Greece’s Trade With The Balkan Countries: Is It Too Little?

Dionysios Chionis  
*University of Thessaly*

Panagiotis Liargovas  
*University of Thessaly*

George Zanias  
*Athens University*

Abstract

In this paper we use a gravity model in order to estimate the magnitude of potential trade flows between Greece and nine Balkan countries. We adopt a two stage approach. At the first stage the coefficients of the gravity model for the implemented trade between Greece and thirty trade partners are estimated by using the method of Seemingly Unrelated Regression (SUR). At the subsequent step, we implement a research exercise by incorporating the estimated parameters to a gravity equation of Greece and the Balkan countries. It appears that Greece is “under-trading” with all the countries in the reference sample. The ratio of actual over potential exports/imports is less than unity in all cases. Under-trading is more pronounced in the case of imports, where the actual value approaches almost two per cent of the potential.

- **JEL Classifications:** F14, F15, F17
- **Key Words:** Gravity Model, Greece, Balkans
I. Introduction

Given its proximity as well as historical and cultural links, the South-East European region represents for Greece an important potential market of great opportunities. At the same time the magnitude of ethnic, political and economic problems that these countries are facing today within both the domestic and the international context, are enormous. This is because the general situation in the Balkan peninsula was very different in 1989 than it is today. In 1989 Bosnia and Herzegovina, Croatia, FYR Macedonia, Slovenia and FR Yugoslavia were united. Bulgaria and Romania were members of the CMEA and Albania was the most closed and isolated economy in Europe. Recent economic upheavals together with the opening of potential new markets have made it difficult for them to achieve a state of steady economic development. The majority of these countries are in a stage of transition towards the establishment of a market economy and the creation of a basis for self-sustained economic and social growth. They have to resolve a wide range of practical, ethnic, economic, social and related issues.

The importance of international trade in the process of transition and its association with economic growth has received increasing attention. The opening up of Central and East European markets will boost international trade. The magnitude of these forces as well as the net effects for the trade partners are still debatable. Most of the previous literature focuses on the potential for trade expansion between Central and Eastern European Countries and the EU as a whole. Country-specific studies have been carried out for Germany, Spain, Ireland and Greece. More specifically, Dimelis and Gatsios (1995) compare the actual trade flows between Greece and 6 CEECs (Albania, Bulgaria, Romania, Hungary, Poland and Czechoslovakia) with the potential ones, which are derived by using the Baldwin’s (1994) gravity model over a total of 17 exporting countries and 20 trading partners for the period 1979-88. They find a larger potential for growth of trade of the three CEECs compared to the three Balkan countries. However, their predictions are not underpinned by rigorous analysis. In particular there is still lack of conclusive evidence regarding the trading potential of the

1 See for example the ethnic problems that FYR Macedonia is faced recently.
2 The existing literature is huge; for an overview see Vanvakidis (1998).