

How is the sovereign debt crisis affecting Greece's relations with the Balkan countries and Greece's standing in the region?

An initial impact assessment

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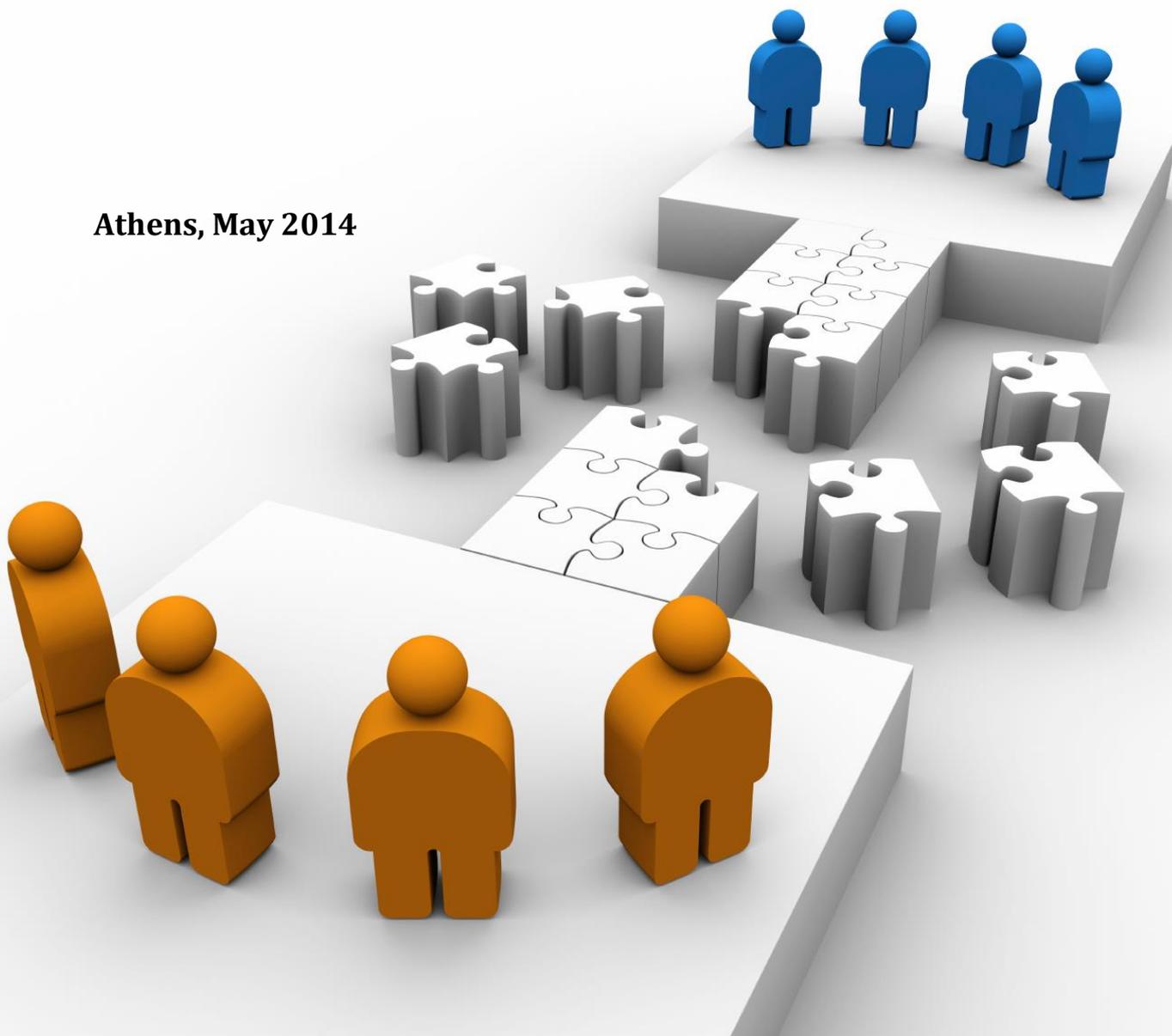


Table of Contents

ABOUT THE AUTHORS	4
ABOUT THE SOUTH-EAST EUROPE PROGRAMME	5
ACKNOWLEDGMENTS	6
PREFACE	7
EXECUTIVE SUMMARY	8
RECOMMENDATIONS FOR GREEK POLICY MAKERS	14
AN INITIAL IMPACT ASSESSMENT	16
INTRODUCTION TO RESEARCH	16
PART I: GREEK PRESENCE IN THE BALKANS: THE DIPLOMATIC/ POLITICAL DIMENSION	18
Introduction	18
I.1. The historical background	19
I.1.a 1989-1995: a period of misguided decisions	22
I.1.b 1995-2008: An active Greek presence in the Balkans	28
I.1.c Greek Foreign Policy in the Balkans since 2008: Greece under financial siege.	34
I.2. Qualitative Research: The findings	38
I.2.a Rate of Bilateral Agreements, Protocols and Memoranda between Greece and the Balkans	39
I.2.b Survey Results	42
Some conclusions on the survey	53
PART II. GREECE'S ECONOMIC RELATIONS WITH THE BALKAN COUNTRIES	55
Introduction	55
II. 1. The Hellenic Plan for Economic Reconstruction of the Balkans (HiPERB)	56
Public investments/ large projects	60
Private productive investments	62
Small Projects Fund	63
Some conclusions	64
II.2. Trade Relations between Greece and its Balkan Neighbours: Evolution and composition of trade	66
Some conclusions regarding trade between Greece and Balkan countries	96

II.3. Greek Investment in the Balkan Countries	98
Some conclusions regarding Greek investment in the Balkans	116
PART III. OVERALL CONCLUSIONS	118
The New Environment - The Impact of the Crisis on Greece's relations with the Balkan Countries and Greece's role in the region	118
Impact on Trade:	118
Impact on FDI:	119
Impact on the Balkan countries' Banking Sector:	120
Impact on Migration and Remittances:	120
Impact on the economies of the region:	121
Impact on Greece's stature in the region: redefining the role of "Ambassador"	122
APPENDIX 1 : RATE OF BILATERAL AGREEMENTS, PROTOCOLS AND MEMORANDA BETWEEN GREECE AND THE BALKANS	126
APPENDIX 2: ONLINE SURVEY	130
BIBLIOGRAPHY	133

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Preface

ELIAMEP's South-East Europe Programme has implemented this very ambitious study with the support of Eurobank. Fuelled by Greece's extreme economic melt-down, this study's intention is to bring into the limelight the possible repercussions of this unique situation on the country's standing in the region. The first step was to map Greece's previous status in the region in political/diplomatic and economic terms. This was achieved by conducting interviews and running an online survey that was addressed to policy makers across the region, in order to collect comparable responses between the pre-crisis period and the period during the crisis. At a second level we attempted to explore the developments in economic relations between Greece and the other Balkan states, focussing especially on issues of trade and investment, in order to compare past trends with those of the current period.

The present report presents the findings of an extensive research based on the above mentioned steps. The results of the online survey are presented in a specific section of the report, while the second part is completely devoted to Greece's economic relations with the Balkan countries, to the evolution and composition of trade and the Greek investments in the region.

How is the sovereign debt crisis affecting Greece's relations with the Balkan countries and Greece's standing the region? An initial impact assessment.

Executive Summary

- ELIAMEP's South-East Europe Programme, acknowledging the multiple negative side effects of the Greek sovereign debt crisis, has turned its attention to the impact of this crisis on foreign policy. This is a theme that is rarely addressed in public discourse in Greece these days, mainly due to the preoccupation with the domestic political, social and economic agenda. The present report attempts to provide an initial impact assessment of the crisis on the position and role of Greece in South-East Europe, a region of crucial importance for Athens.
- **Part I** of the report examines the political dimension of Greece's relations with the Balkan countries, and analyzes how these relations have been affected by the Greek economic crisis. The report presents the trajectory of **political relations between Greece and the countries of the region** in the last two decades, and the impact that the recent crisis has had on these. It also presents the findings of a **survey among opinion makers in the Balkan countries** on the issue of the position and role of Greece in the region.
- **Between 1989-1995**, a period characterized by tremendous change and the effects of the collapse of Yugoslavia, Greece had the opportunity to make a positive contribution to regional developments. Instead, Greece was torn between a policy of collaboration and a policy of competition in a largely unknown and unpredictable environment with two mistakes being committed, namely the support to Milosevic's Serbia and the entanglement in the name issue.
- **Between 1995-2004**, Greece had a **noteworthy and positive political and diplomatic presence** in the region. At the bilateral level, Greece significantly improved relations with Albania and normalised relations with FYROM. Also, despite strong links with Serbia, Greece decided to engage in the crucial developments in the region by supporting to an extent its Allies on the Kosovo war, thus regaining the Alliance's trust.
- Greece also contributed greatly to Western efforts to stabilize the region and integrate neighbouring states into NATO and the European Union. The apex of this policy was the **Thessaloniki summit during the Greek EU Presidency**, which put the Western Balkans squarely on the path towards future EU enlargement.

- Between 2005-2008, Greece's foreign policy made a shift towards past notions and misconceptions, as a result of which the Macedonian problem started once more to dominate foreign policy agenda.
- Since the start of the crisis, Greece's Balkan policy can be characterized as a mixed picture. Greece continues to support the Western Balkan countries' accession to the EU and NATO, albeit being less diplomatically active than in the past. It has also promoted its aim to become a regional energy hub through the successful bid for the Trans-Adriatic Pipeline, a project that will connect Turkey, Greece, Albania and Italy.
- However, relations with FYROM have deteriorated, with Skopje's failure to enter NATO in 2008, the International Court of Justice ruling on the issue, and the Greek concerns over the increasing nationalistic trends in the neighbouring country. Also, two key initiatives (no direct link between sea borders and energy) have recently stalled and their future progress remains in question: the Burgas-Alexandroupolis pipeline and the delimitation of sea borders with Albania.
- During the same period, bilateral diplomatic activity has been largely in decline. The report presents quantitative data from formal agreements with all Balkan countries. With only one exception - Bulgaria - Greece's bilateral agreements and initiatives have radically decreased in number. In particular, from 2000 to 2007, the average rate of agreements of all kinds was 21,125 per annum (total of 169 agreements) whereas in the period 2008- 2013 the average rate dropped to 9.66 per annum (total of 58 agreements). If Bulgaria is excluded the drop is even more dramatic.
- An important related dimension of the crisis, which some analysts view as one of the key causes of the rolling back of Greece's diplomatic activity, is the weakened capacity in the Greek Ministry of Foreign Affairs (MFA). Since the start of the crisis, the MFA has recorded a decline in the numbers of both diplomatic personnel and general staff, as well as available financial resources.
- The report also presents the findings of a survey, designed to elicit the views of Balkan opinion makers on Greece's political presence and activity in the region. The survey confirmed some of the assumptions of this report and also some of the ideas that are prevalent in Greek public discourse. At the same time, however, the survey challenged some other perceptions that Greeks have held concerning the country's presence in the Balkans.
- More specifically, the survey revealed that Greece's image in the Balkans during the period of diplomatic activism 2000-2008 was not as attractive as it was considered in Greece. Almost 1/3 (31.33%) of the participants gave neutral replies, while 44 of them (53.01%) gave a positive response.
- The survey demonstrates that Greece's diplomatic activity in support of the Balkan EU accession was not understood or genuinely appreciated in the region. When asked to evaluate whether Greece had a leading role in the Europeanization of the Balkans the largest part of the sample (40.00%) remained neutral. In addition, the overall

number of those who viewed Greece's role as negative was much higher than those who saw this role as positive.

- When evaluating whether Greece was a leading country in the Europeanization of the region almost half of the respondents (45.78%) opted for a middle position by choosing to place themselves at the centre of the scale.
- For the period 2000-2008 the perception was that Greek diplomacy was moderately active. This, again, goes against the dominant views in Greece concerning the country's diplomatic activism in the region in the pre-crisis period. As expected, the respondents confirmed that since the crisis started, diplomatic activism further decreased.
- The survey confirms that the Greek crisis has had extensive, and typically negative for Greece, coverage in the Balkan media. The vast majority of the opinion makers surveyed believe that Greece's image in the region has been seriously harmed by the economic crisis.
- On the issue of the 2014 Greek EU Presidency, responses were quite mixed. Many respondents seemed optimistic about the possibility of Greece promoting once more the Western Balkan agenda in the EU. Other respondents argued that Greece would rather use the EU presidency to forward its own interests in the region. Finally, a good part of the respondents pointed out the limitations that Greece would be confronted with if it tried to put the Western Balkans back on the EU agenda, due to the problematic economic situation in Europe.
- **Part II** of the report examines the economic dimension of Greece's relations with the Balkan countries, and analyzes how these relations have been affected by the ongoing Greek sovereign debt crisis. The report focuses on three broad categories: Greek foreign aid, bilateral trade relations, and Greek investment in the region.
- The **Hellenic Plan for Economic Reconstruction of the Balkans (HiPERB)**, with a budget of €550 million for the period 2003-2007, renewed until 2011, was the main instrument of Hellenic aid in the region. It aimed at providing funding for the creation or maintenance/repair of infrastructure in the Balkan area, facilitating Greek direct investment in those countries as well as enhancing Greece's presence and role in the region.
- It is estimated that only about 10-15% of the HiPERB funds have actually been absorbed. In 2013 it was decided that any project approved by the HiPERB committee that was not yet started, would be cancelled.
- While some success has been achieved in the area of private investment projects, the large public investment projects have been characterised by a limited absorption of funds and significant delays in their implementation.
- The assessment shows that the HiPERB did not come close to attaining the goals and expectations it created, while its accomplishments as a tool of economic foreign policy and foreign influence are questionable.

- In **bilateral trade relations**, over the past two decades Greece developed a very dynamic and mutually beneficial trade relationship with most Balkan countries. Greece is a particularly important trade partner for Albania, Bulgaria, FYROM and Montenegro, accounting for around 12 percent of these countries' total trade in 2008.
- Greece's trade balance with the Balkan countries since the mid-1990s has been consistently positive. Despite the ebbs and flows of overall economic cycles in the region, the overall trend has been one of growth and expansion, which led to a significant Greek trade presence in the region until 2008.
- The economic crisis in Greece has had an extremely negative impact on Greece's trade relations with its Balkan neighbours, evidenced by the sharp contraction in total transactions in the first years of the crisis. The positive terms of trade for Greece were also reversed, as Greece's trade surplus contracted significantly between 2008 and 2010.
- After 2010 some level of stabilisation was achieved, and by 2012 one could even speak of a small recovery being underway in trade relations between Greece and Balkan states. The levels of total trade for 2012 are very close to the €6.44 billion recorded for 2008.
- A country-by-country analysis shows that in 2012 total trade flows between Greece and Bosnia-Herzegovina, Bulgaria, FYROM and Kosovo surpassed the levels of 2008, trade flows with Montenegro and Serbia are extremely close to pre-crisis levels, while trade levels with Albania, Croatia and Romania remain significantly lower than 2008.
- After contracting by 14.8% between 2008 and 2010, total Greek imports from the region grew by 7.2% over the next two years, increasing from €2.15 billion to €2.31 billion.
- Crucially, after decreasing by 22.6% between 2008 and 2010, total Greek exports to the region grew by 29.1% over the next two years, from €3.05 billion to €3.94 billion, thus surpassing (albeit marginally) the level of 2008. Specifically, in 2012 Greek exports to Bosnia, Bulgaria, FYROM, Kosovo and Serbia had surpassed the levels for 2008, while Greek exports to Albania, Croatia, and Romania remained well below 2008 levels and to Montenegro slightly below 2008 levels.
- Driven by this dynamic expansion of exports, Greece's trade surplus also grew dynamically after 2010, from €899.5 million to €1.6 billion in 2012, therefore exceeding the level of 2008 (€1.4 billion) and signaling a significant rebound in Greece's export presence in the region.
- The growth of Greek exports towards the Balkan countries may be attributed to a great extent to the tremendous decline in demand on the domestic market, which pushed Greek producers to reorient their production and refocus on external markets, especially the neighbouring Balkan region. Although the crisis in the real economy in Greece is far from over, there is evidence of a fragile export-driven recovery in the trade sector that could become a catalyst for further economic revitalization both in Greece and the greater region.

- The past fifteen to twenty years have witnessed a dynamic expansion of **Greek investment activity** in the Balkan region. Since the late 1990s, Greece has emerged as a top investor in the region, ranking first in Albania and FYROM, and among the first three leading investors in Bulgaria and Serbia. Close to 4,000 Greek companies established operations in the region, primarily in trade, services, finance and manufacturing.
- In the financial sector, seven major Greek banks established a network of around 20 subsidiaries in the region, with around 1,900 branches and employing approximately 23,500 people. By 2008, Greek banks controlled around 30 percent of total banking assets in Bulgaria and FYROM, 25 percent in Albania, 15 percent in Serbia and 17 percent in Romania. Their assets in the region were worth some €70 billion.
- Greek FDI flows to the region peaked at €787.8 million in 2006, while FDI stock in 2010 was €8.07 billion. By 2009 Greece's outward FDI stock in the Balkans accounted for 26.5% of Greece's outward FDI stock worldwide.
- After almost two decades of strong growth and a dynamic presence of Greek investors throughout the Balkan region, Greek investment declined sharply at the onset of the economic crisis in Greece. Specifically, Greek investment flows towards the Balkan countries fell from €383.4 million in 2009 to €119.8 million in 2010 (i.e. a 68.7% decline). The downward trend accelerated the following year, with FDI flows falling to €-263.6 million in 2011.
- Overall, between 2009 and 2012 Greek investment flows to the Balkan region contracted by 165.6%. After expanding rapidly since 2001 and peaking in 2007 (thus growing from €1.7 billion to €7.6 billion) Greek FDI stock closed at €8.0 billion in 2011.
- A country-by-country analysis indicates that the only exception to this strong decline is FYROM, where Greek FDI has been on an upward trend since 2010. Albania, Bulgaria and Romania were particularly affected by the contraction of FDI flows, with decreases of 85%, 102% and 375% respectively for the period 2009-2012.
- After two consecutive years of sharp decline, 2012 marked a slight reversal in the downward trend. Specifically, Albania, Bulgaria, Serbia-Montenegro and FYROM all experienced a small upturn in Greek investment inflows in 2012; in fact, from the entire region, only Greek FDI in Romania continued to contract. If we were to exclude Romania, we can plausibly speak of a very tentative, slow upturn of Greek investment compared to the period 2009-2011. This evidence of a recovery – albeit marginal – may signal a renewed interest and capacity of Greek companies to invest in the region.
- The report points out other negative repercussions of the crisis, such as a strong trend of disinvestment in the banking sector. Widening spreads on Greek sovereign debt led to increased funding costs for Greek banks after 2009; faced with such a liquidity squeeze, Greek banks started withdrawing their funds from their operations in the Balkans. Greek banking sector claims declined by 25 percent in Romania and Bulgaria, and by 18 percent in Serbia in the two years to December 2011. This

liquidity retreat has disrupted the financial sectors in the region, but has also had a negative impact on the local economies, given that all of these countries have bank-based financial systems where much of the borrowing activity is made through banks rather than equities or corporate bonds.

- Due to Greece's dynamic economic involvement in the region, and the subsequent high interdependence between Greece and the Balkan countries, the crisis may lead to deterioration in key economic indicators of these countries, including GDP growth, unemployment, external debt and current account balances and an increase in corruption and organised crime.
- The impact of the economic crisis on Greece's relations with the Balkan countries comprises may prove far greater than the sum of its parts. The repercussions of the Greek crisis when coupled with the Balkan countries' declining economic performance, their stalling of political and economic reforms, and subsequent social unrest could also have adverse effects on the stability of the region as a whole, including the accession prospects of the Western Balkan countries.
- On the plus side, Greece is at a crucial and positive turning point: a primary surplus and forecasts for a marginal growth of the economy for 2014 are nascent and fragile signs of recovery. Whether this fragile recovery will spill over into Greece's troubled economic and political relations with the Balkan countries any time soon, remains to be seen.

Recommendations for Greek Policy Makers

Continued commitment to EU enlargement to the Western Balkans

Greece, as a member of NATO, EU and the Eurozone, still possesses the necessary tools for a dynamic foreign policy in the Balkans, albeit not as essential as in the past, given that membership of NATO and the EU has grown significantly. In times of euroscepticism and enlargement fatigue Greece should go against the trend and once more vigorously and convincingly advocate that the place of the Western Balkans is in the EU and NATO. In this context:

- Greece should confidently follow its long-standing strategic choice of supporting the Western Balkan states towards their EU orientation and to develop multiple relations with all Balkan countries. This should fully include also Kosovo, which has not yet been recognized by Greece.
- Greece should continue to support Serbia in its efforts to come closer to the EU. The fact that Serbia's accession negotiations started during the Greek 2014 presidency is important for Greece's image as advocate of enlargement.
- Relations with Albania remain at an overall positive level. The recent change in government is an opportunity for the development of new dynamics at the bilateral level starting with the resolution of open issues such as the agreement on the maritime borders and the continental shelf. Greece has to build on this new momentum.
- At the same time, Greece should become a stronger advocate of Tirana's EU accession path and work against stereotypes and misconceptions against Albania within the EU.
- Concerning FYROM, Greece should stick to a principled approach and strongly emphasise its commitment to FYROM's accession once the name issue is resolved. Greece should also support all measures that ensure the EU's continued engagement with the country, irrespective of the objections to opening accession negotiations.

Strengthening the energy diplomacy dimension of Greece's foreign policy

One way through which Greece is attempting to reinstate its past status is by promoting its role as an energy hub of the region. Despite the setback in the Burgas-Alexandroupolis pipeline, Greece has a lot to offer in the energy diplomacy front. In this context:

- Despite serious delays, Greece should strive to promote the Greek-Bulgarian-Interconnector (IGB). Especially given that the construction of the Serbo-Bulgarian pipeline is well under way, the construction of the IGB will have important added value for Greece's role as an energy hub in the Balkan region.

Building multiple bridges with Balkan neighbours and upgrading the role of public diplomacy

This report has demonstrated that even during the years of economic affluence and political activism there was a serious discrepancy between Greece's diplomatic activity in the Balkans and the perceptions of opinion makers and public opinion in Balkan countries. Simply put, Greece's public diplomacy has failed to effectively communicate its Balkan policies and its contribution to the region's stabilization and Europeanisation efforts. The crisis offers an opportunity for a re-assessment of policies and for working on building stronger and multiple ties with the Balkan neighbours. In this context:

- Greek economic diplomacy should once more be given a priority in our dealings with our Balkan neighbours. In times of diminished state capacity the economic linkages will contribute to Greece's reconnection with the region. A new wave of extraversion of Greek businessmen could give a boost to the renaissance of the Greek economic presence in the region. Incentives should be given by the Greek state to those businessmen willing to do so. Besides, these last 4-5 years present a good momentum for the establishment and promotion of the Greek presence in region as a transit centre. The investment of the Chinese company COSCO in the Piraeus Port and the connection of the port with the national railway network can become a great opportunity for the enhancement of trade links between Greece and its neighbours.
- Greek public diplomacy needs to be strengthened by using new tools such as the building of ties in education and research. Funding for the development of links among universities, research centres and civil society organizations should be made available. To this end, sources of funding coming from European structural funds should be identified and utilized in a more efficient way. New ties beyond the official public diplomacy structures should be encouraged and when those exist they should be strengthened.
- While little progress is expected in the name dispute with FYROM, this dispute should be not allowed to undermine further societal relations between the two countries. The dispute should not be allowed to further taint the public attitudes that each society has for the other. Greece should work hard to improve its image in FYROM's society and to strengthen societal relations between the two countries. In this context, all political and economic support possible should be provided to civil society actors (NGOs, universities, think tanks et.al.) in order to build bridges with Greece's northern neighbour.

How is the sovereign debt crisis affecting Greece's relations with the Balkan countries and Greece's standing in the region?

An initial impact assessment

Introduction to Research

The collapse of the centrally planned economies in the Balkans and the subsequent regime change in the early 1990s offered a new opportunity for Greece to step forward and claim a crucial role in the region's political and economic developments. As the only country in the region that was a consolidated democracy, a developed market economy, as well as a member of both the EU and NATO, Greece was uniquely placed to successfully take over this role. The next two decades were to produce both successes and failures in Greece's political/diplomatic relations with its Balkan neighbours.

On the political-diplomatic front, Greece has been quite active diplomatically and politically in the region since the mid 1990s. It participated in almost all the developments playing the role of a regional leader, promoting stability and supporting the EU integration of its Balkan neighbours. Yet, this role has been challenged during the last 5-6 years.

On the economic front Greece successfully established a strong and active presence in the region in the post-Cold War period; it thus emerged as a leading trade and investment partner for most Balkan countries, and a host country for thousands of migrant workers. Spurred on by a combination of favourable factors - including geographical proximity, a significant knowledge of regional and country-specific idiosyncrasies, as well as an understanding of historical developments and familiarity with cultural particularities - Greece became an important and active partner for the Balkan countries, and a point of reference for the region's economic development.

The implosion of the sovereign debt crisis in Greece has shaken the foundations of Greece's relations with its Balkan neighbours. The deterioration of the domestic economic environment has had a deep and resonating impact not only on the Greek economy *per se*, but on practically all dimensions of Greece's relations with the countries of the region. The repercussions are evident on several interlinked levels, transcending economic, political and social dimensions, and potentially affecting the stability of the entire region. The crisis has

created new dynamics, has shifted previous balances and ultimately has ushered in a new phase of relations between Greece and its Balkan neighbours.

In this context, the aim of this report is to analyse the impact of the debt crisis on Greece's relations with the Balkans countries and on Greece's standing in the region. It will do so by exploring the evolution of these relations on two levels - political/diplomatic and economic – and assessing how these relations have been affected by the ongoing crisis.

Part I of the report will focus on the political dimension of Greece's relations with the Balkan countries, and how these relations have been affected by the economic crisis. Greece's Balkan policy during the post-Cold War era can be divided into three periods. The first one had as a starting point the end of the Cold War and the beginning of the disintegration of the Yugoslav Federation. This was a period of unsuccessful handlings of some important and sensitive foreign policy issues on the part of Greek diplomacy. The second phase started with a change on Greece's position towards neighbouring countries with examples such as the Interim Agreement with FYROM, the stance over the Kosovo crisis, as well as the role that Greece played in the Ohrid Agreement, and culminated with the Thessaloniki EU summit during the Greek EU presidency in 2003. Finally, the third period has been dominated by the economic crisis in Greece, during which Greece's diplomatic activity appears curtailed.

Part II of this report will focus on the impact of the crisis on Greece's economic relations and its presence in the region. This second part will attempt to analyse the repercussions of the crisis by placing them within the overall context of Greece's economic relations with the Balkan countries. It will therefore explore the scope and evolution of Greece's economic presence in the region since the mid-1990s in several key areas: first, the official government policy regarding the region, whose main instrument was the Hellenic Plan for Economic Reconstruction of the Balkans; second, trade relations, focusing on the main trends and commodity structure of these transactions; and finally the nature and range of Greek investment in the region. For each section, the impact of the crisis will also be discussed.

Finally, having examined both the political and economic dimensions of Greece's relations with the Balkan countries over the past two decades, some conclusions will be drawn concerning the overall impact of the economic crisis on the broad scope of these relations, and on Greece's role and standing in the region.

Part I: Greek presence in the Balkans: The diplomatic/ political dimension

Introduction

This part of the report is divided into two sections. The first one will describe the evolution of Greek foreign policy in the Balkans since the early 1990s, taking the end of the ‘Cold War’ as a starting point. The second part will present the results of a survey conducted between July 26 and September 26, 2013; the purpose of this survey was to highlight the discussion of Greece’s past and present standing in the region through the perspective of various interdisciplinary Balkan experts (academics, policy makers, journalists, researchers).

For the purpose of the research and in order to ensure the necessary credibility of the findings, a mixed approach of social science research methods was used. Through the first section - which was mainly composed of a literature review - quantitative findings, responses obtained from a number of specific questions that were addressed to current and former diplomats and experts, were added.¹ This kind of interview gave us the latitude to ask further questions in response to what were seen as significant replies.² Later, we incorporated those responses in both sections.

The second section of the research was mainly based on the results collected from a survey that was launched for a period of two months, from 26 July to 26 September 2013. Using ELIAMEP’s contact list, the survey was sent to academics, researchers, policy makers and journalists, rather than diplomats and politicians. While it could be argued that the selection of this group may indeed be biased towards an “intellectual elite”, this focus provided the opportunity to collect responses from experts who not only have a good understanding of the subject, but are also free from constraints and are able to express their opinions openly - unlike official diplomats. , To help quantify our results, a scale of 1 to 5 was used, while a comment box was provided with every question in order to allow the respondents to further elaborate their thoughts and justify their choice. The data collection and analysis was useful in coming to some valuable conclusions, which will be touched upon later.

¹ The current and former diplomats and experts include Mr. A. Mallias (former Ambassador), Professor I. Valinakis (former deputy Minister of Foreign Affairs) and Professor C. Tsardanidis (Director of the Institute of International Economic Relations).

² K. Bryman, , *Social Research Methods*, New York: Oxford University Press, 2004, pp. 111-113.

1.1. The historical background

The historical evolution of Greek-Balkan relations has been characterised by many fluctuations, delicate situations, and much turbulence. It could be ‘metaphorically’ characterized as a cardiogram of a semi-healthy patient. The Balkan region has always been a theatre of remarkable instability that has been the backdrop of some of the most well-known incidents of the 20th century. Greece, as a part of this neighbourhood, has been actively involved in an attempt to shape the environment and to demonstrate its leadership, focusing on the stabilization of the region via EU accession. Over time, the situation in the region has become more stable, as some of the states have already become EU members, while others are taking great strides to be the next in line. Greece has been a constant supporter of the EU accession of the Balkans; yet its intentions, as well as its presence in the region, have not always been perceived in a positive way, both from the perspective of its Balkan neighbours and from the other EU members.

In practical terms, Greece’s role in the region has changed over time, given the different foreign policy priorities that each Greek administration has pursued. The fall of the junta’s seven-year-reign and the restoration of democracy in 1974, along with the adoption of a clear-cut western orientation were the trademarks of the Greek political elite throughout these years. Prime Minister Constantinos Karamanlis, who was invited to take over the leadership of the country - as the only personality who could unite Greeks and lead the country in this transitional period - set two priorities regarding foreign policy. First and foremost, Karamanlis acknowledged the central role Greece could play in the region if it acceded to the European Economic Community (later European Community - EC and European Union - EU), and second, he began constructing and enhancing the country’s relations with its Balkan neighbours in order to prevent Ankara from acquiring a stronger influence in the area.³ This course was confirmed with the accession to the European Economic Community (EEC) in 1981. Greece was the 10th member to join the structures of the EEC, thus becoming a member of an exclusive club that remained closed for the rest of its neighbours - until very recently. Membership in the European Communities has been almost universally accepted by the entire Greek political spectrum as the centrepiece of the country’s foreign policy (with the notable exception of the Greek Communist Party).⁴

The status of EU member has had a two-fold impact on the country’s strategic thinking, especially after the end of the Cold War. Instead of being an indisputable guarantor of stability in a very volatile and high-risk region (the collapse of the USSR has resulted in

³ A. Wallden, ‘Greece’s Balkan Policy. A Critical Assessment of the Post-war Period and Prospects’, in: Tsakonas, P.(ed), *Contemporary Greek Foreign Policy: A Collective Approach*, Athens: Sideris, 2003, p. 405 (in Greek)

⁴ Th. Coulombis, ‘Strategic Consensus in Greek Domestic and Foreign Policy since 1974’, in: Coufoudakis, V., Psomiades H. J., Gerolymatos, A. (eds.), *Greece and the New Balkans*, New York: Pella, 1999, p. 411.

massive destabilization in the entire Southeast European region), EU membership also served as a diplomatic lever for the Greek policymakers.

As far as relations with its Balkan neighbours are concerned, bilateral relations with Bulgaria, Romania and Yugoslavia showed steady improvement during the 1980s. Additionally, Greece took initiatives to promote multilateral Balkan cooperation.⁵ Yet, these attempts did not yield the expected outcomes: Greece remained quite wary of its neighbours, while Moscow and Ankara managed to halt cooperation in the region.⁶ The same scenario was repeated during the administration of Andreas Papandreu, which began in 1981. PASOK's government had initially promoted the perception that Greece would adopt Soviet ideals regarding the denuclearization of the Balkans, something that Bulgaria also supported. Nonetheless, Turkey's was successful in resisting Greece's efforts in the region.⁷

Furthermore, the strategic choice of looking westwards and being one of the first members of the EEC helped Greece avoid potentially dangerous trends that were increasingly evident during the 1980s throughout the former Yugoslav area, such as atavistic nationalism and irredentist tendencies. Greece became - or rather, had the credentials to become - the lighthouse of western democratic values in the region, an island of stability in an area where the fall of communism had resulted in continuous modifications in the *status quo*. This reality could have provided Greece with the opportunity to promote itself as a problem solver rather than a part of the Balkan problem. Greece's European profile has been used regularly by the Greek political elite to promote the country's status over its neighbours; Greece was presented as the leading country and the paradigm that other Balkan states should follow. The fact that Greece's economic progress was dynamic compared to the other Balkan economies, further promoted the view that Greece should play a leading role in the region.

The end of the Cold War was a watershed that influenced the perceptions of the Greek political elites regarding the security environment in the region. According to Fakiolas, "*a consensus indicating that Greece should adopt an assertive role in determining states' behaviour in the Balkan Peninsula - and primarily with reference to Albania, Bulgaria, FYROM and Romania - has been established*".⁸ This was, according to many, an extremely poor choice for the Greek policymakers: rather than promoting Greece as the only member of the European Union in the Balkans and therefore a possible interlocutor between the EU and the states in the region, they managed to create a rather vague picture of a state that was not only unreliable but also yet another source of instability in the region.

⁵ Wallden p. 411

⁶ Wallden, p. 406

⁷ Ibid

⁸ E. Fakiolas, 'Greece in the new Balkans: A neo-realist approach', *European Security*, 6.4, 1997, p.130.

According to Ioakimidis, Greece's post-Cold War foreign policy can be divided into two main periods: 1989-1995, and post-1995 (Ioakimidis, 1999: 169).⁹ But perhaps the period after 1995 can be further divided into 1995-2004 and 2005 to 2008 when the crisis has started leaving its footprint on the Greek foreign policy as well. The first period - the early post-communist phase - was characterized by tremendous changes in the Balkans, due to the domino effect resulting from the collapse of the former Yugoslavia. It was a period during which Greece had the opportunity to make a positive contribution to regional developments. The period after 1995 can also be separated into three sub-periods: the first was characterized by a significant Greek political and diplomatic presence in the region until 2004., Since then and until the beginning of the crisis, in 2008, Greek foreign policy made a shift towards past notions and misconceptions. The name issue returned at the centre of its foreign policy agenda leading to the NATO Summit in Bucharest in which FYROM's ambitions to join the alliance were turned down. The third one – still in progress – has been informed by the new developments and the limitations within which Greek Foreign policy has to be exercised, due to the current economic difficulties. Moreover, between 1995 and the beginning of the crisis, Greece's position towards Southeastern Europe shifted greatly. Initially Greece softened its position, and later on attempted to follow a more western-oriented policy towards the region. This was epitomized by Greece's choice to become a strong proponent of EU and NATO enlargement in the region.

Until 1995, a series of bad decisions by Greece caused great unrest in the international community. Some excerpts from well-established magazines like the Economist characterized the general consensus that “...*despite 13 years in the European Union and handouts worth \$6 billion a year, Greece still seems to belong more to the volatile Balkans than to Western Europe...*”.¹⁰ There were numerous examples supporting this criticism. While the Greek governments accurately perceived that the country had a unique opportunity to mold the strategic environment, which could then be used to promote and protect its national and security interests, they chose to pursue a different strategy, which eventually isolated the country.

At that time, Greece was far ahead of its neighbours in every sector. In terms of democratic stability the country enjoyed a society with very well established political institutions, a high level of protection of fundamental human rights and strong ethnic and social cohesion. Economically, compared to the other Balkan countries, Greece was a developed market economy with a per capita income of \$10,981 (1995), while in Albania per capita income was \$667, in Bulgaria \$1,476 and in Croatia \$3,770. Moreover, in terms of defence expenditures,

⁹ P.C. Ioakimidis, 'Greece, the European Union and Southeastern Europe: Past Failures and Future Prospects', in: Coufoudakis, V., Psomiades H. J., Gerolymatos, A. (eds.), *Greece and the New Balkans*, New York: Pella, 1999, p. 169.

¹⁰ "Elsewhere in the Balkans", *The Economist*, September 17, 1994, cited in: P.C. Ioakimidis, 'Greece, the European Union and Southeastern Europe: Past Failures and Future Prospects', in: Coufoudakis, V., Psomiades H. J., Gerolymatos, A. (eds.), *Greece and the New Balkans*, New York: Pella, 1999, p. 169

the budget of Greece was worth nearly double the total sum of all the Balkan states in 1994. Characteristically, according to the International Institute for Strategic Studies, in 1994 Greek military expenditure amounted to \$3.3 billion, compared to \$1 billion for Romania, \$586.4 million for Bulgaria, \$97.5 million for Albania and only \$30 million for FYROM.¹¹

Another great asset at the hands of the Greek political elites was the international institutional framework that Greece enjoyed at the time. The country had at its disposal an exceptional source of institutional power deriving from its membership in NATO and the EU. As Fakiolas put it, “...all other things being equal, Greek governments can skilfully borrow power capabilities and resources from these multinational institutions so as to safeguard and promote effectively the country’s interests”.¹² In fact, until 1995, Greece achieved the opposite, failing to take advantage of the opportunities provided by the developments during this period. Instead of contributing to regional stability and quickly terminating all the minor problems with its neighbours, as Dr. Armakolas argued, Greece “entered into squabbles with FYROM, over the use of name ‘Macedonia’, and Albania, over the rights of the Greek minority and the Albanian migration in Greece”.¹³

I.1.a 1989-1995: a period of misguided decisions

During the early post-Cold War period, Greece’s political choices proved to be an obstacle for the promotion of the structural and strategic advantages that the country enjoyed. Failing to liberate itself from its “historical burden”, Greece was slowly becoming a part of the complicated Balkan puzzle. The country’s credibility was now being questioned, resulting in the breakdown of political relations with other Balkan states.¹⁴

The fall of communism in the Balkans, the disintegration of Yugoslavia and the civil wars in Croatia and Bosnia took place during a period where Greece was also facing a kind of domestic political turbulence, including an economic scandal at the late 80s, social tensions and economic destabilisation concerning the convergence with the other member states.¹⁵ Under these circumstances, Greece failed to take the necessary action and initiative in order to respond to the new challenges. According to Valinakis, Greece’s choices were based upon

¹¹ IISS, *The Military Balance 1994-95*, London: Brassey’s for IISS 1994, pp.52, 79, 84, 95 and 98, cited in E. Fakiolas, ‘Greece in the new Balkans: A neo-realist approach’, *European Security*, 6.4, 1997,

¹² Fakiolas, p. 141.

¹³ I. Armakolas, ‘Greece’s SEE Policy’, in: Dokos, T. and Tsakiris, T. “A Strategic Challenge: The role of Greece in Europe’s Southern Gas Corridor Strategy’ ELIAMEP Working Paper no. 17, 02/2012, p. 11.

¹⁴ P. Tsakonas, (ed), *Contemporary Greek Foreign Policy: A Collective Approach*, Athens: Sideris, 2003, p. 20 (in Greek)

¹⁵ S. Serbos, ‘Greece and Western Balkans’, in: Valinakis, I. (ed.), *Greece’s Foreign and European Policy*, Athens: Sideris, 2010, pp. 89-124 (in Greek).

oversimplified estimations and false forecasts, resulting to the loss of critical political and diplomatic capital.¹⁶

Greece made three crucial mistakes during this period: a) supporting Serbia - and particularly Slobodan Milosevic - in the early stages of the Yugoslav war, b) mishandling relations with FYROM, and c) adopting an uncompromising and counter-productive stance towards Albania.

The **first** strategic mistake was the adoption of a position of extreme partiality in favour of Serbia during the wars in Croatia and Bosnia. While Greece avoided blocking EU and NATO decisions, the general feeling was that Greece had a great sympathy for the Milosevic regime and the Bosnian-Serb extremists; this view was not unfounded. Whereas Greek-Serb friendship on a political level was more myth than a reality during the 90s, on the societal – “grassroots” - level, strong feelings of “brotherhood” had been constructed based on a common historical course and religion. These sentiments were used by the Milosevic regime in order to drive Greece to participate more actively in the developments in the region, even if that meant military action. According to Kodonis, a striking example was the Mitsotakis government’s decision to turn down Milosevic’s proposal for FYROM’s territorial dissolution, something that could have taken Greece to war.¹⁷

This close relationship between Greece and Serbia consequently deprived Greece of the opportunity to play an active role as a mediator in the conflict, since Croats and Muslims were not convinced of its true motives. However, two successful exceptions were the Greek involvement in the case of the release of Alija Izetbegovic, the Bosnian Muslim leader, from the Serbs during the spring of 1992, and the facilitation of the contacts between Serbs and Kosovar-Albanians later in the same year.¹⁸ Perhaps the most essential initiative of the Greek government from 1990 to 1993 was the mediatory role that Greece attempted to play in May 1993 regarding the war in Bosnia. The initiative was carried out by Foreign Minister Papakonstantinou: the outcome was very impressive, with Radovan Karadzic - leader of the Bosnian-Serbs - signing the Vouliagmeni Peace plan based on the Vance-Owen initiative, after strong pressure by Prime Minister Mitsotakis and Slobodan Milosevic. Despite the fact that Pale’s parliament (Bosnian Serb Assembly) rejected the plan, Mitsotakis demonstrated strong willingness to engage Greece actively in the solution of a crucial conflict.¹⁹

The **second** crucial problem during this period was the handling of the name dispute with FYROM, which resulted in Greece isolating itself internationally. Since September 1991, the

¹⁶ I. Valinakis, *With Vision and Programme: Foreign Policy for a Confident Greece*, Thessaloniki: Paratiritis, 1997, pp. 163-168 (in Greek).

¹⁷ C. Kodonis, ‘Greece-Yugoslavia Relations in the Post-Cold War Environment. Traditional Alliances, New Realistic Prospects’, in: Tsakonas, P. (ed), *Contemporary Greek Foreign Policy: A Collective Approach*, Athens: Sideris, 2003, pp. 505-506 (in Greek)

¹⁸ Kodonis, p. 502.

¹⁹ Ibid, p.503.

name issue has been a top priority on the Greek foreign policy agenda, as well as other areas of government. Internal pressures and historical reflexes led the country's leadership to react promptly when the newly formed state declared its intention to name itself "Macedonia". Greece perceived this as an action concealing expansionist aspirations, which were included in the preamble of FYROM's constitution. Within this context, the Greek government stood behind a non-negotiable position, as became evident in April 1992, when the Council of the Political Leaders decided to refuse the recognition of a name that would include any reference to the term "Macedonia".²⁰ Mr. Samaras' address at the EC Foreign Ministers' meeting in Lisbon on 17 February 1992 summed up the government's position when he argued that "if Skopje is given the right not only to usurp but, as an independent state, to monopolize the [Macedonian] name it will unleash old quarrels and new conflicts in the whole region on a wide scale".²¹ The Greek stance remained unmoved, and in April 1992 the Mitsotakis government rejected the "Pinheiro package", a set of measures proposed by the EU during the Portugal presidency, which advanced the name "New Macedonia". In May 1993, the Vance-Owen UN plan - which recommended a name in Slavic language, "Nova Makedonija" - was also rejected.²²

During the period 1991-1995, Greece attempted gradually to raise the issue from the bilateral to the international level, activating every possible means (apart from the use of military force) so as to demonstrate its power to Skopje. Using mostly economic sanctions, Greece targeted the fragile economy of the newly established state. Beginning unofficially in 1992 and officially in 1994-95, the Greek embargo caused extensive damage to its new neighbour. Simultaneously, by means of its structural and comparative advantage as a member of the EU, Greece managed to halt the international recognition of the new state, which eventually entered the UN in 1993 with its provisional name as Former Yugoslav Republic of Macedonia.²³

Throughout this period, Greece isolated itself internationally. The reasons for such a negative development have been very thoroughly analysed by Nicolaidis. According to Nicolaidis, Greece's isolation occurred mainly for three reasons: first, in terms of rhetoric, Greece failed to convey a clear and effective message to the rest of the world concerning its attitude and policies towards FYROM. Attempts to bolster the cause through reference to antiquity - something that was used quite often by the Greek officials, especially with historical

²⁰ Serbos, pp. 89-124.

²¹ A.Tziampiris, *Greece, European Political Cooperation and the Macedonian Question*, London: Ashgate, 2000, p. 227.

²² E. Kofos, 'The Unresolved Difference over the Name: A Greek perspective', in: Kofos, E., Vlasidis, V. (eds.), *Athens-Skopje: An Uneasy Symbiosis, 1995-2002*, Athens: Papazisis, 2003, p. 130.

²³ ".....Noting however that a difference has arisen over the name of the State, which needs to be resolved in the interest of the maintenance of peaceful and good-neighbourly relations in the region.....Recommends to the General Assembly that the State whose application is contained in document S/25147 be admitted to membership in the United Nations, this State being provisionally referred to for all purposes within the United Nations as "the former Yugoslav Republic of Macedonia" pending settlement of the difference that has arisen over the name of the State..."

references to Alexander the Great - caused more harm than good, since it was perceived by outsiders as a weakness on behalf of the advocate to find persuasive arguments for the cause in modern history.²⁴

Stemming from this, the second cause related to the threat presented by Greek politicians. According to Nicolaidis, the message promoted by Greece not only treated history in an ineffective way but also underlined the wrong threat. The Greek argument was that FYROM represented a security threat due to the rhetoric and strength of irredentist activists *and their ability to permeate the government*.²⁵ An indicative incident took place in January 1993: the then Greek Foreign Minister, M. Papakonstantinou submitted a memorandum to the UN, in which he opposed FYROM's admission to the UN under the name of the "Republic of Macedonia" and with a flag bearing the symbol of the Vergina Sun. His argument was based on the grounds that the appendices of maps and published texts - showing FYROM's alleged territorial aspirations against Greece – posed security threats to Greece. According to MFA Papakonstantinou, within this context the name "*in itself conveys expansionist visions, both over the land and the patrimony of Macedonia through the centuries*".²⁶

Yet, given the vast differences in the capacities of the two countries, the validity of such an argument came into question. It was difficult to make a convincing case that such a weak, underdeveloped country, with only 10 percent of Greece's GNP, which also faced severe internal ethnic divisions, could actually pose a threat to the strongest and most developed state in the region. Undoubtedly, the Greek approach could not be understood by its western allies. Instead of raising such incomprehensible concerns to their partners, Greek policymakers should have emphasized that their neighbour's unilateral insistence on the name "Macedonia" and on exploiting other Macedonian symbols were a threat to a *principle* (of good neighbourliness) - rather than to *security* - which in a later stage could undermine stability in the region.

Finally, according to Nicolaidis, the third reason was that the message Greek authorities were trying to communicate was expressed mainly on the basis of rights, and not on behalf of interests, as it should. This resulted in the creation of counterclaims based on opposing rights. This vicious circle led to the increase of public nationalism in Greece, since it was very difficult to convince Greeks to accept compromise over "rights", as they had been constructed. This led to massive rallies in Thessaloniki and Athens and a dead-end that led to ever more tension.

²⁴ C. Nicolaidis, 'Greeks and the Macedonian Question: Lessons for a Better Future', in: Pfaltzgraff, R., Keridis, D., *Security in Southeastern Europe and the U.S.-Greek Relationship*, Virginia: Brassey's Inc, 1997, p. 76.

²⁵ Ibid, p. 79.

²⁶ I. Valinakis, S. Dalis,(eds), *The Skopje Question: Official Documents 1990–1996*, Athens: ELIAMEP, 1996, pp. 129-137

The **third** mishandled aspect of Greek foreign policy during these years was bilateral relations with Albania. Neighbouring Albania was facing extensive economic setbacks, leading to massive migration flows mainly to Greece and Italy. Relations between the two neighbouring states deteriorated significantly when Albania turned against the Greek minority with hostile actions.²⁷ In the spring of 1993 the Greek Archimandrite, Chrysostomos, was expelled from Albania under the accusation of supporting anti-Albanian activities. Tirana accused him of preaching “Enosis” – union with Greece. This led to wide scale attacks on Greek-owned property in southern Albania.²⁸ The situation deteriorated when the Greek government, in an attempt to contain the massive waves of immigration, started large-scale deportations of Albanians. This policy accentuated anti-Greek feelings in Albania, thus burdening Greece’s foreign policy with yet another conflict.²⁹

Other aspects of competition between Greece and its neighbours also emerged during this period. For example, in 1993, two competitive energy projects were proposed in the region, one involving Greece, the Burgas-Alexandroupolis pipeline, and the other without Greek participation the AMBO pipeline (Albania, FYROM and Bulgaria).³⁰

In summary, the first years following the collapse of the USSR and the end of the Cold War were unfruitful for Greek foreign policy. Greece missed an important opportunity to establish itself as the representative of West in the region. According to Special Envoy Matthew Nimetz, there were specific actions that Greece should have taken to promote its structural advantage. Initially, Greek foreign policy should have maintained a strong Western orientation (allied with the EU on economic, institutional and political policies and with NATO on security) by upholding a vision of policy based on western values (human rights, democratic institutions and a market economy).³¹ Secondly, as Nimetz wrote, *Greece’s foreign policy must be guided by a long-term strategy that guards against reactive shifts in emphasis from a perceived crisis with one neighbour to another perceived crisis with a second*. At the same time, Greece should have taken on the task of promoting intra-Balkan cooperation, under the doctrine of “better communication equals fewer security threats”. However, not only did Greece fail to do so, but in fact the Greek response to the developments in former Yugoslavia confirmed that Greek policymakers were mostly driven by sentimental, rather than logical judgments. The same can also be said of Greek policy toward Skopje and Albania as well. Greek policymakers repeatedly made the wrong choices and often paid for their actions on occasions where Greek aspirations were blocked. A striking example was the Dutch reaction to Greece’s blockade on FYROM and the Greek campaign to stop the diplomatic and international recognition of the newly created state. The

²⁷ Valinakis, pp. 172-175.

²⁸ M. Vickers, ‘The Greek Minority in Albania – Current Tensions’, *Defence Academy of the United Kingdom* 10/02, p. 3.

²⁹ Serbos, pp. 89-124.

³⁰ Personal interview with former Ambassador Alexandros Mallias

³¹ M. Nimetz, ‘Greece and its Neighbors to the North: Post-War Challenges’, in: Pfaltzgraff, R., Keridis, D., *Security in Southeastern Europe and the U.S.-Greek Relationship*, Virginia: Brassey’s Inc, 1997, p. 65.

Dutch parliament hindered Greece's accession to the Western European Union (WEU) for a considerable period of time. Greece's broader failure, during that period, was that it did not manage to take advantage of the great opportunity provided by the domino collapse of the totalitarian regimes, in order to push the EU to forge a global, complete and multilateral policy toward the Balkan region. According to Ioakimidis, *had Greece done so, several problems that followed in the region might have been averted.*³²

Greek governments showed clear signs of immaturity throughout this period, which lasted until 1995; after 1995 a major shift was accomplished, as Greece tried to make up for lost time and re-define its role in the Balkans. The deepening isolation eventually persuaded Greece to come to terms with reality. In October 1995, an "Interim Agreement" was signed between Greece and FYROM, which settled all issues affecting relations between them, except the name dispute, which was left for later consideration. It appears that the two countries were looking for the appropriate political conditions and timing to announce a final compromise on the name issue, thus finally normalizing bilateral relations.³³

Undoubtedly, there were some positive Greek diplomatic initiatives and efforts during this period, which unfortunately remained unnoticed. Such examples include the extroversion of Greek businessmen, who started expanding their activities and establishing their presence in Balkan capitals. Starting in 1992, a progressive team of entrepreneurs initiated a series of visits in the Balkans.³⁴ At the same time, the Greek banking sector started exploring opportunities, expanding into the Bulgarian and Romanian markets. Simultaneously, Greece indirectly supported the economies of the Balkan countries with the opening of its borders to almost half a million economic refugee and illegal migrant workers, who then began sending remittances back to their homelands. These issues will be discussed in detail in the second section of this report.

Thus, Greece was gradually able to move away from the counter-productive policies described above, and began actively to support and reinforce the Balkan countries' endeavours (with an emphasis on Bulgaria and Romania) to join the EU. In addition, cooperation gradually increased with Bulgaria and Albania for the use of EU programme funds, which were targeted at financing joint projects in fields such as transportation, telecommunication, electric power generation and environmental protection. These initiatives confirmed that Greece had started to acknowledge its unique and inherent structural advantages in relation to the other Balkan countries, which derived from the distribution of

³² Ioakimidis, p. 174.

³³ Ibid, p.173.

³⁴ During a personal interview, Former Ambassador Mallias called it the "team of Thessaloniki"; he also referred specifically to some of the team members such as Mr. N. Mylonas from Alumil, Mr. I. Boutaris, Mr. Efthimiadis from Redestos Group, Mr. A. Michailides from Tobacco company, all of whom were prominent members of the Federation of Industries of Northern Greece

military, economic and diplomatic power; this became increasingly obvious over the following years.³⁵

I.1.b 1995-2008: An active Greek presence in the Balkans

As was discussed above, Greece's choices had a very high cost. Instead of becoming a pole of stability in the region during the post-Cold war era, Greece found itself marginalized. Fortunately, Athens decided to break with the strategy it had hitherto pursued toward the region, by commencing organized initiatives designed to repair damaged bilateral relations with Albania and Bulgaria; at the same time, wider schemes aimed at reinforcing interregional and multilateral collaboration were endorsed. The signing of the Interim Agreement with FYROM in September 1995, coupled with the Bosnian settlement of November 1995 following the Dayton accords, allowed for the continuing establishment of multilateral diplomacy in the Balkans, with Greece being placed in a prominent position. A positive sign also was the improvement of relations with Albania, as illustrated by the visit of the Greek Foreign Minister, Karolos Papoulias, to Albania in February 27-28, 1995. According to the Council of Europe, the release of the "Omonia" supporters following the judgment of the Cassation Court and the action undertaken by the Greek authorities against the extremist MAVI organization (The Northern Epirus Liberation Front) in Greece were positive catalysts in bolstering the relations between the two governments.³⁶

Thus, Greek Balkan policy started undergoing a step by step transformation. The new approach embraced the promotion of cooperation and the abandonment of conflict. A key point for the new approach was the understanding that the Balkans, especially the Southern flank, had the potential to be an outlet for Greek entrepreneurship's external activities. As mentioned above, since 1992 the Greek business sector had been showing signs of extroversion towards the Balkan region. Yet, the tense political situations - such as the international embargo against Yugoslavia and the Greek embargo against FYROM - together with the unstable situation and the devastating wars, all restrained the full realization of this potential. As will be presented in the second part of this report, the Greek investment and trade presence in the region expanded impressively from 1995 onwards.

Another contribution towards the region's progress was Greece's effort to become a donor country by providing essential bilateral economic assistance towards the countries in the area. Initially, this help was not so significant, but - as will be presented in the second part of this report - the Hellenic Plan for the Economic Reconstruction of the Balkans that was launched in 2002 made this commitment more concrete. It is also worth mentioning that Greek

³⁵ Fakiolas, pp. 141-142.

³⁶ Council of Europe, 5 April 1995, p. 3, available at: <https://wcd.coe.int/com.instranet.InstraServlet?command=com.instranet.CmdBlobGet&InstranetImage=644380&SecMode=1&DocId=880554&Usage=2>

businesses have been actively engaged in the European and international assistance for the region through community programmes like the PHARE (Poland and Hungary: Assistance for Restructuring their Economies), the ISPA (Structural Pre-Accession Instrument), the SAPARD (Special Accession Programme for Agriculture and Rural Development), and the CARDS (Community Assistance for Reconstruction, Development and Stabilisation), or through loans granted from the EBRD (European Bank for Reconstruction and Development).

A crucial development also took place on the domestic administrative level. Somewhere between 1994 and 1995, within the administrative structures of the Greek Ministry of Foreign Affairs, Ambassador Dimitris Platis institutionalized “economic diplomacy”; this was further promoted in 2002 with the official establishment of the General Secretariat of International Economic Relations and Development Cooperation, amid protests by the Ministry of National Economy. This move clearly demonstrated that Greece had correctly evaluated the impact of the activities of the Greek business sector in the Balkans.³⁷

Under the Kostas Simitis administration (1996-2004), Greece defined the new Balkan policy through the doctrine of contributing to peace-building in the region “within today’s established borders and constitutional realities”, by using its “capacity as a member of the EU, NATO, the Council of Europe, the Western European Union and the Organization for Security and Cooperation in Europe, as well as its excellent relations with its Balkan neighbours”.³⁸ On an economic level, the government of PASOK had set four priorities aimed at improving the prospects for economic growth in the region: “*investing in value-adding activities; fostering human resources; creating a stable macroeconomic environment; and integrating the region with the European Union by creating the energy, transport, and telecommunications infrastructure of the trans-European networks*”.³⁹

The new Greek policy towards the Southeast European region can be summarized by two basic strategic objectives: first, the promotion of regional cooperation as a means of fostering stability and prosperity in the wider area of SEE, and second, the gradual integration of SEE into a new Euro-Atlantic architecture, primarily the EU and NATO.

Greece thus managed to disengage from the three major unproductive political choices of the previous period. During the period 1996-1999, Athens still cultivated close relations with the Milosevic regime. Yet, despite the strong reluctance of the public opinion, the Greek government decided to engage in the Kosovo crisis. Though Greece did not take part in the military campaigns, the Greek government gave its consent to NATO’s military intervention against Yugoslavia. With the initiation of the military operations, Greece kept its ports and

³⁷ Mallias (Interview)

³⁸ C. Simitis, ‘Greece in the Emerging System of International Relations’, *Review of International Affairs*, XLVII, 1996, pp. 1046-47, 3-7.

³⁹ D. Triantafyllou, ‘Recent Developments in Greece’s Balkan Diplomacy Networks’, in: Coufoudakis, V., Psomiades H. J., Gerolymatos, A. (eds.), *Greece and the New Balkans*, New York: Pella, 1999, p.148.

fuel lines open and a Greek destroyer was at NATO's disposal on the Adriatic patrol.⁴⁰ Greece also participated vigorously in the peacekeeping operation after the war by participating to KFOR.

Greece followed a wise political choice by honouring its Alliance obligations in the EU-NATO context, while avoiding direct engagement in a war that was not only against the country's long-term interests but also lacked the support of the UN's Security Council (Simitis, 2005: 150).⁴¹ Besides, it was clear that Greek society was against any military action and intervention. Overall, George Papandreou - Foreign Minister from 1999 till 2003 - developed a strong momentum via consecutive visits, initiatives and meetings for the termination of the hostilities and the promotion of a political solution with the engagement of the UN. At the same time, Greece - along with Russia, Austria and Switzerland - coordinated the attempt for immediate humanitarian aid.⁴² Correctly evaluating the developments in Serbia, Greece started building relations with the democratic opposition, contributing to the smooth completion of the 2000 presidential elections and the peaceful departure of Slobodan Milosevic.⁴³ This more balanced position also contributed to improvements in bilateral relations with Bosnia.

The name dispute that isolated Greece from its Balkan neighbours the previous period - and also led to the decrease of the country's credibility *vis-à-vis* its European partners - was the other front that Greek policy makers had to deal with. The Interim Agreement of September 1995 was the launching point for further improvement of relations between the two countries, and the opportunity to improve Greece's image in the eyes of the EU. Although the agreement did not include the name issue itself, it regulated a series of bilateral topics on the basis of mutual compromises. The Interim Agreement led to the lifting of the embargo and the progressive normalisation of bilateral relations. Greece came to realise that FYROM's territorial integrity served its own interests by working as a buffer state and protecting Greece from other possible destabilizing factors and conflicts. On the Kosovo issue, there was a convergence of positions between Greece and FYROM, with both states agreeing to the maintenance of the territorial *status quo*, as they considered any possibility of independence through violent border change a factor that could trigger chain reactions threatening regional stability.⁴⁴ In the economic sphere, the opening of driving passages across their borders helped the improvement of trade relations.

⁴⁰ I. Armakolas & A. Karabairis, 'Greece-Kosovo: A Complex Relationship', in: *Kosovo Calling: International Conference to Launch Position Papers on Kosovo's Relation with EU and Regional Non-recognizing Countries*, Kosovo Foundation for Open Society & British Council, pp. 98-99.

⁴¹ C. Simitis, *Policy for a Creative Greece, 1996-2004*, Athens: Polis, 2005, (in Greek), p. 150.

⁴² C. Tsardanidis and A. Huliaras, "The Rise and Fall of the Greek Plan for the Economic Reconstruction of the Balkans", in: Huliaras A., Tzifakis, N. (eds), *International Development Assistance in the Balkans: The Contradictions of Generosity*, Athens: Papazisis, 2007, (in Greek), p. 180.

⁴³ D. Keridis, 'The Foreign Policy of Modernisation: From the Juxtaposition in the Interdependence', in: Tsakonas, P. (ed.), *Contemporary Greek Foreign Policy: A Collective Approach*, Athens: Sideris, 2003 (in Greek), p. 314.

⁴⁴ Tziampiris, p. 479.

Greece's stabilising role and responsible position during the ethnic crisis in FYROM between Slavs and Albanians in 2001 was also a successful moment for Greek Balkan diplomacy. According to Serbos, Greece supported FYROM's territorial integrity during the negotiations that led to the signing of the Ohrid Agreement, and also its participation later on in the attempt to achieve peace under the aegis of NATO.⁴⁵ This evident change in Greece's stance towards FYROM marked the initiation of its crucial dual role in the region, both as a pole of stability for the Balkan states and a promoter of Europeanization in the region. It was at this time that Greece started utilizing and exploiting the EU as a critical factor of stabilization, which could also contribute to the resolution of the "thorny" name issue.

FYROM signed a Stabilization and Association Agreement with the EU in 2001, and the Greek parliament ratified it two years later. In 2004, Skopje submitted an application for accession to the EU, and the European Council granted it candidate status in 2005. In the meantime, the Simitis administration was replaced by the government of Kostas Karamanlis in 2004. Yet, the strategic choice of Greece to exploit the EU's enlargement policy as an apparatus of its own foreign policy remained unchanged. Even though the international environment did not seem favourable for Greece - given the numerous recognitions of FYROM's constitutional name (Republic of Macedonia) - Greek diplomacy managed to incorporate regional cooperation and good neighbourly relations as an essential element for FYROM's EU course (See Progress Report 2006 of the EU Commission for FYROM at the sector of political criteria – paragraph 2.3 regarding regional issues and international obligations).⁴⁶ Greece would not be persuaded to approve FYROM's membership to the EU before the name issue was resolved. Indeed, while FYROM had already asked for the commencement of entry negotiations with the EU in 2006, in December 2009 the EU's Council of General Affairs turned down the Commission's recommendation. The Council had taken the Greek position into account, and reiterated that good neighbourliness - including the finding of a mutually accepted solution in the name issue - remained essential. In the meantime, the Karamanlis administration had slightly shifted the Greek position on the name issue. Greece abandoned the earlier stance on exclusive use of the term "Macedonia".

Meanwhile, the government of Nea Dimokratia, practically moved towards a twin approach, maintaining separate diplomatic tracks at the UN and the EU. Greece enhanced its negotiating capacity through the EU decisions regarding the continuation of good neighbourly relations, and thus the UN special mediator was compelled to take them into consideration. The same policy was followed by Greece concerning negotiations with NATO as well. In 2008, during the NATO summit, and without Greece technically expressing its right to a veto, the Greek position led the Alliance to requiring the closure of the issue final solution on the name issue before allowing FYROM to become a NATO member. This was, according to Mallias, the

⁴⁵ Serbos, pp. 89-124.

⁴⁶ http://ec.europa.eu/enlargement/pdf/key_documents/2006/nov/fyrom_sec_1387_en.pdf

“swansong,” of more than a decade of Greek leadership in the region. The impact and cost for Greece were huge, and to some extent it was reminiscent of the early 1990s.

Greece’s role in promoting multilateral diplomacy was also decisive. It was one of the major proponents of the meeting of the Southeast European Foreign Affairs ministers held in Sofia in 1996.⁴⁷ In June of the following year, the follow-up meeting was held in Thessaloniki. According to Triantafyllou, the Thessaloniki conference brought “high politics” back to the agenda, shifting the focus on issues relating to stability, security, and good-neighbourly relations, development of multilateral regional economic cooperation, and acceleration of the development of infrastructure in the domains of transport, energy and telecommunications.⁴⁸ For some, the Thessaloniki meeting had a symbolic meaning, since it fostered cooperation of the highest level and was followed by the first summit of the Heads of State and governments of Southeastern Europe, held in Crete on 2-4 October 1997. There, the Heads of State of Greece, Bulgaria, FYROM, Albania, Romania, Yugoslavia and Turkey attempted to institutionalize these meetings by establishing a permanent secretariat to boost multilateralism in the region. According to former Prime Minister, Kostas Simitis, Greece’s contribution was instrumental for the establishment of the South East European Cooperation Process – (SEECF). It was the first time after 50 years that the leaders of Albania and Serbia were seated at the same discussion table.⁴⁹ Since the Thessaloniki Summit in 2003, six high level meetings were held in different cities of the region, which improved the political climate and promoted communication between former enemies. It is also important to share the personal experience of one of the initiators of the plan for the Greek Presidency. As Ambassador Mallias has argued, the plan took a year of preparation, and Greece - despite some reactions - had managed for the first time ever to introduce the terms “accession process” and “Balkan integration” in an official EU text. Moreover, according to Ambassador Mallias, Thessaloniki 2003 was the outcome of a series of earlier initiatives and efforts that were brought to fruition. For many years, between March and April many international summits took place in the city, with the initiative of the Federation of Industries of Northern Greece, which were attended by Heads of State, Ministers and EU officials.⁵⁰

Greece’s activities were not limited to these initiatives. Greece also played a key role in other multilateral initiatives, such as the Black Sea Economic Cooperation Group (BSEC), the Southeast European Cooperative Initiative (SECI) and the European Union’s Royaumont Initiative for Good Neighbourly Relations and Stability in Southeastern Europe, in order to endorse economic integration in the region.

⁴⁷ Ünal Çeviköz, ‘European Integration and Regional Cooperation in Southeast Europe’, *Journal of International Affairs*, vol II(4), December 1997-February 1998, p. 3, available at: <http://sam.gov.tr/wp-content/uploads/2012/02/UnalCevikoz.pdf>

⁴⁸ Triantafyllou, p. 157.

⁴⁹ Simitis, p. 155.

⁵⁰ Mallias, personal interview

Relations with Albania were characterized by a marked improvement as well. Despite the well-known problems concerning illegal immigration, the enduring mistrust concerning minority issues, and the Greek concerns over the evolving Albanian-Turkish friendship, Greece supported Albania's path to European accession since the late 1990s. Moreover, Greece implemented a programme of bilateral development assistance during the Pyramid crisis in 1997, thus assisting Albania's social cohesion and unity.⁵¹ At the same time, thousands of Albanians who arrived in Greece had been economically supporting their homeland's economy with their remittances, thus enhancing the interdependence between the two neighbours. At the same time, the Greek state moved towards the adoption of key measures for the legalization and inclusion of many Albanians living in Greece. However, even though Albania chose to prioritise EU accession, problems with Greece did not completely disappear. As many scholars have argued, issues relating to Albanian nationalism - such as the Cham issue - that were supported by specific domestic political forces and media, remained unresolved.⁵²

In the meantime, Greece's relations with its other neighbours - such as Bulgaria and Romania - were continuously improving in almost every area. Relations with Romania improved through a series of agreements that were signed in 1995, which included the settling of issues relating to political refugees' social security rights. Greece signed a set of seven agreements with Bulgaria in 1995, including the issue with the Nestos river management. Since 1995, the three countries decided to put into practice trilateral meetings at the level of Foreign Ministers or Heads of State on a regular basis. Greek governments strongly supported the Euro-Atlantic perspective of the two countries right up to their NATO accession in May 2004. Additionally, since 2002 the Greek government contributed to the acceleration of their path towards EU membership. This policy culminated in the Greek parliament's decision in November 2005 to ratify Bulgaria's and Romania's Accession Treaty during a Trilateral Summit in Athens.

The peak of Greece's diplomatic activity during this period was undoubtedly the year 2003. In January the country took over the 6-month rotating Presidency of the EU, during which it contributed constructively and decisively to the configuration of the Stabilization and Association process. Although the environment was not particularly fertile for the introduction of a new enlargement discussion (the noise after the agreement for the forthcoming Eastern enlargement of 2004 had not yet settled), significant progress was made. Specifically, during the EU-Western Balkans Summit in June 2003 in Thessaloniki, not only was the European perspective of the countries in the region validated, but EU Balkan policy was also enhanced and enriched with pre-accession elements and policies (such as the decision for European partnerships agreements) which would be embodied in the main pre-accession provisions for the SA process. The Thessaloniki Agenda for Western Balkans has since then constituted the institutional framework that visibly determines the content of the

⁵¹ Tsardanidis & Huliaras, p. 180.

⁵² Wallden, 2003, p. 416

European course for the countries of this region. It also illustrated the enhancement of regional cooperation, which had already been foreshadowed in Zagreb in 2000, as the EU supported most central initiatives and structures of institutionalized regional cooperation in the Balkans.⁵³ Particular emphasis was given to the Stability Pact, the SEECP, UNESCO and non-governmental organizations. These initiatives upgraded Greece's prestige. The Greek EU presidency and the Balkan agenda it was able to bring into a discussion had clearly demonstrated the new role Greece decided to play in Southeast Europe.

I.1.c Greek Foreign Policy in the Balkans since 2008: Greece under financial siege.

As discussed above, Greece's role in the region had significantly been enhanced in the period after 1995. The Greek presidency and the introduction of the Western Balkan Agenda allowed Greece to regain its lost status as a regional leader, and Greece was finally recognized by both its EU partners and its Balkan neighbours as a state that was willing and able to play a prominent role in the Southeast European integration process. In November 2007, Greece attempted once more to stimulate the European perspective and attempt to lead a development and stability initiative in the Balkans. The Karamanlis administration submitted a new framework called "Thessaloniki II", and almost two years later the Greek alternate foreign minister, under George A. Papandreou's administration, announced the "Agenda 2014," which foretold the conception of a new "driving map" for the assistance of Western Balkans' European course.

At the bilateral level, Greece's relations with its neighbours also enjoyed a steady improvement. In April 2009, Greece and Albania signed an agreement regarding the delimitation of the maritime zones, including the continental shelf and the Exclusive Economic Zone (EEZ).⁵⁴ The agreement was based on the International Law of the Sea and on relevant UN decisions. Yet, this agreement - which was part of a broader Greek attempt to close all the open pendencies related to its sea borders in every direction - was annulled by Albania's constitutional court, following the condemnation of the agreement by the Albanian opposition for being harmful to the Albanian interests.⁵⁵ In accordance with the new doctrine of supporting the Western Balkans' European integration, successive Greek administrations continued to favour Albanian accession to Europe and NATO. Albania's NATO accession was finally agreed during the 2008

⁵³ F. Bellou, 'The EU in SE Europe: From Crisis Management to Integration', in: Xenakis D., Tsinisizelis, M. (eds), *World Europe: EU's International Dimensions*, Athens: Sideris, 2006 (in Greek), p. 452.

⁵⁴ T. Dokos, T. Tsakiris, 'A Strategic Challenge: The role of Greece in Europe's Southern Gas Corridor Strategy', ELIAMEP Policy Paper, no. 17, 2012, p. 14.

⁵⁵ On Tuesday 26 January 2010, the Albanian Constitutional Court annulled the maritime boundary agreement between Albania and Greece due to 'procedural and substantial violations' of the constitution and the UN Convention of the Law of the Sea (UNCLOS). The Albanian government's main opposition force, the Socialist Party, contested the accord and accused the government of holding negotiations in secret and giving up an area of about 225 square kilometers in exchange of future political support from neighbouring Greece. As a result, the Socialist Party officially requested the constitutional court to rule on the legitimacy of the maritime agreement.

NATO Summit in Bucharest. Additionally, in April 2009 the Stabilization and Association Agreement between the EU and Albania was finally signed, and during the same month the country submitted its membership application. Greece, already engaged in an ongoing dispute with FYROM, decided to encourage Albania's Europeanization as a way of promoting its own interests.

Regarding bilateral relations with Bulgaria, in July 2010 the Bulgarian-Hellenic High Level Cooperation Council was established as a culmination of their continued close collaboration. The energy sector and particularly the construction and operation of the Burgas-Alexandroupolis pipeline - a project that was intended to transfer Russian oil from the Caspian Sea - claimed a prominent place in the discussion of further cooperation. Although the agreement for the pipeline had already been signed in 2005 - with the intention of the project being fully operational by 2010 - the whole process was frozen from the Bulgarian side. According to the Bulgarians, environmental studies showed this project could affect negatively the natural environment of the area. Thus, the 800 million Euro project was never started.⁵⁶

Subsequent Greek administrations continuously expressed their willingness to re-launch the plan. In practice, during the inauguration of the High Level Cooperation Council mentioned above, Prime Minister Papandreou invited his Bulgarian counterpart B. Borissov to promote the finalization of the plan, emphasizing that the Greek government anticipated the publication of the environmental study indicating the environmental risks.

The other crucial energy project that did not achieve the expected progress was the Greek-Bulgarian Interconnector (IGB). According to the initial plans in 2009, this project also experienced a two-year delay. Its goal was to cover the energy needs of Bulgaria, Romania and Serbia (after the completion of the Serbo-Bulgarian pipeline in 2016).⁵⁷ Greek activity in the Balkans during the past four years generally focused on issues relating to its geopolitical position. Perhaps the Greek administrations, in their attempt to save part of the country's status decided to focus on energy diplomacy initiatives, in order to turn Greece into a regional energy hub. To this end, progress was achieved regarding the Trans-Adriatic Pipeline Project; perhaps this was one of Greece's last chances to gain a place in the energy map in Southeast Europe.⁵⁸

⁵⁶ On 7 December 2011, the Bulgarian government officially decided to terminate its participation in the project following the results of the environmental impact assessment.

⁵⁷ According to Dr. Tsakiris, the project was about to initiate back in 2009 with an estimated cost of approximately 160-170 million €. However, it was postponed and it is expected to begin in 2014 and to be delivered in 2016 with an estimated cost of approximately 200 million €.

⁵⁸ The Shah Deniz II consortium opted for a pipeline running through Greece and Albania instead of a rival northwestern route, Nabucco West, running from Bulgaria to Austria. According to Th. Tsakiris, TAP beat out Nabucco West because the latter was more expensive and less commercially attractive. The Trans Adriatic Pipeline (TAP) will stretch 870 kilometres from the Greek-Turkish border. Moving west, TAP is designed to extend across the breadth of northern Greece before veering northwest to Albania.

Nevertheless, apart from these efforts in the energy sector, the general feeling regarding the country's role in the region is that Greece has lost the *cachet* of the honest mediator of the Balkans towards their EU integration. According to former Economy Minister, Prof. N. Christodoulakis, the role of the European point of reference that Greece enjoyed for several years in the eyes of the neighbouring Balkan countries has been replaced by a tactic of disengagement.⁵⁹ In a sense, some of the Balkan states (with FYROM first and foremost, and to some extent Kosovo, taking always into consideration the different nature of the issue) blame Greece for the stalemate of their accession process. Even if this is not entirely true, given the internal problems that these states face, Greece's failure led to a discussion for more austerity as further criteria that candidate countries should meet in the future so the EU can avoid new setbacks. Besides, as the interviewees have pointed out, the other Balkan states have been quite jealous of Greece's progress, and resented the language used by Greek officials such as "influence, expansion, invasion" with regard to the Balkan region (personal interviews with Professor Valinakis, Ambassador Mallias and Professor Tsardanidis).

What seems to be an unavoidable outcome of the Greek crisis is definitely the slower economic recovery in the Balkans, leading to a slower implementation of reforms required by the EU. According to Daborowski and Szpala, "*the crisis in Greece has...made the old EU member states realize that the observance of the solidarity principle may entail financial expenses higher than expected*".⁶⁰ The side-effect could possibly be the reluctance and the decrease of political will of some member states to continue with the Union's enlargement process. It is presumed that for many EU officials, Greece's lack of discipline in its public finance sector, and high levels of corruption have a negative impact on the image of the entire region. Moreover, Greece joined the group of Balkan member states - like Bulgaria and Romania - where such problems were evident even before the crisis. As a result, due to the problems of the Balkan member states, the accession of the other countries from the region is perceived by the current member states as a challenge for the European Union's cohesiveness.⁶¹

Another drawback affecting the country's reliability in the eyes of its neighbours is the Hellenic Plan for the Economic Reconstruction of the Balkans that was launched in 2002. As will be discussed in the next section, only a very small amount of the allocated funds has been provided to the recipient countries thus far, which renders the project's goals almost impossible to attain.

⁵⁹ N. Christodoulakis, 'Greece in a strategy "vertigo"', *Foreign Affairs- The Hellenic Edition*, 01/02 2012 (in Greek), available at:

<<http://foreignaffairs.gr/articles/68641/nikos-xristodoylakis/i-ellada-se-«bertigko»-stratigikis>>

⁶⁰ Daborowski, Tomasz and Szpala, Marta, "The impact of the Greek crisis on the Western Balkans", *Centre for Eastern Studies*, 12 May 2010, available at:

<<http://www.osw.waw.pl/en/publikacje/ceweekly/2010-05-12/impact-greek-crisiswestern-balkans>>.

⁶¹ Ibid

Greece's delay probably reveals something more than simply structural deficiencies in strategic planning and in the implementation of the project. It might be an attempt by Greek policymakers to reduce, or even abandon every possible costly activity in the Balkans, in order to safeguard the vulnerable Greek economy from high risk international exposure. While such a premise is justifiable - given the current stifling economic conditions - in practice this strategic back-peddling and the decision of entrenchment inside its own borders might cause Greece eventually to lose the benefits of all its diplomatic efforts gained in the previous years through its dynamic presence and extraversion in the region.

Within this context, the ambitious announcements from Greece regarding the promotion of the Western Balkans' integration into the EU by 2014 - the year that Greece would take the wheel of the EU for six months (EU presidency) - have stopped appearing in the public debate. The Greek Ministry of Foreign Affairs had introduced the "Agenda 2014" that foreshadowed the agreement of a concrete date for full accession of the Western Balkan states in the EU.⁶²

In terms of bilateral relations, Greece's dire economic situation has raised aspirations from FYROM. Greece was condemned by the International Court of Justice at The Hague two years ago for blocking FYROM's bid to join NATO in 2008 in violation of the 1995 Interim Accord between the two countries.⁶³ The ruling read: '[the ICJ] . . . concludes that the Respondent [Greece] objected to the Applicant's [FYROM's] admission to NATO within the meaning of the first clause of Article 11, paragraph 1, of the Interim accord' (ICJ, 2011, 28). FYROM had also 'request[ed] relief in the form of an order of the Court that the Respondent henceforth refrain from any action that violates its obligations under Article 11, paragraph 1, of the Interim Accord'. However, on this issue, '[t]he Court . . . determines that its finding that the Respondent has violated its obligation to the Applicant under . . . the Interim Accord, constitutes appropriate satisfaction' (ICJ, 2011, 47; emphasis added).

Given the political turbulence of the time, the situation was deteriorating for Greece. The absence of a solid and stable government also allowed FYROM's leadership to claim that there was no established interlocutor from the Greek side in order to promote dialogue and find a mutually agreeable solution to the problem. Yet, despite Gruevski's attempt, Greece was never pushed to the limit. As Dr. Dokos has argued, even though the negative verdict was not agreeable for Athens, it could not change the situation dramatically. According to him, Greece henceforth adopted a reasonable line of negotiation which did not match the hard negotiating line promoted by FYROM.⁶⁴

⁶² Greek MFA, "Agenda 2014", available at:

<http://www.mfa.gr/images/docs/periferiaki_politiki/agenda_2014_gr.pdf>.

⁶³ The decision: <http://www.icj-cij.org/docket/files/142/16841.pdf>

⁶⁴ Th. Dokos, "Foreign Exchange", *Odyssey: Bimonthly Magazine about Greece and the Greek Diaspora*, January-February 2012, available:

<<http://www.odyssey.gr/features/articles~1894~foreignexchange~article>>.

During the 2012 NATO Summit in Chicago, and in the midst of unprecedented political turbulence and fluidity in Greece, FYROM tried once more to take advantage of Greece's weakness by diplomatically pressuring for a discussion on its NATO accession without the solution of the name issue. However, the other members of the alliance turned down FYROM's request. Moreover, it is increasingly debatable to what extent, if at all, the current economic situation will modify Greece's political tactics in issues of "national" importance such as the name dispute. Besides, Athens has already adopted a domestically unpopular position on the name issue by abandoning its earlier stance regarding the exclusive use of the term "Macedonia".⁶⁵

Undoubtedly, Greece's position has been strengthened by the fact that FYROM's leadership has chosen to use nationalistic rhetoric, which has isolated FYROM from the EU member states. Simultaneously, Greek officials are building communication channels with Albanian political parties in FYROM (especially DUI, the Albanian party which participates in the ruling coalition) in order to express willingness to make further steps towards the final settlement, and on the other hand, to put pressure on Gruevski's party, thus revealing the blind nationalistic stance that undermines every potential improvement. Therefore, Greece is now waiting for an act of good will from FYROM's side, that will open the way for a final agreement in order to finally permit FYROM's accession to the EU and NATO.

1.2. Qualitative Research: The findings

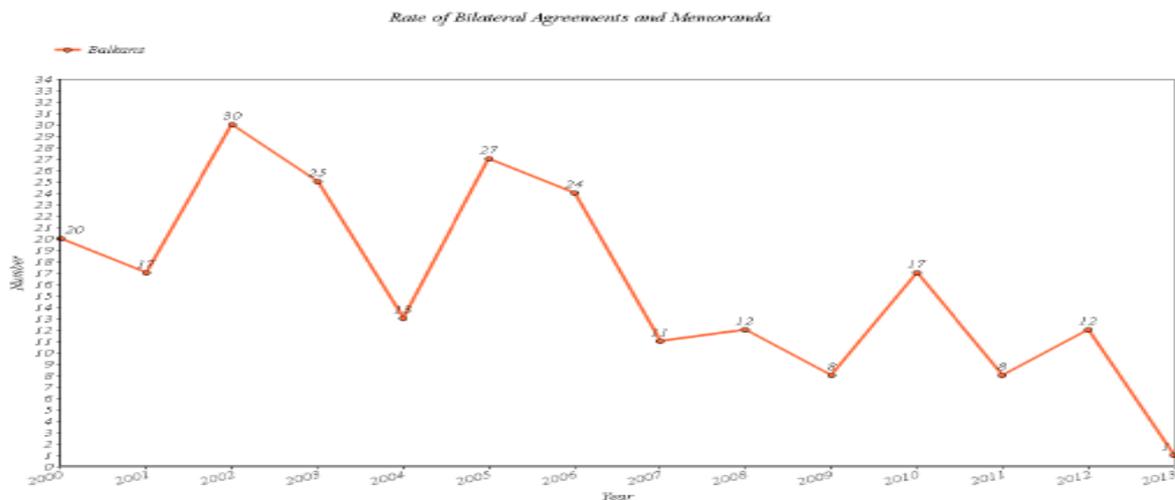
The course of Greece's role and presence in the Balkans has been examined in detail thus far. Yet, as mentioned in the very beginning of this section, the aim of the present research project is to make an initial assessment on where Greece stands right now, and how this standing has been affected by the crisis. As far as economic diplomacy, economic presence and trade relations are concerned, the available data provides us with sufficient information that allows us to make an in-depth comparison of the past and present political presence, influence and generally the way other Balkan states currently perceive Greece. However, the technique to measure this was not so straightforward. We felt that this could be approached on two separate levels: the first level would focus on the annual pace of bilateral agreements signed after 2008, in order to compare it with previous years, particularly with the "golden years" of Greek diplomatic presence in the Balkans, as described earlier. The second level would solicit the views and opinions of a specific target group with a good understanding of politics in general. This was achieved by a) interviewing Greek and Balkan specialists (former and current diplomats, former Ministers, and directors of research centres) in order to gain their insights on the issues, and b) conducting an online survey through which a significant number of responses were collected from the entire Balkan peninsula, and from a specific target group that included academics, researchers, members of the private sector and the media.

⁶⁵ A. Tziampiris, "Crisis Will Not Shake Fundamentals of Greek Diplomacy", *BalkanInsight*, 09 March 2010, available:<<http://old.balkaninsight.com/en/main/comment/26444/?tpl=297>>.

I.2.a Rate of Bilateral Agreements, Protocols and Memoranda between Greece and the Balkans

The following graphs depict the rate of bilateral Agreements, Protocols and Memoranda between Greece and the Balkan states since 2000, as indicated in the official records of the Greek Ministry of Foreign Affairs. When we requested the files from the Ministry we were expecting to find results that could validate our assumption that Greece's foreign policy activity had significantly decreased over the last five years. From the collected data it appears that our hypothesis was correct. In fact, Greece's bilateral initiatives have been drastically decreasing - Bulgaria being the only exception. In particular, from 2000 to 2007, the average rate of agreements of all kinds was 21.125 per annum (total of 169 agreements) whereas from 2008 to 2013 the average rate dropped to 9.66 per annum (total of 58 agreements) (Figure 1). If we exclude the agreements with Bulgaria the number drops even further (See Appendix 1).

Figure 1



Specifically, regarding Albania, there is a sharp decline after 2009, when the agreement regarding the delimitation of the maritime borders was signed (Figure 2). Perhaps the fact that the agreement has remained in limbo due to the decision of the Albanian constitutional court might be one of the reasons for this drop. As far as Bosnia is concerned, since the range of agreements has always been limited, there has been no significant or noteworthy change (Figure 3).

Figure 2

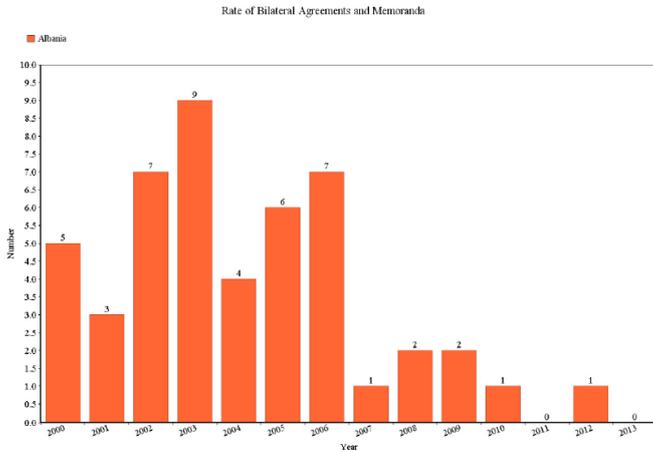
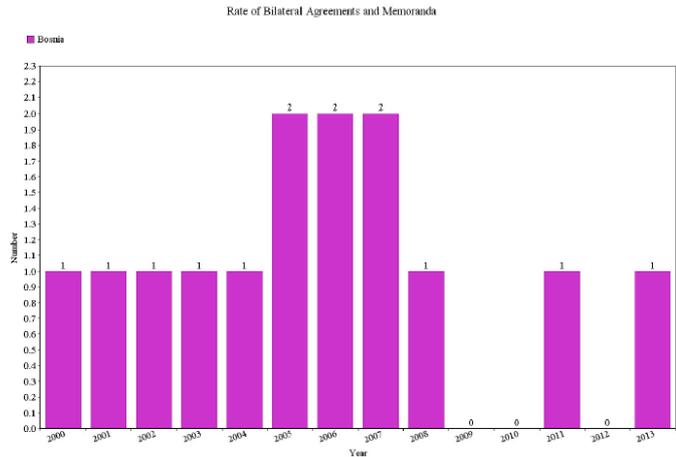


Figure 3



The range of agreements with Bulgaria is the only case that deviates from the general trend. According to Figure 4 below, there was significant activity regarding the signing of various agreements during the last four years, with the peak being the year 2010. A good explanation might be Bulgaria's accession to the EU in 2007, as well as the fact that the two countries share common borders, so stronger ties of cooperation and communication are needed. The case of Croatia is quite the opposite, as the findings clearly demonstrate a lack of interest for the construction of a framework of cooperation, especially after 2002 (Figure 5).

Figure 4

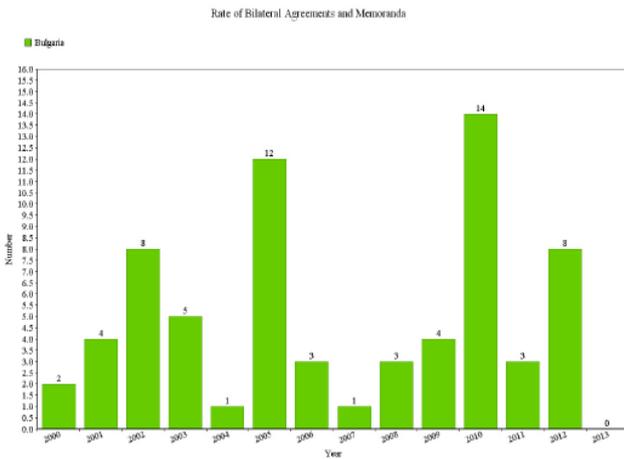
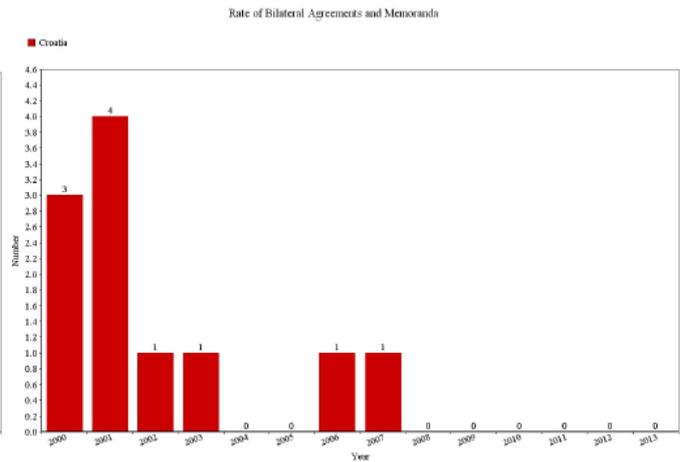


Figure 5



This is practically the situation with Montenegro, which is a small country without common borders with Greece. Since 2006, when Montenegro declared independence from Serbia, a total of nine agreements and memoranda were signed between the two countries (Figure 6). Most of them were related to the establishment of official diplomatic relations and Greece's support for Montenegro's EU prospect. FYROM, on the other hand, is a very complicated case. Due to the well-known differences

between the two states at the forefront of their political agenda since the early 1990s, one would have expected extremely limited activity regarding their bilateral agreements. Yet, in 2000, a total of five agreements were signed, the most famous being that of the management of the Prespa lakes complex. Since then, there has been a gradual decline, which accelerated following the Bucharest Summit in 2008 (Figure 7). The deteriorating political relations between the two countries might also be perceived as an obstacle for the deepening of their cooperation in various areas of mutual interest.

Figure 6

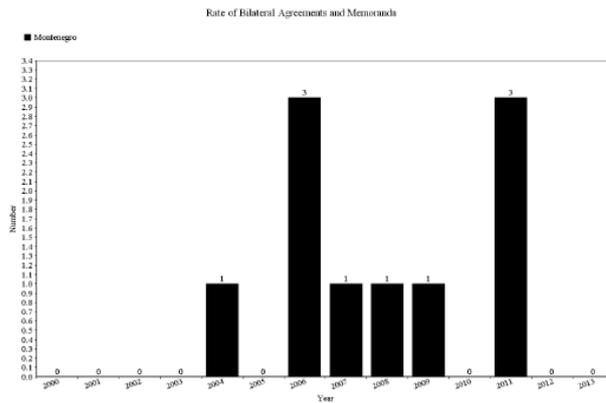
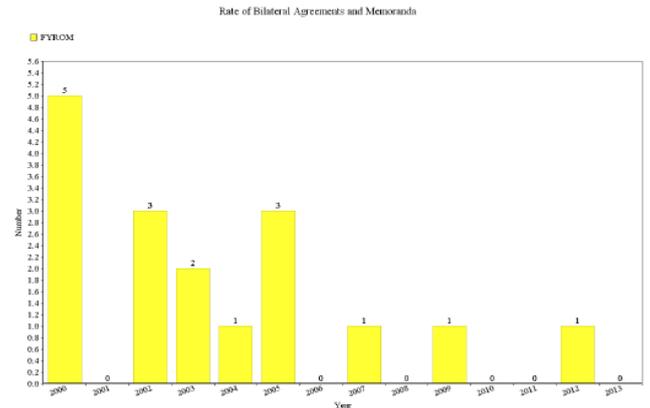


Figure 7



Greece’s historical bonds with Serbia have been very strong in the past. Yet, the following chart shows quite a significant decrease in the number of bilateral agreements and memoranda since 2002 (Figure 8), while with Romania this decrease has been even more evident since its EU accession in 2007 (Figure 9).

Figure 8

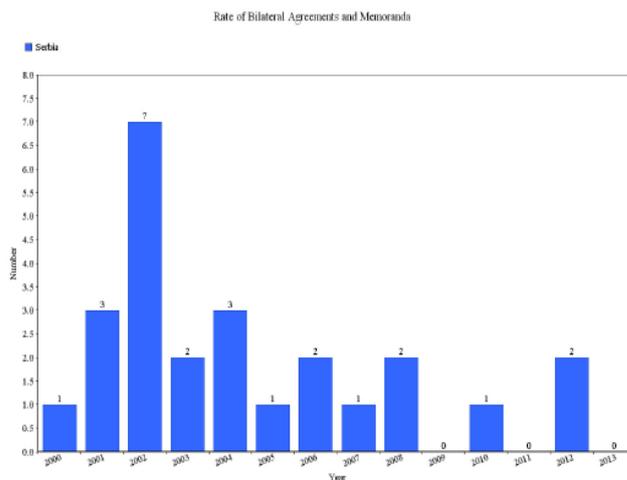
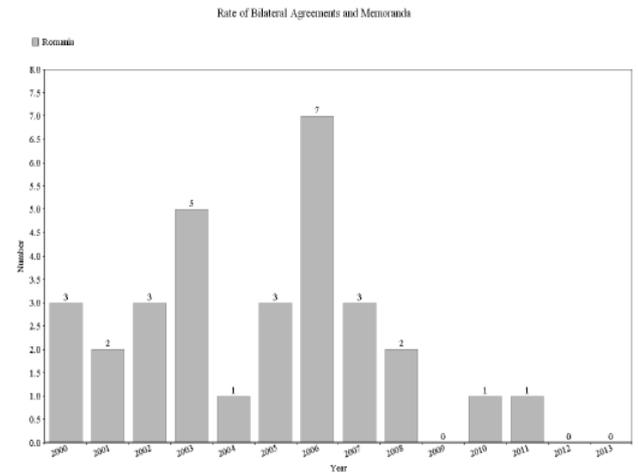


Figure 9



Source: Ministry of Foreign Affairs 2013.

In sum, with the exception of Bulgaria, since 2000 the general tendency of the completion of agreements and memoranda between the Greek governments and their Balkan counterparts is negative. While it is

difficult to explain this reality, discussions with current and former Greek diplomats indicate that one of the major reasons is the decrease of the diplomatic personnel of the Greek Ministry of Foreign Affairs, particularly during the period 2009-2013. Indeed, sources inside the Ministry confirm this drop: characteristically, since 2009, 79 diplomats have retired while for almost four years no hiring has been recorded. In 2013, there were 537 diplomats, and 10 more were to be assigned in 2014. However, the problem is not only the number of diplomatic personnel, but also the number of the general personnel of the ministry. A striking example is the press and communication officers who serve in Greek embassies: in 2009 there were 207 press and communication officers, while by 2013 the number had dropped to 187. There is no doubt that this decline in personnel can also be perceived as an impediment to the country's capacity to fulfil crucial public diplomacy responsibilities.

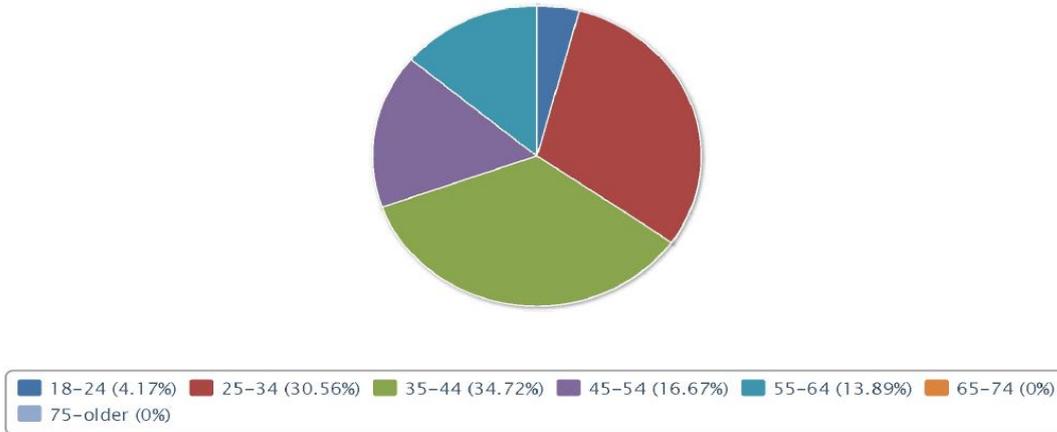
I.2.b Survey Results

In defining our sample, the main factor was the professional affiliation. As our aim was to collect responses from key opinion makers across the Balkans, we focused on journalists, academics, researchers, and members of think tanks and NGOs. Accordingly, we decided to avoid addressing these questions to diplomats and politicians, since we wanted to eschew official positions and diplomatic language. As a result of this choice of sample, our respondents have a good educational background. In addition, our sample has a broad age range.

Our questionnaire was composed of eleven general questions and five personal questions. In total, we received 83 responses. Although this number cannot be considered a statistically representative sample and the responses elicited are only indicative of opinions and trends among opinion makers in Southeast Europe, the results provide us with interesting thoughts for further discussion and analysis.

Moving to an analysis of the sample, the largest group - approximately 35% - comes from the age group 35-44, while the second largest - 30% - is the age group 25-34 (See figure 10). These age groups have had the time and opportunity to receive an education - with some of them perhaps studying in Greece - while they have also had access to the internet as a means of communication and information. Moreover, people in this age range are probably familiar with both periods of Greece's contemporary history, i.e. before and during the financial crisis.

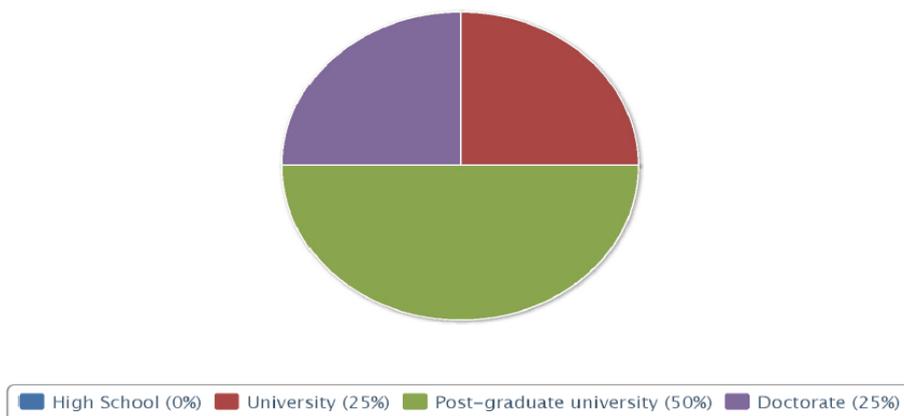
Figure 10



The second important characteristic of our sample is educational background. From the responses received it is evident that everyone interviewed has obtained at least a Bachelor’s degree, while half of them have obtained a postgraduate degree (Figure 11). This indicates that we received responses from a well-educated and intellectual group of people who could justify and support their choices by providing us with details.

Figure 11

What is the highest level degree you have received?

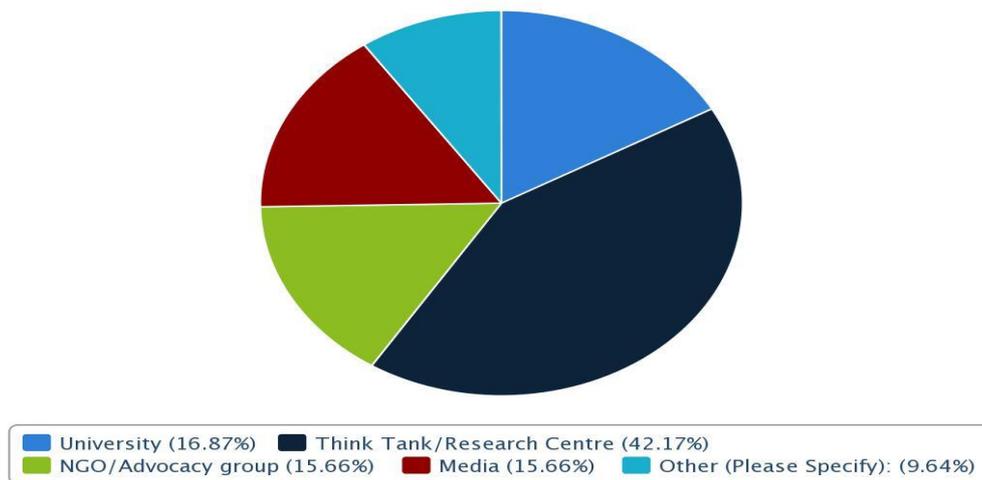


The third important characteristic of the respondents was their professional background. From the collected responses, the largest segment of the respondents came from think tanks and research centres (43%). At this point, we should clarify that by the term “research centre” we refer to institutions and foundations that focus exclusively on politics and political

research. The second group of respondents was from advocacy groups and NGOs, and the third from journalists working as correspondents in Greece or covering international news that included Greece (See figure 12).

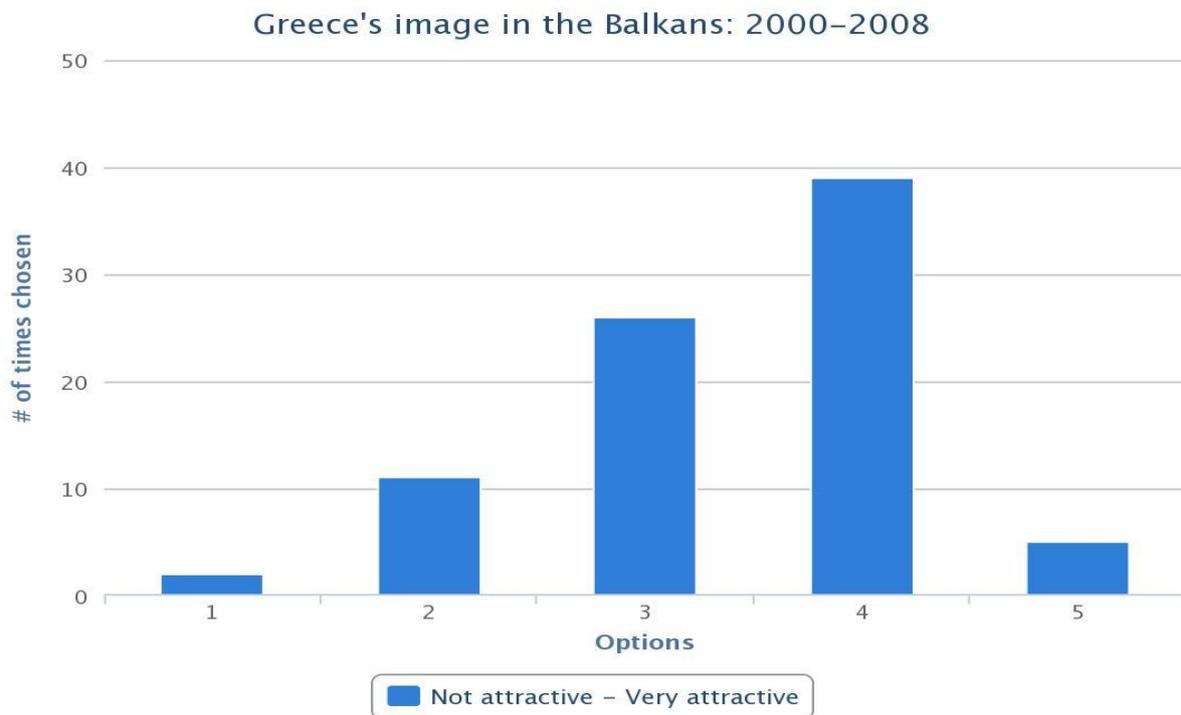
Figure 12

Institutions



The general question asked was whether the current debt crisis has affected Greece's image and status in the Balkans. Within this context, we introduced questions leading to a comparison of Greece's image prior to the crisis versus its current image. The first question we posed was related to how the participants viewed Greece in their countries during Greece's prosperous years (2000-2008). We then asked respondents to evaluate Greece's image as "not attractive" or "very attractive" on a scale from 1 to 5. As can be seen in Figure 13, almost 1/3 (31.33% or 26 out of 83 replies) of the participants gave neutral replies, positioning themselves in the middle of the scale (3), while 44 of them (53.01% of the total) expressed themselves positively by choosing 4 (39 replies, 46.99% of the total) and 5 (5 replies, 6.02% of the total). This outcome undoubtedly puts into question the validity of the perception held in Greece about the "golden years" of the Greek foreign policy in the Balkans. While the majority of respondents expresses positive attitude, this is far from overwhelming.

Figure 13

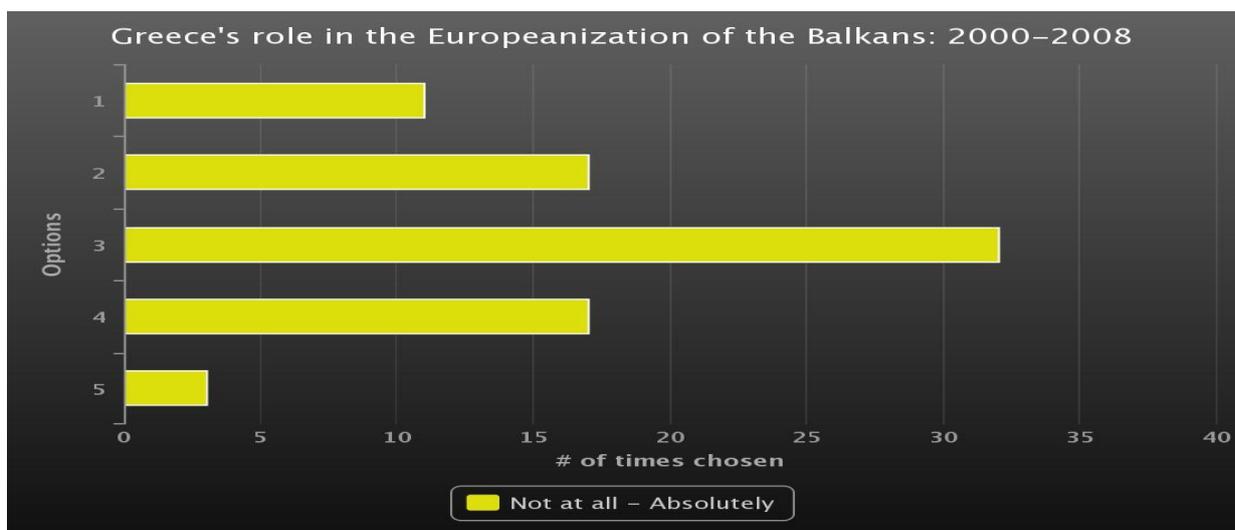


Some of the comments we received regarding this question - especially from those who had expressed themselves positively - have validated our assumption that for several years Greece was perceived as the leading country in the region. According to some of the answers, Greece was the region's leader in employment opportunities, studies and travel for those living in the Balkans. Economic cooperation was thriving; young prospective students were choosing universities in Greece - particularly in Thessaloniki - to commence or continue their studies, and young people from all over the region were seeking part-time summer employments in the Greek islands. Greece was using EU funds productively, to build the necessary infrastructure in order to create a higher standard of living for its residents. Nevertheless, respondents' answers also highlighted the continuation of existing bilateral issues, such as the name dispute with FYROM. Part of the target group clarified that Greece's acceptance by its neighbouring countries was impacted by opinion fluctuation in various countries concerning how negatively or positively they viewed Greece's role in certain situations (for example there were differences between responses in FYROM and in Serbia). Yet the general conclusion that one may draw from the responses to this question is that for the majority of respondents, Greece's image during these years is evaluated positively rather than negatively. Of course, there were also responses referring directly to Greece's internal political landscape, which was characterized - as some respondents claimed - by continuous demonstrations, strikes, clashes between unions and the police and so forth.

Following this question, we asked respondents to evaluate Greece's role in the Europeanization process of the Balkans throughout the pre-crisis period (2000-2008). The question was: "Did Greece have a leading role regarding the Europeanization of the Balkans during this period?" The assumption we wanted to validate was - as mentioned previously - that Greece indeed played a crucial role in the promotion of the Western Balkans towards the EU. Nevertheless, the responses we received were somewhat surprising: specifically, on a scale from 1 to 5 (1 corresponding to "not at all" and 5 to "absolutely") and from a total of 80 replies, the largest part of the sample (40.00%, or 32 replies) responded in the middle of the scale (3 out of 5) and had a neutral position (See Figure 14). While the number of those who chose 2 and 4 were the same (21.25% of the total each, or 17 replies in absolute numbers), the number of those who were absolutely negative - thus choosing 1 in the scale - was almost three times as many as the number of those who were absolutely positive.

Moreover, some of the respondents provided us with some comments in order to justify their answers. While not going into too much detail, many commentators demonstrated that apart from what they considered the most important event in that period - the Thessaloniki Summit during the Greek Presidency - many other EU Member States played an important role when enlargement policy was concerned. In addition, as some of the respondents also commented, most Balkan countries were already on a European path during the period in question. The fact that the results *did not* reflect the perception that Greece played an exceptional role in the Europeanization of the Balkans, as one might have expected, could be a good starting point for evaluating the capabilities and the effectiveness of Greek public diplomacy. Besides, as it was already mentioned above, the current economic crisis has also affected the number of press and communication officers, thus probably deteriorating their capabilities even further.

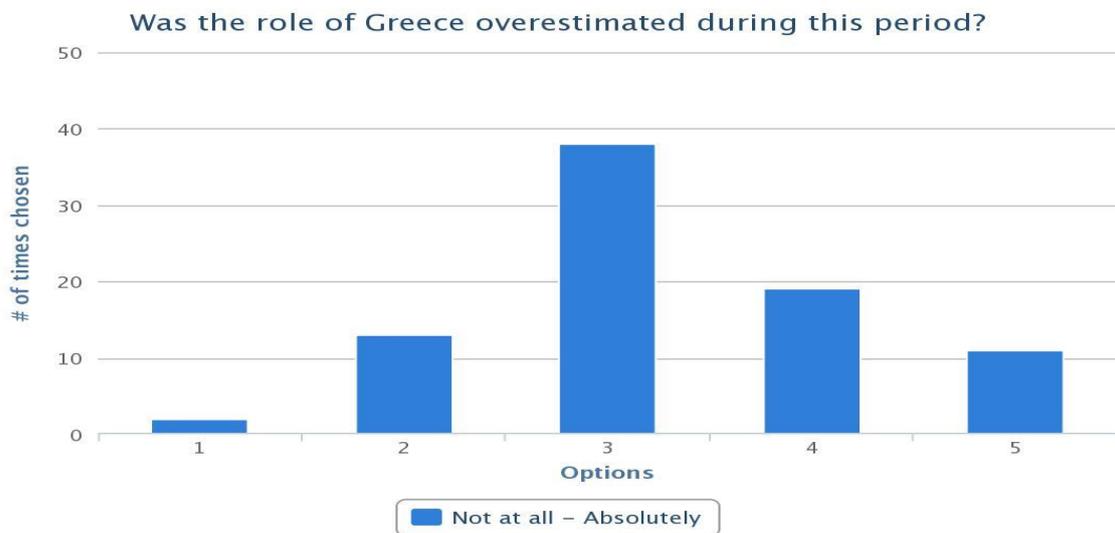
Figure 14



In the next question, we requested from those respondents whose answers in the previous question were between 4 and 5 (i.e. the more positive attitudes), to justify their answer in a more detailed manner. The overwhelming majority of the answers focused on the well-known Thessaloniki declaration of 2003. As it has already been described earlier in our research, Thessaloniki 2003 was the peak of Greece's initiatives regarding EU enlargement in Southeast Europe. This was verified through the responses arguing that the "Thessaloniki Agenda became a symbol of Europeanization efforts for the region. Hence, Greece played a vital role by showing its commitment to the EU prospects of the region". Greece was seen "as a model of a modern Balkan country that has managed to become an EU-member". Some of the responses emphasized not only the political but also the economic role, arguing that "Greece hadn't only a political but a solid economic role as well". Another quite interesting comment focused on the country's official religion by saying that "Greece was an example of how one Orthodox country can be an equal EU member and how a Balkan country can follow European values and standards". There were also answers enumerating various initiatives and developments that contributed to the Europeanization of the Balkans such as the Hellenic Plan for the Economic Reconstruction of the Balkans, the accession of Bulgaria and Romania in 2007, the Greek investments in the entire region and last but not least the enormous migration flows heading to Greece from the other Balkan states. Yet, most of the answers carried the same message: Thessaloniki, and what preceded it, gave the impression that Greece was really dedicated to its goal.

We then asked the participants to evaluate whether the perception of Greece's role as a leading country in economic and political (e.g. regarding the Europeanization of the region) terms was valid or not. The exact question was: "According to your personal opinion, was the role of Greece during this period overestimated?" The majority of those questioned provided us with a rather balanced position: almost half of them (45.78%, or 38 replies) positioned themselves in the middle of our scale (Figure 15). In addition, there were more respondents who thought that the role of Greece was overestimated than were respondents who thought the opposite. The comments we received in support of their choice demonstrate that Greece's influence within the EU was questioned, while for some Greece was nothing more than a tourist destination or a trade partner. Others also emphasized the inadequate promotion of Greek policy and activities in the Balkan media, arguing that the average person in their countries was not truly aware of the Thessaloniki summit and Greek initiatives. This explanation confirms some of our previous conclusions regarding the impact of the Greek public diplomacy and its inadequacies.

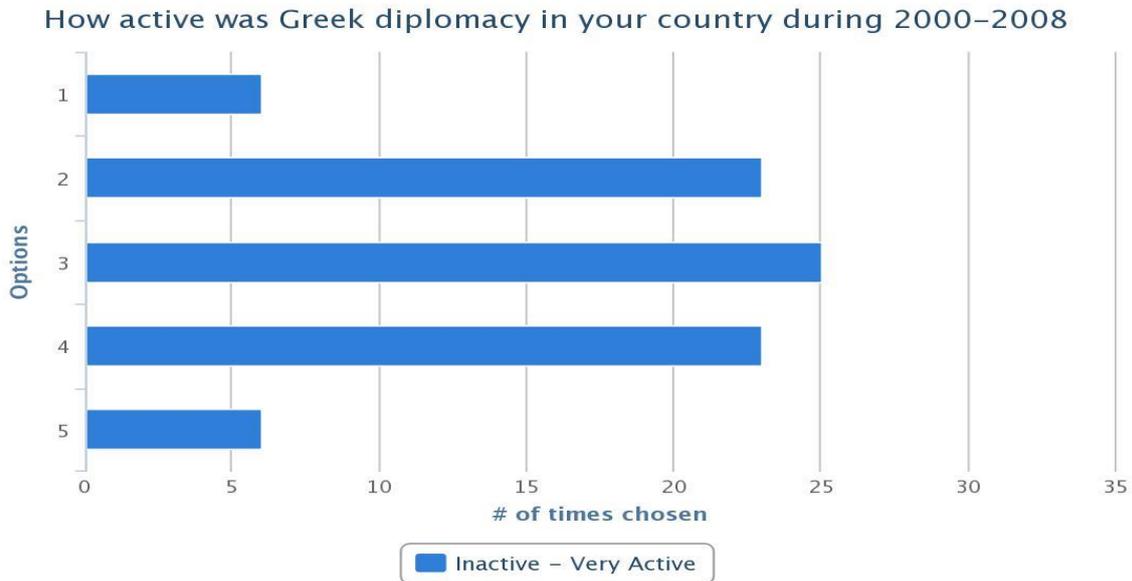
Figure 15



The results of the previous question prompted us to request further details. We asked respondents to compare between the effectiveness of Greek foreign policy before and during the crisis, with the aim of revealing possible differences and combining the results with the data collected from the Ministry of Foreign Affairs that was presented earlier. We separated Greece's diplomatic presence into two periods, the first beginning in 2000 and ending in 2008, and the second from the beginning of Greece's economic down-turn. We picked the year 2000 as the starting point for our comparison because - as we discussed earlier in the report - although Greece became quite active in the Balkans starting in 1995, it was the Kosovo crisis in the late 1990s that truly illustrated Greek engagement in the region.

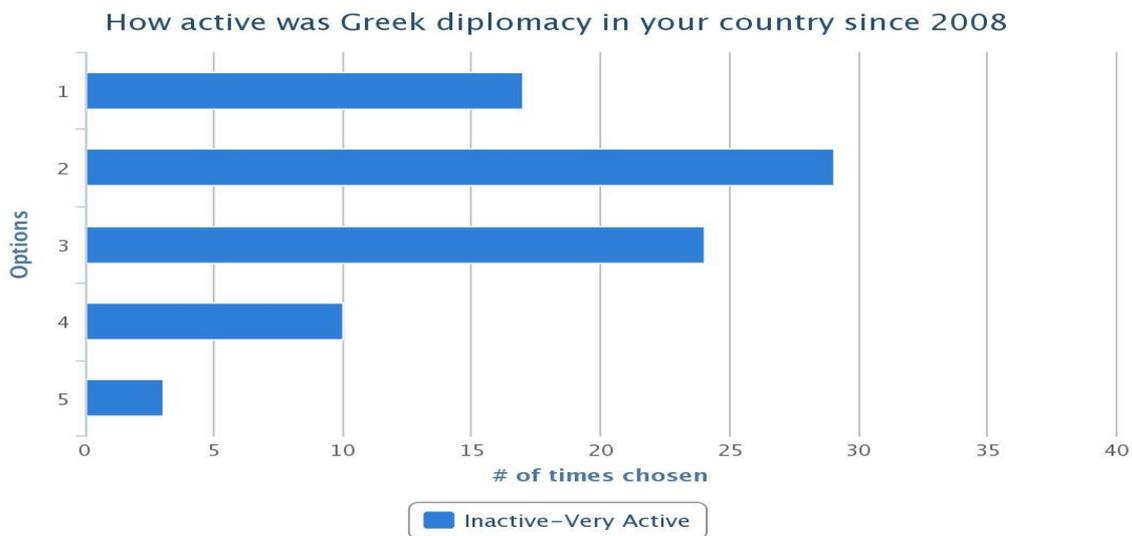
For the period under examination (2000-2008) the collected responses indicate that the average percentage of our respondents believes that Greek diplomacy was not as active as we thought it would be (See figure 16). The average score of the answers was neutral, 3 out of 5, with 1 corresponding to inactive and 5 to very active. Specifically, from a total of 83 answers, 25 respondents chose 3 as their answer, while the number of those on the right and on the left was the same. Therefore, the perception was that Greece was active, but not particularly so. In fact, as the chart with the data collected from the Ministry of Foreign Affairs indicates, there was a definite downward trend. Some respondents also commented that their impression was that Greek diplomacy was mainly driven by self-interest rather than motivation to see the region progress.

Figure 16



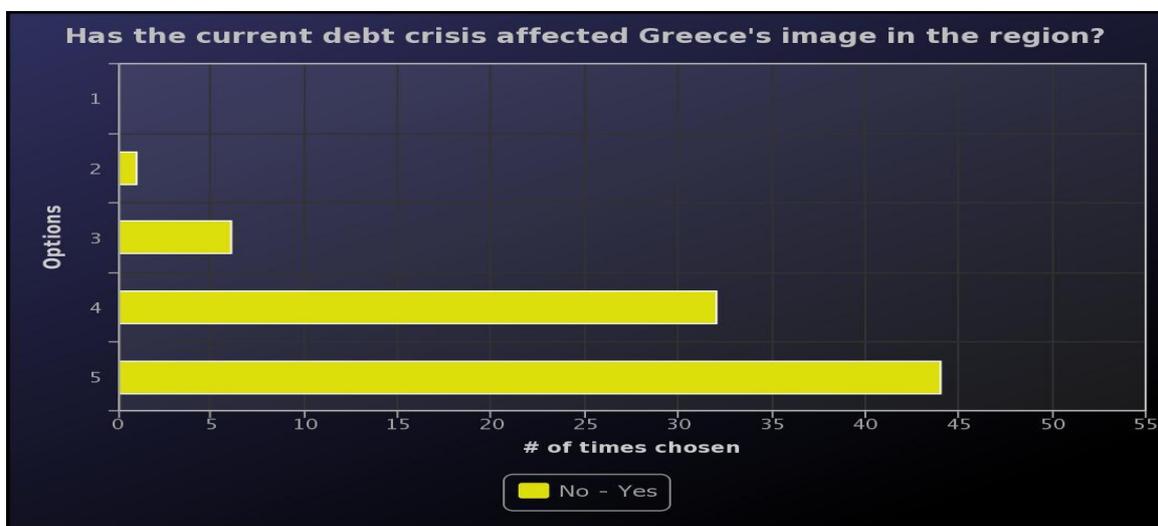
Moving to the second part of the comparison, the responses we received were somewhat expected. From a scale of 1 to 5, with 1 representing “inactive” and 5 “very active,” the majority of the respondents answered negatively. 46 replies were between 1 and 2, 24 replies were neutral, while only 13 were positive. Thus, in comparison with the previous question, the negative responses increased from 34.94% of the total (for the pre-crisis period) to 55.42% (Figure 17).

Figure 17



We then asked respondents about contemporary developments and how - in their personal opinion - these affected Greece. The question was whether the current debt crisis has affected Greece's image in the region. The answers were limited only to a "yes" or "no", but on a 1 to 5 scale, with 1 being "absolutely not" and 5 "absolutely yes". All of the respondents answered the question, while some even justified their answer through comments. The results clearly revealed that in the eyes of greater Balkan society, Greece's image has been harmed by the bad economic situation. The average score from the collected responses (between 4 and 5 on the scale) shows that 91.56% of the respondents believe that Greece has lost its "illustrious" image (See Figure 18).

Figure 18



The comments we received supporting the respondents' beliefs were also interesting. The dire situation of the Greek economy has led even the populations of the former Yugoslav countries - who have endured hardships caused by the devastating wars of the past - to consider the situation in Greece as being hardly bearable for Greek society. Adding to this comment, another respondent argued that the majority of the Western Balkan countries are facing similar problems (such as extreme unemployment rates) and are worried about their own future as well. Another interesting, as well as incongruous, comment highlighted Greek daily life, pointing out that perhaps the only thing that Greece could be admired for nowadays, are the militant mood of the trade unions and the general strikes.

In order to ensure that the responses we received could be substantiated, we decided to investigate whether respondents thought there was extensive media coverage in their countries concerning the current developments in Greece. We also tried to clarify how the media have approached the Greek crisis by presenting the statements of officials and politicians. The question could be answered with a simple "yes" or "no". The results, presented in Figure 19, show that 85% of the respondents said that yes, the coverage of the economic developments in Greece by their local media is extensive. We then asked "If

coverage is extensive, what kind of comments were made by politicians and institutions?” We received 73 responses regarding the type of commentary on Greece’s financial situation made by journalists, politicians and state officials. On a scale of 1 to 5 (where 1 is negative and 5 is positive), the answers show that these comments were regularly negative. More specifically, 38 out of 73 responded between 1 and 2 (52.06%) with almost 45% of those questioned (33 out of 73) taking a neutral position (see Figure 20).

Figure 19
Extensive media coverage of the Greek crisis?

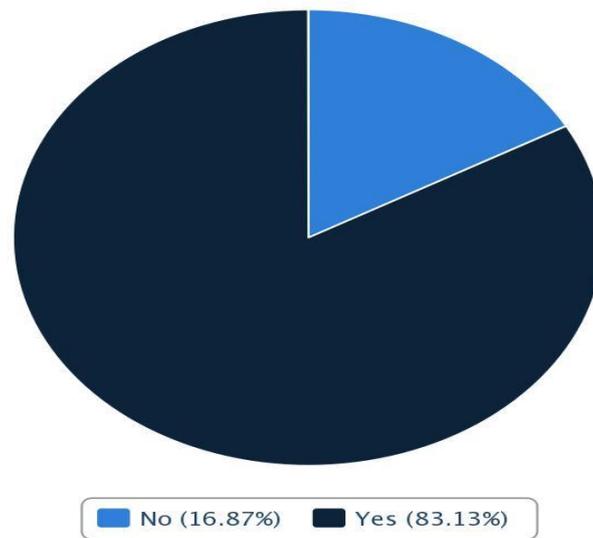
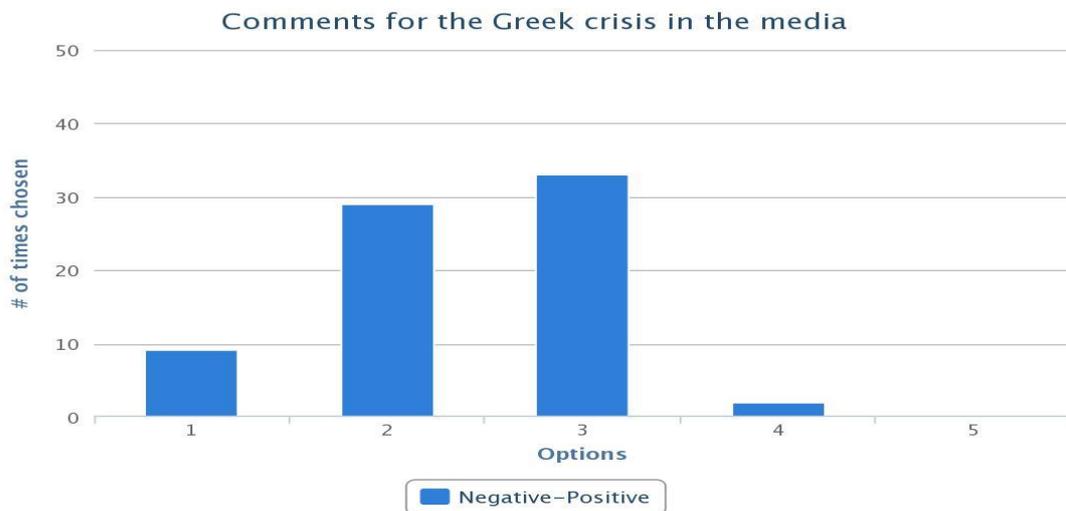


Figure 20



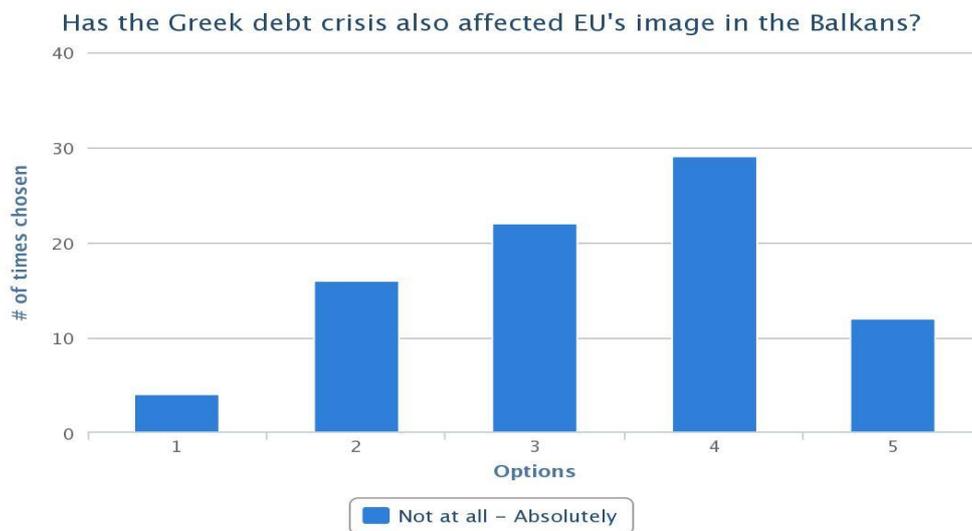
One of our last questions had to do with what our respondents expected from the Greek EU presidency in 2014. The picture of the responses was mixed. There were many respondents who seemed quite optimistic about Greece promoting the Western Balkan Agenda once again, continuing its work from 2003. They argued that Greece can actually play a role in supporting EU enlargement in the Western Balkans and thus help consolidate democracy in the region. They claimed that Greece could push forward a Thessaloniki 2 agenda, offering a clearer agenda for the Western Balkans and promoting an EU enlargement despite the Union's current financial crisis. Yet, some others remained sceptical even regarding whether Greece would promote an agenda similar to that of 2003. They argued that Greece would use the presidency to push its own interests in the region - which are not necessarily the interests of the region as a whole - as it had done in 2003. However, a large share of the responses took current circumstances into consideration. These responses emphasized that due to the extensive economic problems in the EU, it would be hard for Greece to bring the Western Balkans onto the EU agenda, even though Greece had openly promised this to the region from 2009 until recently. Moreover, despite still having an official enlargement policy, it is questionable whether the EU is genuinely interested in enlargement at this point. Nonetheless, Greece has chosen to remove enlargement of the EU to the Western Balkans from its list of priorities, as was seen during the governmental presentation of the Presidency priorities. The 2014 Agenda - which was once so strongly promoted - is now off the table, so it is sure that Greece will not attempt to make a second big move like the Thessaloniki Agenda 2003. Besides, as others have indicated, it is clear that Greece will be preoccupied with its own economic, financial and social problems for the foreseeable future.

Yet, there were some responses indicating a positive stance towards Greece and the role that the country can play from now on. These responses supported the view that Greece can share its experience, and the lessons it has learned by becoming an example for other countries fighting recession and financial turbulence. Greece could share its experience of being both an EU Member state and a country under IMF/memorandum supervision. Nevertheless, the fulfilment of these suggestions and opinions presuppose a Greek "success story". Moreover there is a need for a more active public diplomacy that could "paint a brighter picture". Some of the responses also referred to open issues such as the name dispute and the recognition of Kosovo. Greece can play a more active role as far as the stabilization of the region is concerned. This, it was felt, can be achieved by explicitly allowing FYROM to move forward with the EU accession process, during which the name issue should be solved. Also, Greece should clarify its political position *vis-à-vis* Kosovo and upgrade the political relationship with Pristina. Besides, as some respondents underlined, Greece is closer to the Balkan states and understands their needs and current difficulties better than most of the other EU member states. Despite the current crisis - which by all means reflects negatively on Greece's image in the Balkans - there are still hopes from the respondents that the country can take the lead in terms of EU integration of the region. Greece can still help the region attract more attention

and resources from the EU in order to promote a faster and positive economic development of the entire region.

Our final question concerned the impact that the Greek debt crisis may have on the EU's image in the Balkans. The collected responses clearly demonstrate negative views of the European Union's image due to the way that the latter has dealt - and continues to deal - with the Greek case. From a total of 83 responses, almost 50% (41 in absolute numbers) felt that there is a negative impact on the EU's image (see Figure 21). Some argued that Greece epitomized the shaky foundation of the euro project and accentuated the growing dissent within the EU on a number of issues. Others expressed their concerns that many people see the Greek financial crisis as an inbuilt EU phenomenon and that EU will be unable to bail out larger economies if needed. Of course there were also responses indicating that there is a lack of solidarity on behalf of the big states, which could be interpreted as a sign that the EU does not help the small and poor countries.

Figure 21



Some conclusions on the survey

As mentioned earlier in this section, the number of participants in our survey cannot be considered a representative sample in statistical terms; yet, the results provided us with interesting insights on how professionals with a good understanding of the recent regional developments perceive the role of Greece. While highly contested, in some cases - such as the responses regarding Greece's role in the Europeanization of the region - the responses revealed quite different results from what we expected and from the dominant view in Greek public discourse. The survey responses were more neutral than positive, an arguably

disappointing fact, considering the great impact that the 2003 Thessaloniki summit had on this particular issue. Of course many results were as expected, e.g. for questions such as those contrasting Greece's diplomatic presence in the region before and during the crisis. The results clearly demonstrate that Greek diplomacy was more active during the pre-crisis years than over the last 5-6 years. Yet, even in this case we expected a clearer answer regarding the pre-crisis period, while respondents in fact opined that the Greek diplomacy was active but not particularly so. Finally, the responses we received in our core question regarding the impact of the crisis on Greece's image in the region were as expected, leaving no doubt that Greece's financial situation has caused significant harm to the country's status in the region in the eyes of the greater Balkan society.

Part II. Greece's Economic Relations with the Balkan Countries

Introduction

Following the analysis of the political/diplomatic dimension of Greece's relations with the Balkan countries - which was presented in the first part of this report – this section will explore the *economic dimension* of these relations, and will attempt to analyse how these relations have been affected by the ongoing Greek sovereign debt crisis.

The collapse of the centrally planned economies in the Balkans and their subsequent transition to open market economies in the early 1990s offered a new prospect for Greek economic activities in the area. Over the next two decades, Greece established a strong and active presence in the Balkan region, emerging as a leading trade and investment partner for most Balkan countries, and a host country for thousands of migrant workers. This dynamic Greek presence was facilitated by a combination of favourable factors, including geographical proximity, a significant knowledge of regional and country-specific idiosyncrasies, an understanding of historical developments and familiarity with cultural particularities, as well as a greater understanding of the risks involved in investing in the region. Thus, over the years, Greece became an important and active partner for the Balkan countries, and a point of reference for the region's economic development.

The implosion of the sovereign debt crisis in Greece has shaken the foundations of these dynamic and mutually beneficial relations. The deterioration of the economic environment has had a deep and resonating impact not only on the Greek economy *per se*, but on practically all dimensions of Greece's relations with the countries of the region. The repercussions are felt on several interlinked levels, transcending economic, political and social dimensions, and potentially affecting the stability of the entire region. The crisis has created new dynamics, has shifted previous balances and ultimately has ushered in a new phase of relations between Greece and its Balkan neighbours.

This section of the report will attempt to evaluate the impact of the crisis by placing it within the overall context of Greece's bilateral economic relations with the Balkan countries. It will do so by examining the scope and evolution of Greece's economic presence in the region since the mid-1990s in several key areas: first, the official government policy regarding the region, whose main instrument was the Hellenic Plan for Economic Reconstruction of the Balkans; second, trade relations, focusing on the main trends and commodity structure of

these transactions; and finally the nature and range of Greek investment in the region. For each section, the impact of the crisis will also be discussed. Finally, some conclusions will be drawn concerning the overall impact of the economic crisis on the broad scope of relations between Greece and the Balkan countries, and on Greece's role and standing in the region.

A note on the data

Before proceeding with the analysis of economic relations, it is important to make some clarifications concerning the choice of the data sets used in this section of the report. Regarding trade figures, it must be pointed out that there is a noteworthy divergence between the statistics provided by ELSTAT (Hellenic Statistical Service) and the equivalent statistical services in the Balkan countries. These discrepancies are visible in the measurements of both volume and value of trade, as well as in the breakdown of trade transactions by commodity. Given, however, that it is the data provided by ELSTAT that is used by EUROSTAT in order to calculate the EU's total external trade, it was deemed more appropriate in this context to use ELSTAT's data.

The data concerning Greek direct investment in the Balkan countries is from the Bank of Greece. Again, it must be pointed out that there is a significant discrepancy between these figures and those provided by various sources from the Balkan countries, with the latter usually being significantly higher. One possible explanation for this divergence may be different methodologies for calculation of investment flows: for example the Balkan countries often report "gross" FDI (the total amount of FDI that enters the country, *without* subtracting repatriated funds such as possible repayment of loans taken out by the investors from Greek banks, payment of taxes in Greece, etc). Moreover, the Bank of Greece reports the flows of funds that have *actually* been invested, and not the "intention" of investment, as is often the case from Balkan sources: often large investment projects are announced, for which only a fraction of the announced capital is *actually* invested. Finally, as with ELSTAT, the Bank of Greece was chosen as a source of data because it is the only official source of Greek investment figures (inward and outward flows, as well as stock) and is the sole provider of data for international institutions' investment reports - such as UNCTAD (World Investment Report).

II. 1. The Hellenic Plan for Economic Reconstruction of the Balkans (HiPERB)

The necessity for a more coordinated and coherent Greek strategy vis-à-vis the Balkan states emerged after the war in Serbia in 1999. It had become apparent that neither the European Union nor Greece had a clear concept of what their political and economic strategy for the region should be. As the most developed country in the Balkan region and the only country to be simultaneously a member both of the EU and NATO, Greece was uniquely placed to play

a constructive and crucial role in the political and economic stability of the region. Against this background, the Hellenic Plan for the Economic Reconstruction of the Balkans emerged as a response to the hitherto international policy void, and provided the necessary framework to allow Greece to assume its role in the region.

The Hellenic Plan for the Economic Reconstruction of the Balkans was conceived by the Ministry of Economics of Greece in 1999. It was designed to work in conjunction with the EU's Stability Pact; its aim was to provide funding for the creation or maintenance/repair of infrastructure in the transition economies of the Balkan area, as well as to facilitate Greek direct investment in those countries.⁶⁶ The geographical breakdown of funds – estimated for the period 2000-2004 at \$US 325.61 million - between the receiving countries was based on several criteria, including the damages sustained during the military conflicts in the area, infrastructure needs, the level of FDI inflows into each country, and the level of economic and social development of each country (based on GDP per capita and its ability to absorb the funds).⁶⁷ The Plan's seven recipient countries - Albania, Bosnia and Herzegovina, Bulgaria, FYROM, Montenegro, Romania, and Serbia - are not only Greece's trade partners, but often serve as transit countries linking Greece with the rest of Europe and the greater region.⁶⁸

There were several important reasons why Greece undertook the initiative to create and implement the plan. Specifically:

- Economic reconstruction of the Balkan area was seen as a *sine qua non* for the social and political stability of the region, the lack of which could have profound negative implications for Greece. Thus, Greek policy makers believed it was in Greece's long-term interest to promote and maintain this stability by supporting *inter alia* the financing of crucial development targets and infrastructure projects (transport, energy, environment) and the organisation of public services;
- ongoing economic crises were seen as the main stimulants of organised crime, (particularly human and drug trafficking) which greatly affected the entire Balkan region, including Greece;
- the participation of Greek enterprises in the economic development of the Balkan area could provide important benefits and development prospects for the Greek economy, as Greek companies could participate in important infrastructure and construction projects;
- as a member state of the European Union and a member of the OECD Development Assistance Committee (DAC), Greece had committed itself to the annual increase of

⁶⁶ *Greek Plan for the Economic Reconstruction of the Balkans*, Division of International Economic Relations, Ministry of Economics, Athens 1999.

⁶⁷ Ministry of Economics, Athens, 1999.

⁶⁸ S. Milingos, "The Greek Plan for developmental assistance to the Balkans and Greek enterprises", (in Greek), *Agora without Frontiers*, 8,1, 2002, p. 29.

its international development assistance, with a view to ultimately achieve the target of 0,51% of its Gross National Income;

- finally, the Hellenic Plan for the Economic Reconstruction of the Balkans was seen as a tool of economic diplomacy, providing an opportunity to enhance Greece's strategic and diplomatic image abroad and promoting it as a major player and factor of stability in the Balkan region.⁶⁹

Despite the acknowledged importance of the Plan both for Greece and the Balkan region, the first few years following its inception showed few substantial results. From the very beginning, the Plan fell victim to critical problems such as bureaucratic red tape, lack of coordination between the two ministries responsible for the implementation of the Plan (Ministry of the Economy and Ministry of Foreign Affairs),⁷⁰ financial difficulties, and finally, political problems and weakness in the administration and infrastructure of the recipient countries.⁷¹

In 2002, the Greek Parliament passed a law aimed at accelerating the implementation of the Plan. According to the law, the budget for the Plan was set at €550 million for the period 2003-2007 (Table 1). The largest part of the budget (79 percent) was to be channelled directly to public investment of the recipient countries under Greek supervision, 20 percent was to be used for financing Greek private investment (co-funding), while 1% was allocated directly to the so-called small projects, chosen by the Greek embassies in the recipient countries and with direct effect on local communities.

⁶⁹ C. Tsardanidis and A. Houliaras, "The Rise and Fall of the Greek Plan for the Economic Reconstruction of the Balkans", *Agora without Frontiers*, 11, 1, 2005, (in Greek) p. 38.

⁷⁰ V. Sitaras, *The Greek Five Year Plan for the Reconstruction of the Balkans*, Unpublished MA Thesis, Department of Political Science and Public Administration, University of Athens, 2004, p. 22

⁷¹ Tsardanidis, pp. 42-45.

Table 1: Hellenic Plan for the Economic Reconstruction of the Balkans

HiPERB COUNTRIES	Public Investments/ Large projects (79%)	Private Investments (20%)	Small Projects (1%)	Country Total (in €)
Albania	39.413.100	9.978.000	498.900	49.890.000
Bosnia-Herzegovina	15.428.700	3.906.000	195.300	19.530.000
Bulgaria	42.889.100	10.858.000	542.900	54.290.000
Montenegro	13.825.000	3.500.000	175.000	17.500.000
FYROM	59.123.600	14.968.000	748.400	74.840.000
Romania	55.639.700	14.086.000	704.300	70.430.000
Serbia	183.675.000	46.500.000	2.325.000	232.500.000
Kosovo	11.850.000	3.000.000	150.000	15.000.000
Administrative costs (2.91%)				16.020.000
Subtotal:	421.844.200	106.796.000	5.339.800	
TOTAL:				550.000.000

Source: Ministry of Foreign Affairs: <http://www.mfa.gr>, downloaded 18 December 2013

Bilateral agreements were signed in order to provide the necessary framework for the dissemination of funds.⁷² The bilateral agreements between Greece and each participant country outlined the following priority areas:

- upgrading of infrastructure, particularly in the sectors of energy and transportation;
- promoting investment;
- modernising the civil service and regional government;
- strengthening democratic institutions and support for the rule of law;
- balancing economic inequalities.

Although the Plan had been re-launched in 2002, its implementation did not begin in earnest until after 2004. The main reason for this lack of activity would appear to be the fact that during this period Greece had been overextended financially: in light of the very arduous fiscal responsibilities relating to Greece's attempts to join the Economic and Monetary Union, and the cost of the 2004 Olympic Games, assuming the necessary costs for the Plan almost seemed like a luxury. As most progress on the Plan's goals was achieved after 2005, it was deemed necessary to extend its duration until 2011 in order to maximise efficient absorption of funds and implementation of projects.

⁷² "Greek Plan for the Economic Reconstruction of the Balkans", Ministry of Foreign Affairs, in <http://www.mfa.gr>, downloaded on 18 December, 2013.

Public investments/ large projects

Public sector and large project activities - that account for 79% of the total budget – involve a variety of projects and actions, for which official proposals are submitted by the governments of the recipient countries through their National Coordinators. These proposals must be approved by the HiPERB Monitoring Committee, which is presided over by the Foreign Ministry's Secretary General for International Economic Relations and Development Cooperation. In addition to economic evaluation criteria, the Committee bases its decisions on an assessment of the compliance of each investment proposal with the HiPERB mission and goals. The *modus operandi* for the financing of large projects was for the HiPERB to pay for 80% of the budget (in instalments) over the course of the project's implementation, and deposit the remaining 20% upon completion.

As can be seen in Table 1, the total sum allocated for the implementation of public investments and large projects in all the recipient countries amounts to €421.8 million. To date, a total of 11 projects have been approved in recipient countries, at an estimated €157.3 million, which accounts for 37.3% of the total budget allocated for investments in the public sector. Thus far, overall commitments have amounted to €222.2 million for 17 projects (52.7% of the total budget). Specifically, actions and programmes per country have developed as follows:

Albania

The upgrading of the Sagiada-Konispol-Sarande Highway (40.5 km in total length) was approved, for a total cost of €29.9 million (of which the HiPERB contribution was to be €23.9 million). Although 80% of the project had been financed by 2011, the Albanian partners did not proceed with the required co-financing. As a result, the Greek construction company Aktor has departed from the project, thus leading to its indefinite suspension; payment of the remaining 20% of the financing has therefore been frozen.

Bosnia and Herzegovina

The reconstruction and renovation of the Greek-Bosnian Friendship government building in Sarajevo was budgeted at €16.9 million, of which the HiPERB's contribution was €13.5 million. This building was completed and inaugurated in July 2007. A proposal for the reconstruction of part of the Kasindo hospital (Serbia Pavillion) in eastern Sarajevo, with a total budget of €2.9 million - of which the HiPERB contribution would be €1.9 million – is still under evaluation.

Bulgaria

Several important projects have been completed, including the purchase of equipment for the Kurdzhali regional hospital operational ward (total cost €918,420, of which the HiPERB contribution was 734,736); the purchase of medical equipment for the Vratsa regional oncology hospital (total cost €175,000, of which the HiPERB contribution was €157,500);

and the construction of a regional oncology clinic in Smolyan (total cost €1.4million, of which the HiPERB contribution was €1.1million). The tenders for the SeeLight project (South-East European Lambda Network Facility for Research and Education/Interbalkan optic fibre network infrastructure for Research and Education), an optic-fibre broadband network for the interconnection of academic communities (total cost €6.0 million, of which the HiPERB contribution is to be €4.8m million) have had to be re-negotiated as they surpassed the budget allocations.

Montenegro

A proposal has been approved for financing the upgrading of the oncology clinic of the Montenegro-Podgorica Hospital, which *inter alia* involves renovation and purchase of equipment for the oncology clinic. The total cost of this project is € 1.3 million, of which HiPERB participation will be €1.0 million.

FYROM

The upgrading of the Pan European Corridor X to motorway standards is considered a top priority project. It concerns two main sections: some seven kilometres between Tabanovce and Kumanovo and 33 kilometres between Demir Kapija and Smokvica. The total budget is estimated at approximately €165 million, of which HiPERB participation is estimated at €50 million. Both the EIB and the EBRD have demonstrated an interest in co-financing this project. The SeeLight project has been approved, with a total cost of €2.0 million, of which HiPERB participation will amount to €1.6 million. However, implementation of the project is running extremely behind schedule, and therefore may be suspended.

Romania

To date, two proposals have been approved, with a total budget of €8.2 million (of which HiPERB participation will be €6.6 million). These proposals involve the renovation and modernization of the Museum of the 21st century in Constanta (total budget of €2.5 million, with HiPERB participation of €2 million), and the SeeLight project, with a total budget of €5.7 million, of which HiPERB participation will be €4.6 million. Both projects are running extremely behind schedule and as such may be suspended. The following projects are also under evaluation: a project for the reconstruction of the regional Medical Centre for emergency cases in Targu Mures (total budget of €10.8 million, and HiPERB participation of €7.0 million), the St Maria Children's Emergency Hospital in Iasi (total cost of €4.4 million, and HiPERB participation of €2.9 million), and infrastructure modernization in the Izvoarele community, in the county of Tulcea (total cost of €3.1 million, with HiPERB participation at 100% of the total).

Serbia

Two proposals have been approved so far. The biggest infrastructure project to be financed through HiPERB funds concerns the construction of part of the PanEuropean Corridor X between Nis (Serbia) and FYROM's borders, creating a total length of 74.6 kilometres. The

overall budget is estimated at close to €500 million, with HiPERB participation accounting for about €100 million. The project has been completed, but the final payments have not been deposited due to a lack of funds. The second major project to be approved is the SeeLight project, for a total cost of €6.1 million, of which HiPERB participation will be €4.9. Similarly, although the project has been completed, the funds have not been deposited from the Greek side.

Private productive investments

Responsibility for private investments is under the Ministry of Economy's General Secretariat for Investments and Development. Proposals are evaluated by this General Secretariat and are then presented to the Ministry's appropriate Central Advisory Committee for approval. Members of this Committee, with voting rights, are the Secretary General for International Economic Relations and Development Cooperation of Foreign Affairs and two representatives from the responsible Directorate of the Ministry. The HiPERB minimum and maximum subsidy for private investments is set between €800.000 and €5 million for investments in the manufacturing sector, and between €300.000 and €1.5 million for investments in the agricultural sector. The subsidy's maximum rate is established at 30% of the total cost of the investments. As shown in Table 1, the amount allocated for strengthening private investments in all recipient countries totals €106.8 million. To this day, subsidies have been approved for 62 proposals, at a total cost of €42.4 million, i.e. 39.7% of the total budget. Specifically, actions and programmes per country have evolved as follows:

Albania

15 proposals have been approved, with a total cost of €31.5 million, of which HiPERB participation is €9.5 million (about 95.4% of the amount allocated for private projects), and 480 new jobs have been created.

Bosnia and Herzegovina

No particular interest from private investors has been demonstrated so far; thus, no application for private investment subsidy has yet been approved.

Bulgaria

14 applications have been approved for subsidizing private production investments – of which seven have already been completed - with a total cost of €38.9. Total HiPERB participation amounted to €11.7 million (exceeding the initial budget allocation of €10.8 million). Jobs created through the implementation of these investments exceed 1.582 (of which 334 are attributed to seasonal employment).

Montenegro

No application for private investment subsidies has been submitted thus far.

FYROM

6 proposals have been approved to this day, for a total cost of €9.6 million. HiPERB participation amounts to €2.8 million - 19.1% of the total budget allocation – while 660 new jobs have been created.

Romania

19 proposals have been approved thus far, with a total cost of €44.1 million. HiPERB participation amounts to €12.2 million, which accounts for 86.6% of the total budget allocation for private projects. 944 new jobs have been created.

Serbia

Although €46.5 million have been budgeted for HiPERB-funded private projects in Serbia, only 8 projects have been approved thus far, for a total of €6.1 million. Although these projects have created 375 new jobs, Serbia's 13.2% absorption rate is one of the lowest (excluding Bosnia and Montenegro) of all the HiPERB recipients.

Small Projects Fund

According to the individual Development Cooperation Agreements between Greece and each of the HiPERB's seven recipient countries, 1% of the Plan's total funds has been placed at the disposal of Embassies of Greece in these countries for Small Projects. The aim of this Fund is to provide "emergency support" to small-scale technical projects, with an immediate impact on local communities. Each project's cost must not exceed €50,000. Proposals for small projects are submitted to the Greek Embassy in each recipient country, which then forwards it to the Foreign Ministry, accompanied by a positive or negative evaluation, for final assessment and approval. As can be seen in Table 1, the available amount for the implementation of small projects in all HiPERB recipient countries is €5.3 million. To date, the total amount of funds approved - for the construction of 77 small-scale projects - is €2.1 million, i.e. 39.6% of the Small Projects Fund total budget. The specific actions and programmes per country have developed as follows:

Albania

30 projects with a total cost of €498,900 have been approved, thus accomplishing a rate of absorption of 100%.

Bosnia and Herzegovina

To date, 8 projects have been approved, with a total budget of €191,169. The projects are mainly in the field of social welfare, such as laboratory equipment, IT equipment, first-aid mobile units. The rate of absorption is 97.8%.

Bulgaria

6 small projects have been approved thus far, with a total cost of €247,820 (45.6% of the total budget for small project funding).

Montenegro

Three small projects and actions of a total cost of €35,560 (20.3% of the total) have been funded to date.

FYROM

8 proposals have been approved to this day, for projects of a total cost of €302,700. These projects are mostly of a social character: purchase of first-aid mobile units for Skopje, Bitola and Tetovo, provision with medical equipment, etc. The rate of absorption is 40.4%.

Romania

9 small projects have been approved thus far, with a total cost of €414,163, accounting for 58.8% of the total budget for small project funding.

Serbia

13 projects have been approved thus far, mostly for the construction and repair of schools, support for elderly homes and hospitals, repair of a small dam, etc. The total cost amounts to €422,410, accounting for only 18.2% of the total budget allocation for small project funding.

Some conclusions

An evaluation of the progress of the Hellenic Plan for the Reconstruction of the Balkans indicates that despite some achievements in the past few years, the HiPERB is still very far from attaining the goals and expectations it created. As was discussed above, from the very beginning the Plan was confronted by crucial impediments that ultimately handicapped the smooth implementation of the programmes. These constraints were present in both the supply side (Greece) and the demand side (recipient countries). As far as the recipient countries are concerned, the obstacles included tedious bureaucratic red tape that impeded the flow and accessibility of information, domestic political problems relating to incomplete transitions, and weakness in their administration and infrastructure. Crucially, the recipient countries lacked the management, experience and know-how necessary in order to prepare comprehensive proposals for the projects, and were often unable to fully take advantage of available investment opportunities.⁷³ This was one of the main reasons for the low absorption rate of funds, particularly in the area of large public investments.

As far as problems stemming from Greece are concerned, these also include intricate bureaucratic procedures, lack of coordination – and even conflict - between the two ministries

⁷³ Tsardanidis, pp. 42-45.

responsible for the implementation of the Plan (Ministry of the Economy and Ministry of Foreign Affairs),⁷⁴ and financial difficulties. Thus, although the plan had been extended until 2011, already from late 2008 the crisis had started impacting the flow of funds.

All the above factors prohibited the HiPERB from achieving its full potential and attaining many of its goals. Its accomplishments as a tool of economic foreign policy and foreign influence are questionable. Moreover, while some success has been achieved in the area of private investment projects – and small projects have fared even better – the large public investment projects have been characterised by a limited absorption of funds and significant delays in their implementation. Specifically, it is estimated that approximately 10-15% of the funds have actually been absorbed.

The ongoing multi-levelled crisis in Greece – that encompasses issues of sovereign debt, IMF supervision, declining standards of living for the Greek population, and acute social and political turmoil - does not allow for much optimism concerning acceleration in the implementation and achievement of further HiPERB targets. It is clear that foreign assistance is no longer a priority of the Greek government. In fact, in 2013 it was decided that any project approved by the HiPERB committee that not yet started, would be cancelled; all the recipient countries were notified to this effect.

⁷⁴ V. Sitaras, *The Greek Five Year Plan for the Reconstruction of the Balkans*, Unpublished MA Thesis, Department of Political Science and Public Administration, University of Athens, 2004, p. 22.

II.2. Trade Relations between Greece and its Balkan Neighbours: Evolution and composition of trade

Prior to 1989-1990, Greece had neither direct access to the economies of the surrounding region nor had its companies developed significant international operations. With the exception of Greek shipping – an activity pursued on a global scale – and construction in the Middle East following the first oil boom, until the late 1980s Greek companies were exporting primarily to Western Europe, and engaged in very little other cross-border activities or investment.

The collapse of the centrally planned economies in Central and Eastern Europe and the Balkans and their subsequent transition to open market economies offered a new prospect for Greek economic activities. Over the next two decades, Greece established a strong and dynamic presence in the Balkan region, emerging as a leading trade and investment partner for most Balkan countries.⁷⁵ This strong Greek presence has been driven by a combination of favourable factors, including geographical proximity, a significant knowledge of regional and country-specific idiosyncrasies, an understanding of historical developments and familiarity with cultural particularities, as well as a greater understanding of the risks involved in investing in the region.⁷⁶ Moreover, it would appear that Greece - despite its European orientation and its membership in the European Union - has maintained a solid “Balkan identity” and a commitment to participating in developments in the region.

Albania

After a slow start in the early 1990s due to political tensions between the two countries, trade between Greece and Albania started growing after 1994 and grew consistently thereafter.⁷⁷ As Table 2 illustrates, between 1994 and 2001, *total trade* between the two countries grew by 102.5%, from €209.9million to €425.1million. As a result of the turbulence in the area in 2001, trade transactions contracted over the next two years; however, this trend was reversed in 2004, and trade continued to grow consistently over the next few years, peaking at €637.9 million in 2008.

⁷⁵ G. Petrakos, “Economic Development of the Balkan Countries and the Role of Greece: from bilateral relations to the challenge of integration”, Discussion Paper Series no. 1620, CEPR/University of London, 1997.

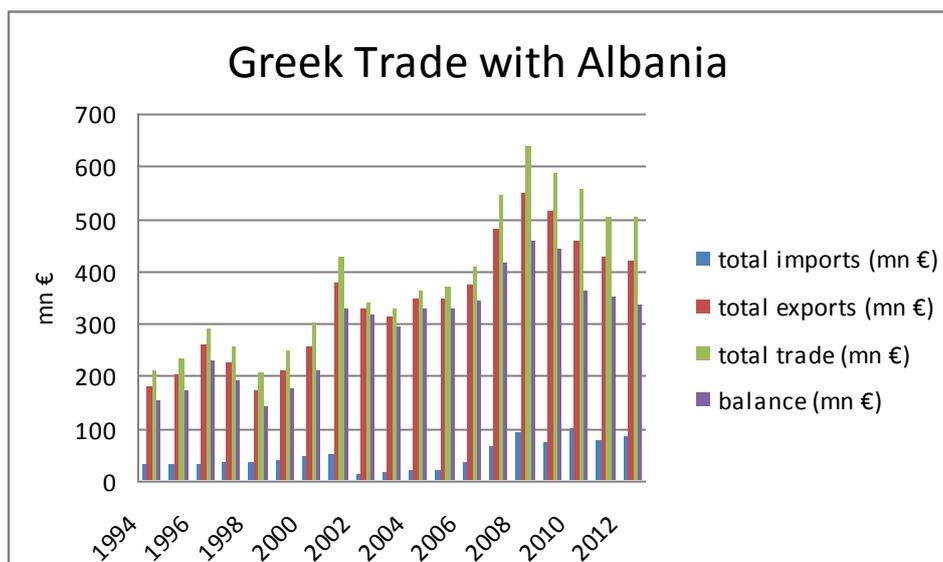
⁷⁶ C. Michalopoulos, “The Western Balkans in world trade: some implications for Greece”, *Southeast European and Black Sea Studies*, 8 (3), 2002.

⁷⁷ G. Petrakos, *The New Geography of the Balkans: Cross-Border cooperation between Albania, Bulgaria and Greece*, Series on Transition in the Balkans, vol. 1, University of Thessaly Press, Volos, 1996.

Table 2: Greek Trade with Albania

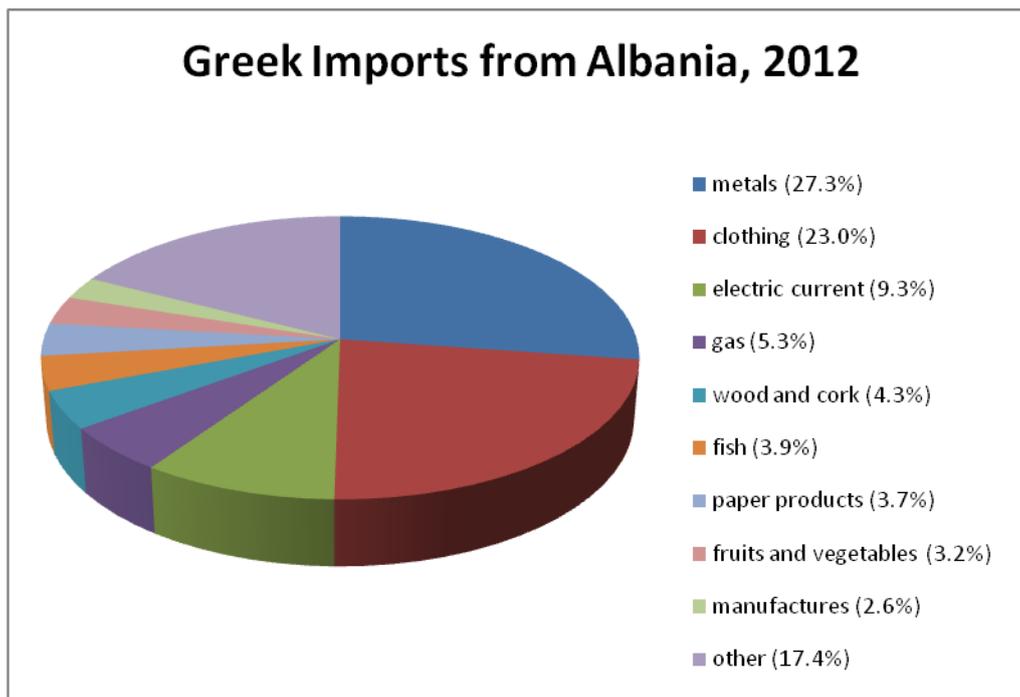
year	total imports (mn €)	total exports (mn €)	total trade (mn €)	balance (mn €)
1994	29.82	180.11	209.93	150.29
1995	29.00	201.99	230.99	172.98
1996	29.48	259.43	288.90	229.95
1997	32.56	222.98	255.54	190.41
1998	32.94	172.21	205.15	139.28
1999	37.66	210.77	248.43	173.11
2000	45.43	255.68	301.11	210.25
2001	48.78	376.36	425.14	327.58
2002	10.35	327.26	337.62	316.91
2003	17.04	310.87	327.91	293.82
2004	18.59	344.50	363.09	325.91
2005	19.63	348.07	367.70	328.44
2006	33.06	373.67	406.74	340.61
2007	64.39	479.72	544.11	415.33
2008	90.54	547.43	637.97	456.89
2009	72.69	514.80	587.49	442.11
2010	97.23	458.02	555.25	360.79
2011	76.90	426.30	503.20	349.40
2012	82.07	418.22	500.29	336.15

Source: ELSTAT (National Statistical Office of Greece)

Figure 22.

Greek *imports* from Albania grew consistently between 1994 and 2001. They contracted sharply in 2002 (from €48.8 million to €10.3 million, i.e. a decline of 78.9%) due to the instability of the previous year that impacted Albania's economy and its export capacity. However, Albanian exports to Greece started recovering in 2003 and grew consistently thereafter, peaking at €90.5mn in 2008.

Figure 23.

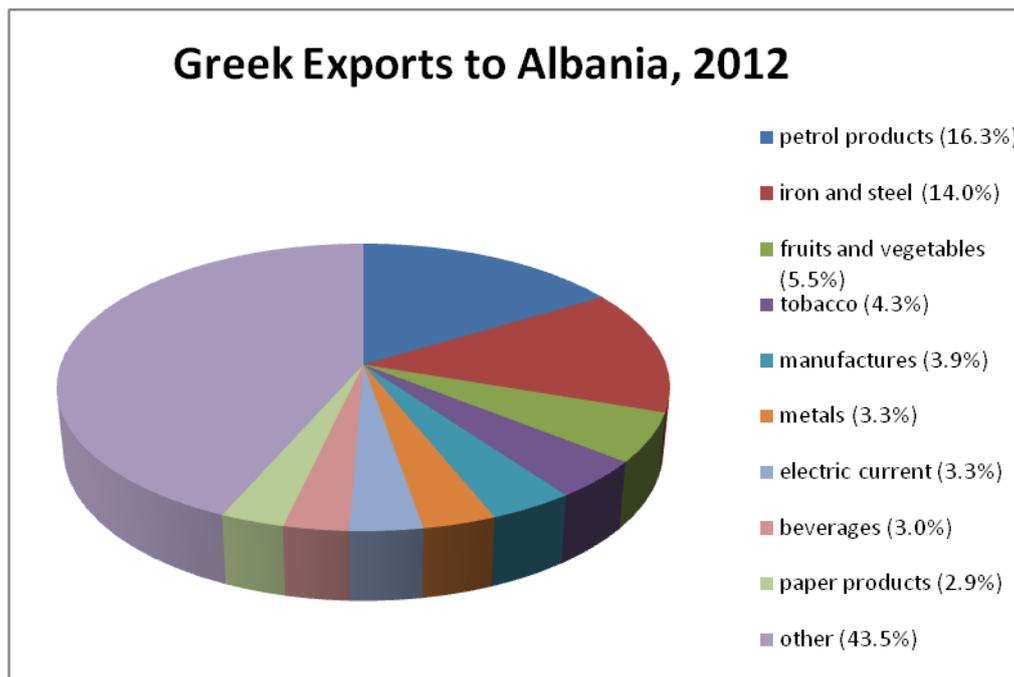


Considering the *composition of Greek imports* from Albania, the strongest category over the past years has been that of articles of apparel and clothing accessories, which consistently accounted for over 40% of total Greek imports from Albania between 1995 and 2000. Imports of products from this sector reached a peak in 2000, accounting for 69.3% of the total. Although it remained a very important sector, after 2002 other dynamic categories emerged, most notably electric current, metalliferous ores and metal scrap, cork and wood. As can be seen in Figure 23, the key sectors of Greek imports from Albania in 2012 were metalliferous ores and metal scrap (27.3% of the total), articles of apparel and clothing accessories (23.0% of the total), electric current (9.3% of the total) and gas products (5.3% of the total).

Greek *exports* to Albania have been growing consistently since 1994 (with the exception of 1998, as a result of the pyramid crisis, and 2002-2003, in the aftermath of the crisis in FYROM whose fallout deeply affected Albania). Exports peaked at €547.3 million in 2008. Concerning the *composition of Greek exports* to Albania, the dominant sector since 1999 has consistently been that of petroleum and petroleum products, accounting for 34.6% of total

exports in 2008. Other sectors include beverages, cereals, iron and steel, non-metallic mineral manufactures and fruits and vegetables. In 2012 the top sectors of Greek exports to Albania were petroleum and petroleum products (16.3% of the total), iron and steel (14.0% of the total), fruits and vegetables (5.5% of the total) and tobacco and tobacco manufactures (4.3% of the total).

Figure 24.



With some fluctuations, Greece's *trade balance* with Albania has been consistently positive. With the exception of the turbulent period 2001-2003, the trade surplus has been constantly growing since 1998, peaking in 2008 at €456.9 million.

The Greek economic crisis has clearly impacted trade relations between Greece and Albania. As illustrated in Table 1, after contracting by an initial 7.9% in 2009, *total trade* continued to decline steadily over the next few years; thus, between 2008 and 2012, total trade between Greece and Albania declined by 21.6%, falling from €637.9 million to €500.3 million. Greek *imports* from Albania fell by 19.7% between 2008 and 2009, the first official year of the crisis. Although there was a small upswing in 2010, imports fell again the following year. Despite a slight increase in 2012, imports from Albania experienced an overall contraction of 9.2% during the 2008-2012 period. Crucially, Greek *exports* to Albania were strongly affected by the crisis, as witnessed by their dramatic decline after 2008: between 2008 and 2012, Greek exports to Albania contracted by 23.6%, falling from €547.4 million to €418.2 million. Due to the extremely high rate of contraction of exports compared to imports, Greece's *trade balance* was also negatively impacted: between 2008 and 2012, Greece's trade surplus with Albania decreased by 26.4%, falling from €456.9 million to €336.1 million.

Bosnia-Herzegovina

Compared to the other Balkan countries, Greece's trade relations with Bosnia-Herzegovina have been traditionally very limited: however, in the early years of bilateral transactions, these relations experienced a remarkable *rate* of growth, growing from €1.1 million in 1995 to €56.3 million in 2002. Trade flows fell over the next few years, but started growing after 2007, reaching €54.5 million in 2008 (Table 3).

Figure 25

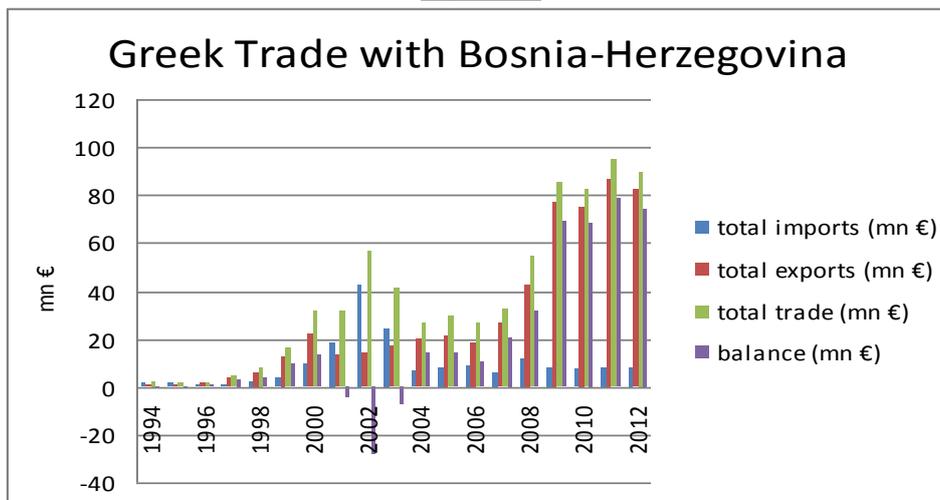


Table 3: Greek Trade with Bosnia-Herzegovina

year	total imports (mn €)	total exports (mn €)	total trade (mn €)	balance (mn €)
1994	1.63	0.42	2.05	-1.22
1995	0.94	0.19	1.13	-0.76
1996	0.39	1.09	1.48	0.69
1997	0.78	3.70	4.49	2.92
1998	2.31	5.59	7.91	3.28
1999	3.35	12.55	15.90	9.19
2000	9.23	22.25	31.48	13.02
2001	18.00	13.26	31.26	-4.74
2002	42.40	13.89	56.30	-28.51
2003	24.44	16.65	41.09	-7.80
2004	6.33	19.91	26.24	13.58
2005	7.67	21.27	28.94	13.60
2006	8.37	18.31	26.68	9.94
2007	6.01	26.37	32.39	20.36
2008	11.59	42.88	54.47	31.30
2009	8.01	77.32	85.33	69.31
2010	6.89	75.31	82.20	68.43
2011	8.00	86.66	94.66	78.66
2012	7.79	82.24	90.03	74.45

Source: National Statistical Office of Greece

As can be seen in Table 3, Greek *imports* from Bosnia were negligible between 1994 and 1999. They started growing after 2000, reaching a peak of €42.4 million in 2002. Imports started declining after 2002, eventually reaching €11.6 million in 2008. The main sectors of Greek imports from Bosnia are non-ferrous metals (accounting for 85.3% of total imports in 2000), electric current (70.7% of total in 2002), articles of apparel and clothing accessories (56.3% in 1995) transport equipment (63.9% in 2008), iron and steel (51.4% of total in 2011), textile yarn fabrics (46.7% in 1994), and cork and wood (34.1% in 2007). As can be seen in Figure 26, the most important Greek imports from Bosnia in 2012 were iron and steel (39.6%), paper and articles of paper (28.8%), cork and wood (7.1%), inorganic chemicals (5.7%) and prefabricated buildings (5.3%).

Figure 26.

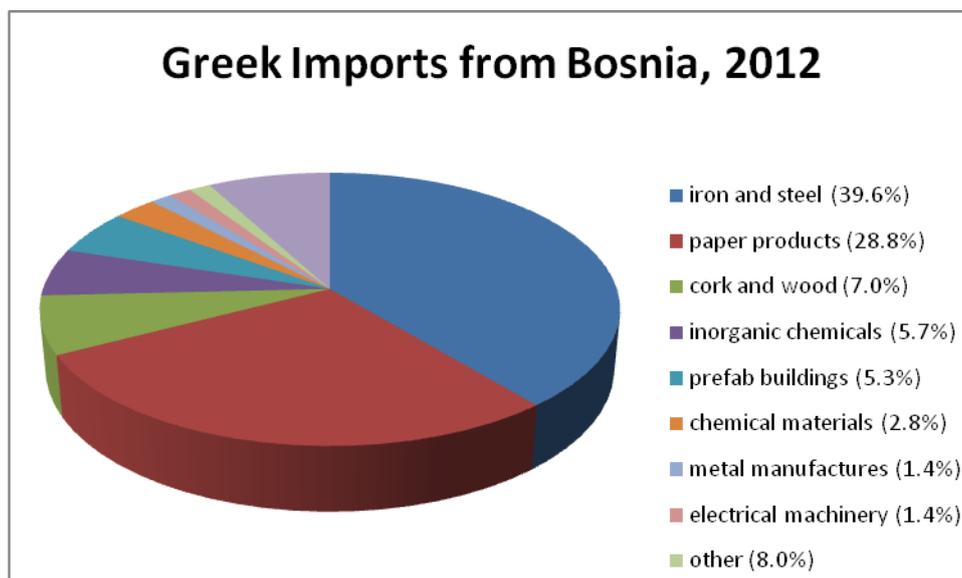
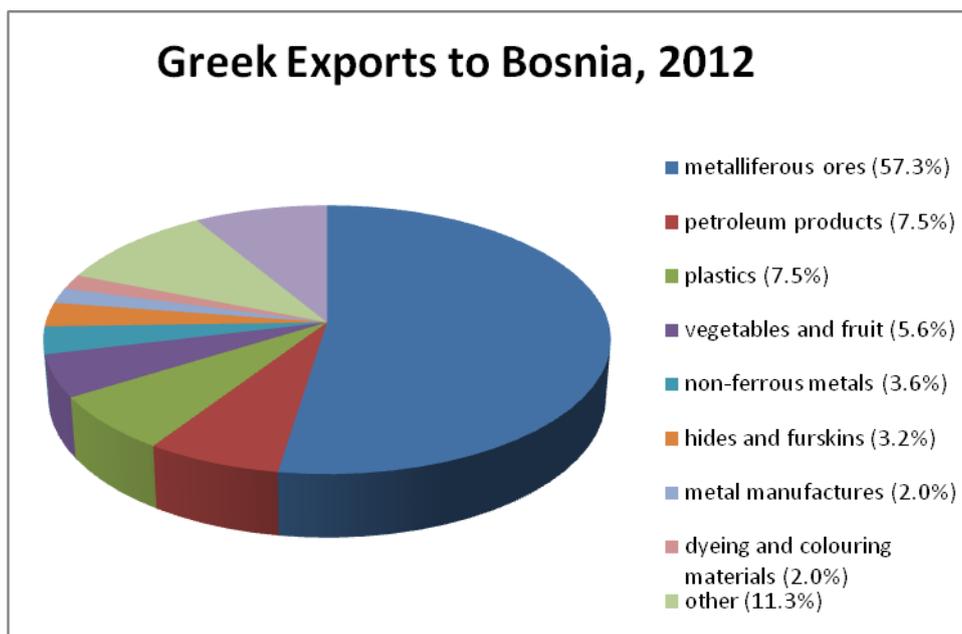


Figure 27.



Starting at negligible levels in 1994, Greek *exports* to Bosnia grew slowly but consistently, peaking at €22.2 million in 2000. Although exports fell over the next two years they started growing again after 2003, eventually reaching €42.9 million in 2008. The key sectors of Greek exports to Bosnia are fruits and vegetables (76.0% in 1995), metalliferous ores and metal scrap (63.2% in 2010) and petroleum (48.1% in 2000). As Figure 27 illustrates, the most important Greek exports to Bosnia in 2012 were metalliferous ores and metal scrap (57.3%), petroleum (7.5%), plastics in primary forms (7.5%) and fruits and vegetables

(5.6%). Greece's *trade balance* with Bosnia has been consistently positive, with the exceptions of the period 2001-2003, when static exports were counter-balanced by a boom in imports.

Interestingly, the crisis in Greece has not had a negative impact on trade relations between Greece and Bosnia. On the contrary, *total trade* between the two countries grew by 56.6% between 2008 and 2009, from €54.5 million to €85.3 million. By 2012, spurred on by a strong increase in exports, total trade had reached €90.0 million, marking a 65.2% increase from 2008. With Greek imports declining (by 32.7%), and exports growing strongly (by 91.7%), Greece's *trade surplus* increased greatly: between 2008 and 2012, the trade surplus grew from €31.3 million to €74.4 million, i.e. by 137%.

Bulgaria

Greece has developed a very dynamic and robust trade relationship with Bulgaria: since 1994, with few exceptions, *total trade* between the two countries has grown consistently, reaching a peak of €1.1 billion in 2001. After a small contraction in 2002, total trade registered an upward momentum over the following years, reaching €2.6 billion in 2008 (Table 4).

Figure 28

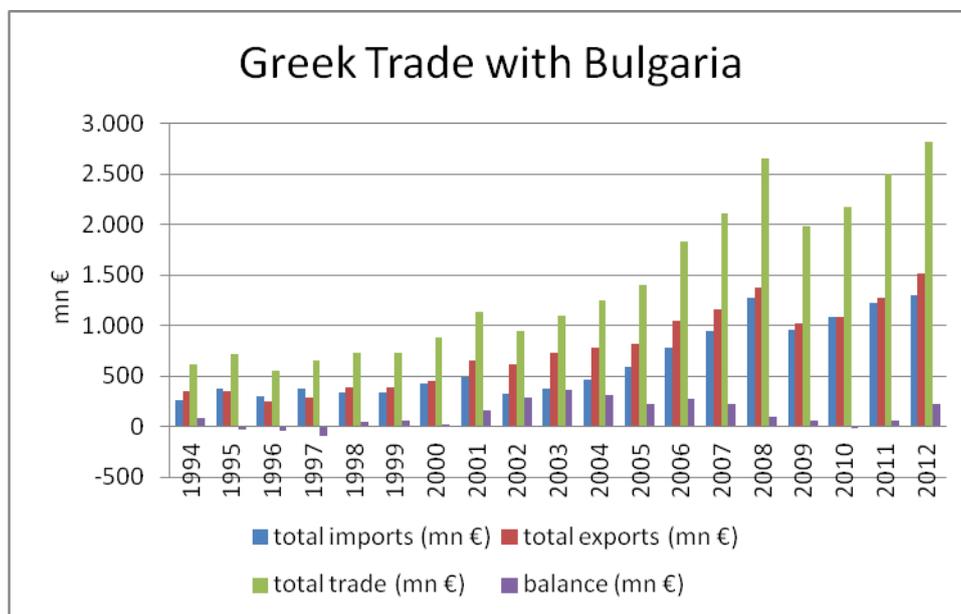


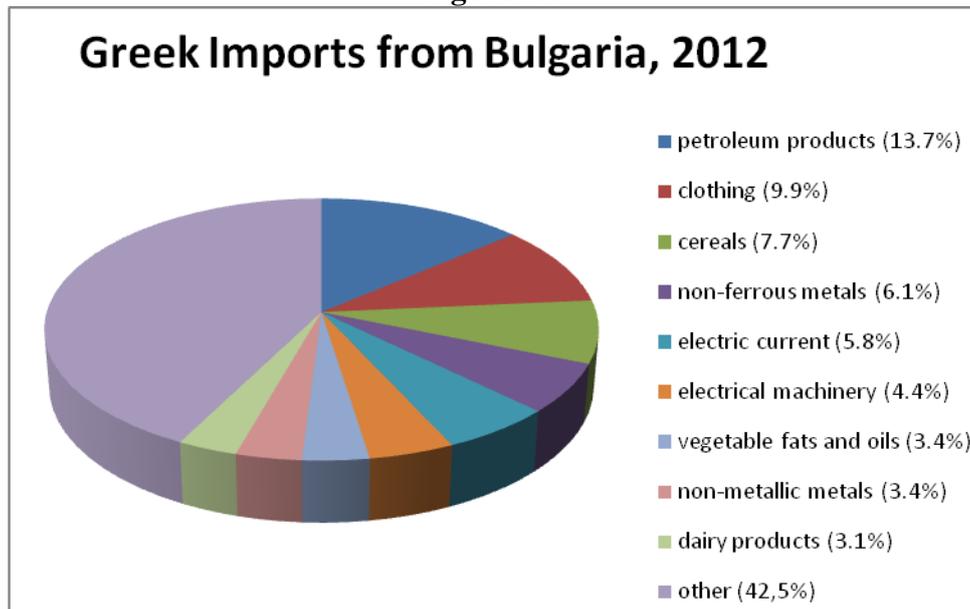
Table 4: Greek Trade with Bulgaria

year	total imports (mn €)	total exports (mn €)	total trade (mn €)	balance (mn €)
1994	262.84	348.98	611.82	86.14
1995	374.19	345.93	720.12	-28.26
1996	297.62	250.68	548.30	-46.94
1997	371.46	283.42	654.87	-88.04
1998	337.07	386.43	723.50	49.37
1999	336.37	391.49	727.86	55.12
2000	426.90	452.06	878.96	25.16
2001	486.98	649.24	1,136.22	162.26
2002	327.32	619.04	946.36	291.71
2003	371.26	730.01	1,101.27	358.76
2004	464.35	779.59	1,243.94	315.24
2005	589.03	817.04	1,406.08	228.01
2006	776.60	1,051.91	1,828.51	275.31
2007	940.14	1,163.57	2,103.70	223.43
2008	1,277.84	1,369.99	2,647.83	92.16
2009	962.32	1,022.71	1,985.03	60.39
2010	1,089.09	1,082.20	2,171.29	-6.89
2011	1,217.48	1,280.33	2,497.81	62.85
2012	1,296.32	1,516.68	2,813.01	220.36

Source: ELSTAT (National Statistical Office of Greece)

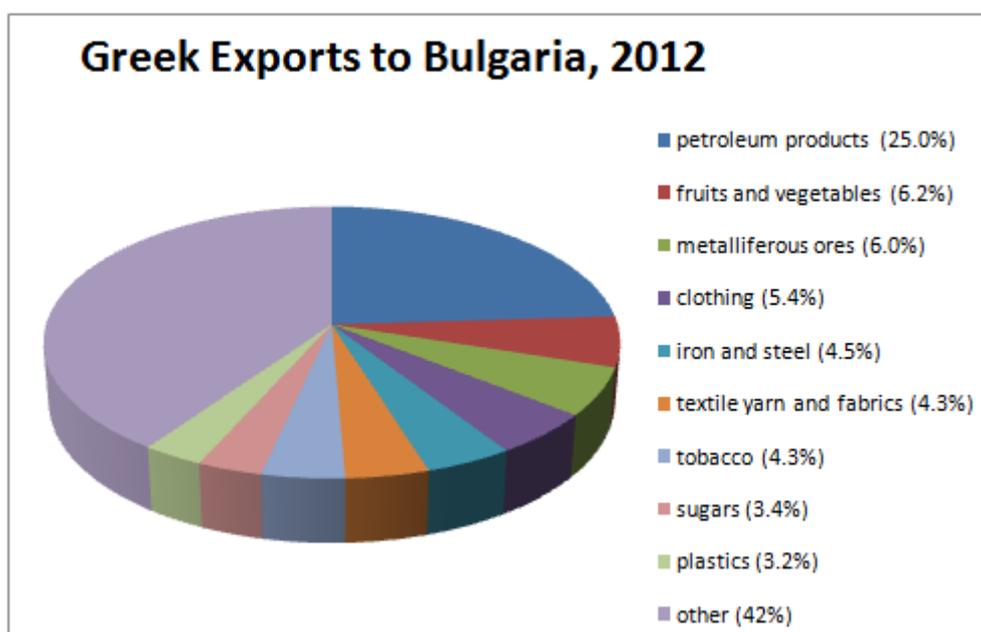
As far as Greek *imports* from Bulgaria are concerned, they grew consistently after 1994 - with marginal fluctuations - peaking at €1.3 billion in 2008. Greek imports from Bulgaria consist mostly of non-ferrous metals (32.1% of the total in 1995), articles of apparel and clothing accessories (41.8% in 2000), iron and steel (17.3% in 2004) and electric current (15.5% in 2005). Other imports include cork and wood, meat and meat products, and inorganic chemicals. After 2011, the sector of petroleum and petroleum products emerged as a leading source of imports, accounting for 13.7% of total Greek imports from Bulgaria in 2012 (Figure 29).

Figure 29.



Greek *exports* to Bulgaria have also been steadily increasing since 1994 - also with marginal fluctuations - peaking in 2008 at €1.4 billion. The most important Greek exports to Bulgaria are articles of apparel and clothing accessories (peaking at 29.8% in 2002) and petroleum and petroleum products (25.0% in 2012). Other exports include iron and steel, fruits and vegetables, textile fibres and non-ferrous metals.

Figure 30.



After three years of a trade deficit (1995-1997), Greece's *balance of trade* with Bulgaria has been consistently positive, peaking at €358.8 million in 2003. However, as growing imports were not compensated by equivalent exports, the trade surplus declined steadily over the next five years, reaching a low of €92.2 million in 2008. Thus, between 2003 and 2008, Greece's trade surplus with Bulgaria shrank by 74.3%.

Overall, it appears that the economic crisis has not had a lasting detrimental impact on trade relations between Greece and Bulgaria. Although *total trade* contracted sharply (by 25%) in 2009, it started growing again the following year, reaching €2.8 bn in 2012. Total trade thus increased by 5.8% between 2008 and 2012. *Imports* also contracted sharply (24.7%) in 2009, falling from €1.3 billion to €962.3 million, but rebounded in 2010 and continued increasing over the following years, reaching €1.3 billion in 2012. Thus, over the period 2008-2012 Greek imports from Bulgaria grew marginally, by 1.5%. *Exports* also fell dramatically in 2009 (25.3%), from €1.4 billion to €1.0 billion, but started growing again in 2010. By 2012 exports had reached €1.5 billion, making the overall growth of Greek exports for the period 2008-2012 10.7%.

Greece's *trade surplus* shrank dramatically in the first years of the crisis: having already fallen dramatically between 2007 and 2008, it fell by a further 34.8% in 2009 (from €92.2 million to €60.4 million), and then even more in 2010, leading to a deficit (the first trade deficit with Bulgaria since 1997) of € -6.9 million. In 2011, however, the trade balance went into positive territory again, and by 2012 – driven by a strong upswing in exports - the trade surplus had reached €220.4 million, i.e. almost the level of 2007. Due to the strong comeback in 2012, therefore, Greece's trade surplus for that year was 139% higher than in 2008.

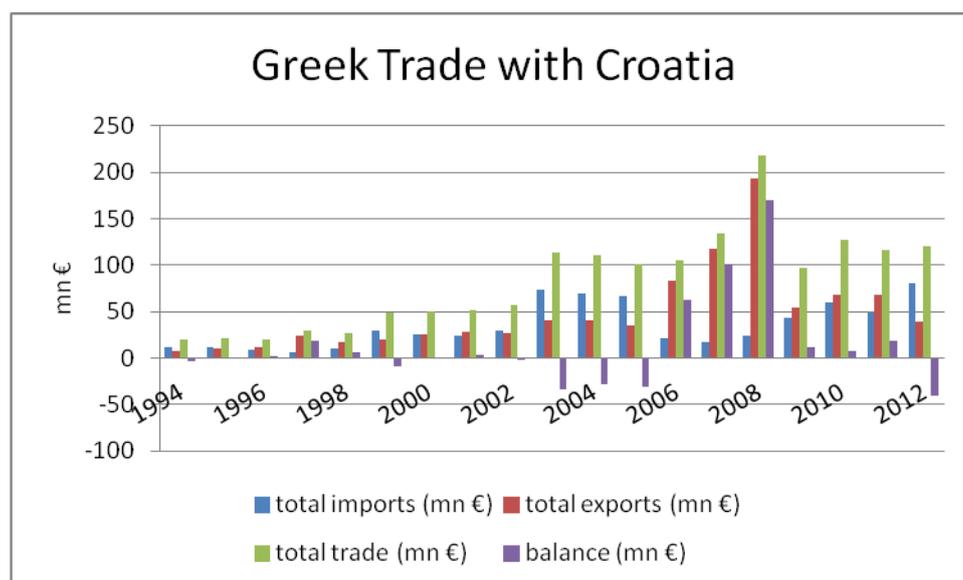
Croatia

Overall economic relations between Greece and Croatia have been less significant compared to the other Balkan countries. However, *total trade* between the two countries has followed a slow but stable growth path – albeit with a few fluctuations over the years - starting at €19.9 million in 1994 and peaking at €217.2 million in 2008 (Table 5).

Table 5: Greek Trade with Croatia

year	total imports (mn €)	total exports (mn €)	total trade (mn €)	balance (mn €)
1994	11.92	7.98	19.90	-3.94
1995	10.97	10.67	21.64	-0.31
1996	8.42	11.00	19.42	2.58
1997	5.85	24.25	30.10	18.40
1998	10.48	16.60	27.08	6.11
1999	28.85	19.46	48.31	-9.39
2000	25.40	25.27	50.67	-0.13
2001	23.81	27.48	51.29	3.66
2002	29.59	26.91	56.50	-2.68
2003	73.31	40.06	113.38	-33.25
2004	69.87	40.99	110.86	-28.87
2005	65.96	34.89	100.85	-31.07
2006	21.25	83.75	105.00	62.50
2007	16.71	117.73	134.44	101.03
2008	23.76	193.47	217.24	169.71
2009	42.57	54.83	97.40	12.26
2010	59.75	67.32	127.08	7.57
2011	48.32	67.36	115.68	19.05
2012	80.18	39.57	119.75	-40.60

Source: ELSTAT (National Statistical Office of Greece)

Figure 31

Greek *imports* from Croatia started at €11.92 million in 1994, peaked at €73.3 million in 2003, but declined consistently until 2008. As far as the *composition of imports* is concerned, the most important products are transport equipment (peaking at 85.4% of total imports in 2004), organic chemicals (64.2% in 2001), petroleum and petroleum products (42.6% in 2012), paper and articles of paper (33.2% in 1995) and power-generating machinery and equipment (26.0% in 1999). Other products include cork and wood, sugars, sugar preparations and honey, cereals and cereal preparations, and non-metallic mineral manufactures. As can be seen in Figure 32, imports in 2012 consisted mostly of petroleum products (42.6%), sugars (28.2%), cereals (6.3%), and oilseeds (5.3%).

Figure 32.

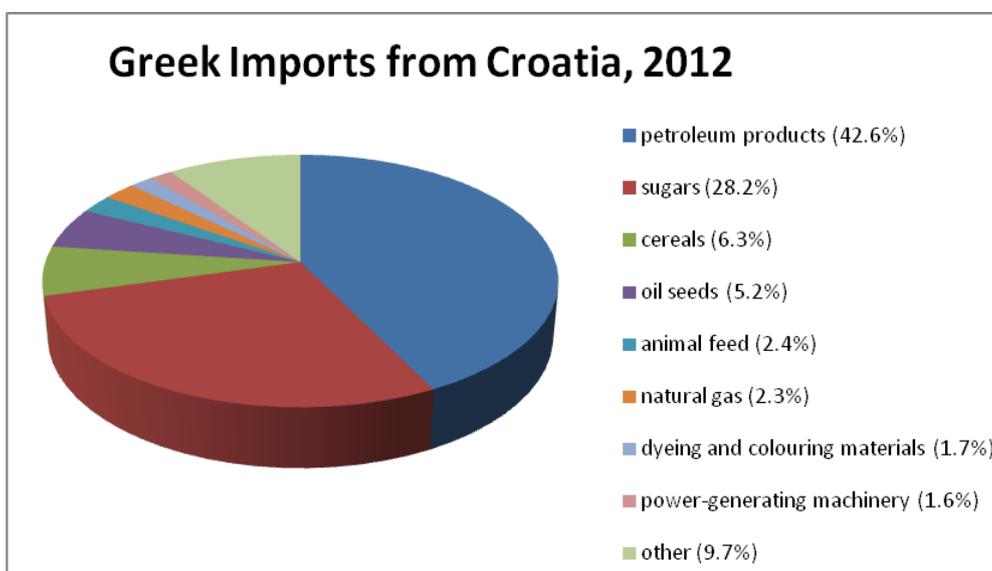
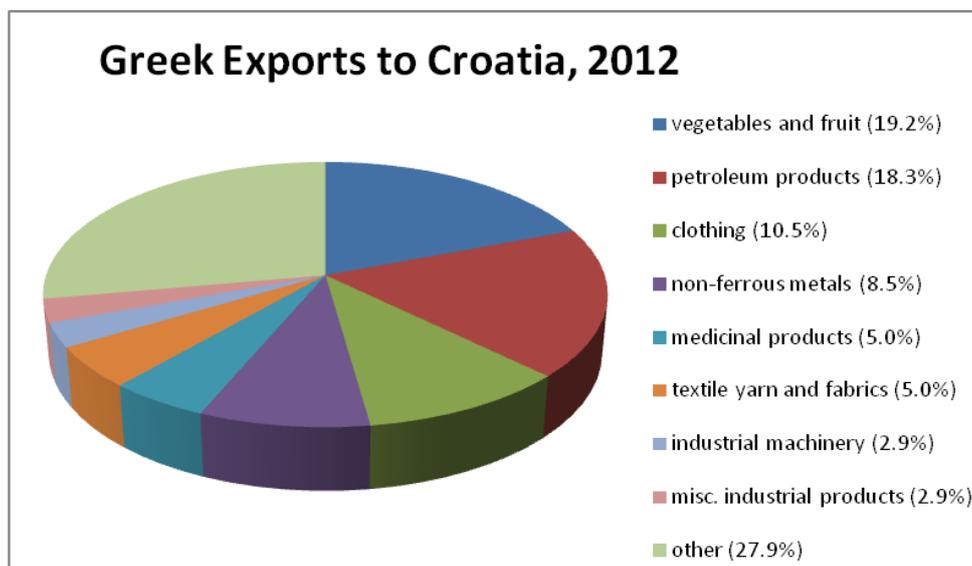


Figure 33.



With marginal fluctuations, Greek *exports* to Croatia grew consistently after 1994, eventually peaking in 2008 at €193.5 million. The most important Greek exports to Croatia are petroleum and petroleum products (59.7% of total exports in 2007), fruits and vegetables (27.1% in 1998), and tobacco and tobacco manufactures (20.5% in 1997). Other exports include organic chemicals, essential oils and resinoids, metalliferous ores and metal scrap, and articles of apparel and clothing accessories. In 2012 the most important Greek exports to Croatia were vegetables and fruit (19.2%), petroleum products (18.2%), clothing (10.5%), non-ferrous metals (8.5%) and medicinal products (5.1%).

As can be seen in Table 5, Greece's *balance of trade* with Croatia has fluctuated greatly, ranging from surplus in the period 1996-1998 and 2001, deficit between 2002 and 2005. After 2006 Greece enjoyed a positive balance of trade with Croatia, which reached €169.7million in 2008.

The economic crisis has impacted Greece's trade relations with Croatia in several ways. First, there was a dramatic decline in *total trade* (55.2%) in 2009, as total exchanges fell from €217.2 million to € 97.4 million. Despite a level of recovery over the next few years, total trade recorded a decline of 44.9% between 2008 and 2012, i.e. from €217.2 million to €119.7 million. Greek *imports*, however, experienced a surprisingly dynamic growth rate after 2008, increasing from €23.8 million to €80.2 million in 2012, i.e. by 237.4%. At the same time, Greek *exports* contracted strongly, falling from €193.5 million in 2008 to €54.8 million in 2009 (71.7%), and eventually to €39.6 in 2012. Overall, Greek exports to Croatia during the period 2008-2012 contracted by 79.5%. This striking reduction of exports led to a dramatic 92.7% decline in Greece's *trade surplus* with Croatia in 2009 (from €169.7 million to €12.3) and even further over the following year, bottoming out at a deficit of €-40.6 million in 2012. Thus, during the period 2008-2012, as imports from Croatia grew and exports fell, Greece's trade surplus contracted by 123.9%.

Former Yugoslav Republic of Macedonia (FYROM)

A combination of the weak domestic economy and tense bilateral relations meant very low trade transactions between Greece and FYROM in the early years of FYROM's independence.⁷⁸ Imposition of the Greek embargo in 1994 constrained transactions even further, and *total trade* amounted to only €16.0 million. However, as can be seen in Table 6, after the signing of the Interim Accord in 1995 – which normalised relations between the two countries - trade between Greece and FYROM increased dramatically: total trade increased by 387.3% between 1995 and 1996, rising from €44.6 million to €217.5 million. After 1996, Greece emerged as one of FYROM's most important trading partners, consistently ranked in

⁷⁸ G. Petrakos, "The trade relations between Greece and FYROM", *Agora without Frontiers*, 6, (3), 2001.

the top five both for imports and exports.⁷⁹ By 2000 total trade had reached €578.4 million, and continued to grow over the next years - with the exception of 2002, due to the instability caused by serious ethnic-driven domestic strife - peaking at €812.1 million in 2008.

Table 6: Greek Trade with FYROM

year	total imports (mn €)	total exports (mn €)	total trade (mn €)	balance (mn €)
1994	4.02	11.96	15.98	7.94
1995	11.34	33.28	44.63	21.94
1996	31.40	186.06	217.47	154.66
1997	53.72	241.72	295.44	188.00
1998	53.43	239.38	292.82	185.95
1999	56.95	402.00	458.95	345.05
2000	74.29	504.11	578.40	429.81
2001	90.39	460.70	551.09	370.30
2002	55.00	341.60	396.60	286.60
2003	94.27	310.22	404.49	215.96
2004	122.29	310.27	432.57	187.98
2005	190.64	327.23	517.87	136.59
2006	230.91	373.34	604.25	142.43
2007	299.28	395.02	694.30	95.75
2008	355.86	456.25	812.11	100.39
2009	213.07	407.07	620.14	193.99
2010	196.47	391.29	587.76	194.82
2011	167.61	565.61	733.22	398.00
2012	170.35	829.73	1,000.08	659.38

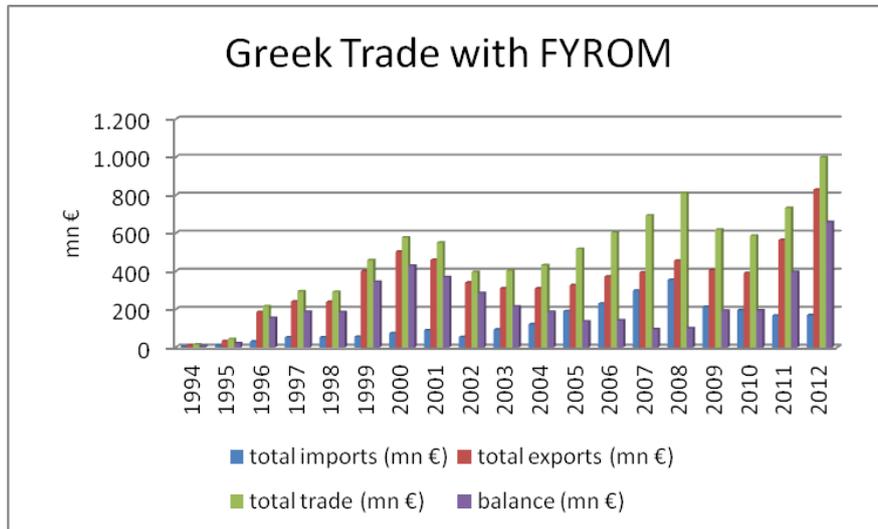
Source: ELSTAT (National Statistical Office of Greece)

As illustrated in Table 6, due to the imposed embargo, in 1994 Greece's *imports* from FYROM amounted to a mere €4.0 million. However, following normalisation of relations between the two countries, imports grew by 177.9% between 1995 and 1996, reaching €31.4 million. As FYROM's economy strengthened over the following years and its export capacity improved, its exports to Greece increased, reaching €90.4 million in 2001. However, in 2002 exports to Greece fell to €55.0 million, as the internal crisis of 2001 severely impacted the economy on many levels – including macroeconomic deterioration and declining industrial production - leading *inter alia* to the suspension of many export contracts.

⁷⁹ C. Nikas, "The effects of the Interim Accord on the economic relations between Greece and FYROM", in E. Kofos and V. Vlasidis, *Athens-Skopje: an Uneasy Symbiosis, 1995-2002*, Hellenic Foundation for European and Foreign Policy, Athens 2005.

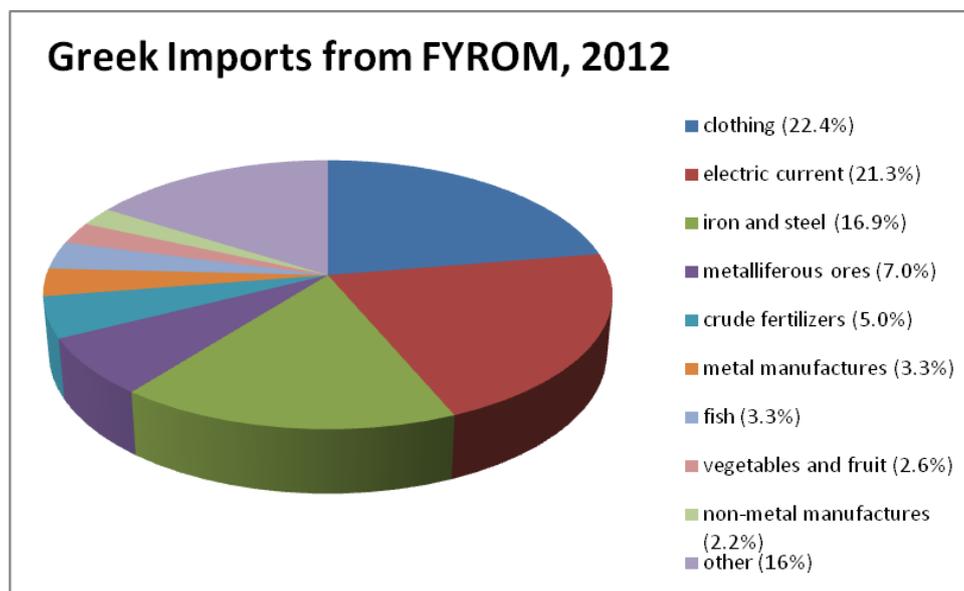
However, stimulated by major Greek investments the following year, exports to Greece rebounded in 2003, and increased consistently thereafter, reaching €355.9 million in 2008.

Figure 34



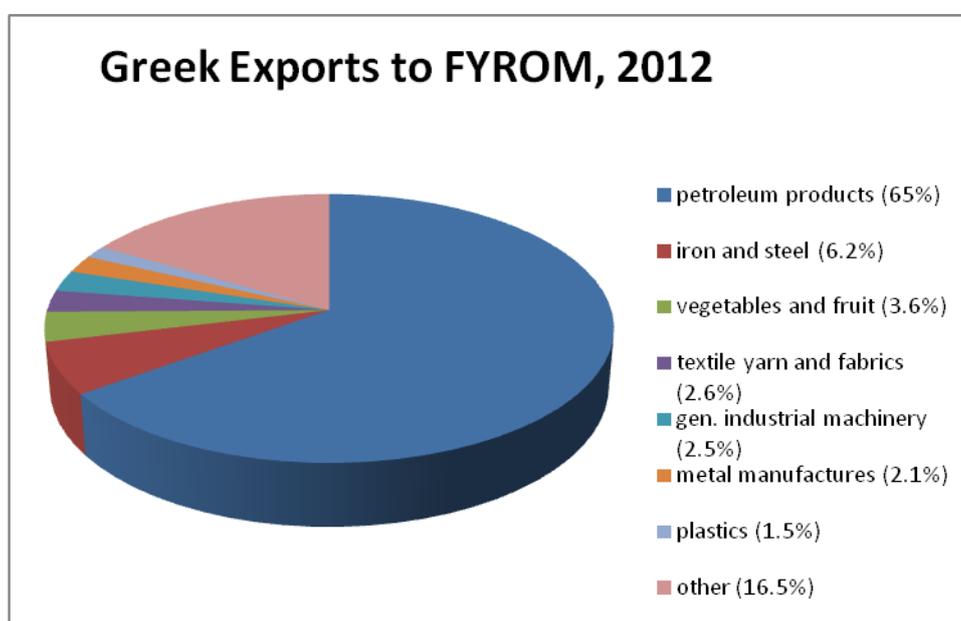
The structure of Greek *imports by commodity* indicates that the most important products imported from FYROM are non-ferrous metals (peaking at 69.1% in 2005), clothing and clothing accessories (46.7% in 1999), iron and steel (36.7% in 2008) and tobacco (16.9% in 2006). Other products include textiles, meat, electric current, and metalliferous ores and metal scrap. Greek imports in 2012 were composed mostly by clothing (22.4%), electric current (21.4%), iron and steel (16.1%), metalliferous ores (7.1%) and crude fertilizers (5.0%).

Figure 35



Not surprisingly, due to the imposition of the embargo in 1994, Greek *exports* to FYROM were extremely low, amounting to a mere €11.9 million for that year. Following the normalisation of relations between the two countries in 1995, Greek exports registered a dramatic 626.3% increase over the next two years, rising from €33.3 million in 1995 to €186.1 million in 1996 and €241.7 in 1997. Greek exports to FYROM continued to expand over the next years, reaching their highest point of €504.1 million in 2000. As was the case with imports, exports fell substantially after 2001 – due to the aftermath of the internal crisis of 2001 - but resumed their upward trend after 2004, reaching €456.2 million in 2008.

Figure 36.



The main *products* exported from Greece to FYROM are petroleum and petroleum products (peaking at 65.0% in 2012), iron and steel (18.5% in 2008) and articles of apparel and clothing accessories. Other products include fruits and vegetables, tobacco, manufactures of metal, and textiles. As can be seen in Figure 36, Greek exports to FYROM in 2012 were overwhelmingly dominated by petroleum products, with iron and steel far behind.

Greece's *balance of trade* with FYROM has consistently been positive: driven by booming Greek exports to FYROM, the trade surplus grew spectacularly between 1994 and 2000, growing from €7.9 million to €429.8 million. After this peak, however, as imports from FYROM gained pace, Greece's trade surplus started shrinking, eventually reaching €100.4 million in 2008.

Concerning the impact of the crisis on Greece's trade relations with FYROM, the first observation that is evident from Table 6 is that not only have Greece's trade relations not suffered because of the crisis, but the opposite has been the case. Specifically, although total bilateral trade contracted by 27.6% between 2008 and 2010, by 2011 an upswing in total transactions was evident. This was compounded by further growth in 2012, at which point total trade between Greece and FYROM reached €1.0 billion. Thus, despite the initial negative impact of the crisis on trade transactions, the overall rate of growth for total trade between 2008 and 2012 was 23.1%. Greek imports contracted from the very first year of the crisis, and continued to decrease over the next few years, falling from €355.9 million in 2008 to €170.3 million in 2012, i.e. exhibiting a 52.1% drop. Greek exports also declined in the first two years of the crisis - falling from €456.2 million in 2008 to €391.3 million in 2010 - but unlike imports, they rebounded in 2011 and grew dynamically, reaching €829.7 million in 2012. As a result, despite the initial downturn in exports, one observes an impressive overall 81.9% increase in Greek exports to FYROM for the period 2008-2012. Even more remarkable is the growth of Greece's trade surplus during this same period: driven by expanding exports and shrinking imports, Greece's trade surplus with FYROM grew from €100.4 million in 2008 to €659.4 million in 2012, i.e. by 556.7%.

Kosovo

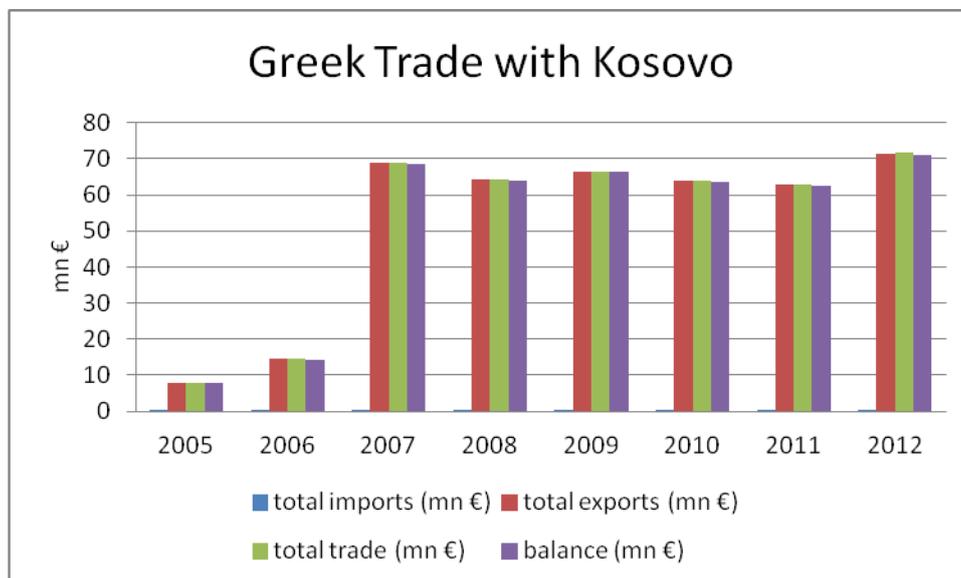
Figures for trade between Greece and Kosovo are available from the National Statistical Office of Greece after 2005. As can be seen in Table 7, total trade in 2005 was extremely low, registered at €7.8 million. It almost doubled the following year, and then grew by another 373.7%, reaching €68.9 million in 2007.

Table 7: Greek Trade with Kosovo

Year	total imports (mn €)	total exports (mn €)	total trade (mn €)	balance (mn €)
2005	0.03	7.75	7.78	7.72
2006	0.11	14.46	14.56	14.35
2007	0.17	68.80	68.97	68.62
2008	0.22	64.22	64.44	64.00
2009	0.05	66.44	66.49	66.39
2010	0.23	63.75	63.98	63.52
2011	0.08	62.73	62.81	62.65
2012	0.32	71.40	71.73	71.08

Source: ELSTAT, (National Statistical Office of Greece)

Figure 37



The value of Greek *imports* from Kosovo has been minimal, increasing from €0.03 million in 2005 to €0.22 in 2008, the year Kosovo declared independence. As far as the *composition of these imports* is concerned, the most dominant sectors include plastics in primary form (81.2% of the total in 2005), iron and steel (60.6% in 2006), electrical machinery (70.2% in 2007), manufactures of metal (53.0% in 2009), chemical material and products (83.5% in 2010), metaliferrous ores and metal scrap (32.2% in 2012), general industrial machinery and equipment (30.8% in 2011) and fruits and vegetables (28.4% in 2009). Other imports include non-ferrous metals, power-generating machinery and equipment, coffee, tea, cocoa, spices, fertilizers, beverages, sanitary, plumbing, heating and lighting fixtures. In 2012 imports consisted predominantly of metaliferrous ores (32.3%), beverages (22.2%), prefabricated buildings (22.2%) and iron and steel (14.4%).

Figure 38.

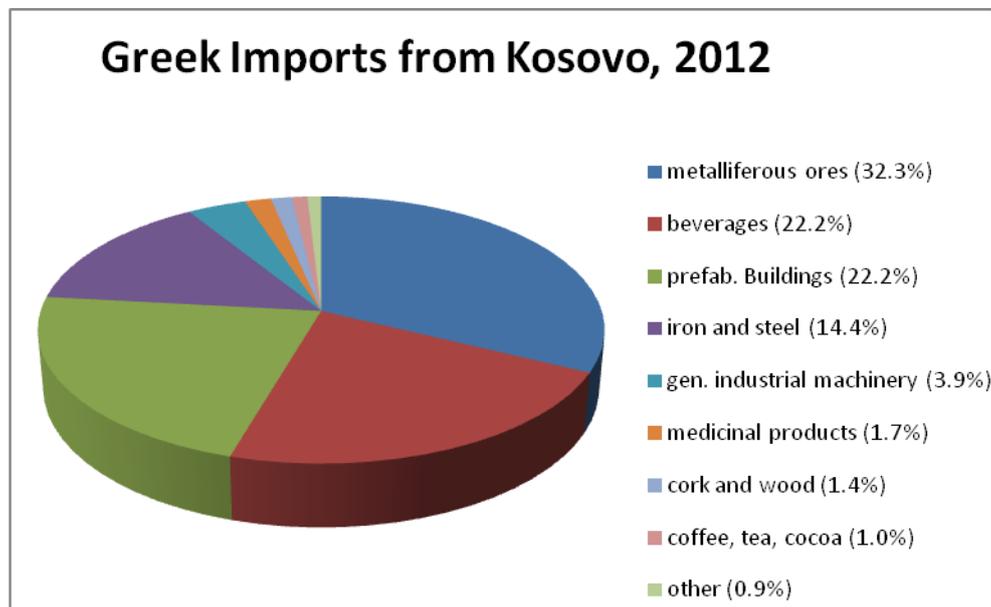
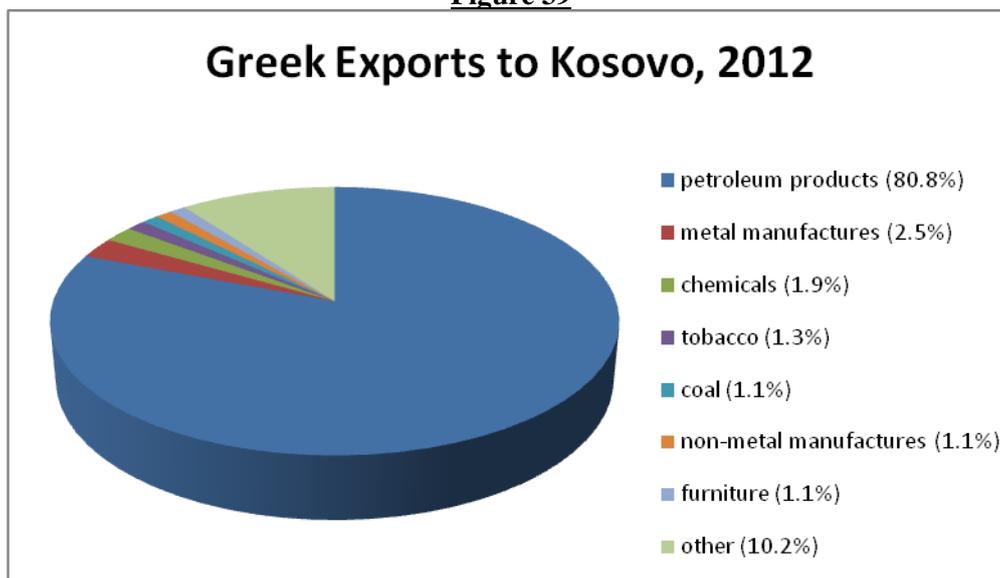


Figure 39



Greek *exports* to Kosovo started from a low €7.7 million in 2005 and grew rapidly over the next few years, reaching €64.2 million in 2008. The most important products that Greece exports to Kosovo are by far petroleum and petroleum products (consistently over 80% of total exports, peaking in 2009 at 89.5%). Other exports include beverages, telecommunications equipment, tobacco, general industrial machinery and equipment, medicinal and pharmaceutical products and electrical machinery. Figure 39 indicates that in 2012 Greek exports to Kosovo were overwhelmingly composed of petroleum and petroleum

products (80.1%). Greece's *balance of trade* with Kosovo has been overwhelmingly positive, growing at the same rate as the exports, and reaching €64.0 million in 2008.

The crisis does not seem to have had any impact on trade relations between Greece and Kosovo. *Total trade* continued to grow in 2009, and although it contracted in 2010-2011, the downward trend was reversed in 2012, with total trade reaching €71.7 million. *Exports* followed the same trend, reaching €71.4 million in 2012, while Greece's *trade surplus* reached €71.1 million.

Serbia-Montenegro

Until the official separation of Serbia and Montenegro into two independent states in 2006, figures for Greek trade were recorded - by the National Statistical Office of Greece - for the single state of Serbia-Montenegro. *Total trade* between Greece and Serbia-Montenegro grew dramatically after the cessation of hostilities in 1995, increasing seventeen-fold over the next two years, from €17.7 million to €297.5 million. Trade transactions declined significantly over the following two years (by 45.9%), due to the Kosovo conflict and the bombing of Serbia-Montenegro by NATO forces, thus falling to €161.0 million. By 2000, however, trade was on the upswing again, and grew steadily over the next few years. However, overall trade declined sharply in 2005 - the last year where data is available for the single, unified state - falling from €357.7 million to €125.3 million.

Table 8: Greek Trade with Serbia-Montenegro

year	total imports (mn €)	total exports (mn €)	total trade (mn €)	balance (mn €)
1995	0.84	16.86	17.70	16.02
1996	61.89	134.73	196.62	72.84
1997	118.25	179.24	297.49	60.99
1998	84.81	164.05	248.86	79.23
1999	56.61	104.41	161.02	47.80
2000	92.17	140.65	232.82	48.49
2001	101.98	201.71	303.69	99.72
2002	126.78	192.74	319.52	65.97
2003	98.56	211.82	310.38	113.25
2004	140.21	217.48	357.69	77.28
2005	61.16	64.10	125.26	2.95

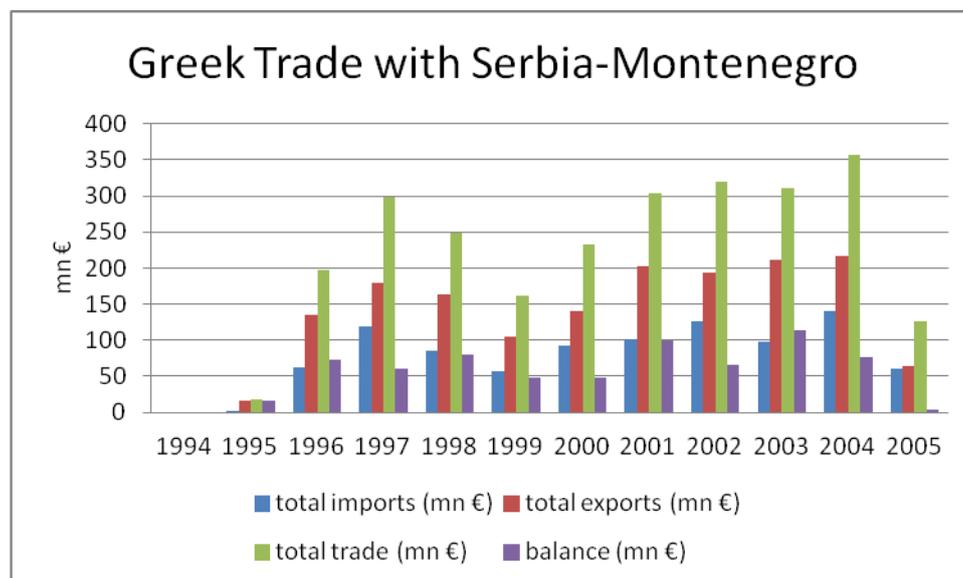
Source: ELSTAT (National Statistical Office of Greece)

Greek *imports* from Serbia-Montenegro experienced a dramatic rise between 1995 and 1997, increasing from €0.8 million to €118.2 million. Imports declined during the years of the Kosovo unrest and NATO bombings, falling to €56.6 million (a 33.2% contraction between

1997 and 1999). After 2000 imports expanded strongly and steadily over the next few years, reaching €140.2 million in 2004, until they declined sharply in 2005, falling to €61.2 million. The *composition of imports* shows a consistently high presence of non-ferrous metals (peaking at 49.6% of total imports in 2000), sugars and honey (31.1% in 2005), non-ferrous metals (30.7% in 2004) and transport equipment (27.2% in 2002). Other Greek imports from Serbia-Montenegro include plastics in primary form, cork and wood, electric current, cereals, and paper products.

Greek *exports* to Serbia-Montenegro also grew dynamically between 1995 and 1997, growing from €16.9 million to €179.2 million. They contracted by 36.3% during the period of unrest, falling to €104.4 million in 1999, but rebounded and grew significantly over the following years, reaching €217.5 million in 2004. Greek exports to Serbia-Montenegro contracted dramatically in 2005, falling to €64.1 million. The most important Greek exports to Serbia-Montenegro include petroleum and petroleum products, fruits and vegetables, non-ferrous metals, plastics in primary form, manufactures of metals, and dyeing, tanning and colouring materials.

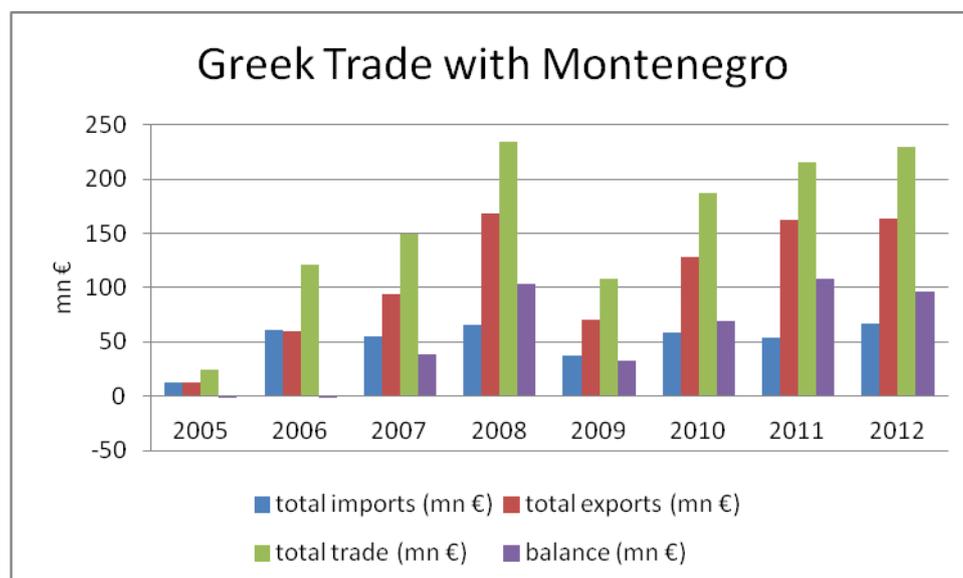
Figure 40.



Greece's *balance of trade* with Serbia-Montenegro has been consistently positive, growing from €16.0 million to €79.2 million between 1995 and 1998. Greece's trade surplus contracted by 38.8% over the next two years due to the overall fall in trade transactions before, during and immediately following the NATO airstrikes, but started growing again after 2001. However, after 2003 Greece's trade surplus started declining: it fell from €113.2 million in 2003 to €77.3 million in 2004 and even further to €2.9 million in 2005, reflecting the dramatic contraction of Greek exports.

Montenegro

As discussed above, figures for Greece's trade with the independent state of Montenegro are available only after 2005, when the country of Serbia-Montenegro was officially separated and each newly independent state established its own statistical agency. As can be seen in Table 9 *total trade* between Greece and Montenegro grew strongly and steadily following the dissolution of Serbia-Montenegro, growing from €24.9 million to €234.2 million between 2005 and 2008.

Figure 41

Greek *imports* from Montenegro grew strongly between 2005 and 2006, growing from €12.6 million to €60.9 million and reaching €65.5 million in 2008. Greek imports from Montenegro are overwhelmingly dominated by non-ferrous metals, which accounted for 99.6% of total imports in 2005, and were consistently over 94% thereafter. Other minor imports include iron and steel, manufactures of metal, and cork and wood.

Table 9: Greek Trade with Montenegro

year	total imports (mn €)	total exports (mn €)	total trade (mn €)	balance (mn €)
2005	12.62	12.27	24.88	-0.35
2006	60.92	60.00	120.92	-0.93
2007	55.63	93.83	149.46	38.20
2008	65.51	168.69	234.20	103.18
2009	37.62	70.86	108.48	33.25
2010	58.75	128.27	187.02	69.52
2011	54.00	161.90	215.90	107.90
2012	66.40	163.21	229.61	96.80

Source: ELSTAT (National Statistical Office of Greece)

Greek *exports* to Montenegro also increased dynamically between 2005 and 2006, growing from €12.3 million to €60.0 million. The strong upward trend continued over the next two years, with Greek exports reaching €168.7 million by 2008. Greek exports to Montenegro are dominated by petroleum and petroleum products, which accounted for 91.8% of all exports in 2011. Other exports include crude fertilizers, non-metallic mineral manufactures, and tobacco. Concerning Greece's *balance of trade* with Montenegro, for the first two years of trade transactions with the newly independent state, Greece registered a marginal trade deficit. After 2007, however, Greece has consistently enjoyed a trade surplus - albeit with significant fluctuations - with Montenegro.

The first year of the crisis had a serious and immediate impact on Greece's trade with Montenegro: *total trade* contracted by 53.7%, falling from €234.2 million to €108.5 million. In 2010, however, total trade started growing again, and continued growing over the next two years, reaching €229.6 million in 2012, i.e. very close to the pre-crisis levels. *Imports* also declined sharply, falling from €65.5 million to €37.6 million (42.6% decline). After 2010 however they were on the upswing again, eventually reaching €66.4 million in 2012. Greek *exports* followed the same pattern: they contracted sharply in 2009 - from €168.7 million to €70.9 million (a 58% decrease) - rebounded in 2010, and grew consistently thereafter, reaching €163.2 million in 2012. Finally, as a result of the strong contraction in exports in the first year of the crisis, Greece's *trade surplus* with Montenegro shrank by 67.8%, from €103.2 million in 2008 to €33.2 million in 2009. As exports rebounded, however, the trade surplus started growing again, reaching €107.9 million in 2011. The trade surplus decreased in 2012, to €96.8 million, as imports grew at a faster pace than exports. Overall, by 2012 Greek trade transactions with Montenegro appear to have returned to levels that are very close to those of 2008.

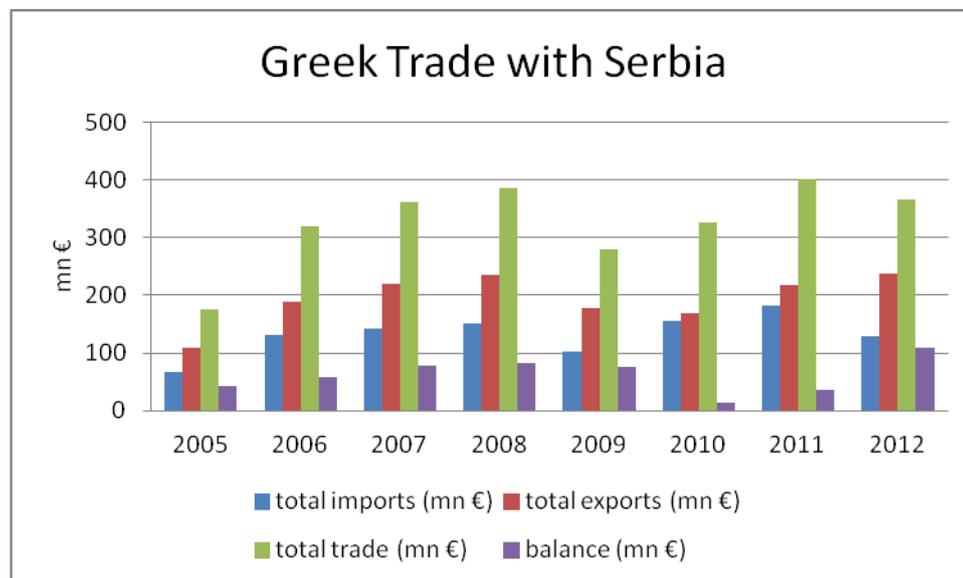
Serbia

Total trade between Greece and Serbia grew rapidly and consistently after 2005, growing from €175.4 million to €385.9 million in 2008 (Table 10).

Table 10: Greek Trade with Serbia

Year	total imports (mn €)	total exports (mn €)	total trade (mn €)	balance (mn €)
2005	66.51	108.87	175.38	42.35
2006	131.16	189.50	320.66	58.34
2007	141.51	219.98	361.49	78.47
2008	151.34	234.54	385.88	83.20
2009	102.92	177.53	280.45	74.61
2010	155.99	169.39	325.38	13.40
2011	182.89	218.55	401.44	35.66
2012	128.11	237.07	365.18	108.96

Source: ELSTAT (National Statistical Office of Greece)

Figure 42

Greek imports more than doubled between 2005 and 2006, and by 2008 had reached €151.3 million. The composition of Greece's imports from Serbia include mainly sugars and honey (consistently accounting for over 20% of imports, and peaking at 34.2% in 2006), non-ferrous metals, and iron and steel. Other imports include plastics in primary form, paper products, cork and wood, cereals. In 2012 Greek imports consisted mostly of sugars and honey (29.8%), paper products (11.1%), cork and wood (6.1%) and metal manufactures (5.4%).

Figure 43.

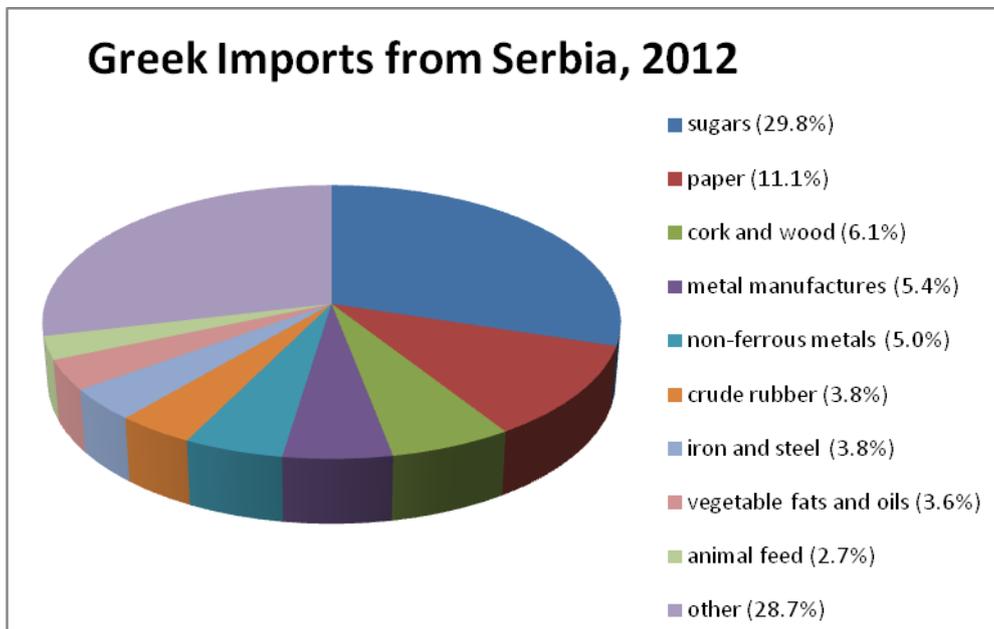


Figure 44.



Greek *exports* to Serbia also grew dynamically between 2005 and 2006 (albeit at a slower rate), growing from €108.9 million to €189.5 million. Exports continued to grow over the next few years, peaking in 2008 at €234.5 million. The main products Greece exports to

Serbia include petroleum and petroleum products, non-ferrous metals and fruits and vegetables. Other Greek exports include manufactures of metals, plastics in primary form, dyeing, tanning and colouring materials, general industrial machinery and equipment, and iron and steel. As can be seen in Figure 44, the most important Greek exports to Serbia in 2012 were petroleum and petroleum products (18.8%), fruits and vegetables (13.3%), non-ferrous metals (10.2%) and iron and steel (7.7%). Finally, Greece has enjoyed a positive *balance of trade* with Serbia: the trade surplus grew steadily after 2005, reaching €83.2 million in 2008.

During the first year of the economic crisis *total trade* between Greece and Serbia decreased by 27.3%, falling from €385.9 million to €280.4 million. However, it rebounded over the following two years, reaching €401.4 million in 2011, before declining to €365.2 million in 2012. Greek *imports* shrank by 32% in 2009, but came back even stronger in 2010. After peaking in 2011, they fell to €128.1 million in 2012. Greek *exports* to Serbia also fell during the first year of the crisis, contracting by 24.3% in 2009. In 2011, however, exports started growing again, and by 2012 had reached €237.1 million, i.e. marginally over the levels of 2008. Greece's *trade surplus* decreased by 10.3% in 2009, and then contracted even further; it thus reached a low of €13.4 million in 2011, as a result of a parallel increase in imports and a decrease in exports that year. However, Greece's trade surplus started growing again in 2011 - driven by a surge in exports - and eventually reached €108.9 million in 2012; this represented a 30.9% increase compared to the trade surplus of 2008.

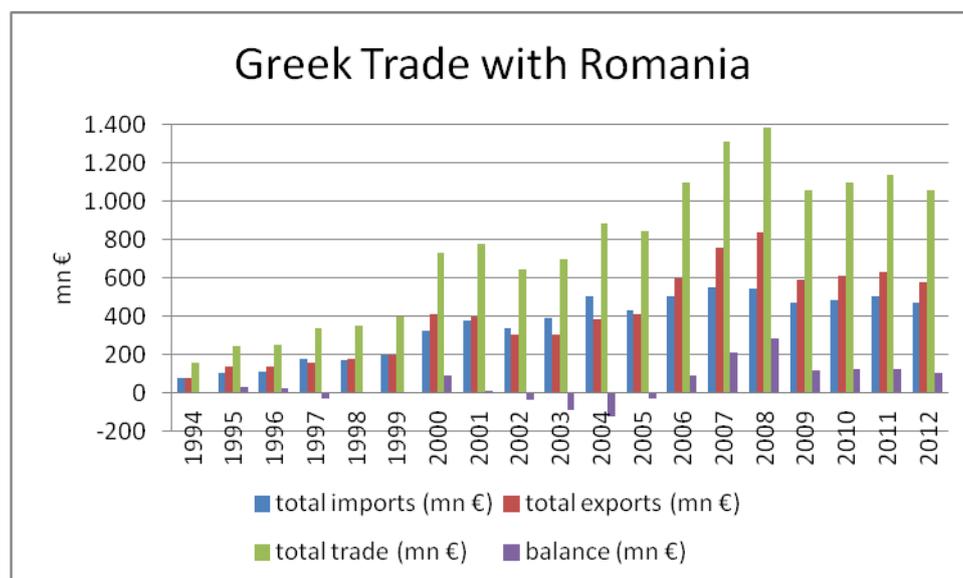
Romania

Greece and Romania have developed a very dynamic trade relationship over the past two decades: *total trade* between the two countries has been growing consistently since 1994, reaching €778.8 million in 2001. Although total trade contracted by 17% in 2002 (due to a marked decline in exports that year) – they rebounded the following year and continued growing, peaking at €1.4 billion in 2008.

Table 11: Greek Trade with Romania

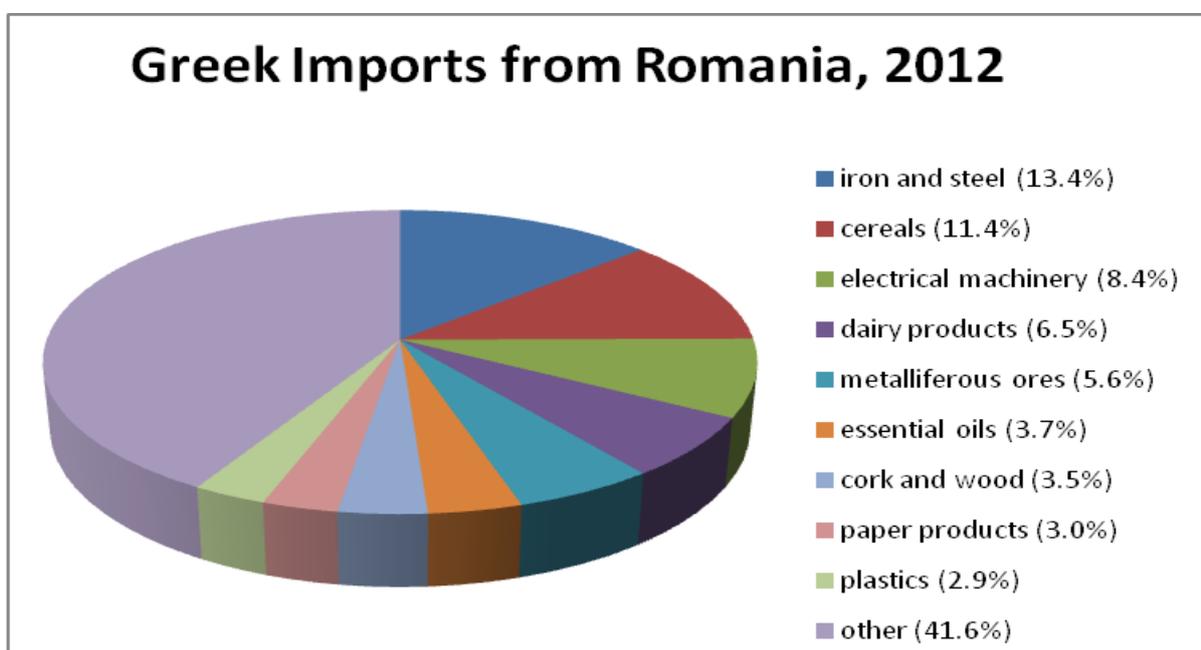
year	total imports (mn €)	total exports (mn €)	total trade (mn €)	balance (mn €)
1994	78.86	78.88	157.74	0.01
1995	103.82	139.49	243.31	35.67
1996	115.32	139.46	254.78	24.13
1997	181.49	156.24	337.73	-25.26
1998	173.93	178.73	352.66	4.79
1999	198.51	200.98	399.49	2.47
2000	322.13	411.47	733.60	89.34
2001	381.84	396.92	778.76	15.09
2002	341.14	305.37	646.52	-35.77
2003	392.91	306.74	699.65	-86.17
2004	503.70	383.40	887.10	-120.30
2005	434.26	408.86	843.12	-25.40
2006	505.26	595.84	1.101.11	90.58
2007	550.49	759.62	1.310.11	209.14
2008	548.16	835.97	1.384.13	287.81
2009	469.48	590.66	1.060.13	121.18
2010	486.11	614.61	1.100.72	128.50
2011	505.97	628.96	1.134.93	122.98
2012	474.78	580.41	1.055.19	105.63

Source: ELSTAT (National Statistical Office of Greece)

Figure 45

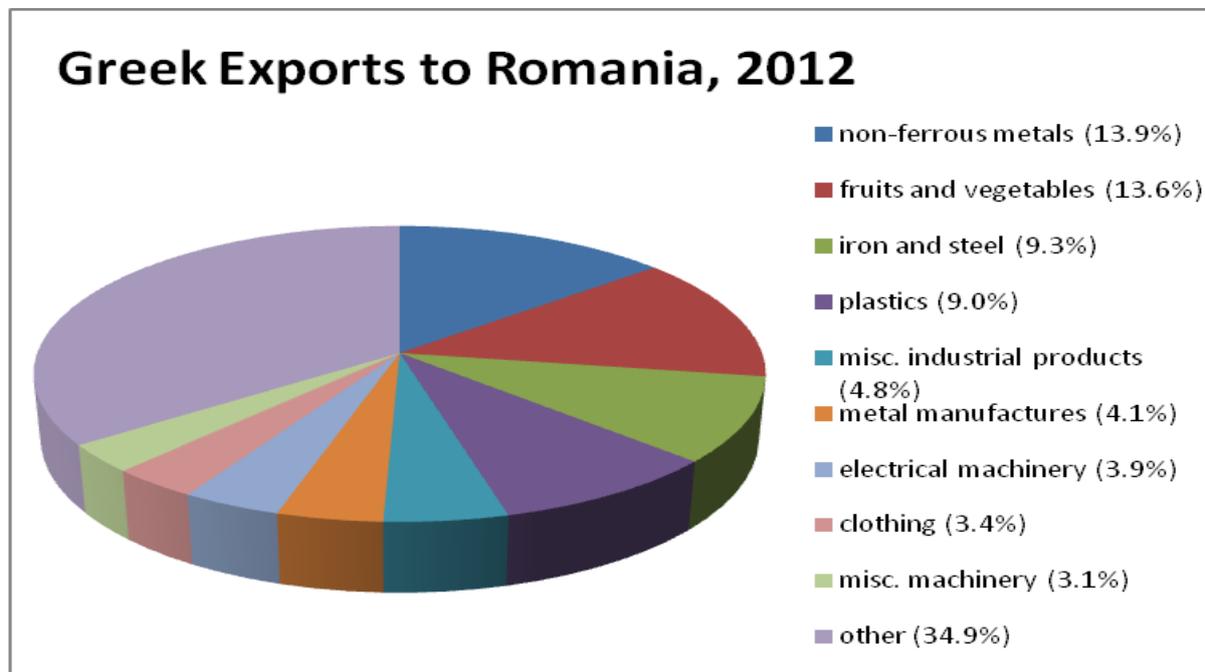
With marginal fluctuations, Greece's *imports* from Romania have increased steadily since 1994, peaking in 2007 at €550.5 million. Greece's imports are composed mostly of iron and steel (33.0% of total imports in 1995), non-ferrous metals (31.8% in 2000), petroleum and petroleum products (24.0% in 2005) and telecommunications equipment (15.2% in 2001). Other products include live animals, electric current, electrical machinery, metalliferous ores and metal scrap. In 2012 the products that dominated Greek imports from Romania were iron and steel (13.4%), cereals (11.4%), electrical machinery (8.2%), and dairy products (6.5%).

Figure 46.



Greece's *exports* to Romania also exhibited a strong growth after 1994, peaking at €411.5 million in 2000. They contracted significantly over the next three years, reaching €306.7 million in 2003; the following year, however, Greek exports started expanding again, growing dynamically and consistently and reaching a peak of €836.0 million in 2008 (i.e. a 118% growth since 2004). Over the years, Greek exports to Romania consisted mainly of petroleum and petroleum products (peaking at 33.0% of total exports in 1995), telecommunications and sound-recording equipment (39.4% in 2000), fruits and vegetables, and non-ferrous metals. Other exports include tobacco, metalliferous ores and metal scrap, road vehicles and electrical machinery. In 2012, Greek exports to Romania were predominantly non-ferrous metals (13.9%), fruits and vegetables (13.6%), iron and steel (9.3%) and plastics (9.0%).

Figure 47.



Greece's *balance of trade* with Romania has experienced many fluctuations over the years. Overall, it has been mostly positive, ranging from a low of €2.5 million in 1999 to a high of €89.3 million in 2000; however, during the period 2002-2005 Greece had a trade deficit that reached €-120.3 million (due to a strong growth of imports that year that was not compensated for by an equivalent growth in exports). Greece's balance returned to surplus in 2006 and grew substantially over the next two years, peaking at €287.8 million in 2008.

As was the case with several other Balkan countries, Greece's trade relations with Romania were seriously impacted by the economic crisis. Specifically, *total trade* decreased by 23.4% in 2009, falling from €1.4 billion to €1.1 billion. Since this loss was not recovered over the next few years, by 2012 the contraction rate in total trade between Greece and Romania remained at this level. Greek *imports* from Romania also declined, but comparatively less. Specifically, they contracted by 14.3% in 2009, and as they only marginally recovered over the next three years, the overall decrease in imports between 2008 and 2012 was 13.4%. The contraction of Greek *exports*, on the other hand, was much stronger, as they decreased by 29.3% in 2009, falling from €835.9 million to €590.7 million. Despite a slight upturn in 2010 and 2011, by 2012 exports had returned to slightly below the 2009 levels; thus, exports registered an overall decline of 30.6% for the period 2008-2012. Due to the faster rate of decline of exports vis-à-vis imports, Greece's *trade surplus* also contracted very strongly, decreasing by 57.9% in 2009. The trade surplus declined even further, reaching €105.6 million by 2012: thus, Greece's trade surplus with Romania during the period 2008-2012 contracted by 63.3%.

Some conclusions regarding trade between Greece and Balkan countries

From the above discussion it is clear that over the past two decades Greece has developed a very important, dynamic and mutually beneficial trade relationship with the countries of the Balkan region (with the exceptions of Bosnia and Croatia, where transactions are comparatively limited). Greece is a particularly important trade partner for Albania, Montenegro and FYROM, accounting for around 12 percent of these countries' total trade in 2008 (Table 12), but also for Bulgaria.

Table 12: Western Balkan Exports to Greece (€mn)

	2008	2009	% of total exports, 2008
Albania	90.5	72.7	11.6
Bosnia	11.6	8.0	0.4
Croatia	23.6	42.6	0.3
FYROM	355.9	213.1	12.4
Montenegro	65.5	37.6	12.3
Serbia	151.3	102.9	2.2

Source: ELSTAT (Greek Statistical Service), National Statistics, IMF.

Greece's trade balance with the Balkan countries since the mid-1990s has been consistently positive (with the exception of Croatia and Romania during the period 2002-2005). The patterns of total trade have clearly followed the ebbs and flows of overall economic cycles in the region; they have also been impacted by both domestic and international factors (including ethnic violence, airstrikes, banking crises, refugee crises, macroeconomic shocks, diplomatic tensions, etc). Despite these cycles, however, the overall trend has been one of growth and expansion – until 2008.

As was discussed above, Greece's trade relations with its Balkan neighbours were clearly affected negatively by the onset of the crisis, as is evidenced by the sharp contraction in trade exchanges (with the exception of Bosnia) between 2008 and 2009. However, it is interesting to observe that following this sharp reduction in total trade, after 2010 some level of stabilisation was achieved; as illustrated in Table 13, by 2012 one can speak of a small recovery being underway in Greek-Balkan trade relations.

Specifically, a country-by-country analysis shows that in 2012 total trade flows between Greece and Bosnia, Bulgaria, FYROM and Kosovo have surpassed the levels of 2008, while Montenegro's and Serbia's levels are extremely close to pre-crisis levels. By contrast, trade levels with Albania, Croatia and Romania have not regained the ground that has been lost over the past five years and remain significantly lower than 2008. Viewed on a regional level,

total trade in 2012 between Greece and the Balkan countries under review reached almost €6.3 billion, up from €5.2 billion in 2010; the levels for 2012 are also very close to the €6.4 billion recorded for 2008 - the year before the outbreak of crisis - that can be used as a point of reference (Table 13).

After contracting by 14.8% between 2008 and 2010, total Greek imports from the region grew by 7.2% over the next two years, increasing from €2.1 billion to €2.3 billion (Table 13). A case-by-case examination shows that Greek imports from some countries – namely Bulgaria, Croatia, Montenegro and Kosovo - have in fact surpassed the level recorded for 2008. Most important, however, is the fact that after decreasing by 22.6% between 2008 and 2010, total Greek exports to the region grew by 29.1% over the next two years, from €3.0 billion to €3.9 billion, thus surpassing (albeit marginally) the level of 2008. Specifically, in 2012 Greek exports to Bosnia, Bulgaria, FYROM, Kosovo and Serbia had surpassed the levels for 2008, marking a significant recovery. However, Greek exports to Albania Croatia, and Romania remained well below 2008 levels, while exports to Montenegro were only marginally lower.

It is also crucial to highlight the fact that although Greece's trade surplus with almost all Balkan countries (except Bosnia and FYROM) had contracted strongly between 2008 and 2010, by 2012 the balance of trade with most countries had shifted again. Thus, driven by a dynamic expansion of exports, Greece's trade surplus for 2012 with Bosnia, Bulgaria, FYROM, Kosovo and Serbia not only regained the level of 2008 but significantly surpassed it, signaling a significant rebound in Greece's export presence in the region.

The growth of Greek exports towards the Balkan countries may be attributed to a great extent to the tremendous decline in demand on the domestic market, which pushed Greek producers to reorient their production and refocus on external markets, especially the neighbouring Balkan region. Thus, these figures indicate that although the crisis in the real economy is far from over, there is evidence of a cautious recovery in the trade sector, which could be used as a catalyst for further economic revitalization in Greece, in the greater region and in bilateral relations.

Table 13. Greek Trade with the Balkan countries

Country	Imports (mn €)			Exports (mn €)			Total Trade (mn €)			% of total trade 2012
	2008	2010	2012	2008	2010	2012	2008	2010	2012	
Albania	90.5	97.2	82.1	547.3	458.0	418.2	637.9	555.2	500.3	8.0
Bosnia	11.6	6.9	7.8	42.9	75.3	82.2	54.5	82.2	90.0	1.4
Bulgaria	1,277.8	1,089.1	1,296.3	1,370.0	1,082.2	1,516.7	2,647.8	2,171.3	2,813.0	45.0
Croatia	23.8	59.7	80.2	193.4	67.3	39.6	217.2	127.1	119.7	1.9
FYROM	355.9	196.7	170.3	456.2	391.3	829.7	812.1	587.8	1,000.1	16.0
Kosovo	0.2	0.2	0.3	64.2	63.7	71.4	64.4	63.9	71.7	1.1
Montenegro	65.5	58.7	66.4	168.7	128.3	163.2	234.2	187.0	229.6	3.7
Serbia	151.3	156.0	128.1	234.5	169.4	237.1	385.9	325.5	365.2	5.8
Romania	548.2	486.1	474.8	836.0	614.6	580.4	1,384.0	1,100.7	1,055.2	16.9
Total	2,524.8	2,150.6	2,306.3	3,913.2	3,050.1	3,938.5	6,438.0	5,200.7	6,244.8	100.0

Source: ELSTAT (National Statistical Office of Greece)

II.3. Greek Investment in the Balkan Countries

The fall of the regimes in Bulgaria and Romania and the subsequent slow transitions of these countries rapidly opened new Greek investment opportunities from the early 1990s onwards. However, this was not the case with Yugoslavia: the violent dismemberment of Yugoslavia and the years of warfare and instability created serious impediments to any form of investment interest. In some cases, early investment initiatives were frozen or even reversed due to a deterioration of relations (for example with FYROM and Albania) or because of UN sanctions on Yugoslavia.

From the mid-1990s, however, new and favourable conditions in the region gave a fresh boost to Greek investment interest in the Western Balkans: the region became more stable as hostilities ended in Bosnia, relations with Albania improved, and relations between Greece and FYROM were normalized through the signature of the Interim Agreement. This improved climate gave a dynamic impetus to Greek investment activities, encouraging Greek companies already operating in the greater area to expand their activities and drawing in new players.⁸⁰ Thus, Greek banks, shipping and construction companies, and food processing companies - that were already well-established in Bulgaria and Romania - started to gain a foothold in other countries in the region. Deals started emerging with companies in Albania and FYROM, while Greek and Serb businessmen started reviving joint ventures that had been frozen while UN sanctions were in force against Yugoslavia. The gradual establishment of Greek banks in the region - especially in Bulgaria and Romania - motivated large Greek companies to explore further investment opportunities, since these banks could provide the necessary financial backup. By late 1996 Greek companies had invested over \$500 million in

⁸⁰ R. Panagiotou, "Foreign direct investment in Southeast Europe", *Countdown Project, European Union Enlargement: Regionalism and Balkan integration*, Institute for International Economic Studies, Vienna 2001.

the Balkans; although at this point the bulk of Greek funds had gone to Bulgaria and Romania, investment flows had started trickling into the other countries as well.⁸¹

In these early years, Greek investors had several competitive advantages in their attempts to penetrate the Balkan markets. Clearly, geographic and cultural proximity played a favourable role. Also, during the early transition process, this part of the world was to a certain degree neglected by big multinationals who at this point were concentrating their efforts and interest on the Visegrad countries and the former Soviet states; this left a window of opportunity for Greek investors in the Balkans.

The pace of Greek investment picked up sharply in the second part of the decade, as a certain degree of structural reform had been achieved and market economies slowly took root in the region. As the standards of living in these countries increased, Greek companies were ready and willing to satisfy the pent-up demand for western goods in a market of approximately 50 million consumers. Several Greek companies received backing from the European Bank for Reconstruction and Development (EBRD) in order to launch their investment. For projects in Bulgaria and Romania, Global Finance - a Greek venture capital company - launched a \$30 million venture capital fund aimed at taking minority stakes in fast growing companies, mainly in food processing and retailing. Half the capital was provided by the IFC, the World Bank's private financing arm, and the EBRD. The remainder came from Euromerchant, the private Greek bank controlled by the Latsis shipping group, and a group of Greek and international investors.

By the late 1990s, many major Greek companies had expanded their investment activities and portfolios to more than one Balkan market, thus creating networks of establishments operating throughout the region.⁸² This method was adopted by some of the largest Greek companies, including OTE (the Greek state telecommunications company), the National Bank of Greece, Alpha Bank, Delta SA (dairy manufacturing), 3E (beverages bottling company), Hellenic Petroleum SA and others. They were soon followed by many other major Greek companies, covering not only important manufacturing and service activities, but also primary sector activities such as mining and energy production.

Over the next decade, Greece emerged as a top investor in the region, ranking first in Albania and FYROM, and among the first three leading investors in Bulgaria and Serbia. Close to 4,000 Greek companies established operations and invested in excess of €12 billion: the majority of these investments were concentrated in the fields of trade, services, finance and manufacturing. In addition to the benefits accrued by the investing party, Greek investment contributed to the transformation process and the sustained growth of the national economies of the region. Due to the economic structure they had inherited from the centrally-planned

⁸¹ A. Bitzenis, and V. Vlachos: *Outward FDI from Greece and its policy context*, Columbia FDI Profiles, Vale Columbia Center on Sustainable International Investment, December 2011.

⁸² J. Bastian, "Knowing your way in the Balkans: Greek Foreign Direct Investment in Southeast Europe, *Journal of Southeast European and Black Sea Studies*, 4 (3), 2004, p. 467.

systems, none of these countries featured strong service sectors and they had under-invested in their light industries: these were precisely the domains of business activity where Greece had developed a comparative advantage over time. Specifically, Greek investments in the sectors of food and drink, apparel and textiles, wholesale and retail, distribution, marketing and advertising, residential and commercial construction, and finance, fulfilled crucial needs in the newly-emerging market economies. By 2009 Greece's outward FDI stock in the Balkans accounted for 26.5% of Greece's outward FDI stock worldwide.

Greek FDI was also highly beneficial to the financial sectors of the region: it boosted the capitalisation of local financial systems, strengthened their stability and accelerated financial intermediation, thus increasing both the investment of the host business sectors and the consumption of host populations.⁸³ Seven major Greek banks – including the National Bank of Greece, EFG Eurobank, Piraeus and Alpha Bank - established a network of around 20 subsidiaries in the region, with around 1,900 branches and employing approximately 23,500 people. By 2008, Greek banks had accumulated a significant market share in the financial sector of the region, accounting for around 30 percent of total banking assets in Bulgaria (where four out of the top 10 banks are Greek) and FYROM, 25 percent in Albania, 15 percent in Serbia (where three out of 10 banks are Greek) and 17 percent in Romania. These banks' assets in the region are worth some €70 billion.⁸⁴

Although Greek investment was present both in the form of the *creation* of new Greek companies or joint ventures, and in the form of the *purchase* - whole or partial - of an existing state enterprise (as part of the privatisation process), it was mostly the latter. In fact, Greece's investment presence was mostly apparent in the impressive influx of Greek capital into the mass privatisation process which was underway in all the Balkan countries. These investments generally took the form of purchasing a majority interest in the business. In some cases - such as OTE - where the sale concerned a license rather than the corporation itself, it was accompanied by an increase in the initial share capital. The preference of Greek investment capital for takeovers rather than direct investments was largely due to the fact that the institutional deficit was less threatening when some sort of business infrastructure – albeit rudimentary - was present, than when it had to be created from the bottom up. Most important, an existing business already had its own distribution network.

⁸³ J. Bastian, "Banking on Southeast Europe: financial sector reform amidst regional volatility", *Journal of Southeast European and Black Sea Studies*, 3 (1) 2003.

⁸⁴ N. Macdonald, K. Hope and C. Bryant, "Balkan banks wary of Greek retreat", *Financial Times*, March 18 2010.

Table 14 : Greek FDI flows to the Balkans (€ millions)

	Albania	Bulgaria	Croatia	FYROM	Serbia-Montenegro	Romania	TOTAL
2000	49.1	7.0	0.0	4.9	0.1	16.2	77.3
2001	56.4	38.1	0.2	2.4	1.1	14.3	112.5
2002	0.5	43.1	0.0	13.3	20.4	6.5	83.8
2003	31.0	50.9	0.2	8.8	37.1	212.0	340.2
2004	4.8	42.9	0.0	-36.2	37.6	41.9	91.2
2005	3.2	91.4	0.9	-4.1	237.0	239.5	575.7
2006	68.8	119.9	0.9	0.9	519.3	78.0	787.8
2007	94.4	115.8	1.1	19.6	95.9	-9.1	317.7
2008	44.0	118.8	1.8	-11.3	129.6	48.5	331.6
2009	134.7	131.0	1.0	-6.5	13.0	109.5	383.4
2010	55.2	66.8	0.1	8.5	26.1	-37.0	119.8
2011	13.6	-18.8	0.0	19.3	-15.4	-262.3	-263.6
2012	20.3	-2.7	0.0	22.8	10.0	-302.0	-251.6

Source: Bank of Greece

Table 15 : Greek FDI stock in the Balkans (€ millions)

	Albania	Bulgaria	Croatia	FYROM	Serbia-Montenegro	Romania	TOTAL
2001	108.2	554.7	1.8	160.7	203.5	662.9	1,691.8
2002	142.6	445.3	1.8	202.3	256.3	771.8	1,820.3
2003	208.3	493.5	1.8	273.1	340.5	1,130.5	2,489.2
2004	175.0	568.7	1.5	371.5	381.0	1,158.3	2,738.9
2005	284.5	721.5	3.4	272.7	660.8	2,002.8	4,028.0
2006	389.6	924.7	3.4	367.0	1,377.1	2,452.5	5,597.3
2007	441.4	1,155.0	1.1	423.1	1,645.7	3,940.6	7,652.1
2008	487.1	1,352.7	40.7	430.9	1,813.3	3,255.4	7,387.6
2009	350.1	1,505.4	38.4	366.3	1,940.6	3,350.4	7,557.3
2010	315.3	2,028.9	3.1	348.2	2,085.2	3,280.1	8,067.7
2011	403.1	2,084.9	49.8	372.2	1,987.9	3,123.1	8,025.6
2012							

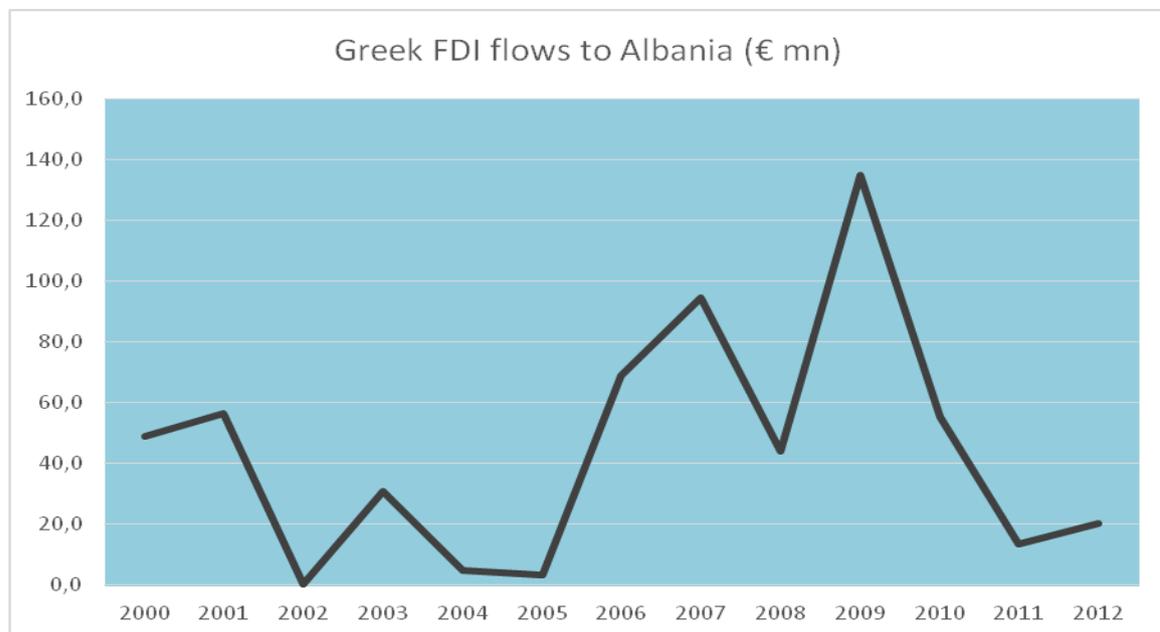
Source: Bank of Greece

Albania

Greek investment activity in Albania was off to a slow start, largely because of Greek-Albanian political tensions that froze a significant amount of planned investment. For example, several construction projects for road improvement that had been won by Greek companies, as well as several investments by textile companies, were placed on hold. However, by 1996 conditions had improved to such an extent that several Greek banks – including Alpha Credit and state-owned Ionian Bank – applied for licenses to open branches in Albania. As well as providing trade financing, these banks catered to Albanians who worked in Greece and sent home drachma remittances. At this point, there were an estimated 300,000 Albanians – equivalent to more than 20 percent of the country's labour force – working in Greece, who sent home an estimated \$400 million yearly, almost entirely in cash.

By the late 1990s Greek investment flows had established a steadily increasing trend (with the exception of 1997-1998, due to the instability relating to the collapse of the pyramid schemes). In 2002 investment flows contracted, as a result of the fallout from the crisis and instability in neighbouring FYROM, which resulted – *inter alia* – in the influx of thousands of ethnic Albanian refugees into Albania. After 2004 Greek investment flows grew rapidly, reaching €134.7 million in 2009.

Figure 48

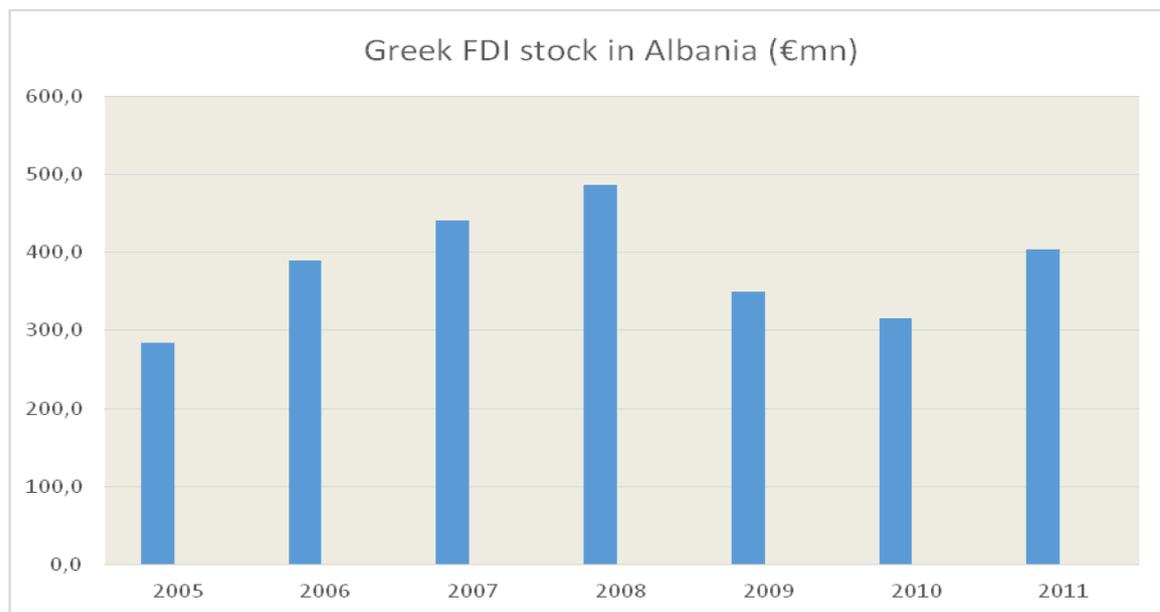


Source: Bank of Greece

The sectors attracting the most Greek investment in Albania were telecommunications, health care services, fuel, construction, information technology, production and marketing of building materials, legal, accounting and advisory services, food industry, textiles, shoe-making, and banking. In fact, Greece is one of

the largest foreign investors in the Albanian banking sector: major Greek banks, including the National Bank of Greece, Alpha Bank and Emporiki Bank have invested dynamically. By 2009, Greek banks controlled roughly 30% of the banking sector of Albania. Some other major Greek investments over the years include Titan Cement (€200 million), Vodafone, Solisima (fruit processing, €4.5 million), Atlas (flour production, €11.5 million) and Agrofruit (fruit processing). In 2009, 85% of Albanian Mobile Communication (AMC) was sold to the Cosmote-Telenor consortium for US\$ 85.6 million.

Figure 49



Source: Bank of Greece

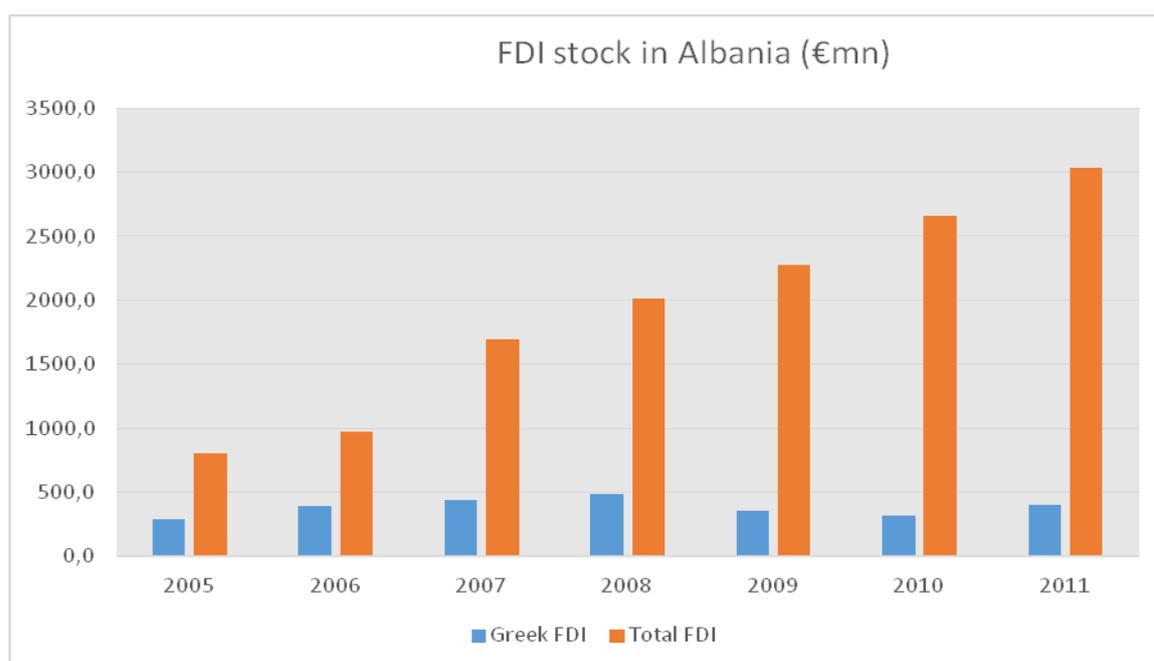
Thus, over the years Greece emerged as the most important foreign investor in Albania. By 2008, Greek investment stock in Albania had reached €487.1 million (24.2% of total foreign investment in Albania); this was way ahead of the second investor, Italy.

Under the impact of the **sovereign debt crisis** Greek investment flows to Albania decreased significantly, contracting by 59% between 2009 and 2010 (from €134.7 million to €55.2 million). FDI flows shrank even further the following year, reaching €13.6 million in 2011 (Figure 48), marking a 89.9% decline between 2009 and 2011. After two consecutive years of decline, FDI flows recorded a slight upturn in 2012, reaching €20.3 million. Nonetheless, the period 2009-2012 witnessed an overall decline of 84.9% in Greek FDI to Albania. Similarly, Greek FDI stock in Albania shrank for two consecutive years: as can be seen in Figure 28, Greek investment stock contracted by 28% between 2008 and 2009 (from €487.1 million to €350.1 million) before starting to grow again in 2011. At the same time, the share of Greek FDI in

total FDI stock in Albania also declined, from a peak of 40% of the total in 2006 to 11.9% in 2010 (Figure 50).

Significantly, however, the period 2011-2012 marked a reversal of this negative trend: both Greek FDI flows and stock took an upswing, while the Greek share in total FDI stock in Albania also rose – marginally - to 13.3% in 2011. Crucially, in 2011 Titan Cement announced the launch of its second factory in Albania.

Figure 50



Source: Bank of Greece; World Investment Report

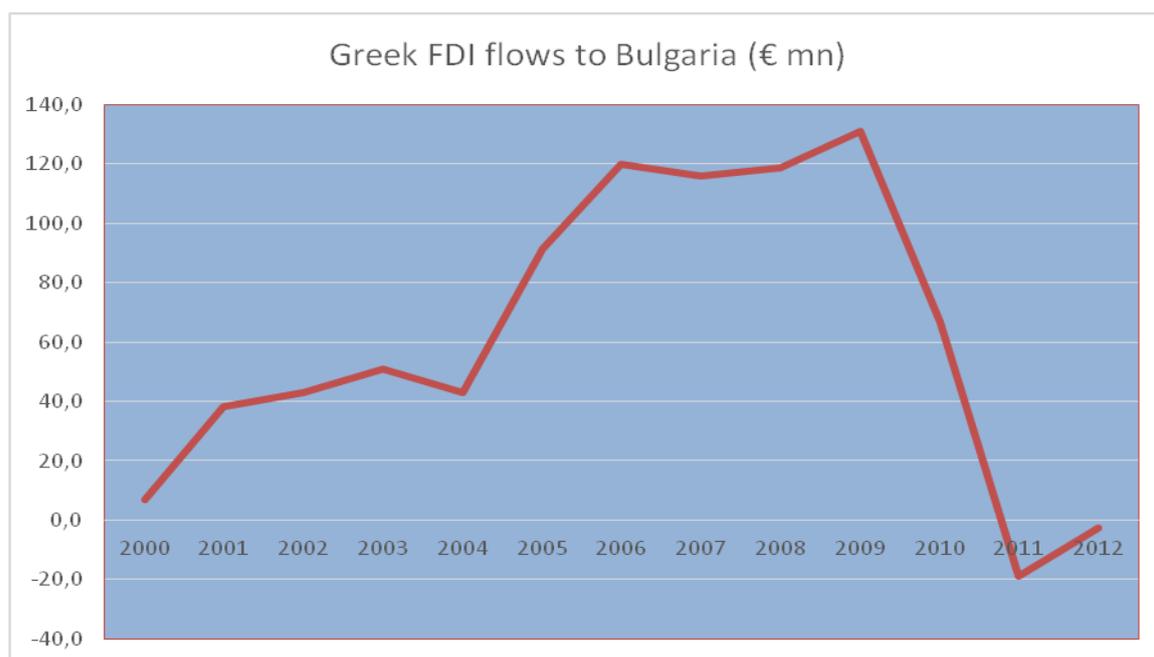
Bulgaria

The first Greek investment initiatives in Bulgaria started in the early 1990s. The first large Greek investment was by Hellenic Bottling Company (HBC), the Coca Cola franchise holder for Greece, Bulgaria and Armenia. By the mid-1990s HBC had poured more than \$100 million into Bulgaria: it started by setting up joint ventures with five local cooperative bottlers to produce Coca Cola and develop a basic distributions network. It eventually completed a \$20 mn plant for producing Coca Cola in cans on a Greenfield site near Sofia and acquired a plastics factory producing crates for soft drinks. Together with Athenian Breweries - the Heineken affiliate in Greece - HBC acquired Bulgaria's biggest brewery, Zagorka, which was to produce international beer brands. The joint venture, Brewinvest, made profits of \$10 million in 1995, its first full year of operation. Other major investments that followed were

Viohalco (copper/metal products) in 2000, OTE (telecommunications) in 2001, and Hellenic Petroleum in 2003.

As can be seen in Figure 30, Greek investment activities accelerated greatly after 2000; the major upswing, however, came after 2004, as the prospects of the country's future accession to the EU and NATO boosted the perceptions of its stability and credibility on international markets. Greek FDI flows peaked in 2009 at €131 million.

Figure 51



Source: Bank of Greece

The most important sector attracting Greek investment is banking, which accounts for almost one half of total Greek investments in Bulgaria. Greek investments are vital for the Bulgarian banking sector, as five of the major banks in the country are owned by Greek lenders. At the end of 2011 the total assets of Greek banks accounted for €9.3 billion, which was 23.7% of the total assets of the Bulgarian banking system.

Table 16: Total Assets of Greek Banks in Bulgaria, 2011

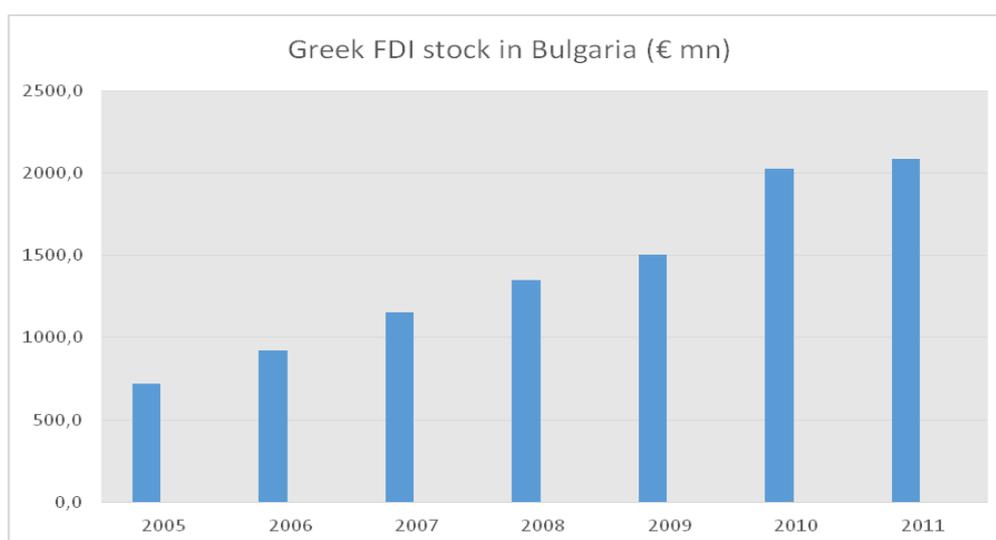
Rank	Bank	€ (mn)
3	United Bulgarian Bank AD	3,424.6
6	Eurobank and EFG Bulgaria AD	3,058.9
9	Piraeus Bank Bulgaria AD	1,636.6
14	Alpha Bank	887.1
23	Emporiki Bank	283.6

Source: Bulgarian National Bank

Other sectors attracting Greek investments in Bulgaria include telecommunications (Cosmote), metal products (Sidenor SA, Halkor SA), petroleum products (Hellenic Petroleum SA), industry (Titan Cement, Stomana-Bioxalko, Belovo Papermill), construction (Terna, Aktor), energy (Terna Energy), services (ICAP), as well as manufactures, information technology, insurance, tourism, trade, food and beverages and real estate. According to the Hellenic Business Council in Sofia, the majority of investments (over 70%) are made in small and medium size enterprises. Furthermore, it became a common strategy for large global brands such as Coca-Cola, Starbucks, Carrefour, Nestle, Deloitte, Ernst & Young, PricewaterhouseCoopers, Hilton, Sheraton, Subaru and IKEA to penetrate the Bulgarian market through their Greek units. The most important Greek investment made in Bulgaria in 2011 was the creation of the first IKEA store in Sofia - through the Furlis group - which won the "Investment of the Year" Forbes Business Awards in Bulgaria. According to the Greek Embassy in Sofia, in 2011 the number of Bulgarian companies, wholly or partially owned by Greek firms or individuals, was 4,100. However, it is reported that only between 600 and 650 of them are actually operating, as the rest were set up for the purpose of buying real estate or motor vehicle or other economic transactions.

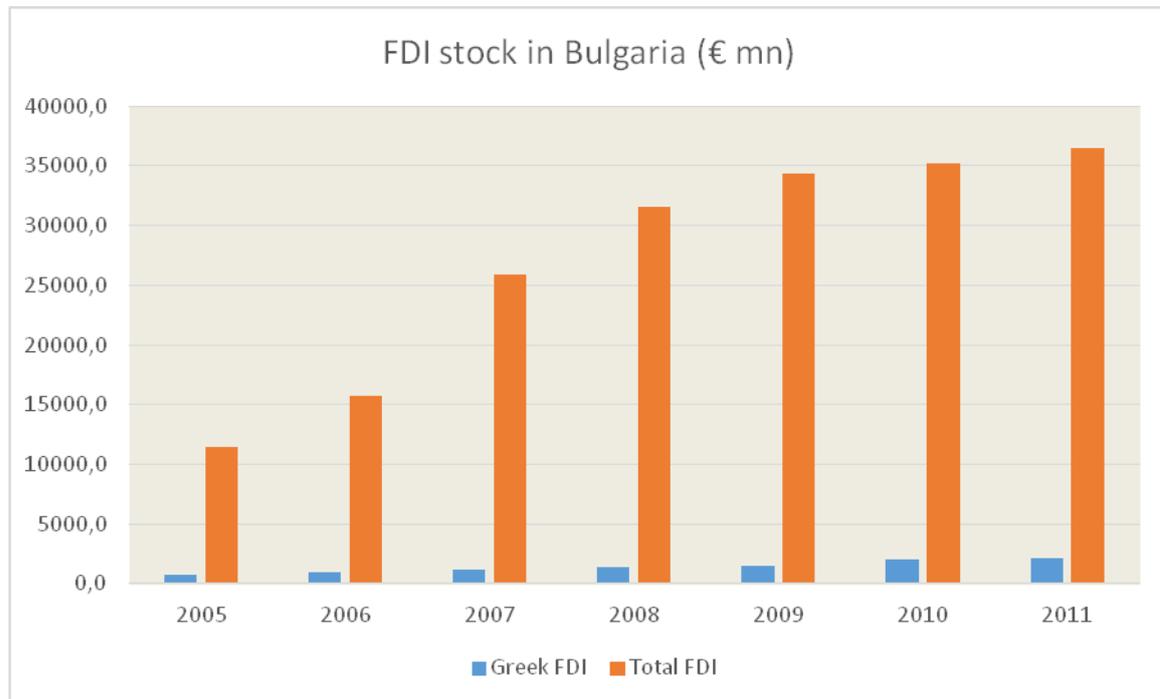
According to figures from the Bulgarian National Bank, Greece is Bulgaria's third largest investor – after Austria and Holland – with total investment stocks reaching €2.2 billion in 2012. However, according to Invest Bulgaria Agency, in reality Greece is Bulgaria's second most important investor – after Russia – since a significant portion of Greek capital flows enter Bulgaria through Luxembourg, Cyprus or even Holland.

Figure 52.



Source: Bank of Greece

Figure 53

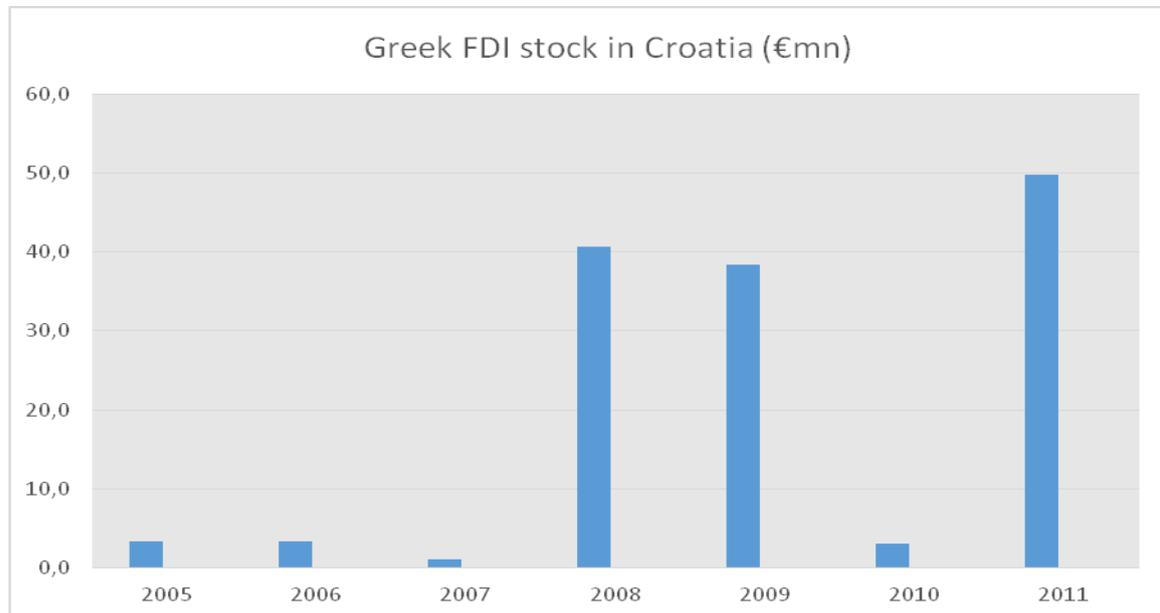


Source: Bank of Greece; World Investment Report

The **economic crisis** deeply affected Greek investment flows to Bulgaria. Thus, after peaking at €131 million in 2009, Greek FDI flows shrank by 49%, reaching €66.8 million in 2010. FDI flows declined even further, bottoming out in 2011 with an all-time low of € -18.8. Over the period 2009-2012, Greek FDI to Bulgaria contracted by 102%. The Greek crisis not only led to a dramatic decline in the inflow of Greek FDI to Bulgaria, but also led to significant disinvestment after 2009. According to the Hellenic Business Council in Bulgaria, a few high profile examples of parent companies withdrawing funds in recent years included Interliz (the leasing subsidiary of the National Bank of Greece) and Cosmo-Bulgaria (Cosmote company). Nonetheless, Greece remained a major foreign investor in Bulgaria: important Greek investments in 2013 include the Furlis and Danaos groups investment (€70 and €50 million respectively), in a plan for the development of a mall, a housing complex and a business project on the Sofia ring road, to be completed by 2019. It is estimated that the shopping center – Sofia Ring Mall, which will be the largest shopping mall in Bulgaria – will start operating within 2014.

Croatia

Figure 54:



Source: Bank of Greece

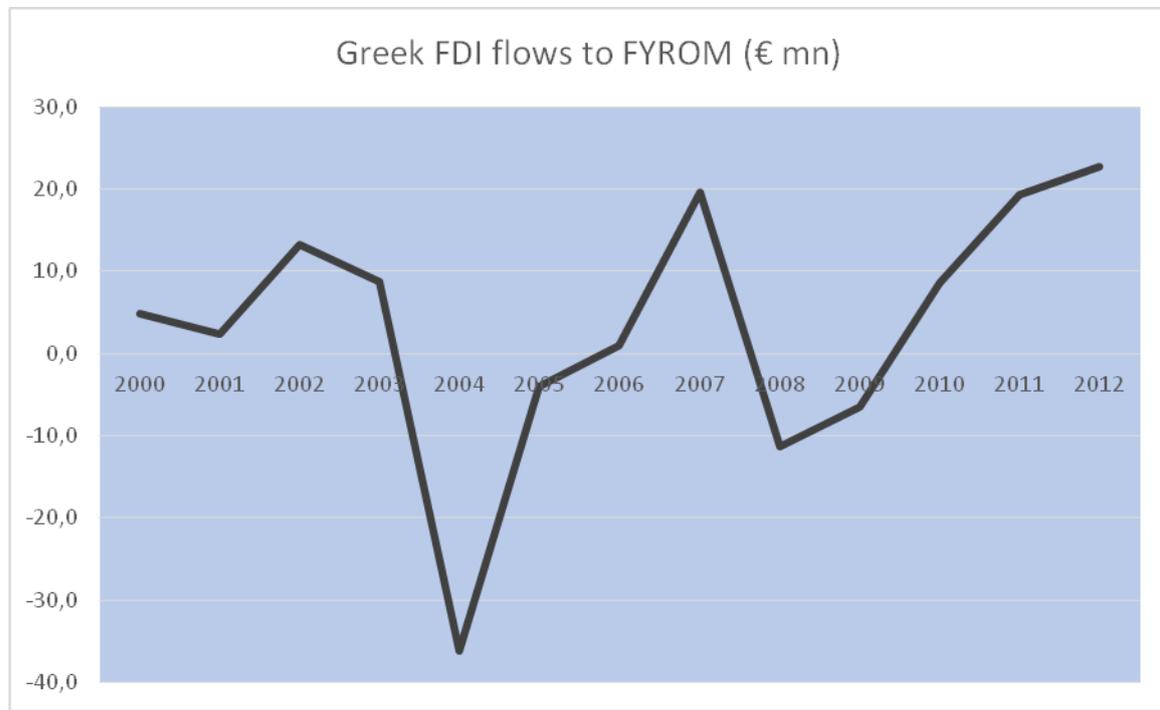
As was the case with trade, Greek investment in Croatia has been quite limited when compared to the other countries of the region, due to weaker economic links and ties between the two countries. FDI has been concentrated mostly in the sectors of construction, real estate, industry, telecommunications, and services. A few examples of Greek companies that have invested in Croatia over the past years include Lamda Development, Coca Cola Hellenic Bottling Company, Marfin Financial Group, Euroconsultants, Kiriacoulis Shipping, Dolphin Capital Partners, Marinopoulos Group, Notos, and Petrogini S.A. Total Greek investment stock by December 2008 was €40.7 million; following a significant contraction the following two years, Greek investment stock expanded and reached €49.8 million in 2011. Greek investment represents an extremely small percentage of total FDI in Croatia (0.2% at its peak).

Former Yugoslav Republic of Macedonia (FYROM)

During the period 1991-1994 Greek investment in FYROM was extremely low, due to the poor state of the country's economy, the political tensions in the countries' bilateral relations and the Greek embargo. However, the signature of the Interim Accord in 1995 - which led to the normalisation of relations between Greece and FYROM and the lifting of the embargo - combined with the overall improvement in the country's situation, created new circumstances that allowed Greece to eventually become a dynamic investor in FYROM. As can be seen in Figure 55, since 2000 Greek FDI flows to FYROM have experienced cycles of growth and contraction,

rising to €12 million in 2002, falling to a low of €-36.2 million in 2004 and rebounding to a peak of €19.6 million in 2007.

Figure 55



Source: Bank of Greece

Over the years, Greek investments in FYROM have created or secured about 20,000 jobs, a significant number for a country with very high unemployment rates. According to data provided by the Greek Liaison Office of Economic and Commercial Affairs in Skopje, Greek investments were mostly in sectors of foods and beverages, energy, petroleum, cement, mining, marble, banking, mobile telephony, tobacco, clothing and accessories. Due to the country's economic cooperation agreements with CEFTA, EFTA, Turkey and Ukraine, Greek investment activities in FYROM have often been used as a launching pad for further investments. Moreover, many of these companies are among the 200 largest companies in the country.

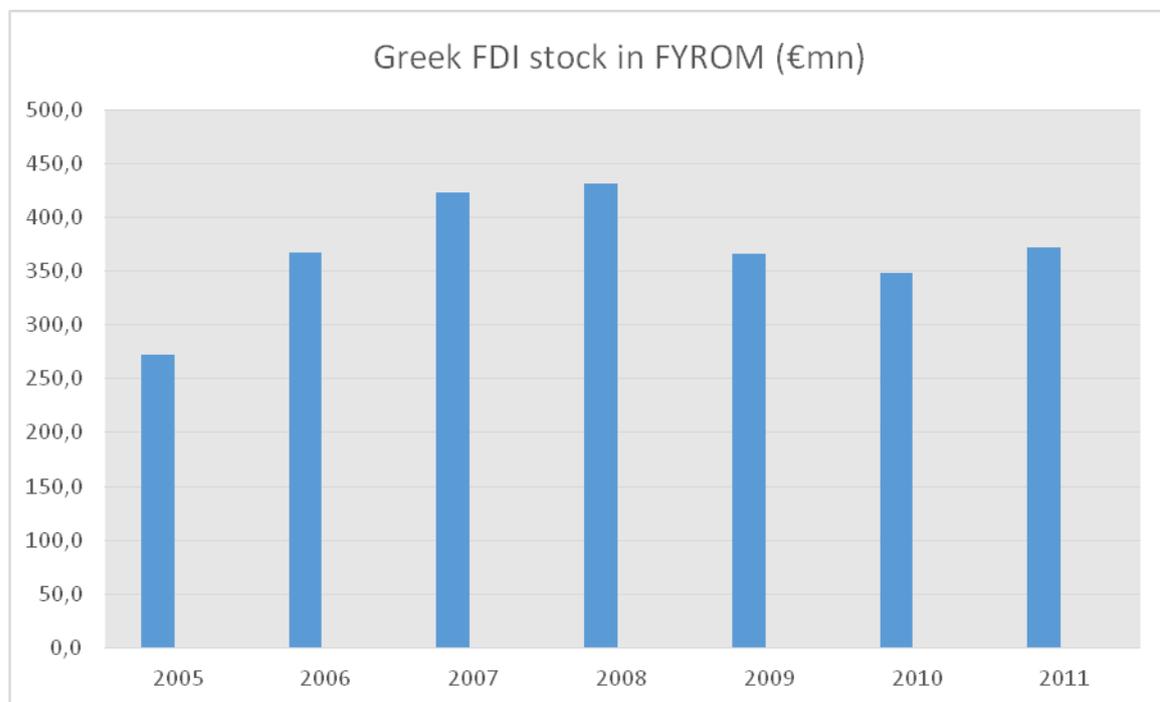
The top Greek investment activities - through privatisation and post-privatisation transactions - include the following:

- The buy-out of the OKTA refinery by Hellenic Petroleum and the construction of the Thessaloniki-Skopje pipeline. The total investment amounted to US\$200 mn and was completed in 2002;

- The buy-out of majority shares (68.4%) of Stopanska Banka by the National Bank of Greece for US\$158 mn, and Kreditna Banka by Alpha Credit Bank for US\$25 mn;
- The buy-out of Cosmofon by OTE for US\$135 mn;
- The buy-out of USJE cement factory by the consortium of Titan Cement and the Swiss Holderbank, for US\$60 mn;
- The buy-out of Pivara Skopje by Balkanbrew Holding Ltd (Athenian Breweries/ Hellenic Bottling Co.) for US\$60 mn;
- The buy-out of Stumica Tabak and Jugototun by Michailidis Tobacco;
- The buy-out of Mermeren Kombinat-Prilep, FYROM's largest marble quarrying and processing plant, by Kyriakidis SA for US\$50 mn;
- The buy-out of Zito-Luks (bakery products) by Hellenic Bisquit co. SA for US\$15 mn;
- The acquisition of mobile telephone operating license by OTE for \$US 25 mn;
- The €38 mn investment during the period 2009-2010 by Greek supermarket chain Veropoulos, for the creation of a new shopping centre

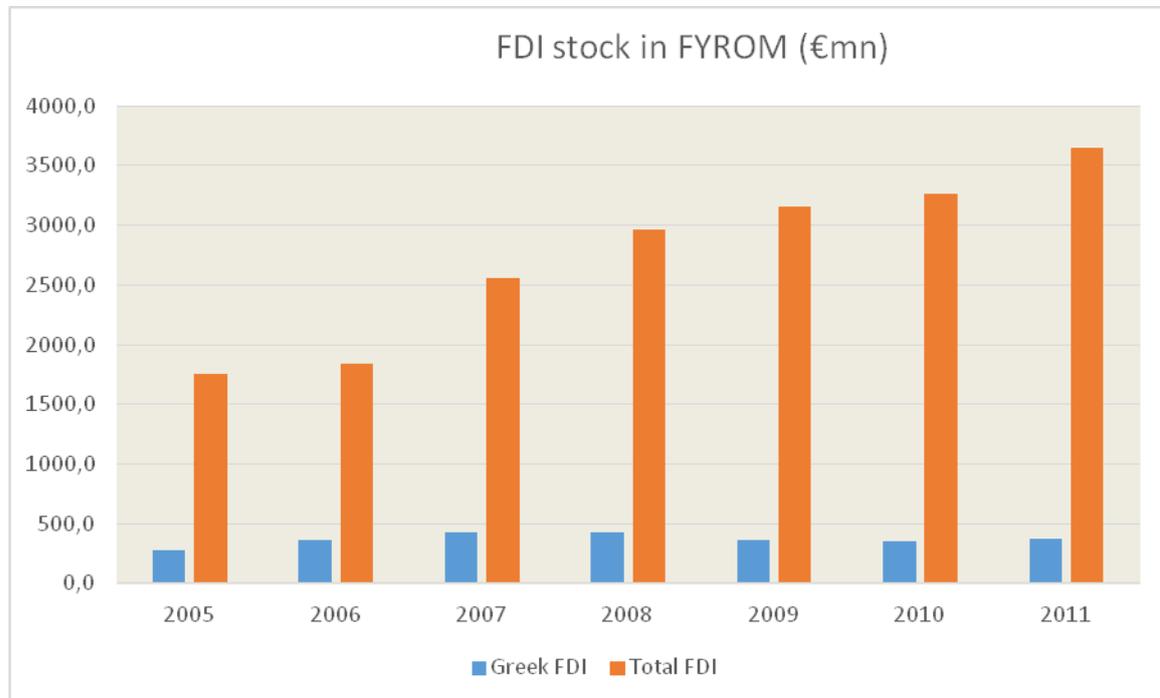
Thus, since 1995 Greece has consistently been one of the most important investors in FYROM, accounting for between 15 to 20% of total FDI stock in the country.

Figure 56



Source: Bank of Greece

Figure 57



Source: Bank of Greece; World Investment Report

Interestingly, while Greek investment flows to FYROM fell sharply in the year just before the **Greek crisis** imploded (from €19.6 million to €-11.3 million, between 2007 and 2008), FDI flows experienced an upward swing over the next four years, reaching €22.8 million in 2012. Thus, during the period 2009-2012, at a time when Greek investment was shrinking throughout the region, FDI in FYROM grew by 350%. Concerning the impact of the crisis on Greek FDI stock, it fell from €430.9 million to €348.2 million during the period 2008-2010. 2011 marked a turning point in the return to growth of Greek FDI stock, as a result of the upswing in FDI the previous two years (Figure 33). Despite this slow return to growth, however, Greek FDI as a percentage of the total invested in FYROM has declined consistently since 2006, falling from 20% for that year, to 10.2% in 2011 (Figure 57).

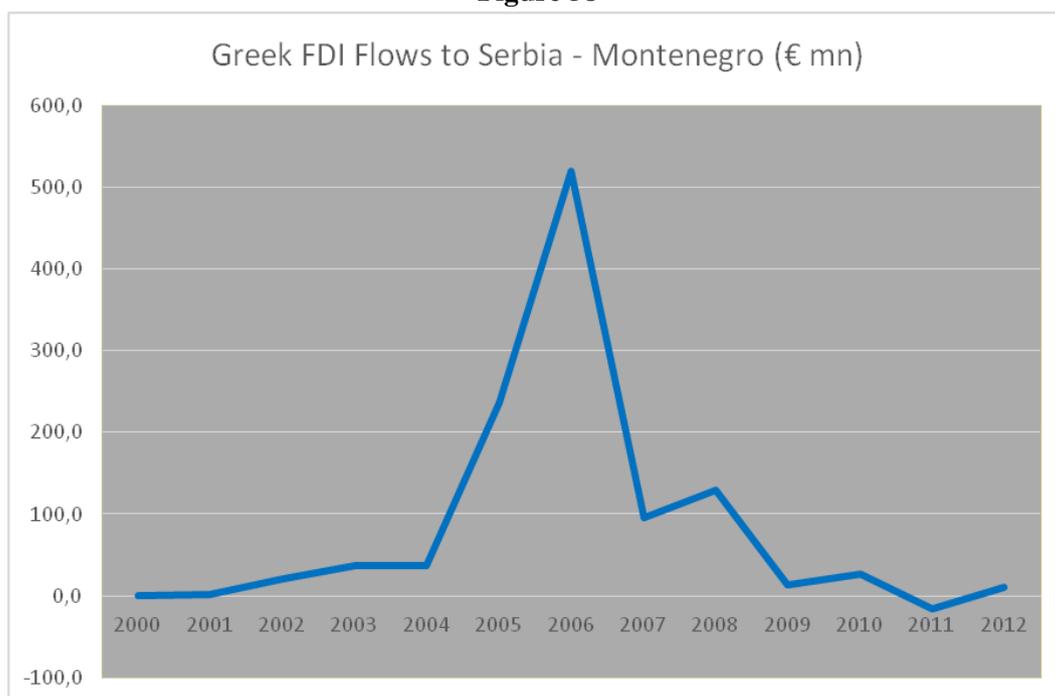
Serbia-Montenegro

Whereas after 2006 the figures for trade between Greece and Serbia-Montenegro are calculated separately by the Hellenic Statistical Service (after the partition of the country into two independent states) this does not apply for the data for foreign direct investment. The Statistics Division of the Bank of Greece does not provide separate data for the independent countries post-2006, but rather continues to calculate the two together. However, by cross-referencing with other, independent sources (such as

Greek Embassy Commercial attaches in the Balkan countries, Invest in Greece Agency, etc) it is clear that the majority of Greek FDI post-2006 has been placed in Serbia, with comparatively much less activity in Montenegro. Thus, as is the case with trade, Greek investment relations are much more dynamic with Serbia than with Montenegro.

Greek companies started investing in Serbia-Montenegro in the period following the cessation of the hostilities in Bosnia-Herzegovina. Investment activities increased rapidly over the next years (with the exception of the period of turbulence that led to the NATO airstrikes) and accelerated even more dynamically after 2000. As can be seen in Figure 35, investment flows to Serbia-Montenegro reached a peak of €519.3 million in 2006. Over the years Greece developed a very significant investment presence in Serbia-Montenegro: total Greek FDI stock in 2011 was €2.1 billion, the largest in the Western Balkan region and close behind Bulgaria (Figure 59).

Figure 58

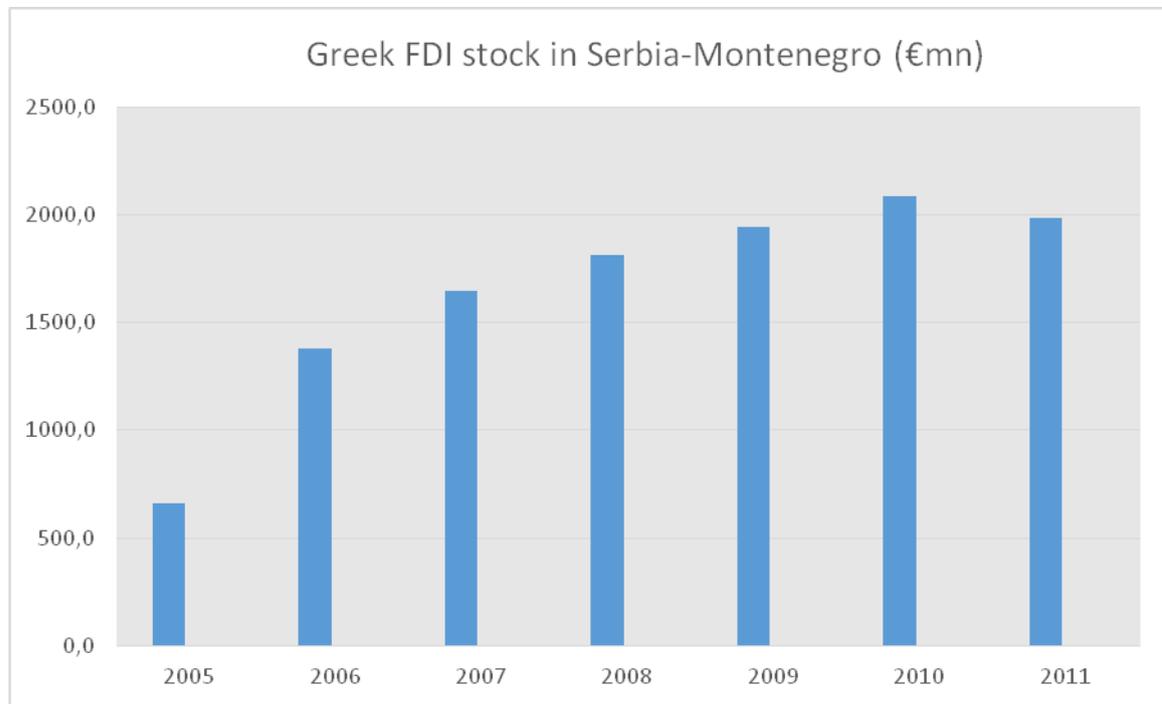


Source: Bank of Greece

Major investments in Serbia have been made in the sectors of telecommunications (OTE), banking (National Bank of Greece, Alpha, Eurobank, Pireus Bank), energy (Hellenic Petroleum), food and beverages (Delta dairy, Veropoulos supermarket, Coca Cola/ Hellenic Bottling Company) and construction (Titan Cement, Biohalco, Mitilinaios, Aloumil). Greek investments in Montenegro have been mostly in the sectors of commercial enterprises, financial services, industrial enterprises, energy (Hellenic Petroleum) construction and real estate (Titan Cement, Diastasi S.A., Lamda Development, Alumil), food and beverages (Coca Cola/ Hellenic Bottling

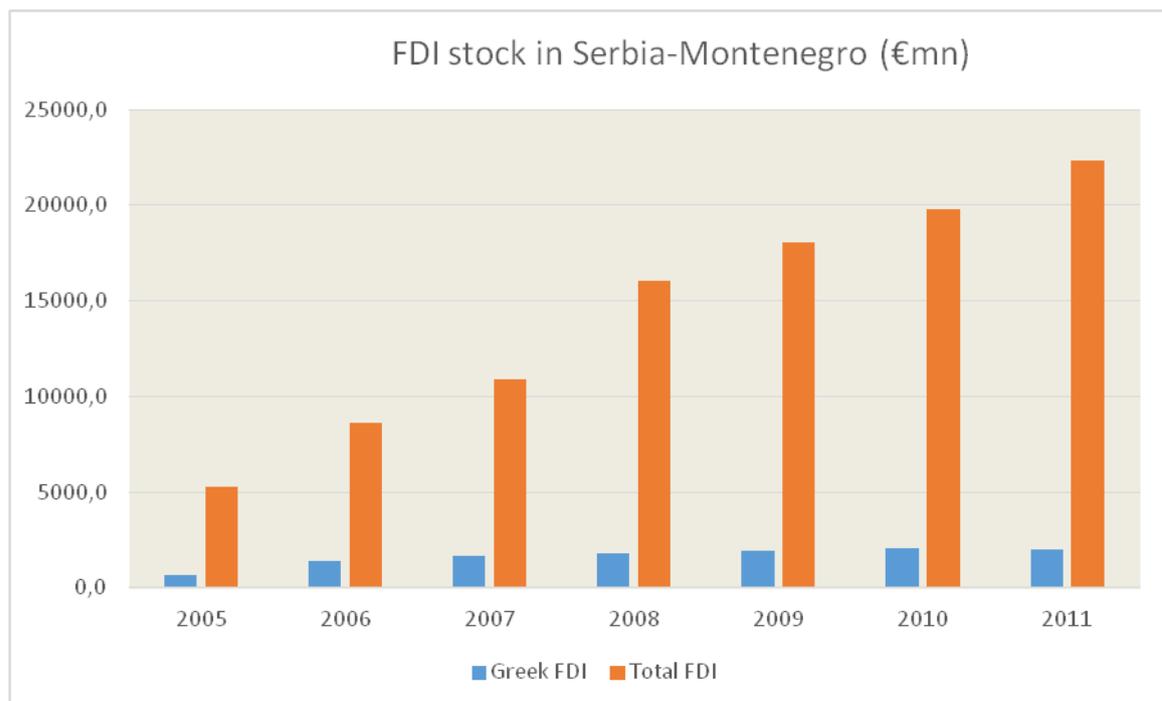
Company, Delta dairy) and entertainment services (STER Cinemas Audiovisual Enterprises).

Figure 59



Source: Bank of Greece

Figure 60



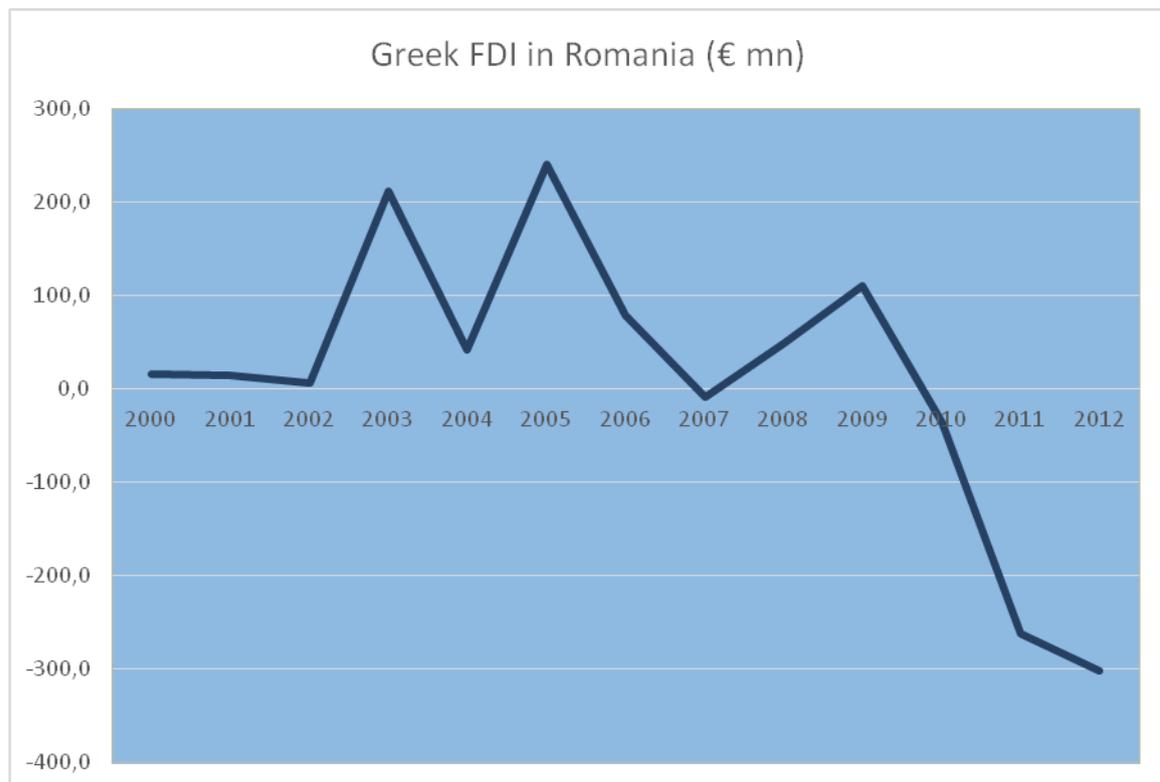
Source: Bank of Greece; World Investment Report

Greek FDI flows fell sharply with the onset of the **sovereign debt crisis**, contracting by 90% between 2008 and 2009. After an upswing in 2010, FDI contracted again the following year, reaching a low of €-15.4 million in 2011. However, as has been the case in other Balkan countries, a slight upturn in Greek investment was recorded in 2012, reaching €10 million. Total FDI flows from Greece to Serbia-Montenegro fell by 92.3% during the period 2008-2012. The share of Greek FDI in total investment in Serbia-Montenegro has been in decline: from a peak of 16.0% in 2006, it fell to 8.9% of the total in 2011 (Figure 60).

Romania

Greece's investment activities in Romania started in the mid 1990s - after some level of stabilization had been achieved following the turbulence of the post- Ceausescu period. Investment accelerated after 2002, reaching a peak of €250 million in 2005. By 2007, total Greek FDI stock in Romania had reached almost €4 billion (Figure 62).

Figure 61



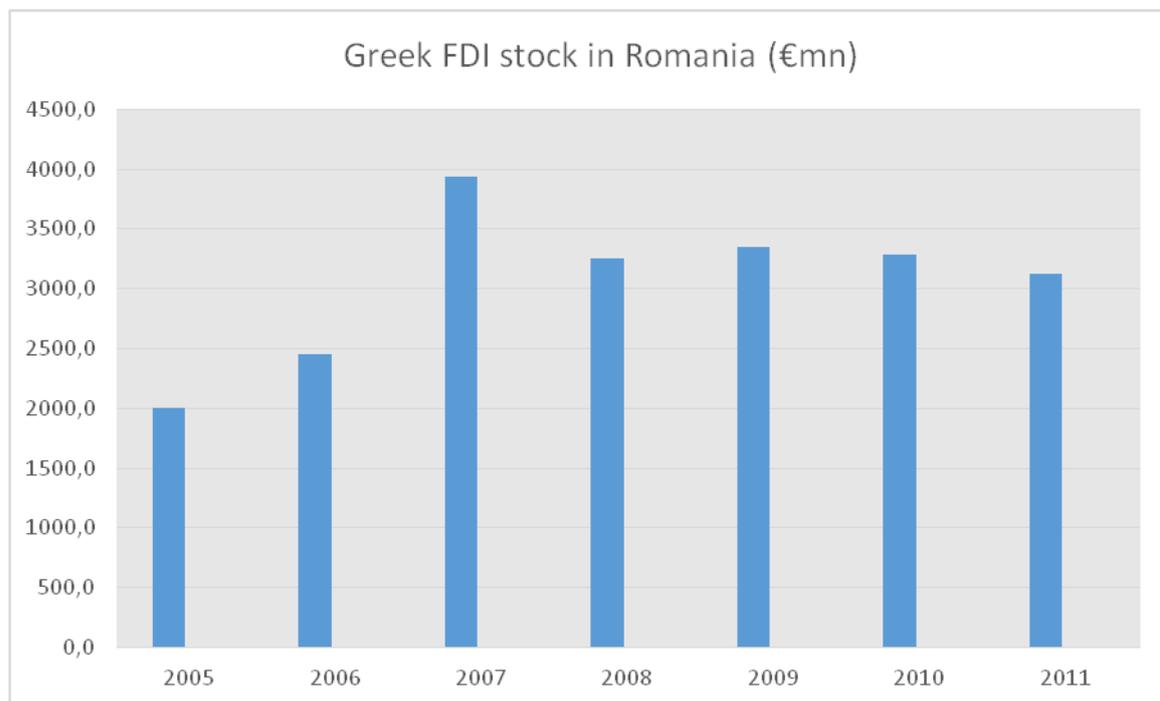
Source: Bank of Greece

Greek investments in Romania have been made in the sectors of telecommunications (OTE, Cosmote, Germanos), services, manufactures, food and beverages (Coca Cola Hellenic Bottling, Karamolegos Olimbos dairy), clothing, plastics and

pharmaceuticals. Marinopoulos owns the franchise for Starbucks, Banana Republic, Marks and Spencer, GAP, and Sephora. By far the most important sector, however, is that of banking: the presence of Greek capital in the Romanian banking sector is second only to Austria, accounting for 16% of total banking assets. Alpha Bank, National Bank of Greece, EFG Eurobank, Piraeus Bank, Marfin and Global Finance are all heavily involved in the Romanian banking sector, usually through the buy-out of majority shares in Romanian banks.

The flagship Greek investment in the mid-1990s was Banca Bucuresti, a private bank set up by Alpha Credit Bank, to serve both Greek companies doing business in Romania and the growing numbers of local enterprises that have little access to credit from the state banking system. With a capital base of \$10 million, in which the EBRD held a 25% stake, Banca Bucuresti expanded rapidly, opening five branches in provincial cities and building up its loan book in excess of \$30 million within a year. It established an investment banking subsidiary, Bucharest Investment Group, which was created in order to play an active role in Romania's privatization program.

Figure 62

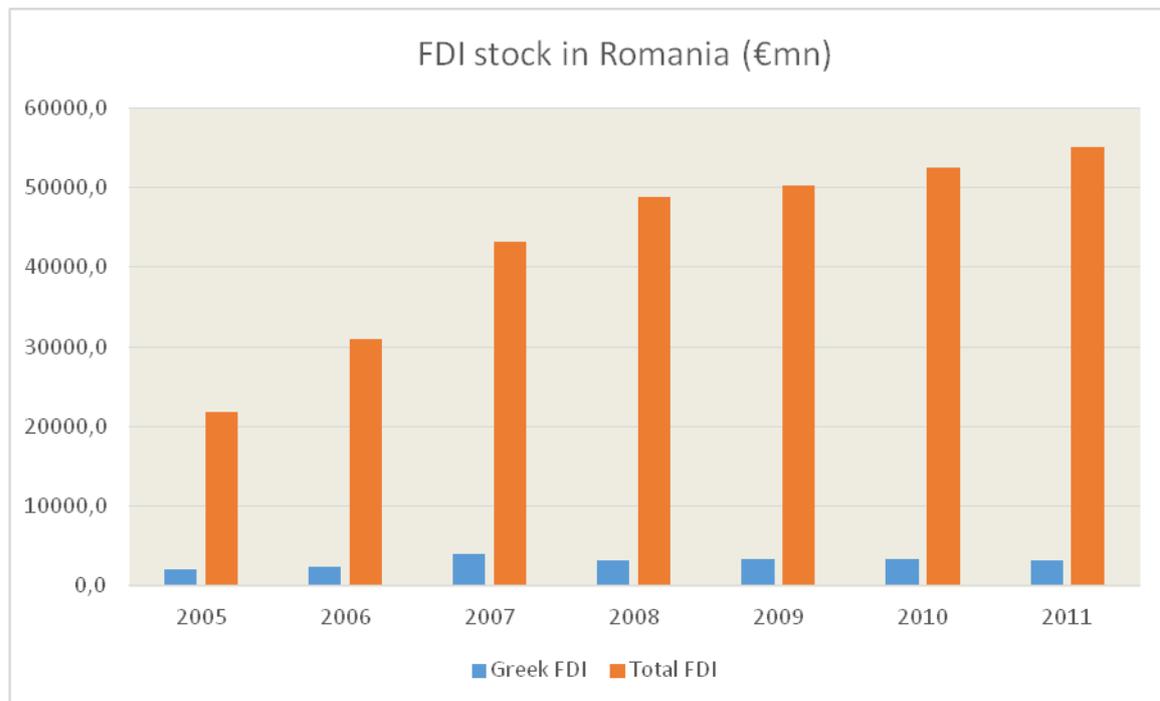


Source: Bank of Greece

The impact of the **crisis** on Greek investment activities in Romania has been extremely negative. Specifically, as can be seen in Figure 38, Greek FDI flows to Romania dropped dramatically and consistently after 2009, falling from €109.5 million that year to €-37.0 million in 2010, €-262.3 million in 2011 and even further to €-302 million in 2012, i.e. an overall decline of 375.8%. The disinvestment trend –

especially in the banking sector – led to a substantial shrinking of Greek FDI stock in Romania: thus, from a high of €3.94 billion in 2007, Greek FDI stock fell to €3.12 in 2011. Moreover, the share of Greek FDI in total FDI in Romania fell from 9.2% in 2005 to 5.7% in 2011 (Figure 63).

Figure 63



Source: Bank of Greece; World Investment Report

Some conclusions regarding Greek investment in the Balkans

From the above analysis it is clear that the past fifteen to twenty years have witnessed a dynamic expansion of Greek investment activity in the Balkan region. Specifically, since the late 1990s, Greece has emerged as a top investor in the region, ranking first in Albania and FYROM, and among the first three leading investors in Bulgaria and Serbia. Greek investments in the region have been mutually beneficial: for the Balkan countries they contributed to the transition processes by providing crucial capital and valuable know-how, while for Greece they provided an opportunity to take advantage of regional emerging markets with growing needs, while enhancing the country's presence in the region. Greek FDI flows to the region peaked at €787.8 million in 2006, while FDI stock in 2010 was €8.07 billion.

As discussed above, the **sovereign debt crisis** has severely impacted the flow of Greek investment into the region. As can be seen in Table 12, since the beginning of the crisis Greek FDI flows towards the Balkan countries have contracted sharply,

falling from €383.4 million in 2009 to €119.8 million in 2010 (i.e. a 68.7% decline). The downward trend accelerated the following year, with FDI flows falling to €-263.6 million in 2011. Despite a slight reversal of this downward trend in 2012, overall Greek investment flows to the Balkan region contracted by 165.6% between 2009 and 2012.

A country-by-country analysis indicates that the only exception to this strong decline was FYROM, where Greek FDI has been on an upward trend since 2010. Albania, Bulgaria and Romania were particularly affected by the contraction of FDI flows, with decreases of 85%, 102% and 375% respectively for the period 2009-2012. Crucially, this downward trend was marginally reversed in 2012, with Greek investment flows to Albania, Bulgaria, Serbia-Montenegro experiencing a small upturn; FDI flows to Romania, however, continued to contract.

Part III. Overall Conclusions

The New Environment - The Impact of the Crisis on Greece's relations with the Balkan Countries and Greece's role in the region

As the crisis is entering its sixth year, it has become clear that the deterioration of the economic environment has had a deep and resonating impact on practically all dimensions of Greece's relations with the countries of the region. The repercussions are felt on several interlinked levels, transcending economic, political and social dimensions, and potentially affecting the stability of the entire region. Crucially, one should not try to evaluate the impact of the crisis simply by examining how bilateral relations have been affected, but by assessing how the crisis affects the dynamics of the entire region, including regional relations, EU accession prospects, political and social change. Since the repercussions of the deterioration of economic relations go far beyond the purely economic level - and impact the very foundations of Greece's presence and role in the region - one must differentiate between the strictly economic and the less quantifiable, less tangible sphere – issues of that cannot be assessed and evaluated with the same criteria.

Impact on Trade:

After many years of dynamic growth, expansion, and the evolution of a significant role in the region, Greek trade relations with its Balkan neighbours were negatively affected during the early period of the crisis.⁸⁵ This was evidenced by the sharp contraction in trade transactions (both imports and exports) between 2008 and 2009. The positive terms of trade for Greece were also reversed, as Greece's trade surplus with most Balkan countries contracted significantly after 2008, falling from €1.4 billion in 2008 to €899.5 million in 2010. This reduction in trade transactions had a negative impact on the Balkan economies as well, since for many countries of the region the Greek market was a crucial outlet for their products.

However, as discussed above, after 2010 some level of stabilisation was achieved, and by 2012 one could even speak of a small recovery being underway in Greek-Balkan trade relations. Specifically, total trade between Greece and the Balkan countries in 2012 reached almost €6.3 billion, up from €5.2 billion in 2010, and very close to the €6.4 billion mark for 2008 - the year before the outbreak of crisis - that can be used as a point of reference. Total Greek imports from the region grew from €2.15 billion in

⁸⁵ G. Magoulios and V. Chouliaras, "The repercussions of the financial crisis on the foreign trade between Greece and the Balkan countries", in A. Karasavoglou and P. Polychronidou (eds) *Economic Crisis in Europe and the Balkans*, Springer, 2014.

2010 to €2.31 billion in 2012, with some countries actually surpassing the level recorded for 2008. Most important, however, is the fact that total Greek exports to the region have increased from €3.05 billion in 2010 to €3.94 billion in 2012, thus surpassing the level of 2008. Equally important, it is evident that - driven by this dynamic expansion of exports - Greece's trade surplus also grew dynamically, from €899.5 million in 2010 to €1.6 billion in 2012, therefore exceeding the level of 2008 (€1.4 billion) and signaling a significant rebound in Greece's export presence in the region. As discussed earlier, this growth of Greek exports towards the Balkan countries may be attributed to a great extent to the tremendous contraction in demand on the domestic market, which pushed Greek producers to reorient their production and refocus on external markets, especially the neighbouring Balkan region. In any case, these figures indicate that although the crisis in the real economy is far from over, there is evidence of a fragile export-driven recovery in the trade sector, that could be used as a catalyst for further recovery both in Greece and the greater region.

Impact on FDI:

As discussed above, Greek investment activity in the Balkan countries has been a mutually beneficial driver of growth and one of the most tangible testimonies of Greece's strong presence in the region. After almost two decades of strong growth and a dynamic presence of Greek investors throughout the Balkan region, Greek FDI flows declined sharply as a result of the onset of the crisis. Specifically, due to economic difficulties in the domestic economy and the deterioration of the investment climate, Greek investment flows contracted by 165.6% between 2009 and 2012, falling from €383.4 million to €-251.6 million. After expanding rapidly since 2001 and peaking in 2007 (thus growing from €1.7 billion to €7.6 billion) Greek FDI stock closed at €8.0 billion in 2011. This dramatic decline in investment activities has had a serious impact on the Greek presence in the Balkan countries; moreover, it has negatively impacted the economies of the region that had benefited greatly and had come to depend on the consistent flow of capital from Greece as an engine for their economic growth and transitions.⁸⁶

However, it is crucial to highlight the fact that after two consecutive years of sharp decline, 2012 marked a reversal in the downward trend and could perhaps be interpreted as a bottoming out of the disinvestment trend. Specifically, Albania, Bulgaria, Serbia-Montenegro and FYROM all experienced a small upturn in investment flows in 2012; in fact, from the entire region, only FDI in Romania continued to contract. It is due to this continuing dramatic decline in Greek investment in Romania that total FDI flows remain in negative territory for 2012. Therefore, if one were to examine the data from the other countries of the region - without considering the figures for Romania - one can speak of a very tentative, slow

⁸⁶ L, Kekic, "The Global Economic Crisis and FDI Flows to Emerging Markets", *Economist Intelligence Unit*, London, 19 October. 2009

upturn of Greek investment compared to the period 2009-2011. This evidence of a recovery – albeit marginal – may signal a renewed interest and capacity of Greek companies to invest in the region.

Impact on the Balkan countries' Banking Sector:

Another critical impact of the crisis is visible in the banking sector, specifically in the numerous Greek bank subsidiaries operating in the region. As was discussed above, Greek banks have been particularly active and have invested heavily in the Balkans since the late 1990s, buying local banks and expanding their balance sheets, particularly in high-growth areas like consumer and mortgage lending. By 2007, Greek banks had accumulated a significant market share in the financial sector of the region, accounting for between 15- 30 percent of total banking assets of several Balkan countries.⁸⁷ Subsidiaries are to a significant extent funded with loans from Athens rather than local deposits. Even if Greek banks did not withdraw from the region, they would try to grow the local deposit base faster than loans, and would be likely to refrain from making fresh loans for a while.⁸⁸ Thus, from the very beginning of the crisis there was a risk of Greek banks limiting their credit activity and reducing their exposure in the region as a result of funding and liquidity pressures on the Greek parent banks.

After 2009, widening spreads on Greek sovereign debt led to increased funding costs for Greek banks; faced with such a liquidity squeeze, Greek banks started withdrawing their funds from their operations in the Balkans. Consequently, Greek banking sector claims declined by 25 percent in Romania and Bulgaria, and by 18 percent in Serbia in the two years to December 2011.⁸⁹ This liquidity retreat has not only disrupted the financial sectors in the region, but has also had a large impact on the local economies, given that all of these countries have bank-based financial systems where much of the borrowing activity is made through banks rather than equities or corporate bonds.⁹⁰

Impact on Migration and Remittances:

For almost two decades Greece has been a receiver of migrant workers from the Balkan region, especially Albania and Bulgaria.⁹¹ By the time the crisis imploded, some 600,000 Albanians were living and working in Greece: in 2009 workers' remittances originating from Greece amounted to at least US\$ 900 million (about 8 percent of

⁸⁷ J. Bastian, "Falling behind again? Southeast Europe and the global crisis", *ELIAMEP Thesis*, March 2009.

⁸⁸ Macdonald, Hope and Bryant, op cit

⁸⁹ *Economist Intelligence Unit*, June 14, 2012.

⁹⁰ "Western Balkans: Bumps on the Road to EU Accession", *Current Issues, Emerging Markets, Deutsche Bank*, August 24, 2012.

⁹¹ L. Lambrianidis, A. Lymberaki, P. Tinios and P. Hatziprokopiou, "Inflow of migrants and outflow of investment: aspects of interdependence between Greece and the Balkans", *Journal of Ethnic and Migration Studies*, 30, (6), 2004.

GDP), contributing to domestic economic growth and providing livelihood for many families.⁹² Thus, another crucial repercussion of the crisis, which has deeply affected Greece's relations with the Balkan countries, relates to the impact on the migration flows and the inevitable decline in remittances. During the first years of the crisis, it became increasingly difficult for migrant workers to stay employed in Greece, and many were forced to repatriate.⁹³ Due to the negative conditions in their home countries, these same workers were often unable to be absorbed into the domestic workforce, thus leading to a further rise in unemployment in the region. Albania was obviously the most exposed to the impact of the Greek crisis on remittances, due to high number of migrant workers living in Greece. Between 2008 and 2011, the construction sector - in which many Albanians were employed - culled almost half its workforce, from around 400,000 to just 240,000. Since migrants can lose their legal status if they are jobless for long periods, many were forced to accept work for lower pay or without social security benefits. The number of migrant residence permits issued has fallen by 20 percent annually since the crisis began. Bulgaria was also affected by a significant decline in remittances from Greece: whereas the annual average over the last five years was €400 million, in 2009 these remittances fell by 11 percent.

The deterioration of the Greek domestic economy and the subsequent decline of Greece as a point of reference for migrant workers in the region have both tangible and intangible repercussions as far as Greece's relations with the Balkan countries are concerned. Concerning the tangible factors, the real fall in remittances has an extremely negative impact on the entire region, at a time when these countries are working towards achievement of the EU convergence criteria.⁹⁴ Concerning the intangible factors, this decline in Greece's importance in the economic life of the Balkan countries ultimately represents a broader decline in Greece's impact and presence in the region.

Impact on the economies of the region:

All the aforementioned negative repercussions of the Greek crisis have created an extremely difficult predicament for Greece's Balkan neighbours.⁹⁵ Due to Greece's extremely dynamic economic involvement in the region, and the subsequent high interdependence between Greece and the Balkan countries – especially in the areas of trade, investment, banking and remittances - the Greek crisis has led to a deterioration in almost all key economic indicators of these countries, including GDP growth, unemployment, external debt and current account balances and an increase in corruption

⁹² World Bank, *Migration and Remittances Factbook*, Washington, DC., 2010.

⁹³ R. King, E. Uruci and J. Vullnetari, "Albanian migration and its effects in comparative perspective", *Journal of Balkan and Near Eastern Studies*, 13 (3) September 2011.

⁹⁴ *Transition Report: Crisis and Transition*, European Bank for Reconstruction and Development, London, 2011.

⁹⁵ D.M. Nuti, "The Impact of the Global Crisis on Transition Economies", UNU WIDER Conference, *Reflections on Transition: Twenty Years after the Fall of the Berlin Wall*, Helsinki 18-19 September 2009.

and organised crime.⁹⁶ This, in turn has produced a vicious circle that impacts the entire region, whereby the economic decline of Greece exacerbates the decline of the economies of Southeast Europe which feeds back into Greece through *inter alia* a fall in demand for imports from Greece and a fall in the return on Greek investments.

Crucially, the Balkan countries' declining economic performance, their stalling of political and economic reforms, and subsequent social unrest could also have adverse effects on the stability of the region as a whole, including the accession prospects of the Western Balkan countries.⁹⁷

Impact on Greece's stature in the region: redefining the role of "Ambassador"

Moving beyond the direct impact of the crisis on Greece's bilateral economic relations with the Balkan countries (in terms of trade, investment, etc) it is clear that the economic crisis has shifted the dynamics of the region on other - less quantifiable but extremely potent - levels as well. Thus, it is clear that the new economic realities facing Greece have had a tremendous impact on Greece's stature, presence and role in the region. For many years, Greece was considered a Balkan "success story": a quintessentially Balkan country that had made the transition from underdevelopment and marginality to prosperity and stability, under the aegis of the European Union. A bridge between the Balkans and Europe, Greece was the only Balkan country that was also a member of both the EU and NATO. Moreover, Greece had carved a role for itself as the "Balkan Ambassador" to the EU; since 2003 Greece had made enlargement towards the Balkans a cornerstone of its foreign policy and had promoted it actively within the EU institutions.⁹⁸ Probably the most remarkable achievement of its 2003 Presidency was the Western Balkans Summit held in Thessaloniki in June 2003, which gave the countries of the region a clear perspective for membership in the EU. However, as presented earlier in this report, the replies received from the online survey indicate that as far as the participants of the survey were concerned, Greece did not in fact play such an exceptional role in the Europeanization of the Balkans. This could be interpreted in two ways: either *in reality* Greece's role in promoting the Balkan's EU integration was overestimated, or Greek public diplomacy's ability to *communicate* the crucial role that Greece played was highly ineffective. If the second scenario is accepted, one is led to question the effectiveness of Greek public diplomacy in the Balkans even during the heyday of Greece's activity in the region. Given that the current economic crisis has decreased the number of press and communication officers, the effectiveness will be further curtailed unless measures are taken to reverse this trend.

⁹⁶ IMF *World Economic Outlook*, April 2013; R. Panagiotou, "The Effect of the Global Economic Crisis on Southeast Europe", *Journal of Balkan and Near East Studies*, Vol. 12, No. 2, June 2012.

⁹⁷ D. Bechev, "The Periphery of the Periphery: The Western Balkans and the euro Crisis", *Policy Brief*, European Council on Foreign Relations, August. 2012.

⁹⁸ A. Kavrakova, *Comparative Report: The Unfinished Business of the Fifth Enlargement Countries*, European Policies Initiative/ Open Society Institute, Sofia, 2009.

Since 2010, the Greek sovereign debt crisis - and the subsequent far-reaching economic, political and social impacts on the entire region - has changed the dynamics of bilateral relations, and has had negative ramifications for Greece's activities and presence in the region. Hugely indebted, discredited and facing years of austerity, Greece's days as a regional champion seem to be over. Greece no longer has the clout, the prestige or the capacity to play the role of the "champion" of Balkan enlargement, or to be a bridge between Brussels and the Balkans. To a great degree, Greece's promotion of Western Balkan integration within the EU has lost its relevance, due to economic and structural weaknesses that have caused extensive credibility problems.⁹⁹

Greece's weakening political and diplomatic role therefore calls into question the country's ability to effectively support the Balkan countries' EU accession hopes. The Greek Ministry of Foreign Affairs had earlier initiated the 2014 Balkans initiative, which aimed to give a new impetus to the Western Balkan accession agenda during the 2014 Greek EU Presidency. This initiative had attracted support from EU countries such as Romania, Bulgaria and Austria as well as the new member state, Croatia, but was in the end abandoned.

Indeed, Greek priorities have shifted away from the Balkans towards regaining lost credibility within the European structures. This shift in focus was evident in the presentation of the Greek EU Presidency's priorities for the first half of 2014. Significantly, the list of Greece's priorities does not include enlargement policy, despite previous emphasis to it given under the joint programme of the so-called Trio of Presidencies (currently made up of Ireland, Lithuania and Greece), which had defined enlargement as an "area of strategic importance".¹⁰⁰ Besides, some Balkan countries increasingly believe the enduring Greek crisis is seriously weakening Greece's diplomatic and political capital within the EU. Furthermore, the failure of "Europeanisation" in Greece is illustrated in its current economic and social crisis, which has caused some Western European countries to increasingly question the entire consensus about admitting the remaining Balkan states to the EU. Thus, Greece risks being transformed from the golden example of the Balkans, to an 'EU laggard', and a potential liability for Balkan accession prospects.

This omission has not gone unnoticed by Greece's Balkan neighbours, who have expressed their disappointment and concern over this perceived lack of commitment on Greece's behalf, and the implications of this exclusion. The expectation – based on

⁹⁹ O. Anastasakis, D. Singh, (eds.), *Reforming Greece Sisyphian task or Herculean challenge?*, South East European Studies at Oxford, University of Oxford, 2013

¹⁰⁰ The priorities of the Greek Presidency, as outlined by the Greek Foreign Affairs Ministry, are divided into four chapters: growth, jobs and cohesion; further integration of EU and eurozone; migrations, borders and mobility; and maritime policies.

Greece's previous successful Presidency – was that the country would continue to play a strong role as an Ambassador of the region and would put enlargement and regional solidarity high on its Presidency priority list.

However, the Greek leadership maintains that the fact that enlargement is not listed as one of the top priorities of the Greek presidencies does not mean that there are no concrete plans for the Western Balkans. Deputy Prime Minister and Foreign Minister Evangelos Venizelos stressed that Greece not only wants to play a dynamic role in promoting the Euro-Atlantic perspective of all Western Balkan countries, but also to play a constructive role in the Belgrade-Pristina dialogue. Moreover, Deputy Foreign Minister Dimitris Kourkoulas, declared that enlargement has always been and would continue to be a top priority for Greece; he indicated, however, that instead of high level events and meetings – such as the Thessaloniki Summit of 2003 - Greece would push each country's case on an individual basis during the Presidency, based on merit. Finally, the Deputy Foreign Minister stated that another priority for the Greek Presidency will be to promote the “connectivity” of the Western Balkans, i.e. to foster the closer connection of the region both internally and with the EU, through infrastructure projects in the vital transport and energy sectors.

Despite the above statements and gestures aimed at reassuring the Balkan countries of Greece's continued commitment to the cause of further enlargement and connectivity, the fact remains that the crisis and the impact it has had on the country's prestige and status have made it far more difficult for Greece to push forward such an agenda. Clearly, the government's goal is to buttress the country's international standing, to confirm the European dimension of Greek policy and to prove that even in the midst of such a crisis Greece can contribute to the European partnership; in this context, its priorities have definitely shifted away from promoting the European prospects of its Balkan neighbours.

On a symbolic level, clearly the damage caused by the current crisis to Greece's image within the Balkan region is undeniable. In countries that have already faced the fall of communist regimes and the concurrent economic devastation, the fear of a return to such economic conditions creates a defensive reflex toward the probable culprit, Greece. Yet, it might be said that the biggest loss for Greece is the evident lack of its own self-esteem and the self-confidence in its European path. Thus, it can be assumed that the biggest challenge for Greek political elites and current and future governments will be the recovery of the country's self-confidence and the communication of its past achievements relating to the other Balkan states during the years of recovery.

In conclusion, it is clear that the impact of the crisis on Greece's relations with the Balkan countries must be evaluated as a complex, multi-dimensional and multilayered compilation of factors, whose overall effect is far greater than the sum of its parts.

The repercussions of the crisis encompass a broad spectrum of parameters that affect bilateral trade and investment relations, Greece's status and standing in the region, the Balkan economies, their EU prospects, as well as overall stability in the area. Greece is potentially at a crucial turning point: the nascent and fragile signs of recovery - illustrated by a primary surplus and forecasts for a marginal growth of the economy for 2014 - may be a cause of tentative optimism. However, whether this fragile recovery will spill over into Greece's troubled economic and political relations with the Balkan countries any time soon, remains to be seen.

APPENDIX 1 : Rate of Bilateral Agreements, Protocols and Memoranda between Greece and the Balkans

Albania

Year	Number	Issues
2000	5	Environment (Prespes), Loans for School constructions and maternity clinic, technical and scientific cooperation
2001	3	Transport, economic and technical cooperation
2002	7	Transportation, Social insurance, Development cooperation, public administration, construction, military
2003	9	Environment, Water management, Military cooperation, Telecommunications, smuggling, health.
2004	4	Military, intelligence.
2005	6	Coast guard, Development, technical and scientific cooperation, telecommunication and transport.
2006	7	Road transports, intelligence, trafficking, youth, electronic communication, collaboration of fire brigades, energy sector.
2007	1	Memorandum on the creation of network for the protection of consumers
2008	2	Economic, telecommunication and transportation
2009	2	Sea borders, agreement for the fallen during the war
2010	1	Collaboration of the Ministries of Public Order
2011	-	-
2012 (20/12/12)	1	Protocol for Development issues

Bosnia

Year	Number	Issues
2000	1	Protection of Investments
2001	1	Protocol of Cooperation between the Ministries of Foreign Affairs
2002	1	Development (Hellenic Plan for the Economic Reconstruction of the Balkans)
2003	1	Culture and Education
2004	1	Air transports
2005	2	Road transports, Development
2006	2	Crime fight, terrorism, illegal migration
2007	2	Economic and technological cooperation
2008	1	Defence
2009	-	-
2010	-	-
2011	1	Military
2012	-	-
2013 (04/2013)	1	Agreement for the promotion of Bosnia's EU accession.

Bulgaria

Year	Number	Issues
2000	2	Borders, tax issues
2001	4	Water, Transportations, telecommunication
2002	8	Health, transportations, education, border, development, environment, scientific and technological cooperation
2003	5	Military, Intelligence, Water
2004	1	Tourism
2005	12	Transport, Development, Education, Intelligence, Health, Energy, scientific and technological cooperation, military
2006	3	Friendship, education, transportation
2007	1	Transportation
2008	3	Border control, military
2009	4	Education, military
2010	14	Transportations, Police cooperation, Agriculture, Military, Water, Economic cooperation (Tax), Healthcare, employment, telecommunications, energy, tourism.
2011	3	Water, regional cooperation
2012	8	Culture, education, telecommunications, agriculture, tourism, transportations
2013	-	-

Croatia

Year	Number	Issues
2000	3	Education, military, economic cooperation.
2001	4	Transportation, economic cooperation, shipping.
2002	1	Military
2003	1	Military
2004	1	Education/Culture
2005	-	-
2006	-	-
2007	1	Friendship and good neighbourhood agreement
2008	1	Economic cooperation
2009	-	-
2010	-	-
2011	-	-
2012	-	-
2013	-	-

Montenegro

Year	Number	Issues
2000	-	-
2001	-	-
2002	-	-
2003	-	-
2004	1	Shipping
2005	-	-
2006	3	Development, diplomatic relations, technology and innovation
2007	1	Military
2008	1	Protocol of cooperation between the ministries of foreign affairs
2009	1	Cooperation on natural disasters
2010	-	-
2011	3	Cooperation for Montenegro's accession
2012	-	-
2013	-	-

FYROM

Year	Number	Issues
2000	5	Environment, education, sustainable development, military.
2001	-	-
2002	3	Environment, development, sports
2003	2	Border, military
2004	1	Diplomatic
2005	3	Intelligence, Fishery, Development
2006	-	-
2007	1	Consumers' protection
2008	-	-
2009	1	Common letter for Prespa
2010	-	-
2011	-	-
2012	1	Military
2013	-	-

Serbia

Year	Number	Issues
2000	1	Development cooperation
2001	3	Military, education, technology and science
2002	7	Transportation and communication, education, diplomatic, economic and technical, Development.
2003	2	Military intelligence
2004	3	Transportation, intelligence
2005	1	Development
2006	2	Military, justice.
2007	1	Consumers' protection
2008	2	Transportation, fight against crime
2009	-	-
2010	1	Memorandum for the promotion of Serbia's EU accession.
2011	-	-
2012	2	Agriculture, parliament cooperation
2013	-	-

Romania

Year	Number	Issues
2000	3	Youth, sports, technology, science.
2001	2	Peace operations, communication and transportation
2002	3	Military, Development, science and technology
2003	5	NATO accession, intelligence, military medicine, sports
2004	1	Intelligence
2005	3	Education, science and technology, development
2006	7	Military, youth, transportation, sports, public administration
2007	3	Education and diplomatic
2008	2	Military and transportation
2009	-	-
2010	1	Military
2011	1	Agriculture
2012	-	-
2013	-	-

APPENDIX 2: Online Survey

1) In your opinion, how would you rate Greece's image in the region during 2000-2008?						
	1	2	3	4	5	Elaborate
Not attractive - Very attractive						

2) Did Greece have a leading role regarding the Europeanization of the Balkans during this period? (In case your responses are 4 or 5 please move to the next question).						
	1	2	3	4	5	Other (Please Specify):
Not at all - Absolutely						

3) *(Please answer only if you have given the mark 4 or 5 in the previous question) How and in what way has Greece affected developments in the region (e.g. Thessaloniki 2003: Commitment to the European Integration of the Balkans during the Greek Presidency of the Council of Ministers)?						

4) According to your personal opinion, was the role of Greece during this period overestimated?						
	1	2	3	4	5	Other (Please Specify):
Not at all - Absolutely						

5) Has the current Greek debt crisis affected Greece's image in the region?						
	1	2	3	4	5	Other (Please Specify):
No - Yes						

6) Is there an extensive coverage of the Greek debt crisis by the media in your country?						
No						
Yes						

7) If coverage is extensive, what kind of comments were made by politicians and institutions?						
Negative-Positive						

8) In your opinion how active was Greek diplomacy in your country during 2000-2008?						
	1	2	3	4	5	Other (Please Specify):
Inactive - Very Active						

9) In your opinion how active was Greek diplomacy in your country since 2008?						
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	1	2	3	4	5	Other (Please Specify):
Inactive-Very Active						

10) Do you believe that Greece can play a role in the region when it assumes the EU presidency in 2014 and in what way?

11) In your opinion, do you think that the Greek debt crisis also affects EU's image in the Balkans?

	1	2	3	4	5	Other (Please Specify):
Not at all - Absolutely						

12) Profile Information

Name	
Address	
City	
ZIP/Postal Code	
Country	
Email Address	
Phone number	

13) Institution

University	
Think Tank/Research Centre	
NGO/Advocacy group	
Media	
Other (Please Specify):	

14) What is your age

18-24	
25-34	
35-44	
45-54	
55-64	
65-74	
75-older	

15) What is the highest level degree you have received?	
High School	
University	
Post-graduate university	
Doctorate	

16) Have you ever worked or lived in Greece (other than vacationing)?	
Yes	
No	

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