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Greece in Southeast Europe

Political Opportunities and Economic Challenges

- The change of government in Athens following the general elections of October 2009 offers new impetus for pro-active Greek foreign policy initiatives in the region of southeast Europe.
- The economic and financial crisis in southeast Europe has contributed to a severe deterioration of GDP and foreign direct investments, declining trade capacity and far-reaching social implications.
- The Greek economy has invested heavily in the neighbouring countries, in particular the financial sector. Greek banks have become strongly dependent on the return of these countries' economies to medium-term stability and long-term viability.
- Greece's strategic economic role in southeast Europe is defined by energy and transport links, as well as serving as a gateway for foreign direct investment in neighbouring countries.
- Prime Minister Papandreou has a strong political mandate in parliament. His government will have to deliver quickly on the economic front. But he can gain additional traction and political leverage if he moves decisively in foreign policy, most notably in Greece's immediate neighbourhood.

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1 Introduction

The general election in Greece on 4 October 2009 marked a decisive political shift. PASOK's unexpected emphatic victory was more than a change of government. It also revealed deeper aspirations among the electorate. Those who voted – roughly two-thirds of those eligible – articulated a shift from politics emphasizing the mentality of »buy now – pay later«. Many voters were not interested in yet another exchange of political elites, in accordance with Greek tradition. Instead, their hopes centred around the expression of integrity and resilience in political affairs. The elections thus represent a mandate from the voters to the new PASOK government to be taken seriously as citizens and to govern in a manner commensurate with the seriousness of the situation in Greece.

Since taking office four months ago the consequences of the disastrous economic and financial situation are becoming clearer by the day. The agenda for change has been overtaken by crisis management, spending cuts and tax increases. More importantly, the new administration has courageously acknowledged that Greece's most important challenge is not public debt or budget deficits, but regaining domestic and international credibility.

This key political objective will define policy-making at home and abroad throughout 2010 and beyond. Its application to an unprecedented economic reform agenda and an equally ambitious foreign policy calendar constitutes a major departure from entrenched habits and the discredited policies of past years.

This desire for change and credibility is also expressed in foreign policy. Prime Minister George Papandreou, who also holds Greece's foreign affairs portfolio,¹ emphasized on taking office in October 2009 that there are three regional issues of particular interest to Greece:

- (i) relations with Turkey;
- (ii) Cyprus;
- (iii) developments in the Balkans, eastern and western, including the so-called »name issue« with FYR Macedonia.

This focus on core issues is a pragmatic step because it acknowledges Greece's political interests, security responsibility and economic role in the region of southeast Europe. Moreover, this concentration also recognizes the critical areas in which Greece can make a diplomatic difference and have an economic impact without attempting to »box above its weight«.

1 The Alternate Foreign Minister is Mr. Dimitris Droutsas.

2 Political Opportunities in Foreign Policy Making

2.1 Athens vis-à-vis Skopje

One area in which the change of government in Greece has given rise to new hope and energised policy-making communities is the so-called »name issue« between Athens and Skopje. Both countries now have stable governments with clear parliamentary majorities for the coming three and four years, respectively.² This point of departure – namely that the electoral calendar will not influence the political agenda between both countries in the medium term – can potentially serve as a welcome anchor of institutional stability.

Under these rather favourable conditions political space for new initiatives can be created. The two Prime Ministers have met twice since the October general elections in Greece. They have shown a willingness to invest political capital in the improvement of bilateral relations, explicitly including the long-standing controversy over the name of FYR Macedonia.

The focus of these initiatives also emphasizes that the two countries need to sit down at the negotiation table, together with other participants, such as the United Nations, the European Union³ and the US government. In his recent visit to Athens (early November 2009), UN Secretary-General Ban Ki-Moon argued that the election of a new government in Athens has paved the way for negotiations to restart under the auspices of UN mediator Mr Matthew Nimetz.

These first exploratory meetings now depend on the substance of what follows. Given that the name issue has been unresolved for more than 15 years, the expectation that immediate progress can be achieved is illusory. Rather, what is currently taking place is the

2 After parliamentary elections in 2008, FYR Macedonia held presidential and local elections in two rounds of voting in March and April 2009.

3 In its October 2009 Progress Report on FYR Macedonia, the European Commission recommended that EU accession negotiations should start with Skopje, thus elevating the country from candidate status to accession status. This recommendation nevertheless includes the conditionality that the authorities in Skopje resolve the existing name issue with Greece. The Report argues that »relations with Greece continued to be affected by the unresolved name issue. The country is engaged in talks under the auspices of the UN on resolving it. Actions and statements which could negatively impact on good neighbourly relations should be avoided. Maintaining good neighbourly relations, including a negotiated and mutually acceptable solution to the name issue, under the auspices of the UN, remains essential.« Source: http://ec.europa.eu/enlargement/pdf/key_documents/2009/conclusions_on_fyrom_en.pdf

identification of how much political will for innovative solutions exists between the two countries' political leadership after the change of government in Athens.

Technical issues and good will measures may serve to identify the depth of such political will. Prime Minister George Papandreou met his counterparts Mr Nikola Gruevski of FYR Macedonia and Mr Sali Berisha of Albania for environmental talks in late November 2009 at the Prespes Lakes National Park in Greece. Officially, the aim of the meeting was to discuss the possible launch of joint initiatives for the conservation of the Prespes Lakes region which occupies territory shared by all three countries.

Furthermore, the president of FYR Macedonia, Mr Gjorge Ivanov, formally invited his Greek counterpart, Mr Karolos Papoulias, to undertake a first official visit to Skopje in November. To date, no president of either country has officially visited the neighbouring state. In a letter to President Papoulias, Ivanov wrote that »there are more things that link us and bring us closer to each other than things which divide us«. Ivanov added that »I am deeply convinced that as heads of two neighbouring states we will definitely provide an additional impulse to the strengthening of friendly relations«.

Finally, it is also noteworthy that around 2,000 Greek military personnel are currently posted on peacekeeping missions in various strife-hit parts of the world. These missions are organized by NATO, the EU, the UN and the OSCE. The single largest contingent of Greek military personnel is currently stationed in Kosovo, where 639 soldiers and officers are serving in KFOR, the UN-monitored, NATO-led force. This Greek contribution to the mission is taking place despite the fact that Athens has not recognised Kosovo as an independent state.⁴ But Athens is in good company in this regard, with five other EU countries continuing to reserve judgement on the status of Kosovo. Spain, for example, which currently holds the EU Presidency, has not recognised Kosovo. But this non-recognition does not stop Greece from actively engaging in peace-keeping efforts in Kosovo, nor from participating in the various EU missions currently operating in the country.

2.2 Greece vis-à-vis Turkey

After only three days in office, Prime Minister and Secretary of State Papandreou chose Turkey as the destination of his first foreign policy trip. He met with his counterpart Recep Tayyip Erdogan and Foreign Minister Ahmet Davutoglu. The symbolism of this initial diplomatic pilgrimage to Istanbul was not lost on Greek and Turkish commentators in the region, as well as EU observers in Brussels. Turkey's EU aspirations were as much an issue as the UN-sponsored Cyprus talks. Papandreou was equally quick off the mark to hail the new agreement between Turkey and Armenia,⁵ seeking a normalization of ties between the two countries.

On the Turkish side, Prime Minister Erdogan has reacted in kind to this willingness to bring renewed momentum into Greek-Turkish relations. Erdogan himself has called for a strengthening of ties between the two countries. The new Turkish ambassador to Athens, Mr Mehmet Hasan Gogus, reiterated this stance, suggesting that Erdogan wants to improve relations with Greece in all areas, including bilateral trade, joint tourism and unresolved diplomatic issues: shorthand for the Cyprus challenge.

In this context of building new momentum across a wide range of issues between the two countries it should not be forgotten that Greek governments, past and present, remain among the most outspoken among the 27 EU member states in publicly supporting Turkey's long-standing EU membership aspirations. This is an appropriate position to take, testifying to a realistic approach that aspires to put aside criticism, derived from an understanding that anger cannot be the basis for relations between two countries that attach strategic importance to those relations.

However, it is not certain whether these first steps, as promising as they are, will have enough substance to make a difference in the medium term. Critics and sceptics alike argue that the new Prime Minister is naive if he believes that he can successfully tackle two foreign policy challenges – Turkey and Cyprus – that have remained frozen for the better part of three decades. But the current effort goes beyond the fairly passive approach of the former government and thus opens up a wider window of opportunity for new initiatives.

4 Greek military personnel and/or civilian staff are also stationed in Afghanistan, Somalia, Lebanon, Western Sahara, Sudan and Georgia. See *Hellenic National Defence General Staff* (GEETHA) for a complete breakdown of Greece's overseas engagement.

5 The new treaty with Armenia signals how seriously Ankara takes its so-called »zero problem« good neighbour policy.

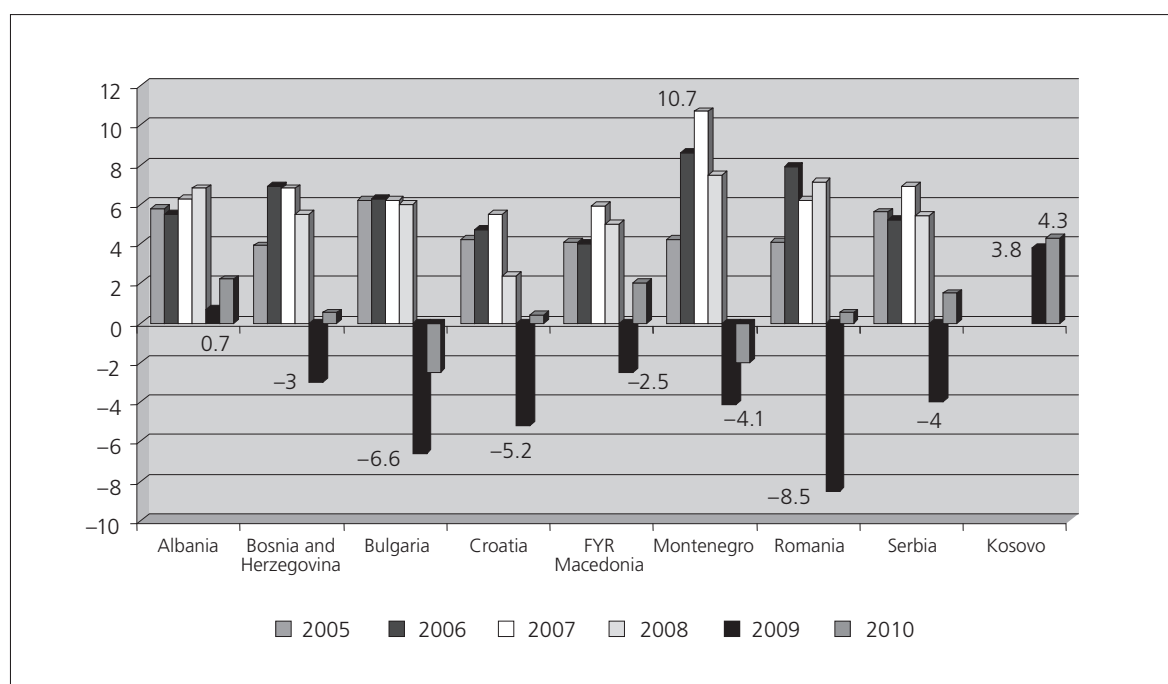
3 Economic Challenges in Southeast Europe

Since the onset of the financial crisis in autumn 2008 the global economic environment continued to worsen in the first quarter of 2009, then appeared to ease slightly in the second quarter. Southeast Europe is among the regions most adversely affected, with a dramatic contraction in GDP (see Figure 1), sizeable fiscal deficits and numerous external challenges (for

example, current account deficits, liquidity problems in foreign currency inflows and declining exports).

The economic and financial crisis caught up with the economies of southeast Europe in the fourth quarter of 2008. All the countries in the region registered a sharp decline in output, with the Romanian, Serbian and Bulgarian economies particularly hard hit. The only possible exceptions with regard to GDP in 2009 are expected to be Albania and Kosovo.

Figure 1: Real GDP, Southeast Europe, 2005–2010



Source: IMF, World Economic Outlook, October 2009

Table 1: Crisis Lending to Countries in Central, Eastern and Southeast Europe

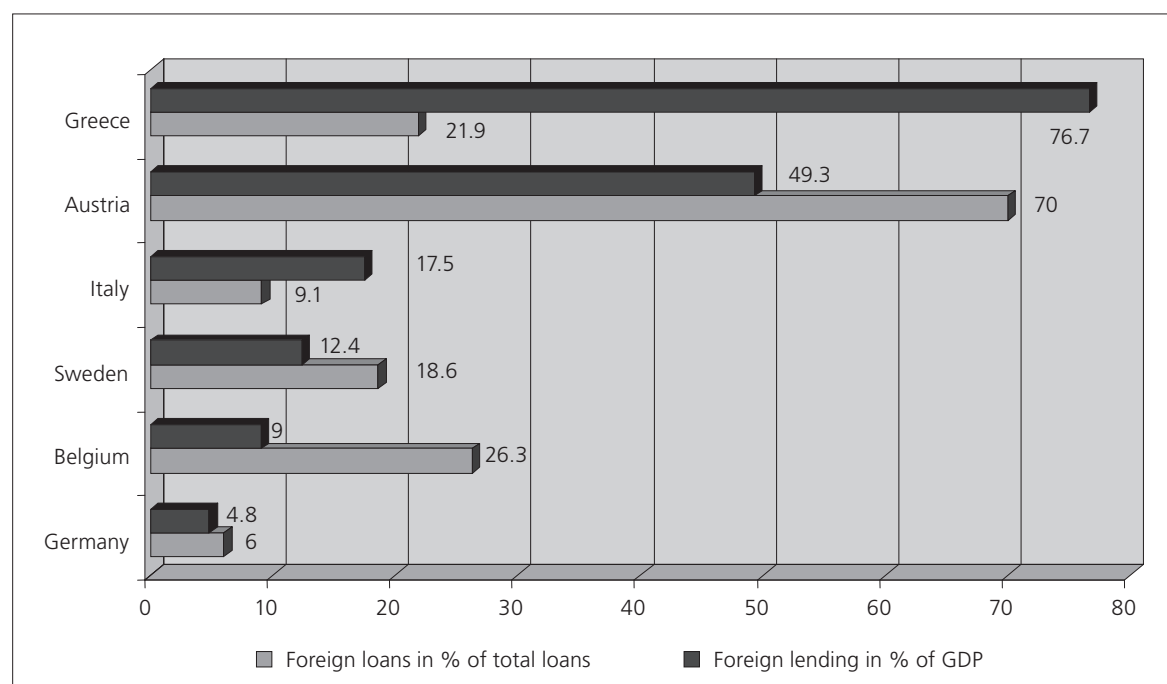
Country	Timing	Volume (USD)	International financial institution
Hungary	October 2008	25.4 billion	IMF, WB, EU
Ukraine	November 2008	16.4 billion	IMF
Latvia	December 2008	10.5 billion	IMF + EU
Belarus	January 2009	2.46 billion	IMF
Serbia	January 2009	530 million	IMF
	March 2009	4.0 billion	IMF
	October 2009	1.4 billion	Russian Finance Min.
Poland	April 2009	20.5 billion	IMF (flexible credit line)
Bosnia & Herzegovina	May 2009	1.3 billion	IMF (stand-by loan)
Romania	March 2009	27 billion	IMF, WB, EU, EBRD
Total external funding		110.4 billion	

Source: <http://www.imf.org/external/np/exr/facts/crislend.htm>

From October 2008 onwards the immediate intervention of multilateral financial institutions became the means of last – and only – resort for governments and central bank authorities in Serbia, Bosnia & Herzegovina, Hungary, Romania, Ukraine, Belarus and so on. At that stage of external intervention the rapidly emerging solvency crisis lacked domestic policy solutions in Belgrade, Sarajevo, Bucharest and beyond.

Instead of risking going broke, many countries had to go cap in hand to the international financial institutions; first to Washington (IMF and World Bank), and subsequently to London (EBRD) and Brussels (EU, that is, EIB). Only through the availability of such a multiplicity of external (financial) anchors did these countries avoid the modern-day equivalent of financial meltdown: in other words, throwing in the towel and defaulting on their debt.

Figure 2: Foreign Bank Lending in Central and Eastern Europe, 2008



Source: Central bank data, Bank for International Settlements, September 2009 and the author's research.

3.1 The Banking Sector

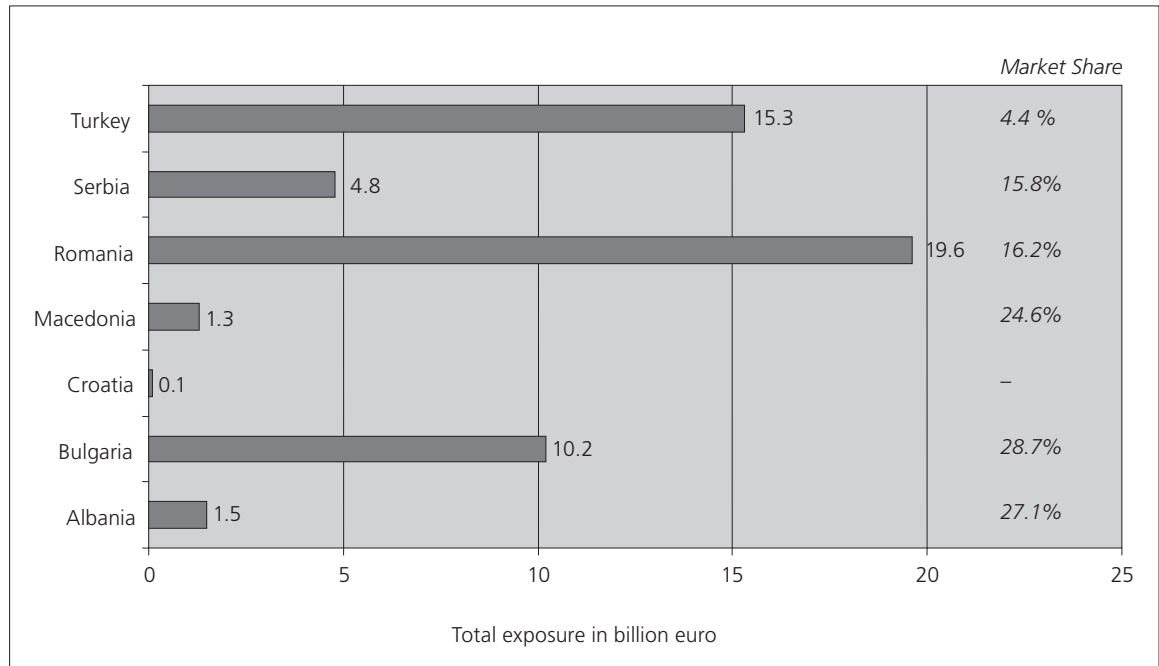
As Figure 2 illustrates, Greek and Austrian commercial banks are most heavily exposed to countries in central, east and southeast Europe. They had the highest share of lending as a percentage of GDP of all EU countries in 2008, at a staggering 76.7 per cent and 49.3 per cent, respectively.⁶ While many competitors initially hesitated, Greek and Austrian commercial banks took the risk to invest early and proactively in the region. Geographical proximity mattered for Greece in southeast Europe and for Austria in central Europe. Both countries' banking sector in-

vestments subsequently considerably expanded their theatre of operational expansion beyond the initial regional confines.

Greece's largest lender, the *National Bank of Greece* (NBG), is present in 12 countries in southeast Europe, including Bulgaria, Romania and Serbia; 44 per cent of its group net profit in the first quarter of 2009 originated from foreign operations. However, in reaction to challenging market conditions in southeast Europe, NBG temporarily halted its branch network expansion abroad for the fiscal year 2009. In an effort to contain operating costs, NBG's business focus in the region now rests on organic growth.

Together with all other major Greek commercial banks – *Alpha Bank*, *Eurobank* and *Piraeus Bank* – NBG did not pay a cash dividend on earnings in 2008. Banks participating in the government-financed €24 billion bank liquidity plan of February 2009 were legally barred from paying cash dividends to their shareholders for the operating year 2008.

⁶ This number would be even higher if the data also included Serbia, Albania and FYR Macedonia, three other countries where Greek commercial banks have implemented a proactive lending strategy during the past decade. The countries include Poland, Russia, the Czech Republic, Turkey, Hungary, Romania, Croatia, Slovakia, Ukraine, Bulgaria, Estonia, Latvia and Lithuania; see *Kathimerini*, 7 March 2009.

Figure 3: Exposure of Greek Banks in Southeast Europe, 2008 (billion euros)

Source: Kathimerini, 07.08.2009, Αντέχουν οι ελληνικές τράπεζες – Ορατές οι συγχωνεύσεις

Figure 2 further underlines the extent of Greek banks' exposure (that is, investments and loans) in southeast Europe. At the end of 2008, the combined exposure in seven countries of the region (including Turkey) had reached 52.8 billion euros. Broken down by individual country, 28.7 per cent of this was in Bulgaria, 27.1 per cent in Albania and 24.6 per cent in FYR Macedonia.

Greek banks have not only invested heavily in the region, but have also become strongly dependent on the return of these countries' economies to medium-term stability and long-term viability. According to the chairman of the *National Bank of Greece*, Mr Takis Arapoglou, Greek banks will see opportunities emerge from the withdrawal of other European banks from southeast Europe. This process will inevitably also include bank mergers, both within and outside Greece.

3.2 Energy and Transport

The winds of change are also blowing in favour of joint energy investments in southeast Europe. Fresh impetus has been given during 2008–2009 to a series of bilateral and multilateral pipeline agreements. These are aimed at providing and distributing different energy resources (crude oil, liquefied gas and electricity) to European countries, while positioning Greece as a major transit point for such operations.

The most advanced joint energy endeavour concerns the so-called *South Stream pipeline*. In essence, it consists of two major projects:

1. the Italy–Greece–Turkey interconnector, and
2. the Burgas–Alexandroupolis pipeline. Different energy sources are planned to be delivered to Greece and then forward-shipped elsewhere, and/or to cross Greek soil on their way to the end consumers.

These energy infrastructure projects have one major consequence for Athens in particular: they change the strategic importance of Greece's location on the energy supply map of southeast Europe. Not only is Greece's international profile raised, but equally, political authorities and domestic investors are seeking to turn Greece into an energy hub in southeast Europe.⁷ For years, Greece has been an energy exporter to some of its Balkan neighbours, in particular with regard to electricity supplies to Albania. Improving the regional energy grid, establishing the so-called *Athens Process* in 2005⁸ and seeking to translate its

⁷ It is of secondary importance in this context whether Greece is merely responding to strategic developments initiated by its trading partners or whether Athens is taking the initiative in leading such joint regional energy projects. See, for example, Stelios Bouras, »Wind of change or strategic moves«, *AthensPlus*, June 26, 2009, p. 5.

⁸ The *Athens Process* was created in 2005, aimed at establishing a regional energy community in southeast Europe.

own energy interests into tangible common results currently informs Greece's attempts at regional energy networking.

The most significant investment to date has been the sale-lease of Piraeus Port's cargo management facilities to China's Cosco, the world's fifth-largest container port operator. The €4.3 billion agreement includes a 35-year lease. The Cosco deal will not only serve to improve Greece's trade relations with China, but also put to the test how Greece's knowledge of southeast Europe can improve and develop closer trade, investment and shipping links between countries in the region.

Greece is not only a major »gateway« for foreign investments into the region. It also serves as a key transport link. Its ports in Piraeus and Thessaloniki are central transport arteries to and from the Balkans and the Black Sea region. Furthermore, the extension of the major road conduit between Greece and neighbouring countries – the so-called »Egnatia Odos« – has greatly improved transport infrastructure, cross-border cooperation and tourism interconnectivity over the past decade.

Seen from this perspective, ongoing bilateral investments and multilateral cooperation in energy links, transport infrastructure by road, land and sea put Greece at the crossroads of two major regions, the Balkans and the Black Sea. Providing political support for these initiatives will be key to taking full advantage of their potential.

4 Conclusions

The new left-of-centre government of Prime Minister George Papandreou hit the ground running after emphatically winning the early elections of 4 October 2009. The administration was in office within two days, and Papandreou chose also to take charge of the Ministry of Foreign Affairs. This seems all the more challenging as the task of Prime Minister will be tough enough in a country urgently in need of structural reforms in the economy, education and social policy-making.

The electoral campaign was polarised between the established left-right political cleavages prevalent in Greece. But one area of policy-making emerged as a non-issue, above cheap rhetorical point scoring between the opposing political camps, namely foreign policy making vis-à-vis the region of southeast Europe. There were two major parties in the running for government – Nea Dimokratia (ND) of former Prime Minister Kostas Karamanlis and the largest opposition party PASOK – but only one foreign policy.

Many observers in Athens, Paris, Berlin or London would hasten to add, with a sigh of relief, so much the better! It may thus not be such a bad thing that almost no one in Greek foreign policy circles proposed anything new during the campaign. This constitutes an unprecedented attempt to reach across the political aisle. But what is the reason for it?

The absence of major differences could be seen as silencing debate on foreign policy during the electoral campaign. But in comparison with earlier elections in Greece, especially during the 1990s, the fact that foreign policy issues were not used to activate nationalistic rhetoric is a clear sign of progress. It was not for a lack of issues. Instead, it reflected a growing foreign policy consensus, at the very least between the two largest parties, and a clear rejection of the nationalistic agenda of the LAOS party.

However, the three major issues on Greece's foreign policy agenda – relations with Turkey, the »name issue« in relation to FYR Macedonia and the non-recognition of Kosovo – continue to be politically relevant and controversial in public debates. But they no longer offer themselves for below-the-belt exchanges and nationalistic mass rallies. In short, Greece as a society and with it most of its political elites have started to move on.

Finally, the economic and financial crisis affecting Greek society has not left much room for substantial foreign policy debates. The election campaign was dominated by controversies over responsibility for budget deficits, options for or limitations on spending proposals and the ever-present issues of corruption and tax evasion. This agenda has only intensified since PASOK took office in October 2009.

Given the complexity of contemporary Greek politics and the sensitivity of the issues at stake, any government initiative will be confronted by considerable obstacles – domestic and external – along the way. This is a test case for Greek society and the political system since it offers an opportunity to prove how far both have moved on and to what degree they are doing so simultaneously. In that regard the practical implementation of such a political agenda will also be shaped by the behaviour and willingness to cooperate of the largest opposition party in parliament, *Nea Dimokratia*. It remains to be seen whether the election of Antonios Samaras⁹ as the new leader of ND,

9 In an unprecedented procedure, *New Democracy* decided to elect its new leader through a rank-and-file vote. After the resignation of Kostas Karamanlis on election night in October 2009, three candidates ran for the ND leadership. Members and self-defined »friends of ND« were eligible to vote. Samaras received 50.28 per cent of the ballot, former Minister of Foreign Affairs Ms Dora Bakojianis 39.45 per cent

in November 2009, will be a boon or a bone of contention in advancing such an ambitious agenda in Greek policy-making.

It is too early to conclude that the spate of new initiatives over the past few months suggests a nascent commonality of political and economic vision between Greece and its immediate neighbours in the region. But the magnitude of the task speaks for itself.

Prime Minister Papandreou has few alternatives to being daring from the outset, with or without political support from the opposition parties. While he has a strong mandate, Papandreou will have to deliver quickly on the economic front. He can gain additional traction and political leverage if he moves decisively in foreign policy affairs. Home or away, a scoreless draw will no longer do for Greece.

Recommendations for a pro-active Greek foreign policy in the Balkans:

- The new administration of Prime Minister George Papandreou should make every effort to improve Greece's visibility on the international stage. This renewed engagement is particularly important in the region where it matters most for Athens and Thessaloniki, namely southeast Europe.
- Greece's engagement in the region should encompass both strengthening existing developments and starting new initiatives. The former includes continuing to support Greek foreign direct investment in the Balkans and beyond. The latter should focus on advancing regional cooperation through political, economic, educational and social initiatives.
- The Balkans made considerable progress on its road towards EU integration during 2009. Visa liberalization for Montenegro, FYR Macedonia and Serbia, the submission of EU applications by Albania, Montenegro and Serbia, as well as Candidate Status for FYR Macedonia underline the countries' determination to advance their EU membership prospects. As a neighbouring country Greece should vigorously continue to support this integration agenda, while simultaneously resolving outstanding bilateral issues.
- From 2010, Greek foreign policy making should try to help supply the »missing pieces« that have perpetuated conflicts in the Balkans. The symbolism of 2014 is one such missing piece. The approaching 100th anniversary of the assassination of the Austrian Crown Prince in Sarajevo can serve as a common memorial to overcome myths lazily maintained in the region, in an effort to move forward together and exercise leadership in the interest of improving the lives of the region's citizens.
- The combination of this 2014 vision with practical steps will require a determined Greek administration against the backdrop of dire economic challenges on the domestic front and an uncertain economic outlook for the region. Ingenuity and perseverance are therefore necessary. In making such an effort, Greek foreign policy making can obtain added traction among its neighbours and additional respect from its EU peers.

and Panajiotis Psomiadis 10.27 per cent. The unexpected high turnout – more than 640,000 people voted, – appears to have favoured Samaras over his competitors.



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