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## **Eastern Enlargement of the EU: Bulgaria and Romania's Accession- Geo-economic and Geopolitical Implications for the Balkans**

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**Diplomatic Academy-Vienna**

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Accession- Geo-economic and Geopolitical Implications for  
the Balkans**

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In partial fulfillment of the requirements for the degree of Master of Advanced  
International Studies



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Second reader: Professor Gerhard Mangott**

**Vienna, Austria**

**2005**

**Eastern Enlargement of the EU: Bulgaria and Romania’s Accession- Geo-economic and Geopolitical Implications for the Balkans**

MA Thesis

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## **Abstract**

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## Introduction

It is not an easy task for social scientists to approach the Balkans. No matter whether economic policies, Euro-integration, environmental issues or even the gender perspective are to be explored, the Balkans are Universe of their own. Having in mind their turbulent history and recent political development, it is just not plausible to translate automatically global economic processes to the Balkan 'environment'. We need to analyze how the 'neo-liberal global world' is reflected in the Balkan 'democracies of poverty'<sup>1</sup> and to explore if not only there is a possibility for some of them to transform into 'democracies of prosperity' but also how this can be achieved. The signing of the EU accession treaty on 25 April 2005 virtually paves the way for Bulgaria and Romania's full-fledged EU membership. After that date, it is just a matter of technical time until the actual accession date of 1<sup>st</sup> Jan 2007. However, the perspective for the West Balkans is still quite harsh. The project's aim is to look beyond the journalistic flash stories and the repetitive high pathos analysis and explore in depth the geopolitical implications of such an important development. In other words, this thesis looks at two major questions, and namely, *what are the geopolitical and geo-economic consequences for the Balkans, arising from Bulgaria and Romania's accession to the EU* and in a broader context *what are the geo-economic and geopolitical changes that are shaping in the Balkans in the first decade of the 21<sup>st</sup> century?* To answer these broader questions I first concentrate on answering series of other closely related, but more narrowly focused questions, namely:

*How the EU policies of inclusion and exclusion in the Balkans could contribute to severe economic, political and cultural ghettoization of the Balkans in short to mid term perspective?*

*What are the Geo-economic and Geopolitical Perspectives for the integrated Eastern component? (Bulgaria and Romania)*

*Pathways from the West Periphery or Western Periphery Paths: Options for the Excluded Component? (Bosnia & Herzegovina, Albania, Kosovo, Serbia & Montenegro, Macedonia)*

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<sup>1</sup>Peter Stoyanov, President of Bulgaria, International Conference 'Nation building vs. State building. Lessons learned', CEU, 30<sup>th</sup>Nov-1<sup>st</sup> Dec,2002



*Are we currently observing grandeur changes and the emergence of Bulgaria and Romania as a region with a new very important geopolitical value due to the concurrence of major developments?*

*How can these two countries capitalize on their advanced Euro-Atlantic integration stage and lobby for a more engaged EU policy towards the whole region and specifically the West Balkans?*

The first section of the first chapter gives the historical framework of Balkan economic relations and the evolution from historical confrontation to cooperation. In the next section I explore the recent geopolitical developments and namely the emerging East-West split, running through the heart of the Balkan peninsula, with its east part in the final stages of EU integration (Bulgaria and Romania) and the 'Wild West' of the Balkans with no prospective of mid to long-term EU integration.

The second chapter explores the geo-economic implications of Bulgaria and Romania's EU accession for the region. The first section of the second chapter focuses on 'the East included' component, and comprehensively analyses pre-accession Bulgaria and Romania's economic development. By exploring major macroeconomic indicators, other economic developments and trends, structural factors and competitive advantages the chapter looks at most recent record-high expansionary economic boom tendencies in the 'included' Balkan economies (Bulgaria, Romania), evidenced by all major macroeconomic indicators. For example, GDP growth for Bulgaria and Romania in 2004 was 6 and 8 % respectively and both countries alone received between 75 to 80 % of all the investment in Southeastern Europe and between 30 and 40 % of all the investment in Central and Eastern Europe. Record GDP growth, record FDI, attractive labor costs, educational benefits, encouragement of ICT and pharmaceutical industries, etc. are scrutinized in detail. Further, the implications of such expansionary boom to the two countries per se are explored and how this relates to Central European Countries (CEC 4) on one hand, and excluded countries of the Balkan West, on the other. I believe this chapter would be very innovative, as it would summarize otherwise very scattered and partial information for a process which should not be overlooked. Namely, somehow unnoticed in the last five years, Bulgarian and Romanian economies outperformed CEC-4 economies in terms of macroeconomic performance and expansionary growth and the tendency is very well pronounced and more and more strengthening.

Moreover, the political divide between the ‘East’ and ‘West’ Balkans is more and more translating into economic divide. Different geo-political developments within the two ‘camps’ have already started to yield enormous economic differences and this is especially pronounced in the last five years. The second section of the second chapter explores the excluded Balkan countries, which might transform into economic ghettos, ‘gray zones’ of ‘non-states’ and ‘states of sovereign exception’, using Aida Hozic’s terminology, if such a policy of isolation is not discontinued in short to mid-term perspective.

The third chapter explores the major geo-political changes that are currently shaping the Balkans and more narrowly the geo-political implications of Bulgaria and Romania’s EU accession to the region. The collapse of the Soviet geopolitical system at the end of the twentieth century initiated radical geopolitical transformation processes in vast regions of Europe and Asia. The geopolitical vacuum was filled by, using Loukas’s terminology<sup>2</sup>, formation of three new spatial ‘*geo-systems*’ on the territory of the former Soviet Union: Eastern Europe, Caucasus and Central Asia.<sup>3</sup> Similarly the former communist space, outside of the Soviet Union formed two spatial ‘*geo-systems*’, namely, the Central European (Visegrad) and the Balkan *geo-system*.<sup>4</sup> Two of these new *geo-systems*, the Caucasus and Central Asia are especially rich in oil and gas reserves. However, the vast deposits of the Caspian Basin are landlocked and have to be transported across borders. Due to the fact that most of this assets are in areas or countries, adjacent or even part of plethora of ethnic, political, economic, etc conflicts, finding ‘a safe transportation passage’ to Western markets becomes a geopolitical asset, equal to the oil and gas per se. Standing on major crossroads, the Balkan *geo-system* acquires a new role of paramount geopolitical and geo-economic significance and specifically for the EU’s energy security policy. No matter the region does not have strategic reserves of its own, its emerging geo-strategic and geo-economic power ‘resides in its geographical location, halfway between two major oil and gas supply regions - Russia and the Caspian - and large markets, such as Turkey, Southeast and Central Europe, and the Mediterranean.’ The chapter explores in detail

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2 Ioannis Loukas, *The New Geopolitics of Europe*, Analysis-S43, Naval Academy, UK Ministry of Defense

3 Ibid., 8.

4 Croatia and especially Slovenia are also often considered as Central European countries

the planned Balkan oil pipelines and the competition between the three major competitors: Burgas-Vlore, Burgas –Alexandroupolis and Constanta-Trieste projects.

The oil section is followed by ‘geopolitics of gas’ analysis, and deals mainly with the so called Nabucco project. The pipeline will transport Iranian gas from the Middle East and the Caspian region to Western Europe, through Turkey, Bulgaria, Romania and Hungary to Baumgarten in Austria.

Following oil and gas sections, last two sections look at the geopolitics of nuclear energy and geopolitics of rail and road transport.

# CHAPTER 1

## **Overview of Balkan-EU Interaction: Disparities between the Euro-included Component (Bulgaria and Romania) and the Wild West (excluded component) of the Balkans**

### *1.1 From 'national individualism' to multilateral cooperation*

The Balkan Peninsula is the land of eleven countries. Considering the very favorable geographic situation, the Balkan lands are perceived as the key to three continents-Europe, Asia, Africa and also the Middle East. Nicholas Gianaris, who explores the historical and economic relations in the region, writes:

The geographic position of the Balkan countries, at the hub of three continents...attracts the competition of the big powers for political and economic influence and domination...in other words, the big powers quarreled over the Balkan Peninsula, and the result was its socioeconomic backwardness.<sup>5</sup>

This factor is described by Gianaris<sup>6</sup> as the imperialism of other countries. The second factor for the retarded economical development is the national individualism<sup>7</sup> of the Balkan economies. It is true that the immense geopolitical stake and the corresponding 'Big Power's interests' in the region have hindered its economic performance for the last two centuries. However, I believe the biggest reason for the lack of cooperation in the past is to be found within the Balkan countries themselves.

After the culmination of the Yugoslav wars, however, the Balkan countries have somehow exhausted the nationalistic rhetoric and are increasingly aware of the need for cooperation. For the first time in their modern history, they could develop a common framework, bound by mutually profitable economic, environmental, cultural initiatives. In the today's integrating world, it is implausible to speak for 'the imperialism of other countries'. In addition, 'the national individualism' is dissolving to provide scope for multilateral cooperation.

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<sup>5</sup> Nicholas V. Gianaris, *Geopolitical and Economic Changes in the Balkan Countries* Praeger Publishers, 1996 p157-158

<sup>6</sup> *Ibid.*,p.160

## *1.2 The Emerging Economic and Political Ghettoization of the Balkans: the 'Good East' vs. the 'Wild West'*

This unique favorable situation for the Balkan countries could however be obstructed by the European Union's policies of inclusion and exclusion. It imposes double standards on Balkan governments by including some states -Bulgaria and Romania for example in the short-run round of expansion of the EU and excluding others-Macedonia, Serbia and Montenegro, Bosnia, Albania. While Bulgarian and Romanian governments are encouraged by the Stability Pact for South Eastern Europe to build cooperative networks with all Balkan countries in the economy, ecology and other areas, on the other hand they have to impose visa regimes for the citizens of all the 'excluded countries' (taking effect from 1<sup>st</sup> Jan, 2007 at latest). Moreover, the selection of some countries will build mental borders that will hinder economic cooperation. As Simona Zimic<sup>8</sup> implies, the Schengen border is very likely to become the demarcation line dividing the Balkans into the 'European' and 'non-European part'. It is already clearly visible that Bulgaria and Romania will constitute the 'European part' (integrated part), linked to Greece and Hungary respectively. However the perspective for the 'Western Balkans' (with some exceptions) is much harsher. They face the prospect to be the non-European, non-integrated component at least in the short and mid-term perspectives. Thus, we will observe the appearance of new ghettos in the Balkan context.

For long decades Balkans were perceived as a synonym for economic backwardness. However, the recent very positive macroeconomic indicators of Bulgaria and Romania (explored in detail below) as well as the relative Greek economic success significantly challenge the old stereotypes and indicate that a success story might be possible in the Balkans. Relying on outdated sources quite superficially, Bjorn Hettne in 'Comparing Regionalisms'<sup>9</sup> defines the whole Balkan Peninsula as a periphery region. Although his general framework of the relations of

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<sup>7</sup> Ibid.,p160

<sup>8</sup> Simona Zimic, Constructing New Boundaries: Perspective of 'Schengen periphery', International Conference 'Nation building vs. State building. Lessons learned', CEU, 30<sup>th</sup>Nov-1<sup>st</sup> Dec,2002

<sup>9</sup> Bjorn Hettne, (ed.), Inotai, A. (ed.), Sunkel, O. (ed.); Comparing Regionalisms; PALGRAVE, 2001

core-intermediate-periphery regions is consistent and coherent, I believe his theory is seriously lacking some insights when it comes to ‘fitting the exact countries’ in the right definition. For example, he defines coreness according to two major criteria-political stability and their relative degree of sustained economic dynamics. I argue in my paper that according to his criteria, the included Balkan component is definitely an intermediate region with a chance to join the core in the long-term perspective, and it is implausible to define the whole region as a periphery. However, it is true that marginalization might be the fate of the excluded Balkan countries.

## **CHAPTER 2**

### **Geo-economic Implications for the Balkans of Bulgaria and Romania’s Accession to the EU**

#### ***2.1 Go East***



*Fig.1 'Included' and 'Excluded' Balkan Component*

What is important for this research is the economic model of development these two Balkan 'camps' will adopt. For the integrated component (Bulgaria and Romania), upon entering the European Union, indigenous protective legislation, import and export quotas, manipulation of prices, exchange rates, trade barriers, direct cash subsidies will all be excluded from the available tools for macroeconomic policy. I argue that under these conditions, the only possible successful model for the European included Balkan states is a neoliberal state, specifically using Evans' typology that is a flexible developmental state, which 'intervenes in more localized and flexible ways that are suited to competitive conditions such as information technologies.'<sup>10</sup> In the current chapter, the macroeconomic indicators that could be the prerequisites for the adoption and success of this model will be explored. Moreover the paper would not only speculate about the possible economic model which Bulgaria and Romania would follow after their EU accession, but will also explore the recent expansionary economic boom of the latter countries, evidenced by record high GDP growth rates, record amount of attracted foreign direct investments, low inflation, record low public debt/GDP ratio, etc. The analysis would be further

enhanced by comparing major macroeconomic indicators of Bulgaria and Romania with that of the four Central European countries (CEC-4), or the so-called Visegrad countries for the period 2000-2005. Such analysis would mainly seek to find the reasons why Bulgaria and Romania are experiencing such a robust expansionary economic growth in the last five years (and especially last two years), and why the former showcase economies of CEC-4 are in a relative slowdown. Such a development is more than welcome for the two Balkan economies as this could lead to a convergence and catching-up of the latter with CEC-4's economies in mid-term perspective. However, in the Balkans, situation is much different, and namely, such a rapid and expansive growth of the EU-included Balkan component (Bulgaria and Romania) would create enormous discrepancies between the economic development of the latter and the excluded 'economic ghettos' of the West Balkans.

I believe that this paper is a pioneer research, that summarizes otherwise very scattered and partial information for a process which should not be overlooked, and namely that somehow unnoticed Bulgarian and Romanian economies outperformed CEC-4 economies in terms of macroeconomic performance and expansionary growth and the tendency is very well pronounced and more and more strengthening. Moreover, it would not be an overstatement to claim that gradually the two Balkan countries are started to be regarded as regional economic powers. This is justified by numerous articles and publications in Western press and journals, as well as in the perception of the neighbors towards Bulgaria and Romania.

After late but successful reforms in these countries, by the end of the last decade, a record high GDP growth and FDI were already observed. These tendencies strengthened and intensified during the following years. /2000-2005/ Together with very attractive labor costs, favorable educational structure and strong tradition in High Technologies, these factors could lead to a successful and sustainable development. Why not even to a 'Balkan tiger'? In order to compare the emerging positive economic development in the Balkans, we need to compare it with the first success stories that appeared from the former communist economies, and namely that of the Visegrad countries (Poland, Hungary, Czech Republic and Slovakia). By exploring

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<sup>10</sup> Denis O'Hearn, Globalization, 'New tigers', and the end of Developmental State? The case of the Celtic tiger, *Politics&Society*, vol.28 N1, 2000



briefly their success, we observe if their model is applicable to the ‘Integrated Balkan component’ - the European Union aspirants Bulgaria and Romania.

### *2.1.1 The Visegrad Model: Some Macroeconomic Comparisons*

After the fall of the Berlin Wall, the Trans-National Corporations /TNCs/ ‘discovered’ the ‘labor cost paradises’ of the Visegrad countries. After the quick liberalization of economic activity, foreign trade, prices, foreign investments the Visegrad countries soon became ‘the most important backyard of EU-based multinational companies’.<sup>11</sup> The cumulated FDI in Poland, Czech Republic and Hungary in the year 2000 were more than 82 billion dollars. The liberalization was combined with the creation of a very favorable legal framework. Most important these states subsidized large-scale investment in high technology sectors such as automotive, electronics, biotechnology and communications. This policy was expanded with the subsidies going to domestic companies as well.<sup>12</sup> Nevertheless, this policy of cash subsidies had to be discontinued, as it did not conform to the EU regulations and the accession of these countries to the union. (For example Hungary had already reformed its tax-subsidization policy in compliance with EU in effect from 31 Dec, 2002<sup>13</sup>, which led to a new tendency of flight of capital further East and the Balkans are a good example for a new ‘hot place’.) Another obstacle that the EU imposes to new member countries is the policy and general attitude against free trade zones, which were the main FDI spot in these countries, especially in Hungary. It was not a secret that although the EU was not openly against free zones, it was definitely not in favor. The Visegrad countries would have to increasingly count, according to Peter Evans’s terminology to ‘midwifery’ strategies and to abandon their ‘husbandry’ initiatives, such as subsidies for local entrepreneurs. Thus, the Euro integration perspective for new member nations eliminated all models for economic development but the neo-liberal.

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<sup>11</sup> FDI-related policies in Hungary 1990-2001 <http://cuts.org/ifd-lm-cr-hun.doc>, last accessed 5Dec,2004

<sup>12</sup> Ibid. Foreign Investment Policy

<sup>13</sup> Kinga Szuly, Presentation on ‘Hungary’s integration to the European Union’, CEU, 12Dec,2002

### 2.1.2 Adopting aspects of the ‘Visegrad model’ in the Balkans

The Visegrad countries are already experiencing some negative economic effects, arising from their EU integration. On the other hand, in the Balkans-Bulgaria and Romania, who have a perspective of a later accession into the EU (1<sup>st</sup> Jan 2007 or 2008), we can already observe the first tendencies of catching up with Visegrad countries and adopting most of the successful aspects of the latter’s economic models from the early 90’s. How this competitive development was accomplished and what are the factors that indicate a success story emerging on the Balkans in mid or long-term perspective?

**Table 1. Czech Republic: Economic Data**

May 25th 2004

From the Economist Intelligence Unit

Source: Country data

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
GDP per head (\$ at PPP)	13,807	14,644	15,130	15,780
GDP (% real change pa)	<b>3.25</b>	<b>3.09</b>	<b>1.96</b>	<b>2.90</b>
Government consumption (% of GDP)	19.63	19.34	21.41	20.60
Budget balance (% of GDP)	-3.11	-2.40	-6.30	-6.90
Consumer prices (% change pa; av)	3.91	4.68	1.82	0.10
Public debt (% of GDP)	17.20	18.99	24.45	30.20
Labour costs per hour (USD)	1.99	2.19	2.73	3.39
Recorded unemployment (%)	9.00	8.55	9.19	9.90
Current-account balance/GDP	-5.23	-5.72	-6.45	-6.90
Foreign-exchange reserves (mUS\$)	13,019	14,341	23,555	22,975

**Table2. Hungary: Economic Data**

May 13th 2004

From the Economist Intelligence Unit

Source: Country data

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
GDP per head (\$ at PPP)	12,083	12,874	13,485	14,260

GDP (% real change pa)	<b>5.21</b>	<b>3.85</b>	<b>3.46</b>	<b>2.86</b>
Government consumption (% of GDP)	9.67	10.17	10.88	10.50
Budget balance (% of GDP)	-3.00	-4.65	-9.18	-5.80
Consumer prices (% change pa; av)	9.77	9.19	5.27	4.66
Public debt (% of GDP)	54.97	52.20	55.40	56.00
Labour costs per hour (USD)	1.91	2.27	2.95	3.80
Recorded unemployment (%)	6.38	5.71	5.82	5.89
Current-account balance/GDP	-6.21	-3.38	-4.07	-6.50
Foreign-exchange reserves (mUS\$)	11,190	10,727	10,349	12,738

**Table 3. Poland: Economic Data**

Feb 14th 2005

From the Economist Intelligence Unit

Source: Country data

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
GDP per head (\$ at PPP)	9,874	10,220	10,528	11,090
GDP (% real change pa)	<b>4.00</b>	<b>1.00</b>	<b>1.40</b>	<b>3.70</b>
Government consumption (% of GDP)	18.96	18.98	19.03	18.52
Budget balance (% of GDP)	-2.12	-4.26	-5.05	-4.54
Consumer prices (% change pa; av)	10.14	5.49	1.87	0.75
Public debt (% of GDP)	37.43	38.33	43.38	47.40
Labour costs per hour (USD)	2.42	2.77	2.86	3.14
Recorded unemployment (%)	14.01	18.00	19.70	20.00
Current-account balance/GDP	-6.00	-2.89	-2.62	-1.80
Foreign-exchange reserves (mUS\$)	26,562	25,648	28,649	32,579

**Table 4. Slovakia: Economic Data**

May 26th 2004

From the Economist Intelligence Unit

Source: Country data

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
GDP per head (\$ at PPP)	11,342	12,059	12,731	13,350
GDP (% real change pa)	<b>2.20</b>	<b>3.30</b>	<b>4.40</b>	<b>4.00</b>
Government consumption (% of GDP)	19.84	19.97	19.94	18.70

Budget balance (% of GDP)*	-3.02	-3.24	-7.23	-5.10
Consumer prices (% change pa; av)	12.03	7.10	3.32	8.55
Public debt (% of GDP)	30.66	31.41	36.17	36.00
Labour costs per hour (USD)	1.41	1.42	1.66	2.15
Recorded unemployment (%)	18.24	18.26	17.82	15.00
Current-account balance/GDP	-3.52	-8.58	-8.18	-1.10
Foreign-exchange reserves (mUS\$)	4,022	4,141	8,808	10,982

### Table 5. Romania: Economic Data

Feb 14th 2005

From the Economist Intelligence Unit

Source: Country data

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
GDP per head (\$ at PPP)	5,663	6,127	6,734	7,200
GDP (% real change pa)	<b>2.10</b>	<b>5.70</b>	<b>4.90</b>	<b>4.90</b>
Government consumption (% of GDP)	7.21	6.66	6.07	6.53
Budget balance (% of GDP)	-4.01	-3.22	-2.62	-2.50
Consumer prices (% change pa; av)	45.67	34.47	22.54	15.40
Public debt (% of GDP)	31.22	27.05	27.61	25.70
Labour costs per hour (USD)	0.56	0.58	0.64	0.80
Recorded unemployment (%)	10.50	8.60	8.10	7.20
Current-account balance/GDP	-3.66	-5.55	-3.33	-5.90
Foreign-exchange reserves (mUS\$)	3,922	5,442	7,211	8,655

### Table 6. Bulgaria: Economic Data

Feb 16th 2005

From the Economist Intelligence Unit

Source: Country data

	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
GDP per head (\$ at PPP)	6,163	6,612	7,058	7,560
GDP (% real change pa)	<b>5.40</b>	<b>4.10</b>	<b>4.80</b>	<b>4.50</b>
Government consumption (% of GDP)	9.73	9.46	10.03	9.80
Budget balance (% of GDP)	-1.00	-0.86	-0.68	0.00
Consumer prices (% change pa; av)	10.32	7.36	5.81	2.35

Public debt (% of GDP)	77.08	69.94	55.87	47.20
Labour costs per hour (USD)	0.59	0.61	0.73	0.91
Recorded unemployment (%)	18.65	18.08	17.71	14.26
Current-account balance/GDP	-5.59	-6.19	-4.58	-8.30
Foreign-exchange reserves (mUS\$)	3,155	3,291	4,407	6,291

### ***2.1.3 Bulgaria and Romania: Record growth of GDP after 2000***

After a protracted and simulated-economic-reforms-transition in the early nineties, by the end of the decade /1997-2000/, owing to the new reformist governments and ever-closer EU accession perspective, the business and macroeconomic climate had improved considerably. This led to significant improvement nearly all major macroeconomic indicators, and most notably of significant foreign direct investments growth and record-high GDP real growth of 5.4% for Bulgaria in 2000 and the Romanian 5.7% in 2001. In 2001 these countries already had the highest GDP real growth rates in comparison with the Central European countries, whose growth rate in the best cases of Hungary and Czech republic does not exceed 4%, and in the cases of Poland, Slovenia steadily declines and is in the range of 1-2%, which is scarcely above the level for western economies. The World Bank has predicted for the period 2001-2005 steady 4.8% and 4.6% average GDP growth for Romania and Bulgaria respectively, while for Poland the figure was 3.3%.<sup>14</sup> The real record shows that the report even underestimated these two economies, as in the period 2001-2004 Romania grew with 5.88 % on average and Bulgaria with 4.75%. This would even be enhanced when the last year of the predicted period is included as Bulgarian and Romanian economies in 2005 are expected to be marked by the biggest ever-expansionary growth since the beginning of the transition (GDP growth for Bulgaria expected to be 6 % and Romanian 8%).

If we again compare the Visegrad's countries recent economic performance with that of the two Balkan countries, we would once again observe the expansionary growth of the latter economies and the relative slowdown of the former. With precise figures: in the same period /2000-2003/ the weighted average growth rate in Poland

was 2.53%, 2.80% for Czech Republic, 3.48% for Slovakia and 3.85% for Hungary. However, the boom of the two Balkan countries economies and the slowdown of the Central European economies can be even better observed if we look at the trend by years. The weighted average growth rate of CEC-4 (the 4 Central European countries- Poland, Hungary, Czech republic and Slovakia) <sup>15</sup> for 2000 3.67%, and for Bulgaria 3.75%. In 2001, the discrepancy already becomes much bigger with CEC-4 weighted average at 2.81%, and the two Balkan countries at 4.90%, largely repeated in 2002 with 2.81% and 4.85% respectively and 3.37% and 4.70% in 2003. The figures for 2004 and 2005 would probably make the account even more positive for Bulgaria and Romania with GDP growth rates at 5.6% and 8% respectively and 6% and 8%, while estimates for CEC-4 estimated at 3-4% again.

Last year's GDP growth in Bulgaria by 5.6 to 5.8% was achieved mainly 'through the expansion of the services sector, which grew by 6%'; the industry grew by 5.3% and agriculture by 2.2%. Similarly, Romania's record high growth acceleration with 3.2 percentage points was largely through expansion of the services sector.

#### ***2.1.4 Bulgaria and Romania: Attractive Labor costs***

The answer could well be yes, as the convergence of Central European economies with the union's markets and the gradual equalizing labor cost effect, already cause flight of capital towards the Balkan states. According to the Economist Intelligence Unit, in 2000, the hourly labor cost was 2.42 US dollars in Poland, 1.99 in the Czech Republic, 1.91 US dollars in Poland and 1.41 in Slovakia. In Bulgaria and Romania, the labor cost for the same year was 0.59 and 0.56 US dollars/hour respectively. In 2003 the figures were already Hungary- 3.80 US dollars/hour, Czech Republic- 3.39, Poland-3.14, Slovakia-2.15;<sup>16</sup> these figures have risen even more sharply after latter' countries accession into the EU in 2004. At the same time in

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<sup>14</sup>The World Bank Group-Ed Stats, <http://devdata.worldbank.org/edstats/cg.asp>, last accessed 6 Dec, 2004

<sup>15</sup> Estimates of National Statistical Institute of Bulgaria, [www.nsi.bg](http://www.nsi.bg), last accessed April, 2005.

<sup>16</sup>Country briefings of Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia , economic data, available from the *Economist Intelligence Unit* , available at [www.economist.com](http://www.economist.com), last accessed April, 2005;

Bulgaria and Romania, the figures for 2003 were 0.91 and 0.80 dollars/hour. Since 2003, there is a clear-cut tendency of the latter two countries starting to catch up with the Visegrad countries' labor costs, but still the differences are significant and convergence is probably not a short-term perspective. Even more such a catching-up tendency could be neutralized and reversed again by the Central European countries' already completed EU-accession and the implications of that process for the labor-costs in the respective countries.

In aggregated terms the Visegrad countries' average labor cost for the period 2000-2003 was 2.44 dollars/hour and for Bulgaria and Romania 0.68 dollars/hour, which means 3,59 times bigger attractiveness of the latter countries' labor cost for the TNC's and foreign investors. By years the indicators are 3.33 bigger attractiveness of Bulgarian and Romanian' labor costs in 2000, 3.60 in 2001, 3.98 in 2002 and 3.63 in 2003.

The labor costs as a factor for attracting FDI could be expected to attract more and more greenfield investments into these economies in short run perspective and the tendency of major share of the FDI in Eastern Europe to be gradually but surely redirected from Central Europe (Visegrad countries) towards South-eastern Europe and specifically in Bulgaria and Romania as the frontrunners of the region. Such theoretical prediction is largely supported by the FDI data for Central and Southeastern Europe and the record amount of foreign investment in Romania and Bulgaria in the last years, with Bulgaria in 2004 even receiving the largest FDI in Central and Eastern Europe in terms of percentage of gross domestic product, which stood at 9.2 percent. According to the Bulgarian National Bank, the country accounted for 10 percent of the overall FDI in Central and Eastern Europe, and 30 percent of investment in the Southeastern Europe.<sup>17</sup>

### ***2.1.5 Bulgaria and Romania: Foreign Direct Investments***

Can we assume that after Central Europe's full integration with the EU, the new 'hot places' for FDI are shifting further east towards Bulgaria and Romania? Are

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<sup>17</sup> Southeastern Europe Business Brief, Volume 10.10, March 11, 2005, available at <http://www.mac.doc.gov/ceebic/balkan/SEEBB/1010.htm>, last accessed April, 2005.

these countries already the new favorites for TNCs? Here should be added that the Balkan countries still can use their national tax-subsidizing policies, which is not the case with the Visegrad countries, because of their EU-membership status.

In the last ten to fifteen years Bulgaria and Romania have been lagging behind the eight newly accepted Central and East European countries in attracting Foreign direct investment(FDI) with FDI per capita standing at 1100 euros/1420 dollars/ in Bulgaria and 700 euros in Romania, ‘compared with average of 2200 euros for the CEE-8.’(Eight Central and East European countries that joined the EU last year)<sup>18</sup> However the now very close EU accession perspective and the cheap educated labor has significantly contributed to a very recent but clearly emerging trend in the rapid increase or even boom of FDI in the two Balkan countries in the last couple of years. As a support of that, ‘Bulgaria has brought in nearly \$4.5 billion in FDI over the last 3 years, which is a 50% increase over the period 1997-2001.’<sup>19</sup> For 2004, Bulgaria and Romania alone received between 75 to 80 % of all the investment in Southeastern Europe and between 30 and 40 % of all the investment in Central and Eastern Europe.<sup>20</sup> In figures that is projected by 2.6 billion US dollars of FDI for Bulgaria and for Romania. Even if we account that this could be partly explained by the relatively large population of Romania and some last year’s ‘big-ticket privatizations of important assets’ and similar large ‘utility privatizations’ in Bulgaria, the increase is still very significant to be simply disregarded or overlooked.<sup>21</sup> However, the analysis underlines that despite these very positive trends, foreign investors still have significant obstacles in doing business with Bulgaria and Romania and namely – insecure environment, corporate governance, judicial inefficiency and xenophobia and if the latter countries would like to be competitive to CEE-8, they have to tackle first this problems.

Following the positive trend last year, in 2005 Bulgaria is expected to ‘match, if not exceed last year’s \$2.6 billion record investment level. The energy sector was the biggest benefactor garnering 38 percent of the foreign investment that came into Bulgaria, as seven electricity distribution companies were sold. Energy,

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<sup>18</sup> Bulgaria Leads the Way in Attracting FDI in Southeast Europe, [www.seeurope.net](http://www.seeurope.net) -News Coverage on Eastern Europe, available at <http://www.seeurope.net/en/Story.php?StoryID=55105&LangID=1>, last accessed April, 2005.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.



telecommunications, and real estate are expected to be the leading sectors this year. Energy is expected to be the leading sector as a new coal-powered plant project has been approved for the U.S. Company, AES Corp.<sup>22</sup>

An Oxford Analytica analysis explores that Bulgaria and Romania have missed ‘the first big wave of foreign investment in to CEE’, due to ‘instability of the Balkans in the 1990s and the election of governments less committed to economic reforms’. However the analysis predicts that Bulgaria and Romania are very well positioned for the ‘consequent waves of foreign investment’ as the ‘character of CEE FDI has changed over time, with investors increasingly looking for good skills bases suitable for higher value-added manufacturing, and information and communications technology (ICT) enterprises.’<sup>23</sup> Although the two countries vary accordingly to what they can offer to prospective investors, they are the countries that are the most corresponding to the type of new investors’ demands. For instance, the Oxford Analytica analysis states that Bulgaria has competitive advantages attracting investors with highly skilled workforces at cheap rates and furthermore ‘the country has a high reputation for training mathematicians and linguists, making it a good base for ICT, particularly customized software development, design of internet solutions and applications, wireless application development, security solutions development, web design and CAD/CAM/CAE software.’ The analysis also concludes that Bulgaria ‘also appears to be developing strength in such high value-added sectors as sophisticated electronic automobile components, following to a large extent the pattern of FDI in Hungary , which proved critical to Hungary’s economic success in the late 1990s.’<sup>24</sup>

Romania, on the other hand has largely attracted FDIs mainly in ‘low-value outward processing sectors as textiles.’<sup>25</sup> However recently the government is seeking to attract FDIs in more high-tech sectors and as the following sub-chapter would argue Romania has the competitive advantage to do so, and namely the ‘magic formula of Bulgaria’-very skilled workforces at cheap prices.

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<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

### ***2.1.6 Bulgaria and Romania: Educational benefits***

As the latter part of this successful formula ('at cheap prices') was thoroughly explored in the labor costs sub-chapter, the present explores the former part ('skilled'), and namely the fact that this relatively cheap labor is highly educated, skilled, and computer literate. Until 1990 under the Council for Mutual Economic Cooperation/COMECON/ Bulgaria was the only country in Eastern Europe that specialized in High Technologies and Romania in engineering and electronics<sup>26</sup>. The two communist states had educated thousands of engineers, large number of whom is still available to their economies, though many fled to Ireland, Germany, Czech Republic and the USA. The Global IT IQ Report of March 2002 of Brainbench Inc. ranks Romania and Bulgaria at 6<sup>th</sup> and 8<sup>th</sup> place among the top 10 countries in the world as to the number of certified IT professionals –16 122 and 8,844 specialists respectively. (1<sup>st</sup> and 3<sup>rd</sup> place in Europe). Bulgaria's secondary education is among the best in the world: fifth in the world in sciences, 11th in mathematics (according to the World Bank and The Economist ranking). Bulgarians rank second in international IQ tests, held by MENSA International and also they are among the top university students worldwide - second in the world in SAT scores; there are 42 Universities in Bulgaria, located in 26 cities and towns. Around 50% of them have computer specialties. Over 6,000 Bulgarian students are currently majoring in Computer Science.<sup>27</sup>

Using Bela Greskovits' model<sup>28</sup> and typology could be argued why this High Tech potential was not used to create strong leading sectors in IT and High Technologies? Instead Bulgaria and Romania developed small-scale sector with transnational patterns of control /3<sup>rd</sup> quadrant/, which is the worst prospective for development, because of the easy flight of capital across borders, low intersectoral flexibility within the country and nearly absent linkages with the rest of the economy.

### ***2.1.7 Bulgaria and Romania: The return to High Technologies***

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<sup>26</sup> IT Sector Development in Bulgaria 2001 –2002

<http://www.saarland.ihk.de/ihk/international/vortraege/bulgarien3.pdf>, last accessed 6 Dec,2004

<sup>27</sup> Bulgarian foreign investment agency, [www.bfia.org](http://www.bfia.org), last accessed 6 Dec,2004

<sup>28</sup> Bela Greskovits, *Sectors, States and the Paths of Post-Socialist Development*, CEU, 2002

In the last two years, Bulgaria recognized the need to restore its High Tech Industry. The government of Bulgaria has set objective to promote investment in the IT sector and R&D Networks, create a competitive and export-oriented strategy, to encourage small and medium enterprises in the IT sector<sup>29</sup>. In the past Bulgaria was called the ‘Silicon Valley of Eastern Europe’, because of its strategic specialization in High Tech and ICT products. The traditions from the past and the government engagement are favorable factors for new specialization in High Technologies and developing them as leading sectors instead of light transnational sectors. (footwear and clothing). According to the National Strategy for High Technologies Development in Bulgaria,<sup>30</sup> this could be achieved by indirect incentives by the government to improve the legal framework, optimizing the fiscal environment, developing the transport and telecommunication infrastructure; supporting the establishment of financial agencies that facilitate access to risk investment. It will also cover the cost for high risk R&D by providing access to equipment and laboratories, financing the exchange of information, international contacts, training and specialization of key experts in relevant areas of High Tech sectors, certification in compliance with international standards.

All these measures aim to create a favorable framework to attract TNC in the large-scale production facilities that generated considerable output in the High Tech area until 1990. This will create leading sectors in the IT and HT technologies of the Greskovits’ fourth quadrant type, which will secure sustainable development, because this specialization has low cross-border mobility, relatively large intersectoral flexibility and abundant linkages with the rest of the economy.<sup>31</sup> These countries are still in the process of privatizing their large state monopolies, which is of crucial importance for their future sectoral specialization and prospects for development. This transformation would free these states from ‘falling into development traps’<sup>32</sup>. In order to achieve development Bulgaria and Romania should create favorable

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<sup>29</sup> IT Sector Development in Bulgaria 2001 –2002  
<http://www.saarland.ihk.de/ihk/international/vortraege/bulgarien3.pdf>, last accessed 6 Dec,2004

<sup>30</sup> National Strategy for High Technologies Development in Bulgaria  
[http://www.usaid.gov/info\\_technology/ied/reports/bulgaria/annexe.html#financial](http://www.usaid.gov/info_technology/ied/reports/bulgaria/annexe.html#financial), last accessed 6 Dec,2004

<sup>31</sup> Bela Greskovits, .Sectors, States and the Paths of Post-Socialist Development, CEU, 2002

<sup>32</sup> Ibid. Greskovits

condition for leading sectors in the light national sectors, which would guarantee sustainability.

### ***2.1.8 World Record Rise of the Real Wage for 2003***

Another tendency that indicates possible economic success emerging in the 'Euro-included' Balkan economies is the increase of nominal and most importantly real wage. According to a report, published in Financial Times<sup>33</sup> on 16<sup>th</sup> December 2002, 'Bulgarians will see the world's highest increase in pay next year, according to a study of more than 60 countries by Mercer Human Resource Consulting<sup>34</sup>. It predicts that pay in Bulgaria will rise by almost 11 per cent above inflation. (nominal rise of wage is expected to be above 16 %). For comparison, the pay is expected to rise sharply in China, by 7 per cent above inflation, and in India, by 4.5 per cent, while in Western countries pay will increase only by less than 2 per cent in real terms in the US, the UK, Germany and France.

### ***2.1.9 The New Geopolitical and Geo-economical Value of the Region: Bulgaria and Romania-the Emergence of Regional Powers?***

The last couple of years have been marked by an expansionary boom in the economies of the two Balkan countries. This is even more pronounced when compared with the relative slowdown of the Central European countries' economies. Since Bulgaria and Romania are experiencing record-high GDP growths, record inflow of foreign direct investments in diverse sectors, low inflation, record low public debt/GDP ratio, etc. As already argued it was nearly overlooked, but is becoming more and more evident that Bulgarian and Romanian economies outperformed CEC-4 economies in terms of macroeconomic performance and expansionary growth and the tendency is very well pronounced and more and more

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<sup>33</sup> Financial Times. WORLD NEWS: Bulgarians top pay rise table  
[http://search.ft.com/search/article.html?id=021216000506&query=bulgaria&vsc\\_appId=totalSearch&state=Form](http://search.ft.com/search/article.html?id=021216000506&query=bulgaria&vsc_appId=totalSearch&state=Form), last updated 16 Dec, 2002. last accessed 16 Dec, 2002

<sup>34</sup> Mercer Human Resource Consulting 2003 pay increases to slightly outpace inflation in most countries, available at <http://www.mercerhr.com/pressrelease/details.jhtml?idContent=1078165>. Last updated 16 Dec, 2003. last accessed 16 Dec, 2003

strengthening. Again, it would not be an overstatement to claim that gradually the two Balkan countries are started to be regarded as regional economic powers. As argued, this is justified by numerous articles and publications in Western press and journals, as well as in the perception of the neighbors towards Bulgaria and Romania. For example the French *Le Monde* from 14 April, 2005 writes that we are currently observing grandeur changes and the emergence of Bulgaria and Romania as a region with a new very important geopolitical value due to the concurrence of major developments, and namely: NATO integration (2004), combined with EU accession (2007), expansionary economic boom in the last half decade, relocation of couple of NATO military bases on the Western Black Sea coast (as the region is the closest to the Middle East and positioned best geographically and logistically to locate and counteract possible threats), two major oil pipeline projects to be commissioned from Asia and the Middle East to the Adriatic, through the Balkans, bypassing the Bosphorus, the TRACECA project from Middle East to Western Europe for gas transportation. To which should be added that 7 out of 10 major pan-European transport corridors, planned for commissioning, with the support of the EU are passing through the Balkans. All these factors allow *Le Monde* to conclude –‘This newly-found geo-strategic value of the ...region will project its influence over the whole of Southern Europe and as far as the Caspian Sea, where the oil projects start from...(the) second project for a oil pipeline, will connect Albania, Macedonia and Bulgaria. From this moment, Bulgaria would find itself as the geo-economic centre of the European Union. That country that would host both of these major projects on its territory, is expected to become once again a regional power, like the one it was at the time of the démocraties populaires of divided Europe.’<sup>35</sup>

### ***2.1.10 Sustainable growth?***

As a conclusion, the integrated Balkan component (Bulgaria, Romania) is in its final stage of an accession into the European Union. Their path for development is

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<sup>35</sup>Devenue dès lors une plaque tournante géoéconomique de l'UE, la Bulgarie, par laquelle transitera les pipelines, s'attend à recouvrer son rang de puissance régionale, héritage de l'époque des démocraties populaires d'une Europe divisée in *Les enjeux de l'adhésion de la Bulgarie et de la Roumanie à l'Union européenne*, *Le Monde* online from 14 April, 2005, available at <http://www.lemonde.fr/web/article/0,1-0,36-638781,0.html>

traced by the predominant economic philosophy in the core, which is neoliberalism. That is why, I argue they will adopt a neoliberal model similar to the O’Riain’s flexible development state. Bulgaria and Romania are also finalizing their transition from political and financial stabilization to steady economic growth. The governments of these countries believe that development of the ITC and HT sectors, along with the pharmaceuticals are key factors for achieving the sustainable economic dynamism and securing favorable positions in the international division of labor. Summarizing all the positive prerequisites as the very encouraging macroeconomic indicators, the geo-strategic location of these countries, and the clear determination of the governments for developing leading sectors in the high technologies, can be assumed that the neoliberal ‘flexible development’<sup>36</sup> model can lead to sustainable growth. That is the most likely option. I argue with Denis O’Hearn<sup>37</sup> who states that ‘the Irish option simply cannot apply to the whole European periphery’ and that it is impossible to achieve something similar in the aspiring European countries for example. I believe that a sustainable growth and a success story are possible in the Balkans. Why not speculate with an even more radical prospective- the ‘Celtic tiger’ c ‘jumping’ into the Balkans. Unfortunately, that is the overestimated option.

## **2.2 ‘The Wild’ West**

No matter which development option will take place-the optimal, or the overestimated, the integrated component will be included in the neoliberal global economy’s success stories. However, what will happen with the excluded peripheries as Bosnia, Macedonia, Albania, Montenegro, Kosovo, and to some extent Serbia and Croatia. The economy of these states today comprises of legal and much larger illegal section. Their territories have turned into a large depot for illicit, but most profitable activities. The ‘leading sectors’ of these economies, which connect them to the global economy, are large-scale transnational drug production, prostitution, car smuggling, which are traded in illegal markets. This is a specific Balkan ‘Third Way’ of development. The most striking fact is that this ‘failed states’ are incorporated in the

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<sup>36</sup> Ibid. Denis O’Hearn, Globalization, ‘New tigers’

<sup>37</sup> Ibid. O’Hearn

global system in compliance with the ‘prostitution of law’ in Palan<sup>38</sup> and Mittelman’s<sup>39</sup> terminology. For ‘global merchants’<sup>40</sup> the unobstructed capital movement through boundaries has always been the desired option. However, the state has always been the obstacle. As Aida Hozic presumes, the global merchants thrive on the contradiction between economic liberalization and sovereignty. The global merchants cannot be blamed that in their pursuit of profit they use legal or illicit networks. Their interest is in the ‘absent states’ as a depot for the illegal component of the world economy. It is European Union with its hypocritical policy of exclusion to be blamed for allowing such ‘non-states’ within the territories of Europe.

The European Unification is a triumph over the national sovereignty. The spread of TNC, rapid improvement of transportation and technologies and free markets liquidated nationalism among the Western countries. The same scheme could work 60 years later in the Balkan context. However, the EU policies of inclusion and exclusion in this region will most probably create new economic and political ghettos between the states, who liquidate their sovereignty inside the union, and countries who will abdicate their sovereignty outside in the periphery transforming into failed states, subjected to the global merchants’ mercy.

If EU just incorporates the ‘good Balkan East’ and continues isolating and not giving enough economic and especially political incentives to the ‘Wild West’ that could have long term negative consequences, both in the region and in Europe, creating enormous mental, economical, political, cultural ghettos in the very heart of the peninsula, in the heart of Europe. Luckily, more and more European policy makers are starting to realize that the Wild Balkan West should not be treated as a disgraceful disease, but as a healthy part of our common European body. Such shift in policy is evidenced by most recent analysis in *The Economist*: ‘EU ministers are suffering from enlargement fatigue and the possible failure of the Union’s new constitution. They do not want to deal with the former Yugoslavia. But policymakers who deal with the region believe that eventually the politicians will realize that it is

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<sup>38</sup> Ronen Palan, *Tax Havens and commercialization of state sovereignty*, *International organization* 56:1,p. 151-176,2002

<sup>39</sup> James H Mittelman, Robert Johnston. *The Globalization of Organized Crime: the Courtesan State and the Corruption of Civil Society*, *Global Governance* 5:1,p.103-127,1999

<sup>39</sup> *Ibid.* Hozic

better to absorb and rehabilitate these countries than to leave them behind as destitute troublemakers.’<sup>41</sup> And with a good reason, as the Wild Balkan West is here to stay...

## CHAPTER 3

### **Geopolitical Implications for the Balkans of Bulgaria and Romania’s Accession to the EU**

#### **3.1 Collapse of the Old Geopolitical Order and the Emergence of New ‘Geo-systems’<sup>42</sup> in Eurasia**

The collapse of the Soviet geopolitical system at the end of the twentieth century initiated radical geopolitical transformation processes in vast regions of Europe and Asia. The bi-polar confrontation-world-of-yesterday had forever dissolved to give way to a completely new international regime.

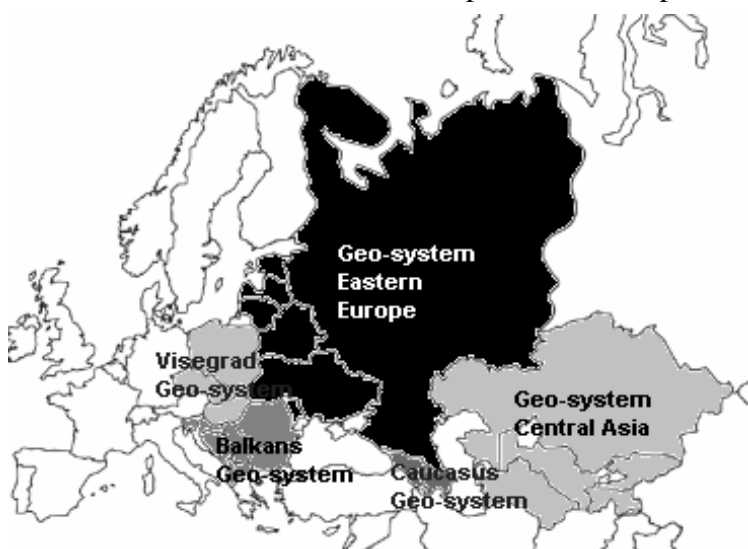
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<sup>41</sup>Better In than Out, The Balkans and the European Union, 13<sup>th</sup> April, 2005, , The Economist online, available at [http://www.economist.com/agenda/displayStory.cfm?story\\_id=3860203](http://www.economist.com/agenda/displayStory.cfm?story_id=3860203), last accessed April, 2005.

<sup>42</sup>Ioannis Loukas, *The New Geopolitics of Europe*, Analysis-S43, Naval Academy, UK Ministry of Defence, 8.



Neither the political, nor the spatial understanding of the world would ever be the same, as used to be in the last fifty years. The new emerging geopolitical order challenged the traditional scholarship, numerous analyses, national doctrines and strategies, developed for decades by academia, scientific institutes, think tanks, governmental and non-government agencies. Even the whole notion of ‘what is Europe’ has shifted dramatically, i.e. generations have studied Mont Blanc as the highest elevation in Europe but recent geography textbooks proclaim 5,642m- mount Elbrus in the Caucasus as the new primus of Europe.<sup>43</sup>



As a result of the dismemberment of the USSR, Czechoslovakia and Yugoslavia, (and the unification of Germany), twenty-three new sovereign states appeared on the political map of Europe and Asia. Reflecting on this, Ioannis

Loukas wrote

*Fig. 2a and 2b Five Newly Emerged Geo-Systems in Eurasia*

that the idea for ‘broadening of the Euro-Atlantic space to the East’<sup>44</sup> was followed by a process of intensive revision of the traditional ‘perception regarding the whereabouts of the eastern border of Europe’ was<sup>45</sup>. Loukas also defines the formation of three new spatial ‘geo-systems’ on the territory of the former Soviet Union: ‘The Geo-system of Eastern Europe: Estonia, Latvia, Lithuania, Belarus, Ukraine, Moldavia [sic], Russia, the geo-system of the Caucasus: Georgia, Armenia and Azerbaijan’ and ‘the geo-system of Central Asia: Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan, Kirgizstan.’<sup>46</sup>

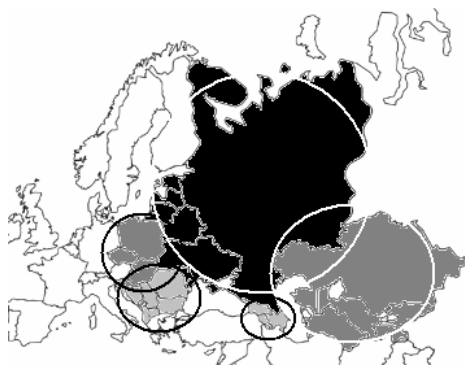
<sup>43</sup> Vanya Voinova, ‘United Europe Expanded to the Caspian Sea’, *Balkanite+*, 9-10 (2000)

<sup>44</sup> *Ibid.*, 6.

<sup>45</sup> *Ibid.*

<sup>46</sup> *Ibid.*, 8.

Similarly the former communist space, outside of the Soviet Union formed several spatial ‘geo-systems’ using Loukas’s terminology. Namely, these are the



Central European (Visegrad) countries: Czech Republic, Hungary, Poland and Slovak Republic, and the Balkan countries: Albania, Bulgaria, Bosnia, Macedonia, Romania, Serbia and Montenegro, Croatia and Slovenia.<sup>47</sup> Within these five spatial ‘geo-systems’ some very distinct sub-divisions emerged, along political,

economical and cultural lines. For example, some states within certain spatial geo-systems initiated processes of integration into the Euro-Atlantic space, while others were denied or were not interested in such a perspective. Therefore quite divergent paths of development emerged not only among the five new geo-systems, but also within systems.

### 3.2 The Balkan Region in the New Geopolitical Order

Two of these spatial ‘geo-systems’ have always been perceived as turbulent, prone to instability, ‘buffer zones’, and namely the Balkans and the Caucasus. In the communist era they were at the southernmost border zones of the Soviet geopolitical system, somehow neither belonging to Europe, nor to Asia.

The new strategic alignments that appeared in the post-cold-war period completely changed the strategic position and significance of the latter regions. There are already some indications that the Balkans will not be regarded anymore as South-eastern Europe, but as the southern part of Central Europe<sup>48</sup>, while the Caucasus ‘geo-system’ will be ‘the new’ South-eastern Europe.<sup>49</sup> The ‘new’ Eastern Europe will comprise of Russia, Ukraine and Belarus stretching to the Ural Mountains in the North and the Caucasus to the South.<sup>50</sup> Thus for the first time in modern history the geographical boundaries of Europe proper will overlap with the political. Ioannis

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47 Croatia and especially Slovenia are also often considered as Central European countries

48 Ioannis Loukas, *The New Geopolitics of Europe*, 10.

49 Ibid., 9-10 .

50 Ibid., 7.

Loukas believes that this will be the predominant paradigm in the twenty-first century.



Such a development positions the Balkan region at the very heart of Central Europe, and its clear perspective for political incorporation in the Euro-Atlantic space might further strengthen such identity. The latter process provides the Balkans with a very favorable political and economical

*Fig.3 The New Geographical Mapping of New Europe*

framework for development in addition to the strategic geography. In such new geopolitical and geo-economic conditions, geographical fate of ‘standing at the crossroads’, has the chance of transforming from ‘the biggest curse’ for Balkan people to their ‘biggest blessing’.

Fouskas writes that in post-Cold War international arena, when countries like UK and US go to war, ‘no moral or ethical principals appear in the equation.’<sup>51</sup> In addition, ‘Behind some key (...) actions backed by the rhetoric of human rights lay strategic and geopolitical imperatives.’ The two major resources- oil and gas are ‘coveted and contested by many Eurasian national actors.’<sup>52</sup> Broadly, if we are talking geopolitics in the post-Cold War era, we are talking oil and gas. Most recent research in geopolitics or political geography looks at the oil and gas reserves, their extraction and transportation. Therefore in this chapter, exploring the emerging great geopolitical value of the Balkan region, mainly oil and gas projects would be regarded. This would be complemented with research on transport projects, which often overlap with oil and gas projects to form multimodal transnational corridors. A

<sup>51</sup> Vassilis K. Fouskas, *Zones of conflict: US Foreign Policy on the Balkans and the Greater Middle East*(London: Plutho Press, 2003), p.24

<sup>52</sup> *Ibid.*, p.20

small section would also be dedicated to nuclear projects with geopolitical importance in pre-accession Bulgaria and Romania. The above-mentioned three newly formed geo-systems would play main role of the oil and gas ‘big’ game of tomorrow. Namely, the Caucasus and Central Asia as producers and the Balkans, as the major transport route for this assets from East to West and South to North. Fouskas writes: The new independent states in Central Asia, The Caucasus and the Black Sea region, most of which were connected to the USSR’s energy network, have assumed a new geo-political centrality in Eurasia, which for the US is difficult to ignore.<sup>53</sup> Moreover summarizing new American geo-politics, ‘the headache for the US has been how to avoid a repetition of the Middle East volatility in the Caspian and the Caucasus; how to guarantee the safe transportation of oil to Western markets ; as well as how to eliminate other regional (e.g. Russia, Iran) or global competitors (e.g. EU states).<sup>54</sup> The latter coupled with EU’s vital interests in a secure Balkan region for guaranteeing its security of energy supplies policy is a good sign that largest international players have long-term interest for a stable and secure region, a major oil, gas and electricity hub of paramount geopolitical and geo-economic importance.

### **3.2.1 Oil**

The collapse of the Soviet Union allowed for the emergence of the above-mentioned five new geo-systems on the territory of the previously consolidated former communist geopolitical block. (Eastern Europe, Caucasus, Central Asia, *Visegrad*, Balkans) Each of these new systems became involved in quite distinct inter and intra geo-political and geo-economic dynamics.

Such geopolitical rearrangement had quite pronounced geo-economic implications. Namely ‘1991 (...) saw [not only] the final collapse of the Soviet Union’, but the ‘opening up the oil and gas reserves of the New Independent States’,

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<sup>53</sup> Ibid., p.20

<sup>54</sup> Vassilis K. Fouskas, *Zones of conflict*, p.26

which were previously controlled by Moscow.<sup>55</sup> Two of the above-mentioned five new geo-systems, namely Central Asia and the Caucasus are especially rich in oil and gas reserves and 'are [also] two of the few resource-rich regions that have not been [so far] heavily exploited by the world economy.'<sup>56</sup> They open new oil and gas supply opportunities and could significantly challenge the world markets' dominance of the Middle East geo-system. Specifically European Union recognized that 'the newly opened-up resources of the Caspian region presented (...) [it] with an opportunity ultimately to strengthen its longer-term energy security' by diversifying and increasing its energy supplies, as well as diminishing the dependence on traditional suppliers.<sup>57</sup>

World's oil-demand-dependency on the Persian Gulf reserves rates at 40 % and is expected to rise by 2010 up to 52 %, if no alternative sources are developed.<sup>58</sup> The oil crises of 1973 and 1979 pushed developed countries to search for alternative sources in order to become more energy independent. As mentioned above with the fall of the communist system in the new geopolitical international order, the regions of Caucasus and Central Asia were recognized as part of the 'larger belt' of countries belonging to the Euro-Atlantic space.

Such a development provided a solution to the Western's dependency problem, by allowing for access to the region's 'hundreds of billions of barrels of untapped oil reserves and trillions of cubic feet of natural gas [that] lay underneath the rugged, barren, inhospitable landscape of Central Asia around the Caspian Sea coastline and the Caucasus region.' which could be an alternative to the Middle East supplies.

EU energy security policy recognizes more and more that Caucasian and Central Asian natural deposits 'represent a reserve which may become even more strategically significant in the twenty-first century'.<sup>59</sup>

However, 'the transportation...from the distant (...) countries of the Caspian to Western Europe and Western hemisphere (USA) is the biggest challenge for the

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<sup>55</sup> Keith Fischer, *A Meeting of Blood and Oil: The Balkan factor in Western Energy Security*, available at <http://www.flyingfish.org.uk/articles/balkan/pipelines.htm>, last accessed May, 2005.

<sup>56</sup> Ibid.

<sup>57</sup> Ibid.

<sup>58</sup> Marika Karayianni, *Caspian Oil Seeks Safe Transit Route*, *News and Trends Central Asia* 6, no. 20 (2001); available at <http://www.blueprint-magazine.de/oil/ntc14380.html>; Internet; accessed May, 2003.

<sup>59</sup> Ibid.

Western oil companies operating in the region.’<sup>60</sup>The ‘oil and gas reserves of the Caspian Basin are landlocked and have to be transported across borders’. Due to the fact that most of this assets are in areas or countries, adjacent or even part of plethora of ethnic, political, economic, etc conflicts, finding ‘a safe transportation passage’ to Western markets becomes a geopolitical asset, equal to the oil and gas per se.

Without oil and gas transport routes to market, (...) investments become worthless. Indeed, the control of pipeline routes - with the associated transit fees and the power to turn off the taps - is almost as important as the control over the resources themselves, which is why the struggle to find secure, reliable routes has become the Caspian region's main story. The fact that the routes need to pass through several different countries makes this 'game' especially difficult, as it only takes a problem in one of the countries to endanger the energy flow.<sup>61</sup>

This explains the pronounced interest of European energy security policy to somehow secure the safe transit routes in the geopolitical and security vacuum that emerged after the collapse of the previously tightly controlled geopolitical space. Namely, Brussels introduced ‘the Lubbers Plan and a plethora of EU aid programs to eastern Europe and the former Soviet Union (...) motivated by the bottom line of European energy security.’ The Lubbers Plan evolved into the Energy Charter Treaty (ECT), ‘a multilateral agreement - from an early stage including countries beyond Europe and the former Soviet Union - designed to provide a legal framework within which these basic aims could be pursued, with various EU programs springing up to aid their implementation.’

Standing on major crossroads, the Balkan geo-system acquires a new role of paramount geopolitical and geo-economic significance per se and specifically for the EU’s energy security policy. No matter the region does not have strategic reserves of its own, its emerging geo-strategic and geo-economic power ‘resides in its geographical location, halfway between two major oil and gas supply regions - Russia and the Caspian - and large markets, such as Turkey, Southeast and Central Europe, and the Mediterranean.’<sup>62</sup> The region is not only blessed for its geography, but also relatively stable, compared to the Caucasus, Eastern Turkey and Iran, which are the competing routes for bringing the Caucasian and Central Asian gas to Western markets. Indeed, in comparison with the former alternatives, the Western Black Sea

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<sup>60</sup> Ibid.

<sup>61</sup> Ibid.

region, or in other words, the Eastern part of the Balkans (Bulgaria and Romania), offers the safest transit routes.

The need for construction of new pipelines is further enhanced by the record growth and mid-term expansionary projection of oil and gas extraction in Russia, Caucasus and Central Asia coupled with the ever-increasing physical, geographical, ecological and political inefficiencies of the traditional route, the Bosphorus Straits.

‘A crucial piece of this geopolitical jigsaw is the limited capacity of Turkey's Bosphorus Straits to handle the increasing oil tanker traffic from the eastern Black Sea ports out towards the Mediterranean and world markets. This has dictated the need for overland pipelines which bypass this shipping lane: southerly across Turkey (the Baku-Ceyhan plan) or westerly from the Black Sea ports of Bulgaria and Romania.’<sup>26</sup>

The crowded and narrow Bosphorus and Dardanelles straits in Turkey and the latter's policy for restricting oil tankers-traffic brought up the issue for transportation of Caucasian and Central Asian oil through pipelines reaching the West Coast of the Black Sea and subsequently to the Western markets.<sup>63</sup>

The problems with the Bosphorus require further scrutinizing. After the March, 2001 completion of the Tengiz-Novorossiisk (CPC) pipeline that linked the Kazakhstan fields with the Russian Black Sea port, Russia managed to divert some of the oil deliveries through its territory, thus securing its own transit share in ‘the big oil game’. By 2015, estimates indicate that Russia's oil export through Black Sea ports are expected to be not less than 50 million tons annually. By the same year, Kazakhstan and Azerbaijan are expected to supply to the western markets 100-120 million tons annually.<sup>64</sup> Also according to estimates ‘even under the most optimal arrangements, Bosphorus is incapable of letting through more than 70-80 million tons of oil a year.’<sup>65</sup> Therefore, by the end of the next decade more than 100 million tons of export oil-shipments could be in danger of being disrupted.

Furthermore ‘while free passage of tankers through the Turkish Straits is guaranteed under the 1936 Montreux Treaty,(...)Turkey has been allowed to introduce stricter rules on the passage of large oil tankers and other vessels carrying ‘dangerous’

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<sup>62</sup> 'Black Sea Energy Survey', IEA, OECD/IEA, 2000, p.17. in Fischer, Keith. A Meeting of Blood and Oil: The Balkan factor in Western Energy Security, available at <http://www.flyingfish.org.uk/articles/balkan/pipelines.htm>, last accessed May, 2005.

<sup>63</sup> Ibid.

<sup>64</sup> Ivan Gribanov, No Bosphorus, Please: Four Projects to Bypass the Turkish Straits Spring to Life, Simultaneously, available at <http://www.rusenergy.com/eng/caspian/a01032002.htm>, Internet; accessed May, 2003.

<sup>65</sup> Ibid.

cargoes, among other things, preventing such vessels from passing through the straits during the hours of darkness.

This is what led to the immense need of pipeline projects bypassing the Bosphorus straits. At least four projects were considered as a solution to the problem, and namely Odessa-Brody-Gdansk, Baku-Tbilisi-Ceyhan, Burgas-Alexandroupolis, Burgas-Vlore and the fifth Constanta –Trieste was rejected as it was considered economically insufficient.<sup>66</sup> This was followed by intense competition among Balkan countries for priority of their ‘own’ project. The projects Burgas-Alexandroupolis, Burgas-Vlore and Constanta –Trieste pass through the Balkans and they are scrutinized in the sections below.

### 3.2.1.1 Russia and the Burgas-Alexandroupolis Project

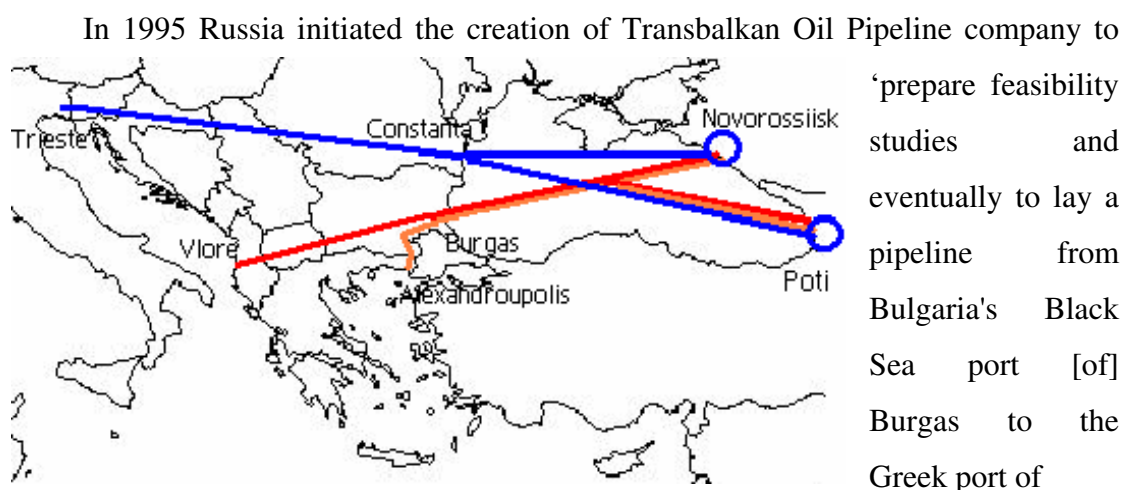


Fig.4 Alternative Bosphorus-Bypass Pipeline Projects on the Balkans

Alexandroupolis on the Aegean.<sup>67</sup>(marked with orange on fig.6) Such a project combining oil tanker transport from the Russian port of Novorosiisk to Burgas and then with pipeline to Alexandroupolis would allow for Kazakh and Russian oil to bypass the overcrowded Bosphorus straits and provide an alternative route to the Western markets. Bulgaria and Greece would largely benefit from the project, as the transit taxes would be significant. The Transbalkan Oil Pipeline Company was scheduled to start its work at the end of 1995 and complete the project by 1998 the

<sup>66</sup> Ibid.

<sup>67</sup> ‘Russia Planning Balkan Pipeline’, *Monitor* 1, no.89, available at [http://www.jamestown.org/pubs/view/mon\\_001\\_089\\_000.htm#009](http://www.jamestown.org/pubs/view/mon_001_089_000.htm#009); Internet; accessed May, 2003.



latest. However most definitely such precision in planning and timing did fail to consider the Balkan inconsistencies, as Bulgaria and Greece, shortly after signing, started arguing over the percentage share in the company. While Russia has secured 50% for itself, the two Balkan countries could not agree for the remaining percents. Greece insisted that Bulgaria should not have more than 5% of the shares, as it cannot provide sufficient funding.<sup>68</sup> This has led to seven-year gridlock of the project with significant economic losses, mainly from unrealized transit taxes, calculated for both Greece and Bulgaria. An agreement between the two sides was reached as late as November 2002, when finally Bulgaria, Russia and Greece reached a political decision regarding the equal participation of the countries in the construction of the Burgas-Alexandroupolis pipeline.

The Burgas –Alexandroupolis Project pipeline (orange color on fig.6) would consist of a 280 km-long pipeline with a capacity of 15,000,000 tones/year, planned to reach an optimum of 35,000,000 tones/year. The pipeline is estimated to cost approximately 660 million dollars and further 300 million for adjacent infrastructure at the ports of Burgas and Alexandroupolis. According to the agreement from 2002, each country had to invest equal share of 220 million dollars. The 2002 -Agreement between Bulgaria and Greece might lead to the conclusion that after a decade of discord, the Balkan countries might have finally learned to respect the laws of economics, where efficiency and competitive advantages dominate over egoistic geopolitical concerns and narrow-interest planning.

### **3.2.1.2 USA and the AMBO Burgas-Vlorë Project**

In 1996, the newly established Albanian-Macedonian-Bulgarian Oil Corporation (AMBO) initiated the Burgas-Vlorë project. The AMBO Burgas-Vlorë line (marked with red on fig. 6) is expected to be 898 km long and has a planned capacity of 35,000,000 tones per year.<sup>69</sup> The estimated price of the project is 1.13 billion US dollars. The American government within the framework of the South Balkan Development Initiative (SBDI) of the Trade and Development Agency (TDA) directly supported this project. It closely follows the route of transport Corridor VIII

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<sup>68</sup> Jacklin Jacheva, 'Oil as Politics', *NIE*, 5 (1997), 27.

<sup>69</sup> See Appendix B.

from Black Sea to the Adriatic (passing consequently through Bulgaria, Albania and Macedonia). What is peculiar about this project is that 'exclusive rights for the AMBO pipeline and corridor VIII were granted to the Anglo-American

*Fig.5 The AMBO oil pipeline project*

AMBO group.'<sup>70</sup> The latter is declared the only party 'allowed to build the planned pipeline from Burgas to Vlore' and also AMBO has the sole rights to negotiate with



creditors and investors.<sup>71</sup>

Some analysts like Michel Chossudovsky write that this project, which is strongly backed by the US government 'supports the interests of the oil giants, including BP-Amoco-ARCO, Chevron and Texaco.'<sup>72</sup> The project had reached a very advanced

stage, but the conflict in Kosovo slowed down its implementation. However, AMBO has initiated fundraising campaign in US and elsewhere and 'once financing is secured, the pipeline could be constructed in four years.'<sup>73</sup>

The AMBO-pipeline project was fiercely opposed by Romania and Greece and to a smaller extent by Turkey.<sup>74</sup> The former two were ardently lobbying for the alternative projects, passing through their own territories. Furthermore, some analysts believe that Greece had finally agreed to the equal share for the Bulgarian side under 'the treat' of the rapidly advancing Burgas-Vlorë project. Furthermore, Greece was hoping that if the prognosis for 'slowing oil demand growth on the world markets' turned out to be correct and the Greek project was commissioned first, this would make the AMBO project economically insufficient. Greece policy makers also believed that if construction of the former project predated the latter, the Bulgarian side would discontinue its political support for the 'rival' Bulgarian-Macedonian-

<sup>70</sup> George Matthias, Where is the Eight Corridor? -The Pan-European Networks (PAN) and the Economic Significance of Eastern Europe and the Balkans, Current Concerns 9/10, (2001); available at <http://www.currentconcerns.ch/archive/20010907.php>; Internet; accessed May, 2003.

<sup>71</sup> Ibid.

<sup>72</sup> Ivan Gribanov, 'No Bosphorus, Please'.

<sup>73</sup> Southeastern Europe Regional Country Analysis Brief-Romania, Bulgaria and Moldova, Energy Information Administration, available at <http://www.eia.doe.gov/emeu/cabs/seeurope.pdf>; Internet; accessed May, 2003.

Albanian AMBO project, which is a required pre-requisite for its commissioning.<sup>75</sup> However while seven years the AMBO and Burgas-Alexandroupolis pipeline projects were in constant rivalry (with Greece supporting the latter and Bulgaria constantly changing its support), Romanian political elites surprised everybody with their alternative project Constanta-Trieste.

### **3.2.1.3 EU and the Constanta-Trieste Project**

Despite that the Romanian Foreign Minister Andrei Plesu has declared in 1998 ‘that Romania's policy on Caspian oil transit is based on regional cooperation’ and ‘closer cooperation rather than competition will make the transit bids of Ukraine, Romania and Bulgaria stronger’<sup>76</sup>, he initiated a new fierce competition on the Balkans. Taking advantage of the gridlock in the Bulgarian-Greek negotiations over the Burgas-Alexandroupolis pipeline, Romania revived (the previously rejected as inefficient) project for a route, passing through its territory from the port of Constanta on the Black Sea to the port of Trieste on the Adriatic (marked with blue on fig.6) In the year, when Bulgaria and Greece finally agreed upon the percentage shares in the consortium, Romania intensified its efforts to provide funding for its route, through different sources such as The U.S. Trade and Development Agency (TDA) ,<sup>77</sup> despite the fact that the route passes from an extremely long, difficult and volatile area through the Carpathian Mountains and the Western Balkans and cuts off the Mediterranean Sea.’<sup>78</sup> Thus, the latter characteristics made the Romanian project much less economically viable than Burgas-Alexandroupolis project and the AMBO projects with its 1300km length, compared to 280 and 900km respectively. Despite the fact that 63% of the infrastructure of Constanta-Trieste exists, its completion would cost 1 billion US dollars, just as much as AMBO and twice as much as Burgas-Alexandroupolis project. From the technical data is clear that the Romanian proposal was not motivated by ‘most shortest and profitable routes, situated according to where the natural geographical morphology of the Balkans is most facilitating to such

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<sup>74</sup> Georgy Ganev, ‘Bulgaria and Balkan Energy Flows’, 3.

<sup>75</sup> Ivan Nikolov, ‘The Burgas-Alexandroupolis Pipeline: Bidding Continues’, Macedonia, 46(2000),1.

<sup>76</sup> Ron Synovitz, ‘Croatia/Romania: Support for Pipeline Linking Constanta with Trieste’, available at <http://www.rferl.org/nca/features/1998/09/F.RU.980930131519.html>; Internet; accessed May, 2003.

<sup>77</sup> US Department of State, *TDA Supports Constanta to Trieste Oil Pipeline Development*, available at <http://www.state.gov/e/eb/rls/othr/12376.htm>; Internet; accessed May, 2003.

projects.’<sup>79</sup> Rather it was triggered by the Romanian geopolitical desire to attract the routes of the Caspian gas solely through its territory despite the fact that its project is not economically efficient. Greece perfectly aware of the limited local and external funds for the Bosphorus- bypass projects tried to discredit the Romanian project in front of EU donors, funding institutions, public opinion. In this respect the statement of Greek Minister of Economy and Finance Nicos Christodoulakis, regarding the Constanta-Trieste project is characteristic ‘For such issues, the map itself usually gives the best answer.’<sup>80</sup>

In the era of the Dawn of New Middle East (Caucasus oil fields), the interests surrounding Balkan transit pipelines are an immense interplay of global oil giants’ interests, EU, US and Russian attention. However, it cannot be ruled out that the Balkan countries have enough leverage to influence the different projects’ implementation. Furthermore even if the fact that the Burgas-Alexandroupolis project is backed by Russia, the AMBO by the US-administration, and the Constanta-Trieste by the EU<sup>81</sup> is taken into account, it cannot be denied that for a decade Balkan political elites used their limited influence to ardently obstruct rivalry projects and lobby for ‘their own’ project, despite feasibility studies, economic efficiency prognosis and technical parameters data.

### ***3.2.2 Gas: Nabucco Project***

Another trans-national project of major geo-political significance that underlies the increasing geo-political weight of the Balkan region, is a planned gas pipeline project to deliver Middle Eastern and Caucasian gas through Turkey, Bulgaria, Romania and Hungary to Baumgarten in Austria, ensuring diverse supply sources and routes for consumers who currently rely totally on Russian exports.’ The gas pipeline from the Middle East and the Caspian region to Central and Western Europe via the Balkans, better known as the Nabucco Project ‘was entered as a priority into the Trans European Networks – Energy Program.’<sup>82</sup> Furthermore the European Commission ‘has approved the proposed feasibility study financing and agreed to offer the maximum grant, which amounts to 50% of the cost’ (2mln EUR), which

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<sup>78</sup> Marika Karayianni , ‘Caspian Oil Seeks’.

<sup>79</sup> Hristo Genchev, ‘Geography-Arbiter in the Rivalry’.

<sup>80</sup> Marika Karayianni , ‘Caspian Oil Seeks’.

<sup>81</sup> George Matthias, ‘Where is the Eight Corridor?’.

shows the utmost importance of that project to the EU's Energy security policy. Nabucco, which was 'named for a Verdi opera after a consortium outing in Vienna' is projected to be between 3400 and 4000 km long; the expected annual consumption is 25 (to 30) bln cubic meters: 6 to 8 bln cu m in the countries of transit and 14 to 17 bln cu m in the countries in Central and Western Europe.<sup>83</sup> The estimated costs for commissioning the project are expected to be between 4.5 to 5 bln EUR.

The Nabucco consortium is a joint initiative of the gas companies of Turkey (*Botas*), Bulgaria (*Bulgargas*), Romania (*Transgaz*), Hungary (*MOL*) and Austria (*OMV*). These companies 'have been negotiating the project intensively and successfully since November 2002.'<sup>84</sup> The project has now entered into its financing matters specifications and designing stage, after a feasibility study was completed in 2004. The same year 'project partners have founded *Nabucco Company Pipeline Study GmbH* in order to engage in project finance and pipeline capacity marketing studies.' After the current stage is completed by 2007, the actual construction work is planned for 2008 to 2012.<sup>85</sup>

The project would target Iran, as the main source of the gas supply, as the latter has the world's second largest reserves after Russia, but 'gas from Azerbaijan or from Russia's Blue Stream pipeline to Turkey or even Egypt or Libya [are considered] potential suppliers.'<sup>86</sup> At the other end, 'the target (...) is to put in 30 bcm at the Turkish border and receive 15-17 bcm at the Austrian border.'<sup>87</sup> Therefore, large part of the transported gas would be utilized by the transit countries. Therefore the geo-political significance of the Nabucco project for the region is coupled with a geo-economic importance as such guaranteed regular gas deliveries are 'aimed to supply [the] fast-growing Balkan and Eastern European states.

The Nabucco project is of utmost importance for many key geo-political 'players'. For EU, 'the goal is to create new infrastructure to supply future European gas demand from a new region and via a new transport route, independent of old ones

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<sup>82</sup> Iranian Gas Pipeline Project to Diversify European Supply-OMV, available at <http://www.gulf-news.com/Articles/Business2.asp?ArticleID=129880>, last accessed May , 2005.

<sup>83</sup> Ibid.

<sup>84</sup> Ibid.

<sup>85</sup> Botas's Strategy for Nabucco project, available at <http://www.botas.gov.tr/eng/projects/allprojects/bulgaria.asp>, last accessed May, 2005.

<sup>86</sup> Iranian Gas Pipeline Project to Diversify

<sup>87</sup> Ibid.

through Russia and Ukraine.’<sup>88</sup> Currently two thirds of Europe’s gas is supplied by Russia. This explains why EU’s security policies rely on diversification of gas supplies, through major gas transport projects from new regions, such as the Nabucco project. However, security by diversification is not the only consideration for the EU .The estimated European gas demand by 2030 would be 300 bcm higher than current levels of about 500 bcm.<sup>89</sup> At the same time ‘the signs are [the Russia’s main supplier] Gazprom [will not be] able to cover Europe's entire gas demand in the next 20 years’. Therefore, projects as Nabucco, are not just ‘precautionary’ or ‘complementary’, but are a matter of vital economic and political interests for the EU’s energy security policy.

In conclusion, ‘the Balkan zone constitutes a significant transport route for oil and gas, and it is thus a strategic bridge. In this context, the Balkans can be viewed as the geo-political gatekeeper between Western and Eastern Eurasia, acquiring a security dimension of paramount importance for NATO and the US.’<sup>90</sup>

### ***3.2.3 Nuclear***

In this section ‘power wars’ between Bulgaria and Romania in the past will be explored and the most recent positive developments in their energy relations. The two countries are still connected with the United Power Systems (UPS) electric grid of former COMECON countries through Moldova, Ukraine and Russia and would connect to the main European grid, also known as Union for the Coordination of Production and Transmission of Electricity (UCPTE). Thus it would become possible ‘to transfer large quantities of electricity between Russia and the Ukraine on the one side, and UCPTE on the other, without endangering the performance standards of the latter’, making Balkan countries ‘the cheapest and readiest bridge between the power systems of Europe and Russia’<sup>91</sup>, calculating huge transit tax-profits and enhancing their home gas infrastructure and consumption.

In 1970 after a bilateral agreement between the USSR and Bulgaria, commenced the construction of the first nuclear plant on the Balkans-NPP Kozloduy. More than 100 000[!] workers are involved in the massive project. The first two 440

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<sup>88</sup> Ibid.

<sup>89</sup> Ibid.

<sup>90</sup> Vassilis K. Fouskas, *Zones of conflicts*, p.24

MW units are put in commercial operation respectively in July 1974 and November 1975. Units 3 and 4 are put in commercial operation correspondingly in December 1980 and May 1982 and the last two Units 5 and 6 with reactors WWER-1000/V-320 are completed in September 1988 and December 1993.<sup>92</sup> Upon its completion, the nuclear plant at Kozloduy is being proclaimed the biggest pride of the Bulgarian industry.

In 1979, Romanian autocrat Nicolae Ceaucescu perceived the newly constructed Bulgarian plant as an impetus for his own 'grandiose dreams of building five or more reactors' at the Cernavoda site on the river Danube.<sup>93</sup> 'Canada's export credit agency, the Export Development Corporation (EDC), provided a one billion US dollars- loan to Romania for construction of the Cernavoda nuclear station.'<sup>94</sup> Canada's state nuclear company, Atomic Energy of Canada Limited (AECL), cooperated with the forced construction of the plant but 'these plans collapsed through technical incompetence and lack of funds.'<sup>95</sup> Following the disintegration of the totalitarian system, further loans from the EDC and other Italian donors were taken for the completion of the plant. Twenty years after the initial negotiations started the result was the incredible 2.2 billion dollars cost of the project with only one unit put into exploitation, as late as April 1996.

The latter date could be traced as the starting point of the Bulgarian-Romanian 'nuclear wars'. The opening of the single nuclear unit at Cernavoda (1996) coincided with pressures, exerted by EU on Bulgarian authorities to close the first four of the units at Kozloduy. Bulgarian political elites and the media suspected that there is a 'conspiracy against Bulgaria' and 'France and Canadian companies that have put money into Romania's sole nuclear plant at Cernavoda would like Romania to replace Bulgaria as a Balkan energy supplier.'<sup>96</sup> Furthermore 'international pressures are exerted to close the Kozlodui nuclear power plant... coming mainly from Canada and

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<sup>91</sup> In his analysis Georgy Ganev mentions Bulgaria, but his observations are also valid for Romania and other Balkan countries.

<sup>92</sup> NPP Kozloduy, *About the Plant*, available at <http://www.kznpp.org/eng/main.php?cont=1>; Internet; accessed May, 2003.

<sup>93</sup> *Romania's Cernavoda-Second Nuclear Reactor* available at <http://www.sierraclub.ca/national/nuclear/reactors/cernavoda-2-background.html>, Internet; accessed May, 2003.

<sup>94</sup> Ibid.

<sup>95</sup> Ibid.

<sup>96</sup> Marian Chiriac, 'Power Wars' Between Bulgaria and Romania', *Balkan Crisis Report*, 89 (1999) quoting from Newspaper Daily-24 Hours (April, 1999)

Italy with the intention to recover ‘the billions invested in the plant in Cernavoda.’<sup>97</sup> The tension intensified to such an extent that when the Romanian president visited Bulgaria to attend the Greece-Bulgaria-Romania Trilateral Summit, the most significant daily Trud (Labor) ‘expressed its regrets for the fact that the Romanian President had not been welcomed with rotten tomatoes and eggs.’<sup>98</sup>

While it is clearly exaggerated that there is some kind of conspiracy against Bulgaria, it is also a clear fact that Balkan countries are one of the main initiators of the negative EU-opinion. Greece, as the only EU-member in the region uses its influence to persuade the European Commission to exert pressure on Bulgaria for the early closure of the Kozloduy plant. According to Greek Environment, Town Planning and Public Works Minister- Costas Laliotis:

The reactor's operation was a ‘huge mistake’ and said the European Union has adopted a proposal by the Greek ministry calling for Bulgaria to cease the reactor's operation, with domestic electricity demand covered by neighboring nations' grids. Mr. Laliotis said the EU has agreed to cover power transfer costs.<sup>99</sup>(emphasis mine)

In 1999, the conflict intensified after an ultimatum from the European Commission to Bulgaria announcing that Bulgaria should ‘specify a schedule for the early closure of the four reactors at its Kozloduy nuclear power plant as a pre-condition for [initiation of] European Union accession talks.’<sup>100</sup>

At present, the nuclear plant at Kozloduy contributes from 44 to 46% of the total annual energy production in Bulgaria. Bulgarian energy system covers 45% of the constant deficit in the common energy balance of the Balkan countries, which is ‘accessed as a significant contribution to the economic stabilization of the region’<sup>101</sup> and that makes the country the leading exporter of energy in South Eastern Europe.<sup>102</sup>

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<sup>97</sup> Gabriela Velea, ‘Who Takes Advantage of the Rising Tension between Sofia and Bucharest?’, available at <http://www-old.nineoclock.ro/TR4/2040com.html>; Internet; accessed May, 2003.

<sup>98</sup> Ibid.

<sup>99</sup> ANA Bulletin, May 21, 1995, ‘Laliotis Announces New Radiation Watchdog System as Bulgaria Cranks up Kozloduy Reactor Again’, available at <http://www.hri.org/news/greek/ana/1995/95-10-21.ana.html>; Internet; accessed June, 2003.

<sup>100</sup> Ibid.

<sup>101</sup> *Energy Strategy of Bulgaria*, Ministry of Energy and Energy Resources of Bulgaria, available at [http://www.doe.bg/download/energiina\\_strategia/Energy\\_strategy-Eng2.doc](http://www.doe.bg/download/energiina_strategia/Energy_strategy-Eng2.doc); Internet; accessed May, 2003.

<sup>102</sup> Decision for Approval of the Energy Strategy of Republic of Bulgaria, Ministry of Energy and Energy Resources of Bulgaria, available at [http://www.doe.bg/cgi-bin/i.pl?l=1&p=288#\\_Toc7408501](http://www.doe.bg/cgi-bin/i.pl?l=1&p=288#_Toc7408501); Internet; accessed May, 2003.



However if the first four units of the Kozloduy plant are closed until 2006, as the European Commission insists, Bulgaria will turn from a major energy exporter to chief importer in the region. As the political elites perceive that such a step would have strongly negative consequences for the Bulgarian economy, ‘Romania is... over eager to exploit the economic opportunities, which it believes, will ensue.’<sup>103</sup> Furthermore, Bulgaria not very modestly perceives itself as the ‘regional pivot of the Balkans’, that it is ‘a pole of stability’ and that ‘many people rely on Sofia for the solution of their own problems.’<sup>104</sup> Largely this perception is empowered by the country’s leading position in the Balkan energy export market. Romania is also facing over capacity in electricity generation and decreasing home consumption<sup>105</sup> That is why ‘Romania has pinned its hopes on the Kozloduy shutdown to help it become the leading regional electricity exporter.’<sup>106</sup>

As part of its energy, policy Bulgaria intentionally levied very high transit taxes for Romanian energy transport to Greece and Turkey, which made Romanian energy export economically uncompetitive. Romanian Minister Basescu accused that ‘Sofia... [was] blocking for years Romania's plans to export electricity elsewhere in the Balkans.’<sup>107</sup> Although there is a constant deficit of electricity in the Balkan market, Bulgaria obstructs the possibility for other energy exporters to cover this deficit by imposing high transit taxes.

On its part, Romanian political elites push for the closure of the Bulgarian plant, despite the fact that the first two units produce the cheapest energy in Europe with 1kW/h estimated fewer than 2 cents<sup>108</sup>. The exporter who would replace the 45% Bulgarian share in the Balkan deficit coverage would most certainly introduce much higher prices, which would calculate great economic losses to Greece, Turkey, Yugoslavia (Serbia and Montenegro), Macedonia and Bulgaria, which all would have to pay the new prices for their energy imports. The only ‘winner’ would be Romania. However, as a whole the region would become much more externally-energy-dependent as the single unit at Cernavoda would not be able to substitute for the four

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<sup>103</sup> Marian Chiriac, ‘Power Wars’ Between Bulgaria and Romania’, *Balkan Crisis Report*, 89 (1999)

<sup>104</sup> Ibid.

<sup>105</sup> Marian Chiriac, ‘Power Wars’.

<sup>106</sup> Ibid.

<sup>107</sup> Ibid.

<sup>108</sup> Marin Devedzhiev and Todor Kondakov, ‘The Premature Unit-Decommissioning of NPP Kozloduy Would Cost Us One Billion Dollars’, Memorandum, *Bulgarian Geopolitical Community in Macedonia*, 2 (2002), 8.

closed units at Kozloduy. Thus, the Romanian, Yugoslavian and Greek political elites, which persistently declare the Kozloduy nuclear plant as the 'biggest treat to the region', would most certainly calculate significant economic losses from the eventual closure.

This energy rivalry seems even more irrational after on 15 November 2002 ten Southeast European Governments signed upon the agreement of establishing a common electricity market by the year 2005, as a step of its integration to the common electricity market of the EU.<sup>109</sup> Such peculiarity is not left unnoticed even by local scientific circles:

Although both Romania and Bulgaria ostensibly agreed on September 10 to link all national energy grids and thus create a regional electricity market in the Balkans, the 'power war', as the media have called the latest conflict between the two countries, rumbles on and reflects a long history of economic competition.<sup>110</sup>

Furthermore narrow political interests and the consequent obstruction prevents both countries to become together the major transit point between two large electric grids. Balkan countries' grid is still connected with the United Power Systems (UPS) electric grid of former COMECON countries through Moldova, Ukraine and Russia.<sup>111</sup> With their accession to the EU Bulgaria and Romania would inevitably be connected to the main European grid and namely, Union for the Coordination of Production and Transmission of Electricity (UCPTE). Thus, as Georgy Ganev wrote it would become possible 'to transfer large quantities of electricity between Russia and the Ukraine on the one side and UCPTE on the other, without endangering the performance standards of the latter'.<sup>112</sup> This would make Balkan countries 'the cheapest and readiest bridge between the power systems of Europe and Russia'<sup>113</sup>, calculating huge transit tax-profits and enhancing their home gas infrastructure and consumption.

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<sup>109</sup> Stability Pact for South-Eastern Europe, 'About the Stability Pact'.

<sup>110</sup> Marian Chiriac, 'Power Wars'.

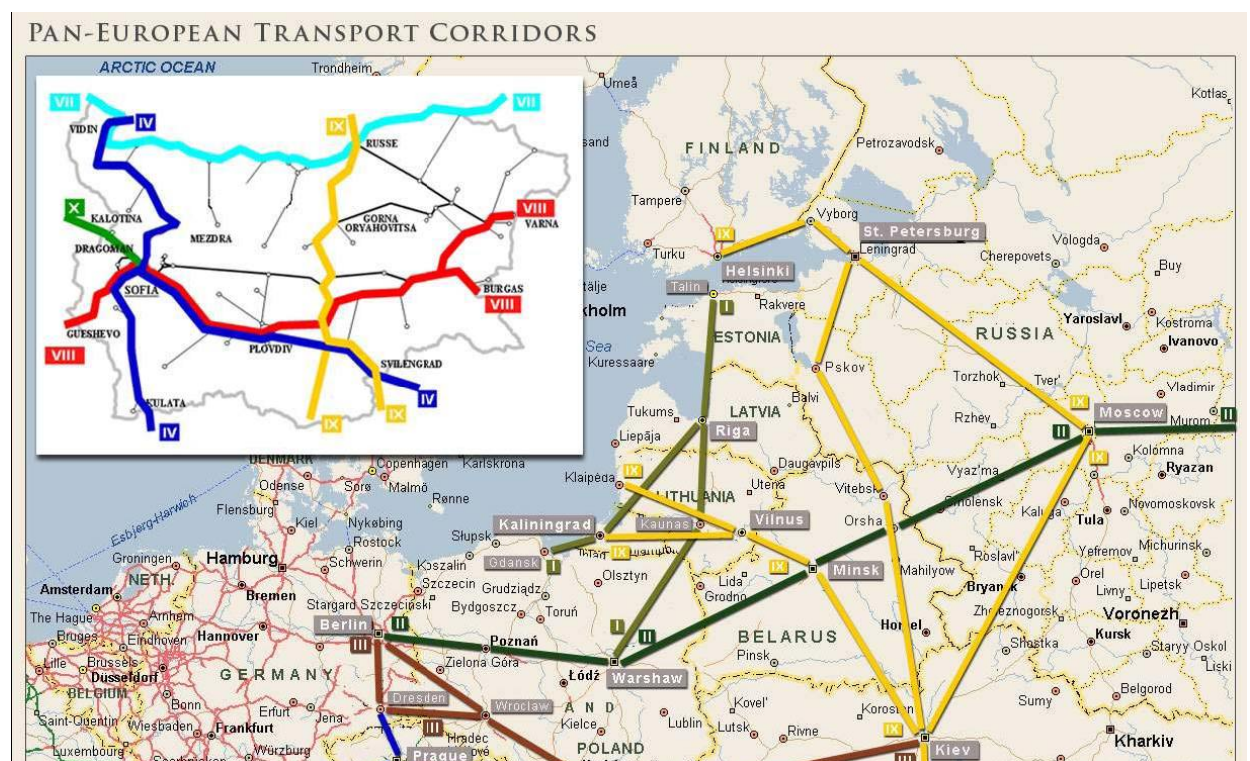
<sup>111</sup> Georgy Ganev, 'Bulgaria and Balkan Energy Flows', *Centre for Liberal Strategies-Sofia*, available at [http://www.cls-sofia.org/publications/papers/bulgaria\\_and\\_balkan\\_energy\\_flows.pdf](http://www.cls-sofia.org/publications/papers/bulgaria_and_balkan_energy_flows.pdf); Internet; accessed June 2003, 5.

<sup>112</sup> Ibid.

### 3.2.4 Transport

.. .Dim politicians might do exist in this world, but definitely not dim drivers-Ognyan Minchev

## Transport Infrastructure Needs Assignment (TINA) Initiative, International Transport Corridors and the Balkans



<sup>113</sup> In his analysis Georgy Ganev mentions Bulgaria, but his observations are also valid for Romania and other Balkan countries.



Fig.6 Pan-European Transport Corridors

The expressed commitment for accepting the Balkan ‘geo-system’ as part of the Euro-Atlantic geopolitical system required the economic and military stabilization of the region. As an implication of such pursuit for economical reconstruction and secure environment of the region, lead to the creation of the Stability Pact for South Eastern Europe (SPSEE) on 10 June 1999 in Cologne. The Stability Pact was also ‘the first serious attempt by the international community to replace the previous, reactive crisis intervention policy in South Eastern Europe with a comprehensive, long-term conflict prevention strategy.’<sup>114</sup> Thus, it aimed at promoting a ‘secure environment’<sup>115</sup>, sustainable democratic development and economic prosperity. SPSEE also had to foster close cooperation between the countries of the region on one hand and between them and the European Union on the other. The latter is a key actor in the Stability Pact. It also ‘undertakes to draw South Eastern Europe ‘closer to the

114 *Stability Pact for South-Eastern Europe*, ‘About the Stability Pact’, available from [http://www.stabilitypact.org/stabilitypactcgi/catalog/cat\\_descr.cgi?prod\\_id=1806](http://www.stabilitypact.org/stabilitypactcgi/catalog/cat_descr.cgi?prod_id=1806); Internet; updated March, 2003, accessed March 23, 2003

115 Ibid.

perspective of full integration ... into its structures', including eventual full membership.'<sup>116</sup>

In the framework of this new political and economic cooperation, the role of Transport was recognized as of utmost importance for the fulfillment of the common goals of the European Union and the transition countries from the new geo-systems. The prospect of the accession of the east European countries in the EU gave birth to the vision of the integration of Western Europe's. The Trans European Networks (TEN) were officially agreed upon in 1996, to serve as the basic multimodal road, rail, energy and communication corridors in the EU's infrastructure. At the pan-European Conference of Transport Ministers in Crete (1994) and in Helsinki (1997), fifty two countries decided to plan the building of ten more multimodal corridors, located in the accession countries, in order to connect the EU's Trans European Networks (TEN) with the infrastructure of Eastern Europe<sup>117</sup>, as one of the main initiatives aiming at supporting the latter's economy stabilization and facilitating the establishment of the future common European market. The program, connected with the implementation of the pan-European transport corridors was called the Transport Infrastructure Needs Assignment (TINA) initiative. Representative of EU- countries as well as of the 10 acceding countries (plus Cyprus) participated in the initiative.

At its final stage the TINA Network should comprise of '18,683 km of roads, 20,924 km of railway lines, 4,052 km of inland waterways, 40 airports, 20 seaports, 58 river ports and 86 terminals (out of which, 20 are situated in seaports and river ports, and 66 stand alone)<sup>118</sup> and should be fully integrated into the already existing Trans European Networks (TEN). The EU has set 2015 as an objective for reaching that goal. The estimated budget for the whole project by the year 2015 is 90 billion Euros, as for the Balkan part of the project, nearly 11 billion Euros.<sup>119</sup>

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<sup>116</sup> Ibid.

<sup>117</sup> *TINA Vienna: Transport Strategies*.

<sup>118</sup> Ibid.

<sup>119</sup> Eric Cotte, 'Where is the Eight Corridor?', available from <http://www.scarabee.com/article103.html>; Internet; accessed May, 2003.



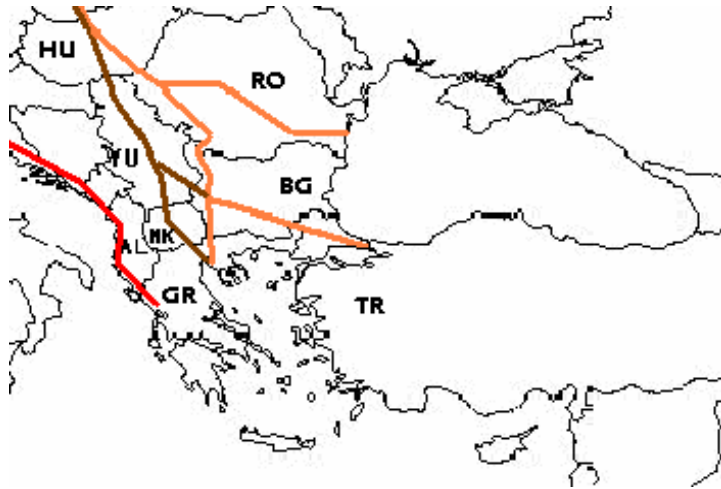


*Fig.7 Pan-European Transport Corridors on the Balkans  
Map courtesy of balcanica.org*

Considering the very favorable geographic location, the Balkan lands are perceived as the key to three continents- Europe, Asia, Africa and the Middle East. They are also located on the boundary of three civilization zones according to Samuel Huntington’s civilization paradigm. This important geopolitical location has so far always influenced negatively the Balkan countries' history and determined the great geopolitical stake concentrated on this relatively small territory. However, after the collapse of the communist system, the geographical fate of being at a crossroad is no more a burden, but a very important geo-political and geo-economic asset. To put it simply –nowadays crossroad means money. Crossroad means security. Therefore, considering the geographic position of the Balkans, it comes as no surprise that six of the ten multimodal: transport, oil, gas and telecommunication corridors, planned at the Helsinki summit in 1997, pass through the Balkans and namely Corridors IV, V, VII, VIII, IX, X , which will be explored in detail below. (see fig. and Appendix 1).

### **3.2.4.1 Transport Corridor N IV and Corridor X**

Both of the pan European Transport Corridors IV and X go along one of the most commercially relevant and ancient routes of transportation of people, goods and communications. Namely Western Europe-Central Europe-Balkans-Turkey-Middle East and Asia.



The Corridor IV (marked with orange on fig.5) links Dresden (Germany) to Istanbul (Turkey) via Prague, Bratislava, Gyor, Budapest, Arad, Craiova, Sofia and Plovdiv. Ways diverge to provide links to Nuremberg, Vienna,

*Fig.8 Transport Corridor IV and Corridor X*

Bucharest and Constanta (Corridor IVa). Corridor X (marked with brown on fig 5) crosses Salzburg (Austria), Ljubljana, Zagreb, Belgrade, Nis, Skopje, Veles and Thessalonica (Greece).<sup>120</sup>

While EU Commission as a project of utmost importance regarded corridor IV during the Yugoslav conflicts as a conflict-bypass route, its relevance significantly diminished at the end of the crisis. After the fall of the Milosevic regime transport routes through Serbia (along Corridor X were restored). However, Bulgaria and Romania's accession to the EU will create for the first time geographical integrity of the union, linking Hungary to the north and Greece to the south. The removed barriers within such an enlarged union would significantly divert traffic through corridor N IV again, as all the countries on the route will be within EU territory. As Corridor X and Corridor IV are perceived by local political elites as rivaling, rather than complementary it is understandable that different countries lobbied for preferential commissioning of one or either projects. For Bulgaria and Romania, the speedy completion of the missing infrastructure of Corridor IV and the accession to the EU in 2007 would create the possibility for a major geopolitical regrouping. Very significant part of the commercial flows of traditional corridor X might be diverted largely through Bulgarian and Romanian territory along Corridor IV. This is a significant

geopolitical development as the Vienna-Belgrade-Sofia-Istanbul road connection has been the ‘undisputed monopolist’ for centuries. However, a vital missing link prevents this project of becoming fully functional and namely- the missing Danube Bridge in the west part of the river between Bulgaria and Romania. As one single bridge might have immense geopolitical and geo-economic implications, the case is largely explored below.

A peculiar fact is that in the 470 km-long common Bulgarian-Romanian border along the river Danube, there is only one bridge in operation, connecting the two countries, and namely the Ruse-Giurgiu Bridge in the east part of the border (68 km away from Bucharest). (see fig.4)

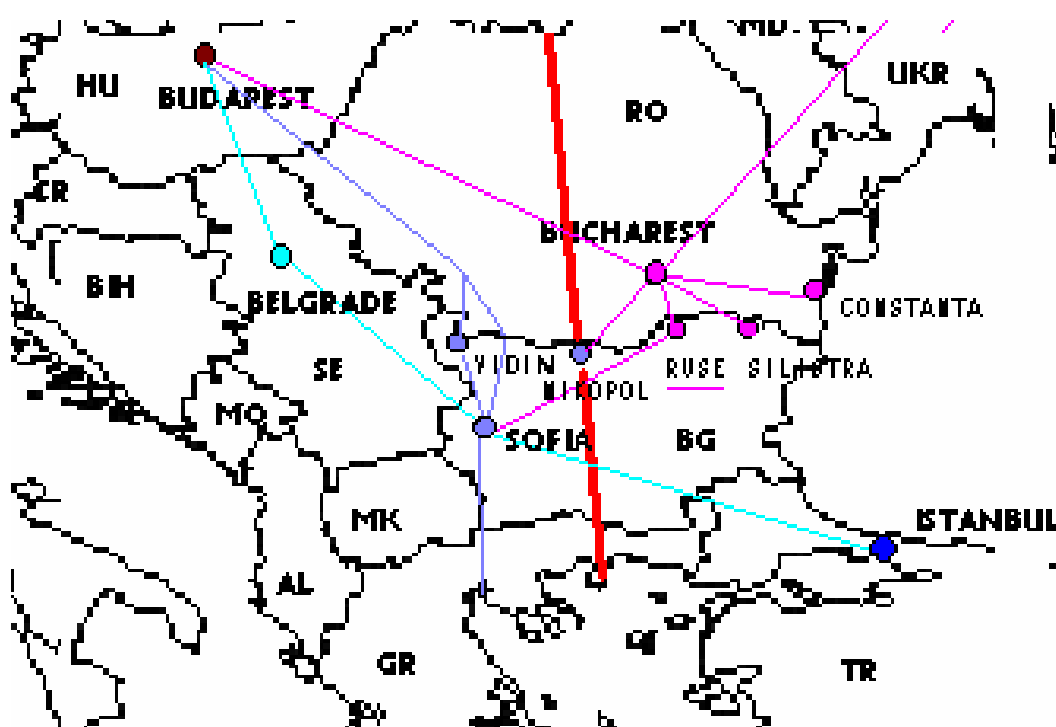


Fig.9 Bulgarian and Romanian Geopolitical Clashes over the Second Danube Bridge Project

For comparison only in Budapest alone with Lágymányos Bridge completed recently, there are nine permanent bridges spanning between the two shores of the river<sup>121</sup>. Furthermore, ‘along the total [European], Danube navigable length, 104 bridges are built at an average distance of 21.38 kilometers. The distance between the

<sup>120</sup> Arben Kola, ‘Corridor Eight: Dreams and Interests’.

<sup>121</sup> Tourism Office of Budapest, *Bridges*, available at <http://www.budapestinfo.hu/en/sights/hidak.html>, accessed May, 2003



last bridge, Moldova - Veke Bridge, and the Danube Bridge at Ruse is 556.42 km<sup>122</sup>, which is 40 times longer than the average density in the upper part of the river.

The bridge at Ruse, or 'The Bridge of Friendship', as it was called, was opened back in 1954 and served mainly the trade relations of the Balkan countries and the USSR. The bridge was a significant element of the infrastructure, comprising of road, rail, gas and oil connections, serving the Northeastern direction (from Balkans to USSR) of trade flows, cultural and military interaction.

The new geopolitical order strongly diminished the importance of the Balkan countries' trade connections with Russia, as most of them reoriented their import-export policies towards the EU-markets. Thus the corridor through Ruse gave way to the route along the ancient Via Militaris from Istanbul through Sofia to Belgrade and Western Europe (marked with blue on fig.4) in terms of geopolitical significance, because it is the shortest land connection between the Near East, Middle East and Europe. The new international regimes and geopolitical order positioned the European Union as the new major trade partner for the Balkan economies, thus the Via Militaris was perceived as the backbone along which the 'return to Europe' project would concentrate.

However, the war conflict in former Yugoslavia, which started on June 27, 1991 when the Yugoslav People's Army marched into Slovenia, and the subsequent wars with Croatia, Bosnia and Kosovo in the next decade, had a strong impact on the transport system in the Balkans. The wars 'virtually made unusable the shortest route from Western Europe to the Balkans and Asia' and namely the Via Militaris. Such a state of affairs provoked a nervous search for an 'alternative route to the EU that circumvents Serbian territory'<sup>123</sup>, as the losses that the Balkan economies suffered from the embargo on Yugoslavia and the blocked routes amounted billions of dollars. Around 1996, only for Bulgaria the figure was estimated at 4 bln dollar- losses.<sup>124</sup>

The initial idea for construction of a second Danube bridge dates back to 1993. However negotiations started, as late as in 1995, when Bulgaria and Romania decided to build an alternative route to Western Europe: a 'strategic bridge that could link the

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<sup>122</sup> Yordanka Gancheva, 'The Second Danube Bridge: Where is the Problem Actually?', Institute for Market Economics, available at [http://www.ime-bg.org/pdf\\_docs/papers/bridge.doc](http://www.ime-bg.org/pdf_docs/papers/bridge.doc); Internet; accessed May, 2003, 1 .

<sup>123</sup> Ibid., 24.

<sup>124</sup> *About Bulgaria*, 'Economy', available at [http://www.geocities.com/abstract\\_f/aboutbulgaria.html](http://www.geocities.com/abstract_f/aboutbulgaria.html); Internet; accessed May, 2003.

countries of Southeast Europe afflicted by the crisis with the European transport system.<sup>125</sup> EU announced that it would support the project with a 200 million ECU credit on very favorable terms.<sup>126</sup> That was perceived as the ‘the only real compensation for the damages the two countries suffered from the embargo against Yugoslavia’.<sup>127</sup> However the location of the new bridge turned out to be a highly – contested issue, with Romania staunchly refusing to consider any variant to the west of the port of Nikopol. (red line on fig.4-Bulgarian projects of interest to the west of the line, Romanian-to the east), while Bulgaria supporting a connection at the very west part of the border at Vidin-Calafat or Lom-Rast. In particular, the Romanian side proposed three variants on the Bucharest meeting between Bulgarian prime minister Jan Videnov and Romanian president Ion Iliescu, held in 1996 and namely: a link at Nikopol - Turnu Magurele, new bridge at Ruse, or Silistra to the east. (see fig.4) Such variants were economically inefficient as they would increase significantly the total length of the road and also they would overlap with the already-built bridge at Ruse, serving mainly the connection to Northern Europe and the CIS countries, but completely inadequate as a connection serving the ties with Western Europe. For example the Budapest - Szeged - Arad - Pitesti - Bucharest - Ruse - Sofia - Thessaloniki is 1553 km long, while the road through Vidin –Calafat would be just 1289 km, only 238 km longer than the classical route from Istanbul through Belgrade to Budapest.<sup>128</sup> (1051km.)

In 1994 the British independent consultancy company *Sir Alexander Gibb* was financed by the PHARE program to research ‘the second bridge necessity and to find ‘its most appropriate place, through estimating the traffic’<sup>129</sup> The survey concluded that the most appropriate place for the bridge is at the western part of the river at Lom-Rast (which is very near to Vidin-Calafat), which is the shortest and potentially economically most profitable variant. However, official Bucharest denied these results and continued to obstruct the implementation of the project. From the facts stated above it is visible, that the Romanian side declared its willingness to participate in a construction of an alternative bridge, while at the same time obstructing it as

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<sup>125</sup> Ibid.

<sup>126</sup> ‘The Place of the second bridge over the Danube in the Bulgarian-Romanian Relations’, available at <http://www.omda.bg/eng/news/comment/brige1307.htm>, Internet; accessed May, 2003

<sup>127</sup> Ibid.

<sup>128</sup> Yordanka Gancheva, ‘The Second Danube Bridge’, 3-4.

<sup>129</sup> Ibid., 1.

much as possible, when it comes to actual steps towards the realization of the project. Where does this irrationality arise?

First, if the bridge is constructed at the northwestern part of the border at Lom-Rast or Vidin-Calafat (as all independent surveys recommend), this will position Bucharest away from the main transport routes to Western Europe. Romania is trying to promote the IVa branch of Corridor IV starting at Romania's major port of Constanta. (explored below in detail)

Second, the more the bridge shifts to the west, the more it would decrease the transit length on Romanian territory. Acting as 'irrational egoistic state' Romania would prefer to preserve the status-quo, despite the pressures from the EU and most of the Balkans countries, which are all interested in the existence of the alternative route. The Romanian political elites prefer to develop infrastructure along the corridor Budapest - Bucharest - Constanta – Istanbul (see fig. 4), which will put Constanta Port in a key position;<sup>130</sup> Another direction favored by Bucharest is the route 'Budapest - Bucharest - Ruse - Sofia – Thessaloniki (see fig.4), which will maintain the long transit and Bucharest's role as a key transport junction'.<sup>131</sup>

Third, as Yordanka Gancheva from the Institute of Market Economics wrote, for Romania '65 % of 1998 annual export is directed to EU. The trade volume with Bulgaria, Greece and Macedonia all together is negligible, and for this reason transport costs are not of paramount importance'. Thus, the Romanian side does not have the impetus to develop the shortest southern connections, as they would only underestimate Bucharest and port of Constanta. Furthermore, Romania has the interest to obstruct the second bridge on the Danube, as it 'will have bigger benefits from long-distance transits, rather than from establishing shortest trade routes.'<sup>132</sup>

On the Third All European Ministerial Conference on Transport –Helsinki, 1997, where the map of the transport corridors was specified it was decided that Corridor IV should pass through Vidin-Calafat. However, the Romanian side pushed that the route of Corridor IV 'should divert to Constanta as no. IV a'<sup>133</sup> (see fig.1) Since then Romanian political elites further enhanced their obstruction of the second bridge, trying to invalidate the southern direction of Corridor IV to Thessaloniki and

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<sup>130</sup> Ibid., 2.

<sup>131</sup> Ibid.

<sup>132</sup> Ibid.

Istanbul and develop it only in the part, that diverts to Constanta. As an implication of that policy, the first modern Romanian highway was recently opened between Bucharest and Constanta and in 1996 Romania has opened the new ferry 'Eforie' running between Constanta and port of Samsun in Turkey.<sup>134</sup>

What Bucharest most obviously did not take into account was that after the war conflicts in Yugoslavia were over the natural trade flows would return along the shortest Via Militaris route from Istanbul-Sofia-Belgrade-Wien, circumventing Romania and excluding it from the 'big geopolitical game'. Moreover, after the normalization in Yugoslavia, the EU, the SPSEE and other international factors are much less inclined to financially support the bridge-project. As Gergana Dimitrova wrote, the project 'might seem to be losing its outward significance after the end of the Kosovo crisis and the disappearance of the pariah Yugoslavia'.<sup>135</sup>

The two countries have missed substantial opportunities to attract some of the flows of the Via Militaris route, to receive generous support to implement the project from outside donors, such as EIB, the PHARE program in the period 1995-2000, at the time when the project was of high priority for the international community as an alternative route to the one through troubled Yugoslavia. If the project was accomplished in that period, the economies of the two countries would suffer much slighter losses than the billion-dollar ones indicated from the embargo upon Yugoslavia and the hundred of millions, lost during the Kosovo crisis.<sup>136</sup>

Most probably as a consequence of the latter developments there are some positive indications that the logic of economics could prevail over egoistic geopolitical considerations, as after ten years of gridlock a Bilateral Agreement for the construction of a new bridge at Vidin-Calafat was signed on 5<sup>th</sup> June, 2000 and ratified on 6<sup>th</sup> April, 2001 by the parliaments of the two countries. However, this was only achieved after Special Coordinator of the SPSEE Bodo Hombach declared that the project for the second Danube Bridge is taken out of the competence of the bilateral relations Bulgaria-Romania and is a project of European primary political and economical concern. As discussed above, the crucial importance of Corridor IV for the EU comes from the fact that after Bulgaria and Romania's accession in 2007

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<sup>133</sup> 'The Place of the second bridge over the Danube in the Bulgarian-Romanian Relations', available at <http://www.omda.bg/engl/news/comment/brige1307.htm>, Internet; accessed May, 2003

<sup>134</sup> Ibid.

<sup>135</sup> Gergana Dimitrova, *The Road to Europe*, 28.

that corridor would run entirely within EU territory and would actually constitute the shortest route between the EU and the newly enlarged territories to the South in the Balkans.

### 3.2.4.2 Transport Corridor N VII

By far the biggest and most important EU inland waterway is the ‘The Rhine-Main-Danube-Waterway’. After its construction in 1992, a commercial route between the North and Black seas was open with tremendous economic capacities and importance. Specifically the canal builds the link between the mouth of the Rhine into the Northern Sea and the mouth of the Danube into the Black Sea. This waterway has an extension of 3,500 km and is divided into four sections:

- The 539 km Rhine section from Rotterdam to the mouth of the river Main at Mainz
- The 384 km stretch of the river Main from Mainz to Bamberg
- The 171 km stretch of the canal between Bamberg and Kelheim
- The 2,411 km section of the Danube from Kelheim to the mouth of the Danube into the Black Sea<sup>137</sup>



Transport Corridor VII largely refers to the fourth and largest section of the Rhine-Main-Danube-Waterway. Precisely, as

specified in ‘the

*Fig.10 Transport Corridor VII*

<sup>136</sup> *About Bulgaria*, ‘Economy’.

<sup>137</sup> The Rhine-Main-Danube-Waterway, available at <http://www.schiffahrtsverein.de/waterw.htm>, last accessed May, 2005.

3rd Pan European Transport Conference of Helsinki, June 1997, the Pan-European Transport Corridor VII refers to the Danube inland waterway, the Black Sea-Danube Canal, the Danube branches Kilia and Sulina, the inland waterway links between the Black Sea and the Danube, the Danube – Sava canal, the Danube – Thissa canal, and the relevant port infrastructures situated on these inland waterways.’<sup>138</sup> After the opening of the Rhine-Main-Danube-Waterway, transport Corridor VII is expected to divert a substantial part of European rail and road traffic and serve as a major economic artery running from Northwest to Southeast throughout the whole continent. However due to various reasons, such as frequent and irregular fluctuations in waterway depths or different infrastructural bottlenecks, the transport capacities of Corridor VII are still largely unutilised.<sup>139</sup> It is estimated that ‘the Danube has enough free capacities to increase the volume of transport by the year 2015 from currently 12 million tons to about 30 million tons on the condition that appropriate development measures are taken. Danube navigation has much higher transport capacities in comparison to other transport modes. For example a pushed convoy carrying 3700 tons of freight corresponds to 93 train cars with 40 tons each or 148 trucks with 25 tons each.’<sup>140</sup> Transport corridor VII’s very favourable transportation costs could have enormous economic implication for European economy, and especially for the countries along the river. For example, only Austrian Economy can save up to EUR 30 million annually on transportation costs. In addition, this is also a sustainable and more efficient transport system.

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<sup>138</sup>United Nation’s Economic Commission for Europe, Economic and Social Council, Study of the Current Situation and Trends in Inland Water Transport in Member Countries, available at <http://www.unece.org/trans/doc/2001/sc3/TRANS-SC3-2001-08a1e.doc>, last accessed May, 2005.

<sup>139</sup>The Danube-European Transport Corridor, available at [http://propellerclub-bsl.ch/files/Seitz\\_viadonaU-10\\_Pkt\\_Programm\\_en.pdf#search='pan%20european%20corridor%20VII'](http://propellerclub-bsl.ch/files/Seitz_viadonaU-10_Pkt_Programm_en.pdf#search='pan%20european%20corridor%20VII'), last accessed May, 2005.

<sup>140</sup> Ibid., p.2



Fig.11 The Rhein-Main-Danube-Waterway

Danube flows in Bulgaria and Romania for 471 and 1075 km respectively. Romania has the largest section of the Danube than any other country and Bulgaria comes fourth after Germany and Serbia and Montenegro. Moreover both of the Balkan countries lie in the area of the mouth of the river, which has vital strategical geopolitical and geo-economic importance.

### 3.2.4.3 Transport Corridor N VIII

In antiquity, the *Great Silk Road* has been the shortest route between Europe and the Far East. It stretched for nearly 7000 km, starting from the northwestern provinces of China and finishing at the East Mediterranean. The *Great Silk Road* was in fact a trade route between Rome and China with mainly silk departing westward and wool, silver gold on the way back.<sup>141</sup> However, after the fall of the Roman Empire and the Great Geographical Discoveries era in the later centuries, the significance of this route diminished and it was neglected for the centuries to come. During the communist era, the ancient *Silk Road* has been further completely blocked and such situation deformed the natural economical and cultural flows along this route.

<sup>141</sup> *Silk Road* from Britannica Concise, available from [http://education.yahoo.com/search/be?lb=t&p=url%3As/silk\\_road](http://education.yahoo.com/search/be?lb=t&p=url%3As/silk_road); Internet; accessed May, 2003

The continent-scale project TRACECA (Transport Corridor Europe-Caucasus-Asia) is considered the modern ‘Eurasian renaissance of the [Great] Silk Road.’<sup>142</sup> It was adopted on the Third Pan-European Transport Conference, held in Helsinki, 1997 (although the first initiatives go back as 1993), as an implication of the new geopolitical understanding of Europe. Its main objective was to provide for new transport routes between Europe and Asia, as well as to integrate the Caucasus and Central Asian countries to the transport infrastructure of the EU. It should also promote political and economical sustainability as well as enhance cooperation between the countries along the corridor.

However the TRACECA corridor does not completely overlap with the ancient *Silky Road*, as it is shifted southward to circumvent the turbulent region of the Near and the Middle East (Iran, Syria, Saudi Arabia, etc). The slightly altered route would create a thousand km-long diagonal of Euro-Atlantic-values-committed countries, passing in-between the ‘risk region’ to the south and Russia to the north.

On the financial part, the EU and the initiative for technical assistance to the Commonwealth of Independent States (TACIS) helped to attract IFIs, such as the World Bank (WB), the European Bank for Reconstruction and Development (EBRD), the Islamic Development Bank (IDB), the Asian Development Bank (ADB) have made commitments to provide more than EUR1.7 billion for the project.<sup>143</sup> TRACECA is planned to be fully operational by 2020.

At the conference in Helsinki, ‘It had been recognized that one of the weaknesses of the TRACECA route, in the context of the EU Tacis program, was the lack of linkage between the western end and the European market’<sup>144</sup> Therefore it was decided that the TRACECA corridor would be integrated to the pan-European Trans-European Networks (TENs) by a link on ‘corridors IV and VIII, via the port of Varna’ on the west Black Sea coast. Therefore, as Eric Cotte analyzed ‘the planned development projects on the European continent scheduled for the next 20 years depend on the building of corridors crossing the Balkans.’<sup>145</sup> Furthermore the whole feasibility of the connection between Europe and Asia (TEN and TRACECA) on the revived *Silk Road* depends on the link through the Balkans and namely: port of Poti

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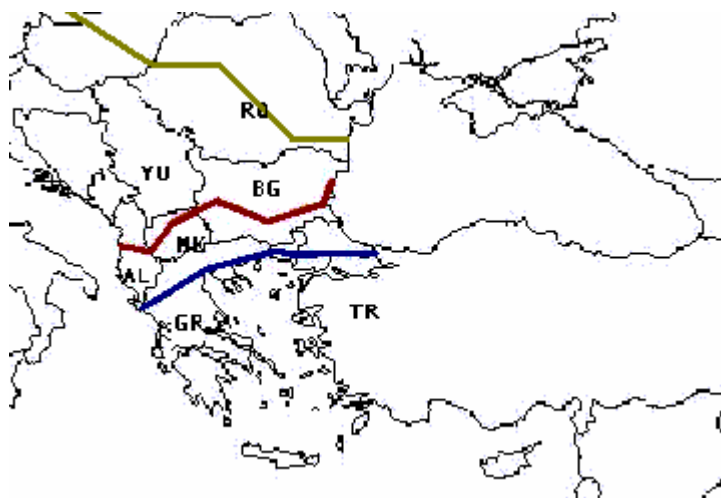
<sup>142</sup> *Traceca: 1993-2002: Transport Corridor Europe-Caucasus-Asia*  
<http://www.traceca.org/rep/brochure/brochure.pdf>; Internet; accessed May 2003, 2.

<sup>143</sup> *Ibid.*, 4.

<sup>144</sup> Eric Cotte, ‘Where is the Eight Corridor?’.



[Georgia] in the Caucasus-port of Burgas [Bulgaria] on the Balkans, how it was initially adopted.



The part of the *Great Silk Road* that is passing through the Balkans is the so-called Corridor VIII, also adopted at the Helsinki, 1997 conference. The route of pan-European multimodal Corridor VIII from Caucasus -Poti (Georgia) to

the Italian

*Fig.12 Transport Corridor VIII and Via Egnatia*

Port of Brindisi is planned to start in the Black Sea port of Burgas, pass through Dimitrovgrad and Sofia on Bulgarian territory, then pass through Skopje and Bitola in Macedonia and reach the Adriatic coast at Durrës in Albania. (See fig.2 below [red color])

Furthermore, the corridor East-West (corridor VIII) was not only supported by the EU in the Crete (1993) conference but also by the US-government. In New York (1995), four Balkan Presidents (Albania, Macedonia, Bulgaria and Turkey) in the presence of President Clinton announced the South Balkan Development Initiative (SBDI). ‘The SBDI is designed to help Albania, Bulgaria and FYR Macedonia further develop and integrate their transportation infrastructure along the east-west corridor that connects them.’<sup>146</sup> This project received the strong support by Washington and later was reconfirmed by the EU on the Helsinki conference as Corridor VIII was proclaimed the shortest and most efficient trade route between Europe and Asia, which is evidenced by the economical indicators below;

The length of Corridor N8, defined on the basis of the now functioning road, is 995 km The mutual trade of countries within the Balkan segment is USD 13 420 million for 1997, and of those along the continuation of the Corridor towards Central Asia - USD 34 213 million, or

<sup>145</sup> Ibid.

<sup>146</sup> US Trade and Development Agency, ‘TDA Awards \$4.3 Million in Transportation Grants In The South Balkans’, available at [http://www.tda.gov/trade/press/dec9\\_98.html](http://www.tda.gov/trade/press/dec9_98.html); Internet; accessed June, 2003.

totally along the whole length of the Corridor - USD 47 633 million. For most of the countries prognoses and trends indicate a GNP increase - in Bulgaria by 3% yearly, in Albania - 5%, Macedonia - 1-1,5%, Armenia - 5%, Azerbaijan - 5-6%, Georgia - 10%, Kazakhstan - 2%, Kirghizstan - 6%, Tadjikistan - 3-5%, Turkmenistan - 2%, Uzbekistan - 2%. The expected ratio between local and transit traffic, as revealed by the macroeconomic indexes, is 1:3 - 1:5 in favor of the transit one. It is evident that the parameters and qualities of the already built and functioning transport infrastructure in the region, as compared to those of other transport routes from East to West, lag behind in creating competitive conditions for attracting traffic.<sup>147</sup>

### 3.2.4.4 Transport Corridor IX

As the ancient Via Militaris (coinciding with nowadays Corridor IV and X) links East and West through the Balkans, Corridor IX is planned to serve as a connection between North and South, thus transforming the Balkans (and mainly Bulgaria and Romania) into a transport knot with immense geopolitical and geo-economic value for the enlarged European Union. 'Corridor IX, the longest of the Pan European Transport Corridors from Finland (Helsinki) to Bulgaria and Greece, with a branch to Odessa, is a historic and important European Corridor traditionally serving high freight flows, in a north-south direction, serving both the Mediterranean and the Black Sea basin.'<sup>148</sup> Trans-European Transport Corridor IX starts from Helsinki through Saint Petersburg and Moscow / Pskov, then Kiev – Ljubasevka – Chisinau – Bucharest – Dimitrovgrad and finishes in the Greek port of Alexandroupolis. As a part of the corridor, there are two branches:

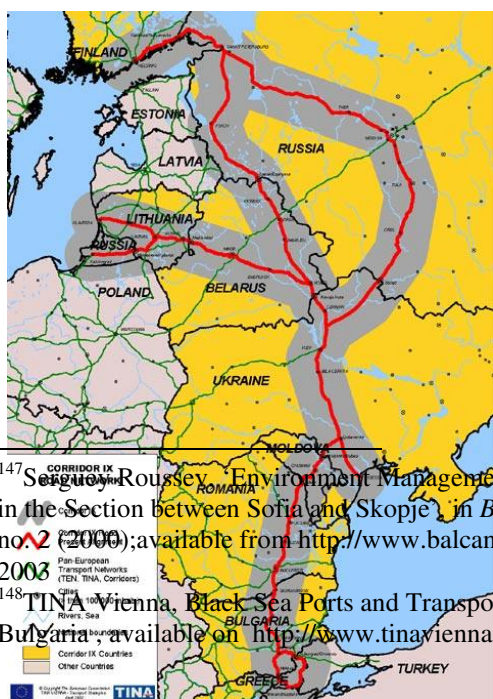


Fig.13 Transport Corridor IX

- Kiev – Minsk – Vilnius – Caunas – Claipeda / Kaliningrad

-Ljubasevka – Odessa

After Bulgaria and Romania's Accession in 2007 this corridor will constitute the main

<sup>147</sup> Sergey Roussey, Environment Management along the Road-Bed of Trans-European Corridor N8 in the Section between Sofia and Skopje, in *Balkans: Politics, Economy, Security* [journal on-line] 2, no. 2 (2000); available from <http://www.balkanica.org/balkanreview/current/a3.html>, accessed May, 2003

<sup>148</sup> TINA Vienna, Black Sea Ports and Transport Conference, held on 4-6 October, 2001 in Bourgas, Bulgaria, available on <http://www.tinavienna.at/corridor7/news3.htm>, last accessed May, 2005.

road artery between the Southeastern part of the EU and the neighbouring countries to the North-Russia, Belarus, Ukraine and also the shortest connection between Northeastern and Southeastern parts of the union-from Baltic Sea to Black Sea. Therefore its role is expected to increase significantly, as well as the amount of freight, people and goods transported through it.

As a conclusion to the chapter the oil, gas, transport and nuclear projects, explored in detail above, allow us to conclude that 'in any event, the Balkans, due mainly to the collapse of the USSR and the importance of the Caspian region, have risen in the 1990s to become a key-geopolitical bridge between Western and Eastern Eurasia, between the West and the East.'<sup>149</sup>

### **Conclusions:**

The project's goal was to look beyond the journalistic flash stories and the repetitive high-pathos-analysis of Eastern Enlargement of the EU into the Balkans and to explore in depth the geopolitical and geo-economic implications of such an important development for the whole region. In other words, this thesis looks at two major questions, and namely, *what are the geopolitical and geo-economic consequences for the Balkans, arising from Bulgaria and Romania's accession to the EU* and in a broader context *what are the geo-economic and geopolitical changes that are shaping in the Balkans in the first decade of the 21<sup>st</sup> century?* To answer these broader questions first, the answers of other closely related, but much more narrowly focused questions had to be found, namely:

*How the EU policies of inclusion and exclusion in the Balkans could contribute to severe economic, political and cultural ghettoization of the Balkans in short to mid term perspective?*

*What are the Geo-economic and Geopolitical Perspectives for the integrated Eastern component? (Bulgaria and Romania)*

*Pathways from the West Periphery or Western Periphery Paths: Options for the Excluded Component? (Bosnia & Herzegovina, Albania, Kosovo, Serbia & Montenegro, Macedonia)*

*Are we currently observing grandeur changes and the emergence of Bulgaria and Romania as a region with a new very important geopolitical value due to the concurrence of major developments?*

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<sup>149</sup> Vassilis K. Fouskas, *Zones of conflict*, p.26

*How can these two countries capitalize on their advanced Euro-Atlantic integration stage and lobby for a more engaged EU policy towards the whole region and specifically the West Balkans?*

The first chapter introduced broadly the political and economical framework in the Balkans in the fifteen years after the collapse of the old bi-polar geopolitical order. It explored how the region was split into two, as a consequence of major geo-economic and geopolitical developments. By the year 2005, the Eastern part' countries (Bulgaria and Romania) have progressed to an advanced Euro-Atlantic integration stage, while the Western ones were torn by a decade of fratricidal wars, and as a consequence, lagged significantly behind in their transition and integration processes. The second chapter explored the geo-economic implications of Bulgaria and Romania's accession to the EU, both for the countries concerned (EU-included 'East' part) and for the whole region (EU-excluded 'West' part). The third chapter looked at the geopolitical significance of the Eastern enlargement of the EU and the major oil, gas, transport and electricity projects, planned for commissioning through the Balkans. The analysis yielded the following results:

On the economic part:

The last couple of years have been marked by an expansionary boom in the economies of the two Balkan countries. This is even more pronounced when compared with the relative slowdown of the Central European countries' economies. Bulgaria and Romania are experiencing record-high GDP growth rates, which reached in 2004, 5.6% and 8 %, respectively. However, this is not an isolated event as in the period 2001-2004 Romania grew with the impressive 5.88 % on average and Bulgaria with 4.75%. Such an impressive growth rate is coupled with record inflow of foreign direct investments in diverse sectors and a record of greenfield investments. As a support of that, 'Bulgaria has brought in nearly \$4.5 billion in FDI over the last 3 years, which is a 50% increase over the period 1997-2001.'<sup>150</sup> For 2004, Bulgaria and Romania alone received between 75 to 80 % of all the investment in Southeastern Europe and between 30 and 40 % of all the investment in Central and Eastern Europe.<sup>151</sup> In figures that is projected by 2.6 billion US dollars of FDI for Bulgaria and 4.2 billion for Romania. After the accession is completed, Bulgaria and Romania

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<sup>150</sup> Ibid.

<sup>151</sup> Ibid.

would be in the unique position of having the lowest labor costs in the EU. Moreover, this is a highly educated and skilled workforce. Such positive developments, coupled with relatively low inflation, and constantly falling unemployment, record low public debt/GDP ratio, etc. are started to be more and more acknowledged by policy makers and researchers of the region. Such positive economic development should be credited to the young reformist political elites of the two countries, but it is also largely linked to the already completed Atlantic integration and the clear perspective for EU- integration, scheduled for 2007. It is a truism that without the carrots 'EU' and 'NATO' most of the economic and political reforms would hardly ever be implemented.

To summarize, it has been largely overlooked, but becoming more and more evident now that Bulgarian and Romanian economies outperformed CEC-4 economies in terms of macroeconomic performance and expansionary growth and the tendency is very well pronounced and more and more strengthening. Again, it would not be an overstatement to claim that gradually the two Balkan countries are started to be regarded as regional economic powers. As argued, this is justified by numerous articles and publications in Western press and journals, as well as in the perception of the neighbors towards Bulgaria and Romania.

What does this emerging economic power might mean? Such a development is more than welcome for the two Balkan economies as this could lead to a convergence and catching-up of the latter with CEC-4's economies in mid-term perspective. However, comparing to the Balkans, situation is much different, as such, a rapid and expansive growth of the EU-included Balkan component (Bulgaria and Romania) might create enormous discrepancies between the economic development of the latter and the excluded 'economic/political component' of the West Balkans.

These emerging discrepancies might lead to two types of development, largely due to the exclusion-inclusion policies of the European Union and other related institutions. Thus, in short to mid-term perspective, the Balkans will have an EU-included eastern component-Bulgaria and Romania (who will geographically complete the EU by linking Hungary to Greece) and an EU-excluded component-the 'Wild West of the Balkans'. This EU policy will make economic cooperation in the Balkans even harder than that of the Cold War's relations between COMECON

countries and the West. The most recent negative EU Constitution referenda results would most probably make the EU perspective for the Western Balkan countries even much more distant. However, this research argues that this would be a major mistake, as European Union's policy of exclusion of the West Balkans, and the very near inclusion of Bulgaria and Romania might in short and mid-term perspective, create new economic and political ghettos, on the boundaries of which could emerge two types of economic, political and cultural models. The relatively prosperous integrated Eastern part would become more and more alienated to the isolated Western-politically, economically and later even culturally, by creating heavy mental borders in Hozic's terminology. The result could be a severe economic, political and cultural ghettoization of the Balkans in short to mid term perspective. More EU policy makers have started to realize that the Western Balkans should not be isolated in some kind of a waiting room of an abandoned rail station, but rather incorporated. If such change of policy occurs and these countries are given timely and efficient real incentives for political and economic reform, rather than intangible carrots and quite tangible sticks, the perspective might definitely be not so dim at least in the long-term. Furthermore, the west Balkan could capitalize on Bulgaria and Romania's recent political success (EU and NATO integration) and economic boom. However, there is a high danger that the recent French and Dutch 'No' vote to the new EU Constitution might reverse this emerging positive attitude for the West Balkans and significantly delay their integration, which as argued above is the most unfortunate development for the region and the EU.

On the geopolitical part:

Broadly, if we are talking geopolitics in the post-Cold War era, we are talking oil and gas. Most of the recent research in geopolitics or political geography looks at the oil and gas reserves, their extraction and transportation. Therefore, to explore the emerging great geopolitical value of the Balkan region, I have regarded mainly oil and gas projects. This was complemented with research on transport projects, which often overlap with oil and gas projects to form multimodal transnational corridors. A small section was dedicated to nuclear projects with geopolitical importance in pre-accession Bulgaria and Romania. The analysis yielded that the above-mentioned three newly formed geo-systems Balkans, Caucasus and Central Asia would play main role of the oil and gas 'big' game of tomorrow. Namely, the Caucasus and Central Asia as

producers and the Balkans, as the major transport route for these assets from East to West and South to North. Standing on major crossroads, the Balkan geo-system acquires a new role of paramount geopolitical and geo-economic significance per se and specifically for the EU's energy security policy. No matter the region does not have strategic reserves of its own, its emerging geo-strategic and geo-economic power 'resides in its geographical location, halfway between two major oil and gas supply regions - Russia and the Caspian - and large markets, such as Turkey, Southeast and Central Europe, and the Mediterranean.' The region is not only blessed for its geography, but also relatively stable, compared to the Caucasus, Eastern Turkey and Iran, which are the competing routes for bringing the Caucasian and Central Asian gas to Western markets. Indeed, in comparison with the former alternatives, the Western Black Sea region, or in other words, the Eastern part of the Balkans (Bulgaria and Romania), offers the safest transit routes.

The need for construction of new pipelines is further exacerbated by the record growth and mid-term expansionary projection of oil and gas extraction in Russia, Caucasus and Central Asia coupled with the ever-increasing physical, geographical, ecological and political inefficiencies of the traditional route, the Bosphorus Straits.

Those oil, gas, electricity and transport projects would dramatically increase the geopolitical value of the whole region and its importance to major political actors, such as EU and the US, as the Balkan region is gradually turning to major oil, gas and electricity hub of paramount geopolitical and geo-economic importance and a key-link in the security of supplies puzzle. In Fouskas words, the Balkan zone constitutes a significant transport route for oil and gas, and it is thus a strategic bridge. In this context, the Balkans can be viewed as the geo-political gatekeeper between Western and Eastern Eurasia, acquiring a security dimension of paramount importance for NATO and the US.

Summarizing the geo-economic and geopolitical implications of Bulgaria and Romania's EU accession for the region, and we can conclude that we are currently observing grandeur changes and the emergence of Bulgaria and Romania as a region with a new very important geopolitical value due to the concurrence of major developments. Namely these are- NATO integration (2004), combined with EU accession (2007), expansionary economic boom in the last half decade, relocation of

couple of NATO military bases on the Western Black Sea coast (as the region is the closest to the Middle East and positioned best geographically and logistically to locate and counteract possible threats). To this should be added the two major Bosphorus-bypass oil pipeline projects to be commissioned from Asia and the Middle East to the Adriatic, through the Balkans, and the Nabucco project from Middle East to Western Europe for gas transportation. Furthermore, six out of ten major pan-European transport corridors, planned for commissioning, with the support of the EU pass through the Balkans.

However such economically and geopolitically rising East already creates mental, economical, political, cultural borders with the isolated West of the Balkans. In the last couple of years (but before the EU Constitution referenda), European policy makers have started to realize that the Wild Balkan West should not be treated as a disgraceful disease, but as a healthy part of our common European body. However, the recent negative Constitution referenda results from May, June 2005, would most certainly lead to a period of uncertainty, reluctance to enlargement and series of internal painful analysis and discussions. This would probably not influence Bulgaria and Romania, as they have already signed their accession treaties with the union. Nevertheless, for Croatia, Turkey and the countries of the West Balkans this can mean decades of waiting. If EU incorporates only the 'good Balkan East', and decides to further isolate and not give enough economic and especially political incentives to the 'Wild West' that could have long term negative consequences both for the region and for Europe, creating enormous mental, economical, political, cultural ghettos in the very heart of the peninsula. In the positive case scenario, which is not very likely after May 2005, the Western Balkans could capitalize on Bulgaria and Romania's advanced Euro-Atlantic stage and negotiation expertise for a quick negotiation process. In addition, they could rely on their lobby and support, as well as for changing the image of the whole region. The inclusion of the Western part in the political and economic dynamics of the East Balkans would even more increase the already significantly rising geo-economic and geopolitical weight of the whole region. A new region where Peace means blue skies, rather than Blue Helmets...



## Appendices:

### A. Pan-European Transport Corridors in the Balkans: routes and maps

#### Corridor IV

#### Link EU-South-eastern Europe

Road; rail; Danube ferry link; airports; ports; combined transport. Total length: 3.258 km



Berlin	Germany
Dresden	Germany
Nuremberg	Germany
Prague	Czech Republic
Brno	Czech Republic
Vienna (rail)	Austria
Bratislava	Slovak Republic
Győr	Hungary
Budapest	Hungary
Arad	Romania
Craiova	Romania
Bucharest	Romania

Constantza  
 Sofia  
 Plovdiv  
 Thessaloniki  
 Omenio  
 Istanbul

Bulgaria  
 Greece  
 Turkey

**Corridor VII**

**Waterway route on the Danube from Germany to the Black Sea; connects up with the North Sea via the Rhine and the Main**



Germany  
 Austria  
 Bratislava  
 Győr-Gönyű  
 Ruse  
 Lom  
 Constantza

Slovak Republic  
 Hungary  
 Croatia  
 Serbia  
 Bulgaria  
 Moldova  
 Ukraine  
 Romania

**Corridor VIII**

**Road; rail; expansion of port of Durrës; combined transport in Bitola; Length: 1.300 km**



Durrës  
 Tirana  
 Skopje  
 Bitola  
 Sofia  
 Dimitrovgrad  
 Burgas  
 Varna

Albania  
 FYR Macedonia  
 Bulgaria

**Corridor IX**

**Road; rail ; port expansion**

**The Council in Essen (1994) declared the link Helsinki-St. Petersburg-Moscow as priority  
 Total length: 6 500 km**



Helsinki	Finland
Vyborg	
St Petersburg	
Pskov	Russia
Moscow	
Kaliningrad	
Kiev	
Ljubasevka	Ukraine
Odessa	
Chisinau	Moldova
Bucharest	Romania
Vilnius	
Kaunas	Lithuania
Klaipeda	
Minsk	Belarus
Alexandroupolis	Greece
Dimitrovgrad	
Ormenio	Bulgaria

**Corridor X**  
**Road; rail ; Length: 2 360 km**



Salsburg	Austria
Graz	
Zagreb	Croatia
Belgrade	
Nis	
Veles	
Thessaloniki	
Bitola	FYR Macedonia
Skopje	

Ljubljana  
Maribor  
Budapest  
Belgrade  
Novi Sad  
Nis  
Sofia  
(Corr IV - Istanbul)  
Veles  
Florina  
Via Egnatia

Slovenia  
Hungary  
Serbia  
Bulgaria

### B. (Bosporus Bypass) Oil Pipeline Projects on the Balkans: technical data

Name/Location	Route	Crude Capacity	Length	Estimated Cost/Investment	Status
<b>Albanian Macedonian Bulgarian Oil (AMBO) Pipeline</b>	Burgas (Bulgaria) via Macedonia to Vlore (Albania) on Adriatic coast	750,000 bbl/d (could be expanded to 1-million bbl/d)	560 miles (898km)	\$850 million to \$1.1 billion	Construction delayed, (proposed 2001-2002) as financing is arranged. As by 2005, construction has not yet started.
<b>Burgas Alexandroupolis (Trans-Balkan Oil Pipeline)</b>	Burgas to Alexandroupolis (Greece) on the Aegean Sea coast	Proposed 600,000 bbl/d to 800,000 bbl/d	178 miles (280km)	\$600 million	After 7 years of negotiations new agreement signed in 2002 between Bulgaria, Greece, and Russia. As by 2005, construction has not yet started.
<b>Constanta-Trieste Pipeline</b>	Constanta (Romania) via Hungary, Slovenia, and/or Croatia to Trieste (Italy) on the Adriatic Sea coast. Omisalj (Croatia) also has been proposed as a terminus.	660,000 bbl/d	855 miles (1300km)	\$900 million	Feasibility studies completed; financing still to be arranged. Jan. 2003: agreement signed in Bucharest between Romania, Yugoslavia and Croatia. As by 2005, construction has not yet started.

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