosszu, "Hungary's Full-Blown Malaise", *A Triumph of failed ideas-European models of capitalism in the crises,* European Trade Institute, Brussels, 2012, p.139.

[179] Ibid

[180] Ibid p.140.

practices and the abuse of dominant positions in the market[181]. This was also an attractive policy instrument for the foreign investors for their decision. Nevertheless, the success of the county attracting FDI after 1995 was glorious. Hungary was the first country having FDI in the region.

Table 5: The FDI in Hungary, Million Euro

	On year base	**Cumulative**
1990-1995 period	-	18,287
1995	4,044	22,633
1996	2,625	25,258
1997	3,681	28,939
1998	2,988	31,927
1999	3,106	35,033
2000	2,998	38,031
2001	4,391	42,422
2002	3,185	45,607
2003	1,887	47,494
2004	3,633	51,127

Source: National Bank of Hungary

We can see that from 1991 till the end of 1995, the stock of foreign direct investment rose from the 2.8 billion USD to 18.2 billion USD level. Of that, Germany and the United States acquired a share of about one third each. Recently Japanese investors also show a growing interest towards the Hungarian market. Almost half of the FDI inflow targeted the manufacturing sector, in particular machinery, food processing and chemical industries. Between the years 1990-97 almost 1300 state owned companies (85 per cent of the total) had been sold. With that, the share of private sector in GDP rose to 80 per cent[182]. As a consequence of FDI based manufacturing renewal, Hungary turned into a manufacturing base for export-oriented manufacturing enhancing its relations with the Western Europe by means of trade[183].

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181 World Trade Organisation-WTO, Trade Policy Review Mechanism- Hungary,1998 (accessed on 11/12/2012)

182 Ibid

183 Andras Toth, "Hungary's Full-Blown Malaise" , p.14.

Till the end of 2003 in the distribution of capital inflow towards Hungary, Germany had the biggest share of 18 % that was followed by Nederland by 14.7 %, Austria 11.1 %, the US 10.8 %, Japan 6.2 % and England by 4.4 %. Consequently before the accession of Hungary in 2003 EU's had the major position with the 92.1% share[184].

Hungary shall not be considered only to be a 10 millioned market; also the Hungarian living in the neighborhood shall be taken into consideration such as in Romania (2 million), Serbia and Montenegro, Ukraine and Slovakia. Nevertheless the huge investments that had been realized by the EU and the US proved the reality that Hungary had been chosen as a center in order to facilitate their access in other regions of Center and East Europe.

De facto integration of EECs had started before their accession to the EU where the case was not different for Hungary. We can see from the below table becoming a member, the Hungarian trade with the EU had been gradually increased through the years, where trade with former soviet bloc countries decline on the contrary. An important point here is that, Hungary from 1997 became a net exporting country (having a surplus within its trade) to EU, as consequences of the FDI based manufacturing industry and the policies it had adopted to regulate trade vis-à-vis its Western partners. The trade with Germany was- still- very important in those years. Western European, particularly Germany, manufacturing multinationals outsourced production to East European cheap (and highly qualified in case of Hungary) labor economies, especially Visegrad countries[185]. Between years 1999-2003 Germany's share of investments was 18 % as the biggest one. The multinational companies thereby became absolutely dominant in modern export-oriented sectors, particularly machinery, vehicles and electronics in Hungary. But the rapid liberalization of foreign trade and aggravated by periods of currency overvaluation resulted in a rapid

[184] Report of Turkish Embassy Office of Commercial Counselor in Budapest, in 2004 http://www.musavirlikler.gov.tr/upload/H/2004yılıraporu.doc

[185] Joachim Becker, "Development Models and Crises in Eastern Europe", Manuscript p.8

worsening of the balance of payments and high current account deficits in the EEC countries, as well Hungary[186].

Table 6: Hungarian Foreign Trade

Year	EEC	EU	Total	EEC %	EU %
$Imports					
1991	2,686	4,682	11,382	23.59	41.13
1992	2,752	4,734	11,079	24.84	42.73
1993	3,620	5,024	12,530	28.89	40.09
1994	3,323	6,600	14,554	22.83	45.35
1995	3,539	9,515	15,466	22.88	61.52
1996	3,851	11,301	18,144	21.22	62.29
1997	3,958	13,326	21,234	18.64	62.76
1998	3,885	16,479	25,706	15.11	64.11
1999	4,007	18,049	28,008	14.31	64.44
2000	5,473	18,760	32,079	17.06	58.48
2001	5,599	19,464	33,682	16.62	57.79
2002	6,253	21,161	37,612	16.62	56.26
2003	8,310	26,228	47,675	17.43	55.01
$Exports					
1991	2,354	4,659	10,187	23.11	45.74
1992	2,461	5,327	10,705	22.99	49.76
1993	2,199	4,140	8,907	24.69	46.48
1994	2,366	5,457	10,701	22.11	50.99
1995	2,994	8,080	12,867	23.26	62.79
1996	3,117	10,949	15,704	19.85	69.72
1997	3,659	13,602	19,100	19.16	71.22
1998	3,656	16,782	23,005	15.89	72.95
1999	3,103	19,068	25,012	12.41	76.23
2000	3,627	21,117	28,092	12.91	75.17
2001	4,280	22,651	30,498	14.03	74.27
2002	4,794	25,782	34,337	13.96	75.09
2003	6,740	31,669	43,008	15.67	73.63
Balance					
1991	-332	-22	-1,195		
1992	-292	593	-374		
1993	-1,421	-884	-3,623		
1994	-957	-1,143	-3,853		
1995	-545	-1,435	-2,599		
1996	-735	-352	-2,440		

[186] Ibid

Table 6 (continued)

1997	-299	277	-2,134
1998	-230	303	-2,701
1999	-904	1,019	-2,996
2000	-1,846	2,356	-3,987
2001	-1,320	3,187	-3,184
2002	-1,459	4,622	-3,275
2003	-1,570	5,441	-4,667

Source: Hungarian Statistic Office

As it can be seen in trade figures of every new comers of the Union, Hungary also realizes its foreign trade, with around a percentage of 70 with EU and since 1997 having a positive balance. The second biggest group is, the Europe other than EU, addressing mostly Russia. And Asia comes as the third group, whereas with the effect of China. In the country distribution of trade, Germany ranks first both in exports and imports, with a considerable share that differentiates between 25-30 %, since 2004 till today. Hungary is closely integrated with Germany's productive system. In the import figures, Russia always comes as the second supplier of Hungary, regarding the natural gas. Hungary is among the EU, having relied mostly on the Russian gas, with approximately % 65 of her imports[187].

When it comes to the commodity patterns of trade, there is a similarity in export and import products of Hungary. Machines, electronics and vehicles have the share of around 60% in her exports. When it comes to imports the share of this group is nearly 50%. The second important group comes as energy and fuels with differentiated share between 7 and 12 % both in exports and imports. The third group of commodity in Hungarian is the manufactured products, which are mainly composed of metals and products thereof, iron- and steel, textile and clothing, medical equipment and various processed products. Their share in total exports and imports are respectively around 30-35 %.

Like other EC/EU accession candidates, Hungary has sought to conclude free trade agreements with countries with which the EC has such agreements: with

[187] Report of Turkish Embassy Office of Commercial Counselor in Budapest, in 2004 (accessed on 20/11/2012) http://www.musavirlikler.gov.tr/upload/H/2004yılıraporu.doc

EFTA (93), Israel and Turkey (98), Latvia and Lithuania (00) and Estonia (01). All these agreements cover solely trade in goods, and foresee the elimination of tariffs and non-tariff barriers by 2002 at latest[188].

3.4.2 Economic Relations Between Hungary and Turkey Till the Accession of Hungary

The development of economic relations between Turkey and Hungary has the basis on the following agreements before the accession of Hungary to the EU.

- Long Term Agreement on Economic, Technical, Industrial and Scientific Cooperation signed on 11.01.1977
- The protocol of the Joint Committee on Turkish-Hungarian Trade and Economic Cooperation signed on 14.09.1989
- The Agreement on Prevention of Double Taxation on Income Tax came into force on 1.1.1995
- Agreement on Mutual Promoting and Protecting Investments entered into force on 1.4.1995
- Free Trade Agreement signed on 1997 entered into force on 1998.

As the trade figures taken from the EU's statistical web site dates back only till to 1999 (Eurostadt), in order to make an evolution about the commercial relations between Turkey and Hungary the year 1999 will be the basis. As it can be seen from the below table the foreign trade has been gradually increased between the countries. The balance of trade also does not favor any side constantly between 1999 and 2004.

Table 7: Turkish-Hungarian Foreign Trade

1.000 Euro	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Exports*	73,747	210,769	163,322	277,594	257,706	410,932
Imports*	105,368	123,467	202,166	258,914	332,749	351,731
Balance	31,621	-87,303	38,844	-18,680	75,043	-59,201

Source: Eurostadt

**Hungarian exports to Turkey, and imports from Turkey*

[188] World Trade Organisation-WTO, Trade Policy Review Mechanism- Hungary,1998 (accessed on 11/12/2012) http://www.wto.org/english/tratop_e/tpr_e/tp77_e.htm

When we analyze the product groups that were subject to foreign trade between Turkey and Hungary, there is a big similarity between export and import products of each country. Nearly 90 per cent of the foreign trade realized in industrial products. In Hungarian exports to Turkey, vehicles and machinery had a share of approximately 65 per cent, followed by manufactured products (metal products, chemicals) by 30 per cent. The agricultural products had less effect in Hungarian exports to Turkey, which were corn and wheat by 5 per cent. In Turkey's exports to Hungary, manufactured products have the biggest share by 50 per cent, and then followed by vehicles and machinery by nearly 45 per cent share. In our agricultural products hazel nut, fresh fruit and vegetables, and tobacco have a share of 5 per cent which are the traditional export products of Turkey.

Another dimension may be the most important one to evaluate the bilateral trade relations, is to examine the countries' share in each other's total export and import figures. The share of Turkey in total imports of Hungary was very low between 2001 and 2004 which was not even 1 per cent of the total. Just for textile and clothing Hungarian imports have a meaningful figure with nearly 15 percent as Turkey was and still an important textile exporting country. The situation was similar as in the case of Hungarian exports from Turkey. In the total exports of Hungary, Turkey's share did not exceed 1 per cent level.

Both Turkey and Hungary were mainly realizing their foreign trade with the EU, especially with the old and the most developed members of the Union, like Germany, Italy and Austria.

Table 8: The Share of Imports from Turkey in Hungarian total Imports

Product label	**2001 %**	**2002 %**	**2003 %**	**2004 %**
All products	0.54	0.65	0.79	0.58
Vehicles other than railway, tramway	2.35	2.66	3.07	1.58
Electrical, electronic equipment	0.19	0.29	0.36	0.31
Cotton	6.40	6.00	0.26	0.26
Articles of apparel, accessories, knit or crochet	2.52	3.87	4.97	7.29
Articles of iron or steel	1.06	1.15	6.25	3.57
Machinery, nuclear reactors, boilers, etc	0.08	0.13	1.10	1.07
Articles of apparel, accessories, not knit or crochet	2.21	3.05	0.34	0.61

Table 8 (continued)

Knitted or crocheted fabric	8.81	5.89	13.48	14.16
Plastics and articles thereof	0.30	0.40	4.46	5.01
Edible fruit, nuts, peel of citrus fruit, melons	7.88	5.36	4.79	5.63

Source: Trade Map

Table 9: The Share of Exports to Turkey in Hungarian total Exports

Product label	**2001 %**	**2002 %**	**2003 %**	**2004 %**
All products	0.48	0.76	0.67	0.91
Vehicles other than railway, tramway	0.64	1.17	1.14	1.59
Electrical, electronic equipment	2.77	4.27	4.03	5.32
Cotton	0.30	8.74	0.13	0.21
Articles of apparel, accessories, knit or crochet	0.52	0.38	0.28	0.57
Articles of iron or steel	1.53	2.14	0.86	1.32
Machinery, nuclear reactors, boilers, etc	3.90	3.86	1.82	1.56
Articles of apparel, accessories, not knit or crochet	0.03	0.16	2.97	1.75
Knitted or crocheted fabric	0.78	0.71	0.83	0.94
Plastics and articles thereof	1.95	2.33	2.63	3.06
Edible fruit, nuts, peel of citrus fruit, melons	0.11	0.87	2.32	2.15

Source: Trade Map

The other important feature of the economic relations is the mutually development of investments. In that regard, the Turkish FDI in Hungary has been constantly increased though the years. Where in 1998 the inflow from was 3.2 million Euro form Turkey to Hungary, in 2004 the increase was incredible that reached a level of 55.3 million. But however when we consider the total FDI inflow in the Hungary by the end of 2004, which was 51 billion Euros, then the level of Turkish FDI was at a very low level, representing the share of less than 1per cent of the total.

Table 10: Turkish FDI in Hungary

Million Euro	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Turkish FDI in Hungary	3.2	42.4	40.4	52.2	2.6	50.9	55,3

Source: National Bank of Hungary

On the other hand, the Hungarian FDI in Turkey can be seen from the below table which shows that, although in 2004 by the membership of the country the FDI flow in Turkey was glories, still less then Turkey's capital in Hungary and the share was very negligible in the total FDI inflow in Turkey.

Table 11: The Hungarian FDI in Turkey

Million Euro	**2000**	**2001**	**2002**	**2003**	**2004**
Hungarian FDI in Turkey	0,1	0,2	0,6	12,0	30,8

Source: National Bank of Hungary

As the transportation routes and corridors in the Center of Europe passes through Hungary, it has been thought that the logistics importance of the country will be growing over the years. Thus many international big companies shifted their logistics centers in Hungary, while Turkish companies also began to settle their transportation facilities there. By 2004 Hungary was the entrance door of the EU from the East and consequently became the EU's entrance door to the East till the membership of Romania and Bulgaria. As a matter of fact, to develop the infrastructure of the transportation facilities, such as contracting new and modern high ways, some EU founds were directed to Hungary, to reorganize the country as a hub of logistics.[189]

Although according to the Hungarian authorities the number of Turkish firms operating in the country was 200-250 in 2004, for the Turkish side the registered Turkish firms in the Embassy was 89[190]. Turkish firms mainly were operating in textile sector (41 firms). Textile sector is followed by construction (13 firms) and agriculture by 4 firms.

Turkish firms operating abroad both have advantages and disadvantages to enhance and develop the economic relations with the host country. They have advantages by settling inside the country as they have the change and ability to obtain more and current information about the business environment of the country than the mainland Turkish firms. In fact, they can easily access the markets, follow the developments of the country and react immediately for any possible changes or business opportunities. Consequently, they can be pioneering drive of the mainland companies. But on the other hand, Turkish firms are mostly in competition with each other operating in a foreign country both in the host country and in the mainland. In

[189] Report of Turkish Embassy Office of Commercial Counsellor in Budapest, in 2004
http://www.wto.org/english/tratop_e/tpr_e/tp77_e.htm

[190] Ibid

that context, they do not want to share the market or the business opportunities with other Turkish firms. In fact they have been directing the new comers to the wrong routes on purpose. They do not have a common goal and an action policy to develop their situation in the host countries. In Hungary also there are three separate Turkish Business organizations differentiated in political and economic interests and mostly competing with each other[191].

3.4.3. The General Outlook of the Romanian Economy Till Membership

In 1990 Romania began the transition from a socialist economy with a largely obsolete industrial base but with the lack of external debts that could have been a great advantage compared to other EECs countries, such as Poland or Hungary and of an enthusiastic wave for change following the collapse of the communism[192]. Nevertheless, Romania underwent a more stressful and often more painful transition to a market economy began in December 1989 in a very difficult economic, social and political context, with little history of market-based economic reform. According to some analysts Romania implemented a gradual transformation process that took place instead of a more effective shock therapy[193]. In fact, Romanian has been considered an intermediate reformer, situated below the leaders of transition (Hungary, Poland, Slovenia, the Czech Republic and the Baltic's) but above the laggards of the Former Soviet Union[194].

Much of the 1990s in Romania were marked by great economic hardship, including high unemployment, skyrocketing inflation, and shortages of consumer

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[191] Report of Turkish Embassy Office of Commercial Counsellor in Bucharest, 2008 http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=368&dil=TR&ulke=R

[192] Daniela Luminita Constantin, Zizi Goschin, Aniela Raluca Danciu, "The Romanian Economy from Transition to Crisis.Retrospects and Prospects", JEL Codes: O11, P20, R11, The paper work was supported by CNCSIS project number 36/2010, code TE 349, http://www.wbiconpro.com/224-Aniela.pdf

[193] Ibid

[194] Ibid

goods. The efforts towards a market-driven economy started with a drastic fall in GDP in the early 1990s. Romania faced the difficult task of restructuring an outdated industrial base and an inefficient agricultural sector inherited from the Communist regime[195]. The pace of economic reform, including privatization of industry, the return of collectivized farmland to its original owners, and the removal of government subsidies for consumer goods, has been slower than in many other formerly socialist countries of Central and Eastern Europe partly because of its lower starting position[196].

Foreign direct investment played only a minor role in Romania's transition between 1989 and 1996, with levels becoming more significant only in 1997 and 1998[197]. The relatively low level of foreign direct investment was an obstacle to economic development and creation of jobs in the private sector. The authorities had also been implementing measures to increase foreign direct investment inflows, notably by establishing in 2002 the Romanian Agency for Foreign Investment (ARIS).[198] Fighting corruption, establishing an efficient bankruptcy mechanism, and improving governance were identified as key priorities for attracting more FDI into Romania[199].

After a slow start, the sharp increase in FDI began with 2000. In 2003 the stock of FDI amounted to 9,6 billion Euro, with the membership this figure reached to 43 billion Euro at the end of 2007[200]. Nevertheless Romania became the largest

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[195] Daniela Luminita Constantin, Zizi Goschin, Aniela Raluca Danciu, "The Romanian Economy from Transition to Crisis.Retrospects and Prospects" http://www.docstoc.com/docs/106913706/THE-ROMANIAN-ECONOMY-FROM-TRANSITION-TO-CRISIS

[196] Ibid

[197] World Trade Organisation-WTO, Trade Policy Review of Romania in 2005 http://www.wto.org/english/tratop_e/tpr_e/tp256_e.htm

[198] Ibid

[199] Ibid

[200] National Bank of Romania, (accessed on 10/6/2013) http://www.bnro.ro/Foreign-direct-investment-(FDI)-in-Romania-3213.aspx

recipient of FDI in the South-East Europe[201]. The main investors are from the EU, where Nederland, Austria and France have the share of over 10 per cent and the US share is around 4 per cent[202]. The share of German investors in that country is less than compared to the Central Europe countries, which is around 8 per cent of total. The main area of investments are distributed in industry and manufacturing with the share of 70 per cent[203]. Especially to attract FDI in the country till 2005 Romania has signed 84 bilateral investment protection agreements (up from 75 in June 1999) and 80 treaties on double taxation (up from 38 in June 1999)[204].

The economic recovery started in 2000 which was also the year when the accession negotiations with the EU were opened. From this year on a major emphasis was put on the efforts to meet the Copenhagen accession criteria, of which the economic ones envisaged two key dimensions, namely the existence of a functioning market economy and the capacity to cope with the competitive pressure and market forces within the EU[205]. Even if they went slower compared to the other accession countries, the economic growth followed a constant, up-growing trend. Thus, after nearly 20 year-long transition – from one of the most authoritarian regimes in Europe to a democratic society and market-based economy, Romania has entered a period of consolidation[206].

When we analyze the relations of Romania with the EC, the Europe Agreement provided the basis for relations between the two parties that was signed

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[201] OECD Investment Policy Reviews: Romania (accessed on 02/04/2013) http://www.oecd.org/countries/romania/oecdinvestmentpolicyreviewsromania.htm

[202] National Bank of Romania (accessed on 02/04/2013) http://www.bnro.ro/Foreign-direct-investment-(FDI)-in-Romania-3213.aspx

[203] Ibid

[204] World Trade Organisation, Trade Policy Review of Romania, in 2005 http://www.wto.org/english/tratop_e/tpr_e/tp256_e.htm

[205] Daniela Luminita Constantin, Zizi Goschin, Aniela Raluca Danciu, "The Romanian Economy from Transition to Crisis.Retrospects and Prospects"

[206] World Trade Organisation, Trade Policy Review of Romania, in 2005 http://www.wto.org/english/tratop_e/tpr_e/tp256_e.htm

on 1993, and entered into force on 1995. The Agreement settled a framework for the creation of a free-trade area, via the elimination of trade barriers in industrial goods and in some agricultural products. Accordingly, all elimination of tariffs to Romanian exports of industrial products to the EC was concluded by 1996, while Romania completed the elimination of its tariffs applicable to EC exports of industrial goods on 2002. In general, quantitative restrictions were eliminated by both parties from the outset. For the agricultural products in 2004, negotiations were concluded between Romania and the EC to further liberalize trade in agricultural products. The Europe Agreement included also provisions on the liberalization of trade in services, movement of workers, the right of establishment, customs, public procurement, standards and technical regulations, competition, intellectual property rights, and other trade-related matters that complement the liberalization of trade in goods[207].

Table 12: Foreign Trade of Romania

mil. $	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Imports	15.552	17.862	24.003	32.664	40.463	51.106	69.946	15.551
Exports	11.385	13.876	17.618	23.485	27.729	32.336	40.265	11.385
Trade Balance	-4.167	-3.986	-6.385	-9.178	-12.733	-18.770	-29.681	-4.167
Ex/Imp (%)	73,21	77,68	73,40	71,90	68,53	63,27	57,57	73,21

Source: Trade Map

Although Romanian exports expanded over the years, the imports of the country also grew in a parallel way. Thus the export coverage of imports remained around 70 per cent, which constituted a good proportion in the case of EECs.

Trade between Romania and the EU has expanded over the years. Romania's main exports to the EU are textiles, machinery, footwear, steel products, live animals, vegetables, and oilseeds; its main imports from the EU were machinery, textiles, vehicles, plastics, chemicals, steel products, cereals, meat, edible preparations, and tobacco[208]. Before its membership, the Romanian foreign trade had

[207] Ibid

[208] World Trade Organisation, Trade Policy Review of Romania, in 2005 http://www.wto.org/english/tratop_e/tpr_e/tp256_e.htm

been mostly depended on the EU market as it can be seen in other EEC's accessions which covered over 70 per cent of its total[209].

Romania had a relatively diversified manufacturing sector, which includes a labor-intensive textile and clothing industries, and capital-intensive iron and steel sectors[210]. In addition, the automotive and electrical machinery industries had grown rapidly over the years. Where the share of manufactured products in exports are nearly 80 per cent, in imports it is 70 per cent. Main export products are machines, mechanic equipment, electronic devices, metallurgy products, vehicles, textile, iron and steel, while import products are machines, mechanic equipment, electronic devices, metallurgy products, chemicals, minerals, vehicles and textile. The products are similar in both exports and imports[211].

Romania is a mineral rich country, with the largest production of crude oil and natural gas in Central and Eastern Europe. Moreover, Romania is the fifth and ninth largest European producer of bauxite and aluminum, respectively. It has significant reserves of coal, and is a leading producer of electricity in the region[212].

As in the case of other accession countries, Romania signed trade agreement with the European Free-Trade Association (EFTA) and became a signatory of the Central European Free-Trade Agreement (CEFTA). Romania signed bilateral free-trade agreements (BFTAs) with countries in South East Europe (SEE) namely: Albania, Bosnia-Herzegovina, FYR of Macedonia, and Serbia and Montenegro on 2004. These trade agreements have a standard model: liberalization of bilateral trade by the end of 2006. The agreement also aimed to enlarge and amend the CEFTA to include all the South East European countries and territories concerned. In addition, Romania signed free trade agreements with Moldova (95), and Turkey (98) and

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[209] Report of Turkish Embassy Office of Commercial Counsellor in Bucharest, 2008
http://www.musavirlikler.gov.tr/upload/R/2008Rapor..doc

[210] World Trade Organisation, Trade Policy Review of Romania, in 2005
http://www.wto.org/english/tratop_e/tpr_e/tp256_e.htm

[211] Report of Turkish Embassy Office of Commercial Counsellor in Bucharest, 2008
http://www.musavirlikler.gov.tr/upload/R/2008Rapor..doc

[212] World Trade Organisation, Trade Policy Review of Romania, in 2005
http://www.wto.org/english/tratop_e/tpr_e/tp256_e.htm

Israel (02). The country also is a member of the Black Sea Economic Cooperation (BSEC).

Romania's accession to the Organization for Economic Co-operation and Development is a strategic objective of the Romanian foreign policy, being included in the 2013-2016 government program.

3.4.4. Economic Relations Between Romania And Turkey Till Romanian Membership

The development of economic relations between Turkey and Romania had the basis on the following agreements before the accession of Romania to the EU.

- Long Term Agreement for Commercial Change in 1970
- Long term Agreement on Technical and Industrial Cooperation in 1975
- Long term Agreement on Economic and Technical Cooperation in 1987
- The Protocol of the Joint Committee on Turkish-Romanian Trade and Economic Cooperation signed on 14.09.1989
- The Agreement on Mutual Promoting and Protecting Investments signed on 24.01.1991
- The Agreement on Prevention of Double Taxation on Income Tax came into force on 15.09.1988
- Free Trade Agreement signed on 1997 entered into force on 1998.

There have been also Joint Economic Commission Meetings (the last one in April 2004) and some transportation agreements signed between Turkey and Romania.

The FTA signed with Turkey was similar with that of EU. The agreement was signed on 29 April 1997 and entered into force on 1 February 1998 with the elimination of all tariffs on industrial goods was completed on 1 January 2002. Special arrangements were set for agricultural and food products. The agreement also included provisions on internal taxation, anti-dumping, state aid, competition, protection of Intellectual Property Rights, and government procurement. Pan-European cumulation of origin currently applies under the agreement[213].

As it can be seen from the table 13 below, Romanian imports from Turkey were 376 million US Dollars in 2001 where this figure had doubled for each of the following two years. In 2007 after 7 years, before the membership of Romania, the imports were ten times more than the 2001 level with 3 billion Euros. When it comes to exportation, the growth was around six times more than 2001 level in 2007. The effect of the free trade agreement is clearly seen, especially after 2002 when the elimination of tariffs in industrial products was concluded, the skyrocketing trade volume is observed. The trade balance before the membership was in general in favor of Romania, except for the years 2006 and 2007.

Table 13: Turkish-Romanian Foreign Trade

1.000 Euro	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Imports	376.567	560.706	923.581	1.364.778	1.966.162	2.534.849	3.763.771
Exports	450.728	574.254	902.013	1.642.935	2.197.236	2.498.299	2.819.087
Balance	74.161	13.548	-21.568	278.157	231.074	-36.350	-944.684

Source: Trade Map
**Romanian exports to Turkey, and imports from Turkey*

According to trade map statistics, the product coverage in Romanian imports from Turkey vehicles, machinery, electric equipment, iron and steel and products thereof, plastics and products thereof and cotton have the biggest value. However their share in total imports of Romania is less than 10 per cent, except for cotton. That shows that Romanian importers preferred to buy those products from other countries than Turkey. When we examine the export capacity of Turkey in industrial products that she exported to Romania, like vehicles and machinery, Turkey has already proved its competitiveness as she was exporting especially vehicles, machinery and electronic equipment to all over the world, mostly to the EU. Thus the absence of a decisive trade policy towards Romania, thereby an effective promotion

[213] World Trade Organisation, Trade Policy Review of Romania, in 2005
http://www.wto.org/english/tratop_e/tpr_e/tp256_e.htm

of Turkey's production capacity and competitiveness in those sectors, can be observed during that period.

On the other hand where the value of textiles products was relatively low in the import figures, but its share was relatively high like 15 percent of the total imports of Romania. At the same time the import value of edible fruit, nuts, peel of citrus fruit, melons was low, whilst its share had the per cent of over 20.

When we examine the Romanian exports to Turkey, we can see that the country's performance was plausible. Her main production lines and exports heavily based on iron and steel, chemicals and plastics which were mentioned above. Nevertheless, Turkey's share in Romanian total exports was 30-40 per cent in iron and steel, 40-45 per cent in chemicals and 20-30 percent in plastics. This shows that on the contrary of Turkish position in Romanian market, Romanian was able to promote its capacity and competitiveness in those sectors.

The countries' share of the in each other's total export and import figures, Turkey have closer trade relation with Romania, contrary to the Hungarian case. Either the trade volume or shares in each other's trade figures has shown a better performance. The share of Turkey in total imports of Romania was around 5 per cent between 2005 and 2008, where iron-steel and cotton had the biggest share with 16 and 13 per cent respectively. In case of exports of Romania to Turkey, Turkey's share was in big increase between 2005 and 2008 with around 8 per cent. Exports of iron and steel and organic chemicals had the biggest share of 40 and 26 per cent respectively.

To sum up, in bilateral trade, the Romanian export performance was better than Turkey. Although the transition period of Romania was slower than the other EECs, the recovery and development of the country's economy was admirable which also reflected its success to her production and export capacity.

Table 14: The Share of Imports from Turkey in Romanian Total Imports

Product label	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %	2007 %
All products	2.42	3.14	3.85	4.18	4.86	4.96	5.38
Vehicles other than railway, tramway	3.45	5.83	7.22	7.25	9.88	9.15	8.53
Iron and steel	2.49	2.51	5.67	5.73	7.92	9.19	15.76
Machinery, nuclear reactors, boilers, etc	1.18	1.98	3.23	3.31	3.25	3.03	3.42
Articles of iron or steel	4.71	8.08	10.60	10.31	10.76	10.04	10.88
Plastics and articles thereof	4.28	5.74	4.56	5.39	6.63	6.24	6.98
Electrical, electronic equipment	1.40	1.82	2.53	3.05	3.02	3.38	4.13
Furniture, lighting, signs, prefabricated buildings	3.38	4.90	7.23	9.47	9.06	8.67	9.56
Mineral fuels, oils, distillation products, etc	0.03	0.05	0.05	0.17	0.19	0.57	0.67
Cotton	6.83	8.55	10.89	13.52	14.32	15.29	12.72
Paper and paperboard, articles of pulp, paper and board	3.82	5.95	5.56	5.68	6.05	6.40	5.66

Source: Trade Map

Table 15: The Share of Exports to Turkey in Romanian total Exports

Product label	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %	2007 %
All products	3.96	4.14	5.12	6.99	7.92	7.73	7.00
Iron and steel	22.48	25.68	28.50	3.10	39.78	40.95	40.00
Mineral fuels, oils, distillation products, etc	8.10	2.75	11.13	1.86	14.92	15.69	12.77
Organic chemicals	33.71	40.82	41.38	4.30	47.95	46.39	26.38
Plastics and articles thereof	15.05	32.45	24.91	2.92	22.18	22.00	16.26
Fertilizers	26.40	25.13	23.32	2.62	21.56	32.70	22.33
Machinery, nuclear reactors, boilers, etc	0.74	1.05	0.87	0.12	1.52	3.00	2.57
Vehicles other than railway, tramway	0.14	0.33	3.68	0.66	5.24	3.45	3.24
Wood and articles of wood, wood charcoal	1.42	2.13	3.39	0.44	5.23	5.16	5.77
Electrical, electronic equipment	0.24	0.45	0.62	0.08	1.10	1.10	1.85

Source: Trade Map

When it comes to Turkish FDI in the country, at the end of 2007 there had been 10.242 Turkish capital firms in Romania, which covered total of 623,7 million US Dollar investment[214]. As it can be seen from the below table, according to the total number of the firms Turkish capital firms ranked the third while according to the total capital it ranked eleventh. Generally Turkish investments were distributed among banking and finance, trade, tourism, agriculture and transportation sectors. There have been also some indirect Turkish capital flows. Taking into account the eventual membership of the country, some big industrial, finance and media firms decided to make their investments through the other member states like, Germany and Nederland that will ease the processes. Such as firms; Arctic (Arçelik), Credit Europe Bank (Finans Bank), Garanti Bank (Garanti Bankası), Kanal D (Doğan Holding) and their Turkish investors[215].

Table 16: FDI in Romania in 2007

	COUNTRY	Nm of firms	%	Capital mil. $	%
1	ITALY	24.477	16,6	1.157,3	4,99
2	ALMANYA	15.572	10,5	2.493,8	10,76
3	TURKEY	10.242	6,9	623,7	2,69
4	CHINA	8.982	6,1	307,8	1,33
5	HUNGARY	7.985	5,4	472,8	2,04
6	IRAQ	5.401	3,7	46,2	0,2
7	USA	5.400	3,7	904,4	3,9
8	FRANCE	5.373	3,6	2.357,4	10,17
9	SYRIA	5.194	3,5	63,3	0,27
10	ISRAIL	5.132	3,5	51,8	0,22
11	AUSTRIA	4.889	3,3	3.091,3	13,34
12	GREECE	4.102	2,8	777,7	3,36
13	GREEK SIDE OF CYPRUS	3.578	2,4	921,4	3,98
14	ENGLAND	3.572	2,4	826,4	3,57
15	LEBANAN	3.358	2,3	95,3	0,41
16	NEDERLAND	3.130	2,1	4.481,0	19,34

Source: Report of Commercial Counselors Office in Bucharest

[214] Report of Turkish Embassy Office of Commercial Counsellor in Bucharest, 2008 http://www.musavirlikler.gov.tr/upload/R/2008Rapor..doc

[215] Ibid

As it can be observed from the table the biggest share of capital comes from Nederland fallowed by Austria, Germany and France, mainly the EU countries. The Western capital had already directed its interest to those newly emerging countries, as it was declared in the report of RTE evaluating the integration of Eastern Europe countries with the Western part of the continent. It is also interesting observing that the investors from other continents were also paying attention to invest in Romania, such as China, Iraq, Syria, Lebanon and Israel before the country's accession to the EU. In other EECs, the FDI was mostly directed from the Western countries, mainly EU and the US, in Romania the diversity of FDI is noteworthy.

On the other hand, the construction service done by the Turkish contractors are worth to indicate in the re-constructing of the country. The Turkish firms were mainly focused on the construction of the state buildings, high ways and business centers in the country.

Concurrently, in Turkey the Romanian total investments were around 17.38 million Dollars with 44 small- sized firms at the end of 2007[216]. The low level of the out flow Romanian capital can be well understood taking into account the big transition that the country had experienced for the last decade, mainly concentrated on internal development and stability creation policies.

As it was seen in the other EECs, in Romania also there are separate Turkish Businessmen Organizations collected under different names.

3.4.5 The General Outlook of the Bosnia and Herzegovian Economy Till 2008

"Bosnia-Herzegovina (BiH) is a small developing country in transition." This is the statement of the authorities, defining themselves in the accession talks of the country to the WTO in April 2013. Despite other pre-socialist countries in the Eastern Europe, the Western Balkans is coming behind in their transition, because of the war that had devastated the whole region and thereof the instability it brought. Especially the war in the BiH between the years 1992-1995 had led to a sharp decline

[216] Report of Turkish Embassy Office of Commercial Counsellor in Bucharest, 2008 http://www.musavirlikler.gov.tr/upload/R/2008Rapor..doc

in domestic output, massive unemployment, a high trade deficit and a growing internal dept. Thus BiH faced the dual problem of rebuilding a war-torn country and introducing market reforms to its formerly centrally-planned economy[217]. The war caused production to plummet by 80% from 1992 to 1995 and unemployment to soar[218]. With an uneasy peace in place, output recovered in 1996-99 but slowed in 2000-02 and picked up again during 2003-08, when GDP growth exceeded 5% per year[219]. However, the country experienced a decline in GDP of nearly 3% in 2009 reflecting local effects of the global economic crisis where GDP has stagnated since then[220]. A sizable current account deficit and high unemployment rate remained the two most serious economic problems that the country is struggling still today.

During Tito times, military industries were promoted in the BiH resulting in the development of a large share of Yugoslavia's defence plants but fewer commercially viable firms[221]. Although agriculture was almost all in private hands, farms were small and inefficient, and the republic traditionally is a net importer of food commercial[222]. The geography of the country was not suitable for agriculture production as most of land is covered with mountains. The overall agricultural production was only 10 per cent of the total production[223]. After the war the industrial production of the country shifted from heavy industry having a value added production capacity such as machine production, processing metals to a low level of light industry of food and wood processing, minerals and etc[224]. At the same time, BiH is a mine rich country.

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[217] Economy of Bosnia and Herzegovina, Princeton University (accessed on 1/4/2013) http://www.princeton.edu/~achaney/tmve/wiki100k/docs/Economy_of_Bosnia_and_Herzegovina.html

[218] Ibid

[219] Ibid

[220] Ibid

[221] Ibid

[222] Ibid

[223] Report of Turkish Embassy Office of Commercial Counsellor in Sarajevo, 2009 http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=368&dil=TR&ulke=BH

[224] Ibid

In 1995 the country became of member of IMF fulfilled the necessary conditions to succeed to the membership of the former Socialist Federal Republic of Yugoslavia (SFRY) in the IMF[225]. As to gain access to the credits facilities of the IMF had utmost importance, the BiH has signed stand by agreements with the IMF to recover the financial structure, especially to narrow the budget deficit and decrease the share of state expenditure in the GDP which was around 66 per cent.

After the membership of IMF, a Central Bank of Bosnia and Herzegovina was established in late 1997, debt negotiations were held with the London Club in December 1997 and with the Paris Club in October 1998, and a new currency, the Bosnia and Herzegovina convertible mark (KM), was introduced in mid-1998 that was pegged to the euro[226]. The banking sector was introduced primarily in the control of the Western Europe countries, mainly Austrian and Italian. Economic data are of limited use because, although both entities issue figures, national-level statistics are not available. Moreover, official data do not capture the large share of activity that occurs on the grey market which is a notable source of income for Bosnian traders[227].

Under the new Constitution adopted in 1995 as a part of the Dayton Peace Agreement, BiH was a single State consisting of two Entities, The federation of Bosnia and Herzegovina and the Republika Srpska and the Brcko District. The State was responsible for foreign policy, foreign trade policy, customs policy, monetary policy, the financing of the institutions and international obligations of the BH, immigration, refugee and asylum policy, international and inter-Entity criminal law enforcement, international communication facilities, regulations on inter-Entity transportation, and traffic control. Decisions in all other areas were taken by the two Entities.[228]

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[225] Ibid

[226] Economy of Bosnia and Herzegovina, Princeton University (accessed on 1/4/2113) http://www.princeton.edu/~achaney/tmve/wiki100k/docs/Economy_of_Bosnia_and_Herzegovina.html

[227] Ibid

[228] WTO Draft report on the Accession of BiH-2013, p.2.

The trade figures of the BiH declared by the related authorities between 1997 and 2000 is shown in the below table.

Table 17: The Trade Figures of the BiH

1.000 KM	1997	1998	1999	2000
Exports	480.224	1.064.175	1.149.218	397.813
Imports	3.106.669	4.596.834	4.8752.532	1.389.573

Source: Bosnian Statistics Office

Although till 2003 it is hard to reach the concrete trade statistics of the country, the main trading partners of the country were Italy, Croatia, Germany, Slovenia, Serbia, Hungary and Austria where the same countries protected their biggest share till today. From the former Yugoslavia period, those countries had tight economic relations with Yugoslavia and have kept sustaining the ties. Especially in the framework of their Balkan strategy, Germany and Italy has made efforts to enhance and develop economic relations.[229] Half of the foreign trade of the BiH was realized with the EU. It can be seen from the below table that the biggest partners of the country in her total imports and exports mainly composed of EU countries in 2008. In the total imports Russia has an important position where BiH imports nearly half of her energy need from Russia.

Table 18: The Foreign Trade Partners of BiH in 2008

	Import share %	Export share %	
Croatia	15	17	Croatia
Germany	11	14,7	Germany
Serbia	10	13,4	Serbia
Italy	10	12,7	Italy

[229] Report of Turkish Embassy Office of Commercial Counselor in Sarajevo, 2009 http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=368&dil=TR&ulke=BH

Table 18 (continued)

Russia	7	8,4	Slovenia
Slovenia	6	5,9	Austria
Turkey	5	4,1	Montenegro
China	4,5	2,1	Switzerland
Austria	3,7	2	France
Hungary	3,2	1,7	Hungary

Source: Bosnia Statistics Office

The main export products of the country were basic metals and products thereof, furniture, vehicles (mostly assembling), wood and wood products, leather products and food and beverages. Food and beverages, petroleum, coal, chemicals, machine and equipment, vehicles were the main products subject to importation. BiH relied on importation to sustain its development and daily life where it caused trade deficits as a big burden on the budget.

According to the Bosnian authorities, Privatization process of enterprises had been slowed down by the existence of unclear regulations, the absence of sector specific laws, difficulties related to the ownership structure of certain enterprises, and the lack of interest of foreign investors[230]. The process gained momentum only after 2006, with the privatizing of state-owned enterprises about 66 % of total[231]. There were also some other problems occurring during privatization, such as the overcapacity of the enterprises, as their initial capacity was projected towards the Yugoslavian market, the outdated technology they had inherited and large numbers of employees[232]. There are still state-owned or State controlled enterprises in BiH operating mainly in manufacturing and services sectors. Several of them are in metal industry. As it can be seen from the below table, the biggest share in total investments was coming from Serbia fallowed by the EU countries. The important point in the total FDI flow to the country, the share of Lithuania and Russia was

[230] WTO Draft report on the Accession of BiH-2013, p. 12.

[231] Ibid p.13.

[232] Ibid

noteworthy. On the other hand, Moscow's approach in the region was to focus primarily on its relationship with Belgrade, with Slav brothers, aiming to acquire a major role in Serbia's energy sector in exchange for supporting Serbia's position over Kosovo[233]. In fact the Moscow's intention in realizing investments in the BiH shall be considered in that context as to develop its relations with the Entity of Republika Srpska.

In the distribution of the FDI among the sector, nearly half the total inflow was invested in production facilities. It was followed by the transportation with 23 per cent, the banking 12 per cent and trade in 6 per cent[234].

Table 19: The Total FDI in BiH from 1994 till 2008

		Total 1.000 Euro	%
1	Serbia	857,162	22,3
2	Austria	499,071	13
3	Croatia	468,874	12,2
4	Slovenia	439,731	11,4
5	Switzerland	270,596	7
6	Lithuania	252,427	6,6
7	Russia	200,511	5,2
8	Germany	151,592	3,9
9	Turkey	129,778	3,4
10	Italy	105,528	2,7
11	Nederland	75,648	2
12	Other	300,168	10,3
	T OTAL	3,850,086	

Source: BİH, The Ministry of Foreign Trade and Economic Relations

[233] Jacques Rupnik, "The Western Balkans and the EU: The Hour of Europe", *European Union Institute for Security Studies, Chaillot papers,* June 2011 http://www.iss.europa.eu/uploads/media/cp126-The_Western_Balkans_and_the_EU.pdf

[234] Report of Turkish Embassy Office of Commercial Counsellor in Sarajevo, 2009 http://www.musavirlikler.gov.tr/upload/BH/2009%20Yillik%20Raporu.pdf

When we consider the role of the US in the economic relations with the BiH, the US has provided large amounts of aid to Bosnia from the beginning. According to the USAID "Greenbook" the US provided just under 2 $ billion to Bosnia between 1993 and 2010, where the high levels of aid was directed in the years immediately after the 1992-1995[235]. The aid amount declined thereafter. It has been discussed that the US political role in the country has declined in recent years as the role of EU has increased while US priorities continued to shift away from Europe with 9/11 events[236]. In the list of Washington's international priorities, the Balkans is close to the bottom of the list, something which is not always fully appreciated in the region[237]. However, "there is fact that the United States also enjoys greater credibility than the Europeans, particularly in Kosovo and Bosnia, and that it's professed primary goal, precisely, is to assist the region's accession to the EU"[238].

In that frame the SAA agreement that the EU signed with the Bosnia, stated the requirements that the country had to accomplish in order to integrate with the economic and political mainstream of the EU. Firstly the fulfillment of the Copenhagen criteria defined by the European Council in June 1993 was obligatory. And then the fulfillment of the conditions of the Stability Process, and then lastly the successful implementation of the SAA were the other conditionalities set by the EU. Nevertheless, these conditionalities prove the fact that the EU policies towards the Western Balkans is rather not totally exclusion but not also totally integration, which can be regarded in the frame of a "regional cooperation", as stated in the SAA signed with the BiH.

Since 2002, the European Union (EU) had increasingly gained influence over the transition process in Bosnia and Herzegovina with the process of combined

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[235] Worhand Stephan,"BH: Current Issues and US Policy*",* Congressional Research Service-January 2013, p.9 http://www.fas.org/sgp/crs/row/R40479.pdf

[236]Jacques Rupnik, *"*The Western Balkans and the EU: The Hour of Europe*",* European Union Institute for Security Studies, Chaillot papers, June 2011, p.18 http://www.iss.europa.eu/uploads/media/cp126-The_Western_Balkans_and_the_EU.pdf

[237] Ibid

[238] Ibid

transition: state-building as the international community persisted and the member state-building as the EU had persisted by creating local ownership[239]. Thus there was pressure of the EU on local authorities to promote the ownership that was assumed to be based on the acqui although the EU did not persistently and unambiguously promote the local ownership principle[240]. However as the leading international actor in BiH, the EU conditionality and the Europeanization of the Bosnia had lost its credibility in the country[241]. There are same also examples showing that EU learned from its mistakes and improve its policies in the region as observed in 2005 with the initiation of a review of its activities in Bosnia, which finally led to the adjustments of the mandates of the EUPM (European Union Policy Mission) and EUSR (External Action Service)[242].

The accession of Bosnia and Herzegovina to the European Union is the aim of the both of the two Entities. Bosnia and Herzegovina has been recognized by the EU as a "potential candidate country" (not as an eventual candidate) for accession with the decision of the European Council in Thessaloniki in 2003. Since then Bosnia has not yet formally applied for EU membership. Although the SAA has been signed in 2008 and ratified in 2010, it is still not into force, since BiH failed to meet its obligations due to the fact that the Entities are not in harmony to embody the related policy requirements.

Meanwhile, the bilateral trade relations with the EU are regulated by an Interim Agreement (IA) on trade and trade related matters signed together with the SAA but this time IA entered into force immediately. The interim agreement provided the creation of a free trade area within maximum 5 years since the entry into force of the IA. Customs duties on imports into the Community and charges

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[239] Dominik Tolsdorf, "Stuck between State and member State-Building Proceses: the diffilculties of the European Union Support in the Europenization of Bosnia-Herzegovina", *EU Frontiers Policy Papers,* Center for EU Enlargement Studies, No.7 June 2011, p. 5. http://cens.ceu.hu/sites/default/files/publications/policypaperno7eufrontierstolksdorffinal.pdf

[240] Ibid

[241] Dominik Tolsdorf, "Stuck between State and member State-Building Proceses: the diffilculties of the European Union Support in the Europenization of Bosnia-Herzegovina", p. 32.

[242] Ibid p.33.

having equivalent effect were abolished upon the entry into force of the IA on industrial products originating in Bosnia and Herzegovina. The liberalization in trade was limited on agricultural products originated in BiH. On the contrary, the EU industrial products were able to enter into the BiH market on yearly decided lists consisted of different product groups.

To sum up, Bosnia and Herzegovina enjoyed the one-sided market privileges from 1997, when the European Union liberalized its market for the products from BiH, by certain limits on particular groups of products on which the EU insisted to preserve the quota[243]. Then extended unilateral trade preferences were introduced by the EU for BiH in the year 2000. Thus bilateral trade increased since 2008 with the entering into force of the IA, and the EU products have been granted reciprocal preference in BiH too.

When we expose the trade relations, the EU was Bosnia and Herzegovina's the biggest trading partner, with total trade of around 5 billion Euros in 2007. In 2007, the EU imports from grew by 6.1% year on year to reach over 1.8 billion Euros, while exports to Bosnia and Herzegovina grew by 8.3%, reaching over 3 billion Euros. The EU products made up 66.7% of total imports by Bosnia and Herzegovina's, while its exports to the EU accounted for 71.4% of the total[244]. The EU exports to Bosnia and Herzegovina mainly consists of; machinery and transport equipment (28.3%); manufactured goods classified chiefly by material (22.4%); chemicals and related products (12.2%); miscellaneous. manufactured articles (10.6%). The main imports from Bosnia and Herzegovina to the EU are mainly; miscellaneous manufactured articles: (29.3%); manufactured goods classified chiefly by material (24.3%); machinery and transport equipment (18.9%); crude material inedible, except fuel (13.9%).

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[243] BiH Public Administration Reform Coordinators' Office (accessed on 12/4/2013) http://parco.gov.ba/eng/?page=229

[244]EU Official Web Site on EU and Bosnia and Herzegovina Relations (accessed on 18/4/2013) http://ec.europa.eu/enlargement/potential-candidate-countries/bosnia_and_herzegovina/eu_bosnia_and_herzegovina_relations_en.htm

Considering the amount of the EU's FDI in the country, accounting for about 50% of total inflows to the BiH is approximately 4.5 billion Euros[245].

BiH has signed CEFTA in December 2006 together with Albania, Serbia, Montenegro, Moldova, Croatia, Macedonia and Kosova which abolished the free trade agreements that the country have signed previously with those countries. Only the free trade agreement signed with Turkey has remained. With the enlarged CEFTA the new trade rules were established to substitute the bilateral free trade agreements. The limitations on the agricultural products agreed in the FTAs were still valid as they were also annexed to the CEFTA. Furthermore state bids, intellectual property rights, trade on services and dispute settlement procedures were mutually accepted.

3.4.6. Economic Relations Between Bosnia Herzegovina and Turkey Till 2008

The development of economic relations between Turkey and Bosnia Herzegovina had their basis on the following agreements.

- Agreement on Trade and Economic Cooperation in 1997
- The protocols of the Joint Economic Committee between Turkey and Bosnia and Herzegovina signed on 1998, 2004 and 2009 during the meetings of Joint Economic Commission Meetings.
- The Agreement on Mutual Promoting and Protecting Investments signed on 21.01.1998
- The Agreement on Prevention of Double Taxation on Income Tax came into force on 01.01.2009
- Free Trade Agreement signed on 2002 entered into force on 2003.

There are also some other agreements related with transportation, customs cooperation on some sectorel issues.

[245] Ibid

The bilateral relations with the BiH had been established relatively late when compared with other EECs due to its late sovereignty, and the war and thereof its consequences that the country had to overcome.

Turkey eliminated customs duties on imports for all products originating in Bosnia-Herzegovina upon the entry into force of this Agreement, except for some meat and meat products which are listed in Annex II of the Agreement[246]. Customs duties on all products imported into Bosnia-Herzegovina originating in Turkey were abolished as of 1 January 2007. In trade relations, Turkey always gave a positive balance. Taking into account the effects of the FTA the increase of Turkish exports was obvious. Especially after 2007 when the last stage of the elimination of tariffs on industrial goods by the Bosnian state were accomplished, the exports of Turkey doubled its performance in 2007 from 212 million to 560 million Dollar

Table 20: Bilateral Trade of Turkey and BiH

US Dollar 1.000	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Exports*	5,810	15,764	14,849	7,712	17,534	11,856
Imports*	80,031	108,912	198,353	212,875	563,682	645,630
Balance	-74,221	-93,148	-183,504	-205,163	-546,148	-633,774

Source: Trade map
**Bosnian exports to Turkey and imports from Turkey*

When we examine the countries' share in each other's total export and import figures, the trade relations showed an asymmetric development in favor of Turkey. The BiH imported from Turkey mainly textile products and carpets with the biggest share respectively 17,5 and 45 per cent of its total imports. Turkey was also an important supplier in Bosnian market in mineral fuels, cotton and plastics. Especially, the export increase in mineral fuels is worth to indicate. Although in 2003 there was little importation from Turkey with the level of 580,000 US Dollars, this level reached to 282,560,000 US Dollars in 2008 in mineral fuels. In fact, the Russian Federation was one of the biggest supplies of the BiH in mineral fuels after

[246] Web page of Turkish Rebuplic, Ministry of Economy (accessed on 01/05/2013) http://www.economy.gov.tr/index.cfm?sayfa=tradeagreements&bolum=fta&country=BA&region=0

Croatia till 2007. Turkey increased its performance in 2007 with together the US and became the second supplier of the country after Croatia.

When it comes to Bosnian exports to Turkey, edible fruit, nuts, peel of citrus fruit (walnut) had the biggest share, nearly the one quarter of the total exports towards Turkey in 2008. There is an interesting figure also in the exports of the BiH to Turkey. From 2005 to 2007 the country exported “arms and ammunition, parts and accessories thereof” to Turkey amounted 671,000 - 1,444,000 and 2,004,000 US Dollars respectively in three years with the share of around 3 and 8 per cent of her total exports. During that period BiH exported arms to other countries also, but in 2008 the exportation in that product group suddenly stopped.

There was a considerable change in the import figures of Turkey in raw hides and skins (other than fur skins) and leather from BiH. The export figure of Bosnia in those products had declined drastically to Turkey from 2,090,000 US Dollars in 2003 to 279,000 US Dollars in 2008, having the shares of 7,55 and 0,50 per cent of Bosnian total exports respectively. However during that period Turkey went on importing those materials from other countries mainly from Italy in order to use in the production of leather products.

Table 21: The Share of Imports from Turkey in Bosnian Total Imports

Product label	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
All products	1.66	1.82	2.81	2.82	5.80	5.30
Articles of apparel, accessories, not knit or crochet	28.76	24.72	30.83	22.16	20.94	17.46
Electrical, electronic equipment	2.95	3.12	3.48	2.76	3.27	3.05
Machinery, nuclear reactors, boilers, etc	2.04	1.70	1.78	1.95	3.08	3.62
Vehicles other than railway, tramway	0.90	1.62	2.59	3.56	6.07	5.30
Plastics and articles thereof	1.59	2.98	4.24	5.32	6.27	7.26
Articles of iron or steel	5.28	3.86	4.24	4.75	4.19	4.01
Cotton	4.00	14.60	12.28	10.84	10.19	9.91
Edible fruit, nuts, peel of citrus fruit, melons	5.15	4.52	10.09	8.35	7.02	8.17
Carpets and other textile floor coverings	25.85	26.00	32.39	33.44	36.07	44.93
Paper and paperboard, articles of pulp, paper and board	0.61	2.90	10.02	7.09	5.97	5.80
Iron and steel	0.11	1.45	0.75	0.42	5.24	1.43
Mineral fuels, oils, distillation products, etc		0.14	0.15	1.66	18.65	14.15

Source: Trade map

Table 22: The Share of Exports to Turkey in Bosnian Total Exports

	2003	2004	2005	2006	2007	2008
All products	0.41	0.82	0.62	0.22	0.42	0.24
Inorganic chemicals, precious metal compound, isotopes		0.68	1.35	0.81	4.71	1.06
Arms and ammunition, parts and accessories thereof		0.00	2.98	7.74	7.72	
Raw hides and skins (other than fur skins) and leather	7.57	7.61	3.80	1.03	0.77	0.50
Machinery, nuclear reactors, boilers, etc	0.83	0.54	0.20	0.15	0.25	0.20
Wood and articles of wood, wood charcoal	0.12	0.28	0.33	0.23	0.12	0.07
Organic chemicals		35.90	24.44	5.43		
Edible fruit, nuts, peel of citrus fruit, melons			0.14	0.67	3.79	12.05
Plastics and articles thereof		0.09	0.36	0.11	0.41	0.43

Source: Trade map

When it comes to Turkish investments in the country, it is observed that Turkey ranked 9th in the total FDI of the BiH with the share of around 3,4 per cent in 2008. As it can be seen in bilateral trade, Turkish existence in the investments also did not show a good performance as it has to be. The important investments done by Turkey till 2008 are; the Ziraat Bank as the first foreign capital owned bank, Natron Hayat producing paper and paper packages that was brought by Hayat Holding during the privatization of the company and Şişecam Lukavac producing soda water. There were around 50 Turkish firms operating in the country in 2008.

Reported Turkish direct investment in Bosnia and Herzegovina was led by the banking, airline and education sectors. On the other hand, FDI of Bosnia and Herzegovina in Turkey (stock) was 15 million $ in 2011[247].

In 2001-2002 periods a Turkish-Bosnian Businessmen Association was established. The Association functioned for the 6-7 years, having regular meetings monthly. But after 2007 with the closing of some of the members' firms and shifting their activities towards other countries in the region, the association had lost its efficiency. Till then the businessmen association in BiH only remains valid in its name.

[247] Web page of Turkish Rebuplic, Ministry of Economy (accessed on 01/05/2013) http://www.economy.gov.tr/index.cfm?sayfa=countriesandregions&country=BA&region=9

3.4.7. The General Outlook of The Bulgarian Economy Till The Membership

Bulgaria has come a long way from its turbulent political and economic transition in the 1990s to becoming a member of the European Union in January 2007. Bulgaria's transition process began in February 1991. As in other centrally planned economies, the transition reforms required extensive macro- and micro-economic restructuring including liberalization of prices and internal trade; stabilization of inflation, budget deficits, real exchange rate volatility and foreign debt; structural measures including privatization and liberalization of the foreign trade regime; and the setting up of fundamental market economy institutions.

Though some measures were undertaken to restructure the economy, in general the pace of economic reform was very slow until 1997. During this early transition period there was considerable macro- and micro-economic instability, with high inflation; rising budget deficits (accentuated by government absorption of losses by state-owned enterprises, continuing subsidization of state-owned enterprises, and monetization of government deficits by the banking sectors); and slow implementation of legislative, institutional, and structural reforms, including privatization.[248.] Furthermore as it can be seen in other EECs also the borrowing in 1980s had led to an unsustainable level of external debt.

The Bulgarian economy was also severely affected by external factors, including the loss of its main external markets in the COMECON, the Russian financial crisis, and the Gulf and Yugoslav wars. These disrupted sources of supply for Bulgaria and markets for its exports, and deprived the economy of vital foreign exchange and investment as in the case of other transition economies of the region. As a result of these internal and external factors, the Bulgarian economy experienced a severe decline in the period up to 1997[249]. The crisis in Bulgaria’s economic performance was accentuated both by the delays in implementing structural and

[248] World Trade Organisation-WTO, Trade Policy Review of Bulgaria in 2003 (accessed on 15/05/2013) http://www.wto.org/english/tratop_e/tpr_e/tp220_e.htm

[249] Ibid

macroeconomic reforms and by the external factors peculiar to Bulgaria because of its geographic situation and heavy dependence on foreign trade[250].

The crisis of 1996-97 inspired the newly elected Government in 1997 to accelerate the pace of reform by wide-ranging structural reforms encompassing improvements in the regulatory framework, privatization, labour market reforms, price deregulation, and trade liberalization. Those reforms were also consulted with the International Monetary Fund and the World Bank and an economic programme was initiated. As a matter of fact, the economy began to stabilise. Then Bulgaria's progress in its economic reforms had been acknowledged by the European Union, as it was adjudged to have progressed to a functioning market economy, by the end of 2002 in its annually country report on Bulgaria.[251]

Bulgaria had engaged a wide range of economic policy instruments where especially the adoption of the Currency Board Arrangement and the implementation of a conservative fiscal policy have contributed significantly to the stability of the macro-economy and the sustained growth since 1997. The economy really took off between 2003 and 2008 and growth figures quickly shot up, fluctuating between figures as high as 6.6 per cent (2004) and 5.0 per cent (2003).

Trade and trade-related policies were also vital components of Bulgaria's economic policy. During the transition period, Bulgaria had sought to liberalize its trade and to provide a clearly defined and predictable trading regime[252]. Trade policy had been conducted on three main fronts: multilateral engagements (becoming a member of WTO in 1996 and adopting its multilateral liberal rules); regional (relations with the EU and becoming a part of CEFTA); and bilateral relations (concluding free trade agreements in the region).

The geographic distribution of Bulgaria’s trade in goods had changed radically following the inception of transition reforms. In 1989, 78.5% of exports

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[250] Ibid

[251] The EU Annually Country Report On Bulgaria For 2002 (accessed on 15/05/2013) http://ec.europa.eu/enlargement/pdf/key_documents/2006/sept/report_bg_ro_2006_en.pdf

[252] World Trade Organisation-WTO, Trade Policy Review of Bulgaria in 2003 http://www.wto.org/english/tratop_e/tpr_e/tp220_e.htm

were estimated to have gone to the COMECON, with the bulk destined for the Soviet Union; the remaining 21.5% went to non-COMECON countries, with the EU accounting for 11%[253]. The influence of the COMECON on Bulgaria's import structure was less strong than on exports, but nonetheless still dominant in the pre-transition period[254.] In 1989, over 50% of imports were from the COMECON countries. Since the beginning of transition reforms in 1991, export values in general fluctuated in accordance with the performance of the economy.

After the transition period the share of the EU had begun to grow where the share of Eastern Countries decreased, with the similar approach as observed in the other EECs transition periods. Before the membership the trade partners of the Bulgaria were mainly the EU countries with a share of 61 and 52 in total export and imports of the country respectively. With the dependence of the Bulgaria on natural gas, the importation from Russia increased the import share of the Europe, other than EU to 20 per cent.

Table 23: Foreign Trade of Bulgaria

mil. $	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Imports	7.278	7.987	10.901	14.465	18.162	23.269	30.085	37.015
Exports	5.114	5.749	7.540	9.930	11.739	15.101	18.575	22.485
Trade Balance	-2.164	-2.238	-3.361	-4.535	-6.423	-8.167	-11.510	-14.530
Ex/Imp (%)	70,27	71,98	69,17	68,65	64,63	64,90	61,74	60,75

Source: Trade Map

When we analyse the foreign trade of Bulgaria, since 2001 the country enjoys trade deficit till 2008, the membership. The share of exports coverage of imports remains stable around 65 per cent.

Balkan countries, including Turkey have a special attitude in the foreign trade of the Bulgaria. The exports to the region were more than the country's importation. However the share of the region in the total foreign trade of Bulgaria was 20 per cent in her exports where this figure decreased to 9,5 per cent in her total imports.

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[253] Ibid

[254] Ibid

Table 24: Exports of Bulgaria in 2007

Million Euro	Consumption Goods	Raw material	Investment goods	Minerals, oil, electric	Total export (FOB)	%
EU	2 546,8	3 691,8	2514,7	556,3	8165,3	60,6
Europe 1/	249,8	123,5	210,4	125,5	709,2	5,26
Balkans 2/	241,9	1 646,8	146,8	645,4	2 681,0	19,9
America	86,2	188,0	135,6	129,4	539,2	4,00
Asia	102,8	262,4	212,7	486,0	1 064,0	7,90
Others	21,5	156,0	84,9	52,5	314,9	2,34
Total					13 473,6	

Source: Central Bank of Bulgaria

1/ Russia, Ukraine, Switzerland, Gibraltar, Moldova, Belarus, Norway, Lichtenstein, San Marino, Iceland and Monaco.

Table 25 : Imports of Bulgaria in 2007

Million Euro	Consumption Goods	Raw material	Investment goods	Minerals, oil, electric	Total export (FOB)	%
EU	2.412,20	4.267,70	4.079,60	587,50	11.347,00	51,87
Europe 1/	93,10	661,50	289,50	3.419,80	4.463,90	20,40
Balkans 2/	338,80	1.316,10	329,00	99,70	2.083,60	9,52
America	120,40	868,80	234,80	101,10	1.325,20	6,06
Asia	602,50	699,40	1.094,20	58,30	2.454,30	11,22
Others	19,80	152,80	24,10	6,30	203,00	0,93
Total					13 473,6	

Source: Central Bank of Bulgaria

1/ Russia, Ukraine, Switzerland, Gibraltar, Moldova, Belarus, Norway, Lichtenstein, San Marino, Iceland and Monaco.

The collapse of the trade structure associated with central planning, together with structural reforms, had also led to fundamental changes in the product composition of Bulgaria's trade[255]. During the existence of the COMECON, Bulgaria's export trade was predominantly in machines and equipment; in 1989 these accounted for about 50% of Bulgaria's exports[256]. Other important export products during the pre-transition era were fuels, mineral resources and metals; processed food products; and industrial consumer goods; where jointly accounted for some 36% of exports[257].

[255] World Trade Organisation-WTO, Trade Policy Review of Bulgaria in 2003 http://www.wto.org/english/tratop_e/tpr_e/tp220_e.htm

[256] Ibid

[257] Ibid

Principal imports during the COMECON era, as important inputs for Bulgaria's heavy machinery and equipment industry, were machines and equipment (37% in 1989) and fuels, mineral resources and metals (34% in 1989)[258].

When we regard export profile of the country just with the accession to the EU, the shift in the commodity patters could be seen. In country's exports mineral fuels had the biggest share, where followed copper and then machinery and equipment, although after the collapse of the Soviet Bloc, the importance of the machinery and equipment was dropping. However, in the product coverage of imports, the similar pattern of trade was observed since the pre-transition period. Bulgaria relied on imported oil and natural gas (most of which comes from Russia) as the economy remains energy-intensive. Moreover, the country is also major regional electricity producer.

Table 26: Commodity Patterns of Bulgaria in Her Foreign Trade

	Product label	**Imported value in 2007**	**% Import**	**% Export**	**Exported value in 2007**	**Product label**	
1	Mineral fuels, oils, distillation products, etc	5.983.984	19,89	14,71	2.732.864	Mineral fuels, oils, distillation products, etc	1
2	Machinery, nuclear reactors, boilers, etc	3.427.068	11,39	10,02	1.862.152	Copper and articles thereof	2
3	Vehicles other than railway, tramway	2.732.549	9,08	7,49	1.391.919	Machinery, nuclear reactors, boilers, etc	3
4	Electrical, electronic equipment	2.439.476	8,11	7,50	1.392.590	Iron and steel	4
5	Iron and steel	1.475.648	4,90	5,54	1.029.254	Electrical, electronic equipment	5
6	Ores, slag and ash	1.539.153	5,12	6,28	1.167.321	Articles of apparel, accessories, not knit or crochet	6

[258] Ibid

Table 26 (continued)

7	Plastics and articles thereof	1.125.261	3,74	4,58	849.886	Articles of apparel, accessories (under different HS)	7
8	Pharmaceutical products	635.106	2,11	0,81	150.466	Cereals	8
9	Articles of iron or steel	659.190	2,19	1,94	359.757	Articles of iron or steel	9
10	Copper and articles thereof	455.850	1,52	1,20	221.973	Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	10
	All products	30.085.388			18.575.129	All products	

Source: Trade map

Although the textile products were having a bigger share in total exports of the country after the transition with the share of more than 10 per cent, the importance of this sector began to lose its momentum afterwards.

The main law governing foreign investment in Bulgaria was the Law on Foreign Investments, adopted in October 1997. The law adopted a liberal definition for both foreign investment and foreign persons to attract the FDI to the Bulgaria. Under this law, foreign investors are subject to only minor procedures of approval or registration.

Furthermore, the Bulgaria Foreign Investment Agency (BFIA) was established in April 1995 as a one-stop-shop for foreign investors. To promote sectors considered as having high potential for development, BFIA has engaged in extensive marketing of tourism, textiles and apparel, food processing, mechanical engineering, electrical engineering and electronics, information and communications technology (ICT), transport and logistics.[259] To support the friendly investment environment, Bulgaria had also concluded a wide range of bilateral treaties for mutual protection and promotion of foreign investment and the avoidance of double taxation.

[259] World Trade Organisation-WTO, Trade Policy Review of Bulgaria in 2003 http://www.wto.org/english/tratop_e/tpr_e/tp220_e.htm

The foreign direct investment, in Bulgaria was only 4 million $ in 1990 where this level made a pick and reached to over 100 million $ in 1994[260] through the implementation of those initiatives. As a matter of fact the rise in the total FDI reached to 13 billion $ in 2007 just with the full membership. The GDP share of FDI in 1990 was 0.02 per cent and this amount rose to 31.38 per cent in 2007[261] which constituted a good example for the country's performance on attracting foreign investors. In the country distribution of the FDI, the share of EU countries is worthy to indicate with a share of around 80 per cent of the total FDI till 2007.

The biggest share in the distribution of the FDI in Bulgaria belonged to real estate, finance, trade and logistics[262]. Only the 12-15 per cent of the total investments was realized in production sector, mainly with the investors from Austria, Belgium, Nederland and Germany. Greek investors chose finance sector where the English businessmen intensified in real estate[263].

Table 27: The FDI in Bulgaria

Million Euro	**Country**	**2007**	**Cumulative amount**
1	Austria	614,7	3 662,6
2	Nederland	584,1	2 687,2
3	Greece	549,0	2 404,5
4	England	728,0	2 140,4
5	Belgium and Luxemburg	779,8	1 349,3
6	Germany	194,6	1 227,3
7	The Greek side of Cyprus	337,8	1 199,1
8	USA	149,4	1 029,1
9	Hungary	236,8	950,2
10	Italy	109,9	923,6
11	Switzerland	129,3	841,9
12	Spain	382,2	768,0
13	Ireland	225,5	762,4
14	Czech Rep.	4,8	753,3

260 Bulgarian Foreign Direct Investment- Index Mundi (accessed on 07/05/2013) http://www.indexmundi.com/facts/bulgaria/foreign-direct-investment
261 Ibid

262 Report of Turkish Embassy Office of Commercial Counselor in Sofia, 2007 http://www.musavirlikler.gov.tr/upload/BG/2007%20rapor%20web.doc

263 Ibid

Table 27 (continued)

15	Russia	170,7	568,2
16	France	44,6	413,6
17	Virgin Islands	65,0	355,0
18	Turkey	8,5	273,7
19	Denmark	31,6	207,2
20	Israel	44,6	159,9
	Total	6 108	24 974

Source : Report of Commercial Counselor Office in 2007

The Republic of Bulgaria had also a free trade agreement with the member states of EFTA and had acceded to CEFTA as of 1 January 1999. Bilateral free trade agreements were concluded with Turkey, Macedonia, Israel, Lithuania, Latvia and Estonia. In 2001 Bulgaria signed a Memorandum of Understanding on Trade Liberalization and Facilitation between countries in South-Eastern Europe within the framework of the Stability Pact. Hence in accordance with its obligations, Bulgaria concluded free trade agreements with Serbia and Montenegro, and Bosnia and Herzegovina. Then a FTA with Albania was signed on 26 March 2003 before the countries full membership to the EU.

Although the relations between Bulgaria and the OECD intensified in the period after 2000, they still remain limited and Bulgaria has some observer status at the Committees of the Organization. It is thought by the Bulgarian Government that OECD membership will increase confidence in the Bulgarian economy on the part of the international financial community and investors. Moreover, the membership will also strengthen Bulgaria's role as a recognized economy in Southeastern Europe which actively participates in policy formation and the implementation of good practices on a regional level[264]. In 2007, the authorities in Sofia submitted an application for OECD membership on the basis of a strong political commitment to apply the standards of the organization and to meet its obligations as member state of the European Union.

Bulgaria is also a member of the Black Sea Economic Cooperation (BSEC).

[264] New Europe -Bulgaria confirms candidacy for OECD membership 23/11/2012 (accessed on 17/6/2013) http://www.neurope.eu/article/bulgaria-confirms-candidacy-oecd-membership

3.4.8 Economic Relations Between Bulgaria and Turkey Till The Membership

The development of economic relations between Turkey and Bulgaria had their basis on the following agreements.

- Agreement on Trade and Economic, Industrial and Technical Cooperation in 1994.
- The Agreement on Energy and Infrastructure Cooperation in 1998.
- The Agreement on Mutual Promoting and Protecting Investments signed in 1994
- The Agreement on Prevention of Double Taxation on Income Tax came into force in 1994.
- Free Trade Agreement signed in 1998.

There are also some other agreements related with transportation and tourism. The last Joint Economic Committee meeting Turkey and Bulgaria was done in 2007 in Sofia.

With the FTA signed between the Turkey and Bulgaria, complete liberalization in industrial products was concluded on 1 January 2002. Mutual concessions in agricultural products in the form of tariff quotas and reduced duties were also agreed on. Other areas of cooperation were internal taxation, payments, sanitary and phytosanitary measures, anti-dumping and safeguards, rules of origin and cooperation in customs matters, state aid, intellectual property rights, and government procurement

In the bilateral trade relations with Turkey between 2001-2007 period, Bulgaria always gave a positive balance but with only a slightly difference. The enhancement of the foreign trade was glorious with a decrease of 80 and 87 per cent in exports and imports respectively from 2001 to 2007.

Table 28: Foreign Trade between Turkey and Bulgaria

US Dollar 1.000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Exports*	412.651	535.762	689.922	991.840	1.228.563	1.750.544	2.122.243
Imports*	273.643	393.763	667.377	870.253	1.099.423	1.391.253	2.072.260
Balance	139.008	141.999	22.545	121.587	129.140	359.291	49.983

Source: Trade map
**Bulgarian exports to Turkey and imports from Turkey*

When we examine the countries' share in each other's total export and import figures, the amount of the Bulgarian imports from Turkey fluctuated between 4-7 per cent of the total imports of the country, where the export share of Turkey fluctuated between 8-11 per cent of the total exports of Bulgaria during the related period. This difference derives from the fact that Bulgarian traders prefers to buy their needs from third countries where Turkish businessmen prefer buying from her neighbor. It is beyond doubt that the competitiveness of the products shape the commercial relation. However, when we examine the product groups that the Bulgarian importers preferred to buy from third partners, Turkey has already proved her competitiveness in those products by making their exportation to all over the world. The man-made staple fibres, iron and steel, paper, cotton and textile had the biggest share in the total imports of the Bulgaria from Turkey with the per cent age of more than 10. Nevertheless, vehicles, machinery, iron and steel had the biggest value in the import figures. The imports in electronic equipment were showing a decline from Turkey after 2003 although the total import in that product group was increasing in Bulgaria.

When it comes to Bulgarian exports to Turkey, zinc, organic chemicals, iron and steel, organic chemicals, cooper, cereals had the biggest share, 40 per cent age for zinc, 35 per cent age for organic chemicals. Turkey imported mainly raw materials from Bulgaria. Although textile and clothing had an important figure in Bulgarian exports, the share of those products towards Turkey was low due to the fact that Turkey was and is still an important producer and exporter of those products also.

Table 29: The Share of Imports From Turkey in Bulgarian Total Imports

	2001	2002	2003	2004	2005	2006	2007
All products	3,76	4,93	6,12	6,02	6,05	5,98	6,89
Electrical, electronic equipment	5,15	7,64	9,82	7,83	7,20	6,75	6,11
Articles of apparel, accessories, knit or crochet	13,44	13,71	12,12	10,09	10,88	13,32	13,65
Plastics and articles thereof	7,31	9,71	11,13	10,44	10,43	9,67	10,27
Cotton	6,60	12,12	16,63	19,05	18,79	19,59	16,25
Machinery, nuclear reactors, boilers, etc	1,48	2,42	3,18	3,81	5,35	4,86	4,91
Paper and paperboard, articles of pulp, paper and board	7,29	11,11	13,47	13,30	14,65	15,21	14,44
Vehicles other than railway, tramway	2,33	2,77	3,56	3,10	4,08	4,55	5,60
Manmade staple fibres	8,76	11,27	15,55	17,13	21,38	22,88	17,38
Iron and steel	1,69	2,90	4,65	9,92	14,20	11,10	16,95
Ores, slag and ash	6,80	6,82	10,81	7,17	5,21	6,73	8,19

Source: Trade map

Table 30: The Share of Exports From Turkey in Bulgarian Total Exports

	2001	2002	2003	2004	2005	2006	2007
All products	8,07	9,32	9,15	9,99	10,47	11,59	11,43
Iron and steel	5,78	16,60	20,10	19,14	22,63	26,01	22,96
Mineral fuels, oils, distillation products, etc	7,53	7,79	12,81	16,56	11,59	11,67	15,04
Copper and articles thereof	10,57	14,63	8,38	16,03	17,05	20,51	13,31
Zinc and articles thereof	18,18	35,97	42,23	60,88	43,30	25,66	46,96
Cereals	1,39	1,67	9,23	1,90	0,78	1,12	14,85
Machinery, nuclear reactors, boilers, etc	1,75	2,53	2,61	2,84	3,29	3,37	2,37
Organic chemicals	24,65	27,63	31,94	23,93	30,87	35,53	31,59
Articles of apparel, accessories, knit or crochet	0,79	1,01	2,33	3,00	2,71	2,16	1,05
Electrical, electronic equipment	12,59	12,64	4,05	3,22	3,67	4,08	3,92

Source: Trade map

When it comes to Turkish investments in the country, it is observed that Turkey's share was 1 per cent of the total FDI in Bulgaria ranking the 18th in 2007. As it can be seen in bilateral trade, Turkish existence in the investments also does not show a good performance as it has to be. On the other hand, the investments done through third countries were not concluded to the total amount in 2007. Then it had been envisaged that the total Turkish FDI would be around 600 million Euros other than 274 million Euro[265]. For example, Şişecam, a Turkish owned firm, made its investment through another country to the Bulgaria, and this flow did not reflect to Turkish FDI figures in the country[266]. There have been also come construction projects realized by the Turkish firms in Bulgaria, such as high ways.

The Turkish investments had a wide range in Bulgaria: Tourism, banking, textile, house appliances, auto spare parts, transport, aluminum, food and food processing, wood processing. There were around 100 Turkish firms operating in Bulgaria according to the Commercial Consoler's statistics in the country.

There had been also some constraction facilities done by the Turkish constractors in the country.

As similar observed in the other examples, there have been two separate operating Turkish businessmen associations in Bulgaria.

3.4.9. The General Outlook of the Serbian Economy Till 2008

Serbia is a landlocked country located at the crossroads of Central and Southeastern Europe. Since the dismantling of Federal Republic of Yugoslavia, Serbia experienced a very turbulent political and economic process. In 1989 the country announced her sovereignty with Montenegro remaining together as the Federal Republic of Yugoslavia (FRY). In 2003, the Federal Republic of Yugoslavia was renamed as the Serbia and Montenegro. Later on in 2006, Montenegro ended its union with Serbia after a referendum. Moreover, the situation of territory of Kosovo is controversial as was one of the distinct regions of the country has officially been administered by United Nations Interim Administration Mission in Kosovo (UNMIK) as per UNSC Resolution 1244, of the United Nations. On 17 February 2008, representatives of the people of Kosovo, acting outside the UNMIK's "The Provisional Institutions of Self-Government" (PISG) framework declared that

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[265] Report of Turkish Embassy Office of Commercial Counsellor in Sofia, 2007 http://www.musavirlikler.gov.tr/upload/BG/2004yllk%20rapor.doc

[266] Ibid

Kosovo is independent from Serbia. Serbia does not recognize the declaration and considers the act illegal and illegitimate.

Serbia has a long history of international commerce, even under socialist economy mainly due to its access to COMECON, and Non-Aligned Movement markets. In the late 1980s, at the beginning of the process of economic transition from a planned economy to a market economy, although Serbia's economy had a favorable position, the economy was gravely impacted by economic sanctions from 1992–1995, as well as excessive damage to infrastructure and industry during the 1999 NATO bombing. The Yugoslav officials said that the damage from NATO bombs has reached the $100 billion mark and with some estimates the bombing had set Yugoslavia back one or even two decades[267].

As a result of the war the GDP of Serbia in 2007 was at about half the level in 1990[268]. The traumatic events that affected Serbia were a major factor behind the gap between Serbia's GDP growth and that achieved by other transition economies[269]. With a population of 7.5 million, its GDP per capita was 7,630 $ in purchasing power parity (ppp) for 2008. According to the World Bank, Serbia was at only 23 per cent of the EU level, and 64 per cent of the level of the poorest EU country which is Bulgaria in the ppp[270]. As also observed in many countries in the region, the challenge for Serbia was to translate tenuous economic recovery into jobs and poverty reduction in difficult domestic and regional environment[271]. Both unemployment and poverty were and still the most important factors affecting the economy.

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[267] Michael Dobbs, "NATO's latest target: Yugoslavia's economy", Washington Post, 25 April 1999; http://www.hartford-hwp.com/archives/62/306.html

[268] "Peer review of Serbian Competition Law and Policy", Overview Report by the UNCTAD Secretariat, November 2011, New York and Geneva, p.1 http://unctad.org/en/Docs/ditcclp2011d2overview_en.pdf

[269] Ibid

[270] Ibid p.2

[271] "Serbia: On the Way of EU Accession", World Bank, (accessed on 08/04/2013) http://www.worldbank.org/en/results/2013/04/08/serbia-on-the-way-to-eu-accession

After the ousting of former Yugoslav President Slobodan Milošević in October 2000, the country went through an economic liberalization process, and experienced fast economic growth. Then by the 2000s the GDP growth began to affect the economy and annually around 5 per cent growth was observed till the economic crises in 2008. In 2008 the coalition government introduced policies approximating those of the European Union, which was stimulating economic growth. Growth had been driven by large capital inflows and significant reforms to improve the business environment.

Relating with the Bretton Woods institutions, the country became member of IMF and World Bank in 1993 in order to gain access to the international borrowing mechanisms. On the other hand, Serbia still has the observer status in the WTO, having applied for membership in 2005.

In the relations with the EU, Serbia – along with 5 other Western Balkans countries – was identified as a potential candidate for EU membership during the Thessaloniki European Council summit in 2003. Subsequently, Serbia signed the Stabilization and Association Agreement (SAA) with the EU, as a part of the Stabilization Process driven by the EU, in Luxembourg, on 29 April 2008. And also to ensure the development of trade links an Interim Agreement including provisions of the SAA on trade and trade- related matters was signed simultaneously. However, the EU decided to implement the Interim Agreement on the condition that Serbia fully cooperates with the Court of International War Crimes. Nevertheless, Serbian government unilaterally decided to begin with the implementation of the Interim Trade agreement signed with the EU, from 1st of January, 2009.

In 2010, the process in ratifying the Stabilization and Association Agreement began in the EU side, and in March 2012 Serbia was granted EU candidate status where she applied in 2009 formally.

When we analyze the foreign trade performance of the country after 2000, there is always a chronic deficit. Although the increase in the figures is glories, the share of exports coverage of imports remains stable around 45 per cent.

Table 31: Foreign Trade of Serbia

mil. $	2001	2002	2003	2004	2005	2006	2007	2008
Exports	2.003	2.412	3.054	4.044	5.014	6.487	8.858	10.997
Imports	4.837	6.320	7.941	11.388	11.103	12.715	17.689	22.717
Trade Balance	-2.834	-3.908	-4.887	-7.344	-6.089	-6.228	-8.831	-11.720
Ex/Imp (%)	41,4	38,2	38,5	35,5	45,2	51,0	50,1	48,4

Source: Statistical Office of Serbia

From 1st January of 2004, the Customs Code had been adjusted according to that of the European standards[272]. The implementations of the code are in accordance with the EU's customs code where the import tariffs base on most favored nation (MFN) principle[273]. The country is also making endeavors to decrease import licenses, prohibitions, and non-tariff barriers to trade on the way of membership of to the EU and to the WTO[274].

In the country distribution of the foreign trade, nearly 55 per cent of exports directed to the EU, where in the total imports, the share of the EU was 53 per cent in 2008. In the Serbian exports, Bosnia had the biggest share of 12.2 per cent followed by Montenegro with 11.7 per cent. The former Yugoslav republics had an important part in Serbia's exports. Taking into account of Macedonia also, together they represent the share of around 30 per cent of the total exports of the country. In the total imports, the influence of Russia can be observed. According to trade map statistics, for mineral fuels and oils the share of Russia for total imports of the Serbia was 52 per cent, in fertilizers 40,2, in aluminum and articles 33,2 and in inorganic materials 30,7 per cent in 2008. The dependence of Serbia in energy sources and raw materials for Russia is worth to indicate.

[272] Report of Turkish Embassy Office of Commercial Counsellor in Belgrad, 2010
http://www.musavirlikler.gov.tr/upload/SRB/ULKE%20RAPORU%202010-Temmuz.doc

[273] Ibid

[274] Ibid

Table 32: The Country Distribution of Serbian Foreign Trade in 2008

(1000 $)		Export	(%)	(%)	Import		(1000 $)
1	Bosnia	1.338.621	12,2	15,4	3.492.452	Russia	1
2	Montenegro	1.287.122	11,7	11,9	2.701.719	Germany	2
3	Germany	1.141.946	10,4	9,6	2.182.101	Italy	3
4	Italy	1.128.413	10,3	7,6	1.718.939	China	4
5	Romania	397.781	3,6	3,3	741.238	France	5
6	Macedonia	492.892	4,5	2,8	630.923	Romania	6
7	Russia	550.938	5,0	3,6	815.225	Hungary	7
8	Slovenia	501.932	4,6	2,8	626.961	Slovenia	8
9	Austria	458.071	4,2	2,5	572.870	Austria	9
10	Croatia	434.447	4,0	2,8	644.442	Bosnia	10
	Total	**10.997.342**			**22.716.586**	Total	

Source: Statistical Office of Serbia

The main trading group in the Serbia's exports was the manufactured products having a share of around 26 per cent. This was followed by food and live animals with the percentage of 18. The share of machinery and vehicles was 17 per cent[275]. In the total imports machinery and vehicles had the biggest share of 27 per cent, followed by manufactured goods with 19 per cent[276]. Chemical products and mineral fuels and oil both had the similar share of 16 per cent in total imports[277].

When it comes to the FDI, the increase in the total FDI inflow in 2003 is noteworthy with effects of the liberal policies that had been implemented after 2000.

Table 33: Total FDI in Serbia, million $

2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
0.05	0.16	0.55	14.977	41.334	41.519	41.613	35.855	36.192

Source: UN Conference on Trade and Development

[275] Report of Turkish Embassy Office of Commercial Counsellor in Belgrad, 2010 http://www.musavirlikler.gov.tr/upload/SRB/ULKE%20RAPORU%202010-Temmuz.doc

[276] Ibid

[277] Ibid

Since the onset of economic reforms, Serbia has grown into one of the premier investment locations in Central and Eastern Europe[278]. Between 2004 and 2006, Greenfield projects in Serbia were awarded by OECD as the largest investments of this type in South East Europe[279]. The first Award was presented to Ball Packaging Europe (headquartered in USA), followed by METRO Cash & Carry (Germany), and Israeli Africa-Israel Corporation/Tidhar Group for their Airport City Belgrade real estate project[280].

In terms of the country structure, as of year 2005 investors from the European Union top the list[281]. The other leading countries on the list were Austria, followed by Norway, Luxembourg, Germany and Italy, while major investor countries also include Greece, the Netherlands, the Russian Federation, Slovenia, Switzerland and France[282]. According to the Serbian authorities, the actual amount of U.S. investment is significantly higher than the official figure due to their companies investing primarily through European affiliates where this also holds for Belgium, Denmark, Israel, and a number of other countries. In the sector distribution of the FDI, service sectors, mostly banking and finance, have proven to be the most attractive to international investors. Manufacturing industries held the 2nd rank followed by wholesale, retail and repair of motor vehicles and real estate activities[283].

In order to develop her foreign trade Serbia signed FTAs with some countries. The first agreement was realized with Russia in 2000. This FTA has another important meaning as it is also the first free trade agreement signed by Russia after

278 Serbian Investment and Export Promotion Agency (accessed on 9/5/2013) http://siepa.gov.rs/en/

279 Ibid

280 Ibid

281 Ibid

282 Ibid

283 Ibid

the FTA signed with the Commonwealth of Independent States (CIS)[284]. This can be considered as the sign of the importance given by Russia to the Serbia

Serbia signed the CEFTA in 2006 and a FTA with EFTA members in 2010. Furthermore a FTA was signed with Turkey in 2009, with Belarus in 2009, and Kazakhstan in 2010,

3.4.10. Economic Relations Between Serbia and Turkey Till 2008

The development of economic relations between Turkey and Serbia had their basis on the following agreements.

- The Agreement on Trade in 1971
- Long Term Agreement on Economic, Industrial and Technical Cooperation in 1976
- The Agreement on Mutual Promoting and Protecting Investments in 2001
- The Agreement on Scientific and Technical Cooperation in 2002
- The Agreement on Prevention of Double Taxation on Income Tax came in 2005
- The Agreement on Mutual Cooperation of Customs in 2002
- The Economic Cooperation Agreement in 2009
- Free Trade Agreement in 2009

There are also some other agreements related with developing infrastructure, tourism and social security issues.

When we analyze the economic relations between Turkey and Serbia, the relations gain momentum in 1970s with the singing trade and economy related topics, then a period of stagnation began till 2001 due to the instable situation in the Western Balkans.

The Free Trade Agreement between Serbia and Turkey was signed on June 2009, and as of 1st September 2010 it has been applied according to the model of asymmetrical liberalization of trade in favor of the Serbian side.

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[284] Report of Turkish Embassy Office of Commercial Counsellor in Belgrad, 2010 http://www.musavirlikler.gov.tr/upload/SRB/ULKE%20RAPORU%202010-Temmuz.doc

With the Turkey-Serbia FTA, tariff and non-tariff barriers for trade were eliminated in trade between the Parties. Also, the agreement regulates numerous subjects such as sanitary and phytosanitary measures, technical barriers to trade, intellectual property, rules of origin, internal taxation, anti-dumping and countervailing measures, safeguards, and balance of payments measures. Turkey eliminated customs duties on imports of all industrial products originating in Serbia upon the entry into force of this Agreement. Customs duties on imports into Serbia for industrial products originating in Turkey were abolished upon the entry into force of this Agreement, except for the products listed in Annex II of the FTA.

Regarding the industrial goods originating in Turkey listed in Annex II, customs duties on imports into Serbia will be eliminated progressively until 1 January 2015[285]. Concerning agricultural products, Turkey and Serbia exchanged mutual concessions for certain products in the form of tariff quotas subject to MFN duty reduction or exemption. Reciprocal concession lists of agricultural products are laid down in Protocol I of the Agreement[286].

As the statistics before 2006 related with Serbian foreign trade represents the figures of "Serbia and Montenegro" and the trade figures in the "trade map statistics" only available after the year 2004, the trade data of Commercial Counselors office in Belgrade have been used to evaluate the flow of trade between the countries.

Table 34 : The Foreign Trade of Turkey and Serbia

million $	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Import	98,7	81,3	122	184,6	211,9	257,9	278,8	278,8	458
Export	47,4	7,4	11	29,9	87,4	96,7	49	70,7	61,7
Balance	-51,2	-73,9	-110,9	-154,7	-124,5	-161	-229,7	-208	-396,4

Source: Report of Commercial Counselor's Office in Belgrade in 2009
** Serbian exports to Turkey and imports from Turkey*

285 The Rebuplic of Turkey Ministry of Economy (accessed on 9/5/2013) http://www.economy.gov.tr/index.cfm?sayfa=tradeagreements&bolum=fta&country=RS&region=0
286 Ibid

As it can be seen from the figures, Turkey always gives a growing positive balance in bilateral trade through the years. When we examine the share of Turkey in total imports of Serbia, the shares were very low till 2008, except in some textile products where this share raised to around 50 per cent. Textile products were followed by cotton with around 20 per cent and fruits within the limits of 11 and 19 per cent. On the other hand, the share of Turkey in total exports of Serbia was also very low almost in every product group.

Table 35: The Share of Turkey in the Total Imports of Serbia

	2005	**2006**	**2007**	**2008**
All products	2,02	1,94	2,13	1,91
Machinery, nuclear reactors, boilers, etc	1,69	1,96	2,15	2,04
Vehicles other than railway, tramway	2,45	1,90	2,63	2,97
Knitted or crocheted fabric	32,82	40,20	47,39	51,80
Electrical, electronic equipment	2,49	1,92	1,68	1,58
Edible fruit, nuts, peel of citrus fruit, melons	19,26	18,04	11,75	11,30
Plastics and articles thereof	1,66	1,79	1,99	2,09
Iron and steel	1,05	0,96	3,13	2,06
Cotton	18,95	17,29	20,02	19,78
Paper and paperboard, articles of pulp, paper and board	0,97	1,29	2,59	2,80
Articles of apparel, accessories, knit or crochet	7,67	6,40	7,81	6,10

Source: Trade map

Table 36: The Share of Turkey in the Total Exports of Serbia

	2005	**2006**	**2007**	**2008**
All products	1,12	0,60	0,66	0,41
Rubber and articles thereof	3,70	4,17	4,59	4,35
Iron and steel	5,34	1,14	1,21	0,22
Copper and articles thereof	0,45	1,67	3,14	1,67
Residues, wastes of food industry, animal fodder	4,48	7,55	1,74	0,65
Machinery, nuclear reactors, boilers, etc	0,56	0,43	0,40	0,59
Paper and paperboard, articles of pulp, paper and board	0,12	0,35	0,10	1,09
Inorganic chemicals, precious metal compound, isotopes	0,98	1,56	2,10	2,25
Raw hides and skins (other than fur skins) and leather	0,16	0,82	3,29	4,64
Wood and articles of wood, wood charcoal	0,02	0,15	0,33	0,39
Cereals	0,24	0,17	0,27	0,35

Source: Trade map

In general the bilateral economic relations mostly relied on trade, although trade figures were very low. The Turkish investment in the country is very limited. In fact there are already around 30 firms operating in the Serbia in the areas of textile, food and construction equipment which are small and medium sized firms[287].

Turkish foreign direct investment (FDI) stock in Serbia was 32 million $, less than 1 per cent of the total FDI of the country, where FDI of Serbia in Turkey (stock) was 24 million $ between 2002 and 2011[288].

3.4.11. The General Outlook of the Albanian Economy Till 2008

Albania is among the least developed countries of the Europe, due to the fact that the country had inherited the under developed status through the years. The country began to apply market economy after the election of the new government which applied new economic reforms in 1991, although the liberalization of the economy had begun in the middle 1908s, with the aim of developing relations with the Western Europe after the Enver Hoxha's death. Within the context of that program the liberation of exchange rate and prices, tight finance regulation and monetary policies were implemented in the country. Because of the implemented new economic reforms, the GNP has raised, the national currency of Albania (Lek) gained stability and a speedy privatization process began[289]. After those reforms and achievements, Albania was considered to set a good example for other Balkan countries in their transitions[290]. Despite the positive improvements in the country, the lack of a sufficiently working finance sector, illegal trade and money laundry caused economic instability and the country faced a big economic crisis in 1997[291]. One of the main reasons of the crises was that the growing life standard of the Albanians in

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[287] Report of Turkish Embassy Office of Commercial Counsellor in Tirana, 2008 http://www.musavirlikler.gov.tr/upload/SRB/ULKE%20RAPORU%202010-Temmuz.doc

[288]The Rebuplic of Turkey Ministry of Economy (accessed on 9/5/2013) http://www.economy.gov.tr/index.cfm?sayfa=countriesandregions&country=RS&region=9

[289] Report of Turkish Embassy Office of Commercial Counsellor in Tirana, 2008 http://www.wto.org/english/tratop_e/tpr_e/tp220_e.htm

[290] Ibid

[291] Ibid

the country was mostly been depending on the remittances of Albanian working outside the country, other than stable economic facilities in the country.

The new government selected in 1997 and immediately applied for IMF and World Bank resources to make the economy re-function again. The new stabilization package was applied in the country which caused the economy to function again properly. Albania achieved solid economic growth, averaging 5.8% on an annual basis between 2002 and 2008. This fast pace of growth was driven by strong domestic demand and, supported by significant flows of foreign direct investment and remittances from workers abroad[292]. When we analyze the distribution of GNP in sectors agriculture had a share of 20 per cent, industry the 20 and service sector, the biggest one, had the share of 60 per cent in 2008. During that period also some energy problems had been resolved with important energy investments and the most important high way construction combining Albania to Kosova was finished[293].

According official declarations working Albanians outside the country, mainly in Greece and Italy, were around 600.000 where this figure is estimated to be around 1 million in 2008[294]. Taking into consideration the overall population of Albania was 3 million in 2012[295], the number of Albanian workers abroad constitutes a big proportion.

Albania has made considerable progress towards liberalizing and streamlining its trade regime in recent years. Modifications undertaken have aimed to make the Albanian legislative and institutional framework compatible with Albania's WTO obligations and with the *acquis communautaire*, in line with Albania's goal of acceding to the European Union[296]. The Stabilization and Association Agreement

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[292] World Trade Organization-WTO, Trade Policy Review of Albania, 2010
http://www.wto.org/english/tratop_e/tpr_e/tp329_e.htm

[293] Report of Commercial Counsellors'Office in Tirana, 2008
http://www.musavirlikler.gov.tr/upload/ARN/2008%20Rapor%20internet.doc

[294] Ibid

[295] The World Bank, (accessed on 3/7/2013) http://data.worldbank.org/country/albania

[296] World Trade Organisation-WTO, Trade Policy Review of Albania, 2010
http://www.wto.org/english/tratop_e/tpr_e/tp329_e.htm

(SAA) with the EU, which entered into force on 1 April 2009, contains obligations on a range of political, trade, and economic issues. Previously, trade-related provisions had been implemented, since December 2006, under an Interim Agreement. Albania is a potential candidate for EU membership and submitted its application for EU membership on 28 April 2009.

Albania started a process of reform towards a market economy in the early 1990s. This implied a complete overhaul of its economic regime, including trade policy. The process of integration into the global economy received a boost when Albania became a WTO Member in 2000[297]. Since then, Albania has continued to actively promote economic, legal, and institutional reform, and this has resulted in an open trade and investment regime, characterized by low tariffs and few non-tariff barriers to trade[298]. A considerable effort has also been made on the administrative side to facilitate trade and investment flows.

When we analyze the foreign trade performance of the country after 2000, there is always a chronic deficit. The growth in domestic demand and inefficient domestic supply made with the liberalization of trade caused a huge increase in the imports. Although the increase in the total external trade figures is glories, the share of exports coverage of imports remains stable around 25 per cent through the years.

Table 37: Foreign Trade of Albania

mil. $	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Exports	304,9	330,2	447,2	602,	658,2	792,6	1.077,7	1.354,9
Imports	1.330,6	1.503,75	1.864,3	2.300,2	2.614,3	3.057,4	4.200,9	5.250,5
Trade Balance	-1.025,7	-1.173,4	-1.417,1	-1.697,5	-1.956,1	-2.264,8	-3.123,2	-3.895,6
Ex/Imp (%)	22,92	21,96	23,99	26,20	25,18	25,92	25,65	25,81

Source: Trade Map

In the product distribution of the foreign trade textile, minerals, raw material and foot wear have the biggest share in the total exports, respectively 16,7 , 6 and 21 per cent in 2008. For the imports minerals, machinery and electronics have the biggest share respectively 16, 9 and 7 per cent.

297 World Trade Organisation-WTO, Trade Policy Review of Albania 2010 http://www.wto.org/english/tratop_e/tpr_e/tp329_e.htm

298 Ibid

Table 38: Country Distribution of Foreign Trade of Albania

	Export	**Import**
EU-27	**%79.6**	**%63.6**
Italy	%61.8	%28.4
Greece	%8.7	%15.3
Germany	%2.7	%5.1
Bulgaria	%0.7	%2.3
Nederland	%1.4	%1.0
Austria	%0.7	%1.8
Other EU	**%3.5**	**%9.7**
Countries in the Region	**%13.7**	**%9.4**
Kosova	%6.6	%0.7
Macedonia	%2.9	%2.6
Montenegro	%2.1	%0.4
Serbia	%1.7	%4.1
Bosnia	%0.2	%0.3
Croatia	%0.2	%1.2
Other		
Turkey	%1.8	%6.3
China	%2.8	%5.5
USA	%0.4	%1.0
Other Countries	%1.7	%14.2

Source: Commercial Councellors Office in Tirana

As it can be observed in the other Eastern Europe Countries, the biggest share in the foreign trade of Albania belonged to the EU, perhaps the biggest amount in the region, in exports 80 and in import 64 per cent of the total. Amoung the EU countries the influence of Italy is noteworthy where followed by the Greece. The commercial relations of Albania with the other countries in the region, also in the neighboor, represented a very low proportion.

Albania notified to the WTO that it does not maintain any state trading enterprises within the meaning of Article XVII of the GATT 1994.299 At the time of its accession to the WTO, some important sectors of the Albanian economy were still dominated by sole enterprises, including: minerals research (GJEOALBA corporation); chrome mining, processing, and smelting (ALBCHROME corporation); copper mining, smelting, and production (ALBCOPPER); and

[299]World Trade Organisation-WTO, Trade Policy Review of Albania 2010 http://www.wto.org/english/tratop_e/tpr_e/tp329_e.htm

production of electric energy by hydro and thermal plants (Albanian Electroenergetic Corporation (KESH))[300].

The foreign investment regime is very open which was adopted in 1993. According to the Law it is permitted on the same terms for both foreign and domestic investors, the only exception being with respect to land ownership.[301] Prior authorization for investments is not required. Companies investing in Albania have the right to employ foreign citizens, and funds related to investments may be transferred outside the country, with limitations in certain circumstances.[302] Thus the development of the FDI in the country was successful.

Table 39: FDI in Albania (Million Euro)

96*	**97**	**98**	**99**	**00**	**01**	**02**	**03**	**04**	**05**	**06**	**07**	**08**
90	47,5	45	41	143	207	135	178	209	341	250	463	680

Source: Commercial Counselors Office in Tirana
**Related years from 1996 to 2008*

According to Bank of Albania the leading sector in the FDI is industry (manufacturing, mining and quarrying.) which is followed by constraction, finance and telecomunication facilities. The influence of the EU in the total FDI of the country can be seen, as in the bilateral commercial relations, with a share of 70 percent in 2008. With percentage of 34 Greece has the biggest FDI amount in the country, and Italy holds the second rank with 16 per cent[303]. The Italian investments are mainly focused on constraction, textile and foot wear production located by the Adriatic sea. Greece investors located near the border line of Greece and in the trade facilites. Turkey's share was 8 per cent in 2008 where this figure increased to 11 per cent in 2010, while the share of Greece decreased to 27 per cent due to economic crises in the country in that year.

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[300] Ibid

[301] Ibid

[302] Ibid

[303] Report On Foreign Direct Investment In Albania, 2011, May 2012, UNDP and UNCTAD, p. 24. http://www.mete.gov.al/doc/web_fdi_report_english.pdf

As it can be observed from the table 40 Albania has the lowest FDI stock relative to GDP among the countries of South-East Europe which is quite different from the relative size of Albania's inflows in the years since 2008[304]. This is due to the fact that FDI in Albania is a very recent phenomenon and much of the stock has been accumulated over the past few years only, while the other counties have received FDI for a longer period of time. [305]

Table 40: Inward FDI stock as a percentage of GDP in Albania and other countries of South-East Europe, 2004–2010

	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2012**
Albania	11	12	15	23	22	29	37
Bosnia	28	28	33	44	39	45	43
Croatia	31	33	56	77	45	57	57
Macedonia	41	36	42	46	42	48	48
Montenegro		-	-	-	74	124	138
Serbia	-	-	-	-	35	44	47

Source: UNCTAD Report On Foreign Direct Investment In Albania

Albania has two bilateral free-trade agreements, with the European Union (EU) and Turkey signed in 2006. Albania signed an FTA with EFTA States on 17 December 2009, which entered into for all participants in 2011.

The country also signed the CEFTA 2006 regional free-trade agreement that replaced the individual bilateral free-trade agreements Albania had previously signed with Bosnia and Herzegovina; Croatia; the Former Yugoslav Republic of Macedonia; Moldova; Serbia and Montenegro; and UNMIK/Kosovo (United Nations Interim Administration Mission in Kosovo).[306] Most of these stemmed from commitments under the Stability Pact, particularly a Memorandum of Understanding (MOU) signed in 2001 on Trade Facilitation and Liberalization under which Albania

[304] Ibid p. 20.

[305] Ibid

[306] WTO document, WT/REG/GEN/N/5, dated 7 August 2007.

and the other signatory states to the MOU agreed to negotiate a network of bilateral free-trade agreements.[307]

Furthermore, Albania has 37 bilateral agreements in force on reciprocal protection and promotion of investments[308].

3.4.12 Economic Relations between Albania and Turkey till 2008

The development of economic relations between Turkey and Albania had their basis on the following agreements.

- Agreement on Trade in 1986
- The Agreement on Economic, Commercial, Industry and Technical Cooperation in 1988
- The protocols of the Joint Economic Committee between Turkey and Albania Herzegovina signed in 1998, 2000 and 2002 during the meetings of Joint Economic Commission Meetings.
- The Agreement on Mutual Promoting and Protecting Investments signed in 1992
- The Agreement on Prevention of Double Taxation on Income Tax came into force on in 1994
- Free Trade Agreement signed in 2006 entered into force in 2008.

There are also some other agreements related with transportation, customs cooperation and on cultural, educational issues.

Turkey eliminated customs duties on imports for all industrial products originating in Albania upon the entry into force of this Agreement. Customs duties for more than 80 per cent of industrial products imported into Albania originating in Turkey were abolished as of 1 January 2013, in equal quantities distributed to a five

[307] Signatories to the 2001 Memorandum of Understanding on Trade Facilitation and Liberalization are: Bosnia and Herzegovina, Bulgaria, Croatia, the Federal Republic of Yugoslavia, the Former Yugoslav Republic of Macedonia, and Romania. Viewed at: http://www.stabilitypact.org/trade/Memorandum%20of%20Under standing%20on%20Trade%20Liberalisation%20and%20Facilitation.pdf.

[308] World Trade Organisation-WTO, Trade Policy Review of Albania 2010. http://www.wto.org/english/tratop_e/tpr_e/tp329_e.htm

year period. For the agricultural products, the parties mutually provided some concessions on selected group of products. Turkey benefited from concessions on processed food like chocolate, bakery and confectionary, dry fruits, fresh fruit and vegetables, pulses and citrus where Albania benefited concessions from some fresh and processed food.

In trade relations, Turkey always gives a positive balance. The trade deficit of Albania with Turkey has been increasing through the years parallel with the chronic deficit in the foreign trade of the country. As mentioned before, growth in domestic demand and inefficient domestic supply made with the liberalization of trade caused a huge increase in the imports of the Albania also from Turkey. Although from the year 2001 to 2008, imports from Turkey decreased with 288 per cent where exports with 742 per cent to Turkey, the export figures of the country were too low then even a small increase in the export value represented a big jump.

Table 41 : The Foreign Trade of Turkey and Albania

1000 $	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Export	3.093	3.408	3.709	11.388	11.325	10.045	24.310	26.049
Import	80.709	91.437	122.326	163.599	195.941	232.950	304.748	313.255
Balance	-77.616	-88.029	-118.617	-152.211	-184.616	-222.905	-280.438	-287.206

Source: Trade Map
** Albanian exports to Turkey and imports from Turkey*

When we analyze the share of Turkey in the total imports of the Albania, it is around 6 per cent. “Cereal, flour, starch, milk preparations and products” had the biggest share with around 40 per cent from Turkey. Iron and steel, aluminium and articles thereof, followed those agricultural products in total imports. The increase in the importation of glass products is also worth to indicate in recent years.

Table 42: The Share of Turkey in Albanian Total Imports

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
All products	6,07	6,08	6,56	7,11	7,49	7,62	7,25	5,97
Iron and steel	18,87	24,30	20,84	24,35	22,61	18,95	17,00	14,61
Cereal, flour, starch, milk preparations and products	28,94	35,13	41,74	45,90	48,09	46,94	41,63	38,67

Table 42 (continued)

Articles of apparel, accessories, knit or crochet	15,62	16,90	14,90	9,77	9,72	9,78	15,17	11,71
Soaps, lubricants, waxes, candles, modelling pastes	31,04	35,00	29,02	21,14	17,74	18,36	13,52	15,49
Electrical, electronic equipment	3,29	4,18	4,57	6,43	4,48	4,99	7,17	5,77
Machinery, nuclear reactors, boilers, etc	7,97	2,90	3,20	3,89	3,78	5,07	6,12	4,46
Aluminium and articles thereof	10,54	11,71	19,77	21,35	24,45	25,48	22,86	17,35
Plastics and articles thereof	7,22	9,73	11,60	10,60	9,23	8,41	8,19	8,09
Vehicles other than railway, tramway	1,21	1,35	1,36	1,16	1,69	1,68	5,59	2,94
Glass and glassware	0,01	21,87	28,81	20,94	22,52	20,09	20,41	23,50
Salt, sulphur, earth, stone, plaster, lime and cement	0,46	4,69	7,79	21,54	26,61	24,79	15,51	3,24

Source: Trade map

The share of Turkey in total export of Albania is very low. The very important point is that there is no continuous export performance of Albania in any product towards Turkey, except for the oil seeds. For example, once in the beginning of 2000s there was a big share in the exports of raw hides around 20 per cent, while this amount decreased in 9 per cent in 2008. In that regard the competitiveness of Albania can be described as being not efficient enough.

Table 43: The Share of Turkey in Albanian Total Exports

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
All products	1,01	1,03	0,83	1,89	1,72	1,27	2,26	1,92
Raw hides and skins (other than fur skins) and leather	20,90	22,49	23,22	17,59	12,46	12,19	12,36	9,49
Oil seed, oleagic fruits, grain, seed, fruit, etc, nes	6,96	6,89	7,53	9,13	7,92	7,84	5,95	4,01
Ores, slag and ash					22,21	3,25	3,73	9,27
Iron and steel				18,73	12,25	14,23		
Cork and articles of cork						14,23	6,37	5,39
Mineral fuels, oils, distillation products, etc						0,01	14,86	2,17
Electrical, electronic equipment				0,04	0,14	2,08	1,91	2,30

Source: Trade map

When we examine the Turkish FDI in Albania, in recent years the share is increasing. There had been around 75 Turkish firms operating in Albania mainly in construction, food, textile, health, education and auto spare parts[309]. Turkish foreign direct investment (FDI) stock in Albania was 6 million $ in 2011. Between 2002 and 2011, Turkish FDI cumulative stock in Albania was 41 million $[310].

Table 44: The Turkish Share in total FDI of Albania

2005	2006	2007	2008	2009	2010
6%	6%	8%	9%	10%	11%

Source: UNCTAD Report On Foreign Direct Investment In Albania

3.4.13. The General Outlook of the Macedonian Economy Till 2008

Former Yugoslav Republic of Macedonia (FYROM) is one of the least developed countries of the Eastern Europe. As the other countries of the Western Balkans, the country had suffered continuously from political and economic disturbances, and conflicts taking place in the region, since 1991. Macedonia had accordingly lost its traditional markets and experienced a fall-off in foreign direct investment. However, despite the difficult conditions and external setbacks, the Government of Macedonia had persisted in its policy of rule of law and Parliamentary democracy while stabilizing the economy and implementing structural reforms[311].

After independence in September 1991, Macedonia was the least developed of the Yugoslav republics, producing a mere 5 per cent of the total federal output of goods and services[312]. The collapse of the Socialist Federal Republic of Yugoslavia ended transfer payments from the central government and eliminated advantages

[309] Report of Commercial Counsellor's Office in Tirana, 2008
http://www.musavirlikler.gov.tr/upload/ARN/2008%20Rapor%20internet.doc

[310] The Rebuplic of Turkey Ministry of Economy (accessed on 9/5/2013)
http://www.economy.gov.tr/index.cfm?sayfa=countriesandregions&country=AL&region=9

[311]WTO, Report Of The Working Party On The Accession Of The Former Yugoslav Republic Of Macedonia WT/ACC/807/27, 26 September 2002

[312] Countires of the World, Macedonian economy 2013 (accessed on 20/06/2013)
http://www.theodora.com/wfbcurrent/macedonia/macedonia_economy.html

from inclusion in a de facto free trade area[313]. An absence of infrastructure, UN sanctions on the downsized Yugoslavia, and a Greek economic embargo over a dispute about the country's constitutional name and flag hindered economic growth until 1996[314]. The Former Yugoslav Republic of Macedonia joined the Bretton Woods institutions in 1993 and has since then benefited from substantial technical and financial support. The country has also benefited from EU support in the form of CARDS projects and macro-financial assistance.

As in many other newly independent transition economies, the first years of transition were marked by a sharp decline in economic activity. By 1994 economic activity had declined to about three-quarters of the production level before independence[315]. The share of industry decreased from 45 per cent to 27 percent from the beginnings of 1990s till 2005[316]. Iron and steel, textile and metallurgy had the biggest share in the total industry production, where the agriculture sector had the share of 14 per cent[317].

During 1993 and in early 1994 the authorities implemented a stability-oriented policy mix, by pursuing a tight fiscal policy, limiting the growth of credit and wages and pegging the currency to the German mark[318]. As a result, inflation declined to single digits and output started to expand again[319].

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313 Ibid

314 Ibid

315 "Analytical Report for the Opinion on the application from the former Yugoslav Republic of Macedonia for EU membership", EU Commission, 9 November 2005 http://ec.europa.eu/enlargement/archives/pdf/key_documents/2005/package/sec_1425_final_analytical_report_mk_en.pdf

316 Report of Commercial Counsellor's Office in Skope, 2008 http://www.musavirlikler.gov.tr/upload/MAK/YILLIK%20RAPOR-TEMMUZ%202009.doc

317 Ibid

318 "Analytical Report for the Opinion on the application from the former Yugoslav Republic of Macedonia for EU membership", EU Commission, 9 November 2005 http://ec.europa.eu/enlargement/archives/pdf/key_documents/2005/package/sec_1425_final_analytical_report_mk_en.pdf

319 Ibid

Although between 1998-2000 there were signs of limited recovery, after the internal conflict of 2001 the slowed down in the growth was again observed. Only after 2002 the Macedonian economy was able to recover and in 2004 the growth rate was 4,1 per cent, and in 2005 3,8 per cent. Till 2000 the economic stability was slow, but important, structural reforms were put into force. Privatization gained speed and first steps were taken towards liberalizing the labor market[320]. Besides, the trade regime was liberalized in 1996.

However in 1999 the war in neighboring Kosovo led to a sudden influx of a large number of ethnic Albanian refugees. The uncertainties created by the war in Kosovo also had a negative impact on financial markets[321].

Macedonia has seen steady economic growth since independence, but remains one of Europe's poorest countries with high unemployment. Official unemployment remains high at an average of 35 per cent till 2008, but may be overstated based on the existence of an extensive gray market, estimated to be between 20% and 45% of GDP that is not captured by official statistics[322].

Macedonia has been following a progressive opening-up to the outside world since the trade conflicts experienced during the latter parts of the 1990s. Prior to WTO membership in 2002, Macedonia had a long list of products under licensing from the Ministry of the Economy for protective purposes which is being terminated before WTO accession[323].

On 17 December 2005, the European Council decided to grant the Republic of Macedonia official candidate status for EU membership. Membership of the European Union is the highest strategic interest and priority for the Government, an objective shared by an overwhelming majority of Macedonia's citizens and all political parties. Macedonia was the first country in South East Europe to sign a

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320 Ibid

321 Ibid

322 Countires of the World, Macedonian economy 2013 (accessed on 20/06/2013) http://www.theodora.com/wfbcurrent/macedonia/macedonia_economy.html

323 "Macedonian Recent Agreements", USAID, Macedonia, April 2008 http://www.agbiz.com.mk/doc/Macedonia's%20Trade%20Agreements%20and%20Opportunities%20for%20AgBiz'sVCCs.pdf

Stabilization and Association Agreement with the European Union in 2001 which entered into force in 2004.

The Stabilization and Association Agreement with the European communities and their countries – members (SAA) is the existing legal framework which regulates the relations of the Republic of Macedonia and the European Union. The sections of SAA regulating the trade and the trade issues were enforced on 1 June 2001, with the special Interim Agreement on Trade Issues between the Republic of Macedonia and the European Community. This agreement provided for asymmetrical approach to trade with industrial and agricultural foodstuffs, in the interest of the Republic of Macedonia. Thus, Macedonian industrial products are freely, duty-free, exported to EU markets, and trade in industrial products imported from the EU, according to projection, shall be gradually liberalized in a period of 10 years. In the tenth year of application of the Agreement (2011), exchange in both directions shall be performed duty-free.

As Macedonia became a member of the WTO in 2003, (but applied in 1994), the IMF in 1992 and gained the status of candidate country of the EU in 2005, the country have the chance of accessing the funds of the EU and IMF, thus the efforts of re-structuring the economy have also accelerated.

In fact attracting FDI to the country was and still one of the main objectives of the Macedon governments, but the inflow of foreign capital was not able to reach the desirable levels. The main reasons for the reluctance of foreign investors seem to be related to political instability in the region, legal uncertainty and administrative barriers to foreign investment, but also the relatively high unit labor costs, resulting from low productivity[324].

During the period 1996-2004, annual FDI inflows amounted to about 3% of GDP on average. In 2001 the telecommunication privatization led to a peak in inflows at some 12% of GDP[325]. In recent years the level of inflows has been at

[324] Countires of the World, Macedonian economy 2013 (accessed on 20/06/2013) http://www.theodora.com/wfbcurrent/macedonia/macedonia_economy.html

[325] Ibid

around 2% of GDP. In 2004 inflows increased to about 2.9% of GDP. In order to improve the business environment and to raise the country's attractiveness for FDI, the authorities plan to establish a one-stop shop, located at the central registry, for registration and licensing. A new Company Law was put into force. Another measure to increase FDI inflows has been the establishment of an Agency for Investment Promotion, which has been operational since January 2005. As a result of those reforms, according to the World Bank report "Doing Business 2008", Macedonia had been awarded by the 4th rank among the successful countries of the year[326].

Despite the efforts of the country, corruption still creates a big burden on attracting foreign capital. Nederland, Hungary and Greece had the biggest amounts with the shares of 15-17 per cent of the total FDI in the country. Austria, Switzerland and Slovenia were the following countries in the total amounts of the FDI in Macedonia.

Table 45: FDI in Macedonia (Million Dollar)

1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
141	270	360	580	1.039	1.161	1.292	1.610	1.769	2.098	2.545	3.144

Source: National Bank of Macedonia

When we analyze the foreign trade performance of the country, there is always a chronic deficit which was growing each year. Although the increase in the total exports was glories, the share of exports coverage of imports remains stable around 55-60 per cent which was very low, but better than her neighbors Albania and Serbia.

Table 46: Foreign Trade of Macedonia

mil. $	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Imports	1.688	1.995	2.306	2.903	3.228	3.763	5.228	6.852
Exports	1.155	1.116	1.367	1.673	2.041	2.401	3.356	3.978
Trade Balance	-533	-880	-939	-1.230	-1.188	-1.362	-1.871	-2.873
Ex/im %	68,44	55,91	59,27	57,64	63,24	63,80	64,20	58,06

Source: Trade Map

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[326] Report of Commercial Counsellor's Office in Skope, 2008
http://www.musavirlikler.gov.tr/upload/MAK/YILLIK%20RAPOR-TEMMUZ%202009.doc

When we examine the country distribution of Macedonian foreign trade, Serbia, Germany and Greece had the biggest shares in exports, where Russia, Germany, Serbia and Greece in the imports. The influence of the EU had in the trade was clear till 2008, with 65 per cent in exports and 49 per cent in imports. The Balkan countries were another important figure in exports of the country with 30 per cent but with a lower share in imports with 11 per cent. Especially economic relations of Macedonia with Serbia and Bulgaria were marked.

Table 47: Country Distribution of Macedonian Foreign Trade in 2008

Country	Export %	Import %
Serbia	23,5	7,8
Germany	14,2	9,5
Greece	13,4	7,5
Russia	0,8	13,6
Italy	8,1	5,6
Bulgaria	9,5	4,8
Croatia	5,8	2
China	0	4,6
Switzerland	0,4	4,3
Turkey	0,8	3,9
Poland	0,4	3,9
Slovenia	1,6	3
Ukraine	0,1	3
Nederland	1,8	1,4
Bosnia	2,6	0,8
Belgium	2,7	0,6
Romania	0,8	1,7
France	0,6	1,8
Albania	2,7	0,5
Austria	0,6	1,7

Source: Commercial Counsellor's Office in Skopje

In the product distribution of the foreign trade manufacturing had the biggest share with 65 per cent in exports. In imports this figure dropped to 30-35 per cent. In the exports manufacturing exports of the country, sub-sectors of textiles, iron and steel, tobacco products and mineral fuels had the biggest shares. Energy importation from Russia was marked with a share of around 60-70 per cent in mineral oils. But in the sub-group of crude petroleum gasses the dependency was clear with the around 100 per cent.

The other important sectors in total imports of the country were iron and steel, (mainly from Ukraine), electronics, (from China), plastics and machinery (from Germany).

Macedonia has signed CEFTA in 2006. Moreover, the country has bilateral free-trade agreements with Turkey signed in 2000, EFTA in 2000 and Ukraine in 2000.

3.4.14 Economic Relations between Macedonia and Turkey till 2008

The development of economic relations between Turkey and Albania had their basis on the following agreements.

- Agreement on Trade and Economic Cooperation in 1995
- Agreement on Scientific and Technological Cooperation in 1994
- Agreement on Cooperation of Customs in 1995
- Agreement on Trade and Economic Cooperation in Agriculture in 1994
- The meetings of the Joint Economic Committee between Turkey and Macedonia had been held on 1996, 1998, 2002, 2005 and 2008.
- Free Trade Agreement signed in 1999 entered into force in 2000.

There are also some other agreements regarding transportation, tourism, pysosanitary and animal health.

With Turkey-Macedonia FTA, tariff and non-tariff barriers for trade were eliminated in trade between the Parties. Also, Agreement regulated numerous subjects such as sanitary and phytosanitary measures, technical barriers to trade, intellectual property, rules of origin, internal taxation, anti-dumping and countervailing measures, safeguards, and balance of payments measures. As far as preferential trade in goods is concerned, customs duties on imports into Macedonia of industrial products originating in Turkey were abolished as of 1 January 2008. Customs duties on imports into Turkey of industrial products originating in Macedonia was abolished upon the entry into force of the Agreement, except certain products which were subject to the special provisions laid down in Annexes. Those special provisions were also abolished in 2003. Concerning agricultural products, Turkey and Macedonia exchanged mutual concessions for certain products in the form of tariff quotas or on an unlimited basis subject to MFN duty reduction or exemption. Reciprocal concession lists of agricultural products are laid down in Ptotocol I of the Agreement

In trade relations, Turkey always gives a positive balance. The trade deficit of Macedonia with Turkey has been increasing through the years parallel with the chronic deficit in the foreign trade of the country. Although the trade volume had increased through the years, the growth in imports from Turkey was enormous and shadowed the export performance of the country with more than 200 per cent from 2001 to 2008.

Table 48: The Foreign Trade of Turkey and Macedonia

1000 $	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008****
Import	46.407	59.259	78.787	94.844	113.615	123.919	194.766	295.045
Export	8.583	8.462	32.809	53.955	46.308	55.176	53.249	29.112
Balance	-37.824	-50.797	-45.978	-40.889	-67.307	-68.743	-141.517	-265.933

Source: Trade Map
** Macedonian exports to Turkey and imports from Turkey*
***For 2008 as there is no figure of Macedonia in trade map data base, the figures of Commercial Counsellor's Office is used*

When we analyze the share of Turkey in the total imports of Macedonia, it is around 3,5 per cent. "Edible fruit, nuts, peel of citrus fruit, melons" had the biggest share with around 40 per cent from Turkey. Cereals also followed those agricultural products in total imports. Vehicles, machinery and electronics also were the other important product groups in imports. However, it can be observed that there was no sustainable import from Turkey on any product group, and the composition of imports was changing for each year. In year 2008 the share of Turkey was increased to 4,3 per cent in the total imports of Macedonia. Also to reach regular statistics was not available from the Macedonian side in trade map data base.

Table 49: The Share of Turkey in Macedonian Total Imports

	2001	2002	2003	2004	2005	2006	2007	2008
All products	2,75	2,97	3,42	3,27	3,52	3,29	3,73	4,3
Articles of iron or steel		1,83	1,01	0,91	6,68	6,06		
Electrical, electronic equipment	3,10	3,62		1,59	3,41	2,98	2,92	
Machinery, nuclear reactors, boilers, etc	2,39	2,19	1,88	2,36	2,73	3,26	4,95	
Vehicles other than railway, tramway	1,81	1,56	1,88	2,36	2,73	3,26	4,95	
Articles of apparel, accessories, not knit or crochet	16,49	18,94	20,19	16,69	13,90	13,06		
Cereal, flour, starch, milk preparations and products	10,05	10,44	14,03	12,61	13,21	13,46	0,46	
Cotton		6,12	21,93	12,54	9,89	12,89		
Edible fruit, nuts, peel of citrus fruit, melons	46,27	39,60	27,57	28,20	32,63	34,30	25,18	
Manmade staple fibres				8,40	11,05	7,79		
Plastics and articles thereof	3,47	4,49	4,74	3,60	3,80	4,84		

Source: Trade map

The share of Turkey in total export of Macedonia is very low which was also declining from 2004. The only continuous export performance of Macedonia was observed in raw hides and skins. In 2007 also there is no detail in Macedonian exports in the trade map data base.

Table 50: The Share of Turkey in Macedonian Total Exports

	2001	2002	2003	2004	2005	2006	2007	2008
All products	0,74	0,76	2,40	3,22	2,27	2,30	1,59	0,73
Raw hides and skins (other than fur skins) and leather	27,01	26,12	55,92	56,36	66,32	45,37		
Cotton		0,51	21,89	33,02	38,19	27,68		
Iron and steel	0,20	0,10	7,62	11,41	6,10	5,83		
Zinc and articles thereof	3,93	2,25		18,99	21,31	86,81		
Miscellaneous edible preparations	11,14	36,40	27,61	19,76	8,18	5,55		

Source: Trade map

When we examine the Turkish FDI in Macedonia, in recent years although the figure was too low, the amount of the inflow was increasing. But the Turkish share was preserving its position through the years which was around 1,5 per cent. There had been around 60 Turkish firms operating in the country according to the Commercial Counselor Office. However this number is assumed to be around 100-150 firms. There are two separate businessmen associations operating in the country.

Table 51: The Turkish Share in total FDI of Macedonia

1.000 Euro	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Turkey	18.860	26.489	25.060	27.723	34.910	42.980
Share in total %	1,46	1,65	1,42	1,32	1,37	1,45

Source: Commercial Counsellor's Office in Skopje

On the other hand, construction facilities in the country were a growing market for Turkish constructors.

3.5 Conclusion

The Eastern Europe countries (other than Western Balkans) mostly assumed to finish their transition and took their place near the Western countries, mainly the EU after the collapse of the Soviet Bloc. They either became member of the EU or established different forms of cooperation like Stabilization and Association Agreements with the EU. Thus the EU became not the regional only but the main international actor in the region. Regarding the uneven development and combine approach, once this approach was suitable for their dependency on USSR, and then this dependency shifted towards the Western side of the Europe as the new emerging international actor/power, after the collapse of the former. The only exception is Macedonia in that regard, as the country was exercising a policy of recovering her relations with the former Yugoslav republics.

At the very beginning of their journey to transition, the US was very eager to establish a new form of relations with the former socialist countries and have the control of the Europe continent that it had to share with the USSR after the Second World War. Consequently, the US administration supported the integration of the

Eastern part of the Europe with the Western side. However with other developments in the international relations, the priorities of the US administration shifted to other parts of the world like, China, Middle East, but especially away from Western Balkans after the Kosova intervention, which is also not welcomed in the region. It would not be wrong to indicate that after the decline of the American influence in the Eastern part of the Europe, the EU's position in the region remained as the 'only game in town'[327].

When we regard the other actors that could also be effective in the EECs transition and their new era in the international relations, Russian Federation shall be considered in that regard with the strong ideological and economic ties it had established with the region for half a century. But however after the collapse of the USSR, the new form a state was being established also in the Russia and thereof the priorities of the Federation was also shifting mostly to internal stability and economic recovery. The very existence of the Russia can be considered only in the Western Balkans for the solidarity with its Slav Orthodox brothers. As a matter of fact under the Putin administration the Russia tried to regain major role in the in the region[328]. However it can be assessed that the Moscow's approach in recent years was to focus primarily on her relationship with Belgrade, acquiring a major stake in Serbia's energy sector in exchange for Russian backing of Serbia's position over Kosovo in the UN Security Council[329]. On the other hand, the dependency of EECs on the importation of energy from the Russia is also worth to indicate.

The other possible actor that should be effective on the Eastern Europe Countries during their transition period and liberal turn was Turkey. In fact the Customs Union she had established with the EU, her geopolitical situation and the historical ties she had with the region dated back to Ottoman times all together enabled Turkey to regain influence over the region and to be sub-regional power. As it has analyzed above, the free trade agreements Turkey had concluded with the

[327] Jacques Rupnik, "The Western Balkans and the EU: The Hour of Europe", p. 19

[328] Ibid

[329] Ibid

EECs, mainly with Hungary, Romania, Bulgaria, Albania, Serbia, Bosnia Herzegovina and Macedonia have ensured favorable market access for Turkey when compared with the third countries. As to be effective in the region, Turkey had gained similar advantages with that of EU in the very beginning of the transition of those countries through the free trade agreements. As a matter of fact the EECs were new emerging markets for the rest of the World and the competition to be effective in those markets was inevitable. For example in Romania, the investments of some of the Middle East countries are noteworthy.

Nevertheless, the figures of bilateral economic relations of Turkey with those selected countries did not support the thesis, whether Turkey should be considered a sub-regional power. The share of Turkish FDI in Hungary, Romania, Bosnia Herzegovina, Bulgaria, Serbia, Albania and Macedonia was around 0,1 - 2,6 - 3,4 – 0,07- 0,08- 8- 1,4 per cent respectively during their transition period. Only in Albania and relatively in Romania the Turkish FDI had more or less an economic meaning. In trade figures, both export and import share of Turkey was under 1 per cent in Hungarian total foreign trade. The Romanian export figure towards Turkey was showing the biggest amount with around 6 per cent of its total where in its total imports this amount was declining to 4 per cent. Turkey’s performance in its bilateral trade with BiH is slightly better in exports than imports with the around 5 per cent of the country’s total imports. In Bulgarian exports the Turkish share was around 10 per cent where in total imports 6 per cent. Furthermore with Serbia and Albania the bilateral trade figures and the share of Turkey in those countries foreign trade were very low. Only in Albanian total imports Turkey’s share was around 7 per cent which showed that there was a relatively tendency in Albania for Turkish products. In Macedonian total imports Turkey’s share was around 3 per cent, where in exports 2 per cent which were also below the general expectations.

The share of Turkey in bilateral trade and FDI in those countries did not show a considerable effect of Turkey’s existence. Although the transition period had provided an opportunity for Turkey to increase her economic relations with those countries, it appears that Turkey’s performance did not seem to be so bright. As the EU managed to incorporate the Central Eastern Countries and South Easter Europe and sustained its economic relations with the Western Balkans, it is likely that Turkey will have to operate within the framework defined by the EU relations. The lack of a decisive policy oriented towards the region and the absence of middle /long term policy and economic vision, as it can be also considered in other regions of the World, is the failure of the Turkish foreign policy during those times. At the same time there was no coherence among the related State bodies in Turkey, like foreign and economy related ministries. To sum up there was no concrete Turkish policy to be a competitor to the EU in the region, such as the US and Russia after the middle of 1990s.

Consequently the other important lack of policy in economic terms was the absence of a Turkish businessmen orientation towards those countries. The Turkish businessmen were not able to gather around their joint interests towards the region as their biggest competitors in the EU had done under the association of "European Round Table of Industries". On the contrary, Turkish businessmen were establishing several business associations in those countries firstly to compete with each other operating in those countries. To gather under one umbrella with the shared goals would have strengthened the Turkish position in those countries. Especially in the Bosnian case, currently there is no such an association activated in the country which is a very serious failure of the Turkish businessmen operating in BiH. Nevertheless the responsibility of this failure would also be shared with the government side, with the lack of guidance and pioneering ability of the state to the private sector.

Notwithstanding, there is an interesting situation for Turkey in the region. Hungary, Bulgaria and Romania became members of the Union before Turkey although they were members of the Soviet Bloc and implementing socialist economies after the World War II till 1989. On the contrary Turkey was a reliable ally for the Western Bloc all through the cold war, implementing semi liberal policies till 1980. For the Western Balkans also the situation is a little more complex. Turkey opened enlargement negotiations with the EU in October 2005, before the Western Balkan countries given the fact that they are the least developed and unstable countries of the Eastern Europe. However the future is not still clear for Turkey to be a part of the European Integration, where some Western Balkans can forestall Turkey, such as Croatia has already done in July 2013, and maybe Serbia later on.

CHAPTER 4

THE ECONOMIC AND FINANCIAL RELATIONS OF TURKEY AND EASTERN EUROPE COUNTRIES AFTER THE 2008 ECONOMIC CRISES

4.1. Introduction

The Eastern Europe Countries have experienced differentiated economic models from state socialism to liberal economy, like from one edge to another, only in a half century. Then, as if this was not an enough painful struggle for the region to overcome the economic, political and social consequences of the different kinds of transition models they have experienced after the implementation of socialist economies only within a two-decade period, they have to overcome the one of the biggest economic crises that the world economy have ever faced, especially the Europe continent and the European Union.

Initially, in their journey towards the implementation of liberal policies, most EECs were following IMF-supported policy programs as they grappled with the first generation problems of economic transition[330]. In the initial period of transition, more was achieved in terms of macroeconomic stabilization and trade liberalization than in terms of systemic transformation in the real economy[331]. Then, as time passed, the prospect of the EU accession became an increasingly important anchor and adaptation of ever lasting the EU structural policies and institutions came to the stage. Furthermore, "in addition, as experience with transition accumulated, the IMF itself came to place more emphasis on the development of institutions and regulatory frameworks (including notably in financial sector) as key flanking policies for liberalization and macroeconomic stabilization"[332]. After the 2008 crises again within the Washington -Brussels consensus, the IMF and the EU austerity programs,

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[330] Othon Anastasakis and Max Watson, "Reform challenges and Growth Prospects in South East Europe" in "From Crisis to Recovery Sustainable Growth in South East Europe", Edited by Othon Anastasakis, Jens Bastian and Max Watson, *South East European Studies,* Oxford, January 2011, p.2.

[331] Ibid

[332] Ibid

with a standard package of policies came to the agenda to be applied to the differentiated economic problems of the region, inherited from their transition period.

Somehow the Eastern Europe Countries had been part of the Western Europe economy and its institutions from 1990s. Where Central and Southern part of the Europe became full members of the EU and integrated its neo-liberal structure, the Western Balkans established relations to become a member in the future within the frame of Stabilization Agreements and subjected to the conditionalities set by those agreements. As the EU occurred as not the only regional but also the international power in the region, the dependency of the EECs on the EU's economy and thereof its finance institutions was very vulnerable, which was certainly proved with the 2008 crises having differentiated levels of destroying effects on the economies of those countries. In fact, the under developed and periphery status of those countries has become more pronounced with the crises where among the old members of the EU also the core and periphery divide became wider. For example, Hungary was considered to be a good example of transition and neo-liberalism in the region[333]. Therefore everyone was surprised when the crises hit the country deeply and, how the consequences of the crises, (the IMF and austerity policies) also effected the political environment of the country which gave rise to a national-conservative administration in Hungary. As a matter of fact this change in the Hungarian political environment paved the way for Hungary to enter into a conflict with the EU and its institutions.

Therefore in this chapter, I want to limit myself in analyzing the reasons and consequences of the 2008 financial crises on the selected EECs which are subject matter of this thesis. In fact, analyzing the 2008 global crises and its reflections to the euro-zone would constitute another important research area, which would estrange us from the main purpose of this thesis. In that frame, firstly I want to deal in general the consequences of the 2008 economic crises/euro-zone crises to the EECs, namely for Hungary, Romania, Bulgaria, Bosnia-Herzegovina, Serbia, Macedonia and

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[333] Jane Hardy, "Crisis and recession in Central and Eastern Europe" *International Socialism*, 14 October 2010, p.7 http://www.isj.org.uk/index.php4?id=683&issue=12

Albania, by analyzing the development models that those countries had been following from their transition periods. In that part of the chapter the economic policies of Turkey before and after the 2008 crises will not be touch upon, where only a general comment will be done on Turkish economy in order to focus more on the subject of this thesis, and moreover because of the assume that the present crises "had been tangent to the Turkish economy". Later on I want to expose the general picture of the economies of those countries and Turkey briefly, such as their growth rates, inflow of FDIs, export, import figures and the position of the EU in their foreign trades beginning with 2008. Afterwards, examining their relations with Turkey beginning with 2008, I want to expose if current economic and financial relations of those countries and Turkey had developed after their transition periods assumed to be over. In the conclusion part, after giving current statistics regarding the Turkish FDI in the region and bilateral trade relations, I want to analyze whether under the shadow of the crises spread to the region as a consequences of the neo-liberal structuring of the EU and with a change in the Turkish foreign policy in the last decade paved the way to enhance the Turkish economic existence or created a sub-regional power for her in the region which was escaped during their transition period.

4.2 The General Consequences of the 2008 Crises to the EECs

The Central Eastern Europe countries were not immune to crises in the global economy and the recessions of the mid 1970's and 1979-82 sharpened the contradictions in their economies and contributed to their eventual collapse in 1990[334]. But their deeper integration with the EU and the global economy made those countries much more vulnerable to crises[335]. This vulnerability had the basis on the adoption of the neo-liberal policies of the EU with high dependence on FDIs and particularly on international finance.

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[334] Jane Hardy, *"Crisis and recession in Central and Eastern Europe"*, p.1

[335] Ibid

Although the EECs had been strongly affected by the 2008 euro-zone crises, there are different levels of effects in individual countries. In general, this differentiation based on different models of development models that those countries had been implementing since their transition. The central driving force of economic development is always the "accumulation" which can take various forms[336]. Although the accumulation process cannot be characterized with only one feature, and it is multi-dimensional[337], generally there are two models of accumulation can be observed in the EECs: Firstly dependent financialisation, secondly dependent financialisation implemented together with the "dependent export-oriented industrialization". So the dependent financialisation was the main character of the development model of the EECs beginning with their transition period.

In the case of Eastern Europe Countries, the central feature of the modes of accumulation was the control of the key sectors by foreign capital, especially the banking sector[338]. In the EECs, the share of foreign banks in total assets was above 80 per cent which is a very high level of dependency also inside the region and in the global terms[339]. This dependency on Western Europe created an asymmetric relation between the two parts of the Europe. The economic relations with the Western Europe had a crucial meaning for the Eastern part where the same degree of meaning in economic relations was not observed in the Western part for the East[340]. This dependency can be characterized as the "dependency financialisation" which is clearly seen in the Southeast European and Baltic countries[341].

When financialisation process started in the core countries of Europe and cheap credits became available in 1970's, a number state socialist regimes in Eastern

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[336]Joachim Becker, *"*Development Models and Crises in Eastern Europe*"* Manuscript p.1.

[337] Ibid p.4.

[338]Johannes Jager & JoachimBecker, "Development Trajectories in the crises in the Europe"*, Journal of Contemporary Central and Eastern Europe*, Volume 18, Issue 1-2010, p.13.

[339] Ibid

[340] Ibid

[341] Joachim Becker, "Development Models and Crises in Eastern Europe*"* Manuscript p.9.

Europe-particularly Poland, Hungary and Yugoslavia started to incur substantial external debt in order to finance the modernization of machinery and a more ample supply of consumer goods in order to strengthen its legitimacy through improved consumption possibilities[342]. In fact, one of the impacts of the integration with the EU and the global economy was the domination of banking systems of EEC countries. With the spread of foreign banks, especially German, Austrian and Swiss in those countries with relatively suitable interest rates, also facilitate the increase of private debt of those countries whose private debt was in terms of national currency with the exception of Hungary. Capital inflows were larger in this part of Europe and fell more severely during the crises[343]. Therefore, the risk was transferred from Western European parent banks to affiliates in those countries as cross border loans[344].

The countries applying the dependent financial accumulation, adopted related policies in order to ensure high inflows of capital both in FDI and financial investment. Besides the privatization policies, suitable exchange rate and thus monetary policies were in force. The monetary regimes were the central pillar for this type of accumulation models. Fixed exchange rate regimes were predominant. For example in Bulgaria and Bosnia-Herzegovina with the aim of attracting capital inflow, to sustain the maintenance in the exchange rate was the ultimate goal by implementing rigid form of monetary policies[345]. In the case of Romania and Serbia, the exchange rates were more flexible, but the flexible exchange rate was complemented by high interest rates in order to attract foreign capital and prevent devaluation (or even achieve an appreciation)[346]. In Eastern Europe, the transformation towards capitalism led inter-alia to massive de-industrialization in the

[342] Ibid

[343] Jane Hardy, "Crisis and recession in Central and Eastern Europe", p.5.

[344] Ibid

[345] Joachim Becker, "Development Models and Crises in Eastern Europe", Manuscript p.10

[346] Joachim Becker, "Monetary regime, financialisation and crisis in Eastern Europe", 24 September 2012 (accessed on 12/11/2012) http://www.sendika.org/english/yazi.php?yazi_no=48037 24 September 2012

early 1990s and partly later as well[347]. As de-industrialization was particularly pronounced in the former Yugoslavian republics, to attract capital in the re-functioning of the economy had the utmost importance in that region.

In Central Europe Countries (Visegrad Group) and Slovenia export-oriented industrialization was combined with financialisation[348]. As we have analyzed in the previous chapter, the transition period of Central Europe Countries was rather less painful than the other former Soviet-Block countries with their more developed and industrialized economic infrastructure they had inherited. Thus, Visegrad Group was the center of the attention of the developed Western countries seeking to invest in new profitable destinations. This attraction also paved the way for those countries to be in the production chain of the other developed EU members, particularly of Germany. Nevertheless the flourishing production capacity correctly linked to their exportation, and made those countries obtain and sustain an export oriented development model, with a risk of highly depended on Germanys' economy. Thus the first consequences of the 2008 crises were the decline in the exports of those Central Eastern countries, effecting by the narrowing economies of the core Western Europe Countries.

Having combined the two types of development models in Visegrad countries paved the way to fell relatively less effect of the crises, except for Hungary- than other EEC countries (with Baltic countries) whose economies relied only on financialisation. Those states have less space for manoeuvre than the Central Europe Countries as their pre-crises growth models relied almost exclusively on dependent financialisation and lacked a productive pillar[349]. In fact productive investment did not flow to the East; instead, labor flowed to the West[350].

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[347] Ibid

[348] Joachim Becker, "Development Models and Crises in Eastern Europe" Manuscript p.9.

[349] Ibid p.16.

[350] Othon Anastasakis and Max Watson, " Reform Challenges and Growth Prospects in South East Europe", p.5.

In the case of Hungary, in the pre-crises period about 60% private credits were dominated in foreign currency which made the indebted people very vulnerable to devaluation[351]. In the other EECs the private credits were in national currencies[352]. So the form of financialisation in Hungary was closer to Southeast Europe countries[353].

When we analyse the real GDP growth of the member EEC countries with some selected comparators just after the crises, Hungary and Romania had the worse position in the group, sharing this destiny with an old member, Ireland. Then came Bulgaria which was also having a worse position of that of the EU. However, Poland's success had to be applauded compared with the overall position of the Union, having implemented successful export-oriented-industrialization dependent development model together with dependent financialisation on the national currency.

Table 52: Real GDP Growth of Selected EU Members in 2009, as of %[354]

Average EU-27	Czech R.	Hungary	Bulgaria	Poland	UK	Ireland	Romania
-4,2	-4,5	-6,8	-5,5	+1,6	-4,0	-7,0	-6,6

As a matter of fact, there were some austerity policies provided by both the IMF and the EU towards the affected economies. Among the EECs Hungary was the first country to resort to an IMF/EU program already in autumn 2008, followed by Romania, Serbia and Bosnia and Herzegovina. Although the depth of the crises had varied among the countries of the Eastern Europe, the EU and the IMF responses to the crises were the same. The EU and the IMF took action against the measures that

[351] Joachim Becker, "Development Models and Crises in Eastern Europe" Manuscript p.10.

[352] Ibid

[353] Johannes Jager & JoachimBecker, "Development Trajectories in the crises in the Europe" p.13.

[354] Jane Hardy, "Crisis and recession in Central and Eastern Europe", p.7. http://www.isj.org.uk/index.php4?id=683&issue=12

they deemed detrimental to West European financial interest[355].The programs focused on stabilizing the exchange rates and monetary regimes. In the case of sustaining a stable exchange rate, there was a fear of avoiding a devaluation of their assets in the region. And in the context of stable monetary policies, those austerity packages and programs were only aiming to reduce public sector deficit to the punitive Maastricht target of 3 percent of national income, without taking into account of falling GDPs and rising unemployment[356]. The structural problems of the productive sectors were not tackled at all[357]. The austerity policies have provoked social protests in a number of countries, most notably in Romania which caused the change of the government after one year. In Hungary also, the discontent with the austerity policies swept the national-conservative party-Fidesz- to government in general elections in 2010[358]. Thus, the more deepening neo-liberal policies of the EU have become more evident by the outcome of the crises.

Table 53: The GDP Growth Rate of EECs and Turkey after the crises

%	2008	2009	2010	2011	2012
Hungary	0,9	-6,8	1,3	1,7	-1,7
Romania	7,9	-6,6	-1,6	2,5	0,3
Bulgaria	6,2	-5,5	0,4	1,7	0,73
Bosnia	5,4	-2,9	0,8	1,7	0,0*
Serbia	3,8	-3,5	1,0	2,1	-1,8
Macedonia	5.0	-0.9	2.9	2.8	0,0*
Albania	7,7	3,3	3,5	3,0	0,5*
Turkey	0,7	-4,8	9,2	8,5	2,2

*Source: World Bank Data *Estimates done by CIA-The World Fact Book*[359]

[355] Joachim Becker, *"Development Models and Crises in Eastern Europe"* Manuscript p.16

[356] Ibid

[357] Joachim Becker, "Monetary regime, financialisation and crisis in Eastern Europe", 24 September 2012 *http://www.sendika.org/english/yazi.php?yazi_no=48037*

[358] Ibid

[359] CIA-The World Fact Book (accessed on 06/06/2013) https://www.cia.gov/library/publications/the-world-factbook/rankorder/2003rank.html

After the crises began in 2008, very drastic decreases in the GDP of Romania and Bulgaria had been observed in 2009. But from 2010 a recovery period is experienced in those countries. Hungary is also one of most effected countries in the region, with a fluctuating GDP growth, still having limited signs of recovery. In the Western Balkans, due its small structure and a short history of foreign intervention in the economy, Albanian economy's performance is slightly better, while Bosnian and Serbian economies still trying to recover after 2009 decreases. However, the crises in Greece also has constituted a risk for Albania, as the Albanian workers have been losing their works because of the crises in Greece and thereof the decreases in their remittances are causing budgetary hardship to cover the budget deficit. When considering the economy of the BiH, it is noteworthy to remind the high percentage of the unregistered level of the various economic activities, like the black market in the country.

The Serbian economy was marked with the increase of the external debt. Although in Serbia the ratio of external debt to the GDP has been raising from 2001, this increase was very remarkable in 2009 and 2010 with the effect of the crises[360]. During 2001 and 2008 period, the ratio of external debt to the GDP was between 50 and 65 per cent, where this level increased to 77,7 and 84,9 per cent in 2009 and 2010 respectively. In 2011 the ratio decreased to 77,5 per cent and again in 2012 grew up to 81 per cent.

The financial crises affected the Bulgarian economy in the last quarter of the 2008 and the whole years following. The internal foreign trade of the country has decreased, unemployment increased, production and investments declined. However, compared with her southern neighbor Greece, Bulgarian economy can be considered to be in a better situation[361].

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[360]Report of Turkish Embassy Office of Commercial Counsellor in Belgrade, 2013 http://www.musavirlikler.gov.tr/upload/SRB/Sırbistan_Ülke_Raporu_Mart_2013.doc

[361]Report of Turkish Embassy Office of Commercial Counsellor in Sofia,2011 http://www.musavirlikler.gov.tr/upload/BG/rapor%202011.docx

Macedonian economy also affected by the crises with a drop from 5,5 per cent to -0,9 per cent in 2009. Although from 2010 there were signs of recovery with the 2,8 per cent, in 2012 again decline in the growth had been observed.

Turkey is a rapidly developing country and the largest national economy in Central and Eastern Europe. In fact Turkey has learned to struggle with the economic crises already in 1994 and 2001. After years of mounting difficulties which brought the country close to economic collapse, a tough recovery program was agreed with the IMF in 2002[362]. The austerity measures imposed then meant that by the time the global financial crisis came round in 2008, Turkey was in a better position to weather the storm than many other countries[363]. Although Turkey has also been affected with the 2008 crises, as the level of public debt was already relatively low, she recovered in a short time with huge jump in the growth rate of GDP in 2010 while concerns were being raised over whether the boom was sustainable[364]. In fact, in 2012 the economy stagnated and estimates for the GDP growth rate is around 3 per cent for 2013, which is only slightly better than the previous year.

Table 54: The FDI in the EECs and Turkey after the crises (as of % GDP)

%	2008	2009	2010	2011	2012
Hungary	48,6	-2,8	-16,1	6,9	10.8*[365](excluding special purpose entities)
Romania	6,8	3,0	1,9	1,3	
Bulgaria	19,9	8,0	3,9	4,8	
Bosnia	5,4	0,8	2,0	2,1	
Serbia	6,3	4,8	3,5	5,9	
Macedonia	6.2	2.8	3.2	4.7	
Albania	9,6	11,1	9,2	10,6	

[362] BBC News New York, (accessed on 5/6/2013) http://www.bbc.co.uk/news/world-europe-17988453

[363]Ibid

[364] Ibid

[365]OECD FDI in Figures, April 2013 http://www.oecd.org/daf/inv/FDI%20in%20figures.pdf

Table 54 (continued)

Turkey	2,7	1,4	1,2	2,1	1,6*

Source: World Bank Data
**OECD FDI in Figures, April, 2013*

As the calculations of FDIs vary in different sources, especially in the national statistics, I preferred to apply to the World Bank Statistics, in order to collect all FDIs data from a global source to make a comparison healthier. For 2012, figures only for the OECD members were available on the OECD data.

As it can be seen from the table 47, the FDI flow in the region has been affected with the 2008 crises, except for Albania, due to her low level of FDI and late foreign intervention in the country. The most affected country in the region from the declines in the FDI was the Hungary, which is also showing signs of recovery by 2011.

Table 55: The Exports of EECs and Turkey after the crises

1.000 $	2008	2009	2010	2011	2012
Hungary	108.543.683	82.997.916	95.640.064	112.379.044	104.030.611
Romania	49.538.878	40.620.890	49.413.386	62.692.001	57.904.330
Bulgaria	22.485.509	16.502.520	20.608.005	28.165.220	26.698.780
Bosnia	5.021.083	3.953.920	4.803.107	5.850.079	5.161.770
Serbia	10.972.082	8.345.076	9.794.516	11.779.478	11.352.593
Macedonia		2,691,528	3.351.429	4.455.375	4.001.857
Albania	1.354.922	1.087.915	1.549.956	1.948.207	1.967.919
Turkey	132.002.385	102.138.526	113.979.452	134.915.252	152.536.653

Source: Trade Map

The exports of the EECs and Turkey had been both affected with the 2008 crises. Although high levels of decrease in 2009, is observed when compared with the previous year, signs of recovery can be seen by 2010. It is also worthy to indicate that, again in 2012 decline in the exports of those EECs is observed, except for Albania with a slightly increase.

Table 56: The Imports of EECs and Turkey after the crises

1.000 $	2008	2009	2010	2011	2012
Hungary	108.979.994	77.751.061	88.323.357	102.501.139	95.411.725
Romania	82.964.979	54.256.269	62.006.624	76.365.285	70.259.719
Bulgaria	37.015.366	23.340.812	25.359.886	32.493.611	32.743.134
Bosnia	12.188.609	8.363.714	9.222.998	11.050.575	10.023.596
Serbia	22.875.304	16.047.433	16.734.509	19.861.908	18.935.918
Macedonia		5,043,115	5.474.485	7.007.251	6.510.922
Albania	5.250.490	4.548.288	4.602.775	5.395.853	4.879.830
Turkey	201.960.779	140.869.013	185.541.037	240.838.853	236.544.494

Source: Trade Map

For the imports also similar trend can be seen as in the exports of the EECs and Turkey, declining in 2009, a recovery for two years, then a decline again in 2012, except for Bulgaria only with a very low increase in 2012 imports.

In the total foreign trade Turkey has the biggest volume, followed by Hungary. Hungary is the only country who does not a trade deficit among those mentioned countries.

When we analyze the EU share in the total foreign of the EECs, it is seen that there is also an affect the crises. Except for Serbia and Macedonia, there are different levels of declines in the share of EU in total import and export figures of those countries. Generally the dominance of Germany is clearly seen, followed by Russia in the imports of energy.

In Albanian exports the share of EU is 75 per cent while in imports 62 per cent. The countries in the region also have an important position in exports 12 per cent and 9 per cent in imports. Kosova constitutes an important export partner in that context in 2012.

In Serbian total imports and exports the EU's share is similar with 58 per cent. But in the total imports the dominance of Russia is observed with 11 per cent in the product group of mineral fuels (crude petroleum oils and petroleum gases). Serbia imported nearly half of this product group from Russia in 2012.

In Macedonian imports the EU's share is 58 per cent in 2012, increasing from 52 per cent from 2009. In the total imports of the country the increase in the EU's share is more effective from 56 per cent in 2009 to 63 per cent in 2012.

In total imports of Hungary the EU's share is 70 per cent with the Germany's influence on imports having the share of 25 per cent of the total. Hungarian dependency on the EU on her exports also is clearly seen, with the 75,4 per cent of the total. Again the dominance of Germany in the total exports is observed with the 25 per cent similar with the share of imports.

The EU has 58 per cent share in total exports of Bosnia and Herzegovina, while in imports 47 per cent. In total imports of the country half of the importation of mineral oils comes from Russia.

In total imports of Romania, the EU's share is 72,5 per cent, with a clear dominance of Germany with around 18 per cent. In total imports of the country the Russia comes just after the EU countries in the 5th rank. The share of imports from Russia in the mineral oils is noteworthy with the 30 percentage. In export the share is 70 percent, while Germany's' share is 18 per cent.

The EU share in total imports of Bulgaria is 48 per cent, while this ratio is 58,3 per cent in exports in 2012 which dropped from 64,2 per cent in 2009.

In Turkey's total imports the EU share is 37 per cent where in exports 40 per cent. Although the export figure was 48 per cent in 2008, with effect of the crises in the EU, the Turkish exports stagnated towards the Union. The share of the EU in the total imports was fluctuating between 37 and 40 per cent from 2008.

4.3. The Relations of Turkey With the Eastern Europe Countries After the 2008 Crises

4.3.1. Hungary

The FDI attraction of the Hungary was glorious during her transition period and then by the membership. In 2012 also the FDI flow to the country was increasing as the amount accounted to 14 per cent of the GDP where the average of the EU countries was 2 per cent[366]. As observed during the transition period Turkish existence in the FDI of Hungary was limited, where this situation was preserved till today, although with some declines in the total amount of the Turkish capital according to the Hungarian authorities. Nevertheless, it is hard to calculate the real Turkish capital in the Hungary, as there are too many firms establishing, closing or transferring their business during the year, and furthermore the Hungarian authorities are not regularly following or updating the FDI figures on the country basis. In a study made by the Turkish Embassy Office of Commercial Counselor Office, in 2008 it was assumed to be 67,7 million Dollar Turkish capital inside the country. When we consider the total FDI stock assumed to be around 90 billion in 2008 and 100 billion US Dollar in 2012[367], the Turkish share is not even 1 per cent, fluctuating between 0,06-0,07 per cent of the total.

The biggest investment made by the Turkish side in Hungary was the purchasing of the Budapest Ferihegy Airport ground services by "Çelebi Holding" in 2006, with the amount of the 39 million Euro. The other important Turkish investment is the production facility of automotive spare parts of a Turkish firm, where some amount of the capital was coming from the Turkish firm's facility from Romania[368]. On the other hand, the oldest Turkish investment in Hungary made by the "Türkiye Halk Bankası" in 1993 with purchasing the 5 per cent share of the one of the Banks of Hungary namely "Volksbank". In the Budapest office of Volksbank there is a Turkish desk operating in the country.

Furthermore, there are some well known Turkish brands operating in Hungary such as; Ege Seramik, Sarar, Temsa, Yataş, Persan, Vesbo, Taç, Çilek Mobilya, having their shops or warehouses inside the country. In general overall profiles of the Turkish firms are small or medium sized in the country[369].

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366 OECD FDI in Figures, April, 2013 (accessed on 17/6/2013) http://www.oecd.org/daf/inv/FDI%20in%20figures.pdf

367 Ibid

368 Report of Turkish Embassy Office of Commercial Counsellor in Budapest, 2008 http://www.musavirlikler.gov.tr/upload/H/2008raporu-macaristan-1.doc

369 Ibid

The other recent development regarding the bilateral relations between Turkey and Hungary is the "Eastern Initiative Project" developed by the Hungarian government, in order to find new markets for their exports, enhance economic relations with those countries by obtaining new credits other than the IMF, enhance tourism revenues, and attract also foreign students to the country. The main purpose of the project is to attract any kind of capital to the country. Turkey is also one of the target countries of the Hungary in that context[370]. Hungary is also trying to activate Hungarian citizens in all around the world, in order to use them as bridge to develop the economic relations with the host countries they are living. The underlying rationality under those projects can be described as to decrease the dependency of the country on the Western Europe market and financial institutions with taking into account the economic instability in the EU region, and thereof its future.

When we analyse the bilateral trade between Turkey and Hungary, the effect the Hungarian accession to the EU can be seen in the countries' exportation. Although in the imports from Turkey there is also an increase (not a stable one), the overall balance of trade is in favor of Hungary, due to the countries' overall export performance.

Table 57: Bilateral trade of Turkey and Hungary after the membership

US Dollar Million	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Imports*	418	439	533	614	441	485	570	579
Exports*	927	1.150	1.379	1.353	1.087	1.609	1.881	1.560
Balance	509	711	846	739	646	1.124	1.311	981

Source: Trade map
**Hungarian exports to Turkey and imports from Turkey*

When we analyze the product coverage in bilateral trade between Turkey and Hungary, there is a continuity, one can observe very low levels of ups and downs in some commodity groups. In fact in the last decade, in our commercial relations with

370 Report of Turkish Embassy Office of Commercial Counsellor in Budapest, 2012 http://www.musavirlikler.gov.tr/altdetay.cfm?AltAlanID=368&dil=TR&ulke=H

Hungary, there is a big similarity in the product coverage for exports and imports. For example, machinery has an important amount in the Turkey's total exports as well as her imports.

The share of Turkey in total exports of the Hungary preserved its very low position till the end of 2012 as it was during the transition period of the country, that have been examined in the previous chapter. The meaningful shares can only be observed in agricultural products, such as cotton and edible fruits, where their export values are very low in Turkey's exports. On the other hand the biggest amount of the imports of the Hungary from Turkey mainly in industrial products where Turkey had already proved her competitiveness in those product groups, such as machinery, electronics and vehicles. Although in textile and clothing Turkey's exports to Hungary were in a better position at the beginning of the 2000's (in 2003 the share of this product group was 6 per cent in the total imports of Hungary, where the share decreased to 1,6 per cent in 2012), the exports of Turkey in those products dropped dramatically with the effect of the aggressive exports coming from the Far-East Countries, especially from China.

Turkey ranked the 23rd in total imports of Hungary in 2012.

Table 58: Hungarian Imports from Turkey (1.000 $)

	2010	2011	2012	%*	%*	%*
All products	484.785	570.110	578.623	0,55	0,56	0,61
Machinery, nuclear reactors, boilers, etc	63.916	86.575	107.873	0,51	0,58	0,75
Electrical, electronic equipment	50.617	66.455	71.613	0,19	0,26	0,32
Aluminum and articles thereof	40.507	66.560	54.094	2,38	3,13	2,97
Articles of iron or steel	72.500	46.284	44.815	3,74	2,09	2,13
Vehicles other than railway, tramway	28.520	40.234	42.186	0,50	0,58	0,62
Cotton	17.561	26.387	27.333	16,37	17,03	20,16
Plastics and articles thereof	22.562	27.290	26.793	0,64	0,66	0,68

Table 58 (continued)

Edible fruit, nuts, peel of citrus fruit, melons	25.869	19.049	25.835	10,17	6,22	10,01
Copper and articles thereof	10.103	19.433	17.868	1,35	2,09	1,90
Pharmaceutical products	10.102	15.325	17.310	0,29	0,36	0,47
Glass and glassware	16.880	16.828	13.422	3,55	2,95	2,43

Source: Trade Map
** Share in total imports of Hungary*

In total exports of Hungary to Turkey, around 80 per cent of the total was belonging to three main industrial products namely; machinery, electronics and vehicles till 2010. However, with the decision of the Ministry of Agricultural of Turkey in lowering import tariffs of live animals and meat, in order to decrease the price of the meat inside the country, Turkey began to import huge amounts of those products. Consequently, importation from Hungary has reached big amounts, where the Hungarian share in total amount of the importation in those products realized around 20 per cent in the last three years. Thus the dominance of live animals in our imports from Hungary in the last years effected the distribution of the product coverage in Turkey's imports where the share of the main three product groups decreased to 60-70 per cent.

Turkey ranked the 18th in the total exports of Hungary in 2012.

Table 59: Hungarian exports to Turkey (1.000 $)

	2010	2011	2012	%*	%*	%*
All products	1.609.127	1.880.659	1.559.554	1,15	1,82	2,24
Electrical, electronic equipment	804.402	744.872	513.454	1,36	12,39	11,91
Machinery, nuclear reactors, boilers, etc	284.225	325.358	344.564	1,02	26,67	50,47
Vehicles other than railway, tramway	82.414	180.574	141.743	0,00	0,55	2,81
Live animals	72.289	205.935	140.021	12,32	8,15	8,02
Plastics and articles thereof	104.435	127.153	97.952	1,39	1,29	1,26
Organic chemicals	20.433	31.135	54.872	4,04	5,59	4,93

Table 59 (continued)

Rubber and articles thereof	25.535	17.252	31.010	23,26	42,15	33,58
Pharmaceutical products	21.395	33.798	27.797	2,32	2,97	23,94
Mineral fuels, oils, distillation products, etc	408	16.993	21.562	14,71	13,37	19,76
Inorganic chemicals, precious metal compound, isotopes	14.603	20.346	16.454	3,10	3,30	2,75
Iron and steel	24.891	20.577	16.390	1,71	1,06	0,92

Source: Trade Map
** Share in total exports of Hungary*

4.3.2. Romania

In Romania Turkish investments were 2,6 per cent of the total FDI of the country in 2007. In year 2012 Turkey's share dropped to 1,3 per cent with 12.509 Turkish firms operating in the country with around 416 million US Dollar investment stock value[371]. According to the total number of the firms in Romania Turkey ranked 3rd, while in the annual flow amount of the FDI ranked 16th in 2012.

In general, Turkish investments in Romania concentrated on; industry, banking and finance, trade, agriculture and transportation. The biggest Turkish firms are; Arctic (household electronics), Erdemir Romania (iron and steel), Prolemn (wood industry), Rulmenti Barlad (bearing), Credit Europe Bank and Garanti Bank.

More over in Romania construction sector is an important area as it can be seen in the other EECs. There are some big projects that have been undertook by Turkish constructors, such as, the construction of "415 km Braşov-TarguMureş-ClujNapoca-Oradea-Hungary border road" will be done by "ENKA Contraction" firm in corporation with an American firm, amounted to 5,4 billion US Dollar.

The other important construction business done by a Turkish firm SUMMA Romania S.A. are; Plaza Romania Mall, Bucharest Corporate Center, Millennium Business Center and Bucharest North Gate Center. There are still some ongoing

[371] Report of Turkish Embassy Office of Commercial Counsellor in Bucharest, 2013 http://www.musavirlikler.gov.tr/upload/R/2013%20RAPORU.doc

projects by this firm. Another firm, GÜRİŞ Romania S.R.L., had been established in 2002 in Romania, is the branch of one of the biggest construction firms in Turkey, namely “Güriş”, is also undertaking some projects in Satu Mare and Constanta.

Moreover in recent years also, many official delegations from Turkey had been organized to Romania.

When we analyze the bilateral trade between Turkey and Romania, Romania was giving trade deficit from 2006 to 2010, then huge surge occurred in her export performance in 2010 as it can be seen in the total export performance of Romania after the decline in exports in 2009 with the effect of the crises. The Romanian imports from Turkey shows a parallel trend with the countries' total imports, but slightly lesser.

Table 60: Bilateral trade of Turkey and Romania till 2012

US Dollar 1.000	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Imports*	3.763.771	4.080.988	2.024.810	2.280.120	2.645.752	2.367.247
Exports*	2.819.087	3.275.963	2.008.701	3.391.297	3.863.414	3.161.615
Balance	-944.684	-805.025	-16.109	1.111.177	1.217.662	794.368

Source: Trade map
**Romanian exports to Turkey and imports from Turkey*

From 2005 the share of Turkey in total imports of Romania was around 5 per cent, where this proportion decreased to around 3 per cent in the last three years. Before the Romanian membership, the import share of iron and steel from Turkey was around 10 per cent, (15 per cent in 2007), where this figure dropped to 7 as the country also an exporter in iron and steel. The biggest amounts in the imports from Turkey are the machinery and vehicles. The share of imports textile products grew up through the years, and reached the 20 per cent proportion.

In the total imports of Romania Turkey ranked the 11^{th} in 2012, while at the beginnings of the 2000s, for example in 2004 holding the 5^{th} rank.

Table 61: Romanian Imports from to Turkey (1.000 $)

	2010	2011	2012	%*	%*	%*
All products	2.280.120	2.645.752	2.367.247	3,68	3,46	3,37
Machinery, nuclear reactors, boilers, etc	383.695	419.756	371.281	5,40	4,78	4,28
Vehicles other than railway, tramway	290.503	373.348	314.631	7,13	7,04	6,39
Iron and steel	180.663	229.784	197.468	7,55	6,89	7,20
Articles of iron or steel	181.779	221.326	195.052	8,92	9,10	8,89
Plastics and articles thereof	162.005	189.855	182.936	5,52	5,31	5,25
Electrical, electronic equipment	117.440	121.429	127.390	1,15	1,05	1,28
Knitted or crocheted fabric	60.393	72.245	68.791	23,04	22,90	22,43
Rubber and articles thereof	49.833	77.545	62.163	3,99	4,28	4,04
Manmade filaments	43.902	54.906	53.393	7,91	7,99	7,81
Cotton	53.510	60.149	47.952	10,45	10,02	9,36
Manmade staple fibers	43.485	43.291	47.003	10,01	8,43	9,71

Source: Trade Map

* Share in total imports of Romania

We can also observe a similar decline in the share of Turkey in the total exports of Romania, as in the share of imports. Before the membership of the country, Turkey's share was around 7-8 per cent which decreased to 6-6,5 per cent. This shows that recently the bilateral trade with Turkey's border neighbor is not developing as it has to be.

Iron and steel represents the biggest amount and the biggest share in the total exports of Romania to Turkey.

Turkey ranked 4th in the total exports of Romania in 2012, and has been preserving this position through the years.

Table 62: Romanian Exports to Turkey (1.000 $)

	2010	2011	2012	%*	%*	%*
All products	3.391.297	3.863.414	3.161.615	6,86	6,16	5,46
Iron and steel	1.477.189	1.552.741	1.141.742	51,76	44,26	42,57
Vehicles other than railway, tramway	314.253	390.504	400.348	5,11	5,20	5,38
Machinery, nuclear reactors, boilers, etc	197.936	194.156	197.950	4,77	3,56	3,58
Mineral fuels, oils, distillation products, etc	200.026	308.408	181.177	7,64	8,95	5,63
Wood and articles of wood, wood charcoal	101.918	135.508	177.763	6,53	6,93	8,59
Fertilizers	85.523	145.131	177.422	15,76	16,53	23,53
Electrical, electronic equipment	316.092	309.119	138.117	3,46	2,74	1,51
Rubber and articles thereof	39.924	56.552	100.530	2,61	2,61	4,64
Commodities not elsewhere specified	16.152	40.391	91.144	1,72	3,42	17,09
Oil seed, oleagic fruits, grain, seed, fruit, etc	75.199	127.180	56.819	9,92	11,14	9,51
Plastics and articles thereof	69.492	108.528	56.236	7,50	8,52	5,01
Cereals	83.979	86.577	56.215	7,17	5,90	3,28

Source: Trade Map
* Share in total exports of Romania

4.3.3. Bosnia-Herzegovina

In Bosnia-Herzegovina the total Turkish FDI stock amounted to 135 million Euro from 1994 till the end of 2010, with the share of 2,2 per cent and having the rank of 8th. On the other hand, Turkey ranked 6th in the annually amount of FDI inflow in 2010 with the value of 20.166.886 Euro. Where the share of Turkey was 3,4 percent in total FDI stock in 2008, this level declined to 2,2 percent after two years. Although the total amount of the flow was increased in 2010, the aggressive

FDI inflow from Austria to BiH (from 500 to 1,600 million Euros from 2008 to 2010) caused Turkey's share to drop.

The biggest Turkish investment in the BiH is the "Natron-Hayat" with 49,54 million Euro and "Şişecam Soda Lukavac" with 39,32 million Euro[372].The other important investment of Turkey was the establishment of Ziraat Bank in BiH in 1997, as the first foreign owned bank in the country, had the capital of around 31 million Euro in 2007 according to Bank's announcement. Furthermore, Turkish Airlines has bought the 49 per cent of the B&H Airlines' equity with an amount of 4,7 million Euro[373].Thus the distribution of the Turkish investments in the country was mostly located in the area of production with a share of around 80 per cent, followed by banking sector 10 per cent, trade 5 per cent and transportation with 3,6 per cent[374].

The number of the Turkish firms was still around 50 in 2011 as in the 2008. In recent years some big and well known Turkish brands had also opened their shops in BiH, such as Collins, LC Waikiki, Seven Hill, Koton, Cesars, Altınbaş, Beko, Alfemo and Bellona[375]. Moreover, in the country there are two universities and one college, whose owners mostly are Turkish citizens. There is no visa requirement for Turkish people in entering the country for 60 days.

As mentioned in the previous chapter, custom duties on all products imported into Bosnia-Herzegovina originating in Turkey were abolished as of 1 January 2007, after signing the Free Trade Agreement in 2002 which entered into force one year later. The effect of the last stage of the FTA was very distinct on the Turkish exports where the imports from Turkey was 212 million in 2006, raised up to 646 million in 2008. However the FTA was not that much effective on the Bosnian exports to Turkey, causing huge trade deficit in the total balance of the country.

[372]Report of Turkish Embassy Office of Commercial Counsellor in Sarajevo, 2011 http://www.musavirlikler.gov.tr/upload/BH/2011%20yillik%20Raporu.pdf

[373] Ibid

[374] Ibid

[375] Ibid

After the crises in 2009 there is a sharp decline in Turkish exports. Nearly the export figure of Turkey in 2009 decreased to 1/3 of the previous year from 646 million US Dollar, this trend kept going till the end of 2012 with a slightly increase. On the other hand, Bosnia increased her export capacity towards Turkey, even doubled her figures in 2011.

Table 63: Bilateral Trade of Turkey and BiH after the crises

US Dollar 1.000	**2009**	**2010**	**2011**	**2012**
Imports*	248.257	256.409	320.276	295.047
Exports*	36.630	55.043	106.750	115.703
Balance	-211.627	-201.366	-213.526	-179.344

Source: Trade map
**Bosnian exports to Turkey and imports from Turkey*

When we analyze the bilateral trade between Turkey and Bosnia for the last 3 years, since the crises, there is a decline in the share of Turkey in total imports of the country. In 2007 and 2008 in all products, Turkey's share was 5.8 and 5.3 per cent respectively in the total imports of BiH, where this proportion dropped to around 2.9 percent in recent years. The general composition of the imports remained the same as before the crises, but with some slightly differences. In 2007 and 2008"in mineral fuels, oil (specifically "petroleum oils, not crude")" Bosnian imports from Turkey was having the biggest value in the bilateral trade, and Turkey ranked 2th in the total imports after Croatia. Consequently the share of Turkey in this product in total imports of BiH was 18.65 and 14.15 per cent respectively. However, after 2008 there was no such a meaningful importation from Turkey in that product group. On the contrary Bosnian imports from the world increased steadily in "petroleum oils not crude", especially from Russia very aggressively from 192 million to 990 million US Dollar in 2008 and 2012 respectively.

The textile products and carpets were having the biggest shares from Turkey in the total imports of Bosnia. Although the value of cotton importation from Turkey was low, the share of Turkey in cotton imports had been increased in 2011 and 2012 with the percentage of 17,5 and 11,8 respectively.

As mentioned in the previous chapter, after the war the industrial production of the country shifted from heavy industry having a value added production capacity such as machine production, processing metals to a low level of light industry of food and wood processing, minerals and etc. So it would not be wrong to state that there is a big potential for Turkey to export every kind consumption products and value added products to BiH.

Turkey ranked the 9th in the total imports of Bosnia, after Croatia, Germany, Russia, Serbia, Italy, China, Slovenia and Austria in 2012.

Table 64: Bosnian Imports from Turkey (1.000 $)

	2010	2011	2012	%*	%*	%*
All products	256.409	320.276	295.047	2,78	2,90	2,94
Plastics and articles thereof	26.063	28.492	34.894	6,65	6,34	7,89
Machinery, nuclear reactors, boilers, etc	25.959	36.903	26.856	3,78	4,72	3,66
Electrical, electronic equipment	16.015	20.456	19.113	3,15	3,73	3,80
Articles of apparel, accessories, knit or crochet	15.529	17.473	18.648	21,22	21,00	24,73
Articles of apparel, accessories, not knit or crochet	16.815	19.028	18.558	18,44	19,37	19,89
Vehicles other than railway, tramway	15.618	21.707	18.536	3,20	3,38	3,27
Articles of iron or steel	9.395	14.325	14.191	4,21	5,40	5,97
Carpets and other textile floor coverings	8.166	8.775	9.134	45,94	50,19	52,78
Cereal, flour, starch, milk preparations and products	5.796	8.037	8.922	5,46	6,99	8,08

Source: Trade Map
**Share in total imports of BiH*

The share of Turkey in total exports of the BİH is very low, but slightly better after the crises. The concept of the product coverage of exports is due to change. We cannot see a sustainable export performance of Bosnia, except some limited products, like iron and steel and machinery. In "explosives, pyrotechnics, matches, pyrophorics, etc", there is an interesting export of Bosnia to Turkey since 2010 is observed, having the share of 30-40 per cent of the country's total exports.

In the product group of "Pearls, precious stones, metals, coins, etc" the increase in exports of BiH to Turkey is noteworthy. If we analyse the details of this product group, it is seen that, in the sub-groups of "Articles of goldsmith's/silversmith's wares & pts" and "Gold unwrought or in semi-manuf forms" nearly 87-90 per cent of the Bosnian exports are directed to Turkey.

Turkey ranked the 9th in the total exports of Bosnia after Germany, Croatia, Italy, Serbia, Austria, Slovenia, Montenegro and an unknown territory in 2012.

Table 65: Bosnian Exports to Turkey (1.000 $)

	2010	2011	2012	%*	%*	%*
All products	55.043	106.750	115.703	1,15	1,82	2,24
Iron and steel	3.927	54.401	48.171	1,36	12,39	11,91
Articles of leather, animal gut, harness, travel goods	110	10.525	17.737	1,02	26,67	50,47
Mineral fuels, oils, distillation products, etc	4	4.510	12.995	0,00	0,55	2,81
Paper and paperboard, articles of pulp, paper and board	15.327	12.069	10.400	12,32	8,15	8,02
Machinery, nuclear reactors, boilers, etc	4.426	5.124	4.246	1,39	1,29	1,26
Raw hides and skins (other than fur skins) and leather	2.440	4.744	3.930	4,04	5,59	4,93
Explosives, pyrotechnics, matches, pyrophorics, etc	1.587	3.597	3.372	23,26	42,15	33,58
Pearls, precious stones, metals, coins, etc	59	255	3.099	2,32	2,97	23,94
Organic chemicals	1.700	2.004	2.470	14,71	13,37	19,76

Source: Trade Map

*Share in total exports of BiH

4.3.4. Bulgaria

According to the Bulgarian Chamber of Trade and Industry, there are 903 registered Turkish owned Bulgarian firms operating in the country, as of September, 2012. Turkish cumulative capital in Bulgaria as of 2012 was 306 million US Dollar, and Turkey ranked 19th in the list of investors[376]/[377]. The Turkish FDI share is 0,8 per cent in the total FDI stock of Bulgaria in 2012.

In the distribution of the Turkish investments, there is a wide range. In the finance and banking, a Turkish owned bank "D Commerce Bank AD" and "Ziraat Bank of Turkey" are operating in Bulgaria. Moreover, in 2011 a Turkish owned bank of "Türkiye İş Bankası" began its facilities in Bulgaria as a Turkish owned German Bank, under the name of ISBANK GmbH which was established in Germany.

There are also some production activities done by the Turkish investors, from food to wood and glass processing (Şişecam), textile, aluminum, automotive spare parts and chemical production. Some of the well known Turkish brands in Bulgaria are; Taç, Eczacıbaşı Vitra, Eti, Ülker, Ece, Colins, Ten, Sarar, İstikbal, Doğtaş, Yağmur, Isuzu, BMC, Temsa, Polisan, LC Waikiki, Betek and Beko[378].

As the construction sector has been effect by the 2008 economic crises in Bulgaria, there were declines in the projects undertaken by the Turkish contractors till that time. On the other, the biggest construction facilities had been done or will be done by the Turkish contractors are as follows: The Lyulin High way, connecting the Sofia high way to Struma Highway (Sofia-Kulata) amounted to 137,4 million Euro, Thermal Power Plant of Maritza-Iztok 1 (subcontractor is a Turkish firm), Lyulin High way, Subway line of Sofia Nadejda - ÇerniVrıh, additional terminals to the Varna and Burgaz Airports[379].

Furthermore there have been some meetings among the related sides, to realize a partnership in the construction of a high way connecting Ruse and Svilengrad cities, financed by the Qatar State and constructed by a Turkish firm[380].

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[376]Bulgarian National Bank, (accessed on 11/6/2013)
http://www.bnb.bg/Statistics/StExternalSector/StDirectInvestments/StDIBulgaria/index.htm

[377]Report of Turkish Embassy Office of Commercial Counsellor in Sofia, 2011
http://www.musavirlikler.gov.tr/upload/BG/rapor%202011.docx

[378]Ibid

[379]Ibid

[380]Ibid

In the bilateral trade, generally Bulgaria gives a positive balance since 2001, except for the years 2008 and 2009. The imports from Turkey had declined with 26 per cent from 2008 to 2012, while exports increased with 27 per cent towards Turkey during the same period where on the contrary the total exports of the country declined in 2012.

Table 66: Bilateral Trade of Turkey and Bulgaria till 2012

US Dollar 1.000	**2008**	**2009**	**2010**	**2011**	**2012**
Imports*	2.075.875	1.303.269	1.373.005	1.544.664	1.534.292
Exports*	1.979.821	1.202.780	1.752.207	2.400.252	2.510.923
Balance	-96.054	-100.489	379.202	855.588	976.631

**Bulgarian exports to Turkey and imports from Turkey*
Source: Trade map

We can see a decline in the Turkey's share in the total imports of Bulgaria, from 2007 to 2012 around 6 per cent to 5 percent. This trend is similar with the total imports of the country. Plastics products have the biggest amount in the total imports from Turkey, where the biggest share belongs to textile products.

Turkey ranked the 4th in the list of importers of the Bulgaria, after Switzerland, Greece and China.

Table 67: Bulgarian Imports from Turkey (1.000 $)

	2010	2011	2012	%*	%*	%*
All products	1.373.005	1.544.664	1.534.292	5,41	4,75	4,69
Plastics and articles thereof	100.260	124.498	146.200	9,45	9,81	11,74
Electrical, electronic equipment	93.937	142.442	118.804	4,01	4,81	3,74
Machinery, nuclear reactors, boilers, etc	92.581	105.682	116.503	4,24	4,04	4,47
Copper and articles thereof	72.652	85.033	113.784	15,82	12,78	17,08
Aluminum and articles thereof	92.739	72.835	87.919	23,70	15,78	21,17
Iron and steel	54.483	87.620	70.061	6,47	6,55	6,63

Table 67 (continued)

Articles of iron or steel	42.632	49.934	62.097	9,04	9,60	10,73
Knitted or crocheted fabric	50.432	52.878	59.243	22,78	20,27	25,09
Vehicles other than railway, tramway	43.197	62.608	54.832	3,89	3,97	3,54
Cotton	25.825	31.502	52.477	12,08	12,04	23,33
Rubber and articles thereof	28.117	39.860	49.275	10,59	11,76	14,42
Articles of apparel, accessories, knit or crochet	33.174	41.484	46.325	12,64	15,83	17,82

Source: Trade Map
 ** Share in total imports of Bulgaria*

In the case of exports, the performance of Bulgaria is glorious, although the share of Turkey is slightly declined form 10 per cent before the membership, to around 8,5 percent then. The mineral oils have the biggest amount in the total exports of the country towards Turkey. In the product group of "Pearls, precious stones, metals, coins, etc" the increase in exports of Bulgaria to Turkey is noteworthy. If we analyze the details of this product group, it is seen that, in the sub-group of "Articles of goldsmith's/silversmith's wares & pts" nearly 100 per cent of the Bulgarian exports are directed to Turkey where in the second sub- group "Gold unwrought or in semi-manufactured forms" this ratio is nearly 50 per cent of the total exports of the Bulgaria.

Turkey ranked the 3rd in the list of exporting countries of Bulgaria after Switzerland and Belgium.

Table 68: Bulgarian Exports to Turkey (1.000 $)

	2010	2011	2012	%*	%*	%*
All products	1.752.207	2.400.252	2.510.923	8,50	8,52	9,40
Mineral fuels, oils, distillation products, etc	152.436	515.568	835.302	5,56	13,93	19,34
Copper and articles thereof	450.122	510.071	466.973	21,88	15,68	16,76
Iron and steel	223.763	237.383	262.423	25,56	19,07	28,43

Table 68 (continued)

Wood and articles of wood, wood charcoal	82.469	115.050	126.250	30,19	32,94	35,79
Oil seed, oleagic fruits, grain, seed, fruit, etc	84.628	146.459	121.044	13,58	13,92	16,62
Electrical, electronic equipment	64.432	84.375	101.264	4,22	4,03	5,47
Plastics and articles thereof	34.929	48.650	57.602	8,42	8,40	9,60
Lead and articles thereof	75.891	51.888	47.809	42,71	29,16	34,28
Machinery, nuclear reactors, boilers, etc	37.839	47.045	45.318	2,75	2,47	2,45
Pearls, precious stones, metals, coins, etc	5.892	21.620	45.060	2,44	3,28	20,49
Residues, wastes of food industry, animal fodder	15.785	22.381	33.841	12,61	14,01	17,45
Albuminoids, modified starches, glues, enzymes	24.524	35.672	31.047	59,05	59,17	48,09
Zinc and articles thereof	62.344	55.739	23.750	32,40	26,73	14,23
Articles of apparel, accessories, not knit or crochet	20.381	24.133	21.905	2,28	2,23	2,31

Source: Trade Map
** Share in total imports of Bulgaria*

4.3.5. Serbia

As mentioned in the previous chapter, bilateral economic relations between Turkey and Serbia rely on mostly on trade. The Turkish businessmen interest in Serbia is the least among the countries in the region. It has been thought that in the dismantling of the Yugoslavia, the dramatic developments paved the way for a negative psychological effect on the investors[381]. Only after the removal of Miloseviç, some developments have been observed but still very limited. According to the statistics from Serbian Investment and Export Promotion Agency, between 2002-2007 Turkish FDI in the country was 2,7 million US Dollars. In 2002 with 7.000 $ Turkey ranked 40th, in 2003 with 11.000 $ ranked 42nd and in 2005 with 2,7

[381]Web page of Turkish Embassy in Belgrad (accessed on 7/6/2013) http://www.belgrad.be.mfa.gov.tr/ShowInfoNotes.aspx?ID=121210

million $ ranked 19th. After that Turkey was not able to be listed in the FDI flow to Serbia due to its very low levels of investments[382].

The only Turkish investment in the country was the “Efes Weifert Brewery J.S.C.” which had begun to operate in Serbia with two factories producing beer in Pançevo and Zajecar in 2003, with the total investment amount of around 30 million Euros. However, EfesWeifert, handed over its facilities in Serbia to the firm “Heineken” in July 2008[383].

On the other hand, an agreement for the cooperation of infrastructure projects has been signed on 2009, during the visit of the Turkish President to Serbia. According to that agreement, the finance of the construction of the high ways namely; Novi Pazar-Tutin and Novi Pazar-Sjenica/Aljinovici, which would account to 30 million US Dollar, to be covered by Turkish Eximbank with the guarantee of the Serbian State was decided. However, as the total amount of the projects that were to be financed with the Turkish Eximbank was very low according to the OECD rules, the finance of the package has not been realized[384].

In recent years some good faith agreements have signed for contracting business in Serbia amounted around 750 million Euros for the construction of the high ways in the mountainous region of the country by namely Mak-Yol, Yüksel and Kolin Contraction firms between Turkey and Serbia[385]. Moreover in 2012 the Turkish Halkbank has opened a representative office in Belgrade.

From 2010 July through a bilateral agreement, mutually there is no visa requirement in entering both countries for 90 days.

It is observed that mostly the investments in developing the energy sector in Serbia is realized with Russian and Chinese investors[386].

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[382] Ibid

[383] Ibid

[384] Ibid

[385] Web page of Turkish Embassy in Belgrad (accessed on 7/6/2013) http://www.belgrad.be.mfa.gov.tr/ShowInfoNotes.aspx?ID=121210

[386] Report of Turkish Embassy Office of Commercial Counsellor in Belgrade, 2013 http://www.musavirlikler.gov.tr/upload/SRB/muteahhitlik-rapor.doc

Table 69: Bilateral Trade of Turkey and Serbia till 2012

US Dollar 1.000	**2009**	**2010**	**2011**	**2012**
Imports*	293.851	324.881	405.143	441.061
Exports*	45.123	87.988	183.179	186.820
Balance	-248.728	-236.893	-221.964	-254.241

**Serbian exports to Turkey and imports from Turkey*
Source: Trade map

In the bilateral trade Turkey always gives a positive balance. It is observed in 2009 there is decline in total imports of Serbia from Turkey compared with 2008 figures (458 million US Dollar) with 39 per cent, as it can be seen in the total imports of the country. With the effect of the FTA that entered into force by September 2010, a general recovery in bilateral trade is clearly observed. It is envisaged that this recovery will be much more positive by 2015, as the all tariffs on industrial goods originating in Turkey will be eliminated.

Turkey's share in the total imports of the Serbia preserves its position around 2 per cent from 2005. Textile and clothing has the biggest share in the total imports of the country. Some special products not specifically listed in the Harmonized System Nomenclature, has the biggest value followed by vehicles and machinery in the imports from Turkey. Turkey ranked the 14th in the list of importers of the Serbia in 2012.

Table 70: Serbian Imports from Turkey (1.000 $)

Product label	**2010**	**2011**	**2012**	**%***	**%***	**%***
All products	324.881	405.143	441.061	1,94	2,04	2,33
Commodities not elsewhere specified	42.776	15.642	41.398	1,51	1,64	2,44
Vehicles other than railway, tramway	17.524	36.937	35.674	3,02	3,03	3,06
Machinery, nuclear reactors, boilers, etc	25.661	33.889	35.444	2,05	1,80	2,19
Knitted or crocheted fabric	25.854	30.485	35.080	50,87	49,38	55,55

Table 70 (continued)

Plastics and articles thereof	18.473	30.484	35.072	2,49	3,09	3,53
Edible fruit, nuts, peel of citrus fruit, melons	24.015	26.166	25.660	16,69	14,96	14,78
Electrical, electronic equipment	10.355	25.635	25.501	0,90	1,85	1,88
Cotton	11.112	14.306	14.582	20,01	20,89	24,63
Articles of iron or steel	15.238	18.283	12.611	4,26	3,50	2,76
Articles of apparel, accessories, not knit or crochet	9.148	11.002	12.284	6,76	7,41	8,88
Impregnated, coated or laminated textile fabric	13.692	17.336	12.100	26,28	24,42	18,69
Aluminum and articles thereof	8.030	9.209	11.557	2,48	2,21	3,05
Articles of apparel, accessories, knit or crochet	7.247	8.138	11.159	5,31	5,26	7,29
Paper and paperboard, articles of pulp, paper and board	8.020	6.941	10.803	1,88	1,36	2,26

Source: Trade Map

* Share in total imports of Serbia

The share of Turkey is very low in the total exports of the Serbia since 2005, around 1 per cent of the total. The biggest amount of exports belonged to iron and steel, followed by mineral oils. Turkey ranked the 15th in the total exports of Serbia.

Table 71: Serbian Exports to Turkey (1.000 $)

Product label	2010	2011	2012	%*	%*	%*
All products	87.988	183.179	186.820	0,90	1,56	1,65
Iron and steel	23.000	55.070	62.175	2,18	5,00	13,36
Mineral fuels, oils, distillation products, etc	3.599	53.468	44.744	0,72	10,61	11,22
Rubber and articles thereof	12.495	18.914	21.046	3,77	4,18	5,36

Table 71 (continued)

Paper and paperboard, articles of pulp, paper and board	4.927	6.103	8.945	2,29	2,29	3,52
Copper and articles thereof	8.993	2.695	8.306	1,78	0,42	1,63
Machinery, nuclear reactors, boilers, etc	12.076	8.344	5.231	2,27	1,26	0,74
Raw hides and skins (other than fur skins) and leather	2.537	6.068	5.216	6,11	10,96	9,29
Wood and articles of wood, wood charcoal	2.313	1.965	4.423	1,35	0,85	1,96
Plastics and articles thereof	905	4.069	3.937	0,19	0,67	0,75
Electrical, electronic equipment	206	4.401	2.463	0,03	0,46	0,22
Stone, plaster, cement, asbestos, mica, etc articles	73	405	2.207	0,25	1,07	5,74

Source: Trade Map

** Share in total exports of Serbia*

4.3.6 Albania

After the year 2007, the share of Turkey in total FDI of Albania was rising as mentioned in the previous chapter, also with the effect of the decline in Greek investments in the country. In 2010 this share was 11 per cent where in 2006 was 6 per cent. By 2012 there are 100 Turkish firms operating in Albania. Turkish firms are operating in wide range of areas, like mining, construction, textile, service, education, trade, food, energy. As the shopping malls in the country spread out in the country, some well-known Turkish brands located in the country: Fabrika, Damat, Cacharel, Collezione, Wenice, Koton, AdilIşık, Colin's, Özdilek, Çilek Mobilya[387]. Those brands also helped to change the cheap and unqualified image of the Turkish products, because of the influence of brandy and expensive Italian products in the market. On the other hand, the second biggest bank in Albania (BKT Albania), has been established by Turkish capital. Moreover, the owners of Albtelecom (land line

[387]Report of Turkish Embassy Office of Commercial Counsellor in Tirana, 2012 http://www.musavirlikler.gov.tr/upload/ARN/Arnavutluk%20Ulke%20Raporu%202012-%20internet.pdf

telephone firm of Albania) and the biggest petroleum distributor firm of the country are all Turkish origin[388].

In Albania construction projects constitute an important business area. Turkish contractors have already finished totally 16 projects in Albania with the total amount of around 700 million US $, which locates Turkey in third 3rd rank after Italy and Greece. One of the biggest projects done by the Turkish constructors is the 57 km Rreshen-Kalimash high way, connecting Durres Port to the Kosova by the ENKA Group.

As transportation towards Albania is an important problem with huge transportation fees when compared with the cheap transportation from Italy and Greece, alternative transportation routes has been sought by the Turkish businessmen. At the meeting of Turkey-Albania Joint Economic Commission on 28 January 2009, it has been decided to investigate the possibilities of establishing "R0-RO" sea transportation from two ports of the two sides. Thus, the initiatives through this project have begun and a suitable port in Durres for the RO-RO transportation has been built by a Turkish firm[389].

There are also some difficulties faced by the Turkish businessmen in doing business in Albania. Although mutually the visa requirement was withdrawn for 90 days, with an agreement signed between Turkey and Albania, there are still many problems at the Albanian border for Turkish businessmen. According to the Turkish Ministry of Foreign Affairs, as Albania located on the route for illegal traffic of international organized crime which is linked to the EU, the Albanian border authorities are acting too cautious except for the EU citizens, but also for the Turkish people[390]. In fact, it is thought that the Albanian border authorities are having kept

[388] Ibid

[389] Ibid

[390] Web page of Turkish Rebublic, Ministry of Foreign Affairs, (accessed on 7/6/2013) http://www.mfa.gov.tr/arnavutluk-seyahat-edecek-turk-vatandaslarinin-dikkatine.tr.mfa

the Turkish businessmen, with their invitations from their Albanian partners, at the borders without any legal ground[391].

As mentioned in the previous chapter, in bilateral relations with Albania, the country always gives a deficit, as it can be also seen in her total foreign trade balance. However, there is a 10,5 per cent decrease in imports of Albania from Turkey from 2008 (313 million US Dollar) to 2012, where there is an increase in her total exports to Turkey with a 377 per cent from 2008 (26 million US Dollar) to 2012 .

Table 72: Bilateral Trade of Turkey and Albania till 2012

US Dollar 1.000	**2009**	**2010**	**2011**	**2012**
Imports*	292.522	260.255	299.592	280.644
Exports*	6.016	92.656	143.528	124.384
Balance	-286.506	-167.599	-156.064	-156.260

Source: Trade map
**Albanian exports to Turkey and imports from Turkey*

When we analyze the share of Turkey in total imports of the Albania, there is a decline in Turkish share from 2008. From 2000s this percentage was around 6 and 7, but with 2008 it has begun to decrease to 5 per cent and preserved this share till 2012. Still, “iron and steel” represents the biggest amount of the Albanian imports from Turkey, followed by clothing and plastics. The biggest share in her imports from Turkey is the textiles and cereal, with 44 and 30 per cent respectively. It is observed that for some textiles the imports from Turkey had enhanced in the last three years.

In total imports of Albania Turkey ranked the 5th, after Italy, Greece, China and Germany in 2012.

[391]Report of Turkish Embassy Office of Commercial Counsellor in Tirana, 2012 http://www.musavirlikler.gov.tr/upload/ARN/Arnavutluk%20Ulke%20Raporu%202012-%20internet.pdf

Table 73: Albanian Imports from Turkey (1.000 $)

Product label	2010	2011	2012	%*	%*	%*
All products	260.255	299.592	280.644	5,65	5,55	5,75
Iron and steel	37.413	42.385	41.439	14,04	12,65	17,43
Articles of apparel, accessories, knit or crochet	13.778	16.846	19.492	14,14	14,83	20,54
Plastics and articles thereof	14.505	16.837	19.193	9,94	10,43	12,19
Cereal, flour, starch, milk preparations and products	19.789	20.647	18.777	34,60	32,52	30,80
Electrical, electronic equipment	19.103	23.110	18.051	5,52	6,20	6,84
Machinery, nuclear reactors, boilers, etc	16.988	19.023	16.754	5,48	4,81	5,27
Aluminum and articles thereof	12.124	16.031	10.732	17,97	22,03	17,03
Wood and articles of wood, wood charcoal	9.416	10.227	8.950	13,50	14,27	14,40
Soaps, lubricants, waxes, candles, modeling pastes	8.232	8.988	8.699	14,08	13,82	14,16
Knitted or crocheted fabric	4.280	5.217	7.821	25,27	26,49	44,44

Source: Trade Map

** Share in total imports of Albania*

The increase in total exports of Albania to Turkey is glories. While the share of Turkey in total exports of the country was around 1-2 per cent from 2000s, this figure has dramatically changed to around 6-7 per cent after 2008. Interestingly, "iron and steel" also represents the biggest value in the total amounts of the Albanian exports to Turkey like in the imports. As in 2011 there is an increase in overall exports of the raw hides and skins of Albania with 28,5 percent regarding the previous year, exports in that product group to Turkey also raised accordingly.

Although the most important export product of Albania is textile and clothing, Turkey's share in the total exports of the country is very low, due to the fact that Turkey's production and export performance in this product group is also very high.

In the total exports of Albania, Turkey ranked 4^{th} after Italy, Spain and Serbia in 2012.

Table 74: Albanian Exports to Turkey (1.000 $)

Product label	2010	2011	2012	%*	%*	%*
All products	92.656	143.528	124.384	5,98	7,37	6,32
Iron and steel	83.050	103.126	80.051	46,16	39,88	35,99
Ores, slag and ash	3.718	30.140	32.937	3,46	27,55	31,54
Raw hides and skins (other than fur skins) and leather	1.684	4.385	4.177	7,67	16,18	17,63
Oil seed, oleagic fruits, grain, seed, fruit, etc	1.744	1.691	3.235	8,33	6,37	12,08
Plastics and articles thereof	613	1.580	1.082	6,58	14,64	12,49
Aluminum and articles thereof	421	130	1.023	1,57	0,42	3,45
Articles of iron or steel	56	551	438	1,54	7,43	3,94
Articles of apparel, accessories, not knit or crochet	2	15	224	0,00	0,01	0,13
Articles of apparel, accessories, knit or crochet	3	307	167	0,00	0,23	0,14
Miscellaneous chemical products	0	38	153	0,00	0,48	18,32
Optical, photo, technical, medical, etc apparatus	0	189	121	0,00	10,73	6,79

Source: Trade Map
** Share in total exports of Albania.*

4.3.7 Macedonia

After the year 2008, the share of Turkey in total FDI of Macedonia is rising. In 2008 this share was 1,45 per cent where in 2011 this ratio increased to 3,21 per cent with a huge increase in the amount of the Turkish investments (117,23 million Euros in 2011) around 150 per cent compared with the previous year[392].

It is envisaged that the number of Turkish firms in Macedonia is around 100-150, and those firms are mostly small and medium sized.

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[392] Web page of National Bank of the Republic Macedonia, (accessed on 24/6/2013) http://www.nbrm.mk/WBStorage/Files/Statistika_DI_country_1997_2011_22.xls

One of the biggest Turkish investments in Macedonia is in banking sector. Turk Ziraat Bank has begun its facilities in the country by 1999. Another bank namely, Demir-Halk Bank, whose center was located in Nederland, was operating in Macedonia till Turk Halk Bank bought the 91,5 per cent share of the bank in 2011.

In 2008 the Turkish construction firm "TAV" reconstructed the Skopje Airport, and from 2011 the firm undertook the operation of the airport which will be last for 20 years. Moreover TAV also reconstructed the Ohrid Airport. The other important construction facility will be done by "Limak" construction firm, amounted to 200 million Euros which is composed of a big living complex, with houses, shopping mall and hotel.

In Skopje the tender of establishing an "energy power plant" had been undertaken by a consortium amounted totally 135 million Euros where the Turkish contraction firm "Gama" was one of partners of the consortium. In the frame of the project, the commitment of 88 million Euros belonged to "Gama". Moreover in the construction sector, some projects have been done by the Turkish constructors in the country such as the repairing the 30 old bridges of the country under the command of NATO.

There also some small and medium sized production facilities of Turkish owned firms in Macedonia in the areas of food, textile, furniture, plastics and recycle and wood processing. Besides recently, Turkish firm "Sütaş" has bought the Macedonian firm of "Swedmilk". Furthermore, the Turkish chain of "Ramstore" has 6 malls in the country.

As mentioned in the previous chapter, in bilateral relations of Turkey with Macedonia, the country always gives a trade deficit, also from 2009 as it can be also seen in her total foreign trade balance. However, there is a 64 per cent increase in exports of Macedonia to Turkey from 2009 to 2012, where there is an increase in her total imports from Turkey with only a 29 per cent.

Table 75: Bilateral Trade of Turkey and Macedonia till 2012

US Dollar 1.000	2009	2010	2011	2012
Exports*	40.764	50.909	73.344	66.811
Imports*	250.746	261.652	343.882	323.952
Balance	-209.982	-210.743	-270.538	-257.141

Source: Trade map
**Macedonian exports to Turkey and imports from Turkey*

When we analyze the share of Turkey in total imports of the Macedonia, there is an increase in Turkish share from 2008. From 2000s this percentage was around 2,7-3,7, but with 2008 it has begun to increase to 4-5 per cent and preserved this share till 2012. Cotton, plastics, machinery, ores, slag and ash represent the biggest amounts of the Macedonian imports from Turkey.

In total imports of Macedonia Turkey ranked the 9th, after Greece, Germany, England, Serbia, Bulgaria, Italy, China and Russia in 2012.

Table 76: Macedonian Imports from Turkey (1.000 $)

Product label	2010	2011	2012	%*	%*	%*
All products	261.652	343.882	323.952	4,78	4,91	4,98
Cotton	27.989	39.879	36.820	19,19	22,03	23,99
Plastics and articles thereof	15.836	22.414	25.528	8,10	8,83	10,54
Ores, slag and ash	12.203	37.223	24.729	9,81	24,67	15,87
Machinery, nuclear reactors, boilers, etc	22.516	27.778	22.652	6,18	6,60	5,76
Mineral fuels, oils, distillation products, etc	2.957	5.369	16.706	0,31	0,37	1,20
Electrical, electronic equipment	9.954	14.042	14.136	3,03	3,87	4,01
Manmade staple fibres	10.961	10.995	12.286	13,36	12,78	14,50
Vehicles other than railway, tramway	18.018	14.456	10.713	4,73	4,03	3,79
Knitted or crocheted fabric	6.697	9.656	10.698	14,84	17,18	18,08

Table 76 (continued)

Articles of iron or steel	7.194	9.494	10.612	10,64	10,71	11,18

Source: Trade Map
** Share in total imports of Macedonia*

The share of Turkey in total exports of the country was around 0,7-2,4 per cent from 2000s, and this figure preserved the percentage of around 1,6 after 2008. Iron and steel represents the biggest value in the total amounts of the Macedonian exports to Turkey. But the biggest share in Macedonian exports to Turkey belongs to cotton, followed by ceramic products.

In the total exports of Albania, Turkey ranked 12th after Germany, Serbia, Bulgaria, Italy, Greece, China, Croatia, BiH, Albania, Slovenia and Slovakia in 2012.

Table 77: Macedonian Exports to Turkey (1.000 $)

Product label	**2010**	**2011**	**2012**	**%***	**%***	**%***
All products	50.909	73.344	66.811	1,52	1,65	1,67
Iron and steel	19.657	33.367	23.432	2,81	3,64	3,10
Cotton	7.581	6.586	8.495	47,98	46,81	57,55
Ceramic products	3.304	5.130	5.838	18,28	24,57	35,60
Copper and articles thereof	25	0	5.632	0,13	0,00	24,14
Raw hides and skins (other than fur skins) and leather	2.550	5.639	5.413	39,10	48,70	50,53
Wadding, felt, nonwovens, yarns, twine, cordage, etc	1.507	2.555	3.128	34,32	45,32	50,95
Manmade staple fibres	191	306	1.997	3,98	14,06	42,69
Plastics and articles thereof	395	1.694	1.698	0,72	2,15	2,07
Cereal, flour, starch, milk preparations and products	1.439	1.777	1.640	3,24	3,47	3,19
Railway, tramway locomotives, rolling stock, equipment	883	3.168	1.311	11,46	34,57	13,77

Source: Trade Map
** Share in total exports of Macedonia*

4.3.8. Comparative Picture of Turkish Exports and Imports

When we analyze the distribution of the Turkish exports towards the main regions of the world since the 2008 crises, the position of EU is worth to indicate. In 2008 the share of the EU was 49 per cent in the total exports of Turkey, where this ratio decreased to 39,5 per cent after 4 years. As a matter of fact, this indicates that the EU market for Turkish export is decreasing, mainly because of the crisis in the EU. Furthermore, for example, the share of the EU was 58,6 per cent in 2004 in the total exports of Turkey which also clearly exposes the big decline in the export dependency of Turkey in that market. Another interesting figure in the distribution of Turkish exports is the increase in the Middle East Countries. From 2008 to 2012, the rate of rise in exports is 75 per cent. In that region, the export increases to Iran, Iraq and Egypt also are worth to indicate with 389, 176 and 158 per cent respectively from 2008 to 2012.

Table 78: Turkish Exports

1.000 US $	**2008**	**2009**	**2010**	**2011**	**2012**
EU	48,83	46,76	47,12	46,97	39,49
Middle East[393]	18,33	19,25	20,40	20,41	27,73
EEC[394]	6,62	5,05	5,15	4,80	4,01
BRIC[395]	6,65	5,48	7,12	7,49	7,42
USA	3,26	3,17	3,31	3,40	3,68
Asia[396]	5,88	6,69	7,05	7,51	7,08

[393] Iraq, Iran, United Arab Emirates, Egypt, Saudi Arabia, Israel, Lebanon, Jordan, Syrian Arab Republic, Yemen, Kuwait, Oman, Qatar, Bahrain, Palestine

[394] Hungary, Romania, Bulgaria, BiH, Macedonia, Serbia , Albania

[395] Brazil, Russia, China, India

[396] Azerbaijan, Turkmenistan, Georgia, Kazakhstan, Republic of Korea, Uzbekistan, Singapore, Hong Kong, China, Japan, Afghanistan, Pakistan, Kyrgyzstan, Indonesia, Tajikistan, Bangladesh, Thailand, Malaysia, Philippines, Chinese Taipei, Viet Nam, Sri Lanka, Mongolia, Maldives, Myanmar, Cambodia, Nepal, Lao People's Democratic Republic, Brunei Darussalam, Macao, China, Armenia, Democratic People's Republic of Korea, Bhutan, Timor-Leste

Table 78 (continued)

Africa[397]	5,79	7,40	6,17	5,61	6,34

Source: Trade Map

In the distribution of Turkish imports since 2008 it can be said that the situation is constant and there is no big ups and downs in the distribution of imports of Turkey from different regions of the world.

Table 79: Turkish Imports

1.000 US $	**2008**	**2009**	**2010**	**2011**	**2012**
EU	37,06	40,19	38,97	37,87	37,00
Middle East	8,47	6,53	8,55	8,82	9,40
EEC	3,38	3,21	3,70	3,45	3,26
BRIC	25,21	25,11	23,47	22,51	23,48
USA	5,93	6,09	6,64	6,66	5,97
Asia	11,83	12,22	13,69	13,30	12,19
Africa	3,38	3,59	2,96	2,24	1,94

Source: Trade Map

In the ranking of countries in the Turkey's foreign trade, among the first 10 countries, other than German, Italy and France, the core countries of the EU, the Middle East countries take the attention in 2012. The ranking of EECs in the foreign trade of Turkey, that are also subject matter of this thesis, are all falling behind in the rating list as it can be seen from the below table.

Table 80: The Ranking of Countries in Turkey's Foreign Trade in 2012

	Import	**Export**	
1	Russia	Germany	1
2	Germany	Iraq	2

[397] South Africa, Algeria, Morocco, Libya, Ghana, Burkina Faso, Tunisia, Mozambique, Côte d'Ivoire, Nigeria, Sierra Leone, Ethiopia, Togo, Democratic Republic of the Congo, Cameroon, United Republic of Tanzania, Liberia , Kenya, Malawi, Congo, Sudan, Comoros, Chad, Zimbabwe, Namibia, Mauritius, Zambia, Gabon, Guinea, Central African Republic, Mauritania, Uganda, Seychelles, Senegal, Madagascar, Mali, Benin, Angola, Somalia, Gambia, Guinea-Bissau, Equatorial Guinea, Africa not elsewhere specified, Djibouti, Niger, Saint Helena, Lesotho, Swaziland, Sao Tome and Principe, British Indian Ocean Territories, Cape Verde, Eritrea, French South Antarctic Territories, Botswana, Burundi, Rwanda

Table 80 (continued)

3	China	Iran	3
4	USA	United Kingdom	4
5	Italy	United Arab Emirates	5
6	Area Nes[398]	Russia	6
7	Iran	Italy	7
8	France	France	8
9	Spain	USA	9
10	India	Spain	10
20	Romania	Romania	16
22	Bulgaria	Bulgaria	25
37	Hungary	Serbia	43
69	Serbia	Hungary	46
87	BiH	Macedonia	68
89	Macedonia	Albania	73
91	Albania	BiH	75

Source: Trade Map

As it can be seen from the above tables, the commercial relations of Turkey with the EECs that are subject matter of this thesis, do not have the capacity of creating an alternative to those relations that Turkey had established with the EU and Middle East countries.

4.4. Conclusion

All of the EECs are one way or another linked to the EU's economy, its institutions, and policies and mostly on its present aim of neo-liberal structuring the Europe continent. As mentioned in the previous chapter, the EU is the only current power on the continent, sometimes having shared this dominance with the US in strengthening its neo-liberal policies in the region, which can be clearly seen in the parallel policies of the IMF together applied with that of the EU's.

At the beginning of their transition the issues of liberalization and privatization were the main topics of the period, by putting aside the notably diverge

[398] Area nes, is a group of partner countries, but the components of the group vary by reporter, by trade flow, by year and by commodity.

social-economic circumstances of those countries that they inherited for years. The same strategy of the EU preserved its maintenance also during the crises. Although with the 2008 crises the effect of the EU's neo-liberal policies and thereof its consequences on the members and non-members but somehow linked directly to those policies ought to be analyzed, on the contrary the crises more deepened the neo-liberalism in the region, and its consequences strongly marked the core and periphery divide of the Europe.

The consequence of the EU policies, by creation a more centralized Europe and unfit development models for the periphery countries created some economically and socially intolerable circumstances. It was assumed that the market would define the course of the development models in the region. But the reality was different in 2008. As a matter of fact, for the members and non-members, (assumed to be members), the confidence towards the European integration and euro-zone project, one of the biggest projects of the 20th century, has been losing its ground.

Putting aside the economically and socially intolerable circumstances in the Eastern Europe countries after 2008, it is observed that there have been declines in the growth rates, foreign direct investments flows, export and import figures in those countries. And also in their bilateral trade with the EU, narrowing effect of the crises in the Union is also clearly observed.

When we expose the position of Turkey, after the transition period of the EECs, some efforts would be seen in developing the economic relations with those countries, but very limited. After 2002 there has been a shift in the foreign policy of Turkey that mostly has brought out the religious features of the country. The government is seeking solidarity in other Muslim countries, and aiming to develop her relations with other Muslim communities, to become a regional power and to set a good example among the Muslim countries. It may be contemplated that those policies would enable Turkey to create an alternative or sub-regional power in the EECs taking into account the Islamic factor in that region. However, the amounting repercussions in the region remain to be seen.

The other important policy development of Turkey is the "zero problems with the neighbors" in the last decade. In one of his articles, Minister of Foreign

Affairs' of Turkey declared that, "Thus, Turkish people started to see their neighborhood not as a source of problems and potential threats, but as an arena of cooperation and partnership. Our main objective was to ensure deep inter-societal communication, notably between our people and the people of the region, which we called "maximum cooperation"[399]. In that frame developing the economic cooperation and thereof relations with neighbor countries is a desired foreign policy objective. But, as the countries under examination are under developed countries the cooperation possibilities as reflected in the economic and financial relations in the figures, are by definition limited.

Furthermore, there have been some initiatives realized by Turkey in the region in educational, cultural, economic and social areas, like the activities of TİKA (Prime Ministry Turkish Cooperation and Coordination Agency). Although the foundation of the TİKA goes back to 1992, the activities of the Agency only dated back in the last decade in some Balkan countries, namely Bosnia, Albania, Macedonia and Serbia. Mostly in those countries, TİKA has established educational and cultural centers such as, "Yunus Emre Center of Culture".

Whether, the consequences of those policy developments of Turkey, especially in the last decade, had been reflected in or effected the economic relations with the Eastern Europe countries, has to be examined.

In the case of Bosnia, there is a decline in the Turkish FDI after 2008 where the same tendency is seen in the imports of the country from Turkey. The only improvement in the bilateral trade with BiH, is the huge increase of the country's exportation to Turkey. The relations with Hungary preserved its position in the FDIs in the last decade. In the bilateral trade, there is an increase in the trade volume, but a prominently increase in the exports of the country towards Turkey. The important development that would re-shape bilateral economic relations with Hungary is the implementation of "The Eastern Initiative" of the Hungarian government that is also

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[399] Ahmet Davutoglu, " Zero Problems in a New Era", *Foreign Policy Magazine (USA)* , 21 March 2013
http://www.mfa.gov.tr/article-by-h_e_-mr_-ahmet-davutoglu_-minister-of-foreign-affairs-of-the-republic-of-turkey-published-in-foreign-policy-magazin-2.en.mfa

targeting Turkey, with the aim of decreasing Hungarian dependency on an unclear future of the European market.

In Albania, the increase of the Turkish FDI is directly linked to the decrease of the Greek presence in the country, because of the heavily striking consequences of the euro-zone crises in Greece. However, there have been some projects done by the Turkish construction firms in Albania and endeavors to establish new transportation routes to the country, like RO-RO shipments. There is also a decline in the share of Turkey in the total imports of Albania, where a considerable increase in the country's exports towards Turkey is observed in the last years.

Maybe with the psychological effects of the war in Bosnia, the Turkish presence in Serbia is very limited. But some developments would occur in the frame of creation of a "Triad Summit" in 2010 realized among the presidents of Turkey, Bosnia and Serbia, in order to promote peace, stability, political and economic cooperation in the Balkans. The effects of this initiative would be observed in the long term, as a two year period would not be logical and adequate to evaluate the success of the project.

In the case of Romania and Bulgaria, there are low levels of drops in the total Turkish FDIs in those countries. On the other hand, the presence of the Turkish contractors in those countries is continuing. In Romania, there is a distinguishing factor. In recent years there has been an increase in the official visits to the country from Turkey, showing the signs of growing interest of the Turkish government particularly to that country. The exports of Romania increased in a terrific way, where imports from Turkey sustained its stable position after a big decline in 2009. In bilateral trade with Bulgaria, after 2010 the country began to have a positive balance with Turkey, as the increase in her exports was glories, where the same situation cannot be seen in the imports from Turkey.

The Turkish FDI has risen in Macedonia in 2011. The trade volume also increased in recent years. However, increase in exports of Macedonia to Turkey is much more effective than the increase in her total imports from Turkey.

To sum up, the presence of Turkey in the EECs was not that much effective also in the last decade or more specifically in recent years after the 2008 cries as it was during the transition periods of those countries. Although the economic and financial relations of Turkey began with the similar advantages that of the EU, Turkey is still one step backwards of the EU. There is also an interesting position of Turkey in relations with the EU. The Eastern Europe Countries have all forestalled Turkey in their relations with the EU, although Turkey has set her relations with the EU long before the EECs since 1960, during the times when the EECs were the members of the Soviet Bloc. Since 1990s, the EECs deepened their relations with the Union became members or candidate members of the European integration and required some privileges in the EU market. For example the citizens of non-members but candidate countries of Serbia, Macedonia, Montenegro and prospective candidate Bosnia-Herzegovina required the right to enter the EU countries without any visa, where the visa requirement is still valid for the Turkish people although Turkey is a candidate country since 2005. This double-standard also created another competition area (the main competition issue was the entrance of some of the former socialist economies to the EU long before Turkey) between Turkey and the some of the EECs in entering the EU market for the businessmen. Under the given circumstances one can say that the question of "whether Turkey would be considered as a sub-regional power in the Eastern Europe", would turned into another question "whether there is a competition between Turkey and the EECs in the EU market", and "who has stunted out?".

Albeit some policy changes have occurred in the foreign policy of Turkey in the last decade, whether the existence of Turkey in the Eastern Europe countries made Turkey a sub-regional power is still questionable after the 2008 crises, as it was in their transition period.

CHAPTER 5

CONCLUSION

The international relations in the 20th century were dominated by either conventional or economic wars. The implementation of the differentiated economic models, either planned-socialist or capitalist economies created a period of cold war after the World War II, which caused the world countries to choose their place near one of the two sides of the cold war. However as the World economy was, and still, becoming more and more depended on each other; to implement “closed” economic policies that was mostly observed in the socialist economies, was causing to lag behind in the race of gaining the hegemonic power of the World order. As a matter of fact, the economic policies applied in the socialist Eastern side, which were not open and free as the Western side, had to be reviewed over the time with taking into consideration of the economic conditions of its members and the overall situation of the World economy where the capitalist model preserved its main aim throughout the cold war.

In the Eastern Bloc countries, their inherited status of being under developed and peripheral for years, made those countries’ economies depended on the Soviet’s economy, where the same status of Turkey, made the country depended on the West’s. Those dependencies can be better understood under the uneven and combined development approach. Consequently, the shift of the dependence towards the European Union can be well justified within the frame of this approach for both Turkey and EECs this time after the 1990s and the cold war, where the USA’s influence in this European project also played a major role.

Although the story of the European integration began with the cold war, this integration outlasted the cold war and expanded far beyond the initial Cold War Allies and become deeper and wider. The journey from common market to a single market and then to the monetary union was successful that attracted other countries also to join in.

At the very beginning of their journey to transition, the US persistently and constantly supported those countries integration with the Western part of the continent and undertook a major role in the reshaping the Europe till the priorities of the US administration shifted to other parts of the world. With the decline of the American influence in the Eastern part of the Europe, the EU's position remained as the only actor in the region.

When we regard the other actors that could also be effective in the EECs transition and their new era in the international relations, Russian Federation shall be considered in that regard with the strong ideological and economic ties it had established with the region for half a century. But as the priorities of the Federation was also shifting mostly to internal stability and economic recovery, the very existence of the Russia can be considered only in the Western Balkans for the solidarity with her Slav Orthodox brothers. In fact, the Russian factor can be generally observed on the dependency of EECs in their importation of energy from the country.

In fact the EU found itself promptly to fill the position or gap that was left blank with the collapse of the USSR and COMECON for which the EU was unprepared. This also necessitated a radical reorientation of the EU's policy towards the EECs. This paved the way to consider the region in three sub-divisions, taking into consideration the differentiated uneven economic developments of the countries in the Eastern part of the continent.

With regard the two sub-divisions of the region, the Central and South Eastern Europe, the development of their relations with the Union expose a different attitude rather than the Western Balkans. The relations with the two sub divisions began with the Associate Agreements which took them to eventual membership. But the EU approach to the third sub-region, the Western Balkans, has a special magnitude as this region was the least developed and unstable part of the Eastern Europe. The real turning point of the relations with the Western Balkans was the Kosova crises that pushed the EU for the launching the Stability Pact (SP) in 1999 and to materialize the aim of the Stabilization in the region establishing a new generation of Stabilization and Association Agreements (SAA) for the Western Balkans that were slightly similar to the Europe Agreements it had done so far with other EECs. However on the contrary of the Association Agreements the Western Balkan countries were not still given any firm prospect for membership.

The consequences of transition in the EECs from socialist economies to liberal and free market varied from one to another as they had acquired differentiated levels of development and economy patterns. In fact, the procedures of transition have some similar policy grounds. First of all the main policy in transition was the "privatization", which led the flow of foreign direct investments, and consequently liberalization of related regulations. Privatization was implemented with another policy of "macro-economic stabilization" by putting aside the notably diverge social-economic circumstances of those countries that they inherited for years. However, as their slogan of "Back to the Europe" or "Return to Europe" was the ultimate goal of the former socialist countries of Eastern Europe, they welcomed the painful transition they have experienced less than two decades after the 90s. Nevertheless in 50 years they experienced both socialist and capitalist economies, which was a very unique experience in the history of Europe.

By the 90s, the transition of the Europe continent was not only experienced in the Eastern part, but also in the Western part with the transition of the EU to the neo-liberal structuring. In fact, the main rationale behind the Eastern enlargement of the EC/EU besides its political, ideological and security dimensions was the neo-liberal structuring the Eastern part of the continent. The mismanagement and the lack of common purpose and interest of the European Union in the addressing the collapse of the Yugoslavia caused a war in the region and gave rise to a new structure in the Union.

In the case of Turkey, during the cold war Turkey was a loyal ally of the Western Bloc and was implementing semi-liberal economic policies. In her relations with the EU, the process of Turkey's intention to be a part of the integrated European began with 1960 at least two decades earlier of the EECs'. However, the above mentioned background of economic and political relations of Turkey with the Western World never constituted an advantage for Turkey to be full member of the Union before the countries of the region.

The position of Turkey in 1990s is crucial in the relations with EECs. With the transition period those countries were shifting from planned and controlled economies to liberalized, free market economies thus becoming as new emerging markets for investment and trade. Although the gap left from Soviet dominance had been filled in by the EU, where the direct economic involvement of the US and the Russia in the region was limited, Turkey had also acquired some advantages in entering those emerging markets as of the EU's. As Turkey established customs union with the EU in 1996, she also had the commitment to conclude free trade agreements that the EU had already concluded or would conclude in the future. In that regard, Turkey signed free trade agreements with all of the EECs, covering mainly the industrial goods with the aim of opening the markets with the lowering and mostly "zeroing" the tariffs. The opening of those markets was a real opportunity for Turkey to enhance the bilateral trade and thereof the relations with the EECs as those relations were absent or very limited in accordance with Turkey's foreign policy directly linked to the US's during the cold war. Moreover, taking into account the historical ties with the region and the Turkish and Muslim citizens in those countries, if those opportunities created an advantage for Turkey to get into those markets and create a sub-regional domination is highly questionable; regarding the bilateral trade figures and Turkish capital in the region during the transition period of those countries.

With regard the recent economic and financial relations of Turkey with those selected EECs after the 2008 economic crises the picture does not show a big difference as it was till 2008, although the overall picture of the region and the integration of Europe appear to be fogy. Especially after the Lisbon, by giving the right to any member state to secede from the Union, where in the international economic integration literature faced a new content of "withdrawing" then "joining/ acceding".

As the 2008 financial/euro crises hit the EU's economy, the countries of the Eastern Europe somehow linked to or depended on the EU affected from the crises in different levels. In order to cover the wounds of the crises and to sustain economic stability in the region, as observed in their transition periods, the standard policies of the EU together applied with that of IMF's were only resulting in strengthening the neo-liberal structuring of the continent. Furthermore, the core and periphery divide of the EU became deeper also in the old members and created a discontent population in most of the EU countries, and even paved the way for revolts towards the EU's institutions and policies. As a matter of fact, among the members and non-members, (assumed to be members), the confidence towards the European integration and euro-zone project, one of the biggest projects of the 20th century, can be considered as has been losing its ground.

When we regard Turkey's position in the cloudy weather of the EU, together with the policy shift in the foreign policy of Turkey since 2002, only some limited developments can be seen in the bilateral economic and financial with some of those countries, like Macedonia, BiH and Hungary with low levels of increases in their importation from Turkey. On the contrary, with other countries, such as Albania, Bulgaria and Romania recently there has been a decline in terms of their importation from Turkey. Regarding the Turkish FDI in the region, it is also very limited as in the pre-crises period. In most of the EECs the FDI shares of Turkish capital ranges between 0,7-2,2 per cent of the total FDIs in those countries. Only in Albania and Macedonia recently the figures of Turkish FDI inflow realized with 6 and 3,2 per cents respectively in 2011.

Notwithstanding, the Turkish outward investments grew together with the opening up the Turkish economy and growth in the FDI inflow, especially after the Customs Union in 1995, the general economy policy of Turkey bases on attracting foreign investments to the country. The outward FDI is still seen as "capital flight" and there is no government body providing information about the local conditions in host countries. The general attitude of the government towards Turkish FDI abroad can best be described as "inattentive." As a matter of fact the limited existence of Turkish capital in the EECs can be best described within the frame of this "inattentive approach", which at the same time creates a contradiction with the main objective of the Turkish foreign policy of being a regional or sub-power in the neighborhood. Moreover, when we examine the Turkish FDI outward, among the EECs, only Romania (real estate-greenfield projects) and Albania (Abltelecom-

Mergers and Acquisitions transactions) ranked in the top lists announced between the years 2007-2009.

As after 2002 there has been a shift in the foreign policy of Turkey which has mostly brought out the religious features of the country, the government is seeking solidarity in other Muslim countries and aiming to develop her relations with other Muslim communities and to become a regional power. It may be contemplated that those policies would enable Turkey to create an alternative or sub-regional power in the EECs taking into account the Islamic factor in that region. However, the amounting repercussions in the region remain to be seen.

The other important policy development of Turkey in the last decade is the “zero problems with the neighbors” with establishing "maximum cooperation" in that area. In that frame developing the economic cooperation and thereof relations with neighbor countries is a desired foreign policy objective. However taking into account the under developed status of those countries and the lack of decisive and consistent polices in the Turkish government towards the region, the realization of this policy seemed to be remote possibility.

Another economic target of Turkey is the “500 billion Dollars exports in year 2023”, within the hundred anniversary of the establishment of the Turkish Republic. When we consider the Turkish exports towards the EECs namely; Hungary, Bulgaria, Romania, Bosnia-Herzegovina, Albania, Serbia and Macedonia in 2012 was totally 5,8 billion Dollars that represented around the 4 per cent of the total exports of Turkey. To reach the target of 500 billion Dollars exports in 2023, the amount of exports towards those Eastern Europe Countries would be around 20 billion, taking into account of their share of around 4-5 per cent of the total in the recent period. To reach the target of 20 billion Dollars amounted exports towards those countries till 2023, annually 13,8 per cent of increase in Turkey’s exports to that region should be consistently realized in each following year. However as the export performance of Turkey to those countries do not show a sustainable and stable tendency, having huge ups and downs, (for example in 2012, the total exports of Turkey to those countries declined by 16,6 per cent when compared with the previous year), to reach that target seems to be hardly realized.

Turkey was and still is acting in the region within the framework defined by the EU. The FTAs Turkey signed with those countries were all in the frame designed also by the EU. There was no other option for Turkey just to realize these FTAs to prevent any deviation in the traffic of the goods between the customs areas of Turkey and the EU established by the Customs Union after 1995. The initiative of signing FTAs with the region was a part of the EU's project towards region, not a decisive foreign policy of Turkey to become a sub-regional power in the area. Consequently, there was no concrete Turkish policy to be a competitor to the EU in the region, such as the US and Russia after the middle of 1990s.

The other important lack of policy in economic terms was the absence of a Turkish businessmen orientation towards those countries. The Turkish businessmen were not able to gather around their joint interests towards the region as their biggest competitors in the EU had done under the association of "European Round Table of Industries". On the contrary, Turkish businessmen were establishing several business associations in those countries firstly to compete with each other operating in those countries. To gather under one umbrella with the shared goals would have strengthened the Turkish position in those countries. Nevertheless the responsibility of this failure would also be shared with the government side, with the lack of guidance and pioneering ability of the state to the private sector.

Albeit some policy changes have occurred in the foreign policy of Turkey in the last decade, whether the existence of Turkey in the Eastern Europe countries made Turkey a sub-regional power is still questionable after the 2008 crises, as it was in their transition period. When already the neo-liberal structure and thereof the future of the EU has been sincerely questioned, it can be considered that Turkey should not miss the train again and implement decisive and consistent polices in order to fill the gap that has been left blank with the decline of the confidence in the European project.

All in all, as the frame of economic and financial relations of Turkey with the EECs are defined by the EU, except for same zigzags in the bilateral relations during the period under examination, this structural reason never warranted a sub-regional power for Turkey. Furthermore, to consider Turkey as a sub-regional power in the near future is also a wishful thinking which also confirms the unevenness of the relations between the EU and the EECs, as well the EU and Turkey.

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