

Bulgarian-Greek Bilateral Economic Relations – Issues and Trends

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Abstract

The bilateral economic relations between Bulgaria and Greece can be viewed as an example of a positive and well developing cooperation between neighbouring countries. Despite that their membership in the European Union has contributed to the strengthening of their commercial relations, over the past few years it is observed a decline in their trade turnover. The aim of this paper is to examine the development of the bilateral trade relations between the two countries in the last decade. Throughout the research paper, a variety of indicators have been used in order to gain impressions of the status of the bilateral trade ties, such as: trade complementarity index, and trade intensity index among others. The findings show that due to the debt crisis in Greece and the economic and political volatility in the country in the last few years, the trade relations have weakened. Nevertheless, the two countries are aiming at strengthening their relations, reaching collective goals.

Keywords: Foreign trade, Greece, Bulgaria, bilateral relations, cooperation
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Introduction

1. Overview of the bilateral relations (political, cultural, legal aspects)

The economic relations between Bulgaria and Greece are a good example of friendly neighbouring countries. In a dynamic region like the Balkans the cooperation has past through the fall of the Eastern block and the acceptance of Bulgaria in the EU, this further strengthened their bond. For Bulgaria the close relations with an old member of the EU are of great importance for the integration of the country and its further economic development.

The ties between the two countries are not only economic but there is a strong political, cultural and religious bond between the two nations. Greece and Bulgaria consider each other a friendly nation and enjoy excellent diplomatic relations. The two countries are members of the EU and NATO, with Greece supporting the Bulgaria's Euro-Atlantic integration and its entry to the Schengen Area. Furthermore, both countries share common views about the Balkans and the European union as a whole.

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1.1 Brief history of the bilateral relations

Modern relations between the two countries were established in 1908. However, until the beginning of 1950 there were conflicts and absence of real diplomatic relations because of the Greek-Bulgarian struggle for Macedonia and the integration of the two countries in the opposing coalitions in the Second World War.

On February the 10th, in 1947 a peace treaty was signed in Paris, according to which Bulgaria restored the Greek territories that had previously been occupied. In 1953 an agreement was signed to restore the border line. In July 1964, 12 other agreements were signed in Athens to fully restore the diplomatic relations. These were few of the most important stabilizing factors in the Balkans is the economic relation between the two countries, with targets such as increasing the bilateral trade and the direct investments. Until 1978, trade agreements and protocols were signed with continuous increase in exchanges between the countries. Greece's accession to the EU in 1981 marked a new period of stagnation in the bilateral trade.

In the 90's, the economic relations between Bulgaria and Greece are characterized by positive changes. This is to be proved by the changes in the mutual commerce and thus Greece ranges among Bulgaria's first five main trade partners in the world. This trend can be still observed. Moreover, Bulgaria is the main commercial partner of Greece in the South-eastern region.

1.2 Beneficial factors of the bilateral relations

The main benefits from the economic relations and the increases of the mutual turnover are determined by two very important circumstances:

- The relations of the countries with the EU and NATO
- The geographical proximity of the countries; The advantage of the neighbouring countries refers directly to the lower transport costs and the opportunity for receiving reliable information from the markets. It also has to do with the similarity of the market characteristics. As for the consumer goods industry it means similar preferences for the consumers, and as for the means of production trade it means similar structure of the industries.

The factors mentioned above determine the type of trade between Bulgaria and Greece. The trade between the two countries has a typical intra-industrial character. It is a trade inside the different sectors of the economies rather than between the economies themselves.

1.3 Diplomatic relations

The exceptional relations between Greece and Bulgaria have been recently upgraded qualitatively through regular exchanges of high-level political visits and respectively collaborate harmoniously in regional initiatives. It has to be recalled that Greece was among the countries that eagerly and substantially supported Bulgaria's accession to NATO and the EU. Greece also supports Bulgaria's application to join the Schengen Area. At a bilateral level, the countries co-operate closely on political, economic and

energy issues. A Greek-Bulgarian High-Level Cooperation Council has also been established under the auspices of the two Prime Ministers.

1.4 Comparison of Bulgaria with Greece

Greece and Bulgaria are both located in South-East Europe, on the Balkan Peninsula. The two bordering countries have relatively low endowment of natural resources, similar mountainous relief, very small size difference and almost identical climate. The historical record of the two countries is quite similar with identical prevailing periods and constant land disputes often resulting in wars. It all prompts to a similar economic development but this is where the similarities stop. After WWII the two countries undertook completely different economic and political systems. Bulgaria got on a path towards centrally planned economy, while Greece went on to develop a market economic system, under a parliamentary government with a multiparty system, which was disturbed from 1967 until 1974 by a military dictatorship. After 1990 Bulgaria also joined the other Eastern European countries in trying to reform what seems to be an outdated, utopian system of central planning into an up-to-date, proven effective market economy. The transition is still ongoing as in 2007 the country became a member of EU. The main differences between those two countries can be observed in the following table:

	Bulgaria	Greece
Population	7.178 mill	10.82 mill
Government	Republic	Republic
GDP	\$50.20 billion (2015)	\$194.9 billion (2015)
GDP per capita	17.2k (2015)	26.9k (2015)
GDP growth	3.6% (2015)	-0.2% (2015)
Inflation	-0.1% (2015)	-1.7% (2015)
Unemployment	11,6% (2014)	26,3% (2014)
Public debt as a % of GDP	18,4% (2013)	175% (2013)
Current account as a % of GDP	3,9%	-1,8%

2. The Bulgarian - Greek trade relations: trends, structure, performance

Trade relations between the two countries are a typical example of relations between neighbouring countries facing a different level of economic development. On the one hand, the main part of the mutual turnover is within and not between sectors, i.e. the trade takes on an intra-industrial character. On the other hand, Bulgarian exports are dominated by products with lower value added and raw materials, while Greek exports to Bulgaria are dominated by goods with higher level of processing and ready-made products.

2.1 Dynamics of the Bulgarian - Greek trade relations (exports, imports, trade balance)

Year	Total turnover	growth, %	Export	growth, %	import	growth, %	Balance
2006	2039.65		1 072.60		967.05		105.55
2007	2575.69	26.28	1 220.19	13.76	1 355.50	40.17	-135.31
2008	2870.19	11.43	1 508.61	23.64	1 361.58	0.45	147.03
2009	2140.00	-25.44	1 111.50	-26.32	1 028.50	-24.46	83
2010	2378.64	11.15	1 236.71	11.27	1 141.93	11.03	94.786
2011	2736.62	15.05	1 423.56	15.11	1 313.06	14.99	110.500
2012	3037.20	10.98	1 494.55	4.99	1 542.64	17.48	-48.092
2013	2981.37	-1.84	1 545.99	3.44	1 435.38	-6.95	110.615
2014	2817.56	-5.49	1 480.79	-4.22	1 336.78	-6.87	144.010
2015	2778.6	-5.1	1 510.736	2	1 267.872	-5.1	242.864

By analysing the data, the following trends can be observed:

- The total turnover in the pre-crisis years has an increasing share, followed by a sharp decrease in 2009 with -25.44 %. In the following years, it is observed a continuous increase in the total turnover as it reaches its peak in 2012 with 3037.20 mln. EUR. However, in the last few years of the period it is experienced a minor decrease in the values.
- The export from Greece to Bulgaria is the lowest in 2006 and 2009, but in the last few years it is constantly increasing except for 2014 when there is a slight drop with -4.22%.
- The import from Bulgaria to Greece has a fluctuating character for the 10 years period. Again in 2009 when the crisis hit it was experienced the biggest drop in the growth with -24.46%. Afterwards it is observed a growth until 2012, followed by a constant decrease for the last 3 years of the period.
- The trade balance in the period 2006-2015 shows that Greece exports more to Bulgaria, than imports, excluding 2007 and 2012, when Bulgaria exported more to Greece than imported.
- Greece is the main provider of Bulgaria in a number of products such as pasta, vegetables, tangerines, sugar, tobacco, etc; likewise Greece is among Bulgaria's major destinations for exports.

2.2 The Export Share - the export share as the percentage of exports from Bulgaria to Greece and Greece's position as a trading partner of Bulgaria is presented in the table below:

Year	Share	Ranking
2006	8,93%	4
2007	8,17%	4
2008	9,10%	1
2009	9,43%	2
2010	7,93%	5
2011	7,05%	5
2012	7,18%	5
2013	6,95%	5
2014	6,70%	5

Source: wits.worldbank.org

Analysing the statistics we see that Greece is one of the main trading partners of Bulgaria. This is normal having in mind that they are both neighbouring countries and members of the EU. However, after the crisis, Greece is losing its position, being replaced by other countries. This downward trend in the export share can be explained by the tough economic times that Greece is facing.

2.3 *Export/Import coverage ratio* – the table below shows the exports from Bulgaria to Greece and the imports from Greece to Bulgaria and their ratio

Year	Total exports (mln. EUR)	Total imports (mln. EUR)	Export/Import coverage ratio
2006	1 072.60	967.05	1.11
2007	1 220.19	1 355.50	0.9
2008	1 508.61	1 361.58	1.10
2009	1 111.50	1 028.50	1.08
2010	1 236.71	1 141.93	1.08
2011	1 423.56	1 313.06	1.08
2012	1 494.55	1 542.64	0.96
2013	1 545.99	1 435.38	1.07
2014	1 480.79	1 336.78	1.10
2015	1 510.7	1 267.9	1.19

The export to Greece have an upward trend as they increased from 1 072.60 mln EUR in 2006 to 1 510.7 mln. EUR in 2015. Nevertheless, the values were fluctuating. The imports have an unclear trend as they were constantly increasing and decreasing. In this period the export/import coverage ratio is more than 1, except for the years 2007 and 2012, which indicates that Bulgaria has a positive trade balance with Greece.

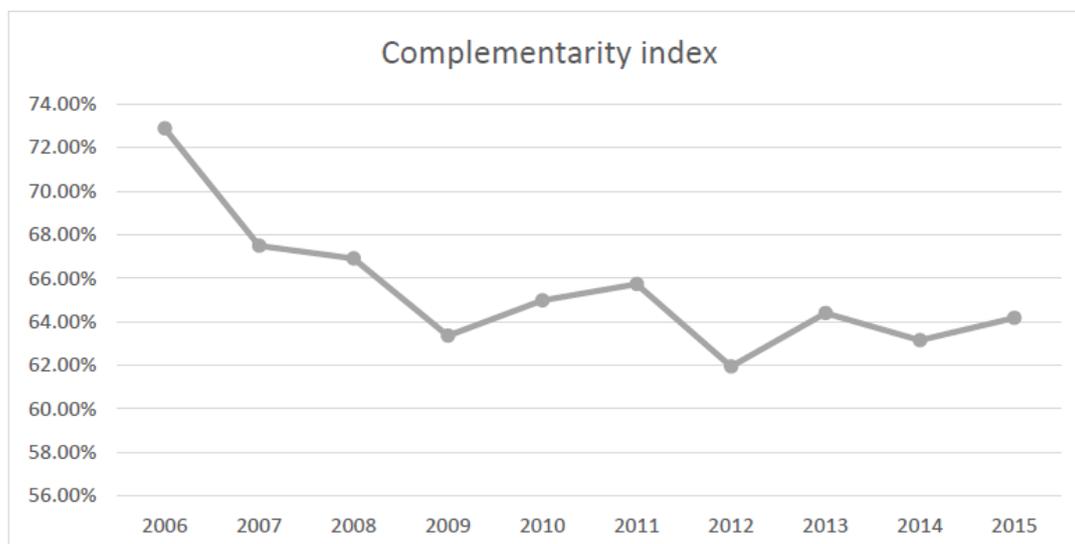
2.4 *Growth rate of export of goods for the period 2006-2015* – the table is showing the goods with the biggest growth rate for the exact period

Product	Growth rate
1. Other transport equipment	93.51%
2. Oil-seeds and oleaginous fruits	71.54%
3. Tobacco and tobacco manufactures	61.58%
4. Crude rubber (including synthetic and reclaimed)	61.29%
5. Medicinal and pharmaceutical products	50.20 %
6. Beverages and tobacco	43.95%
7. Coffee, tea, cocoa, spices, and manufactures thereof	34.77%
8. Travel goods, handbags and similar containers	30.26%
9. Telecommunications and sound-recording and reproducing apparatus and equipment	26.48%
10. Dairy products and birds' eggs	24.41%

The table shows the top 10 products that have the biggest growth rate of exports for the 10-year period. Bulgarian exports are dominated by products with lower value added and raw materials. The biggest growth rate for the 10-year-period is experienced in the transport equipment, in the oil-seeds and oleaginous fruits and tobacco and tobacco manufactures.

2.5 Trade intensity index

The trade intensity index for 2010 is 0.037 which indicates that the bilateral trade between Bulgaria and Greece is smaller than expected. In 2015 the index is 0.035 which points out the lack of real development in the trade intensity.



The complementarity index shows how good the export pattern of Bulgaria matches the import profile of Greece. It is noticeable that in 2006 the trade profiles of the countries were more compatible than in the next years. Furthermore, the countries' profiles are becoming less compatible over time.

3. Other forms of foreign economic relations of Bulgaria with Greece

3.1 Investments:

The progress of Greek investments in Bulgaria, for over than two decades, is explained by a number of factors of which the most important are the low paid labour, the existence of highly favourable trade agreements and low taxation. Furthermore, bureaucracy, bribery, high risk, corruption that characterized the economy of the Balkans were discouraging factors for Western investors. Bulgaria exploits the Greek capital for economic growth without resorting to external loans and appropriates western technology and administrative know-how offered by the daily transaction with the Greek enterprises. On the other hand, Greek companies have found the appropriate way to expand their activities beyond the Greek limited space or the very demanding and competitive European market.

In the field of investments the Greek banks led the process of Bulgarian market entry. They dominated the market by participating as shareholders in the respective Bulgarian credit institutions during the latters' privatization process. As a result, nowadays, the Greek banks are in control of the 23,6% of the total bank capital in Bulgaria. This movement prompted more small and medium-sized enterprises from Greece to invest beyond the borders. The Greek penetration in the Bulgarian market was further enhanced by the strong presence of OTE (Greek Telecommunications

Organization) in the neighbouring country which, in turn, consolidated its lead through the establishment of a number of telecommunications subsidiaries.

Greek investments in Bulgaria for the period 2006-2015

Year	Mln. Euro
2006	533.5
2007	874.5
2008	635.9
2009	218.7
2010	63.6
2011	-0.1
2012	-125.7

Analysing the graph it is noticeable that in the pre-crisis period, the investment interest increased respectively, with their focus being in sectors such as tourism, real estate, financial services and food industry, which was contributing significantly in the further linking of the two economies. However, in 2011 and 2012 there is a big decrease. This drop in the investments can be explained by the problems that the Greek economy is experiencing.

3.2 Tourism

The signed, in June 1995 and approved in may 1998 by Republic of Bulgaria, Treaty for cooperation in the sphere of tourism between the two countries creates preconditions for enlarging the specialized tourism and activating the individual, realizing of investments in the touristic attractions. In the treaty is foreseen the participation of some Cyprus companies in the management, renovation and exploitation of the Bulgarian touristic attractions and the joint preparation of employees in the sphere of tourism.

□ Greek tourists in Bulgaria and Bulgarian tourists in Greece and their percentage change over the years:

Year	Greek tourists in Bulgaria	%	Bulgarian tourists in Greece	%
2010	905 083	11 %	899 357	- 43.2 %
2011	942 680	4.2 %	1 000 660	-11.3 %
2012	928 552	-1.5 %	789 970	-21.1 %
2013	935 431	0.7 %	828 929	4.9 %
2014	1 031 981	10.3 %	866 609	4.3 %
2015	972 971	- 5.7 %	1 043 078	20.4 %

The two countries have excellent relations in the sphere of tourism. Greece is Bulgaria's main source of tourists, while Bulgarians are the second largest group of tourists visiting Greece. By analysing this table we can conclude that in the last few years more and more Bulgarian tourists prefer Greece as a travel destination, as most of them visit our neighbour country in the summer season. In 2015 the number of Bulgarian tourists in Greece has increased with 20.4%, reaching its peak with 1 043 078 people. On the other hand, Greek tourists in Bulgaria prefer our ski resorts. The biggest number of visitors was in 2014 with 1 031 981 people.

3.3 *Relations in the sphere of education and culture*

Under the Greek-Bulgarian Cooperation Programme, close collaboration between the two countries continues undiminished across a broad spectrum of educational and cultural issues - collaboration between universities, exchanges of scientists, scholarships, seminars, etc.

3.4 *INTERREG V-A Greece-Bulgaria 2014-2020 Cooperation Programme*

The European Commission adopted on September 9, 2015 the Cross Border Cooperation Programme for Greece and Bulgaria, which first priority is to boost the competitiveness of SMEs and help them expand beyond local markets. The budget of the Programme amounts to €129 million, with a contribution from the European Union of more than €110 million from the European Regional Development Fund. This Programme will help the border regions of Bulgaria and Greece to work together and address common challenges. The Programme will focus on the following four priorities:

- A Competitive and Innovative Cross Border Area
- A Sustainable and Climate adaptable Cross Border Area
- A Better interconnected Cross Border Area
- A Socially Inclusive Cross Border Area

The Programme, which covers 11 Greek and Bulgarian regions, will also improve cross border cooperation to better protect the local population from the risk of flooding. It will develop and promote the border area's cultural and natural heritage. Furthermore, investments under the Interreg Programme will improve the management of water resources and cross border connectivity. This means reduced travel times, as well as improved traffic safety. Finally, the Programme aims to expand social entrepreneurship in the border area, leading to increased employment in social enterprises and enhanced delivery of social services to vulnerable communities.

4. Prospects for Intensification of the bilateral economic relations

4.1 *Issues and Policy options*

Depending on their nature, the issues are generally related to the institutional, economic and informational conditions for the development of business relations across the border. More concretely, the following problems concerning the relations as well as measures for overcoming them can be outlined:

- Violation of the custom's laws – smuggling, fake export, declaring lower cost or volumes of imported products, lower expenses of transportation, insurance, etc. All these violations of the law put loyal businessmen in a position of unfair competition.

This situation forces them to either lessen their profits or get away from real business and go to the “grey zone” of the economy

- Traffic capacity of the border checkpoints. In terms of customs formalities and passing the border, many companies complain of the slow customs processing which makes them wait a long time across the border.

□ Infrastructure conditions - the road conditions especially in Bulgaria are in a very bad condition. The problem in building and reconstructing roads is financial and the process of raising funds for these projects is very difficult and slow. However, in 2015 an additional sketch of the highway to the border crossing "Kulata" was opened, which will make it much faster and convenient for the people travelling from and to Greece. The whole highway is expected to be finished within 2025.

□ Bureaucracy. This problem exists in both countries and almost every company has faced it. Bureaucracy in its different forms damages indirectly the economic relations. The negative effects are usually missing profits and opportunities. It should be emphasized that companies mention bureaucracy as a problem in the trade relations and anytime they refer to investment projects. Reduction and elimination of bureaucracy is a slow and difficult process because sometimes it leads to job losses and on the other side it is difficult to be overwhelmed.

□ Asymmetry of information. This problem is connected partly with the previous one. It has also much to do with gaps in administration and improper use of information. The problem can be resolved by popularizing the state and non-government institutions that support business organizations and develop new channels for delivering information. There is a positive initiative for establishing Bulgarian - Greek business and information centres in both countries which will facilitate the contacts among companies and support their activities.

In addition to the difficulties mentioned above, there are some more obstacles in establishing better relations between Bulgaria and Greece that are less burdening for companies from border regions. One of them is the language barrier, which is problem especially in the contacts between small and medium companies. The advantages of the bordering regions is that the language barrier is not that significant, they know their neighbours from across the border, check points are closer, there are many family relations and mixed marriages. This explains the higher activity in South Bulgaria and North Greece in trading and doing common activities in different fields.

4.2 Potential sectors for Trade/Investment Expansion

The considerable interest in cooperation between the border regions of the two countries can be estimated by the realization of specific projects and initiatives that stimulate the cross-border cooperation. Initiatives are carried out on different levels with the support of local and state administration, chambers of commerce, professional and non-government organisations related to the economic development of the countries. Many events like business forums and meetings "business to business", visits of ministers and vice ministers accompanied by business delegations, presentations of the economies and the possibilities for cooperation, participation in common and specialized fairs and exhibitions were organised in the cities of North Greece and South Bulgaria. These events and activities help the companies to get acquainted with each other. They also enhance the contacts between Chambers of Commerce, the exchange of information and the opportunities for doing business on the other side of the border.

A tendency in cross-border cooperation that becomes very popular lately is the so-called fraternisation of cities. The development of the relations between the local administrations from the two sides of the border has different aspects:

- Development of cooperation between the Chambers of Commerce of the countries and support of small and medium companies, facilitation the contacts between potential partners from both sides of the border through different initiatives and events;

- Transfer of experience and know-how by a member country of the EU in different aspects;

- Cooperation in staff education;

- Support of the investment process and participation in the privatisation of industries in the region.

In order to achieve these goals and the projects to be completed many efforts have been made for participation in the projects financed by the EU. There are many examples for this kind of cooperation but the most successful are the Gotze Delchev - Drama project (establishing the so called Euroregion Mesta – Nestos) and the cooperation between Blagoevgrad and Serres.

It should be emphasized that fraternisation of cities is a successful example for cross-border cooperation and it leads to real economic results. The cooperation on local level is more effective and easier to realize. The agreements signed by local administrations contain concrete stipulations and bind both countries with practical realization. Signing agreement on local level often leads to solving problems on interstate level. Typical examples for this are the contracts for hiring Bulgarian workers for season jobs in Greece. On government level there is an Agreement on this issue but due to procedure difficulties it is not functioning. Despite of the intention declared on a high level this problem is still open. By signing contracts Greek counties are able to hire Bulgarian season workers, which is a benefit for both countries.

5. Conclusion

In the era of globalization it is impossible for countries to survive isolated from their neighbours without any sign of cooperation. The Bulgarian-Greek bilateral relations are an example of positive cooperation between neighbouring countries, aimed at establishing of stability and improvement of the relations. Their relations have overwhelmed many conflicts and difficulties in the past, but there is a noticeable improvement in the collaboration between the two countries, especially in the last few decades. The membership of the two countries in the EU has a significant contribution to this process. Their location in the heart of South-eastern Europe is of strategic importance for the cooperation with other states, their integration and accomplishment of economic growth. Despite that over the past few years it is observed a decline in the mutual trade turnover. The findings show that this is due to the debt crisis in Greece and the economic and political volatility in the country in the last few years. Nevertheless, the two countries are aiming at strengthening their relations, reaching collective goals.

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