UDC: 330.341:339.72.053; 338.121:339.137(4-12)
Conference paper

KINDLEBERGER AND MACROMANAGEMENT

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Abstract

The idea of the relation between the economic development level and the balance of payments position is not a new one. Yet, this idea was formalized for the first time in the early 1960s by Charles Kindleberger in the form of the balance of payments evolution scheme. Although this is a rather "old" concept, all the aspects of this theory and all the possibilities for its usage have not been exhausted yet. For example, this theory explicitly includes an interesting (and provocative) idea that the underlying point of development, the point that separates developed economies from underdeveloped economies is actually the moment when a country reaches the full coverage of imports by exports. More implicitly, in the manner of a genuine liberal, who Kindleberger certainly was, this theory suggests the implementation of passive (pro-liberal) economic policies. This, in combination with our research on possible ways of measuring the level of economic development, has led us to the idea that, in circumstances of relatively liberal[3] trade, the level of development and level of competitiveness could be measured by the export/import indicator. In the work we will show that this idea is not generally accepted, but still worth researching. Our intention with this work was to show that countries in South-East Europe, although facing serious economic difficulties, are developing and improving their competitiveness position in time, and to try to predict, for each country, the time when that country will join the club of lesser-developed, but yet developed countries. This would have reflections in the assessment of the adequacy of the economic polices implemented in those countries during the last twenty years, i.e. the quality of macromanagement in these countries.

Keywords: *development, competitiveness, balance of payments, passive economic policies*

JEL Classification: E64, *O23, O24*

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3 Free trade is an abstract term. There are no examples in history that countries have practiced a fully free trade, even though according to Chang (2016: 80), Great Britain in the second part of XIX century aspired to have its practice close to this ideal. With much less success, from the beginning of the '80s to the middle of the second decade of the XXI century, the United States of America has been the global force which promoted the free trade. However, the practice of the USA (Voluntary export limitations, etc.) was much further from this ideal than the practice of Great Britain at the end of the XIX century. However, when we in this paper use the term free trade, it should be taken into consideration that the term does not refer to total global trade, but solely to the trade between a limited number of countries in East Europe (10 of them) with the EU, and that we do not think of this as the absolutely free trade (ideally), but as a relatively free trade (compared to the trade of these countries with other countries in the world, and compared to earlier historical experiences–especially compared to the period before 1990).

Introduction

Charles Kindleberger was one of the most influential economists in mid XX century. He was born in New York in 1910, he graduated from the studies of economics at the University of Pennsylvania in 1932 and as early as in 1937 (at the age of 27) he defended his Ph.D. thesis at the Columbia University. From 1948, he was elected professor of international economics at the MIT University where he stayed until retirement. He was engaged in economic history and his name was connected to hegemonistic theory of stability claiming that the world always needs one super power to stabilise international relations. Actually, the strongest influence of Kindleberger was felt at the end of the Second World War, when he worked in the US Ministry of Foreign Affairs as the manager in charge of economic issues. The so-called Marshall Plan for European recovery was mainly Kindleberger's work. He was strongly opposed to the monetarist view of Milton Friedman, particularly in respect of the effects of the FED policy on the deepening of Great Depression in the 1930s. His book Manias, Panics and Crashes on speculative bubbles from 1978 was reprinted at the beginning of 2000s, after the dot-com bubble.

However, the reason for remembering this great man includes nothing of what has been mentioned above. The reason why Kindleberger found its place in all the books of international economics and stayed there by this time is his theory called *the balance of payments evolution scheme* or *the theory on the debt cycle*. Kindleberger, by analysing the history of the values of the US balance of payments sub-accounts and connecting them to the stages of the country's development arrived at the conclusion that all the countries go through four4 stages of development as it follows:

Graph 1. Balance of payments evolution scheme

Stage of the country's development	Current account
I – Young debtor	deficit
II – Mature debtor	deficit
III – Young creditor	balance
IV – Mature creditor	creditor

Source: adapted from Samuelson-Nordhaus (2009), p. 603.

It is evident that each stage of development results in a certain situation in the balance of payments current account. So, underdeveloped countries, according to his view, naturally record high deficits of current accounts, attracting at the same time foreign capital in order to fill in the accumulation gap ("young debtor"). This conclusion is in accordance with the principles of neoclassic theory and findings of Baldwin and Wyplosz (2009: 555), Eicher, Mutti and Turnovsky (2009: 225), Salvatore (2009: 513), Pugel (2009: 513), and Kovacevic (2016: 505) on the causes and effects of capital trends from developed countries (rich in capital) to the underdeveloped ones (poor in capital, this being the reason for high rates of return on capital). As the country is developing („mature debtor"), the current account deficit is decreasing, as well as

4 In his later papers, he expanded the classification into six stages of development, including the category adult debtor, i.e. creditor, placed between "young" and "mature".

the inflow of foreign capital (at least relatively), until the moment when the country is developed enough to become a creditor itself recording a positive trade balance in relation to less developed countries (the stages of „young“ and „mature“ creditor).

Yet, this theory, besides the undisputable attractive features, has plenty of deficiencies. The basic one is that it has been formed into a model on the basis of the historical experience of only one country (USA). To be even more specific, there is no guarantee that all the countries will go through all the mentioned stages of development at equal pace, or even go through them at all. The book *Why Nations Fail: the origins of power, prosperity and poverty* (Acemoglu-Robinson, 2012) suggests that some countries, due to the extractiveness of their political and economic institutions (as compared to the inclusiveness of those in the developed countries) have stayed for centuries in relative underdevelopment. This is contrary to the US experience which, according to the findings of Paul Samuelson and William Nordhaus (Samuelson-Nordhaus: 2009: 603) was in the stage of „young debtor” for around 90 years (roughly 1775-1865), in the stage of “mature debtor“ for around 40 years (1873-1914), in the creditor stage since 1914. The problem is that the USA since the end of the 1980s, has entered the stage of „mature debtor“ (Samuelson-Nordhaus, 2009: 603) again, and has stayed there, with slight variations, to date (Salvatore, 2016).

Some countries, such as South Korea, went through all the mentioned stages in the period of only several decades, which is much faster than suggested by this theory (Chang, 2016: 17).

However, despite all the empirical counterevidence, there are few of those who dare to declare the theory on the balance of payments evolutions scheme “dead”. Actually, most economists accept it as a certain log-term rule (such as PPP theory or HOS theory), which in most cases is empirically confirmed in long term.
We now arrive at the essential question. If countries “naturally” move from underdevelopment to development and from the current account deficit to surplus, does it make sense to implement active economic policies or is it sufficient “not to hinder development”? We arrive at the issue of macromanagement as a skill of managing the economy of a country, with the objective of improving its economic parameters. Kindleberger’s theory implicitly suggests the acceptance of passive economic policies focused on the creation of market economy and free international trade, while the passing of time should do the rest.

This is the position which we also accept, although aware of numerous exceptions, and some of them we have already mentioned.

However, this discussion is moved to another field (compared to the 1950s when Kindleberger presented his theory), due to a dramatic development of the concepts of “development” and “competition”. To be developed and/or competitive today denotes quite complex multidimensional concepts.

Therefore, the question arises whether it is justified to use the coverage of imports by exports as the basic indicator of the development level. Our answer is that generally

it is not. However, if you accept, during the consideration, also liberalized economic relations with foreign countries (free trade but also the possibility of borrowing in foreign countries, and the possibility of free investment of capital in the country) as an additional requirement, then such measurement of the development level gains additional objectivity. Also, from the perspective of developing countries recording permanent trade deficits for decades, such measurement of the development level makes sense equally as the use of revenue per capita as the most frequently used development level indicator.

Therefore, the purpose of this work is by placing an emphasis on this less frequently used development level indicator (the coverage of imports by exports) to reply to the question whether the countries formed after the dissolution of the SFRY are developing in accordance with the assumptions of Kindleberger's theory (development and decrease of trade deficit) or not, which has implications on the assessment of the adequacy of the implemented economic policies, which have been mainly, but not fully, based on the principles of "Washington consensus" and the transformation of economic and legal systems according to the requirements of EU integrations.

Our hypothesis is: *The countries of South East Europe have made a big step towards economic development over the last twenty years.*

Our hypothesis, as simple as it can seem, is actually quite unpopular, and some would say it does not reflect reality. This is the additional reason to question it.

1. Literature overview

Although we could expect a number of papers on the subject of connection of the level of development of a country with its balance of payments situation, our research has not confirmed such expectations. Actually, our research of literature on this subject has shown that the highest number of such "basic" economic research is in the books and well known school books, while there are only few papers on this subject. So, the first author who was occupied with this issue was Boggs and his book from 1922 *The International Trade Balance in Theory and Practice*. We should mention that Boggs did not present the theory of the balance of payments evolution but he was the first one who connected the issue of capital flows with the move of the country from the group of developing countries to the group of developed countries. Another author who was occupied with this issue was Wagemann in the book published in Berlin in 1931 entitled Struktur *und Rhythmus der Weltwirtschaft*.

However, the appearance of the balance of payments evolution scheme waited for Kindleberger. We have not managed to identify the first work where Kindleberger mentioned this theory. However, it is quite certain that Kindleberger presented a developed theory in the school book International Economics from 1968. Kindleberger clearly identified and made a distinction among the six stages of development of the country, connecting them to the foreign debt balance, i.e. capital flows. These observations were additionally developed by Kindleberger in 1981 in the book entitled *Debt Situation of the Developing Countries in Historical Perspective 1800-1945.*

We should also mention Samuelson and Nordhaus and their school book *Economics*. The first edition of this school book appeared in 1948, and it quite certainly did not include the balance of payments evolution scheme. Yet, the eighteenth edition did include this scheme without mentioning the sources. So, Samuelson and Nordhaus (2005:603) spoke of the four development stages: the newly appeared state – a developing debtor, a developed country -debtor, a new creditor country and a developed creditor country.

Among the more recent editions referring to the issue of the balance of payments evolution, we should also mentioned the book of the group of authors Gundlach, E., Scheide, J., and Sin, S. from 1990 entitled: *Die Ent wicklung nationaler Auslandsvermogenspositionen*, and a book by a well-known contemporary economist Williama R. Cline from 2005 entitled *The United States as Debtor Nations*.

Among the recent editions, the balance of payments evolution is also treated in the book Global *Imbalances, Exchange Rates and Oil Exporting Countries*, by author Christian Oberpriller from 2008.

Unfortunately, besides occasional references to the concept of the balance of payments evolution in books and school books, there are not many works in the databases of the institutions which you would think would be interested in this issue, such as the IMF, the BIS, and National Bureau for Economic Research of the USA.

Specifically, in the IMF database, which in September 2017 included more than 16,000 working papers, there were only 16 works including balance of payments in their titles, none of them occupied directly with the relation of development and balance of payments position, but focused mainly on “technical issues” such as the methodology of recoding various kinds of transactions in the balance of payments or current problems of some countries.

It is not possible to find papers on the research of the long-term relation between the development level and the balance of payments position on the website of the Bank for International Settlements, either. However, it is possible to find several papers regarding balance of payments and the needed adjustments with the group of developed countries and developing countries in the periods of several decades. So, for example, the work *Exchange Rate and Balance of Payment Adjustment – General Principles and Some Recent Experiences by* William A. Allen, examines the situation and methods of adjustments of balance of payments in the USA, Japan, West Germany, the United Kingdom, Italy and Canada, starting from the mid-1960s until 1979. On the other hand, the work *The Evolution of the External Debt and Balance of Payments of Eastern Europe and the USSR since 1970*, by Richard Allen, considers the balance of payment problems of the Eastern Bloc countries.

On the NBER website, we have found 19 papers regarding balance of payments, but only two papers *Japanese Structural Adjustment and the Balance of Payments*, by Jeffrey Sachs and Peter Boone, and paper *U.S. Foreign Trade and the Balance of Payments, 1800-1913*, by Robert E. Lipsey, at least partly commented upon the issues of change in trade patterns, development level and the related changes of capital flows. In the first mentioned work, Sachs and Boone argue for the decrease of trade surplus of Japan through directing domestic savings in spending. This is contrary to the assumption of Kindleberger that the economic development leads to an

increasing trade surplus and increasing deficit of capital flows. The period treated by Lipsey, on the other hand, corresponded with the period when the USA was a young and mature debtor, and this paper explains why agricultural products remained the country's predominating exporting product long time after the USA was industrialized.

Besides providing a survey of literature directly concerned with the balance of payments evolution scheme, we would like to comment briefly on the literature measuring the development level. There is quite a lot of such literature and we would not be able to state all the sources, even if we devoted our paper only to this issue. However, the purpose of stating such literature is to point out the relation between the balance of payment evolution scheme (more precisely the classification of countries according to the level of development in that scheme) and the country classification methodology according to the level of development used by the UN, the IMF and the IBRD, so we will refer only to one paper which treated this issue in a systemic way. This is the paper by Lynge Nielson *Classifications of Countries Based on Their Level of Development: How it is Done and How it Could be Done.* The paper was published in 2011 as the IMF working paper (WP/11/31).

In this paper, a background of the development of classification of countries according to their development level in the methodologies of the UN, IMF and IBRD is presented. It is evident in the paper that the primary indicator used by these institutions has always been the level of revenue per capita, where only the United Nations made the (expected) deviation from this economic category. So, the methodology of classification of the country development level applied by the United Nations arose from the *Human Development Report* (published for the first time in 1990) for the needs of which the *Human Development Index* was created. It is a composite index including three groups of indicators (gross national income presented as purchase power by means of PPP and denominated in $ as an income measure, the life expectancy and the average duration of education). According to such classification, all the countries have been divided into the following groups: 1. countries of low level, 2. medium level and 3. high level of human capital development. However, it is important for us that in the first edition of this report, the group of the countries with high level of development of human capital is also called industrial countries, while the other two groups are identified with the phrase "developing countries". This partly corresponds to Kindleberger's balance of payments evolution scheme, as Kindleberger identified the exit from the debtor group and entry into the creditor group with the country's industrialization.

The IBRD classification of the level of the country's development is connected to the *World Development Report* (published for the first time in 1978) for the needs of which the *World Development Indicators* was developed. This report firstly divided the countries into three groups: 1. developing countries, 2. industrialised countries and 3. capital-surplus oil-exporting countries. The basic indicator of the development level in this report was (and stayed) the gross national income per capita calculated as in the case of UN (with the use of PPP and converted into $).

The IMF classification of the country's development level is connected to the development of *International Financial Statistics* kept by the IMF since 1948. On the basis of such data, in 1964, the IMF classified the countries into the following categories: 1. industrial countries 2. other high-income countries and 3. less-developed countries. This classification was changed many times in later periods, particularly after the IMF

started publishing the *World Economic Outlook* in 1980. At that time, the countries were divided into two groups only: 1. industrial countries and 2. developing countries. Since 1997, the IMF renamed industrial countries into the advanced country group thus accepting the opinion on irreversibility of the deindustrialisation process. Besides that, in the period 1993-2004, the IMF introduced another category in use, those being the transition countries.

It is important to mention that in all these classifications, a distinction is made between industrialised countries and those being industrialised, which corresponds strongly with the balance of payments evolution scheme.

2. Empirical research

Our empirical research has been carried out on a sample of ten countries. Those ten countries include six countries formed after the dissolution of the SFRY (Slovenia, Croatia, BH, Serbia, Montenegro and Macedonia), and the four countries of the so-called Visegrad Group (Poland, the Czech Republic, Slovakia and Hungary).

The Visegrad Group countries in the last ten years have appeared as a homogeneous group of countries which used to belong to the "the Eastern Bloc" sharing the same values today and having become members of the European Union since the same moment in time (the 2007 enlargement). Those countries will be used as benchmark of whether the policies5 implemented by the countries formed after the dissolution of the SFRY (but with a certain time lag compared to the Visegrad Group countries), bring good results in respect of development, in the context of Kindleberger's view that the important development indicator is the transfer of the country's economy from a trade deficit situation into a trade surplus situation.

In order to obtain as objective conclusions as possible, the period of our observation is quite long, lasting for twenty years (1997-2016). Yet, we have in mind and we accept that Kindleberger's period of observation of the development process is much longer (lasting up to two centuries). However, Kindleberger's period of observation includes the development of the country from a pre-industrial (agrarian) society to a developed industrial society6, while a facilitating circumstance in our research was the fact that all the observed countries had already been through the industrialisation process so our question actually is whether the policies implemented over the recent twenty years helped them to move from the stage of mature debtor to the state of young creditor or at least to come close to it.

Beside answering the previous question, it is our intention to extrapolate trends for the countries which have not reached the lower point of development yet (the full coverage of imports by exports in the conditions of liberalized economic relations) in order to determine the moment in time when that will happen. We have used the World Bank database as a source of data7.

5 Liberalisation of trade systems and their integration in the EU is referred to.

6 In the moment when Kindleberger presented his thesis, deindustrialisation in the USA was at the very beginning and it was not included by his development stages.

7 https://data.worldbank.org/topic/trade

2.1. Coverage of imports by exports in the period 1997-2017

As we have pointed out, the first part of our empirical analysis is based on the collection, processing and analysis of data on the trend of the index of coverage of imports by exports in the Visegrad Group countries. These data are provided in Table 1:

Table 1. Coverage of imports by exports in the Visegrad Group countries 1997-2016

	Poland	Czech Republic	Slovakia	Hungary
1997	-3.8	-4.2	-9.4	1
1998	-4.7	-0.3	-10.6	-1,5
1999	-5.8	-0.4	-4.4	-2.7
2000	-6.3	-1.9	-2.6	-3.6
2001	-3.6	-1.3	-8	-1.2
2002	-3.4	-1.3	-7.2	-2
2003	-2.7	-1.2	-1.9	-3.9
2004	-2.7	0.8	-2.7	-3.9
2005	-1.1	2.4	-4.6	-2.3
2006	-2.1	2.7	-4	-1.1
2007	-3.5	2.5	-1.1	0.7
2008	-5	2.2	-2.8	0.4
2009	-0.9	3.9	-1.5	4.1
2010	-2	3.1	-1.5	5.3
2011	-2	3.8	-0.9	6.1
2012	-0.4	4.8	3.7	6.7
2013	1.9	5.8	4.2	7
2014	1.4	6.4	3.6	6.9
2015	3.1	6.1	2.4	8.9
2016	3.9	7.4	3.7	10.3

Source: World Bank Data, available at: https://data.worldbank.org/topic/trade, date of access 11 October 2017.

It is evident in the previous table that all the Visegard Group countries over the observed period moved from the stage of mature debtor into the state of young creditor although the dynamics was different. So, for example, Hungary recorded a trade surplus in the first year of observation (1997) and in the following ten years, it recorded a trade deficit (until 2006). From 2007 until the end of the observed period, there was a clear upward trend of the trade surplus of Hungary which actually became quite impressive (10.3% of Hungary's GDP). On the other hand, the Czech Republic is a country with the shortest period of trade deficit. It has started to record a trade surplus since 2004 and at the end of 2016, it reached the quite high level of 7.4% of GDP. On the other hand, the largest of the observed countries (Poland) recorded a trade deficit for the

longest time (for entire sixteen years i.e. from 1997 to 2013). Yet, Poland established its trade surplus over the last four years, which although slightly lower in relative sense, was still impressive taking into account the country size8.

Observing generally the experiences of the Visegrad Group countries, we can conclude that the "recipes" they used are clearly efficient and leading to development, if the assumption is accepted that higher coverage of imports by exports in conditions of a rather free trade is an indicator of development.

It is now time to consider the experiences of the countries formed after the dissolution of the SFRY in the same observed period (Table 2).

Table 2. Coverage of imports by exports in the countries formed after the dissolution of SFRY 1997-2016

	Slovenia	Croatia	Serbia	Macedonia	BH	Montenegro
1997	-1.1	-12.9	-14.2	-13.5	-45	-
1998	-1.7	-6.8	-9.2	-14.9	-71.1	-
1999	-4.3	-6.1	-6.7	-10	-66.5	-
2000	-3.7	-3	-4.5	-14.3	-46.8	-14.3
2001	-1	-3.5	-15.3	-13.1	-47.5	-23.6
2002	1	-7,9	-18.1	-18.9	-46.6	-24.5
2003	-0.3	-7.4	-17.6	-15.8	-52.9	-16.4
2004	-1.4	-6	-26.4	-19.5	-45.3	-16.1
2005	-0.6	-6.1	-20	-16.2	-40	-17.5
2006	0	-6.7	-20.3	-17	-28	-29.7
2007	-1.3	-7.3	-24.3	-17.9	-29.4	-42.3
2008	-1.9	-8	-25	-25,1	-32,5	-54,5
2009	1.9	-3.7	-15.9	-21.6	-23.7	-33.3
2010	1.4	-0.4	-15	-18.3	-21.6	-25.7
2011	1.8	-0.5	-15.4	-18.9	-23.8	-22
2012	4.2	0.5	-16.7	-21.5	-23.5	-24.2
2013	5.6	0.5	-10.7	-18.1	-20.4	-20.1
2014	7.5	2	-10.8	-17.2	-22.7	-19.8
2015	9.1	2.8	-9.8	-16.2	-19	-18.6
2016	9.6	3.2	-7.3	-14.6	-	-23.4

Source: World Bank Data, available at: https://data.worldbank.org/topic/trade, date of access 11 October 2017.

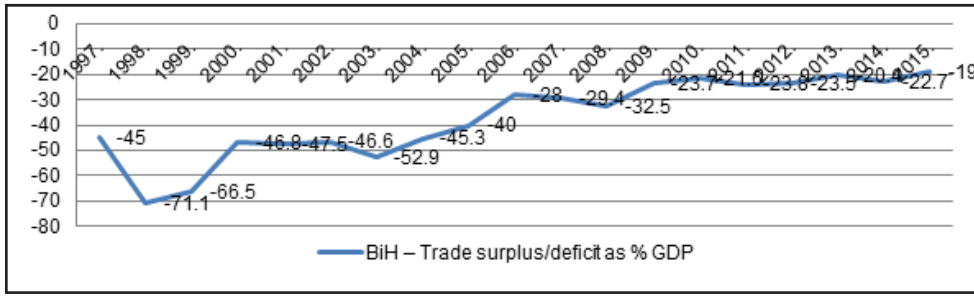
It is shown in the previous table that out of the six observed countries, two (Slovenia and Croatia) have actually gone through the transformation from countries recording

8 It is a generally accepted and empirically confirmed position that larger economies are naturally less open compared to small ones.

trade deficits into countries recording a surplus. The coincidence, if something like that can be mentioned in economics at all, is that these are the only two countries formed after the dissolution of the SFRY which became the EU members in the meantime. Both countries started recording a trade surplus only after joining the EU (Slovenia since 2009, Croatia since 2012). The other four countries (Macedonia, BH, Serbia and Montenegro) recorded only trade deficits throughout the entire observed period, although the deficit trend dynamics varied a lot among the countries.

Bosnia and Herzegovina recorded a permanent decrease tendency in its trade deficit (Graph 1), which at the beginning of the observed period was at the highest level of all the ten observed countries (1998, the incredible level of 71.1% of GDP in BH). Yet, such decrease was considerably slowed down over the last five years (2011-2016).

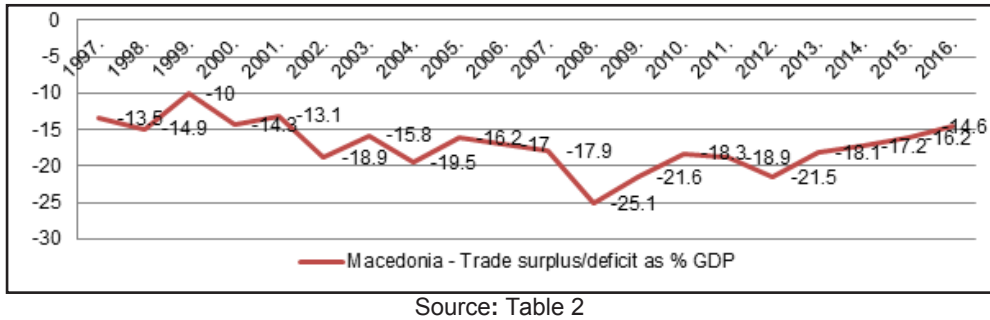
Graph 2. Trade surplus/deficit of BH as % of GDP



Source: Table 2

On the other hand, over the previous twenty years, Macedonia went through two periods which lasted almost equally. So, in the first observed period (1997-2008), the trade deficit of Macedonia permanently increased, while in the second period (2009-2016), the decreasing trend of the deficit was evident (Graph 2).

Graph 3. Trade surplus/ deficit of Macedonia as % of GDP

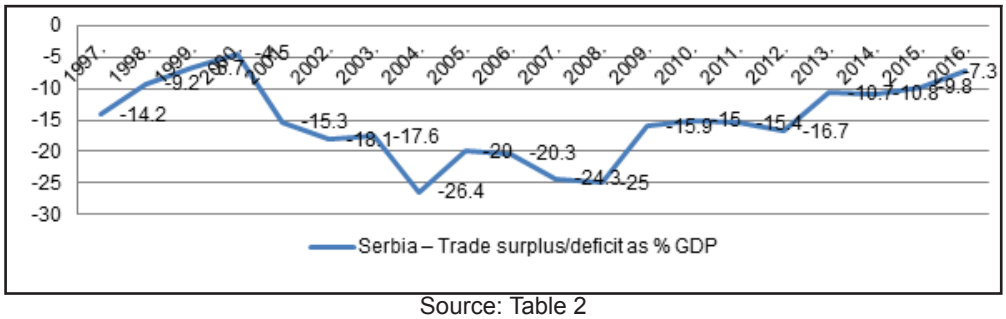


Source**:** Table 2

For the Republic of Serbia, we can say that it went through three different periods over the observed period. The first one, a very short one (1997-2000), was a period of the

decrease of trade deficit9. The second period (2001-2004) was a period of dramatic growth of trade deficit (from 6.7% to 26.4% of GDP), while the third period, which is not over yet, is a period of gradual but permanent decrease of trade deficit, which is significantly lower today than in any other country formed after the dissolution of the SFRY, which has not become a member of the EU.

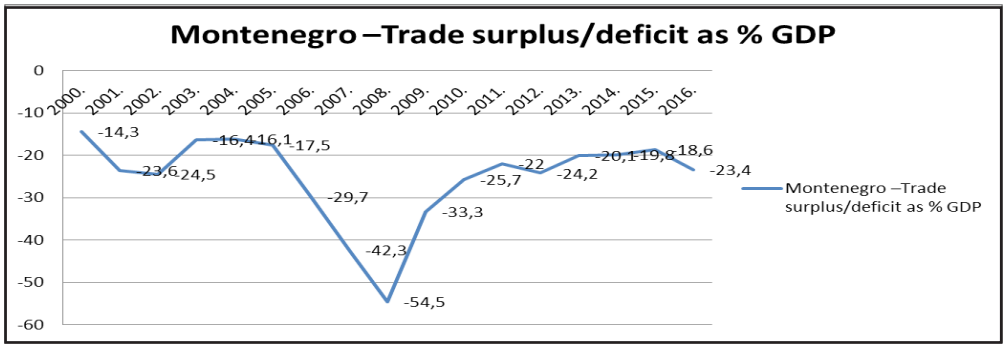
Graph 4. Trade surplus/deficit of Serbia as % of GDP



Source: Table 2

Montenegro is the most controversial case among the observed countries. The period of only seventeen years10 can be divided into even four sub-periods. So, the first period (2000-2005) is characterized by strong oscillations of trade deficit without a clear trend. The second period (2005-2008) was characterized by the enormous increase of trade deficit11, which in 2008 reached the incredible level of 54.5% of GDP of Montenegro. This was followed by a period of a fast decrease in the trade deficit (2008-2011), when the trade deficit was reduced by half in a relative sense, which was followed by the period of deficit stabilisation at the reached (and rather high) level, without a clear tendency of further decrease. Briefly, in the case of Montenegro, it is clear that the assumption that capital flows represent the other side (reverse side) of trade does not have to be correct and the opposite is possible as well (that capital flows are dominating in forming trade relations).

Graph 5. Trade surplus/deficit of Montenegro as % of GDP



Source: Table 2

9 Although liberalisation of economic relations of Serbia with foreign countries and market economy in general was questionable in that period.

10 There are no data before 2000 in the World Bank database.

11 Probably as a counter-balance to the enormous capital inflow from foreign countries in that period.

Observing the experiences of all the ten countries we can conclude that the EU integration represents the main engine of development, and that policies in line with that process are certain to give good long-term results.

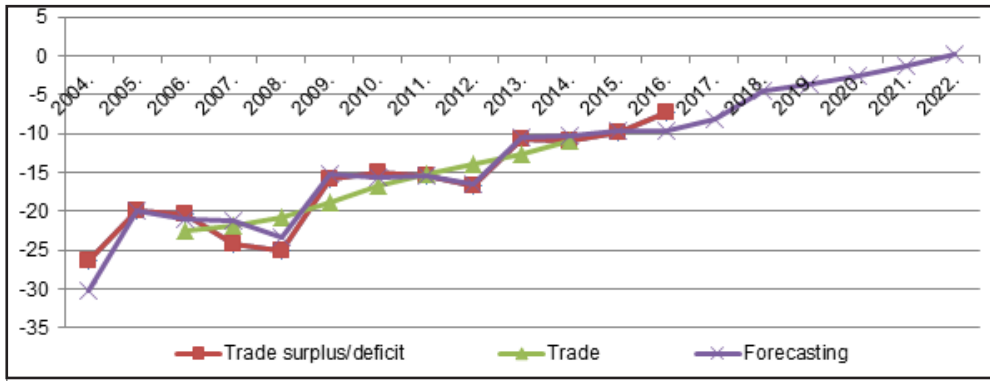
2.2. Trend extrapolation

We have carried out the extrapolation of the trend by using Microsoft Excel 2010. When calculating, we used the classic multiplication model for time series (Yt = Tt x St x It) with the application of the sum of the least squares method, and with the use of a simple linear regression. For each country, on the basis of the visual observation of trends, we firstly determined the point (the year) when the trend which lasts now has started, and after calculating the trends, we extrapolated them as long as necessary to reach the full coverage of imports by exports. For Montenegro, we have not carried out the trend extrapolation, as it is not possible to observe any trend from the graph, i.e. the trend curve is a straight line. For Macedonia, we have tried to calculate the trend, but we have not managed to do that, as the short time series (2008-2016), does not make it possible to calculate the seasonal trend component, if one cycle lasts for four years. Therefore, we finally extrapolated the trends of trade deficit for two countries only: BH and Serbia.

2.2.1 Serbia

The data for 2016 show that out of the four observed countries formed after the dissolution of the SFRY, which have not reached the full coverage of imports by exports, Serbia is closest to the situation of achieving it. Yet, the economic situation in Serbia is surprising over the recent years, at least if we assess it on the basis of this criterion, as it records a more positive development than envisaged by the trend. So, our trend calculation (Graph 4) suggests that, for example, in 2016, the trade deficit of Serbia should be 9.7% of GDP, while actually it is “only” 7.3%.

Graph 6. Trend and trend anticipation of the index of coverage of imports by exports of Serbia in the period 2004-2022



Source: our calculation

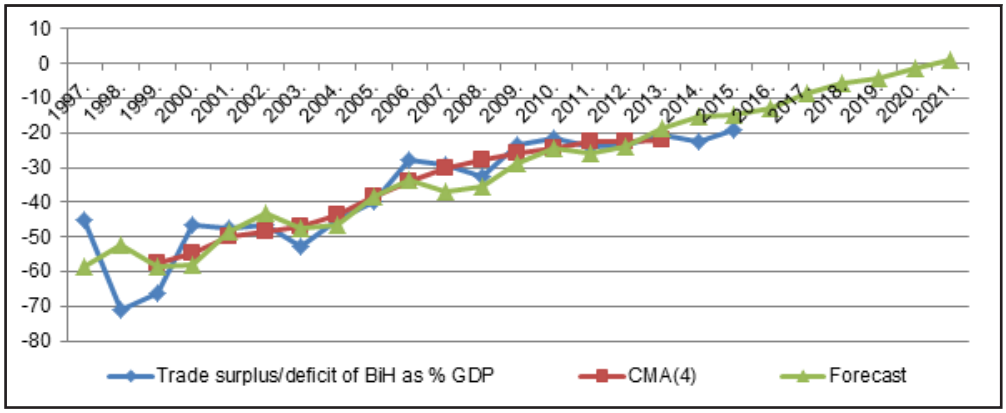
By extrapolating the trend, we have arrived at the forecast that Serbia should reach its

full coverage of imports by exports in 2022.

2.2.2 Bosnia and Herzegovina

By observing the trend of the coverage of imports by exports (Graph 1), it is evident that BH throughout the entire twenty-year long period12 has improved this indicator, with significant annual fluctuations. It suggests the existence of a certain trend, which we have calculated and which is presented in Graph 7.

Graph 7. Trend and trend forecast of the index of coverage of imports by exports of BH in the period 1997-2021



Source: our calculation

As shown in the previous graph, the trend of BH has a much larger positive inclination than in the case of Serbia, which results from a significantly higher improvement of the observed indicator (the trade deficit which in 1998 amounted to 71.1% of GDP decreased to 19% in 2016, which is an improvement by around 3.75 times). This results in the forecast that BH could reach its full coverage of imports by exports as early as in 2021, although its trade deficit is two and a half times higher (relatively) than the trade deficit of Serbia. The fact that over the recent several years BH recorded negative deviations of the actual indicators from the forecasts on the basis of the trend shows that such forecast is unrealistic (Graph 7).

Conclusion

Our research has undoubtedly confirmed the set assumption that all the ten countries observed over the previous twenty years made a large step in the direction of economic development, i.e. the creation of competitive economies which are self-sustainable in conditions of liberalised economic relations with foreign countries. However, our research has also shown that the success is unequal. So, all the countries from our benchmark group (Visegrad Group) achieved remarkable economic results and for years, or even decades, they recorded a trade surplus (coverage of imports by exports exceeding 1), while the situation in the countries formed after the dissolution of the SFRY is quite diverse. Specifically, Slovenia and Croatia went down the path from

12 In the World Bank database, there is no data for BH for 2016, so our final observation period is 1997-2015.

"mature debtor" countries to "young creditor" countries, while Serbia, BH, Macedonia and Montenegro are still in the group of underdeveloped countries as they have not managed to reach the full coverage of imports by exports even after twenty years of economic transformation. As all the six countries (Poland, the Czech Republic, Slovakia, Hungary, Slovenia and Croatia), which according to the used criterion moved to the group of developed countries, at the same time became EU members, the thesis has been empirically proved that the reforms required for the membership in the EU are useful for the country development although they are certainly connected with some social and economic costs and risks. Even in the remaining four countries (Serbia, BH, Macedonia, Montenegro) which have not reached what we defined as the minimum point of an acceptable level of development (the full coverage of imports by exports in the conditions of liberalised economic relations with foreign countries), there is a distinct pattern that the faster the progress in the EU integrations process, the better the economic performances. So, Serbia, which has made the largest step on the EU integration path in recent years, is also the country currently closest to the point of reaching the full coverage of imports by exports. Positive trends are also recorded with BH and Macedonia, but in these two countries, the several-year long stagnation in the EU integration process was reflected in the slow-down of positive trends, which is particularly the case in BH. As the European Union itself "has implemented" a liberal economic paradigm for decades and our research has shown that the success of the observed countries has depended on the degree of following such policies, we believe that the basic implicit recommendation of Kindleberger's balance of payment evolution scheme (on the need of conducting passive liberal economic policies which will not disturb development) has been proven.

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