

**GREECE'S ECONOMIC ROLE IN THE BALKANS**

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*by*

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## **Introduction**

Two weeks ago Marios Klapsis called me and asked me to speak in this Conference of the Hellenic Students's Inter-University Council. I must confess that I had no intention of accepting this invitation because it came at such a short notice and I was very busy with other matters. When Marios, however, proposed that I speak on Greece's role in the Balkans, I found it very hard to refuse, because the subject of Greece, the Greek economy, the economic development of Greece is a subject which has always been too close to my heart. Furthermore, my assessment of recent political and economic events in the Balkans leads me to believe that destiny has handed Greece a tremendous opportunity, which I find to be extremely exciting and of far-reaching significance for Greece and for Greeks all over the world. I have come here today to share my excitement with you concerning this new historic development.

As you are well aware, the collapse of communism in 1990 has brought about a major change in the geopolitical and economic map of the world. Communism is no longer a viable ideology and the Soviet Union is no longer threatening the stability of the free world. The artificial division that was imposed on Europe following the end of the Second World War has finally ended. The "iron curtain" that hang over continental Europe from the Baltic Sea to the Adriatic Sea and which run all across Greece's northern border collapsed onto a pile of ashes. This development proved a boon for West Germany which rushed immediately to re-unite itself with Eastern Germany. The legacy of the collapse of communism is not only German reunification, but the opportunity that Germany was handed to advance its economic hegemony eastward to Poland and the Baltic states as well as to the central European region of Austria, the Czech and Slovak Republics, Hungary and more recently into Slovenia and Croatia. German direct and portfolio investments and exports into this region are now growing at very rapid rates, which are gradually transforming central Europe into a "German economic sphere of influence". What the Third Reich tried to achieve by military means, now the German Republic is accomplishing peacefully by economic means. Economics has proven to be - once again- more powerful than the Luftvafe or atomic weapons.

Although the world's attention is preoccupied with the aftermath of the collapse of the iron curtain in central Europe, a parallel development of equal significance has been taking shape in the Balkans. What most people don't realize is that just as the iron curtain split Germany into two parts and Europe into democratic West and totalitarian East, the same iron curtain split the Balkans into two: communist North and democratic South. For almost half a century, from the end of World War II to 1990, Greece had become cut-off from the rest of Europe and especially from its traditional and historical trading hinterland, the Balkan states of Albania, Yugoslavia, Bulgaria and Romania, as well as from the states of the Black Sea region such as Russia, the Ukraine, Georgia and Armenia. The only connection was that of the fellow Nato ally of Turkey. But the

historically warring and mistrustful relationship between these two South-European neighbours could not permit the effective development of economic and business ties. Greece had effectively been turned into a Mediterranean island. Until it became a full member of the European Community in 1981, its only reliable economic links with the rest of the world were the financial transfers of its own emigrants who were obliged to emigrate in huge numbers in search of economic opportunities elsewhere in the world and its maritime shipping fleet.

## **Historical Background**

The Balkan countries of Albania, Yugoslavia, Bulgaria, Greece and Rumania have always enjoyed close cultural, economic and religious ties. Their cultures and history have been closely bound together for centuries. At this point a brief historical outline of these forces would be instructive. Greek involvement in the Balkan peninsula goes back to the 8th and 9th century B.C. as the Greeks began setting up colonies along the coastal areas of the Eastern Mediterranean, along the shores of Southern Italy, the Adriatic coast, all around the Aegean coast and across the Dardanelles to the north and eastern shores of the Black Sea. Greek colonies were established for example in Istria and Callatis along the coast of present day Rumania, Messimvria along the Bulgarian coast Tiras and Olvia along the Ukrainian coast, Thodosia and Pantikapeon on the Crimean peninsula, Kolhis on the Georgian region, Trapezounda on the Armenian coast, Sinopi on the north shore of present day Turkey , Appolonia, Epidauros and Tragirion on the Adriatic coast and of course the most famous example of all, Byzantium, the city that was destined one day to become the capital of the Eastern Roman Empire in the 3rd century A.D. The Greeks also established colonies in the Balkan hinterland, although these were small and few, noteworthy being that of Vachia, in present day Belgrade in Serbia. In all, the Greeks established more than 38 colonies in the Black Sea, 7 in the Adriatic Sea, over 30 in the South of Italy, 12 along the French and Spanish coast and many more along the coast of Asia Minor, Cyprus and Northern Africa. At the time the Greeks had not attempted territorial expansion into the Balkan hinterland. Instead, they preferred peaceful economic coexistence and commercial relations.

With the rise of Macedonia, King Philip and his son Alexander the Great united much of the present day Balkan peninsula under his rule in the 3rd Century B.C.. Most of present day Albania, Southern Serbia, all of present day Bulgaria and part of Rumania became fused for the first time with the Hellenic city states under the unifying and culture spreading force of Macedonia, and remained together until the arrival of the Romans in the middle of the 2nd century, A.D. Roman organization, highway building like the famous Via Egnatia, provided a unifying force for the region. Roman administration and security provided a great impetus for the economic development of the region, which together with Greek language and culture left behind the imprint of what we call today the Greco-Roman civilization. The Romans left such an imprint that until the 19th

century the people of the Balkans called themselves Romiosini and Romii and this proved a significant unifying force when in the 19th century they rebelled against their Ottoman yoke.

In the first three centuries A.D. came Christianity which gradually spread throughout the region. When the Roman empire was organized into East and West and Constantine the Great set up his capital in Byzantium in 326 A.D., he made Christianity the official religion of the Eastern Roman Empire. During this Byzantine period which lasted until the middle of the 15th century, the Eastern Roman empire was transformed further. The Church was split into Roman Catholic and Eastern Orthodox after 1054 AD, with the Patriarch based in Constantinople and the Pope in Rome. During this period there were waves of invasions by Slavs, Avars, Huns, Bulgars, but it was the Slavs and the Bulgars who after the 7th century A.D. chose to settle in the Balkan peninsula. Here again, the unifying force of the Byzantine Empire provided a new home for these people and allowed them to become subjects of the Empire. They became Christianized and accepted the Eastern Orthodox faith, and they begun assimilating the Greek culture and language, which by that time became the dominant force within the Eastern Roman Empire. The main agents associated with this religious and cultural transformation were the brothers Methodius and Cyril; Methodius introduced what is known as the Cyrillic alphabet which is an adaptation of the Greek alphabet into the Slavic culture. The Cyrillic alphabet is used today by Serbians, Bulgarians, Ukrainians and Russians. This era saw many periods of rise and decline of the Byzantine Empire which provided in turn the opportunity to the Bulgarians and later the Serbians to become a major force of their own in the region. Thus history, brought together once more the Greeks with their northern neighbours into a single empire, with shared administration, common currency, commercial and economic integration, same religion and similar alphabet and common culture.

By the 15th century, however, the Byzantine empire had weakened considerably and was eventually overrun by the Ottoman Turks. The Fall of Constantinople in 1453 to Ottoman hands signalled the end of this period and the beginning of another, which lasted for four centuries. By the end of the First Balkan War in 1912, the Balkan peninsula had effectively been liberated from the Turkish yoke and a new era begun. During this period of nationalist awakening another unifying force of the Balkan people proved to be the shared contempt for and opposition to Ottoman rule.

Thus, the Balkan people share a great deal together. They share the same geopolitical space and geographic proximity; they share centuries of coexistence and cohabitation, centuries of trading and commercial links, the same Orthodox religion; they share similar alphabet and culture and they share the same mistrust for their common enemy, the Turks.

During the latter part of the 17th century and well into the early part of the 20th, the Greeks, principally from the Ottoman-occupied regions of Asia Minor, the Pontus, Constantinople and mainland Greece immigrated to Georgia, Russia, the Ukraine, and Rumania where they established prosperous and successful expatriate communities. Well known examples are those of the Greek community of Odessa, where Greeks were instrumental in the establishment of the city, Sevastopol, Braila, Galatsi, Bouchoresti, etc.. Through these main trading gateways the Greeks controlled most of the Black Sea trade between Russia and the Ottoman lands, as well as a good deal of the trade between the Ottomans and the Austro-Hungarian Empire. The traditional seafaring and trading character of the Greeks came to dominate the commerce of the time. In spite of continues wars between Russia and the Ottomans, and the Balkan wars of liberation, which cost the Greeks dearly, the Greeks emerged by the 1940s as the single most important business and trading community of the region. The presence of Greeks throughout the region, allowed the Greeks to erect a privileged business network that no other people in the region had the capacity to do. The break-out of the Second World War saw the end of the emerging economic dominance of the Greeks in the area. The brutal German occupation, the massive destruction of infrastructure and ships, the collapse of trade within the Balkan economies brought all this to an end. The advance of the Red Army immediately following the end of the War and the partitioning of the Balkan peninsula into British and Soviet spheres of influence, brought with it an ice age on trade and investment in the region. The Greeks of Russia, The Ukraine, Georgia and Romania could no longer engage in trade with each other. Not only were their freedoms to trade and engage in free enterprise suppressed, but so was their language, culture and religion.

## **The New Balkan Order**

Now that the iron curtain that separated Greece from its Balkan neighbours has been lifted, the region can proceed toward greater economic integration, inter-regional trade and investment. The traditional trading routes connecting the Greeks of Greece with the Greeks of Romania, Russia and the Black Sea region have now opened up again. At last the region is in a position to fulfil its economic destiny.

With this new Balkan order, Greece has been handed a rare historic opportunity not seen since the era of Venizelos and the Balkan wars. Greece now is confronted with a new set of challenges that contain both new threats and new opportunities.

What are the new threats? The most important threat of the new Balkan order is the resurgence of nationalism and ethnic conflict in the region. As the events leading to the disintegration of Yugoslavia have shown, old animosities, jealousies and insecurities were never really dealt with by the communist regimes. By suppressing them, far from healing them, the communist system actually made them worse. The dismemberment of Yugoslavia, the Servo-Croatian conflict and the Bosnian civil war have resulted in

enormous destruction and loss of life. The large and growing Albanian population, half of which resides outside the borders of Albania proper remains a source of future potential conflict. The intransigent policies of the Glygorof regime with respect to the name, flag and constitution of the FYROM have become an important irritant that has led to the Greek embargo and brought Greek economic relations with FYROM to a halt. The presence of large muslim communities in Yugoslavia, Bulgaria and a smaller one in Greece, provide a launching pad for Turkish expansionist ambitions in the area with the potential of plunging the region into a new Balkan war. Last but not least is the clash in the geopolitical objectives of the United States, an emergent United Germany and the Russian Federation. The power vacuum left in the region following the collapse of the Soviet Empire is making a precarious situation dangerous. The Americans want to expand their influence in the region and pre-empt the spreading of German or Russian influence. The Russians view the region as a traditional sphere of influence and hegemony of their own going back for centuries. The Germans want to expand their economic space through central Europe to Romania and Bulgaria and from there re-establish their old connections with Turkey. The Turks, on the other hand aspire to re-establishing the old Ottoman links with the muslim communities of the Balkans so that it can undermine Balkan cooperation and prevent the region from becoming a major threat to its national security and economic interests in its European front yard.

## **Greece's Role in the Balkans ?**

Now, what is Greece's role in all this?

The collapse of the communist regimes and the disintegration of Yugoslavia came with a big bang that was hardly anticipated even by shrewd analysts of foreign affairs. There is little doubt that just as they caught every body by surprise, Greece was caught unprepared to meet this historic challenge. During the last four years since the collapse of communist regimes in the Balkans, Greece is still trying to determine and has yet to clearly define its role in this New Balkan Order. So, instead, I will try to formulate a vision of what I believe Greece's role should be in this region.

If we let history be our guide to the future, Greece has a major role to play, both in the Balkan peninsula and the Black Sea region as well. The Greeks have made their mark in history as a seafaring and trading nation. From the Homeric times, the Greeks criss-crossed the seas, established colonies, built trade routes and established prosperous economies. Through most of their history they chose to co-exist with the people around them and in every occasion they chose to trade and make friends rather than conquer and impose their ways. In the one dramatic departure, when they did set out to conquer and expand namely that of Macedonia and Alexander the Great, their role was that of a civilizer and unifier. It is no accident that Alexander the Great chose to marry Darius's daughter Roxane and ordered his generals to marry Persia princesses and showed the utmost respect for the peoples he had conquered. During the Byzantine era, the Greeks

never tried to impose the Christian Orthodoxy by force of arms as the Roman Catholics and Islam try to do. Instead of imposing their language and alphabet, Methodius and Cyrill chose to adapt the Greek alphabet to the particular needs of the Slavic peoples and it is for this reason that Alexander is respected and revered to this day in the Middle East and that Methodius and Cyrill and the Greeks are respected and loved by the Russians and the Serbs.

In line with its past, Greece's role in the Balkans should be to encourage, foster and work toward the development of economic ties, trade and investment in the region. By promoting the economic prosperity of the region, Greece can contribute toward peace and security based on shared values such as democracy, human rights and fundamental freedoms, prosperity through economic liberty and social justice and equal security for all countries in the Balkans. Force, as expedient an option as it may seem to many, never pays in the end. The best means of ensuring the security of the Balkan nations and of promoting mutual self respect and co-operation is economic prosperity. By fostering the economic prosperity of the region, Greece will not only contribute toward stability and security, but can also win a place for itself as an influential regional economic power. Greece's geographic position in the Balkans at the southern basin with access to the sea provides Greece with a unique comparative advantage.

Is Greece in a position to assume this role of fostering peace and prosperity in the Balkans? A close examination of the various variables suggests to me that -in spite of its well known weaknesses- Greece today is within reach of undertaking this leadership role. Let me enumerate the factors that work in Greece's favour now:

1. Following the collapse of the communist regimes and the rigid structures of the centrally planned economies, Greece has emerged along with Turkey as the only two free-standing economies with relatively mature market systems. The legal and institutional framework in Greece although in need of modernization is way ahead of those of its Balkan neighbours and more mature than that of Turkey. In terms of industrial competitiveness, Greece is way ahead of Turkey having had to reduce barriers to trade as a full member of the European Economic Community. Greece's gross domestic product at current exchange rates is equal or greater than the combined GDP of all other Balkan economies, and that includes Albania, Yugoslavia, FYROM, Bulgaria and Romania. Greece's military strength is far superior to that of its Balkan neighbours as well and only slightly smaller to that of Turkey's. When consideration, however is given to the fact that Greece does not face internal threats to its security as Turkey does, and to the fact that Greece is surrounded by sea and has comparatively a shorter border to defend, Greece's military capability per kilometre of land border surpasses that of any other country in the whole region.

2. Greece is the only country of the Balkan region that is a full member of the European Union, the European Parliament and the Western European Union. Along with Turkey, they are the only members of the OECD, the IMF, the World Bank and of course the NATO alliance. Through its international memberships in these organizations, Greece can play an instrumental role in assisting the Balkan nations to gain entry in these organizations. Albania, Yugoslavia, Bulgaria and Romania, not to mention The Ukraine and the Russian Federation, badly need Greece's support and guidance to gain membership in these and other organizations.
3. Greece has the most ethnically and religiously homogeneous and cohesive population of all the Balkan states including Turkey. Save for its small muslim minority of ethnic Turks in Thrace, more than 98% of Greece's population is homogeneous. Even Albania has to contend with a sizeable Greek minority exceeding 300,000. 15% of Bulgaria's population are Turks, 8% of Romania's are Hungarians; 30% of Yugoslavia's are Albanian. Turkey's Kurdish minority and factional religious strife are major sources of weakness. Greece does not have to deal with restive minorities that want to brake away nor does it have major pockets of Greeks living outside its borders. Greece's ethnic and religious cohesiveness are a major source of strength in a world of awakening ethnic sentiment.
4. Since the restoration of democracy in Greece more than 20 years ago, Greek society has evolved into a pluralistic democracy with dispersed centres of power and a large and growing middle class. The foundations of western democracies rest on a large and contented middle class. The larger and the more prosperous its middle class, the more solid and stable are the democratic institutions of government. No other country in the Balkans has a prosperous middle class like Greece. In Turkey, the middle class is comparatively small and the disparity between the rich and the poor is great. This disparity is at the root of the religious strife and the rise of fundamentalism in Turkey.
5. Unlike its Balkan neighbours, the Greek nation extends well beyond its borders. Greece has the additional advantage of having sizeable Greek communities in each of the major powers of the world. There are more than half a million ethnic Greeks living in the lands of the Former Soviet Union, more than 3 million in the United States, half a million in Australia and an other half a million in Western Europe. When we add the nearly 600,000 Greeks of Cyprus, Greeks around the world number close to 16 million of which 11 million reside on the Balkan peninsula along with Cyprus. This is a global business and co-operation network of omoethnon which is rivalled only by that of the Jews and the Chinese in the world.

These are very important strengths that can be exploited to give Greece an instrumental role in shaping Balkan co-operation, economic integration and regional security.

A quick look at what is going on in the Balkans today shows that a consensus is gradually emerging which is shared by all three political parties that this is the way that Greece has to go. In early April the 5th Summit of Foreign Ministers of the Black Sea Economic Co-operation met in Athens to discuss ways to promote economic co-operation in the region. This Council, started by the former Turkish Prime Minister Turgut Ozal comprises eleven states bordering the Black Sea, namely Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Rumania, Russia, Turkey and the Ukraine. Although originally conceived as an instrument of Turkish expansionism in the region, the Kurdish war of independence, the suppression of human rights and the economic crisis in Turkey, Greece has managed to assume a leadership role and is expanding its influence in this forum. The recent normalization of Greek relations with Albania, the peaceful overtures of Greece toward FYROM and Greece's acceptance to allow Turkey to enter into a customs union with the European Union have altered Greece's role from that of a narrow minded defensive character to that of a regional statesman. The Greek Cypriot defense doctrine, the security agreement with Israel and the joint military exercises of Greece with Bulgaria, Romania and Albania in the Peloponnese under NATO auspices have given additional impetus to this direction.

On the economic side, Greek businesses have launched a major offensive to penetrate the economies of our Balkan neighbours. Greece is the second most important investor in Albania after Italy, the first most important investor in terms of the number of enterprises in Bulgaria, and has become a major investor in Rumania and even FYROM. Greek exports to this region, as well as The Ukraine and Russia are booming. The Greeks, true to their traditional character seem to favour small scale investments in joint ventures with local capitalists. Greek companies with major involvement in the region include the Vardinoyannis and Latsis groups, 3E, Delta, Athinaiki Zithopiia, Mytilineos, Intrakom and many others. Most investments are in the food processing, beverage, metals, textile and garment industries. At the same time Greek banks are making headway in the emerging Balkan markets. The Alpha Pisteos Bank in conjunction with the BERD have set up a Bank in Bucharest. The Trapeza Attikis has set up the Apollonia Bank in Tirana. The Chios Bank has set up a branch in Sofia. The Trapeza Makedonias-Thrakis is opening two branches this spring in Bucharest and Sofia. The Ionian Bank and National Bank of Greece have opened representative offices in Sofia, Tirana and even Skopia. The National Bank is in the process of securing bank licenses to open branches in each of the Balkan capitals while it already has opened up a representative office in Moscow. It is interesting that ETVA is helping Greek and foreign companies invest in Albania, Bulgaria and Romania while the Greek government has extended regional industrial incentives which until now were for investments in Greece for investments made by Greeks in Albania. Another major success was Greece's involvement in the

Black Sea Bank for Reconstruction and Development. BSBRD's three principal shareholders each with 17% of the shares are Greece, Turkey and Russia and the headquarters of this new international intergovernmental bank will be in Thessaloniki, Greece.

Other major projects that will contribute to the economic integration and stability of the region are the Russian natural gas pipe line that is being extended from Bulgaria into Greece, the proposed oil pipeline from the Bulgarian port of Burgas to the Greek port of Alexandroupolis. This latter project is of major strategic significance for Greece in that it allows oil to flow from the Russian Caucasus to European markets without having to cross the straights of Dardanelles, thereby diminishing Turkey's strategic importance. The Delors II European Development Package amounting to more than US\$15 billion is in the process of being realized although at a slow pace. The construction of the Egnatia highway from Igoumenitsa to the Turkish border and the construction of connecting highways linking Thessaloniki and Kavalla to the Bulgarian border will also improve Greece's economic role in the region.

All these developments as important and desirable as they are, are still not enough to achieve this vision of Greek economic leadership in the Balkans. Greek foreign policy should strive to iron out or downplay political differences with our Balkan neighbours while at the same time help bridge differences amongst Balkan neighbours and assist them in obtaining membership in various international organizations and of course financial assistance from the European Union, the BERD, the EIB, the IMF and the World Bank. Moreover, Greece should extend a friendly hand towards Turkey. If Greece and Turkey find the vision and the will to co-operate economically and to heal their mutual animosities, the potential for economic growth and prosperity in the region is limitless.

Over and above this, Greece should undertake the leadership to establish with European support a Balkan Regional Co-operation Council. The Council's objective should be the achievement of Balkan economic integration in stages starting first from a customs union with Greece and ending with the full membership of Albania, Yugoslavia, Bulgaria and Romania with the European Union sometime early in the next century. Such a grouping, would cover an area of 697,384 square kilometres and would exceed the size of France or The Ukraine. It would comprise a market of 64 million people, of which the vast majority, 85% would be Christian Orthodox. In terms of income, the Balkan Regional Co-operation Council would add up to a combined GDP exceeding \$225 billion USD. It would match Turkey in area (779,658 sq. km.), in population (62.2 million) and in output (\$219 billion). The combined bargaining power of this regional economy would bring a great deal of stability and prosperity to the region and it would word-off foreign expansionist ambitions. By providing such a vision and by actively working to achieve it, Greece could play its most important role yet in its modern history, draw our Balkan friends closer and make Northern Greece the epicentre of Balkan business and finance.

My friends, this vision of a secure, democratic and peaceful coexistence of the Balkan nations brought about through co-operation and economic regional integration under the European umbrella, may sound like a pipe dream of a well intentioned idealist. But let me remind you that all achievements begin from a dream. It was the same when Jean Monnet, the father of the European Union first conceived the idea of setting up the European Steel and Coal Authority, and who would have believed at the time that century old enemies like the French and Germans would come together to form the European Union. The choice is ours, either we reject such dreams and risk perpetual conflict and misery or we try to reach for the best. There is no reason why the word "balkan" should remain synonymous to division, intrigue and conflict. The word "balkan" could be turned one day to a word signifying co-operation, stability and prosperity.