

Hellenic Observatory Research Calls Programme

**Deciphering the Greek Economic Diplomacy towards the
Western Balkans: actors, processes, challenges**

Policy Brief

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Streamlining Greek economic diplomacy towards the Western Balkans

Key points:

- The economic crisis had a deep and resonating impact on Greece's economic relations with the countries in the Western Balkans.
- While trade transactions have substantially recovered, with exports and the trade surplus almost reaching the pre-crisis levels, the downward trend of Greek investment in the Western Balkans has shown no signs of recovering.
- Greek companies that are active in the Western Balkans operate in a difficult business environment, marked by state capture, deterioration in the rule of law, and the persistence of protectionist practices.
- Starting in 2019 the Greek state has launched a process aimed at restructuring and reinvigorating economic diplomacy. While important steps have already been concluded, the policy overhaul is still in progress with key aspects being incomplete. As a result, the impact of administrative reforms cannot yet be fully appreciated and assessed.
- The improvement of performance of Greek economic diplomacy in the Western Balkans heavily depends on continuous networking and coordination efforts by both public and private actors.
- The efficiency of Greek diplomatic missions operating abroad can be improved with the introduction of key performance indicators and standard operation procedures and the closer linkage of their work with Enterprise Greece.

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Executive summary

From the mid-1990s and for over a decade Greece developed a very important and dynamic trade and investment relationship with most Western Balkan countries. The economic crisis in 2009 broke this momentum and led to massive declines in both trade and FDI. While trade transactions rebounded after 2016 and almost reached pre-crisis levels, the decline of Greek FDI has shown no signs of recovering, its most definitive sign being the departure of many Greek banks from the region. The objective of this project is to delve into the intricacies of Greek economic diplomacy, focusing on its conduct in the Western Balkan countries (Albania,

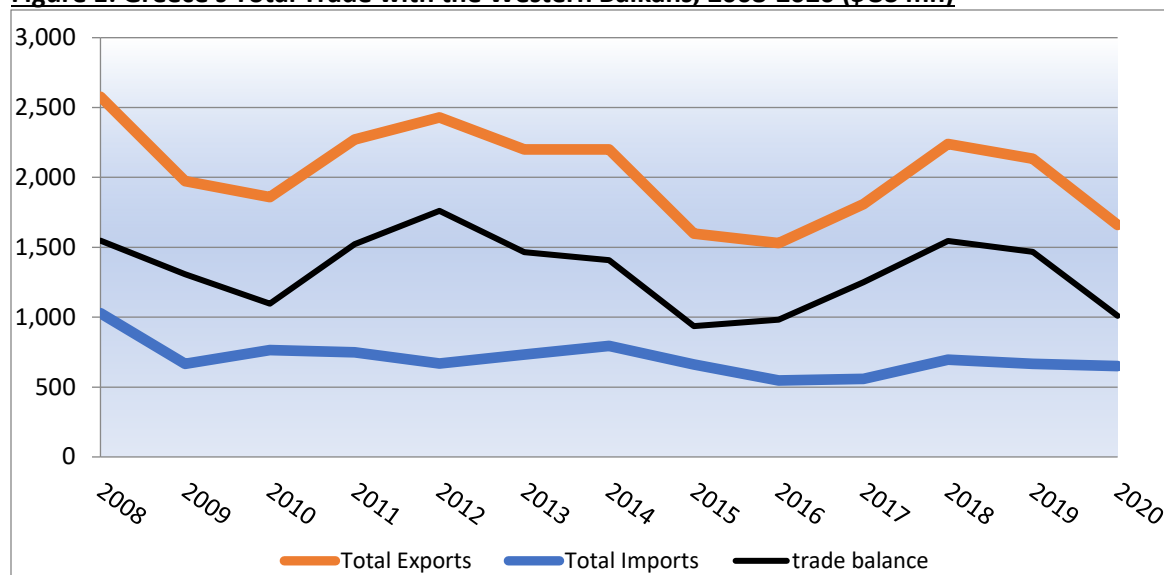
Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia) and exploring paths that could improve economic and business practices in the region. It does so by mapping out the multi-layered dimensions of Greek economic relations with the Western Balkans, highlighting problems and challenges that have emerged over the years, identifying key actors and stakeholders in the process, and making policy recommendations based on an evaluation of all the above.

Greek economic relations with the Western Balkans

The implosion of the sovereign debt crisis in Greece shook the foundations of Greece's economic relations with its Western Balkan neighbours, essentially reversing years of consistent growth and breaking the momentum of dynamic economic relations that had been constructed over more than a decade. The deterioration of the domestic economic environment had a deep and resonating impact on the Greek economy as well as on practically all dimensions of Greece's relations with the countries of the region (Magoulios and Chouliaras, 2014: 57-58). Trade transactions between Greece and its Western Balkan partners decreased sharply between 2009 and 2015, while total FDI flows to the region also contracted dramatically. These trends left Greece, once a dominant trade and investment partner, greatly weakened in the area. The perception of Greece's role was also diminished by ongoing bilateral tensions, especially between Greece and Albania, North Macedonia, and the non-recognition of Kosovo.

Since 2016, however, one observes a change in direction in both the political and economic fields. For one, Athens was determined to resolve bilateral differences and re-emerge as a responsible regional actor. To this end, it prioritized the resolution of all problems with Skopje and Tirana (Panagiotou and Tzifakis, 2021: 78-84). Trade transactions substantially recovered, with exports and the trade surplus almost reaching the pre-crisis levels (Figure 1).

Figure 1: Greece's Total Trade with the Western Balkans, 2008-2020 (\$US mn)

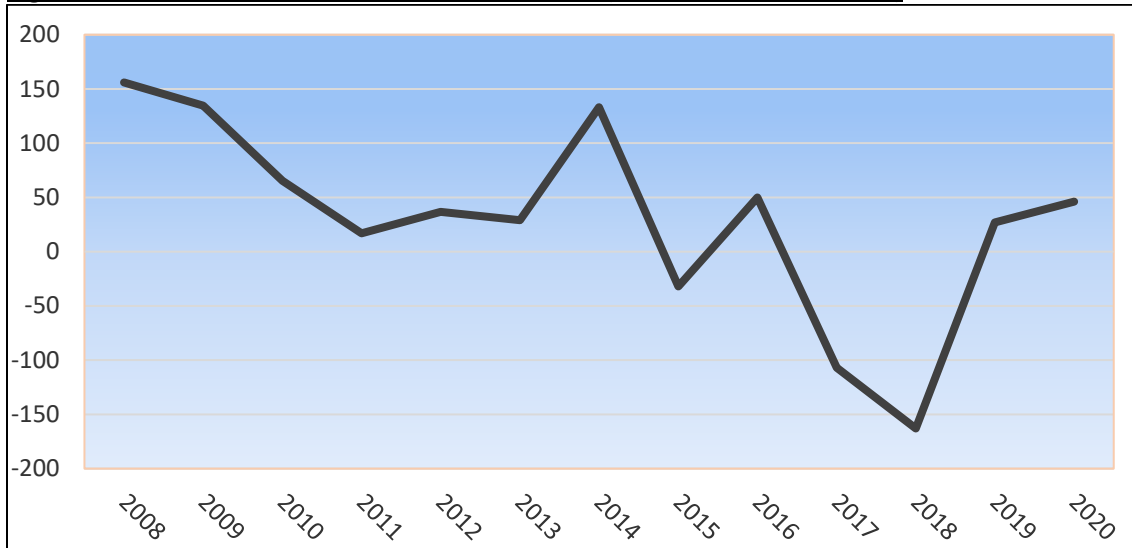


Source: United Nations Comtrade Database

However, the downward trend of Greek investment in the Western Balkans that had started in 2009 has shown no signs of recovering.¹ Total FDI flows fell from €133.1 million in 2014 to €-163 million in 2018. 2019 was the first year where a partial recovery of FDI was recorded, but the numbers remained well below pre-crisis levels (Figure 2).

¹<https://www.bankofgreece.gr/en/statistics/external-sector/direct-investment/direct-investment---flows>.

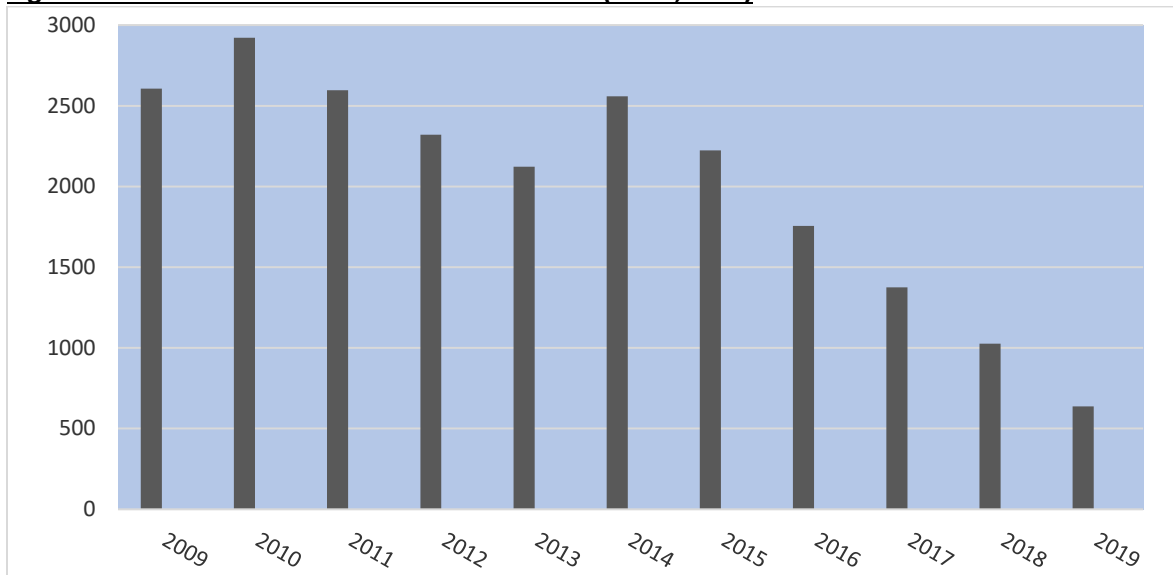
Figure 2: Total Greek FDI to the Western Balkans (Flows, 2008-2020 € mn)



Source: Bank of Greece

Similarly, FDI stocks declined consistently between 2014-2019, falling from €2,559 million to €638 million (Figure 3).

Figure 3: Total Greek FDI in the Western Balkans (stock, €mn)



Source: Bank of Greece

This negative trend was particularly evident in the banking sector, where the collapse of Greek investment led to the closure of many branches and offices in the region after 2017; this culminated in the withdrawal of many Greek banks, leaving the banking sector extremely weakened after over a decade of dominance in the region.²

² https://www.hba.gr/En/Statistics/List?type=AbroadGreekBanksNetwork_EN.

Greek businesses that are active in the Western Balkans have been deeply affected by the fallout from the economic crisis and the implications of the departure of Greek banks from the region. However, the ongoing challenges they are facing in their transactions with the region go beyond the impact of the crisis and are far more complex, multi-layered, and far-reaching. A major challenge is finding a way to respond to the new geopolitical balances that have brought non-Western external actors to the region and who have become major competitors (for example Russia, China, and Turkey – see *inter alia* Bieber and Tzifakis, 2020).

Another challenge is dealing with the domestic trends in the region that directly affect the business environment. In varying degrees, most of the countries Greek businesses interact with exhibit detrimental characteristics that include democratic backsliding, state capture, deterioration in the rule of law, inefficient judicial procedures, political instability, corruption, lack of transparency, persistence of protectionist practices, cumbersome bureaucratic procedures, and uneven competition in public procurement and imports. Finally, Greek businesses have faced many challenges that are linked to the lack of an efficient state economic diplomacy to support, facilitate, and protect Greek business initiatives in the region. These include an incomplete legal framework for the regulation of relations with all Western Balkan countries (e.g. lack of agreements for the avoidance of double taxation), burdensome bureaucracy, unclear legislation (e.g. on right to entry with a car having foreign license plates), and weak (or lack of) cooperation between Greek public and private actors in Greece and abroad.

Reform of Greek Economic Diplomacy

Starting in 2019 the Greek state has launched a process aimed at restructuring and reinvigorating economic diplomacy. Important steps have already been taken, including the transfer of full jurisdiction to the Ministry of Foreign Affairs, the adoption by the Ministry of Foreign Affairs of a new Organism that restructured the administrative organisation of diplomacy, the articulation of a national strategic plan for extroversion with key performance indicators, and a revival of the international development cooperation agency. However, the policy overhaul is ongoing and key aspects are still incomplete. For instance, several new state agencies/divisions – such as the Directorate of Strategic and Operational Planning, the Centre for Foreign Policy Planning, and the Council for Extroversion – are not operational yet. Similarly, important reforms are still under way, such as restructuring of the Export Credit Insurance Organisation and upgrading the internal structure and increasing the human resources of Enterprise Greece. In this respect, the impact of administrative reforms cannot yet be fully assessed, and more needs to be done.

Research Objective and Methodology

The objective of this project is to delve into the intricacies of Greek economic diplomacy, focusing on its conduct in the Western Balkans and exploring paths that could improve economic and business practices in the region. It does so by mapping out the multi-layered dimensions of Greek economic relations with the Western Balkans, highlighting problems and challenges that have emerged over the years, identifying key actors and stakeholders in the process, and making policy recommendations based on an evaluation of all the above.

This project has heavily relied on a series of semi-structured interviews with the main stakeholders and persons in state agencies and private actors involved in Greek economic diplomacy towards the Western Balkans. These are: 1) public officers (e.g., high ranking officials in the Ministry of Foreign Affairs and members of diplomatic missions in the region), 2) high-ranking executive officers in business associations and chambers of commerce, 3) CEOs of large exporters/investors to the region, 4) representatives of think tanks and other interest groups. Interviewees from categories 2-4 were requested to assess the political/economic environment in the region, outline their concerns/problems, and elaborate on whether and how their preferences are communicated to Greek state authorities and to what extent these preferences are considered. The second group of interviews was with public officers who were similarly asked to express their view of the political/economic regional context, explain whether and how state inter-agency coordination takes place, and offer their view of how stakeholder sectoral preferences are processed and considered to form part of national preferences. Ultimately, we carried out 50 hour-length interviews. We also attempted to fill any gap of knowledge through the triangulation of data obtained from official documents, news articles, and interviews with stakeholders.

Main findings – Policy recommendations

Most public and private actors that are invested in the prospect of Greece's economic involvement in the Western Balkan region manage to cooperate and to a certain degree strive to coordinate their activities to this end. Nevertheless, their cooperation seems to be on an *ad hoc* basis and is dependent on many variables including the background, field experience and level of commitment to the process and outcome of the very people who are actively involved from each side. Therefore, Greek economic diplomacy vis à vis the region will be strengthened if certain aspects (such as procedures and diplomatic work) are reinforced, entrenched, and implemented in a more systematic way.

1. Networking and coordination

Considering the plurality of actors who get involved in international economic relations, the performance of economic diplomacy heavily depends on continuous networking and coordination.

1.1 Interstate cooperation

Regular visits by Greek high ranking government officials empower the Greek diplomatic missions in the countries of their operation. The active networking of Greek diplomatic officers with the host country's authorities may ease the Greek companies' access to these markets and may contribute to defending them in case of problems.

The leadership of the Greek Ministry of Foreign Affairs should regularly tour the Western Balkans and its visits should be followed up by contacts between Ministers with different portfolios (e.g., energy, transport, tourism, and culture) from Greece and these countries to advance cooperation in specific fields of activity. Enhancing and improving interstate contacts across different sectors and policy fields would bring Greece and its Western Balkan neighbours even closer and would contribute to increasing international economic relations. There are at

least three areas of concern where Greece should enhance its cooperation with its northern neighbours:

- Incomplete legal framework: Greece has not concluded agreements for the avoidance of double taxation with North Macedonia, Montenegro, and Kosovo (whose independence it has not recognized). Paradoxically, the position of Greek investors in North Macedonia has deteriorated since the signing of the Prespa Agreement. While the investment risk in the country has diminished, stimulating the interest of foreign businesses, the Greek investors have been in a disadvantaged position due to their over-taxation.
- Problem-solving: Athens should put all administrative and custom-related problems that Greek businesses face in the region on the table more consistently. For instance, Greek Chambers of Commerce are interested in establishing a channel of communication with the custom authorities of Western Balkan countries that would help the two sides manage any emerging problems. In this way, the Greek Chambers may also get the chance to transfer knowledge and know-how through the organisation of training seminars for custom officers of these countries.
- Connectivity: Athens should advocate for the improvement of the region's antiquated transport infrastructure. Greece could also improve its own connectivity to the Western Balkans by supporting the establishment of regular direct flight connections between Athens and all capitals in the region.

1.2 Coordination among Greek public and private actors

The organisation of a structured process of regular consultations between the state and the business community would help the former get fully acquainted with the entirety of the latter's preferences and integrate those preferences' promotion in their policies. At the same time, informing the business community of the state's positions increases the likelihood that the former would take into consideration and support the latter's priorities in their business activities. In this respect, consultations between public and private actors should be systematic and take place at different stages of policy making (e.g., planning and implementation), and across different sectors of economic activity.

- Council for Extroversion: The Council for Extroversion – which, once it becomes operational, would be consulted by the Administrative Board of Enterprise Greece with the aim of boosting exports and attracting more investment in Greece – could assume a central role with more responsibilities and a greater spectrum of activities (e.g. with the inclusion of tourism and Greek investment abroad as well). Its membership (that includes four officials and officers from state agencies and five representatives from the main chambers and business associations) could perhaps enlarge proportionately with the addition of a few more business associations.
- Build trust between the Greek state and the business community: The state should stop treating Greek investors in the region with suspicion, often considering them tax evaders who do not care about generating employment in Greece. The legislation concerning the right of Greek people to enter the country with cars having foreign license plates should be unambiguous and leave no room for divergent interpretations among custom officers in different crossing points.

- Corporate Social Responsibility: The activities of Greek companies impact not only their corporate brand names but also the image of their countries of origin. In this respect, Greek companies should be 'responsible corporate citizens' who follow sustainable practices and do not neglect to develop corporate social responsibility programs in the Western Balkans. The Greek state could consider establishing a distinct Corporate Social Responsibility division in the Directorate B of the Ministry of Foreign Affairs that could support such practices and play a coordinating role among different corporate activities.
- Link closer diplomatic missions in the Western Balkans with the business community in Greece: The Ministry of Foreign Affairs could reintroduce the practice (followed in the past by then Directorate B8) of organizing information activities with the participation of economic counsellors and business representatives. Reportedly, these meetings resulted in fresh expressions of business interest in countries where the participating economic counsellors were dispatched.
- Coordinate on EU-financed projects: Greek companies intending to bid for EU-financed projects in Western Balkan countries should inform the diplomatic missions in place as there is an EU informal norm of making sure that companies from all interested EU members get a market share.

1.3 Coordination among Greek private actors

The growth of exports requires more synergies as well as an improved coordination between private actors:

- Greek small producers would increase the value of their products (and their corresponding profits) if they joined forces in associations that would have the necessary means to receive professional assistance in processing and marketing. Thanks to the greater quantity of their (collective) production and the improved processing of their products, they may be able to reach out to the main distribution companies that serve the Western Balkans and promote their commodities as delicatessen in supermarket operators.
- In terms of logistics, Offices of Economic and Commercial Affairs in collaboration with Chambers and the main international transportation companies may create and monitor some sort of truck schedule to take advantage of return cargoes, thus diminishing transportation cost and increasing efficiency.

With respect to foreign investments, Hellenic Business Associations in the Balkans should strengthen their links with the business community in Greece as well as among themselves:

- Representatives of Hellenic Business Associations could share their experience and knowledge as speakers in sporadic information activities (e.g. webinars) about the business environment and the opportunities presented in the countries of their operation. The growth of membership of these associations would also increase their own influence in these countries.
- Expanding and strengthening coordination among Hellenic Business Associations in the Balkans would help them exchange information and best practices that would improve their efficiency.

1.4 Coordination with actors from third countries

The advancement of Greek economic diplomacy goals also necessitates that Greek actors reach out to their counterparts from other countries to join forces and increase their efficiency:

- EU institutions and member states: The Greek diplomatic officers should always engage the EU institutions and other EU member-states when Greek companies face challenges in the Western Balkans relating to the operation of rule of law institutions, or obligations deriving from their Stabilization and Association Agreements.
- Membership in multiple Business Associations: Greek corporations should also seek membership in sectoral associations (e.g. associations of banks) in the countries of their operation, as well as in larger Chambers and Associations where other like-minded foreign corporations are also members, such as the American Chambers of Commerce and the Foreign Investors Councils.
- Active involvement in International Chambers: Greek Chambers of Commerce should regularly be represented in meetings of international associations of chambers such as the International Chamber of Commerce and Eurochambres, to coordinate activities with Chambers of Commerce from other countries sharing the same concerns.

2. Increase the efficiency of Greek diplomatic corps

The expansion of Greece's economic relations with Western Balkan countries requires the production of a greater number of sectoral studies on specific fields of activity per country, to properly inform producers and prospective investors and help them get adequately prepared. The Diplomatic Missions in the Western Balkans should be more closely linked with Enterprise Greece. While the former have the advantage of field presence and familiarity with diplomacy, the latter has greater resources and more specialized knowledge of the traits of Greek export-oriented companies. In this respect, dispatching officers of Enterprise Greece (once its staffing increases) to countries for shorter or longer periods of time may help produce a greater number of specialized reports. Enterprise Greece may charge a fee for preparing such studies on demand (e.g., upon the request of business associations, or individual companies) and use that revenue to finance its activities. Assigning a reporting role to Enterprise Greece may also help economic counsellors dedicate greater time on other aspects of their work such as networking where many Greek businesses expect greater support.

The output of diplomatic missions varies across time and space and is largely dependent on the performance of people dispatched in these locations. The same variations of output also exist in the work of Directorates in the Ministry of Foreign Affairs. To improve the efficiency of their work, diplomatic officers serving in all posts should receive very clear directions, with specific targets and expected output, measured in terms of key performance indicators (e.g., number of activities, reports, and contacts). The annual reports of the Offices of Economic and Commercial Affairs could be shorter and could follow a more reader-friendly template (with the introduction of interactive content) that would render them more accessible to a wider non-specialized audience. The Ministry may also consider introducing a system of rewards for the most dynamic and efficient officers to augment incentives for outstanding performance. The guidance of officers should also commence in the Ministry of Foreign Affairs at the very

moment of their assignment to a new post. Relying almost entirely on the briefing of a predecessor officer in each post is not sufficient preparation for an economic counsellor to assume duty in a different country with its particular business environment. Moreover, the conduct of diplomacy and problem-solving should not depend exclusively on the diplomatic officer's own experience and judgement. The Ministry may consider developing standard operating procedures to guide diplomatic work abroad. Last, but not least, it should also equip Diplomatic Missions with an adequate budget to carry out a variety of activities.

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