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Greece's new Balkan Economic Relations: policy shifts but no structural change

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ABSTRACT

The advent of transition in the former communist countries set in motion significant changes not only in the countries concerned but also in the economic and geo-political environment of Greece. Together with many positive developments, some new challenges also emerged, as the country was suddenly presented with a new set of political problems and economic threats and opportunities that were urgently calling for a new approach to managing its economic and international relations. This paper examines exactly these developments in the Greek foreign economic policy in the Balkans and argues that, despite some significant innovations and policy shifts, a paradigmatic structural change in Greece's economic approach to the region is still lacking.

Keywords: Greek economic diplomacy; regional cooperation; Southeast Europe

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1. Introduction

The advent of transition in the former communist countries set in motion significant changes not only in the countries concerned but also in the economic and geo-political environment of Greece. The process of political and economic transition in the former communist countries altered dramatically the political economy and international relations of Europe in general and between the European Union and the countries of the former Council for Mutual Economic Assistance (CMEA) in particular. The opening-up of the economies of these countries shifted the centre of gravity of the European economy to the east and altered noticeably the economic geography of the continent. For Greece, in particular, these changes signalled also an end to the physical-geographic and, subsequently, economic isolation of the country, a factor that had been constraining its economic development and its firmer integration (economic as well as political) to the EU (Christodoulakis and Petrakos, 1997).

Despite these largely positive developments, such changes also brought about some new challenges for Greece. The country was suddenly presented with a new set of political problems and economic threats and opportunities that were

urgently calling for a new approach to managing its economic and international relations – a challenge on which Greece had limited experience and for which it was all but well prepared (Ioakimidis, 1999a). The social and political instability that resulted from the collapse of communism in its immediate neighbourhood and, almost immediately, from the disintegration of Yugoslavia represented a clear threat to Greece's own political stability but also a novel challenge for Greece to abandon its traditional role as a subject of international intervention and assume a more active interventionist role in international politics. Similarly, the opening up of the Balkan economies presented Greece with new challenges with regards to managing its European and regional economic relations and using its economy to mobilise economic development regionally – but also included a threat to its economy through increased competition (for European markets, for inward investment, etc) with its new-found neighbours. Related to these economic and political developments were the more acute challenges and pressures to Greece from the wave of new migrants that flooded the country and the socio-economic tensions that resulted from that (Lianos, 2003).

Greece's response to these challenges, threats and opportunities has been the subject of extensive research in the literature (Couloumbis and Yannas, 1996; Coufoudakis et al, 1999; Tsardanidis and Stavridis, 2005; Economides, 2005) and some heated debates in policy circles and the public domain. As is commonly accepted, as its status of an isolated European laggard situated in the Balkan Peninsula withered, Greece first emerged as 'a Balkan state in the EU'

– to become only noticeably later a source of stability and development in the region, consistent with a function as a ‘European state in the Balkans’ (Kazakos and Ioakimidis, 1994; Veremis, 1995; Triantafyllou, 1998; Ioakimidis, 1999a; Houliaras and Tsardanidis, 2006). The reasons for this policy hysteresis, especially in the realm of politics, have been extensively studied and include the historical-psychological attachment of Greece to an ill-perceived notion of fairness and justice in international affairs (Pettifer, 1996; Close, 2002; Koliopoulos and Veremis, 2003), its equally ill-perceived self-image regarding its cultural and historical uniqueness (Diamantouros, 1993), and, most importantly, the lack of sufficiently developed institutional structures for the design and conduct of its external relations (Ioakimidis, 1999a and 1999b) . It is the *combination* of these three factors that most emphatically explains the subordination of Greece’s foreign affairs policies to individuals’ preferences and the influence of populist rhetoric, the media and a largely manipulated public opinion (Theodoropoulos, 2005).

Although through the passage of time and under the pressures and influence of a number of external and internal factors (including the political isolation of Greece following its approach to the FYROM issue and the Yugoslav wars but also the rationalisation and Europeanisation of its foreign policy following the elevation into power of modernising forces within the ruling party of PASOK¹) Greece managed to radically alter its political role in the Balkans, its approach to economic diplomacy in the region has exhibited a somewhat more limited

¹ See on this Wallden (1999) and especially Ioakimidis (1999a).

radicalisation. This chapter examines exactly these developments in the Greek foreign economic policy in the Balkans and argues that, despite some significant innovations and policy shifts, a paradigmatic structural change in Greece's economic approach to the region is still lacking. Naturally the main focus is on state-level economic relations rather than those of the private sector. The next section reviews the history of Greece's Balkan economic relations since the late 19th century and until the collapse of the communist regimes in the Balkans. Section 3 focuses on the policy approach during the early, mature and post-transition periods (roughly, early 1990s; late 1990s; and the 2000s) and discusses the main policy shifts and their determinants. Section 4 then moves on to discuss the merits and weaknesses of Greece's policy approach, seeking to identify the limitations of the current paradigm of its Balkan economic relations. The final section concludes with some recommendations for policy.

2. Greece's Balkan economic relations prior to transition

During the Ottoman Empire the links of the 'old' Greece with the Balkan economic space were rather weak and fragmented. The newly formed state was rather inward looking and relations with today's northern Greece and the Balkans were constrained through a number of political and security factors. On the other hand, the local economies of today's northern Greece were almost fully integrated into the Balkan economic space, with main towns such as

Naousa, Siatista and the port of Thessaloniki acting as important hubs for economic activity in the region (Stojanovich, 1960; Oikonomou, 1999). The Greek state at the time had a limited interaction with such centres, although the involvement of the private sector was notably more active (Agriantoni, 1986; Anastasopoulos, 1947). With the annexation of today's northern Greece to the Greek state and following the turbulence and ethnic restructuring that accompanied the Balkan wars, the economic ties of the region were significantly hampered as the centre of gravity shifted southwards. Although population flows and exchanges remained significant until the Second World War, gradually the northern Greek territories became increasingly disconnected from their former Balkan hinterlands (Lampe and Jackson, 1982; Palairat, 1997).

The dramatic changes in the region after the Second World War effectively made this separation permanent and further intensified the internal economic fragmentation of the whole of the peninsula, especially after the early 1950s, when the new communist states started embarking in diverging paths in their road to socialism. With its northern borders all but sealed and its economic and political centre of gravity moving swiftly towards Athens, Greece went through a period of discontinued diplomatic relations with its northern neighbours and, naturally, maintained very limited economic relations.

Trade relations resumed in the mid-1950s, at times helped by a curious interaction between global politics and regional economics (i.e., the need for

'bridge-building' with communist states outside the Warsaw Pact and the pressure from the private sector, especially in Northern Greece, for access to the Balkan market), although in most cases official trade relations governed by bilateral economic agreements were not fully normalised until the mid- to late-1960s (Wallden, 1999). In the case of Albania, economic relations were restored somewhat later (in 1970) and full political relations were only normalised in 1987, when Greece abandoned its unilateral state of war against the country. Although trade between Greece and its northern neighbours, especially Yugoslavia and Romania, increased substantially over the period, in absolute terms it remained characteristically limited, especially given the geographical proximity, historical ties and economic complementarities (in terms of sectoral specialisations) of the countries concerned (Botsas, 1975; Giannaris, 1982; Wallden, 1999). Bilateral agreements for the facilitation of trade were further developed through the 1980s, but the approach that was reflected in these agreements was predominantly one of managing existing flows rather than fostering their further development, let alone aiming at directing such links towards sectors and products that – at least from a theoretical point of view – would be perceived to relate to any strategic considerations regarding the development of a regional market and a regional production system (e.g., intra-industry trade, development of common revealed comparative advantages, trade in sectors and products that would allow knowledge diffusion or sharing of supply chains and existing markets, etc – see on this Christodoulakis and Petrakos, 1997, or Petrakos, 2003).

The extent of trade activity between Greece and its Balkan neighbours was also influenced by exogenous factors. Greece's association and eventual accession to the EU led naturally to some trade diversion, especially in agricultural products (Tsounis, 2002), while the economic difficulties experienced in the Balkan communist countries during the late-1970s and the 1980s – and the isolationist policies that were subsequently followed there – naturally diminished the demand for Greek exports (Christodoulakis and Petrakos, 1997). On the other hand, selectively, some sectors managed to increase their penetration to the Balkan markets, especially in cases where domestic production in Greece was dominated by foreign multinationals. Interestingly, over this period, economic relations were predominantly being conducted in a non-spatial dimension, between the capitals of the states concerned: cross-border economic links and links between the traditional regional hubs and their hinterlands never recovered to any significant extent (Petrakos and Liargovas, 2003).

Besides the limited but notable developments in terms of trade relations, economic links and relations in other domains were all but non-existent. Some tourist flows ('exports in services'), especially from Yugoslavia, that provided an important boost to economic activity in parts of Central Macedonia were perhaps the only significant exception to this (Wallden, 1999). However, factor mobility (migration and foreign investments) was totally constrained by the region's political regime. Political cooperation was largely limited to a responsive and ad hoc cooperation against Turkey's perceived expansionism in

the region ('Muslim Arc' thesis – Houliaras and Tsardanidis, 2006) and naturally economic cooperation was lacking a sufficient depth and a wider framework or vision. Some attempts for policy cooperation for the management of river waters, the development of transport corridors and, partly through the influence of the private sector, the creation of energy networks were established but they were clearly sporadic, fragmented and ultimately unsuccessful (Wallden, 1999). The only robust attempt for an institutional development of regional cooperation was the inter-ministerial meetings (at the deputy minister and lower levels) initiated by the then Greek Prime Minister, C. Karamanlis (the first meeting, of the Ministries of Planning, took place in Athens in 1976) and repeated at various levels through to the mid-1980s. These meetings largely provided fora for discussion and exchange of ideas but did little in the direction of establishing any type of institutionalised regional economic cooperation (Ioakimidis, 1999a). The latter only really started taking shape in the late 1980s, with the two conferences of the Ministers of Foreign Affairs in Belgrade (1988) and Tirana (1990), but was tragically interrupted by the developments in former Yugoslavia since the early 1990s.

Overall, then, throughout this period, Greece's Balkan economic relations have been limited and problematic. Political developments in the 19th and early 20th centuries actually acted to disconnect parts of today's northern Greece from their natural Balkan hinterlands, while political developments since the Second World War led to the relative isolation of Greece from its northern neighbours and, not much later, the further fragmentation of the Balkan economic space.

Driven partly by global geo-strategic interests and partly by local business needs, economic relations started improving since the late 1960s and steps towards bilateral and regional cooperation became firmer closer to the 1980s. However, policy responses in this period remained largely reactive (e.g., accommodating trade rather than promoting a particular regional developmental model) and concentrated in few areas of immediate impact and obvious relevance (e.g., trade and water management). The trend of a slow but gradual rationalisation of political and economic relations in the Balkans was abruptly interrupted in 1990 with a process that altered completely the fundamentals of the net of economic and political relations in the region.

3. The transformation of economic relations after the collapse of communism

The sweeping changes that followed the collapse of the communist regimes in Central and Eastern Europe had a number of significant implications for Greece. From the early phases of transition two major problems emerged. One had to do with the socio-economic collapse in Albania and the unprecedented immigration waves that this created. The other had to do with the disintegration of Yugoslavia and the implications this had for the issue of the constitutional name of the former Yugoslav Republic of Macedonia. Although the economic dimension of the first problem was more evident, it was the second issue that

actually constrained and determined Greece's economic policy towards the Balkans for much of the 1990s.

3.1. The challenges of the new Balkan space

Theoretically, the process of economic and political transition of the Balkan states towards a system of democratic market economies should open up a range of opportunities for Greece. The country could overcome rapidly its geographical and economic isolation, not only improving its connection and deepening its integration with its EU partners, but importantly also gaining a long-missing political and economic neighbourhood (Petraikos, 1996). Its status in the region as a developed economy with membership in all key international organisations (EU, NATO, OECD, WTO) was offering a great potential for the country to assume a leading, if not hegemonic, role in the development of the Balkan transition countries and of the Balkan region at large (Petraikos, 1997; Wallden, 1999). The opening-up of this new economic space was further offering new opportunities regarding resource exploitation (including cheap labour costs), new markets and trade partners and, importantly, regarding the potential to alter the international competitiveness profile of the country by assuming a new role in the international division of labour.²

² For example, as was suggested later (Labrianidis, 1996) and realised by the private sector much more swiftly, Greece started playing an important intermediary role in the international division of labour through the development of triangular manufacturing, where Greek firms seized to be the low-cost subcontractor but, rather, became the administrative intermediaries between western European importers and low-cost producers in the post-communist Balkans.

It is hardly a novelty to say that Greek policy failed to fully appreciate this dimension (Huliaras and Tsardanidis, 2006). As was mentioned above – and has been analysed extensively elsewhere (Wallden, 1994; Kofos, 1999; Couloumbis and Dalis, 1996; Featherstone and Ifantis, 1996; Couloumbis, 2003; Tsardanidis and Stravridis, 2005) – Greece’s approach to the Balkans in the early transition period (1989-1995) was almost totally influenced by ethno-political and security considerations (regarding real, exaggerated, or simply mythical threats) and subsequently economic relations were largely subordinated to the foreign policy priorities. As a matter of fact, economic relations were almost exclusively used as a means of advancing such objectives and priorities (Tsardanidis, 2001), with the ultimate expression of this being the unilateral imposition of an embargo to FYROM in February 1994. Similar was the approach taken to the issue of Albanian immigration to Greece and of the two minorities (again, real or perceived) in the two countries, with Greece even blocking some EU aid to Albania - although this contributed much less to the political isolation of Greece towards the mid-1990s (Wallden, 1999).

With this skewed ‘economics for politics’ approach, Greece largely failed to grasp in this early transition period the significance of two very important developments. Firstly, the need for a holistic regional approach to the Balkans, both from Greece and from the EU, that would specifically and explicitly aim at designing and implementing a coherent developmental model for the whole of the region. At hindsight, had such an approach to foster economic development through multilateralism and regional integration been effectively

promoted and implemented, it is possible that much of the plight of the Balkans during the 1990s (including the size of the transition shocks from which most of the countries took over fifteen years to recover, the repeated economic and financial crises, and above all the tensions that led to the catastrophic events in Bosnia and in Kosovo) could have been avoided. Secondly, the huge opportunities offered for regional (sub-national) and national development in Greece from the early penetration of Greek businesses in the new markets, especially Bulgaria and Albania, but also the need to support and direct this penetration in order to manage and mobilise the process of regional economic integration and development.

From the early years after the collapse of communism, Greek businesses were presented with a huge comparative advantage, internationally, with regards to their access to the new Balkan market (Labrianidis, 1996). 'Frozen' historical and cultural ties and the informational and transactional advantages of proximity, combined with the initial aversion of foreign investors to the turbulent Balkans vis-à-vis the much more stable, accessible and developed economies of Central and Eastern Europe, meant that Greek businesses were in a unique position to develop economic links (through trade, investment, sub-contracting, relocation and employment of return/repeat migrants) with the emerging Balkan economies (Petraikos, 1997). Indeed, as is well documented, the penetration of the Greek private sector started as early as 1990: initially with very small and largely adventurous investments just across the borders, but growing later to unprecedented dimensions for Greek standards, with a

large number of firms (in telecommunications, construction, distribution, manufacturing and, above all, the banking sector) obtaining large shares of the Balkan market and in some instances also using their Balkan presence as a vaulting horse for significant investments further afield (Wallden, 1999; Louri et al, 2000; Labrianidis and Kalantaridis, 2004; Bastian, 2004).

3.2. The development of Greek economic relations post-1990

Greece's Balkan economic policy in response to these developments and challenges was rather simplistic. Consistent with its pre-transition approach, the first response was to manage the new and existing economic relations through thematic bilateral (and thus fragmented) agreements (Wallden, 1999). Such agreements covered a range of economic and other areas, including investments, migration, transport and telecommunications, and of course trade, but they never intended to do anything more than manage these issues and definitely not to integrate the Balkan economic space. In fact, Greece was in many respects a follower of EU policy, as is evidenced in the fact that many of Greece's trade agreements with the Balkan countries were covered by the various Trade and Cooperation Agreements (or by pre-existing preferential agreements) between the latter and the EU. Clearly in an attempt to influence the political situation with the Greek minority in Albania, Greece extended its Development Acts and Incentives Law to cover parts of this country (since 1990) and allowed all exports to Albania to be settled in drachmas (in 1993) as

a means to boosting investment and trade (and Greek influence) in the region (Wallden, 1999; Tsardanidis and Karafotakis, 2000) – and perhaps also containing the huge immigration flows. Nevertheless, even this rather exceptional move, was never really made part of a wider strategy for economic integration, nor was it followed by similar examples elsewhere (e.g., in FYROM or Bulgaria), apart from the private sector's actions within the EU-inspired and financed INTERREG programmes. In any case, with the perceived threats from FYROM (constitutional name issue), Turkey ('Muslim Arc' thesis) and to a lesser extent Albania and Bulgaria, and subsequently its response to adopt a pro-Serbian stance in almost all fronts (Ioakimidis, 1999a; Michas, 2002), Greece's economic relations remained largely subordinate to national political considerations and clearly insensitive to the cataclysmic developments happening in the private sector of the economy in both sides of its borders.³

With the change in the political situation, both internally in Greece (with the gradual strengthening of the modernisers within PASOK) and with regards to FYROM (with the signing of the Interim Accord in September 1995), Greece's economic relations in the Balkans started becoming more active and more normalised, albeit only very gradually and still with a wider regional vision largely missing. The country became increasingly active in promoting regional cooperation through various international initiatives and supporting the

³ Besides the obvious changes in the transition countries, during this period Greece also experienced significant transformations, most notably its transformation into a capital-exporting and labour-importing economy.

European perspective of the Balkan transition countries within and outside such initiatives (Wallden, 1999). Although its influence in the launch of the EU's Regional Approach in 1996 was limited, Greece played a key role in the creation of the SEE Cooperation Process by initiating the Thessaloniki and Crete Summits in 1997, which assured the continuation of the first Bulgarian initiative of 1996 and achieved some form of institutionalisation (although without a permanent secretariat or a budget). Nevertheless, the SEECF was characterised by 'soft cooperation' and an emphasis on managing existing problems (e.g., trafficking) than promoting explicitly regional economic integration. A first Action Plan for regional economic cooperation was only formulated in 2001 and a formal move towards market integration and further institutionalisation did not occur until last year (with the expansion of CEFTA to the Western Balkans and the agreement for the establishment of the Regional Cooperation Council, in the Bucharest and Thessaloniki Summits, respectively). Similarly, after 1996 Greece started providing some formal international aid to the Balkans through bilateral agreements and funds allocated directly by the Ministry of Finance and Economics, but again its approach was fragmented and responsive to specific problems (e.g., the pyramid crisis in Albania in 1997 or the Kosovo crisis in 1999 – Tsardanidis and Houliaras, 2005), rather than holistic, regionalist and visionary.

With the normalisation of Greece's Balkan relations, the launching by the EU of the Stability Pact for Southeast Europe, which represented a long-missing holistic approach to the region (or, at least, was advertised as such), and the

consolidation of the European dimension of the region⁴, a new period of Greek economic relations in the Balkans started. This was characterised by a much more integrated and regionalist approach, although problems of efficiency in the delivery of policies and of strategy in their design clearly persisted. The history of the Hellenic Plan for the Economic Reconstruction of the Balkans – a 5-year investment support programme initially developed in 1999 – illustrates these weaknesses best. It fell victim of various institutional and inter-personal policy failures and was thus revised in 2000 and 2002 and took years to materialise (Tsardanidis and Houliaras, 2005).⁵ Besides the Balkan Plan, during this latter period Greece assumed a more active role also within the Stability Pact, under the auspices of which a number of multilateral agreements were signed, most notably the Memoranda of Understanding for Trade (2001), Energy (2002) and Transport (2004). Especially in the areas of Transport (through the Trans-European Networks and especially Corridor X that connects Thessaloniki with Central Europe and north up to the port of Gdansk in Poland) and Energy (with the progress in the Burgas-Alexandroupolis pipeline, and the

⁴ With the removal of Milosevic from power in Serbia, the stabilisation of the accession trajectory in Bulgaria and Romania, the recovery of foreign investment in the region, and so forth.

⁵ The Plan was initiated by the Greek Ministry of Economic and Finance but was eventually moved to the Ministry of Foreign Affairs, after an open conflict between the relevant Ministers. Partly because of this conflict, its objectives were rather mixed, targeting on the one hand the provision of financial assistance for large-scale reconstruction and economic development projects (79% of budget) and, on the other, the provision of direct subsidies to Greek investors in the region (20% of budget). The geographical allocation of the funds was also rather problematic, with a clearly uneven distribution favouring Serbia (but much less so Kosovo or Montenegro), and the immediate neighbours (emphatically at the expense of Bosnia-Herzegovina). The failure of the Plan is evident in the fact that in many cases its absorption and completion rates (at least in the part related to the large-scale projects) are dismal – leading Greece recently to extend the plan until 2011 but without committing any further financial resources. For a concise description of the ‘rise and fall’ of the Hellenic Plan for Economic Reconstruction of the Balkans see Miliggos (2001), Tsardanidis and Houliaras (2005) and Harokopos (2006).

support for the creation of a Regional Electricity Market, which was eventually concluded with the signing of the Energy Community Treaty⁶), but less so in the area of Trade, Greece assumed a leading role in promoting economic cooperation while it also thickened its net of bilateral agreements in foreign investment, tourism, migration, and so forth.

Finally, Greece also played a pivotal role in some more recent developments within the Southeast Europe Cooperation Process (SEECP). Besides the 2001 Action Plan for Regional Economic Cooperation mentioned earlier, Greece proposed an Action Plan for the Institutional Enhancement of the Cooperation Process in 2006. Under its chairmanship-in-office the SEECP produced the ‘Thessaloniki Declaration’ which re-confirmed the European Perspective of SEE and welcomed the establishment of the Regional Cooperation Council (RCC) by 2008, which will transform the SEECP into a ‘regionally owned’ Stability Pact. With the accession of Bulgaria and Romania into the EU in January 2007 and the postponement of any further European enlargements for the foreseen future, this thickening and institutionalisation of regional cooperation assumes a new and radically different potential. At last, Greece’s approach to the region in the realm of economic relations, as it happened with its foreign affairs policies a few years back, appears to have entered a

⁶ The Ministry of Foreign Affairs has been keen to emphasise the role of Greece in the signing of the ECT(see, for example, Skylakakis, 2006) although it should be acknowledged that the Treaty effectively integrates the SEE and EU-internal energy markets and is thus something that is in many respects beyond Greece’s role in the region. Still, Greece’s rhetoric supporting these initiatives emphasises the transformation of Greece to “an important energy node” (Stylianidis, n.a.), rather than the regional benefits from the establishment of an integrated energy market.

‘Europeanisation’ path, in the sense that it seems increasingly to be governed by a corporatist logic and to be more detached from narrow and short-termist ethnic-nationalist considerations.

4. Positive policy shifts but no structural change

Despite these apparent positive policy developments, which represent a clear policy shift with respect to Greece’s approach only ten or twelve years ago, the reasons for optimism and the grounds for a positive evaluation of Greek economic diplomacy in the Balkans are still not entirely well founded. A number of key structural characteristics of Greece’s policy paradigm seem to be responsible for this. With the danger of over-simplifying and overlooking the unquestionable complementarities that exist among them, these can be taken to include (i) the prevalence of the thesis of Greece’s economic penetration in the Balkans; (ii) Greece’s predominantly bilateralist approach to its Balkan economic relations; (iii) Greece’s reliance on the EU’s mechanisms and leverage for the further development of the region and, simultaneously, the lack of leadership in translating the key EU processes (especially the Lisbon strategy, but also other processes, including the Bologna process) into a developmental strategy for the region; (iv) the lack of a wider vision and strategy for the region, which will appreciate the benefits of, and actively pursue, the deeper and organic economic integration of the Balkan economic space; and (v) the persisting institutional weaknesses in the conception, design,

coordination and implementation of long-term economic strategies internally and with regards to its immediate neighbourhood.

(i) *Economic penetration.* Although the unproductive rhetoric of the Balkans as a ‘Greek hinterland’ and of ‘Greek penetration in the Balkans’ has subsided and is now replaced by a more positive approach and language, the underlying notions of Greek expansionism and control are still deeply embedded in Greek public opinion and policy-making (Wallden, 2004). The more recent rhetoric of ‘Greece as a Gateway to the Balkans’ (e.g., Karamanlis, 2006) may appear more ‘Europeanised’, but in reality the underlying thesis remains one of penetration and narrow exploitation of markets and opportunities, rather than one of deriving benefits from cooperation, strengthening the regional economy, or creating market potentials and a critical economic mass. Trapped in its negative approach to the EU, where for decades European integration has been seen predominantly, if not solely, as a means for mobilising national economic development and the synergies between Greek and European development were never really fully appreciated (Ioakimidis, 1998), Greece continues to reproduce this logic in its Balkan economic relations. The persisting weaknesses and ambiguities in the structure and objectives of Greece’s Balkan Plan are a testimony to this.⁷ The economic development of its neighbours is too often seen narrowly as a means for Greek economic growth or, when it is not combined with enhanced Greek involvement, as a threat to national growth. Sadly, without an explicit strategy for the organic integration of the region, economic

⁷ According to the head of the team of evaluators of the project proposals in the Ministry of Foreign Affairs, “the projects must also have an economic and social benefit for Greece. We try to convince our [Balkan] partners that for all investments there must be Greek benefit. [τα έργα θα πρέπει να έχουν οικονομικό και κοινωνικό όφελος και για την Ελλάδα. Κάνουμε προσπάθεια να πείσουμε τους εταίρους μας ότι για όλες τις επενδύσεις απαιτείται να υπάρχει ελληνικό όφελος] (Express, 2005).

development in the Balkans may well become such a threat (Petrakos, 2006; Monastiriotis, 2006).

(ii) *Bilateralism*. Despite the rhetoric regarding Southeast Europe regionalism, the Balkan Plan is based on bilateral agreements⁸; special arrangements for trade and factor movements continue to govern relations with countries like Albania, FYROM and Serbia; and, above all, key strategic development plans continue to be bilateral and are not incorporated into relevant regional initiatives⁹. This bilateral structure of Greece's Balkan economic relations reflects and reproduces the latent bilateralism (quasi-regionalism) that has characterised and limited the development of the region more generally at least since 1996 and has largely perpetuated its economic and political fragmentation. It is tempting to look for traces of EU's bilateral approach to SEE in Greece's Balkan bilateralism as Greece, especially after 1995, never managed to take a leading role in the region that would be sufficiently distinct (bolder and more regionalist) from the approach of its supranational partner. As is further elaborated below, this is perhaps one of the most significant constraints in the further development of the region, which arguably cannot be conceived outside the deepening of the organic integration of the Balkan economies.

(iii) *European perspective*. Greece's problematic relationship with the EU architecture accounts for a further weakness in the country's Balkan economic relations. Although Greece's support to the European perspective of the Balkans has been undoubtedly one of the most positive developments post-1995, emphasis on this support

⁸ This is in fact one of the main reasons for the inability of Greece to reform the Plan and do part with its identified weaknesses (Dragasakis, cited in Harokopos, 2006).

⁹ For example, the Burgas-Alexandroupolis pipeline is based on a tri-lateral agreement between Russia, Bulgaria and Greece and it is not explicitly part of the SEE Oil and Gas Network (EC, 2001).

has not been combined with firmer attempts for Greece to take a leading role in the implementation of key EU processes in the Balkans. This would naturally involve a process of knowledge transfers (based on Greece's own experience with European integration) at all levels of central and regional government as well as the private sector, especially in the two new Member States, for the formulation of policies aiming at the implementation of the Lisbon Strategy, the Broad Economic Policy Guidelines and the accession to the EMU – not to mention the more 'low-profile' issues of design and implementation of regional cohesion policies, adaptation to EU's CAP and Competition policy, and more generally adoption of the existing European *acqui*. The lack of a wider regional vision and Greece's own weaknesses in understanding and relating to the key EU processes post-EMU (Featherstone et al, 2001; Featherstone, 2005a) seem to have played a key role in Greece's failure to perform this role. One result of the limited Greek involvement in processes of dialogue, consultation and knowledge transfers in the Balkans is a further weakening of the prospects for economic integration and policy harmonisation in the region.

(iv) *Regionalist vision and strategy*. As is evident from the previous points, despite the recent steps towards the institutionalisation of the SEE cooperation process and the Hellenic Plan for Economic Reconstruction in the Balkans, policy developments and actions (from Greece as well from other countries in the region) are hardly in the direction of furthering regional integration. The benefits of such a process are not fully appreciated and the whole region is leaning to the EU for political and economic support in ways not dissimilar from those followed by Greece in the past. Understandably for the former communist Balkans, short-term national economic considerations, although not always fully

qualified, dictate that priority should be given to deepening their economic relations with the EU. But for Greece the lack of a systematic effort to develop and build support for a wider developmental model for the region is really a deficiency that is hard to justify. Calls for attention in order for the region not to become the 'new European south' (Gligorov et al, 1999; Petrakos, 2002; Gligorov, 2004) have not found their way into policy; while the wider context, of increasing international competition from low-cost producers and intensifying pressures for the repositioning of the region in the international division of labour, has not really been appreciated. A truly regional developmental strategy could seek to develop new regional comparative (cost-based) and competitive (dynamic) advantages and new specialisations (perhaps in tourism, energy production and distribution, or in trademark processed agricultural products) based on strengthening the complementarities of the national production bases, exploiting common resources and historical or geo-political advantages and, above all, intensifying the economic links (in terms of trade in goods and services, direct investments and financial flows, as well as labour mobility and skill transfers) between and across the countries of the region. To say that this process is not actually happening is a bold understatement.

(v) *Institutional weaknesses.* To an extent, the weak institutional framework for policy-making is simply another expression of Greece's general reliance on personality (and thus also personal preferences) as well as on a generally manipulated and definitely ill-educated public opinion for the formulation of policies (Ioakimidis, 1999b; Theodoropoulos, 2005). Indeed, the absence of established structures for the development of long-run strategic policy frameworks in the case of Greece has long been identified in the literature (Sotiropoulos, 1993; Koliopoulos and Veremis, 2003;

Featherstone, 2005b). In the case of foreign policy, Ioakimidis (1999a) even goes to argue that, until recently, Greece ‘used to produce, not policies but “procedures” and “management” as substitutes for policy’ (p.180). It appears that, similarly, Greece can still only *manage* rather than *direct* its external economic relations, in the Balkans and elsewhere. Despite the opportunities offered, among others, by the Lisbon Strategy (Lyberaki, 2004), the country has not elaborated as yet – and in practice does not possess the necessary relevant institutions to do so – a detailed long-term plan regarding its future social and economic development, including its position in the international, European, and Balkan economic spaces.

It is the combination of these main limitations that have constrained – and continue to do so – the development of a framework for Balkan economic relations that will be not only accommodating and non-confrontational but rather, and beyond that, constructive and with the ability to mobilise all relevant resources in the region for the economic upgrading of the Balkans within the European context and internationally.

5. Conclusion: the road to a sustainable Greek Balkan regional economic policy

It is of course easy to be critical to the weaknesses of policy and perhaps it is also easy in this process to overlook the important positive steps that Greece has made over the years with regards to its economic relations with its Balkan

neighbours. In the space of less than twenty years, following a long period of undeveloped and constrained economic and policy links, Greece experienced a significant transformation, abandoning its hostile and xenophobic approach to its northern neighbours and eventually developing an increasingly active, open and regionalist approach in this and in other domains of its external relations. These positive policy shifts, which include the consistent orientation towards supporting the European perspective of the Balkan countries (including Turkey), the establishment of a dense network of (predominantly bilateral but also some multilateral) economic cooperation agreements (which have normalised the relations with its neighbours and have tackled a host of problems, from trade barriers and migration to resource management and transport), the provision of financial assistance for the economic reconstruction of the region, and the continuing attempts to deepen and institutionalise the SEE framework for regional cooperation, constitute admittedly a significant achievement for Greece. They also pose, however, new challenges, especially as they raise expectations about the role that the country can play in the region.

It should be clear that Greece must continue to play an active role in the processes of regional cooperation and accession to the EU for all the countries of the region. It should further seek to strengthen processes of economic collaboration for public and private projects and of policy dialogue and exchange. More importantly, however, Greece should take a leading role in setting up an agenda concerning the future of the Balkan region. Given the increasing pressures from globalisation, the continuing divergence (especially

of Western Balkans) from the EU15 and EU25 and the long-lasting needs for economic reconstruction and institutional development throughout the region, it is clear that simply following the slow path towards European integration – and being perhaps content with the further opening-up of the Balkan markets and the inflow of foreign investments – is not a viable approach to a sustainable path of economic and social development. The region must urgently look into itself, speed up and deepen its economic integration process, so as to be able to create a unified economic space and the necessary market size to withstand international competition and find a new economic identity and a new role in the international division of labour. Greece, as the more economically advanced and institutionally mature country in the region, must take a leading role in this process. But to do so, it must tackle its own limitations and weaknesses, the most important of which, it is hoped, have been identified here.

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