

Discussion paper

REGIONAL ROUNDTABLE



MACEDONIAN/GREEK ECONOMIC RELATIONS

AS A MAIN PILLAR FOR PROSPEROUS NEIGHBOR COOPERATION IN THE FUTURE

Center for Economic Analyses (CEA)

This event is financially supported by:

Open Society Institute Think Tank Fund Budapest



Skopje
March, 2011

About CEA

CEA is established in 2003 as an independent research think tank - first think tank of this kind on the Macedonian market and served as role model for others as well. Thus, CEA attracted attention, started different type of public debate.

CEA was established by younger Macedonian economists who have received their professional education and training through studying at western universities, attending seminars and courses organized by international financial institutions and international organizations, and/or working in an international environment. They share common vision of the Republic of Macedonia as a new emerging economy integrated with regional and world markets. They devote their time, efforts and knowledge to help make this vision become a reality.

CEA is organized on a non-profit base (the legal form is a citizens' associations) and is open for membership to all economists operating in Macedonia and sharing the same vision. The core members and founders of CEA are successful young professionals working in banks, audit firms, international consulting companies, universities and government. Their expertise ranges from econometrics, macroeconomics, microeconomic modeling and economic policy analyses to financial analyses strategies for local economic and rural development, Public-Private Partnerships and business planning. CEA members are also widely present in Government working groups as experts for preparation of legal framework.

Mission statement of CEA

The Mission of CEA is to continuously research economic development and public policy in the Republic of Macedonia and to offer recommendations, suggestions and measures to the government and non-governmental institutions.

CEA members share a common vision of the Republic of Macedonia as a new emerging economy integrated with regional and world markets. They devote their time, efforts and knowledge to help make this vision become a reality.

The goal is to institute a sustainable think tank that provides outstanding intellectual capacities and resources, and to create a demand for those services that ensures Macedonia has the capability to properly support policy analysis.

The main Goals of the organization:

1. To provide quality policy analyses;
2. To support viable economic policy in Macedonia;
3. To help foster an environment that brings about higher investment, accelerated development and growth of the Macedonian economy, and EU accession;
4. To achieve financial sustainability;
5. To encourage regional cooperation and collaboration in the Balkans;
6. To strengthen civil society, social capital and trust.

Roundtable	Speakers
Roundtable opening and Moderator	Marjan Nikolov, Ph.D Candidate CEA President e-mail: makmar2000@yahoo.com
Session 1 GREEK – MACEDONIAN ECONOMIC RELATIONS DEVELOPMENT	Chistos Nikas Ph.D Associate Professor, Department of Balkan Studies, University of Western Macedonia e-mail: xnikas@uowm.gr
Session 2 EFFECTS OF THE ECONOMIC CRISIS IN GREECE ON THE MACEDONIAN ECONOMY	Trenovski Borce Ph.D Candidate -CEA Analyst -Teaching and Research Assistant, Department of Economics, Faculty of Economics, University of Ss. Cyril and Methodius e-mail: borce.trenovski@cea.org.mk ;
Session 3 MACEDONIAN EXPORT AND GREEK CRISIS	Hristijan Risteski M.Sc. Candidate -CEA Economist e-mail: hristijan.risteski@cea.org.mk
Session 4 COMMON DEVELOPMENT OF THE CULTURAL TOURISM IN MACEDONIA AND GREECE	Vlasis Vlasidis Ph. D Assistant Professor Political Communication and Mass Media Department for Balkan Studies University of Western Macedonia Florina, GR 53100, Greece e-mail: vvlasidis@uowm.gr
Session 5 GENERAL DISCUSSION AND CLOSING REMARKS	Participants (speakers, mediums, experts, embassy representatives etc.)

Speakers (photography)



Macedonian and Greek economists and politicians have to admit the fact that behind the recent diplomatic provocative rhetoric there is a solid economic relationship that has been built slowly and efficiently over more than a decade. The two countries' bilateral economic relationship has come a long way: From the early, turbulent days of confrontation, non-recognition and the embargo, it has grown into a fruitful and dynamic economic relationship, throughout which Greece evolved into one of the most valued trade and investment partners of Macedonia. Thus, when there is solid economic base for some issue, there is always place for compromise and for fulfillment of mutual interests.

Session 1

GREEK – MACEDONIAN ECONOMIC RELATIONS DEVELOPMENT

Background presentation by:

Chistos Nikas Ph.D

Associate Professor,

Department of Balkan Studies,

University of Western Macedonia

e-mail: xnikas@uowm.gr.

The trade relations between Macedonia and Greece had been developed even before the collapse of Yugoslavia; also, both countries had clearing agreements for trade realization. Whenever Greece would export products to Croatia or Slovenia, they would have to pass through Macedonia first. These trade relations saw a rapid increase in the early 90's. The increasing trend lasted from the foundation of the Macedonian independent state until 1994, when Greece introduced embargo towards Macedonia, thus lowering the mutual trade to an utter zero, as presented by the official figures. However, expansion of both the Greek export to Bulgaria and Bulgarian export to Macedonia took place in the same period, subtly implying that Bulgaria has been used as Greek products' detour to Macedonian market.

The Interim Accord, signed afterwards, seemed to have addressed all the issues except one. The agreement, nevertheless, gave the impression that the relations were approaching a balance. Following the agreement's endorsement, Greece participated in the Macedonian import with meager 4%, reaching good 10% in 2001, when it was declared one of Macedonia's biggest trade partners.

For the Greek policy of export, Macedonia was a more important target than Canada; in other words, Greek export to Macedonia and Albania seemed to be more significant than the export to USA. It can be concluded from the analysis, that the trade is double sided, which is quite surprising if we look at the variety of products traded between the countries.

For example, one of the imported products from Macedonia to Greece is fish, which is somehow absurd, bearing in mind that Macedonia does not have sea access and the size of its lakes is too small to explain/justify the trade.

A detailed analysis showed that snails are also part of the game. Apparently, Greek companies operating on Macedonian ground had been hiring locals to collect snails. The snails with higher quality had been exported to Greece, while those with lower quality had been exported to Albania; the latter, having had their quality increased, were then re-exported to Greece. From Greece, frozen and packed, those same snails were exported to France. It is a so-called intra-industrial trade, a process more significant in the textile sector.

An analysis of the data reveals that the main products exported from Greece to Macedonia are oil and its derivatives, as well as food products. Due to the low income of the Macedonian citizens at the beginning of the transition period, the Macedonian market was not a much desired target for the Greek companies. On the other side, lacking the basic resources for heavy industry, Greece could import raw materials and heavy industry products.

In the middle of the 90's, Greece was one of the most important sources of direct foreign investments in Macedonia. Therefore, it must be mentioned that the scale of foreign investment in Macedonia is very small, so that a sole investment may well give a country the epithet of the largest investor in Macedonia, like the case with the sale of the Macedonian telecommunication company, when Hungary came to be the largest investor in Macedonia.

One can certainly come across some rather amusing instances, like the example of Liechtensteiner and Cyprus companies being important investors in Macedonia; very often, such companies turn out to be working for the interests of some Greek company.

In the beginning of this century, a trend of increase of the service trade between the countries was noted; most frequent are tourism and educational services. Very significant aspect for FDI flow from Greece to Macedonia is that the most common investors are state owned or semi-state owned companies, for ex. OTE and NBG (National Bank of Greece). Following the example of the state owned companies and the successful results, the private companies also started to invest in many sectors in Macedonia, such as tobacco industry, marble, consulting etc. In most of the cases they are what is called "Brown Field" investments, where Greek companies are buying already existing business or portfolio investments (buying minority block of shares). "Green Field" investments are most common in the cross border areas, especially in the textile sector.

Taking all this into account, one can conclude that, from the mid 90's until the first decade of 21 century, the economic relations between these two countries were in a constant boom. Both of the countries' political elites interpret this development of trade and investment as an utter dependence or a lack of sovereignty. It has so far resulted in some rather curious and absurd reactions on the side of both countries' officials. Manipulating with

the official statistics, both countries have claimed a surplus in the mutual exchange. One of the official justifications for these differences is that Macedonia measures the export in USA dollars, and Greece in Euros. Such an explanation is, of course, far from being true, because the numbers can be changed, but not the sign (or whether there will be surplus or deficit). Statistical manipulations are also used in measuring FDI, where different methodologies were applied in order to “tune up”. In addition, some Macedonian ministers have openly expressed their discontent with the thought of Greece being the greatest investor in Macedonia.

Trade and investment aside, there is a tremendous migration process going on between Macedonia and Greece, and these very migrants are the only injured party of the economic relations between both countries. According to the economic theory, migration and FDI can be either complementaries or substitutes. In the case with Albanian immigrants in Greece, FDI are working as complementaries. There are Greek FDI in Albania and Albanians that work in Greece. In case with Macedonia, FDI are acting like a substitute for the migration, that is to say, they bring the work to the workers. But it must be taken into consideration that migration from Macedonia is comparatively small to most countries, not only to Greece. In 2004, Macedonia and Greece were about to sign a contract allowing 20.000 Macedonian workers to work in Greece as fruit collectors. However, the same day when the contract was supposed to be signed, US president, George Bush, recognized Macedonia under its constitutional name, and the contract has been forgotten since.

It can be concluded from the above that the economy can flatten the differences between the countries and to lay the ground for a solution mutually acceptable. However, having perceived scale of mutual economic cooperation, the politicians fell for the usual abuses, twisting the figures and using them as a weapon against the development of the economic cooperation. Under such conditions, the utmost target that needs to be aimed to, regarding this issue, would be to stop the politicians from interfering in the economic relations. According to a Turkish diplomat who has studied the differences between Greece and Turkey, in order to solve this issue, two traders, each from the both sides, are needed. Until their appearance, it is considered as necessary to render the economic relations free from any kind of political interference, for it turns out to disrupt the process. If the problem or dispute is entirely political, one should bear in mind a quote by Bertrand Russell, a renowned expert on politics: “in a political dispute, it is not essential who is right or who is wrong; the only significant matter is the outcome”. It is very important not to involve economic relations in a political dispute. Such a precaution will improve the economic cooperation and contribute to facilitate resolution of political disputes.

Session 2

**EFFECTS OF THE ECONOMIC CRISIS IN GREECE ON THE
MACEDONIAN ECONOMY**

Background presentation by:

Trenovski Borce Ph.D Candidate

-CEA Analyst

-Teaching and Research Assistant, Department of
Economics, Faculty of Economics, University of Ss. Cyril
and Methodius

e-mail: borce.trenovski@cea.org.mk;

borcetrenovski@gmail.com

Macedonia as a small and open economic system cannot reach high rates of growth and operate successfully when isolated from its environment (trading partners and foreign investors). As the Greek crisis developed, it was of great importance to analyze its effects on the Macedonian economy, because Greece was one of the most valued investors and trading partners of Macedonia. The analyses show a significant dependence and relationship between the rates of GDP growth and foreign effective demand. To clarify, the foreign effective demand is a weighted sum of the GDP rates of our major trading partners (Greece, Germany, Italy, Serbia, Spain and Belgium). In order to see the connection with the situation in Greece, we shall compare the Greek effective demand with the GDP of the constant prices in Macedonia, where it can be seen a great match in the economic cycles of Macedonia and the effective consumption of Greece. In the period before the Greek crises, its foreign effective demand is greater with Greece, but after the crisis of our southern neighbor, the estimate is that, in 2010, 2011 and 2012, the foreign effective demand will be greater without Greece. This shows that the negative effects from the Greek fiscal crisis will inflict damage on Macedonian economy as well.

In order to estimate and forecast the scope of the effect on Macedonian economy from the economic crisis in Greece, two scenarios (2010-2014) are designed, are based on IMF estimations for GDP growth in Greece.

The first scenario forecasts reduction of the projected GDP rate of Greece by 3 percentage points (each year in the period 2010-2014) at income elasticity of 1.5. If we look deeper into the early effects of this scenario, provided that Greek economy does not recover, the effect will be cumulated, leading to a decline of Macedonian export by: 20 million U.S \$, 74.36 million U.S \$, 152 million U.S \$ in 2010, 2012 2014, respectively. The second scenario is quite pessimistic, and assumes reduction in the GDP projected rate of Greece by 5% in the period 2010 -2014, at same income elasticity. It will be considered that Macedonian export will be reduced by: 30 million U.S \$, 67 million U.S \$, and 226 million U.S \$ in 2010, 2012, and 2014 respectively. According to the first scenario the expected decline of exports to Greece by 5% , 18 and even 37 % in 2010, 2012, 2014, respectively. According to the

pessimistic scenario, figures about the decline of Macedonian exports overall are even more negative: a decline of 7,4% in 2010, a decline of almost one third in 2013, and a halving of the exports in 2014.

According to the less pessimistic scenario, effects on the decline of the total export of Macedonia are decline of 1,52 % in 2011 to that of 5% in 2014. According to the pessimistic scenario, the total Macedonian export will be decline by 3,76%, to 7,6% in 2014. These declines should not be a cause of alarm, but they should not be dismissed either – they do need to be taken into consideration. These projections assume that growth in the other trading partners will entreat greater import demand of Macedonian products.

The decline of the Macedonian export to Greece should not be threat for macroeconomic stability, for the Macedonian National Bank owns around 1,6 billions U.S \$ foreign reserves to maintain the pigged rate of exchange, which stands for coverage of the imports for 5 months. But for the sectors that export to Greece, the impact would be devastating.

Greek crisis will have negative impact on the Greek investment in Macedonia. From 12,7 million Euros in 1997, to 450 million Euros in 2008. Greece is a main investor in Macedonia with 17% participation in the total investments, Netherlands is second with 16%, Hungary with 15% in the total FDI., etc.

An observation of the structure of DFI from Greece (for the period 2003-2009), will show that reinvested profit takes biggest share in the composition, and that the portfolio investments are absent. During the crisis (in 2009), the equity capital participated with less then 1% in the overall investments, which is less then 1 million euros. On the other hand, 76 million Euros of the profit were withdrawn by Greece.

According to the study estimations, as a result of the economic instability in Greece, insignificant inflow of equity capital from Greece can be expected. Reinvested profit will be drastically reduced and consequently, the dividends payment by Greek investors will be increased. Also, Greek companies will complement the need for additional funds by reducing net inflows on basis of inter-company borrowing. Any significant withdrawal of Greek investments in Macedonia should not be expected, for the reason that most of the large investments in Macedonian companies are in a monopolistic, duopolistic or oligopolistic position and these realize high profits. We can conclude that there is no risk for Greek banks withdrawing capital from the Macedonian banking sector (Stopanska Banka and Alfa Bank), as Macedonia covers small part of Greek investments in the banking sector in the region and according to the profitability, it is between the second and the third place, behind Turkey and Bulgaria.

The attention and threats coming from the economic crisis in Greece are focused on the FDI. In a crisis, investors react instinctively to the abandonment of risky investments. The

profit withdrawal by the Greek parent companies is considered to have negative impact on Macedonia. We assume that Greek investors would not leave the profitable investments. But, due to underdevelopment of the financial market in Macedonia and the lack of portfolio investments, no great dangers of negative occurrences are to be expected.

To conclude, the main threat from the Greek financial crisis on the field of investments in Macedonia is FDI stagnation in a form of “Green and Brown Field” investments. The entrepreneurs from the both sides of the border will try to continue the business activities and due to current developments in Greece, a relocation of a number of activities from Greece to Macedonia should be expected.

Session 3

MACEDONIAN EXPORT AND GREEK CRISIS

Background presentation by:
Hristijan Risteski M.Sc. Candidate
-CEA Economist
e-mail: hristijan.risteski@cea.org.mk

Greece is the third largest trading partner of Macedonia and the structure of exported products is quite concentrated, that is, the most often exported five products from Macedonia participate with 55% in the total export to Greece. Considering that the largest market for Macedonia's two strategic export products, iron and steel, as well as textiles, is the Greek market, it is of great importance that institutions and companies jointly seek a way out of the unfavourable situation.

In order to eliminate the differences in the official statistics of the both countries, the analysis of the real trade conditions is using data from the International trade centre- Zeneva. Examining the trade structure, one can notice a rise of Macedonian export to Greece, from 80 million U.S \$ to 530 U.S \$, and in the export coverage with import, from 18% to 80%. According to this data, Macedonia has a drastically reducing deficit. In the same period, Greece has increased its export, but with lower rates, as compared with the growth rates of the Macedonian export.

- The most exported products from Macedonia to Greece are iron and steel, and Greece is the largest market for these products. For the period 2001-2007, the export of these products has increased for 620%
- The second most exported product from Macedonia to Greece is the textile, according to the principle of “loan-production”. Macedonia does not produce final product which can be placed on the Greek market, Macedonia is only

exporting cheap labour. For the period 2001- 2007, the growth of the textile export is 190%, and at the Greek market place around 66% of the total export.

- The next product is tobacco, the export of whose has seen a rise of about 1600 % in the period 2001-2007. Hereby, it is essential to bear in mind that this export is a result of the Greek ownership of the largest companies in these sectors.
- Huge export growth of metal and steel, up to 400% for the same period.
- As a result of the Greek “Brown field” investment in Mermeren Kombinat-Prilep, marble represents the fifth most exported product on the Greek market, with rise of 127% between 2001 and 2007.

Besides the most exported sectors of Macedonia, the research is focused on the effects on cross border trade in Macedonia. The research was realized in May and June, 2010 in Bitola, as the biggest Macedonian town in the area of the Greek border. The only positive effects are seen at the gas-stations, because of the lower prices of the gas in Macedonia. Restaurants and coffee places from the cross - border places do not have any negative effects. A decrease in sale is noticed, though, at the shops, boutiques, green markets etc. As a result of the Greece crisis, the number of Greek costumers is drastically reduced.

In a crisis, the import of Greece has declined significantly, but this is caused by the import of only two products: cars and oil. The import of the other products may face stagnation, but not significant decline. Because of that, Macedonian export is comparatively stable. For instance, the export of Macedonian textile to Greece is not in danger of decline because Greece re-exports to other countries, and the demand for that group of products depends on the conditions in these countries.

When it comes to the export of metal, it is necessary to establish whether the consumer is final or intermediary. The Greek construction sector is facing stagnation, which can lead to stagnation in exports of marble and other building materials, but a recovering in that area in the time being is also part of the predictions. Due to the downward trend in demand, the tobacco market may turn out to be a problem, but its decrease is not drastic. In conclusion we can say that the Macedonian export is not much affected, but the conditions should be carefully monitored. The Greek crisis does not cause high-scale damage for the Macedonian economy, but the diversification of exports should be treated as a bigger problem. Historically, Macedonia exports 80% of its exports in the five largest trading partners. This is a great risk because if one or two countries face with certain problems, there is a chance of Macedonia facing one, as well. Thus, policy makers need to focus on effective and efficient policies and programs in order to diversify the export.

Session 4

**COMMON DEVELOPMENT OF THE CULTURAL TOURISM
IN MACEDONIA AND GREECE**

Background presentation by:

Vlasis Vlasidis Ph. D

Assistant Professor

Political Communication and Mass Media

Department for Balkan Studies

University of Western Macedonia

Florina, GR 53100, Greece

e-mail: vlasisidis@uowm.gr

In global framework, the cultural tourism takes a significant share in tourism overall, which is constantly increasing. The development of this type of tourism on Macedonian ground has high potential.

The project of the First World War Military Park in Kallipolis (Gelibolu) Turkey and the Park in Nova Gorica Slovenia is an example of a highly efficient and successful project for development of the culture tourism. Following this example, The Department of Balkan Studies/University of Western Macedonia, the Museums of the Macedonian Struggle Thessaloniki, the Center for Cultural Decontamination Bitola, and the Youth Forum Bitola submitted an application at the recent Interreg Greece-Macedonia for “Promoting the cultural historical heritage of the interregional area” The present project aims to present the status of the military cemeteries of the First World War in Macedonia region, in the Balkans, as a sample of common cultural heritage in this very area. The target group are the tourists from the western countries above the age of 55.

It is highly unlikely that a closure of the name dispute will bring about an enhancement of the current economic cooperation between Macedonia and Greece. It can be achieved primarily by reinforcing and exploring the potentials of the new sectors, for instance the development of cultural business in both countries. Another way to increase the economic cooperation is Macedonia joining the European Union, an old member of which is Greece. All other possibilities for economic cooperation between EU member state and a non member country are already used.

Session 5

GENERAL DISCUSSION AND CLOSING REMARKS

This round table is devoted to increase public awareness about the importance of Macedonian/Greek economic cooperation. We tried to present the essential facts about the current situation and estimations on the effects from Greece crisis on Macedonian economy that should be considered by the policy makers.

The CEA team has worked on estimating and forecasting the effect of the Greek crisis on Macedonian economy from the economic crisis in Greece, and for its purpose, two scenarios (2010-2014) were designed, both pessimistic. According to the study estimations, the economic instability in Greece leads to a decline of Macedonian export, but at the same time, insignificant inflow of equity capital from Greece can be expected. Reinvested profit will be drastically reduced and consequently, the dividends payment by Greek investors will be increased.

Most exported products from Macedonia to Greece are iron and steel, textile (according to the principle of “loan-production”), tobacco (increased export as a result of the Greek ownership of the largest companies in these sectors, metal and steel and marble.

In the field of FDI, from 1997 till now, there is an upward trend in the Greek investments in Macedonia, reaching the maximum with investments worth 450 million Euros in 2008, and suddenly reducing in 2009, due to the crisis. But, increased cross border trade and private transfers (as 20-25% of the total cross border trade belongs to dentist services, gambling, gasses etc) show the positive effects of the crisis. In other words, since the Greek crisis, cross border trade is increased, but the investments are reduced.

Lowering the credit rating of Greece by the agency Moody's has seriously affected the credit rating of Greek banks. This makes the situation of the Greek banking sector very fragile. But, we must have in mind that Greece's fiscal crisis, is a budget problem, not a Bank problem, as it is the case with Ireland.

IMF loan and the EU completed the task, i.e. they helped the German banks that have purchased Greek risky bonds stabilize. Furthermore, while the Greek banks have not bought treasury bonds, the social security funds have. This is a problem concerning the social security system, especially if it has decided to reduce interest of Greek bonds. The credit exposure of the Greek banks is not great, i.e. they have enough coverage for the approved loans. The merger of the National Bank of Greece and Alpha Bank will not cause a profound negative impact on their subsidiaries in Macedonia, because they work profitably.

Merging the two banks is difficult because of the human factor, as it will cause a reduction of job vacancies. But we must bear in mind that the National Bank of Greece has

the majority public ownership, and Alpha Bank is privately owned, where it is not clear whether Alpha Bank will be nationalized or the National Bank of Greece will be privatized.

The nature of trade has been changed, as well. Macedonia does not export products to Greece; Greeks buy them in Bitola instead. This is not seen as export by the official statistics. These people are recorded as tourists, who exchange their Euros for Denars, but there is no evidence for how they spend them. Therefore, some part of the Macedonian export has only changed the method it goes to Greece. Conversely, there are many Macedonians who do shopping in Thessaloniki, which are also not recorded in the Greek statistics.

Macedonia and Greece have a highly developed economic cooperation, but the public in the both countries is not enough informed. The focus is set on the political issues, instead on economic cooperation. Greece is one of the main investors and trading partners of Macedonia. The key problem is that Macedonia is not EU member yet, and Macedonian entrepreneurs can not use all possibilities as the Bulgarian entrepreneurs, and Greece is not member of CEFTA, which means that the market is not liberalized.

Even, the alternative ways of economic cooperation can be achieved primarily by reinforcing and exploring the potentials of the new sectors, for instance the development of cultural business in both countries.

Macedonia did not issue the third Euro-bond because it could not achieve a solid market price due to the situation in Greece. Although macroeconomic stability in Macedonia was great, the investors evaluated an increased risk of investing in Macedonia.

In general, it can be concluded that since the mid 90's until the first decade of 21 century, the economic relation between these two countries has a continuous progress. The political elites of the both countries interpret this as an absolute dependence or a being deficient in of sovereignty. It has so far resulted in some rather curious and absurd reactions on the side of both countries' officials. Manipulating with the official statistics, both countries have claimed a surplus in the mutual exchange. One of the official justifications for these differences is that Macedonia measures the export in USA dollars, and Greece in Euros.. Since the beginning of the global and Greek economic crisis in 2008, Macedonian export to Greece is constantly declining, from 12 million Euros surplus in 2008 to deficit of 150 million Euros in 2010. The participants from the both countries agreed that politicians should not interrupt the flow of the economic development between the countries.

At the end, we highly believe that this regional round table will have contribution in increasing the understanding of the significant interdependence between the economic movements in the both countries and will help to inform and aware the public and the political elites, by sharing the insights and assessments of the participants.