

# STRENGTHENING NEIGHBOURHOOD ECONOMIC COOPERATION: CRUCIAL FACTOR FOR POSITIVE ECONOMIC GROWTH

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## *Abstract*

Recent decades have seen rapid growth of the world economy. This growth has been driven in part by the even faster rise in international trade. The growth in trade is in turn the result of both technological developments and concerted efforts to reduce trade barriers. Some developing countries have opened their own economies to take full advantage of the opportunities for economic development through trade.

Transport is a key element in international trade. Advances in transport technology have extended the range of markets, enabled new methods of production, fostered specialization and strengthened social, political and economic ties between countries and major geographic areas. Our times are marked by important regional changes-economies and political, that set new specific requirement for the development of the transport systems. The integration processes within the European framework constitute one of the major international factors that directly influence the development of the transport infrastructure. An efficient and effective transport system is a key factor in the creation and operation of a common internal market in Europe and the ongoing development of the transport policy is central figure to its success. Efficient transport infrastructure is fundamental to achievement of freedom of movement across the EU, which is a primary, objective of EU policy.

Corridors 8 is expected to be one of the impulses to generate economic development among countries of Western Balkans. In other hand they also play a main role in domain the Economic and Environmental Programs in this regional policy. These corridor would be assisted by the establishment of set of multilateral principles and encourage the transfer of passenger, goods and capital.

**Key words:** economic development, inflow of capital, trade, external trade, trans-European transport network, transport policy, Corridor 8.

## **Significant and Benefits of Trade Liberalization**

Global economic development and wide integration in trade, financial and reproducing sector, continue more and more intensive. Trade has a crucial role to play in low income economies. The foreign commerce of nations, one of the oldest branches of economics, has paid the attention of every government, economists and analysts, or simple surveyors.

The wave of globalisation which started between 1970s and the 1980s has had unequal results among developing countries. Especially this negative performance has been concentrated among the transition economies of Central and Eastern Europe.

The most useful models for explaining international trade are those are simple, strong and general. International economics is somewhat related to the other conventional branches of economics to attain more economical development. Growth in the wider Europe depends not only on domestic policies but also on the international environment and the type of integration of the neighborhood economies in the world economy and with the EU in particular.

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Policies that make an economy open to trade and investment with the rest of the world are needed for sustained economic growth. The evidence on this is clear. No country in recent decades has achieved economic success, in terms of substantial increases in living standards for its people, without being open to the rest of the world. In contrast, trade opening (along with opening to foreign direct investment) has been an important element in the economic success of developing countries in last two decades.

### **Open market and SEE**

Low income countries, growth prospects depend on their ability to expand and diversify their exports, and to increase access to key production inputs and boost productivity through imports. But many countries, particularly in SEE, especially in Western Balkan region, have failed to achieve a sustained increase in trade. If trade is to be an effective driver of growth in these economies, these constraints need to be addressed alongside trade reform, as part of a comprehensive growth-promoting and poverty-reducing development strategy. This will require substantial additional investment, from both domestic and external resources. For example, infrastructure alone is likely to need a doubling in current investment levels, from around 3,5% of developing countries' GDP now to around 7%. This supports the case for substantial increases in international development assistance alongside continuing trade reform.

The transition economies underwent a paradigm shift in moving from planned to market economies. This entailed deep reforms over a short period of time. Trade reform took place alongside rapid privatisation and radical political transformation. The result was major structural change; but the speed with which the changes happened outpaced the ability of governments, markets and individuals to cope. There was a dramatic decline in GDP, and a significant rise in poverty.

It is impossible to isolate the impact of trade reform from the impact of the other accompanying far-reaching reforms in precipitating this loss of income. What is clear is that the legal, regulatory and institutional environment was insufficiently developed to manage the adjustment prompted by the whole range of reforms. The performance of the transition economies is now fast improving, suggesting that the bulk of the adjustment is over and the region will be able to sustain economic recovery. Export patterns have changed significantly, in terms of both destination markets and products. Nevertheless, the substantial drop in GDP which these countries experienced was a very high price to pay for longer term prosperity – and might have been mitigated through a better designed reform process.

### **The importance of neighborhoods trade policy in Europe**

There are more than 190 countries in the world systems today. They come in all dispositions, shapes and sizes. The often question which are opened today are: How important is international trade to the nations of the world? Which countries trade with which other countries? What goods do countries trade. This is one small segment of complex organization and systems structure of International economics.

In terms of national trading patterns, countries tend to trade extensively with their neighbors. Nowhere is this more apparent than in EU, where two-thirds of EU member's exports

go to other EU countries, and North America, where Canada, the USA and particularly Mexico are major markets for each other's goods.<sup>2</sup>

The central question in this paper is how to improve trade policy with international exchange between traders in two neighborhoods markets. The growing importance of international trade is always illuminate the trade between neighborhoods countries.

Why has it occurred? Lower transport costs, more historical communication and same cultural characteristics, are mains indicators can yield maximum welfare and stability.

Many economists use gravity models to try to predict which countries will tend to trade with each other. A gravity model is a statistical model that estimates a country's trade flows to other countries based on the economic characteristics of two trading partners. The basic prediction of the gravity model is that any two countries will trade more with each other when their combined GNPs are larger and the geographical distance between them is smaller.

In 2003-2004, the Commission proposed a new foreign policy for the EU – the “European Neighbourhood Policy”, a framework policy to cover its eastern and southern neighbours. The EU's motivation in proposing such a policy is its interest in being surrounded by stable, prosperous neighbours. For the EU, supporting the political and economic development of its neighbours is the best guarantee for peace and security and long-term prosperity.

The neighbouring countries' interest is in benefiting, to the maximum possible, from what the EU can offer – economic stability and larger markets, reform experience and know-how, cultural and other contacts between populations.

“Even in an era of globalisation, geography is still important. It is in the European interest that countries on our borders are well-governed. Neighbours who are engaged in violent conflict, weak states where organised crime flourishes, dysfunctional societies or exploding population growth on its borders all pose problems for Europe. The integration of acceding states increases our security but also brings the EU closer to troubled areas. Our task is to promote a ring of well governed countries to the East of the European Union and on the borders of the Mediterranean with whom we can enjoy close and cooperative relations.”<sup>3</sup>

EU is a response to the interests and wishes of neighbours in Europe, for closer relations who reinforcing priorities who are identified across a wide range of subjects:

- political dialogue and reform;
- Economic and social cooperation and development;
- Trade related issues, market and regulatory reform;
- Cooperation on Justice, Liberty and Security;
- Sectoral issues such as transport, energy, information society, environment, research and development.

What are the incentives for such reforms? As the partners make progress towards their reform objectives as regards rule of law, democracy, human rights, market-oriented economic and sectoral reforms and cooperation on key foreign policy objectives, the **EU** offers deeper

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<sup>2</sup> Husted, Steven; Melvin, Michael: International Economics. Boston: Pearson, 2007. p.9-17

<sup>3</sup> European Commission (2007): Working together: The European Neighbourhood Policy. Brussels: European Security Strategy, December 2007 [http://ec.europa.eu/world/enp/index\\_en.htm](http://ec.europa.eu/world/enp/index_en.htm)

political and economic integration, going beyond the relationship normally offered to third countries.

How far and how fast a partner progresses in its relationship with the EU depends on its capacity and its political will to implement agreed reforms. Progress is supported by greater incentives and benefits. This means that as and when countries identify the sectors of the EU market which they want to access, and then implement (with EU help) the necessary reforms to be able to benefit from such access, they can gradually participate in EU-wide networks on transport, energy, telecommunications, education etc.

“European Neighbourhood Policy is founded on the premise that by helping our neighbours we help ourselves. It provides us with a new framework and new tools for promoting good government and economic development in the EU's neighbourhood. And it utilises the valuable experience we have already gained of assisting countries in transition... a pragmatic response to the challenges Europe faces today.”<sup>4</sup>

Developing closer political and economic links between the EU and its neighbours requires a sound underpinning through good physical inter-connections across the neighbourhood. ENP looks to link the EU and its neighbours by improving transport connections and ensuring the smooth flow e.g. of energy products.

### **Transport infrastructure a major factor to strengthen neighborhood trade**

Transport is of increasing relevance to the development of nations. It is a crucial determinant of production and trade patterns and consequently also of economic integration. For some countries it may also contribute to the generation of income through the provision of transport services. Participation in world trade depends increasingly on the type, quality and costs of transport services. At present, intra-company trade and trade in intermediate products are growing faster than trade in finished goods. This trend is closely linked to improvements in transport and logistics services.

In 1993, the EU Member States agreed in the Maastrich Treaty on the need to develop trans-European networks (TENs) for transport, energy and telecommunications as a common European objective. The development of trans-European transport network was seen, in particular, to be of vital importance for the political, economic and social integration of the Union and for development of the less favored regions. The trans-European transport network shall be established gradually by 2020 by integrating land, sea and air transport infrastructure networks.

*"Nothing symbolizes or serves the integration of Europe better than the physical linking of transport systems and nothing is more important for the development of the applicant countries than the achievement of efficient infrastructures"*<sup>5</sup>.

This idea is present in the Treaty of the EU when it mentions the possible EU cooperation with third countries in promoting network infrastructure projects of mutual interest, in the Europe Agreements which foresee that a priority area for cooperation shall be construction and

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<sup>4</sup> Benita Ferrero-Waldner, European Commissioner for External Relations and European Neighbourhood Policy, October 2005

<http://www.pressonline.com.mk/default-EN.asp?ItemID=3C199DDE445DE142AC04550E1CE41A85> 18/09/2011

<sup>5</sup>Neil Kinnock (the Commissioner responsible for transport), speaking at a conference in Amsterdam on "Bridging gaps in Financing Infrastructure", 31 March 1998 <http://europa.eu.int/en/comm/dg07/speech/sp9861.htm>

modernization of transport infrastructure and in the Agenda 2000 which treats the development of transport networks as one of the central challenges for the accession process.

To take full advantage of closer relations with the EU and the prospect of improved access to the EU market, partner countries' transport systems must be able to handle today's complex transport flows. ENP emphasizes both transport safety – improving maritime safety and preventing oil spills, for example – and security – such as appropriate controls in ports.

Generating more trade and tourism between the EU and its neighbours requires efficient and sustainable transport systems and improved use of transport links – the road, rail, air and sea arteries needed to carry goods and people within the entire region.

The demand for transport of people and goods is rising from day to day, and the consequences are reflected in an overburdening of parts of the transport network and an imbalance in the overall transport infrastructure. In the last few years private passenger road traffic in particular has been growing at the expense of other modes of transport, which shows up in the unfavorable ratio in the choice of transport mode. The transport services sector in the European Union delivers benefits in its own right: the sector accounts for an estimated 4 % of the Union's gross national product and employs approximately 6.3 million people employed in the transport equipment industry, and over 6 million in transport related industries. Each day, the transport industries and services of the European Union have to get more than 150 million people to and from work, enable at least 100 million trips made in the course of the work, carry 50 million tones of goods, deal with 15 million courier, express and parcel shipments apart from serving the needs of travel and trade outside the boundaries of the European Union. Apart from the economic importance of the transport sector, the ever-increasing mobility of citizens is today part of everyday life and its significance for every individual should not be underestimated.

As demand for transport keeps increasing, the Community's answer cannot be just to build new infrastructure and open up markets. The transport system needs to be optimized to meet the demands of enlargement and sustainable development, as set out in the conclusions of the Gothenburg European Council. A modern transport system must be sustainable from an economic and social as well as an environmental viewpoint. One of the benefit to establishment the Trans-European transportation networks is possibility to reduce transport, avoid unnecessary trips and generally acknowledge the fact that less, and not more, transport is good for the economy. Furthermore, it is important to recognize that a reduction of transport and traffic is not only beneficial to the economy, but has positive impacts on the quality of life of European citizens, as well as social cohesion within the European Union. Europe is witnessing an increasingly intense debate over the question of “how much and what kind of individual mobility do we want?” The provision of ever-more infrastructure to cover ever-more distance in ever-less time often represents a nuisance to the individual citizen as well as the community as a whole. As it becomes ever easier to travel ever further, Europe's citizens are often forced to do precisely that, rather than making a voluntary choice to travel from one city to another.

In according the general objectives, the trans-European network must:

- (a) Ensure the sustainable mobility of persons and goods within an area without internal frontiers under the best possible social and safety conditions, while helping to achieve the Community's objectives, particularly in regard to the environment and competition, and contribute to strengthening economic and social cohesion;
- (b) Offer users high-quality infrastructure on acceptable economic terms;

- (c) Include all modes of transport, taking account of their comparative advantages;
- (d) Allow the optimal use of existing capacities;
- (e) Be, insofar as possible, interoperable within modes of transport and encourage intermodality between the different modes of transport;
- (f) Be, insofar as possible, economically viable;
- (g) Cover the whole territory of the Member States of the Community so as to facilitate access in general, link island, landlocked and peripheral regions to the central regions and interlink without bottlenecks the major conurbations and regions of the Community;
- (h) Be capable of being connected to the networks of the European Free Trade Association (EFTA) States, the countries of Central and Eastern Europe and the Mediterranean countries, while at the same time promoting interoperability and access to these networks, insofar as this proves to be in the Community's interest.

The trans-European network shall comprise transport infrastructure, traffic management systems and positioning and navigation systems. In this context the transport infrastructure shall comprise road, rail and inland waterway networks, the seaports, and inland waterway ports and other interconnection points. The second point which relate to the traffic management systems and the positioning and navigation systems shall include the necessary technical installations and information and telecommunications systems to ensure harmonious operation of the network and efficient traffic management.

In many low-income countries, high transaction costs – transport, insurance, banking transfer fees, communication costs etc. – dwarf the impact of trade barriers. An average three-minute telephone call from a developing country to the United States costs three times as much as from an OECD country. For least developed countries the multiple is nearly five times. The variability in transport costs is even more striking.

Shipping a standard 40-foot container from Baltimore to Rotterdam in 2002 cost \$ 1,500. Shipping the same container to Lima – a shorter distance – would have cost \$ 4,000, and \$ 13,000 to Beijing or Kathmandu.

This difference is due largely to the lack of competition in maritime services, particularly in the less transited routes; and to the differences in the efficiency of handling goods in ports. Inefficient ports can have a major impact. The effect of poorly functioning ports could have an effect equivalent to being 60 per cent further away from the country's main markets. In countries with high transaction costs, a reduction in trade policy-induced barriers is unlikely to lead to a sufficient change in price incentives to ensure a response in domestic supply. Increasing the efficiency and competition in maritime services and increasing investment in trade facilitation and physical infrastructure should be key elements of any policy initiative aimed at ensuring that low-income countries integrate successfully into world markets.

### **Transport systems in Republic of Macedonia in function of European economic flow: special overview to R. Bulgaria connection**

The focus of this paper is importance of transport which can be measured in different ways. One obvious way is to look at the physical characteristics of the transport system: the

length and quality of the road network, of railway lines and waterways, the number of vehicles, vessels and aircraft in use, the amount of tones carried and passengers moved, and the emissions, accidents etc. linked to these movements. Transport policy greatly determines to which extent the influence of transport is going to be positive, that is, negative. Coherent transport policy can contribute to reduction of the budget expenses for the transport sector by providing the conditions for efficient management of infrastructure or the instruments for internalization and reduction of transport external costs.

The main issue in the transport sector of Republic of Macedonia is associated either with the changing geographical patterns of trade and transport flow, or with the process of economic transition itself.

Two key transport corridors cross our country are: Corridor VIII and Corridor X.

Following the achievements of previous Pan-European Transport conferences (Prague in 1991, Crete in 1994, Helsinki in 1997) Corridors VIII and X are of very importance and priority for future development of our country. Western Balkans has important role in wider European space in relation of geographical position. The challenges and the possibilities of the region, the integration with new initiatives, co-operation of the countries of South Eastern Europe, the prospective for a new transport infrastructure, require new spatial planning and strategies. The split between the market economies of the EU and Western Balkans became a barrier of economic, ideological and political disparities. All new candidate in EU are characterized by very weak economic and institutional structures and facing enormous problems of transition system (from directive planning to free market democratic regions). Theoretic predictions concerning the capacity of the less developed regions to achieve such growth rates for a prolonged period are not very optimistic. The overcoming the spatial consequences of this divide, major challenge for the spatial development perspective is developing the transport system. Spatial planning includes activities to promote regional economic growth, which are economically, socially and environmentally sustainable.

### **Corridor 8 and Benefit to Macedonian and Bulgarian economy**

The development of Corridors VIII and X for Republic of Macedonia has very essential role. The development of the Corridors should be including maintenance, reconstruction, rehabilitation, upgrading and new construction of main and ancillary infrastructures as well as its operation and use with a view to fostering the most efficient and environmentally friendly transport modes.

The present situation in Macedonian transport is not satisfactory, notably connection with R. Bulgaria. R. Bulgaria is Macedonian strategic trade partner and Macedonia and Bulgaria must arrange much more in transport policy. The improvement of transport conditions for both neighboring's represents a strategic issue of first priority and a contribution to the European transport policy. Corridor 8 is expected to be one of the impulse to generate economic development among Bulgaria, Macedonia and Albania, and also play a role in domain the Economic and Environmental Programs in this regional policy. Corridor 8 would be assisted by the establishment of set of multilateral principles and encourage the transfer of passenger and goods.

The aim is to develop the East-West Transport Corridor as an efficient transport corridor with close co-operation between interlinked hubs; meeting market demands for growing freight transport to and from the Apulian ports and Durres in Albania, and the road-rail connections towards the Black Sea in a more environmentally-friendly way.

If we analyse The National Strategic Reference Framework of Bulgaria introduced a short and medium term vision for the country. By 2013 Bulgaria should become a country with a higher standard of living, based on a sustainable socio-economic growth during the process of full integration into the European Union. To achieve its vision, Bulgaria has two strategic medium-term goals:

- To attain and maintain high economic growth through a dynamic knowledge-based economy in accordance with the principles of sustainable development.

- To improve the quality of human capital and to achieve employment, income and social integration levels, which provide higher living standards.

Transport policy may contribute to the achievement of both. The improvement of the major infrastructure, the organization of a sustainable transport system, such as this Operational Programme for transport proposes, may enhance the dynamism of the sector and provide a stronger basis for all human activities. In accordance with the main objectives of European cohesion policy, developed in the the Community Strategic Guidelines, The National Strategic Reference Framework of Bulgaria is developing a set of coordinated policies aiming to growth, employment, socio-economic, environmental and territorial cohesion.

The specific goals of the *national transport policy* should be directed towards sustainable development of the road and railway transport infrastructure of national, EU and cross-border importance, improvement of the maritime and inland waterway navigation, integration of the national transport network into the EU transport network, achievement of balance and development of links between different transport modes.

Regardless of the time of its association in the EU, Macedonia must make its preparations in due time to be capable of entering the EU. Transport integration of Macedonia with the EU can be traced directly through linking up the transport systems, and indirectly through the integration of economic and other subjects. Macedonia is significant for EU as a transit country for road, rail and combined transport, specially the connections with Greece, which is a member state of the EU. Therefore, it is expected that Macedonia incorporates an adequate infrastructure, implements the common traffic policy and has an efficient, non-discriminating transit flow of goods, services, capital and people.

The Government's strategy regarding the road sub sector focuses on upgrading the country's main highways to international standards, on the east-west axis between Bulgaria and Albania. There is a special emphasis on improving the access routes to sea ports (all located in countries neighboring landlocked Macedonia), which are already showing incipient signs of congestion, as well as to reducing transport costs in general.

With respect to the railways, the Government is committed to restructuring the ailing enterprise and ensuring its long-term viability and financial self-sufficiency. This includes the adequate pricing of road and rail services, securing funding for necessary levels of maintenance and investment in the sub sector, the establishment of sound financial management and operating



practices, the divestiture of non-core businesses, and the gradual enhancing of labor and asset productivity.

### *Summary*

The resulting integration of the world economy has raised living standards around the world. Most developing countries have shared in this prosperity; in some, incomes have risen dramatically. As a group, developing countries have become much more important in world trade—they now account for one-third of world trade, up from about a quarter in the early 1970s. Many developing countries have substantially increased their exports of manufactures and services relative to traditional commodity exports: manufactures have risen to 80 percent of developing country exports. Moreover, trade between developing countries has grown rapidly, with 40 percent of their exports now going to other developing countries.

However, the progress of integration in Europe has been uneven in recent decades. Progress has been very impressive for a number of developing countries in Central Europe and, to a lesser extent, in Western Balkans. These countries have become successful because they chose to participate in global trade, helping them to attract the bulk of foreign direct investment in developing countries.

A central task of trade growth is to improve the physical transport networks connecting the Union with neighbouring countries. Transport projects can be hugely expensive but such projects can receive financial support from the European Investment Bank. EU can also help countries to prepare for major transport investments by, for example, supporting the preparation of feasibility studies for such projects.

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