

'WESTERN BALKANS'

The Alliance of Civilizations

The case, the bet, the challenge

and THE ANTIDOTES

TO ENLARGEMENT 'FATIGUE'

The Joint History Project

Greek ports: A new reality and a vision

Kerasma: A fruitful and delicious endeavor



A quarterly review on the Greek presence in SE Europe & the SE Mediterranean

The bridge

03/2006 - issue 2



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"[ἀνάπτυξις", ana-ptyxis: growth, development.]

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Editor's note

To be in the Western Balkans, or not to be: That is the question. Whether 'tis nobler in their people to suffer the slings and arrows of outrageous fortune, or to take arms against a sea of troubles, and by opposing end them?

With our apologies to Hamlet for tampering with his memorable speech, the question is: Are the people of the Western Balkans willing to forge a coalition to oppose their 'sea of troubles' and thus end them? It all depends; but, before we get into that, which people are we talking about? What do we mean by the term 'Western Balkans'? Where exactly do the Western Balkans start and where do they end? Is it only the strictly geographical area, which experienced all that unnecessary violence during the past decade and whose people are in such a dire need to understand each other and live in prosperity, or is it a much wider place, a concept rather, that transcends geographical boundaries and embraces all those who wish to shake off a past fraught with strife, intolerance, irredentism and all those dogmas that fear and insecurity cultivate in individuals and nations alike? And, if the Western Balkans are in the geography of the mind rather than in mountains and rivers, if it is an attitude, wishful thinking, a '*consummation devoutly to be wish'd*' rather than a certainty, then their boundaries are not drawn in the borders of Kosovo and Bosnia-Herzegovina, but rather beyond the shores of Lebanon, beyond the ghost city of Famagusta and the divided Nicosia, and even beyond the olive groves of the land that has been 'Promised' to so many and given to none, since the 'promise' did not come with a guarantee of peaceful coexistence.

It is now over a year since, following the terrorist attacks in London and Madrid, the prime ministers of the two countries, Tony Blair and Jose Luis Rodriguez Zapatero, spoke about the 'Alliance of Civilizations.' It sounds great, but is it for real? Could it be just a political firework, a new cosmopolitan yet meaningless 'great idea'? Or is it indeed an honest proposal which could forge in the foreseeable future the necessary international parameters that would result in a kind of effective 'protective shield' for the society of the people within an even greater United Europe?

The Alliance of Civilizations calls for solidarity, at the greatest possible international level, of all those who, regardless of race and creed, renounce the inhumanity and barbarity of terrorism. It is supposed to be an ongoing plan of action in which the first step includes the condemnation of terrorism by both the countries of the Christian West and those with Muslim majorities. Given its secular regime, strategic position and probability of joining the European Union, Turkey should obviously be one of the first participants in these talks. A constructive dialogue must and should open on what concerns not only Turkey but all the Balkan countries and should be based on the notion of an Alliance of Civilizations, which goes far beyond the subject of terrorism. There are enlightened people on both sides who are willing to work hard toward a greater understanding between different civilizations — people who do not wear historical or religious blinkers and are willing to reach a compromise for the good of all. The region can become a melting pot of civilizations. It has done it before, in the distant past, through blood and tears. Today it doesn't have to be that painful. People are less ignorant and much better informed than they were back then. Today the people of Southeast Europe are much more eager to talk things over rather than exchange blows. Within a framework of common principles they can indeed achieve an Alliance of Civilizations, first in the Western Balkans and then further afield.

Is it as feasible as it sounds though? Can countries, people, leaders and individuals really put aside their ethnic and religious differences and walk together on the road to prosperity? Could the young, when educated, manage to leave past strifes in the pages of the history books and create a genuine new order where each is judged on one's own merits and not according to prejudices and stereotypes?

If the answers to those seemingly easy questions are yes, then the Western Balkans can and will be livable again and their future will be brighter than ever. And if you are still wondering which Western Balkans we are talking about, and where we draw the border lines, you should know that we refer to the Western Balkans that live deep inside our hearts...



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WONDERFUL GREECE

MARKET



The bridge

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in S.E. Europe & the S.E. Mediterranean

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In the previous issue we incorrectly referred to Dr Panos Cavoulakos ('Hellenic Petroleum and regional cooperation,' p 78) as managing consultant at Hellenic Petroleum SA. **Dr Panos Cavoulakos is chief executive officer at Hellenic Petroleum SA.**

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A successful model of diplomacy

By Dora Bakoyannis

In international relations today, economic diplomacy has moved to center stage. Ministries of foreign affairs are increasingly being called upon to focus on issues of aid, trade, investments, multilateral economic negotiations and other components of what is referred to as 'economic diplomacy.' The Greek Ministry of Foreign Affairs has initiated a model of integrated diplomacy, dynamically responding to the challenges of today's increasingly globalized and interconnected world. We have a model in mind which we are actively promoting and which we will continue to do so with the best of our resources.

The core philosophy of our model is that the private sector is, without a doubt, the driving force of economic development. Our aim at the Ministry of Foreign Affairs is to assist businesses in their endeavors abroad. We want to provide the environment, the context, the framework and the human capital through which to support and promote the private sector in its business transactions and ventures abroad. In short, businesses have the expertise and the drive to venture out and 'do business;' our role is to help them where necessary and to support their activities through economic diplomacy.

The Greek Ministry of Foreign Affairs has traditionally regarded itself as a political ministry. This is not without reason, given that ever since its establishment as a modern state, Greece has been confronted — and remains confronted — with grave political issues. Nowadays, similar to most foreign ministries of developed economies, an

equal emphasis is being placed on economic diplomacy. The Greek Ministry of Foreign Affairs, mainly under the new Greek government, has already undertaken noteworthy efforts in that direction. We are aware that a lot remains to be done. We are in the process of introducing strategic planning, improving the services provided, offering comprehensive electronic data services and, above all, fostering a change in attitude.

The image of Greece

Greece enjoys a positive image in many of the new and fast-growing markets. Firstly, the fact that Greece is one of the few outward-looking European countries without a colonial past is a significant asset. Secondly, the Greek diaspora has always been a crucial factor in building bridges and in fostering good relations with countries around the globe. Thirdly, we possess an extensive international network of Greek embassies and consulates which, while having been creat-

ed for different reasons, are now playing an important role in economic diplomacy at the local level.

In this context, the role of Greek businesses abroad is of the utmost importance to Greece's outward-looking economic development. This is the case in the telecommunications sector, in shipping, in banking and financial institutions, as well as in construction, the food industry, tourism and other sectors. The government in general and the Ministry of Foreign Affairs in particular will be active in providing constructive support to these businesses. It is these businesses which are the pioneers of our economic development; it is these businesses which are a crucial factor in promoting the aims of our foreign policy. Indeed, the great increase in exports that has been observed of late is, in fact, their achievement. The rest of us — the Greek state and its agencies — simply facilitate their work.

It should also be remembered that, looking beyond our borders, the development of our economic diplomacy is a collective effort which involves the entire Greek government as well as various state agencies. Such agencies include the Hellenic Board of Foreign Trade, the Hellenic Center for Investment and many others which have been working hard and have yielded positive results these last two years. The Greek

Ministry of Foreign Affairs supports any Greek business which chooses to extend its activities in markets abroad. We do this because we believe that the economic flourishing of Greek businesses is of significance not only for the businessmen and women themselves, but also for their employees, as well as for Greece and the countries with which they enter into business relations.

New and old markets

Our economic diplomacy has, over these last two years especially, been very active in opening new markets. We can already cite several successful examples. The prime minister's trip to China has opened new prospects which are now being broadened and further developed. A salient example of this is the recent visit to Greece of a high-level political and commercial Chinese delegation which attended the largest and most important Greek-Chinese business forum that has ever been held in Greece. Of equal importance is the effort which is currently under way in the Middle East. The president of the republic has made successive visits to the region, as have the prime minister and many other ministers. Moreover, alongside other ministries, the Ministry of Foreign Affairs has promoted and encouraged a series of business delegations and interstate agreements.

With regard to the region 'closer to home,' as it were, namely the Balkan region, for us, the idea is to have two parallel and mutually reinforcing processes with the same ultimate aim: the complete integration of the Balkans into Europe, and the

transformation of Greece from a peripheral and geographically distant EU member state into a country which is at the center of one of the most rapidly developing and most dynamic European regions.

The Balkans, a single economic area

One of the core pillars of our foreign policy is to promote and foster peace, stability, development and prosperity in our region. A way to achieve this is by promoting the creation of a single economic area in the Balkan region. For many of the Western Balkan countries the course of EU accession is a long-term effort, the realization date of which has yet to be determined. The so-called enlargement 'fatigue' that has become apparent in the public opinion of several European countries, the creation of new states — Montenegro being the most recent example — and the grave political problems that still haunt the area require an additional effort to be made in parallel to that of EU integration. The creation of a single economic area in the Balkan region is one of the tasks which should be achieved. This will facilitate and encourage the completion of the enlargement process and, at the same time, it will yield immediate eco-

nomic results, which will benefit Greek businesses further.

How, both today and in the future, can we promote and continue to promote and encourage the formation of a single economic area in the Balkans?

Greece has a consistent and comprehensive strategy, led by the prime minister and with the Ministry of Foreign Affairs at the forefront. Our strategy includes, supports and promotes a series of national, regional and European policies. For instance, one of our fundamental policies is the creation of a free trade zone which includes both our closest and more distant Balkan neighbors and which will replace their complex bilateral agreements as they stand today. Our common objective is for this new agreement to be concluded within 2006. It will include provisions based on European standards for the harmonization of rules and regulations, the settling of disputes, the economic transactions regarding services, the protection of intellectual property etc.

The major transport corridors

Our second fundamental aim is to promote the establishment of major transport corridors linking the countries of the region. European and international organizations are bearing the main load of this effort and Greece is actively encouraging them in this endeavor. In parallel, Greece is financially supporting such efforts through the Hellenic

frontlines





which has finally been signed after 13 years of negotiations, as well as the beginning of the construction of the natural gas pipeline from Baku (Azerbaijan) to Komotini (Greece) via Karacabey (Turkey), and its subsequent extension to Italy via an underwater link.

Plan for the Reconstruction of the Balkans (HiPERB), which is financing sections of Corridor X, a road link between Greece and the rest of the European Union which is of vital importance. Greece is also prepared to do the same in the case of Corridor IV, the vertical corridor of the Eastern Balkans. Moreover, as was agreed between the ministers of transport at the recent SEECP summit, we encourage similar efforts with railway transportation.

The energy axes

Greece's third aim is the creation of a single energy market. This is an effort which is actively promoted by both the Greek Ministry for Development and the Ministry of Foreign Affairs. To this end, the Energy Charter between the 25 members of the EU and the nine neighboring countries of our region was signed last October. Based on this, these nine countries harmonize their national legislation on energy with that currently in effect within the European Union.

Our fourth fundamental aim is the creation of great energy axes which extend beyond the Balkans, thereby connecting the wider region. I would like to note here the linking of the Greek electricity network with the Turkish (2006) and the Bulgarian ones. Of equal importance is the Russian-Bulgarian-Greek political agreement for the construction of the Burgas-Alexandroupolis pipeline,

Development aid

Greece's fifth aim is to promote policies which will unify the Balkan economic area in multiple sectors. This is promoted through development aid which is being administered by the Ministry of Foreign Affairs. An example of this is the high-speed Internet linking of various research and education institutions of the Balkans, through HiPERB, which will also facilitate the development of high-speed Internet connections for the wider region. At the same time, we are encouraging our businesses to invest in the region by providing them with incentives through HiPERB which still has considerable potential in the countries of the Western Balkans.

A successful model of diplomacy

For us in today's world, successful diplomacy can only be achieved through a model of integrated diplomacy which combines the political and economic dimensions of our international relations. A successful economic diplomacy is certainly no simple task. Ministries of foreign affairs must both readjust their modus operandi and expand their institutional capabilities in order to deal with the interconnected economic and sociopolitical challenges of today as well as those of tomorrow. We must continue to work toward finding ways to facilitate business, for that holds the key for an economically prosperous future for our region. We may at times experience setbacks or difficulties, yet it is vital that we remember that we must constantly adapt to an ever-changing global reality. We must also remember that the advantages both at home and abroad can be impressive and, hence, are worth the effort.



Dora Bakoyannis is the Greek minister for foreign affairs.

Part of this article was delivered by Minister Bakoyannis as a speech to the Exporters' Association of Northern Greece (SEVE), May 31, 2006.

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From Leipzig to Athens

By Peggy Papakosta

The prospect of visiting Eastern Euro-pe for the very first time was very exciting. A good friend bought one of those humongous, very fashionable sport utility vehicles of German make and we thought it would be an excellent idea to drive it down to Greece ourselves — take a break, see new places, have a change of scenery.

From Leipzig to Athens, we figured we would cover 2,270 kilometers in 24 hours and 28 minutes. According to the expert advice of the route plan, 1,607 kilometers of the covered distance and 15 hours and 39 minutes of the time spent would be on motorways. Theoretically, with a little over six hours of driving a day, at an average speed of 100 km/h, four days would be enough. Petrol was calculated at 136.22 euros and the road tax at just 20.40 euros without counting Serbia and Montenegro, since the referendum that decided its division had not taken place yet, and the Former Yugoslav Republic of Macedonia (FYROM), as there was no available information. But, hey, how much could it be? Theoretically, on Monday morning we would be at work: a little tired, but in that sweet way of having tasted new things, of having lived life, theoretically...

Traveling through seven countries, passing close to 21 cities, including six capitals, in approximately 100 hours sounded like a one-of-a-kind adventure

but not a feat. Or was it?

Only Germany and Greece are part of the European Monetary Union. Nevertheless we — wrongly — assumed that the European single currency was an acceptable transaction medium all over Europe. A word of advice: It is not. In our naivety, we were as proud and confident of the euro as American tourists were of the US dollar in the 1980s.

Five of those countries are EU member-states (Germany, the Czech Republic, Slovakia, Hungary and Greece), one is a candidate country (FYROM), and the people of Serbia and Montenegro are friendly, right?

We would pass cities with names such as Kiskunfelegyhaza in Hungary or Brno in Slovakia, which sounded more exotic to me than St Kitts and Nevis in the Caribbean. We could visit Prague, Bratislava, Budapest, Belgrade, Skopje: five capital cities, which are, if not the countries' souls, then their brains at least.

We flew into Germany and the first night was spent in Leipzig, in former East Germany, now a part of a unified



Germany and the European Union and not much different from any other town in any West European state. Organized procedures, detailed directions, green parks, customer-oriented services, cobblestone pathways, paved streets, honest everyday dealings and, on top of that, an unusual bonus for that part of the world: sunny weather, high temperatures and long days. After a 15-minute taxi ride to the car depot, half an hour at the Driver and Vehicle License Issuing Office to get the temporary license plates valid for 15 days, and handing over 135 euros, our luxurious mode of transportation was roaring and ready to go.

The 'spedition' factor

Leaving Germany was easy and entering the Czech Republic is not a challenge, especially if, like us, one chooses to ignore the murmuring of the officials at customs, who warned us in — what sounded to me like — good Czech but unintelligible English about 'spedition.' We assumed it had something to do with speed. We were grateful that even

though they were not happy with our 'spedition,' they did let us go. Although reluctantly.

We did not give it a second thought as we were too amazed by the sight of the first Czech village right after the German border. Along both sides of the road there were women dressed in almost nonexistent undergarments, standing or sitting or dancing and, generally, working in bright daylight. A philosophical discussion on ethics and poverty occupied most of our time during the rest of that part of the trip. And then we reached Prague.

Beautiful, warm, sunbathing beside the Vltava River and home to 1.5 million residents and an equal number of tourists, as it seemed to me. There is the theory that civility depends on the surroundings. If so, it explains the friendliness of the Czech people. Art-work is not seen in windows but in the streets, life-size dynamic human forms of enormous beauty just standing there, old and inspiring architecture, castles and bridges. We breathed in the presence of culture and the next day we were ready for Slovakia.

At the Czech border they were uneasy about letting us go and, still not understanding why, we silently promised that we would miss them too. Of course, that is not what they meant. At the Slovakian border we were asked to park somewhere and wait. We parked and waited... After an hour we went up to an officer and asked him what we were waiting for. Were our papers in order? Were our passports valid? He muttered something about 'spedition,' in German, I



think. We agreed. 'Spedition,' that is exactly what we wanted too — to speed things up and be on our way as soon as possible. We had wasted enough time as it was. He disagreed impatiently. He kept uttering the word in a louder and louder voice.

After another hour of tolerating our bewilderment, he decided not to tolerate it anymore. 'Go!' he said in an angry voice. 'Gladly,' we whispered, when he couldn't hear us. The trip through Slovakia was short and so were our tempers. If we could not fight Slovaks, then we would fight each other. So we did. Leaving Slovakia was as hard as entering the country. But by then we knew that it was not because they would miss us. 'Something is rotten in the state of Denmark.' Or was it Denmark? We headed straight to Hungary.

Hungary and 'spedition'

At the Hungarian border 'spedition' was an absolute requirement. We had to wait with the trucks. The queue went on for miles. It did not matter that we had no cargo. It did not matter that we only had two duffle bags with our per-

sonal belongings. We paid 50 euros to a man who, we thought, volunteered to help us and would give the 'fee' to the Hungarian authorities. We waited for four hours for some piece of paper to be issued. They spoke no English. We spoke no German. We then waited another hour in line with the rest of the trucks for the privilege of entering a very unfriendly country.

We had silently agreed that Budapest had just been crossed off our itinerary. It did not matter if we had to drive the whole night. We were determined not to spend the night or another cent in that country. Leaving Hungary was an equally difficult task. But now we knew. The more we paid, the less time we spent waiting. But we couldn't skip the long queues, cash was running low and there wasn't an ATM in sight.

A Turkish man who was driving the truck that remained at a standstill just in front of us in the endless

line offered us green hot chili peppers of larger-than-usual size and some small crunchy green fruit. Munching on the peppers and strange fruit and looking at the majestic Hungarian-Serbian sunset, while being depleted of cash, time and patience with no just cause was surrealistic. Serbia was close. And so was Montenegro, at least before the recent referendum.

The Serbian border

We got to the Serbian border late at night along with the other truckers. We were now becoming part of the truck culture. I never dreamed that I could have experienced this, but I did. Truckdrivers live in their own universe, with their own rules, code of ethics and a reasoning all of their own. It comes from the basic need to survive in a hostile environment.

There, we found some Greeks — there is always one, everywhere — and we described our ordeal to them. They did not say much about it, but gave us as much good advice as they could and the oldest prepared us an extra-hot coffee with little flavor to soothe our troubles. However, I am pretty sure that what they were thinking was that we would not reach Athens anytime soon. If we did, we would be poorer by a few thousand euros.

There were about 20 Serbian 'spedition' shops lined up, one next to the other. They were small decrepit shacks with cracked walls and greedy people standing outside waiting for the next victim in need. The mind

traveled to the weird Czech village at the border. There is a significant difference between exploiting and being exploited.

At the Serbian border, I learned that every piece of paper costs about 70 euros and there was more than one needed. Stamps on official papers cost about 5 euros, otherwise the lady would stand up from her desk and retire to the lounge to smoke for about two hours, letting you wait. Parking is mandatory and it costs 30 euros. 'We accept VISA and MASTERCARD.' A leaflet issued by the government concerning bribery and corruption caught my eye.

After some hours and around 100 euros, we were exhausted, hungry, dirty, disappointed and free to go. We were warned by our newly found trucker friends that we needed to watch our speed. The speed limit is 80 km/h. If you exceed it by even 1 km/h, you are stopped by the traffic police and have to bribe them if you want to avoid a fine. We noticed at least 10 police cars along the way. Even though we traveled at a speed of no more than 79 km/h, some did stop us. One complained about a missing sticker, another about the tires, but generally they had a hard time finding a violation. In the end they just asked

for some money to let us go with no hassle. They were not upset or unfriendly. We were.

When we reached Belgrade, even though we had almost no cash, we treated ourselves to a very nice room at the Hyatt. We didn't mind. We deserved it. The next day we crossed the Serbian borders after having waited and paid some more euros. At the borders of FYROM we knew the drill. We paid the bribe and left quickly. As we were approaching the Greek border our hearts jumped. We were home. The customs officer started preparing our papers and then, from the window, we saw a single small building with the sign 'Spedition' hanging outside. The officer who saw the blood draining from our faces told us with a quick voice and a knowing smile not to worry about that.

In the Corruption Perceptions Index 2005 of Transparency International, Hungary is in 40th place, the Czech Republic 47th, Slovakia 49th, Serbia 97th and FYROM 103rd out of 158 countries. Just recently, I decided to look up the word 'spedition.' In German, it means 'forwarding business.' There is a better way and these people deserve it.



Peggy Papakosta is a political scientist and special adviser to the Greek minister of development.

Greece: The gateway to a fast-developing region

Thanks to its key geographic location, Greece links East with West, the Mediterranean with the Balkans, and serves as the ideal location for investment and trade.



THE LEADING POSITION IN A REGION OF 140 MILLION PEOPLE

- ❑ Greece is at the center of a rapidly developing region and is the only country in SE Europe that is a member of both the EU and the eurozone, providing foreign investors with the monetary and exchange rate stability they desire.
- ❑ The Greek economy, during the first quarter of 2006, experienced a 4.1 percent growth rate, one of the highest rates in the EU and the eurozone.
- ❑ Greece has achieved and continues to maintain the highest per capita income in one of the fastest-growing regions in Europe.
- ❑ Greece offers a stable political and financial environment as well as some of the most advanced infrastructure and sophisticated work forces in the region.

THE BUSINESS HUB

- ❑ Greece serves as a business hub for some of the biggest multinational companies. Realizing its comparative advantages, an increasing number of business giants are establishing in Greece their regional headquarters for Central and Eastern Europe, the Mediterranean and the Middle East.
- ❑ Greece is also the leading foreign investor in the Balkans. Greek foreign direct investment continues to contribute to the development and the stability of the region with a dynamic network of Greek companies doing business in the Balkans and the Eastern Mediterranean, in a multitude of sectors ranging from manufacturing to services. Greek investments in SE Europe over the last decade have exceeded 12 billion euros. Greece is currently the leading foreign investor in Albania and FYROM and ranks among the first three leading foreign investors in Bulgaria, Romania and Serbia.

THE BANKING HUB

- ❑ Greek banks operate, directly or through their subsidiaries, a network of over 1,000 branches across the region, employing 16,000 people and accounting for approximately 15 percent of the market share.
- ❑ Total assets in the banking sector in the five Balkan countries where Greek banks were present at the end of 2005 (Albania, Bulgaria, FYROM, Romania, Serbia-Montenegro) amounted to 66 billion euros (53 percent of their GDP) while bank assets in Greece amounted to 266 billion euros, equaling 156 percent of the Greek GDP.

Academics across

By Vassilis Nitsiakos

During the last four years, academics

and students from the universities of Western Macedonia (Florina, Greece), St Cyril and Methodius (Skopje, FYROM), Macedonia (Thessaloniki), Ioannina (Greece), Ljubljana, Belgrade, Tirana and Sofia as well as Panteion University in Athens have established the Border Crossings Network. The network aims to develop cross-border cooperation in the field of Balkan studies (with emphasis on the social sciences and humanities) by regularly organizing student conferences and other forms of academic exchanges.

Student cooperation is an important missing element in the process of cross-border understanding, interethnic tolerance and economic and political prosperity. It should be noted that cooperation between the higher education institutions of the Western Balkans is not yet possible under the provisions of the European Union's Erasmus program. Thus, the Border Crossings Network is the only chance for students from these countries to meet one another in an organized manner.

Conferences

So far, the network has organized four conferences in Skopje (February 2003), Florina (June 2004), Ioannina (May 2005) and Ohrid (May 2006), with a total number of participants ex-

ceeding 350 students and staff members coming from five Balkan countries. These conferences have been funded by the University of Ioannina, the Aristotle University of Thessaloniki, the Municipality of Florina, the Municipality of Ioannina, the Local Union of Municipalities and Communities of the Prefecture of Ioannina, and some private companies engaged in cross-border activities.

The conference structure is based on round tables with a common agenda where students present their papers in English. Academics are involved in the organization of the conferences as well as the opening and closing lectures.

The conference activities counter fears, mistrust and prejudices. Students come out of these activities with a better understanding of their common heritage and benefits, and how to use it to the advantage of the region through cross-border cooperation. In addition, conferences build capacity within the participating institutions of higher education and enable further common research activities.

The Konitsa Summer School

During the 2005 conference at the University of Ioannina, the idea came up of establishing

a new institution within the network but with a degree of autonomy, since it was to be run by the University of Ioannina in cooperation with the Municipality of Konitsa, a town situated near the Greek-Albanian border, 60 kilometers from the city of Ioannina, Greece. Thus the Konitsa Summer School in Anthropology, Ethnography and Comparative Folklore of the Balkans was created, which begins this summer, lasting from July 30 until August 4.

The Summer School comprises the following thematic fields: 'Anthropological Theory and the Understanding of the Balkans,' 'Ethnography of Border Regions,' 'Fieldwork: Epistemological, Methodological and Ethical Aspects,' and 'Comparative Folklore: Aspects of Culture in a Comparative Perspective.'

More specifically, nine courses are to be offered by a large number of academics representing a number of Balkan and European universities:

- 'Anthropological Theory and the Understanding of the Balkans' by Dr Georgios Angelopoulos, Balkan, Slavic and Oriental Studies Department, University of Macedonia, Thessaloniki, and Dr Deema Kaneff, Max Planck Institute for Social Anthropology, Halle;

the borders

- *'Yugoslavia's Dissolution and New Post-Socialist Concepts of New Balkan States'* by Dr Ljupco Risteski, Ethnology Department, St Cyril and Methodius University, Skopje;
- *'Nations, Migrations and the Construction of Ethnic Groups: Rituals, Narratives, Discourses and Material Culture'* by Dr Giorgos Tsimouris, Social Anthropology Department, Panteion University, Athens, and Dr Valia Kravva, Technological Institute of Thessaloniki;
- *'Economic Anthropology and Social Transformations in Southeastern Europe'* by Dr Aliki Angelidou, Social Anthropology Department, Panteion University, Athens, and Dr Sophie Chevalier, Sociology and Anthropology Department, University of Franche-Comte, Besancon;
- *'Borders and Identities'* by Dr Evgenia Blagoeva and Dr Rossitza Guentcheva, Anthropology Department, New Bulgarian University, Sofia;
- *'Ethnographic Research in Border Areas: Field Practice on Both Sides of the Greek-Albanian Border'* by Professor Vassilis Nitsiakos, History and Archaeology Department, University of Ioannina, Dr Vassilis Dalkavoukis, History and Ethnology Department, Democritus Univer-

sity of Thrace, and Mr Kostas Mantzos, History and Archaeology Department, University of Ioannina;

- *'Fieldwork Methodology: Qualitative and Applied Research'* by Dr Bojan Zikic and Mrs Jana Bacevic, Ethnology and Anthropology Department, Faculty of Philosophy, University of Belgrade;
- *'Music and Dance in the Balkans: Culture, Identity, and Power'* by Dr Panagiotis Panopoulos, Social Anthropology and History Department, University of the Aegean, Mytilene, and Dr Ioannis Manos, Department of Balkan Studies, University of Western Macedonia, Florina; and
- *'Ethnography of East European Socialism'* by Dr Ilia Iliev, Ethnology Department, University of Sofia.

The following lectures were lined up for this summer:

- Professor Maurice Godelier: *'Aspects of Transition in the Post-Socialist Societies'*;
- Professor Jane Cowan: *'The League of Nations Minorities Treaties Supervision (1919-1933) as Site of Encounter: Anthropological Reflections on International Bureaucrats, States, Minorities and Advocates Negotiating Petitions and Projects in Relation to Macedonia'*;

- Professor Dimitra Gefou-Madianou: *'Culture and Ethnography'*;
- Associate Professor Eftichia Voutira: *'Cultural Construction of Refugees in Greece'*;
- Associate Professor Rajko Mursic: *'Am-bivalences of Identification and Alterity: From Laibach to Sutka'*;
- Associate Professor Emilia Themopoulou: *'The Transition from the Multiethnic Ottoman Empire to the Nation-states'*; and Assistant Professor Fotini Tsimbiri-dou: *'Gender, Ethnography and Islam.'*

The details

Apart from the academic part of the Summer School, the organizers intend to allow students to come into contact with local society and participate in local social and cultural events not only in the border area of Konitsa, but also on the other side of the border, in the area of Permet, Albania. Accommodation is provided by the Municipality of Konitsa with the financial support of the Local Union of Municipalities and Communities of the Prefecture of Ioannina. The number of students accepted to attend the courses is about 100, from countries all over the world. Also worth mentioning is the fact that all lecturers contribute to the Summer School voluntarily.

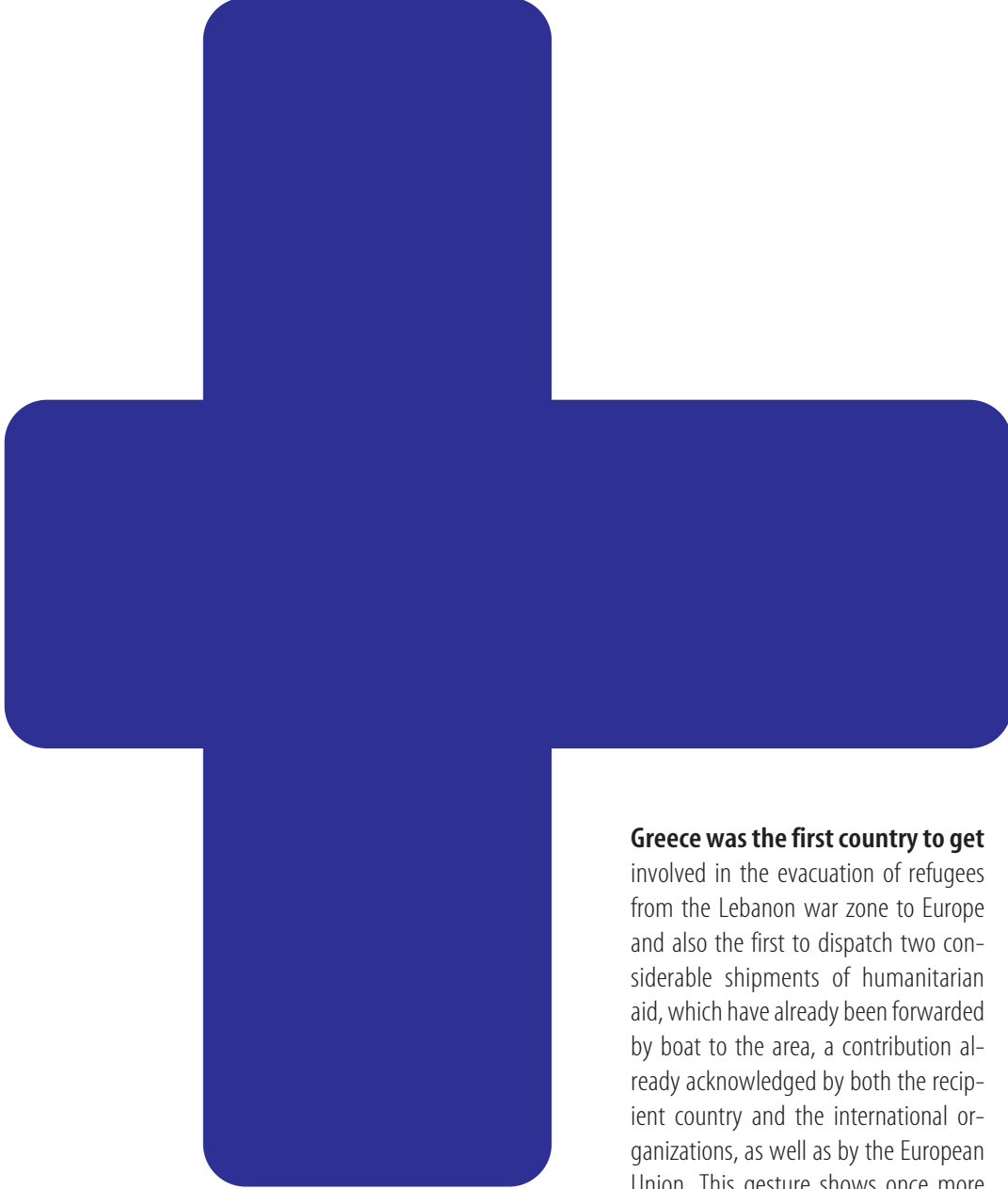
Vassilis Nitsiakos is a professor at the University of Ioannina, Greece.

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frontlines





Greece was the first country to get

involved in the evacuation of refugees from the Lebanon war zone to Europe and also the first to dispatch two considerable shipments of humanitarian aid, which have already been forwarded by boat to the area, a contribution already acknowledged by both the recipient country and the international organizations, as well as by the European Union. This gesture shows once more (following the aid dispatched to the areas hit by the tsunami and to Pakistan) that Greece plays a leading role in international issues of humanitarian aid and development cooperation.

On the initiative of the Ministry of Foreign Affairs of Greece, which responded immediately to the official re-

quest of the Lebanese government, the collection of the emergency humanitarian aid is being organized and executed through the Hellenic Aid Department of the ministry, in collaboration with the Ministry of Health and Social Solidarity, the Ministry of Defense, the General Secretariat for Civil Protection, the Municipality of Athens, and also specialized non-governmental organizations such as the Red Cross, Doctors of the World and Doctors of the Heart.

More specifically:

On Friday, July 21, at 11.45, there arrived in Beirut 22.5 tons of humanitarian aid provided by Greece to the suffering people of Lebanon. This first shipment comprised medicines, food, tents and blankets and was forwarded to Beirut on board the tank carrier Icaria — the Greek vessel being the

HELLENIC AID

Mission of humanitarian



Force, in coordination with the Hellenic Aid Department of the Greek Ministry of Foreign Affairs, left Elefsis airport for Larnaca, carrying 13.5 tons of additional humanitarian aid offered by the Hellenic Armed Forces and the Greek Red Cross. This shipment comprised 500 blankets, tents and food.

Finally, on Monday, July 31, a fifth C-130 plane of the Hellenic Air Force departed carrying a shipment of 10.5 tons of humanitarian aid to Lebanon, which had been collected by the Greek ministries of Health and of Defense and comprised, following the official request of the Lebanese government to the European Union, medicines (antibiotics, anti-inflammatories, sedatives and disposable medico-pharmaceutical material) and tents.

It should be noted that, in order to forward additional humanitarian aid and rehabilitation and reconstruction assistance to Lebanon, Hellenic Aid is constantly in contact with the civil society and continues to coordinate the non-governmental organizations and the various departments of the government to this end.

first to dock in the harbor of Beirut in order to unload supplies.

On Saturday, July 22, at 10.30, a second Greek ship — the tank carrier Rhodes — docked at Beirut harbor, carrying 14 tons of humanitarian aid.

This second shipment of humanitarian aid comprised medicines (23,000 shots of

antibiotics), 500 blankets, 100 tents (each accommodating six persons), as well as 3 tons of humanitarian aid provided by the Cypriot Ministry of Health and Doctors of the World-Cyprus.

The total value of the abovementioned aid, which had been dispatched to Larnaca airport on three C-130 plane flights, comes to 1,158,191 euros.

Also, at noon on Saturday, July 29, another C-130 plane of the Hellenic Air

aid to Lebanon

Kerasma: A fruitful and delicious

By Anastasia Garyfallou

The traditional Greek diet has marked

a history spanning several centuries, particularly characterized by products that are based on the purity and unique quality of the Greek soil. In the Greek nutritional tradition, the delicious result is harmoniously combined with its highly nutritional value. Dozens of scientific studies have proven the positive influence that the balanced Greek diet has on health, beauty and longevity.

Furthermore, the dietary culture of the Greeks has traditionally added an extroverted social dimension to meals, by combining satisfaction of the taste buds with recreation and communication, preserving to this day a reminiscence of the ancient symposiums.

However, Greek cuisine and the dietary culture of the country, despite their profusion, were not well known outside Greece until recently. The particular characteristics of Greek nutrition had not been satisfactorily associated with the Mediterranean diet, in spite of the unquestionable historical and geographical bonds and the fact that the Greek diet holds the 'paternity rights' to many Mediterranean culinary creations.

The strategy of Kerasma

Our organization, the Hellenic Foreign Trade Board (HEPO), under the aegis of the Min-

istry of Economy and Finance and in close collaboration with the food and beverages sector associations, has undertaken the task of promoting this lesser-known aspect of Greece by creating a pioneering initiative for Greek standards, the idea behind the Kerasma program.

After attending its promotion on several food shows worldwide, I was pleased to realize that, original in concept, complete in planning and powerful in promotion, Kerasma has impressed the markets in which it has been presented.

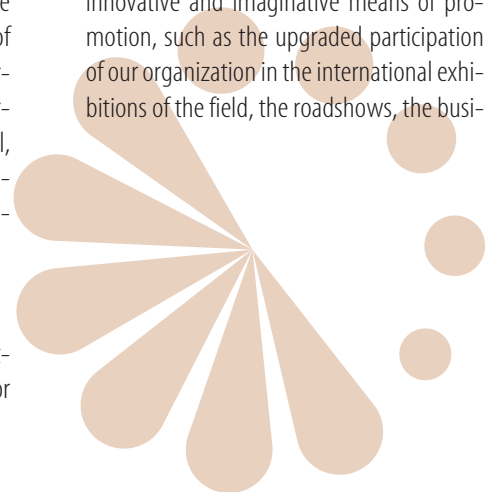
The Kerasma program is based on the meaning of the Greek word *kerasma*, which incorporates the idea of taste, offering and communication, as well as sharing and contributing. Kerasma comprises a complete strategy, which includes the promotion of the unique identity of Greek food and beverages by promoting products that are characteristic of the country, such as olive oil, olives, honey, feta and other cheeses, seafood, fruit, wine, mastic, saffron etc, but also unique recipes and suggestions.

Greek gastronomy

Kerasma is not just another way of promoting products; it has become the ambassador

of qualitative Greek food, wine and beverages to promote the diversity, variety, nutritional value, well-being, harmonious combination of ingredients, archetypal tastes and experiences that its enjoyment has to offer. In order to achieve its goals, Kerasma set the top potential of Greek gastronomy into motion by creating the team of Kerasma chefs, headed by the Michelin star-awarded Lefteris Lazarou, as well as the wine-stewarding team, the sommeliers, headed by International Association of Sommeliers (ASI) President Costas Toulountzis. These leading chefs conceived pioneering preparations based on traditional recipes using authentic Greek products such as olives, olive oil, feta cheese, yogurt, mastic, honey, saffron, wine, fresh fruit and vegetables, fish and so on.

Kerasma is an enterprise in constant motion. It travels and introduces itself to the world by using not only traditional but also innovative and imaginative means of promotion, such as the upgraded participation of our organization in the international exhibitions of the field, the roadshows, the busi-



endeavor

ness missions, the site www.kerasma.com, the newsletter Kerasma News, and Greek Gourmet Traveler — the new quarterly magazine for the promotion of Greek food, wine and beverages internationally. At the same time, a record of Greek Kerasma recipes, accompanied by photographs, has been compiled so that at any given moment professional chefs have available material to inspire them creatively while comprising an authentic, exceptional Greek proposal.

Our endeavors in promoting the Kerasma enterprise are targeted at the promotion and recognition of selected export food and drinks, the assimilation of all the Greek proposals with the Mediterranean diet and the strengthening of their competitiveness as opposed to the alternative proposals, such as those of France, Italy and, recently, Spain.

Activities in target markets

The first six months of 2006 were exceptionally fruitful and active for Kerasma, which set in motion a series of dynamic activities to promote Greek products in all the target markets. The most significant event of the first trimester was the organization of the 1st Worldwide Convention of Greek Gastronomy and the Food, Wine and Beverage

Industry, which took place in Athens last March and was a remarkable success. More than 100 leading representatives of international food and beverage chains, distribution networks and distinguished journalists in the field became acquainted with, tasted, and were impressed by the quality Greek products. The first results of this convention are already visible, since supermarket networks abroad have made deals to promote Greek products.

We combined this event with a series of other activities during the first six months of 2006, such as:

- The participation of Kerasma at the ITB Tourist Exhibition in Berlin from March 8-11, where it prepared the formal dinner during the opening ceremony on March 8, presenting exceptional Greek fare to 3,000 guests.
- Participation in the International Trade Fair, Wines and Spirits ProWein in Dusseldorf, from March 26-28. The team of

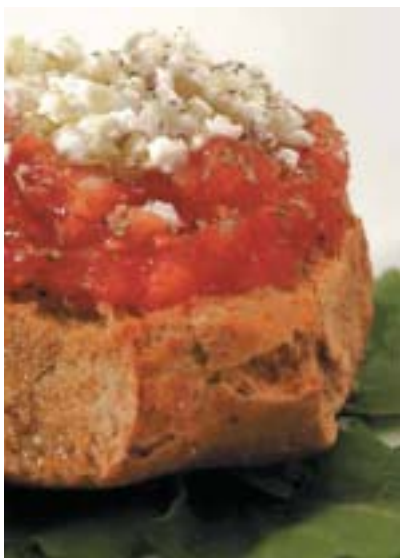
Kerasma wine stewards combined their proposals with the team of Kerasma chefs and gave the guests the opportunity to savor wine of unrivaled quality from varieties that thrive in our country together with exceptional Greek culinary creations. They even served Greek wine as an accompaniment to traditional German cooking.

- Participation in the London International Wine and Spirits Fair from May 16-18. With the support of the Kerasma sommeliers, a wine bar was created, aiming at the comprehensive promotion of the Greek wineries.



frontlines





- Attendance of the Greek Gastronomy Forum in Dubai on May 23, giving the Greek business delegates the opportunity to visit the United Arab Emirates (Qatar, Dubai, Bahrain and Oman).
- For all of May, the presence of the team of Greek chefs and the Kerasma philosophy at the famous Nikko Tokyo Hotel. The Greek chefs collaborated with their Japanese counterparts at the hotel restaurant as well as other high-standard local restaurants that were interested in the exceptional Greek Mediterranean diet.

Roland Garros

Another activity of Kerasma was its promotion during the international Roland Garros tennis tournament in Paris. This significant event included, among other promotions of Greek gastronomical products, hospitality of the purchasing managers of large procurement centers, distribution networks, representatives, food journalists and shapers of public opinion in the field of nu-



trition. Greek food and wine were offered at the most important event of the occasion, which was titled 'White Night,' a party that gathered the athletes and the largest firms in the athletic field.

In the region of Southeast Europe, we presented Kerasma during four business missions, in Bulgaria and Romania in March 2006, in Romania again in April, and in Bulgaria in June. Thanks to our proximity and familiarity with the local products, we were accepted with great enthusiasm.

The reception that greeted the above-mentioned activities was more than enthusiastic, since it is known that markets abroad are constantly searching for new, quality products, and in this respect are open to proposals that are fresh, innovative and original in concept and implementation.

A Greek brand name

Greece has little to gain by trying to adopt a foreign model as far as the field of food and beverages is concerned. There will be much greater benefits if Greece creates its own model, adapted to its size and distinctiveness by simply following the positive appli-

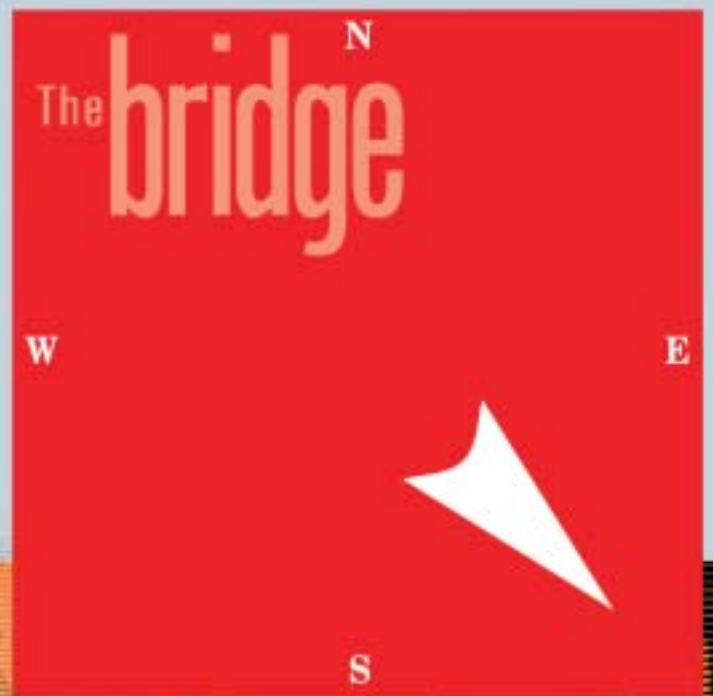


cations of other countries, especially in the field of communication. Kerasma follows its basic philosophy: It does not merely promote Greek products, but aims to create a total Greek brand name, from which all enterprises, large, small and medium, will benefit. A brand based on creating and harmoniously combining taste, quality, healthfulness and a way of life. In this way, the collaborating businesses are no longer called upon to sell only products of quality to consumers, but also values: values that are connected to food in the Greek culture, nutritional values and the value of sharing, recreation and human contact that can be found around a Greek table.



Anastasia Garyfallou is general manager of HEPO.

**HEPO website: www.hepo.gr
Kerasma website: www.kerasma.gr**



bridge

dialogue

Clash **or** alliance of civilizations?

By Ahmet S. Ilhan

In 1993, the political scientist Samuel P. Huntington published his well-known and much quoted article 'The Clash of Civilizations,' in which he presented the hypothesis that the main source of conflicts in the new world will be cultural; according to Huntington, religious and other cultural differences will predominate in modern conflicts.

Huntington 'predicted' in a way the development of different conflicts based on cultural divisions. The aim of this article is not to argue if Huntington was right or not in his hypothesis; instead, my main objective is to highlight the ways that states and people could use culture and religion as a means to avoid on the one hand interethnic conflicts and to promote on the other intercultural relations. Nowadays, what is at stake is not a possible 'clash of civilizations;' instead, what is at stake is a possible 'alliance of civilizations.'

It is common sense that a large number of the recent conflicts in different parts of the world are presented essentially as cultural or religious. Terrorism has been linked with the development of fundamentalist religious groupings. However, extremist and fundamentalist groupings, which exist all over the world and develop within our societies, should not influence public opinion in a way according to which some cultures or religions will be viewed as 'disastrous' while others will be seen as 'helpful' to humanity. Put simply, things such as 'bad' and 'good' religions or cultures do not exist.

Intercultural dialogue

Different organizations make great efforts to present the positive effects that cultural differences could bring to people's lives. It

is noticeable that in October 2006 the European Commission adopted the proposal for a Decision of the European Parliament and the European Council to declare 2008 the 'European Year of Intercultural Dialogue.'

The above and other similar initiatives in fact reflect the need and the will of people to support values such as peace, tolerance, anti-racism, intercultural dialogue, respect of human and minority rights etc. The subject of this issue is the 'Alliance of Civilizations.' Some useful questions that could be raised in relation to this topic are: To what extent could the alliance of civilizations secure stability and peace in our societies? Is it possible to surpass ethnic and national disputes produced on the basis of ethnic, cultural and religious differences? What is the role of the political and religious leadership in order to prevent racist phenomena and conflicts?

I argue that the very notion of the term 'alliance' in the expression 'alliance of civilizations' in fact implies positive notions such as human dignity, equality, non-discrimination, solidarity, respect of human

Clash or alliance

and minority rights etc. As I have already stated above, there are no 'bad' and 'good' cultures or religions. Different religions base their discourse/homily on love among people without any kind of discrimination. In this context **people should understand that religious differences as well as other kinds of ethnic and cultural differences should not divide people; instead, they should unite them under the umbrella of the common well-being.** Throughout history, we acknowledge that in cases where religion was used as a means to divide people it caused great conflicts and hatred among people. However, I stand by my position that religions are not and above all should not be used as sources of conflicts but as sources of unity.

Multiculturalism

The cultural, religious and ethnic differences that exist within and between different populations guarantee the richness

and the multiculturalism of our societies. It depends both on the political and religious leadership as well as on the people to secure this diversity. The role of minorities is equally important in reinforcing this dialogue. Due to their ethnic, cultural and other differences, different minorities are traditionally found in between the societies in which they act and interact. The existence of minorities in different parts of the world should be undoubtedly viewed as a strategic advantage and a chance to use cultural and ethnic diversities as a starting point to develop the dialogue between different religions and cultures. In this dialogue, values such as respect of human and minority rights should predominate. In the end, how can we secure our rights if we have not secured first the rights of the 'other' with whom we live? What I am implying is that this is a two-way process according to which our rights are derived from the rights of the 'others.'

Bridges of friendship

As a member of a minority population myself, I feel very lucky to have grown up and been able to experience what it is like to live within two diverse cultural environments. It is important to acknowledge the differences between population groups as points of unity and not of separation. Minorities should be regarded and used as 'bridges of friendship' between nation-

states as well as between national populations. People of minority and majority populations, which coexist in different societies, should work for the common good and interact in different sectors such as the financial, the political, the cultural etc.

Our societies should be viewed as multicultural and multiethnic neighborhoods. **Nowadays, every person should understand that he is not only a citizen of a particular nation-state but, above all, he is a citizen of the world.** The heritage that we have received from our ancestors is equally important to the heritage that we will leave to the next generations. I am sure that the heritage we all wish to leave to our children will be permeated by ideals of friendship and tolerance and not by those of division and hatred.

Ahmet S. Ilhan is a lawyer, member of the Greek Parliament for Rodopi, New Democracy Party.

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www.ilhanahmet.com

dialogue



Let us break the chain of fear



Fear is probably the most primal feel-

ing in human nature. Fear has existed since the beginning of humankind. According to the Georgios Babiniotis dictionary, fear is 'the exceptionally unpleasant feeling that overcomes someone in the presence or thought of real or hypothetical danger.'

The problem, however, is not the existence of fear; the problem lies in prolonged and constant fear. Once we surrender to this feeling, even if at times is hypothetical, it condemns us to inertia and introversion.

An even greater problem for human societies is when fear moves into politics — when contemplating whether to choose between opportunities and risks we choose to take only risks — or when fear builds walls which block communication and cooperation between people.

Fear and the Cyprus issue

Fear, as described above, is easily recognized in Cyprus.

The whole history of the Cyprus problem is built on notions of fear, prejudice and distrust.

I am indicatively referring to the argument brought up before the 2004 referendum and specifically to the fear that the Turkish side would not stick to its commitments. This fear is justifiable when one takes into consideration the Turkish invasion and the subsequent occupation of part of the island, which has continued since that date.

However, the above concern had not taken into account the recent international changes and, most importantly, the fact that Cyprus is now a member of the European Union, this Union that Turkey aspires to join.

For years Rauf Denktaş has been exploiting the Turkish Cypriots' fears vis-à-vis the Greek Cypriots. Fear, therefore, is mutually common among both sides. Greek Cypriots are afraid of Turkish Cypriots and vice versa, regardless of which side fears the most. This was clearly proven in a recent study undertaken by a specialist team at the University of Cyprus.

If we are going to unite our country based on a federal solution, then we must break this chain of fear.

Justifiably, we believe that when we take into account the fact that Cyprus is now a member of the European Union we can, both Greek Cypriots and Turkish Cypriots, overcome this fear and open the way to mutual cooperation and trust.

Fear and the EU

The challenge of Europe and the challenge of modernization and of adaptability to the new international environment is a challenge to fight fear, inertia and stagnation.

The European Union itself is an example of overcoming fear and of developing a new era of peace, security and cooperation. The European framework offers us the opportunity to overcome any problems or deadlocks that may exist between the two communities. After all, the European Union itself is an

By Dr George Vassiliou

example of a continuous process of addressing and solving such problems. Deadlocks that have lasted for years and appeared insoluble are finally solved by arriving at the necessary compromises. There is a great need for reaching win-win solutions.

Let us therefore stop demonizing various exogenous factors and start taking initiatives.

To overcome fear and rebuild a united, modern and prosperous country, we need to try to understand each other, to communicate and identify mutual benefits.

To achieve this, there is a great need for an inspired leadership with vision and strategy. As Assistant Secretary-General Kieran Predergast correctly pointed out in his report last year, 'leaders must not hide behind the people, but must guide the people.'

To exterminate fear we need initiatives and action. Prolonged inertia increases and cements fear and leads to new crises.

Hope and vision must replace fear.

Let us all unite around a strategy and plan of action aiming to minimize risks and manage fear effectively, so as to build a united Cyprus in a united Europe. This will be the greatest contribution of Cyprus to the unification of Europe.

Dr George Vassiliou is former president of the Republic of Cyprus (1988-1993).

Fear and politics

By Niyazi Kizilyurek

Amos Oz mentions somewhere that modernism deprived men of three basic feelings of security: Where shall I live, how shall I secure the means to live and what will become of me after death? Indeed, in traditional societies one does not come across such concerns very often. Man lived where he was born, embraced his parents' trade and believed that, were he to do good deeds in his lifetime, he would go after death to a better world.

Modernism has put aside these refuges. It has put in dispute the subject of God's existence. Men have been forced to live far from where they were born and have had to learn new trades in order to work. The traditional cultural environment and its 'familiar face' disappeared, to be substituted by an anonymous world based on motion. So, fear, that primitive feeling of man, acquired an even more complex dimension.

The era of ideologies

It is not by chance that modernism is at the same time the 'era of ideologies.' Mankind has striven, through ideologies, to discover answers to this fluid state of affairs and has partly succeeded. Psychoanalysis explains how people who have to deal with a psychoneurotic crisis try to cure themselves by joining groups, while they often adopt nationalistic ideologies. Freud mentions that men often achieve a certain, even latent, cure by adhering to lay and religious ideologies.

It is well known that the most powerful of the ideologies that offer this latent cure is



nationalism. The great impact that nationalism has is derived from the fact that it is directly linked to the existentialistic concerns of men. Xenophobia makes its appearance in children from the age of eight months. Something strange is interesting and attractive, but at the same time it also generates fear. This creates an emotional situation in which the child, though interested in that strange thing, becomes more attached to his mother. **Xenophobia is a human reaction and only when one is aware of it can one get over it.** Those who do not possess this awareness may appear critical of others, yet they themselves still carry xenophobia in

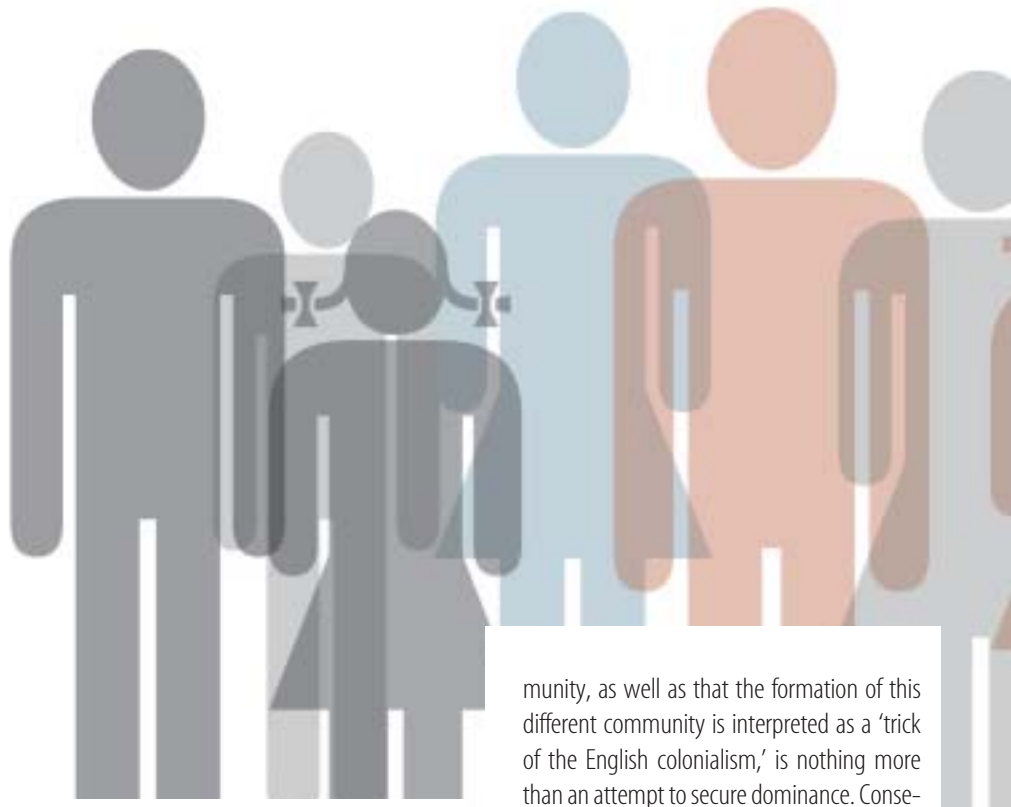
them. Whatever applies to individuals also applies to groups of people. The manifestations of the other person play an important role in the shaping of group identity.

The notion of 'the nation'

When we speak of 'the nation,' we are not referring to an ordinary social identity, nor to the 'Habitus' as defined by Norbert Elias, that is to say to the morals and traditions and social customs that aid in the development of the 'us' feeling. Certainly nationalism draws from these social elements as well, yet what happens more often is that it does not simply base itself on them, but it also perverts them. Nationalism is an ideology that helps the integration of a society but at the same time it excludes. The result of this process is the negation of the 'other,' something that has a negative effect on the national identity it shapes. As Jean-Paul Sartre quite accurately points out in his essay on anti-Semitism, the negation of the 'other' creates a false 'us.' Nationalism, as a unifying fantasy, gives to the concept of the nation a strong feeling of 'us' and through this it builds up 'the nation' in a narcissistic way.

dialogue





In this way it provokes an upsurge of feelings and endeavors to satisfy the needs of the masses. It appeals to the subconscious conflicts and expectations, it manipulates them and it enhances them. It provides simplistic and superficial answers to the complex and multidimensional social and political life and it undertakes a soothing role that relieves man of fear. It does not face reality and, when forced to do so, it distorts it. A most typical example is what Nicolas Sarkozy did recently in France. He promised to solve the problem of phobia against the immigrants, which he was fostering himself. Something similar applies in the case of George W. Bush. Nationalism, therefore, defines the 'other' as a source of fear and as a threat, and then it calls for political mobilization to counter this threat.

Nationalism endeavors to create an imaginary 'us' and a homogenous society, while the modernism that runs alongside and involves a certain social mobility leads to the forming of pluralistic societies. However this causes discontent, particularly when relations of interdependency with the 'different-other' occur in the process.

The 'other' as a 'demon'

The awareness of reality and the acceptance of interdependency with the 'different-other' are not always easy. Acceptance of the other's differentiation and of one's own sep-

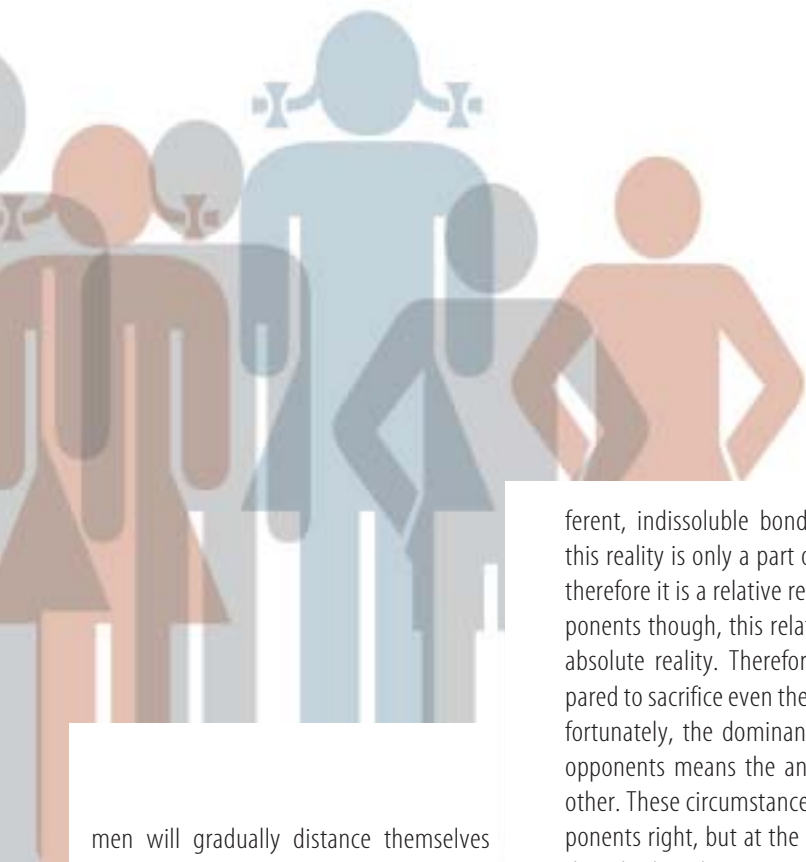
arate reality is difficult and, apart from the human reaction, it is connected to processes of domination, which lead to the negation of the differentiation. This negation is essentially an effort toward assimilation and exercise of power. Charles Taylor considers the refusal to recognize individual and collective identity as an infringement of fundamental human rights.

In Cyprus, modernism did not create a common feeling of 'us.' On the contrary, two traditional religious communities developed as separate ethnic communities and were thus unable to create a common political vision for Cyprus's future. They were drawn into an ethnic conflict and a negation of identity, which has been experienced as an effort to secure dominance and negate interdependency. For example, the fact that among the Greek-Cypriot community there appears to prevail a negation of the existence, differentiation and identity of the Turkish-Cypriot com-

munity, as well as that the formation of this different community is interpreted as a 'trick of the English colonialism,' is nothing more than an attempt to secure dominance. Consequently, the existence of the Turkish-Cypriot community as a separate entity is considered either 'fake' or 'non-legal.' For this reason, a relationship based on equality and interdependence is not easily acceptable. Furthermore, in the Turkish-Cypriot community, the political culture created by Rauf Denktaş does not accept interdependency, and aims at a separate sovereignty status and legalization through presenting the 'other' as a 'demon.'

What can be done?

Freud, in a responding letter to Einstein in September 1932, mentions that the roots of destructiveness are very deep and that there is a direct relation between justice and violence. He notes that in order to combat violence and hatred, one has to activate the instinct of love. In order to strengthen the emotional ties between men, one has to promote — as happens in religion — the importance of love and, through the process of concurrence/identification, to stress the common characteristics of men. Freud also maintains that through cultural evolution,



men will gradually distance themselves from war. Cultural evolution is the answer against war. However, according to Freud, this is a very long process. Therefore, in the meantime, what can stop the onset of war is the fear of war.

However, this approach overlooks the fact that fear is often the cause of war. Beyond that, obscurantist forces prevail when fear takes hold of a society. In my opinion, what may help in this case would be to put forward and explain the fact that we are not always right and, as right as we may be, we also have an equal amount of guilt. Therefore, in our quest for justice, we often end up being guilty, like Michael Kohlhaas, the hero of Heinrich von Kleist, who in his quest for justice ended up a murderer and a thief.

Hegel, interpreting classical Greek drama, ascertains that tragedy is created when both opponents believe that they are right. The two opponents confront each other. Both are connected with dif-

ferent, indissoluble bonds to reality. Yet this reality is only a part of the whole and therefore it is a relative reality. For the opponents though, this relative reality is the absolute reality. Therefore, they are prepared to sacrifice even their lives for it. Unfortunately, the dominance of one of the opponents means the annihilation of the other. These circumstances make both opponents right, but at the same time make them both guilty. **Compromise and reconciliation can only be achieved through the awareness of one's guilt.** Those who refuse to accept their guilt cannot make peace and accept reconciliation. It was the admittance of its guilt that reconciled Germany after World War II with the rest of the world and with itself.

The case of Cyprus

Cyprus is experiencing a similar tragic situation. All Cypriots have reasonable fears. But they also have false, fabricated fears. They all belong to 'the side that is right.' The only thing this island lacks is offenders. Here we have a 'dearth of offenders.'

However, if the number of offenders does not increase, there will be no possibility to vanquish fear. What should be done is really simple: Each person must put him or herself in the other's position and, through democratic behavior, seek justice for all. In order to achieve all this, it is necessary to reform the educational system.

This is the main challenge Cyprus is facing. Until all of the above are realized, we will all be left prey to fear and to being 'right.' And, of course, we will be left in the power of the merchants of fear who are ruling us.

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dialogue



An intercultural app



Marietta Giannakou, the Greek minister of education and religious affairs, strongly believes that cultural alliances 'as a result of mutual understanding between states and nations' can bring peace and prosperity to regions like the Balkans and the Eastern Mediterranean. However, 'mutual understanding cannot be obligatory but (must be) voluntary.' Within that framework, 'intercultural communication' can become 'a factor of establishing tolerance and conditions for dialogue,' while 'intercultural education can become the bridge between civilizations.' Since 'phenomena of international conflict are often created because of a lack of knowledge of the other's culture, not knowing means not being able to understand.' Therefore, during the dangerous days of this summer, maybe 'the golden rule is to retain a moderate, respectful stance, based on dignity for oneself and at the same time on respect for the other.'

Marietta Giannakou
interviewed by
Vassiliki Nikoloulia

■ ***To what extent is the 'alliance of civilizations' today the best bet and the necessary prerequisite for the achievement of stability, peace and prosperity in the Balkans and the East Mediterranean?***

It is true that the wider area of the Eastern Mediterranean, as well as the Balkans, is considered to be a very unstable part of the world, due to the political, cultural and religious diversity of the states and nations located there. For some commentators, both at the scientific and political level, this situation has led to a clash of civilizations, which has replaced the Cold War climate of East versus West.

We should not forget that the same geographical areas were some of the most important theaters of Cold War operations. Therefore, it is obvious that perhaps the only solution to the high volatility of international relations in the Eastern Mediterranean and the Balkans is to understand that peace and prosperity in the region cannot be enforced. Peace and prosperity are the result of mutual understanding and solidarity between states and nations, and such behavior cannot be obligatory but (must be) voluntary. Therefore, it is imperative to convince, and not to force, the peoples in the area to learn from each other, to understand each other, and to forge cultural alliances. Thus everyone will be in the position to comprehend and evaluate behavior and actions, because intercultural communication is a factor of establishing tolerance and conditions for dialogue.

reach to education

The role of education

■ ***How can fears, threats and phenomena of national separatism caused by ethnic, cultural and religious diversity be overcome?***

Fears, threats and other phenomena of international conflict are often created because of a lack of knowledge of the other cultures. Not knowing means not being able to understand. Consequently, if in the area of the Eastern Mediterranean and the Balkans the states and nations do not know each other's cultures and ways of life, it is very possible to perceive the behavior of the other as hostile and dangerous. In that respect, the most suitable tool to combat such phenomena is education. Education provides the means to make knowledge a bridge between civilizations. Two different civilizations may be in a position to form an alliance or to fight each other, depending on how well they know each other. History has taught us that the better they know each other, the better they are able to respect and accept each other. In Greece, we have used this approach by introducing innovative courses of intercultural education, thus offering all

Greek pupils — regardless of national origin or religion — the opportunity to get to know other civilizations.

The intercultural approach

■ ***What should the role of the religious, spiritual and political leadership of the states of Southeastern Europe and the Eastern Mediterranean be in order to head off the dominion of the idiomorphic religious and cultural racism of our era in the political affairs of the Balkan Peninsula and the Eastern Mediterranean?***

The role of all authorities — religious, spiritual or political — is at the core of an intercultural approach, especially in the area of international relations. It is true that the history of the Eastern Mediterranean and the Balkans is very rich in terms of conflicts between different nations, conflicts based on religious or cultural motives. The Eastern Mediterranean has been called the crossroad of civilizations. Therefore, it is not strange to have such a historical background.

Empires have emerged, dominated the region and then declined, having as one of their points of cohesion the religious convictions of their subjects. And the authorities of those empires have taken advantage of those convictions in order to consolidate their position, both internally and externally. The current state of international affairs in the region is, more or less, the result of this policy. So it is obvious that all forms of leadership — political and religious — must be very careful, if the aim is to improve the current situation. Being tolerant, of course, does not mean being weak or feeble. The golden rule is to retain a moderate, respectful stance, based on dignity for oneself and at the same time on respect for the other. And this rule is something that all nations and states can live by.

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dialogue



Deepening relations

Although the security situation in the

Western Balkans has greatly improved since the end of the wars of Yugoslavia's dissolution and media attention has shifted to other conflict areas, the alliance remains deeply engaged. Indeed, NATO's commitment to the Western Balkans is, if anything, growing as the alliance seeks to integrate all countries of the region into Euro-Atlantic structures, thereby extending the zone of stability and security in Europe.

The contrast between today's situation in the Western Balkans and that of just over a decade ago, when in summer 1995 NATO intervened militarily in Bosnia and Herzegovina, could hardly be greater. Whereas war or the threat of war hung over the entire region, today a return to major hostilities is unthinkable and all countries and entities have a genuine prospect of eventual, if not imminent, Euro-Atlantic integration. Moreover, much of the progress that has been made in the intervening period may directly be attributed to the secure environment that NATO has provided.

Nevertheless, challenges remain and 2006 will be critical for the region. It is the year in which Kosovo's final status is to be

decided, with all the related tension and potential unrest that this decision will likely involve both in Kosovo and in neighboring countries. It is also the year in which the nature of the relationship between Montenegro and Serbia should be resolved following Montenegro's independence referendum. And it is the year in which Bosnians elect leaders to chart their country's future course as the powers of the international community in Bosnia and Herzegovina are reduced with the winding down of the Office of the High Representative.

Kosovo

Negotiations aimed at resolving Kosovo's final status began in November last year under the auspices of UN Special Envoy and former Finnish President Martti Ahtisaari. NATO is supporting President Ahtisaari's efforts — as well as those of the Contact Group — to move the negotiation process forward and produce a settlement that will strengthen

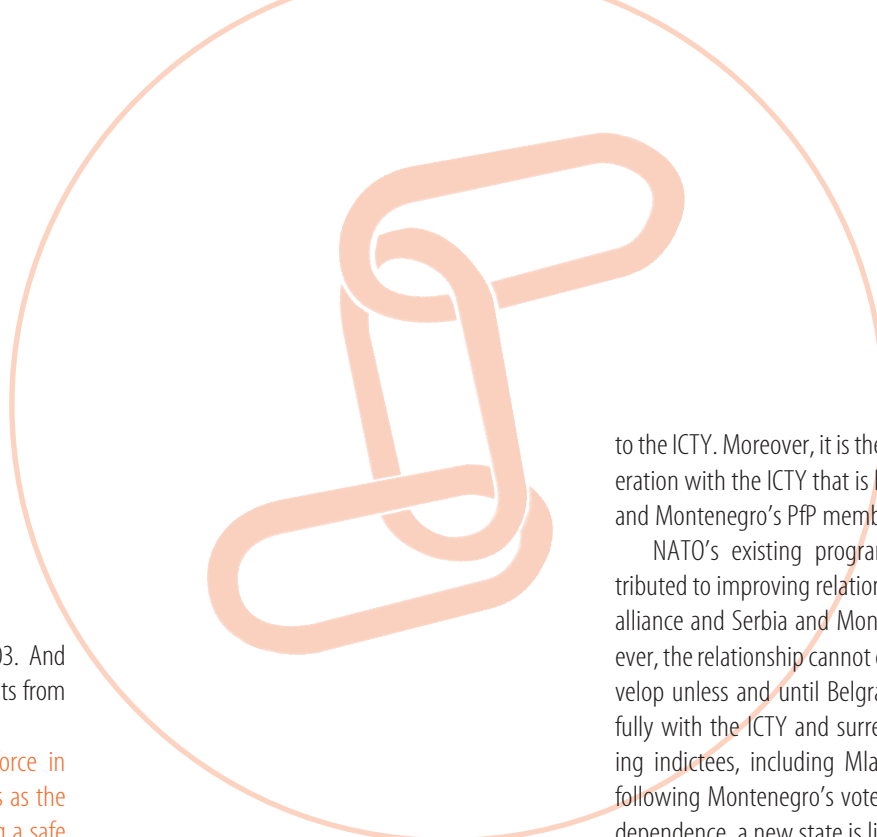
By Gabriele Cascone and Joaquin Molina

both the security and the stability of the Balkans.

In recent months, NATO has repeatedly called on all sides to approach the final-status talks in a constructive manner. The eventual settlement, expected before the end of the year, will have to respect the 10 principles established by the Contact Group immediately after UN Secretary-General Kofi Annan's decision — endorsed by the UN Security Council — to open future-status negotiations.

These include compatibility with international standards of human rights; democratic values and European standards, including a Euro-Atlantic dimension; multi-ethnicity; mechanisms to ensure the participation of all communities in government; safeguards for the protection of Kosovo's cultural and religious heritage; measures to strengthen regional security and stability; measures to ensure Kosovo's security; mechanisms to improve Kosovo's ability to enforce the rule of law and fight organized crime; measures to promote Kosovo's economic development; and an ongoing international civil and military presence.

In addition, the settlement should ensure that Kosovo does not return to the situation before NATO's intervention in March 1999; that there are no changes to Kosovo's current borders, that is the province should not be partitioned nor joined to any other country; and that the territorial integrity and stability of neighbors are respected. Progress still needs to be made on implementing the standards for Kosovo that were agreed by UNMIK



and the Kosovo government in 2003. And any solution that is unilateral or results from the use of force is unacceptable.

The presence of a NATO-led force in Kosovo is still perceived by all actors as the single most critical factor in ensuring a safe and secure environment and, by extension, stability in the wider region. To this end, NATO will retain a robust military presence in Kosovo throughout the future-status talks and in the post-settlement period.

Serbia and Montenegro

Developments in Serbia and Montenegro continue to have wide-reaching implications both for Kosovo and for much of the rest of the region. The relationship between Belgrade and NATO has improved greatly since the alliance's 1999 Kosovo air campaign and especially since the ouster of former Yugoslav President Slobodan Milosevic a year later. Moreover, Serbia and Montenegro formally applied for membership in NATO's Partnership for Peace (PfP) program in June 2002 and hopes to be invited to join at the alliance's Riga Summit in November. However, major obstacles still have to be overcome.

President Milosevic's arrest and transfer to the International Criminal Tribunal for the former Yugoslavia in The Hague (ICTY) and his subsequent death in March 2006 might one day be viewed symbolically as marking the end of a bloody chapter in the history of both Serbia and Montenegro and the wider region. At present, however, it is not clear

whether the final page has been turned. Indeed, extremists have sought to make political capital out of both President Milosevic's death and fears that Serbia is about to 'lose' Kosovo, reviving in the process some of the intolerant rhetoric of the 1990s.

All countries and entities in the Western Balkans have a genuine prospect of eventual, if not imminent, Euro-Atlantic integration. The European Union decided in October 2005 to open talks on a Stabilization and Association Agreement with Serbia and Montenegro, but suspended them after Belgrade failed to meet an April 30 deadline to surrender Ratko Mladic, the Bosnian-Serb wartime commander indicted for genocide,

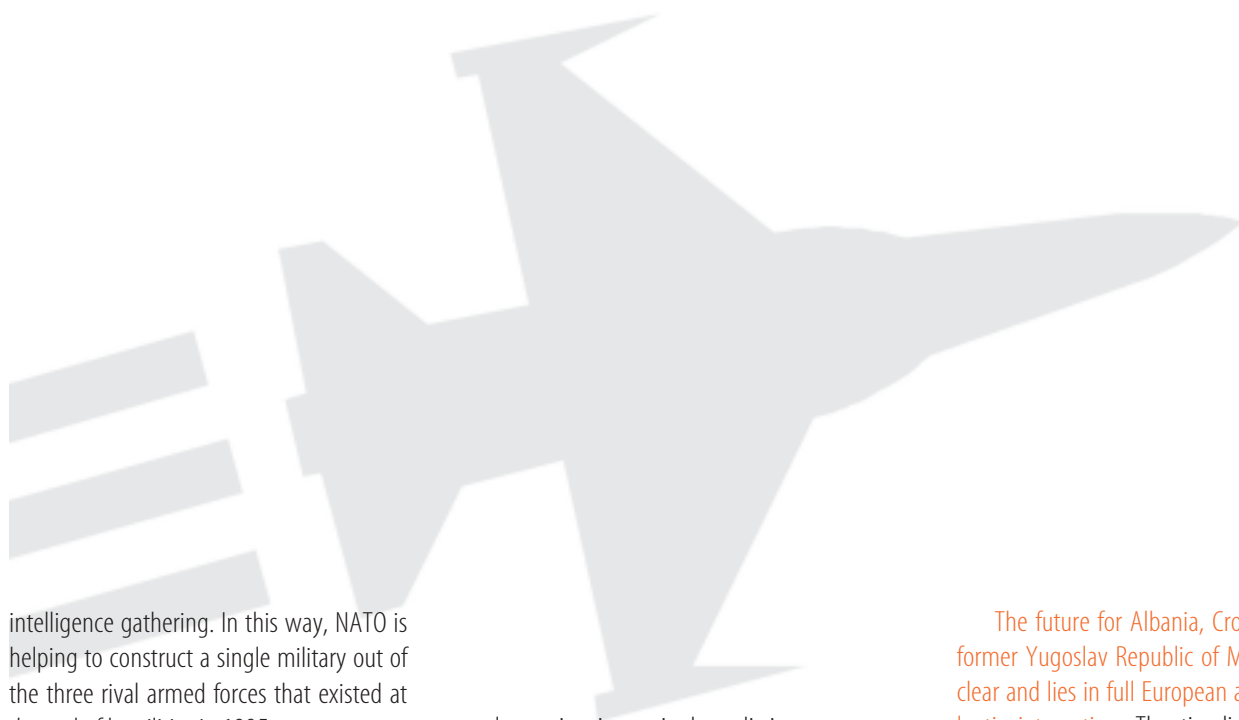
to the ICTY. Moreover, it is the issue of cooperation with the ICTY that is blocking Serbia and Montenegro's PfP membership.

NATO's existing programs have contributed to improving relations between the alliance and Serbia and Montenegro. However, the relationship cannot continue to develop unless and until Belgrade cooperates fully with the ICTY and surrenders remaining indictees, including Mladic. Moreover, following Montenegro's vote in favor of independence, a new state is likely to emerge in the region, which might also become part of the alliance's integration efforts.

Bosnia and Herzegovina

A similar lack of cooperation with the ICTY, in particular on the part of Republika Srpska, has held up PfP membership for Bosnia and Herzegovina. Despite this, NATO is already working with the country to help it meet future requirements for the PfP program and eventual NATO membership.

Although NATO handed responsibility for day-to-day security in Bosnia and Herzegovina to a 7,000-strong EU Force (EUFOR) in December 2004, the alliance retains a physical presence in the country. NATO Headquarters in Sarajevo, which has a staff of some 150, works primarily on defense reform in the framework of a Tailored Cooperation Program, as well as on counterterrorism, apprehending war crimes suspects and



intelligence gathering. In this way, NATO is helping to construct a single military out of the three rival armed forces that existed at the end of hostilities in 1995.

Progress in defense reform should eventually help Bosnia and Herzegovina move from being a consumer of security to a provider. The outcome of elections, scheduled for October 1, will be especially important because the nature of the international presence in Bosnia and Herzegovina is changing. The post of High Representative, which has overseen implementation of the peace process and benefited from extraordinary powers, will cease to exist sometime during the first half of 2007. In its place, an EU Special Representative will seek to assist Bosnia and Herzegovina's ongoing transformation with special emphasis on the country's integration into Europe. Talks on a Stabilization and Association Agreement with the European Union got under way in January this year.

MAP trio (Membership Action Plan)

All three Membership Action Plan (MAP) countries — Albania, Croatia and the former Yugoslav Republic of Macedonia¹ — have been making steady progress in the field of defense reform, developing and im-

plementing increasingly realistic programs under NATO auspices. In the case of both Albania and the former Yugoslav Republic of Macedonia¹, the alliance has military headquarters in the countries to assist them with their defense reforms.

Although NATO membership is not on the agenda of the Riga Summit, Albania, Croatia and the former Yugoslav Republic of Macedonia¹ are progressively integrating themselves into NATO structures within the MAP framework. Moreover, they are all contributing troops to the NATO-led International Security Assistance Force (ISAF) in Afghanistan. The three countries are also increasingly working together within the US-sponsored Adriatic Charter and are contributing a 12-person combined medical team to ISAF in this framework.

The future for Albania, Croatia and the former Yugoslav Republic of Macedonia¹ is clear and lies in full European and Euro-Atlantic integration. The timelines for both processes are not fixed and depend on how well each country continues to implement a wide range of reforms. However, as long as all three continue to make the kind of progress they have been making in recent years, they will be strong candidates for receiving alliance membership invitations at NATO's 2008 Summit. In this way, they will also be blazing a trail for the rest of the region, because for Bosnia and Herzegovina, Serbia and Montenegro and Kosovo, their long-term stability, security and prosperity is in large dependent on the relationships that they can build with both the European Union and NATO.

1) Turkey recognizes the Republic of Macedonia under its constitutional name.

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The Black Sea: GROWING influence

The wider Black Sea region is acquiring

greater importance in today's world and provides an interesting case study for a variety of reasons. It is becoming increasingly important to Europe, the United States and other major powers such as Russia as a major energy supply crossing and as a barrier against many transnational threats. It is also home to a number of Soviet-legacy conflicts known as 'frozen conflicts,' such as those within Moldova (Transnistria), Georgia (Abkhazia and South Ossetia) and between Armenia and Azerbaijan (Nagorno-Karabakh). It is also important for international organizations such as the European Union and NATO, which aim to assure that its external borders are relatively stable, while attempting to address the demands for further enlargement from its new neighbors across Central Europe and the Black Sea region. Last but not least, it finds itself in the midst of a region-building process. It is the amalgamation of the aforementioned issues that makes the region influential.

The region-building process

The issue of region building is one which has risen in prominence in the post-Cold War era as the end of bipolarity has fundamentally affected the world order. Region building may be defined as the formation of interstate groupings on the basis of a region, whereas

a region implies a limited number of states linked together by a geographical relationship and by a degree of mutual interdependence. In other words, region building is a political concept which is linked to the realities of the global and regional order.

The new regionalism can be attributed to a series of factors such as the end of the Cold War, which has led to the developments of new attitudes toward international cooperation and a decentralization of the international system. Other relevant factors include: the process of global economic change, which has increased the relevance of economic cooperation on a regional basis as the model and development of the European Community has shown; the end of a third pole consisting of the Third World countries or the non-aligned movement; and finally the spread of democratization to the former Comecon or Warsaw Pact countries and to Latin America.

Attempting to enhance cooperative security has also become the order of the day. Though the term has hard security connotations that in the post-9/11 world are linked to fighting terrorism, its key characteristics,

By Dr Dimitrios Triantaphyllou

such as those featuring mutual trust, mutual benefits, equality and cooperation, so that it yields greater benefits for all nations, apply to the Black Sea region.

EU and BSEC

The EU is currently mulling over a dimension for the Black Sea region as the bloc is about to become a Black Sea entity due to the imminent entry into its ranks of Bulgaria and Romania in 2007. The pull of EU 'interest' from the region (for it can only be described as such given the limits of further EU integration) is threatening to destroy the regional cohesion. This cohesion has been in place since 1992 as a group of 11 (now 12)¹ littoral states and states belonging in the wider Black Sea region have been cooperating in a fairly institutional manner within the framework of a regional body called the Organization of the Black Sea Economic Cooperation (BSEC). This stems from the fact that to date the EU favors bilateral relations with its neighbors through the European

1) Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russian Federation, Serbia, Turkey, Ukraine.

Neighborhood Policy (ENP) as opposed to a regional approach.

The BSEC has many merits as a regional partner. Despite its limited resources and the heterogeneity of its membership, the BSEC has concrete achievements to show. First, it has built a permanent and extensive institutional framework of cooperation that covers all levels of governance (intergovernmental, parliamentary and financial). Second, it has cultivated a spirit of cooperation among its member states, providing a forum for constant dialogue, exchange of ideas and experiences. Third, it has successfully elaborated binding agreements and common action plans on key issues of regional cooperation (some 33 to date). Finally, as the BSEC is conceived as an economic organization, trade and economic cooperation (especially cross-border activities, trade creation and creation of favorable conditions for investment) are identified as areas of potential interface with the EU's policies.

The dilemmas

Apart from its bilateral focus, the EU is currently faced with a number of dilemmas as a result of the pressure from many of its neighbors to enlarge and the gridlock within regarding the future of Europe. The ENP recipients to the East (Ukraine, Moldova, Georgia, Armenia, Azerbaijan and Belarus) stretch the imagined political and geographical limits of the European Union. The

questions that arise are many: *Are there concrete alternatives to enlargement? Can/Should the EU embark on further enlargement processes? Can/Should it keep its neighbors outside indefinitely? And, most importantly, is there no other way to approach this dilemma?*

Similarly, on the security front NATO faces serious dilemmas as its approach is one that favors privileged relations with some Black Sea states (such as Ukraine and Georgia) rather than a regional one. As a Euro-Atlantic strategy toward the wider Black Sea region is under debate, NATO's geographical limits are being severely tested at a time when it is seeking allies among Black Sea and Central Asian countries to provide logistical support as it prepares to expand its operations in Afghanistan.

As a result, the wider Black Sea region has witnessed the rise of a series of competing regional blocs which are either backed by Washington or Moscow and their allies, including the Community for Democratic Choice (CDC), the Organization for Democracy and Economic Development (ODED-GUAM), the Collective Security Treaty Organization (CSTO)

and the Eurasian Economic Community (EurAsEc). These regional initiatives probably complicate the security environment as they express the divergent interests of littoral states and their neighbors. While some coincide with the interests of NATO members, others reflect a unique security agenda. In fact, an initiative called the Black Sea Forum for Dialogue and Partnership was recently launched with the purpose of making some sense of developments in the region.

The issue of energy

Within this context, the issues of energy, transnational threats and frozen conflicts need to be assessed. *The frozen conflicts not only drain economic resources and political energies from weak and poor countries; they also generate corruption and organized crime and prevent the consolidation of rule of law and increase instability across the region.* This in turn complicates the geopolitics of the energy supplies of the EU, the US and other major actors. For example, for the EU, its energy dependency provides a sobering picture: By 2030, 90 percent of oil consumption, 60 percent of gas needs, and 66 percent of coal consumption will have to be covered by imports. Given the fact that the largest oil and gas reserves are situated in



politically or economically insecure regions such as the Middle East and Russia and its neighborhood, it becomes imperative to pay greater attention to developments in and around the Black Sea region.

The growing interest in the region and the interplay between the various local, regional and international actors in and of the region suggest the need for clear, concise and precise analytical tools in order to understand better the various processes at play. These also imply the definition of clear strategies on how to proceed given the different agendas of state, transnational and non-state actors, and the plethora of issues and concerns that shape the region.

The role of Greece

A key question is how to build bridges without destroying the cohesion in place. A starting point acceptable to all could be the focus

on issues of rule of law, institutional renewal and good governance in order to reduce further instability. Another issue that is an immediate priority is for concerted conflict management and resolution of the various frozen conflicts. This exercise can only be successful with the participation of all interested actors — the EU, NATO, the US and Russia.

Finally, the European Union needs to wake up and grab the opportunity to enhance its relations with the countries of the region. In 2005, the BSEC and its member states stated their intentions for further interaction with the EU, and Greece, as the only member of both organizations, has taken the lead in trying to bring this request to fruition. A secure and prosperous Black

Sea region in the immediate vicinity of the EU can only become a reality if Brussels adopts a regional approach. Hopefully with Athens's urging, the EU will act accordingly.

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themes



Financial stability and growth

The topic of 'Regional Financial Sta-

bility Around the Eurozone' has gained importance as the economies — and particularly the financial systems — of Southeastern European (SEE) countries have increasingly developed linkages both within their region and with the eurozone.

In recent years, SEE countries have generally experienced high rates of economic growth, improvements in macroeconomic fundamentals and a significant transformation and growth of their financial systems. For sustainable future growth and development in the region, the maintenance of financial stability is an essential precondition. In turn, the existence of an effective legal and regulatory framework for the financial sector and the conduct of financial supervision in accordance with international best practices plays an important role in promoting financial stability. To this end, considerable efforts have already been made to strengthen the legal and regulatory frameworks of the financial sector in SEE countries and to improve supervisory practice.

In what follows, I will briefly discuss the various channels through which external assistance toward regulatory and supervisory reform in Southeastern Europe has been provided, identify some areas where further

reform and expertise appears necessary, and suggest some cooperative arrangements that could contribute to this objective.

The international organizations

Over the past 15 years or so, technical assistance to improve the legal and regulatory framework of the financial sectors of SEE countries and the implementation and enforcement capabilities of the competent national authorities has been provided in various forms by international organizations such as the International Monetary Fund (IMF), the World Bank and the Bank for International Settlements (BIS).

Although a comprehensive discussion of all these projects is not realistic in my short presentation, it may be worth mentioning at least a few of them. Supervisory personnel from SEE countries have participated in training seminars offered by the Financial Stability Institute of the BIS and by the Joint Vienna Institute. Under the joint IMF-World Bank Financial Sector Assessment Program, international teams of experts have assessed the financial sectors of SEE countries and the degree of compliance with Basel Core Principles and have identified weaknesses and proposed corrective measures, many of which have since been implemented by the countries concerned.

By Nicholas C. Garganas

In coordination with international institutions, the United States Agency for International Development (USAID) has supported projects in many SEE countries to improve the regulatory framework for the financial sector and the conduct of supervision.

The European Union

As SEE countries aspire to eventual EU membership, the European Commission has been particularly active in the region both in providing technical assistance and in monitoring progress in financial sector reform. As regards technical assistance, the European Commission's main instrument is the Twinning Programs financed by the Phare and CARDS (Community Assistance for Reconstruction, Development and Stability in the Balkans) facilities. **Twinning Programs are particularly useful since each beneficiary country determines its specific needs and is subsequently able to choose the one that best meets its requirements among the proposals submitted.** Twinning Programs also help to establish close working relationships between the authorities of recipient countries and those of the EU countries which provide technical assistance.

The European Central Bank (ECB) has also provided technical assistance to SEE countries through various channels such as short-term missions, conferences and internships. ECB assistance was given in the fields of money and banking statistics, payment and settlement systems and financial stability, as well as in other fields which fall

outside the scope of my presentation. Moreover, the ECB, acting as coordinator of Eurosystem projects, is currently working on a number of projects in the region, including the finalization of plans for a six-month CARDS-funded project to Bosnia and Herzegovina.

Apart from these Commission and ECB initiatives, technical assistance has been provided to SEE countries on a bilateral basis by the financial sector authorities of individual EU countries, usually through less formal ad hoc arrangements focusing on specific areas where particular SEE countries require expertise.

Finally, the memoranda of understanding concluded between the banking supervisory authorities of EU countries and those of the SEE countries provide for regular meetings to discuss supervisory principles and practices and, in some cases, include specific provisions for cooperation in staff training.

Regulation and supervision

In most SEE countries, the basic legal and regulatory framework for the financial sector is now in place and largely conforms to international standards. Nevertheless, there are differences between SEE countries as regards the state of development of financial sector regulation and supervision. Generally,

there is a positive relationship between progress in these areas and how far each country has moved along the path leading to EU membership.

As Bulgaria and Romania are acceding countries and Turkey, Croatia and the Former Yugoslav Republic of Macedonia (FYROM) are EU-candidate countries, they have generally made greater progress in adopting the *acquis communautaire* in the financial sector compared to the remaining SEE countries, which are in various stages of the Stabilization and Association Process.

As a rule, in SEE countries the legal and regulatory framework and the implementation and enforcement capabilities of the supervisory authorities are more developed in the banking sector compared to other segments of the financial system. This is due to the fact that the capital markets are still underdeveloped in SEE countries, with the banking sector dominating the financial systems there. Accordingly, both the national authorities and the foreign providers of technical assistance place more emphasis on regulatory and supervisory reform in the banking sector.

Nevertheless, Bulgaria and Romania have made progress toward harmonization with EU regulations on capital markets.

Meanwhile, in all SEE countries except Turkey, foreign banks, mainly from EU

countries, have acquired, through their subsidiaries and branch networks, a dominant position in local banking systems. This development has increased competition, facilitated the transfer of expertise, especially in credit assessment and risk management, and enhanced the ability of local banking systems to operate under more demanding supervisory standards.

In contrast with the banking sector, the insurance sector in SEE countries is still underdeveloped and tends to be characterized by weak governance and regulation despite improvements in recent years, mainly in Bulgaria and Romania in connection with their preparation for EU accession. Furthermore, reflecting the persisting problems in governance and regulation, the insurance sector in SEE countries tends to be undercapitalized.

The weaknesses

In the banking sectors of SEE countries, it appears that the degree of progress toward achieving international best standards has not been the same in all areas of regulatory and supervisory interest, particularly as regards the implementation and enforcement capabilities of the competent authorities.

In a number of countries, assessments on behalf of the European Commission and the IMF have revealed remaining weakness-

themes



es in such fields as anti-money laundering, consolidated supervision of financial conglomerates, implementation of International Financial Reporting Standards (IFRS), integrated assessment of risk management systems and the extent of cooperation with foreign supervisors. As regards the IFRS, it is worth noting that Bulgaria, Romania, Croatia and Serbia have already implemented these standards for companies and banks, while Turkey and Albania envisage their implementation by 2008.

The challenges

Moreover, SEE countries face important medium-term challenges relating to the effective application of the principles of good corporate governance across the financial sector, the implementation of the Basel II capital adequacy framework and the development of a comprehensive methodology for financial stability assessment, including the design of a macro stress-testing framework, especially for credit risk. Although central banks in some SEE countries have already made progress in financial stability assessment, more work needs to be done and such assessments need to increasingly take into account potential repercussions from regional and wider European developments.

The above considerations indicate areas where further assistance may be required by particular countries. Apart from programs supported by international organizations,

continuing recourse to bilateral cooperation arrangements between the authorities of EU countries and those of SEE countries would be particularly useful.

In this respect, the experience of the authorities of EU countries that have relatively recently completed the reform of their financial sector in accordance with international standards would be a valuable input to the authorities of SEE countries that currently face similar challenges. Also, peer group reviews by financial sector supervisors from other countries could play a useful role in periodically assessing the effectiveness of financial sector regulation and supervision in each SEE country and in offering advice on needed improvements.

Finally, the national banking federations of SEE countries can help to bring the operation of local banks up to EU standards through multilateral cooperation in the areas of staff training and convergence in the implementation of sound operating and risk management systems. To this end, the national banking federations participating in the Inter-Balkan Banking Forum have recently signed a memorandum of understanding.

It is important to recognize that, as the financial systems of SEE countries are liberalized and their economies become more open, the task of maintaining financial stability becomes more challenging. In meeting this challenge, I believe that arrange-

ments for supervisory cooperation and the provision of technical assistance can continue to play a useful role in supporting national efforts for further regulatory and supervisory reform aimed at strengthening the resilience of the financial sectors of SEE countries and achieving conformity with EU standards.

The financial system and growth

Let me conclude by stressing the importance of the financial system for economic growth. Why is the financial system so crucial? The answer is that the financial system can be thought of as a coordinating mechanism that allocates capital to building factories, houses and roads. If capital is misallocated, the economy will operate inefficiently and economic growth will be low (Mishkin, 2005).

Effectively, **just as a high level of human capital increases the productivity of labor, so an efficient financial system increases the productivity of all factor inputs.** For this reason, a financial system can be thought of as the central nervous system of an economy. If it is stable and efficient, it coordinates the economy's activities, helping to improve the living standards of its citizens.

Reference:

Frederick Mishkin (2005), 'Is Financial Globalization Beneficial?' NBER Working Paper No. 11891 (Dec.).

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Speech delivered at the conference on 'Regional Financial Stability Around the Euro-zone,' organized by the Euro 50 Group, Istanbul, Turkey, June 1-3, 2006.

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New Image New Opportunities

Over the last few years, thanks to its key geographic location, Greece has linked East with West, the Mediterranean with the Balkans, and now serves as the business hub for some of the biggest multinational companies. On the other hand, Greece is actively engaged in regional activities such as the Black Sea Trade and Development Bank, the Southeast Europe Cooperative Initiative and its own 500-million-euro Balkan Reconstruction Plan. They all focus on upgrading infrastructure, cooperation and trade among all the countries in the region. It is inevitable that Greece, a senior member of the European Union, should play a major role in the economic integration of neighboring candidate countries.

The many areas of investment include banking and finance. Given the relatively small size of Greek banks and the large number of their shareholders, there are favorable conditions for creating a new framework necessary for collaborations and partnerships both in Greece and in the new markets of Southeast Europe. The Greek banking sector is forging its own way and is planning changes in strategy that will enable banks to make their presence felt, mainly in the Balkans where they can openly compete with other EU banks.

Thus, following the near completion of a vigorous restructuring and modernization program for the whole Group and the management's decision to aggressively engage in retail banking, one pillar of our growth strategy is the diversification of our income sources by expanding our activities in neighboring countries with top international financial players.

Like most of our peers, we are focusing on the high-growth markets of the rapidly developing economies in this region because we believe that there are still major opportunities to be exploited. The management, on the basis of various criteria such as the Bank's operational capabilities in supporting activities abroad, the prospect of the gradual stabilization of the economy of specific countries and the admissible volume of funds (as a whole and per country) exposed to risks, has already been actively exploring specific investment opportunities to expand in the Balkans and in other SE European countries.

For example, last year ATEbank and the American Bank of Albania signed a cooperation agreement by which new and safe banking procedures for funds transactions were created with neighboring Albania. Although this cooperation started with a very simple product, that of workers' remittances, it is likely to expand to other areas such as loan syndication and cooperation in treasury operations, among others. The idea is to join forces and serve the growing needs of an important part of the labor force in Greece, that is migrant Albanian workers.

Recently we purchased a 57.13 percent stake in Mindbank, a small Romanian bank with 12 branches. After the ensuing renewal of our license to operate in the Romanian insurance market, acquired a few years ago by the Group's subsidiary company, ABG Insurance, we will soon be in a position to provide the whole range of bancassurance products to the above market.



ATEbank
AGRICULTURAL BANK OF GREECE



Cooperation:

A strategic approach

The countries of Southeastern Europe

are working together in order to become more competitive and to prepare for integration into European and Euro-Atlantic structures and further into the global economy and body politic.

I must stress at the outset that I am an optimist within the bounds of realism, or, alternatively, I am a realist who knows that optimism promotes action and thus achievement. I hope that this frame of reference will be obvious in my remarks.

Regional economic and political cooperation in Southeast Europe is substantive and broadly based, in my judgment. I stress regional cooperation because it is the Stability Pact's focus and because it is an important but underappreciated aspect of the region's political and economic development.

In recent years, regional cooperation has produced a number of key building blocks — representing a strategic approach, I would argue — for a vibrant regional economy and for expediting integra-

tion of the SEE economies into the European and global marketplace.

This cooperation encompasses the entire region, including the participation of UNMIK/Kosovo in most if not all undertakings. And this cooperation will be anchored by Accession or Stabilization and Association Agreements between the EU and all countries except Moldova, which is working on its EU action plan; NATO and Partnership for Peace are also part of the foundation.

Energy and free trade

Regional building block number one: the October 2005 Athens treaty, which will create a regional energy market to assure a reliable supply of fairly priced electricity, a major concern of domestic and international investors. The treaty provides a solid starting point for the estimated 25 billion dollars in investment — in generation, transmission, and distribution — needed for the region to meet surging demand over the coming two decades. The region may tackle the challenge of the gas sector as well.

Another key element is free trade. Regional prime ministers met April 6 in Bucharest with Chancellor Wolfgang Schüssel of Austria, the current holder of the EU Presidency, EU Commissioners Olli Rehn and

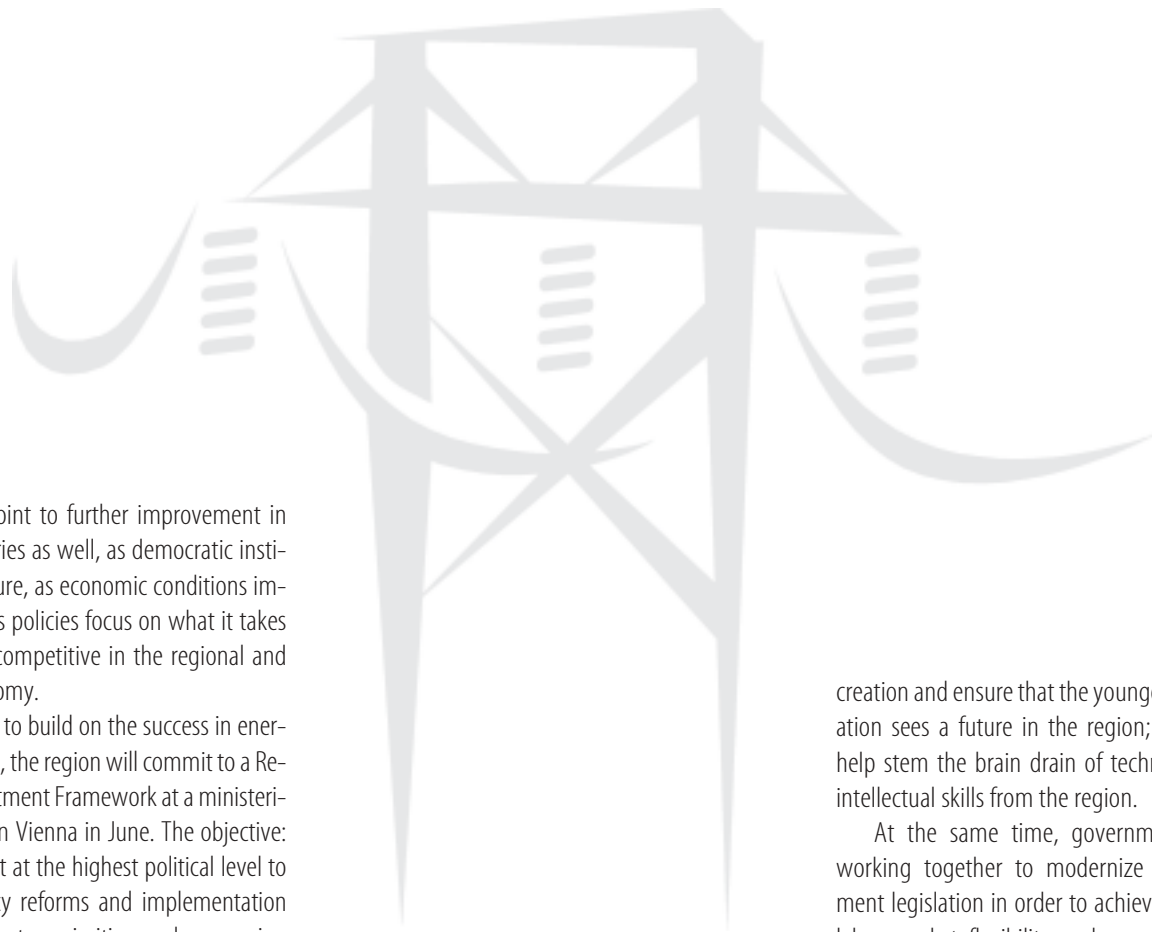
By Michael Mozur

Peter Mandelson, and Stability Pact Special Coordinator Erhard Busek to launch negotiations on a regional free trade agreement on the basis of an expanded and modernized Central European Free Trade Agreement (CEFTA) with the ambitious goal of agreement by year's end.

By consolidating the current network of 31 bilateral free trade agreements and providing a common trade regime, the region will spur greater trade and investment. This new CEFTA will meet modern trade policy standards, add such issues as competition, government procurement and intellectual property, and capture 90 percent of all trade, with no sectoral exclusions.

Investments

The investment climate is another building block. The governments of the region, working together with the Stability Pact's Investment Compact and the Organization for Economic Cooperation and Development (OECD), have taken numerous steps to improve investment conditions. National investment promotion agencies are in place as are local foreign investors' councils. Foreign direct investment (FDI) statistics are encouraging, buoyed by Romanian, Bulgarian and Croatian progress toward EU accession.



Signs point to further improvement in other countries as well, as democratic institutions mature, as economic conditions improve and as policies focus on what it takes to be truly competitive in the regional and global economy.

Looking to build on the success in energy and trade, the region will commit to a Regional Investment Framework at a ministerial meeting in Vienna in June. The objective: commitment at the highest political level to pursue policy reforms and implementation through country priorities and measuring comparative reform performance.

Infrastructure and ICT

Next, what most politicians focus on first is infrastructure. Some 5 billion euros in regional projects — transport, environmental and others — are completed or under way in the region. This regional program complements national infrastructure projects and implementation of the 2004 MoU on the Core Transport Network for South-east Europe and will improve the ability of the countries to prioritize those projects that will link the region with Trans-European Corridors.

This ability to prioritize projects is vital given the very limited borrowing capacity — or fiscal space — of the various countries.

The region's joining of the European Common Aviation Area this month is another element of a cooperation structure inexorably drawing the region into the European and global mainstream.

Governments also seek to add the energy of a progressive information and communications technology (ICT) sector to the strategy, a promising development. The telecoms sector is particularly dynamic, offering real potential if well-targeted policies and implemented regulations generate true competition in the market.

Connecting the region to the Information Revolution will promote IT-related job

creation and ensure that the younger generation sees a future in the region; this will help stem the brain drain of technical and intellectual skills from the region.

At the same time, governments are working together to modernize employment legislation in order to achieve greater labor market flexibility and spur job creation, given the concern over high unemployment, particularly among youth.

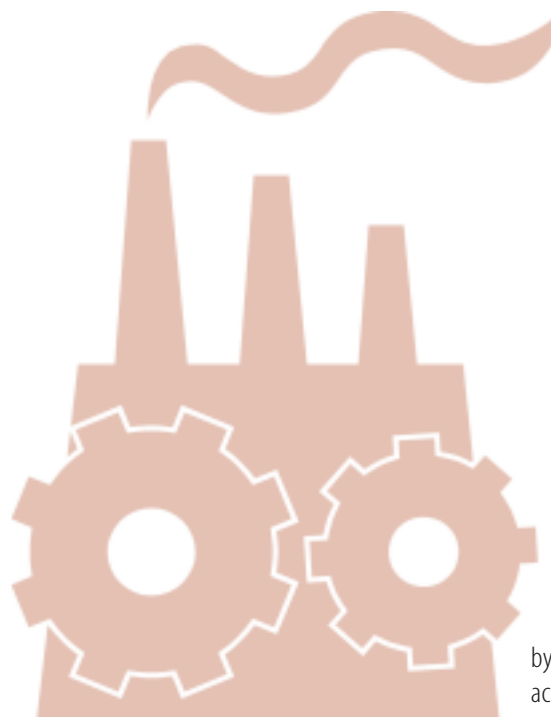
Government transparency

To combat corruption government transparency is another critical issue. Regional governments are working at home and together to achieve greater transparency in their operations and to strengthen the rule of law. Evolving e-Government programs in the region, including e-Procurement and e-Customs, now at an early stage, can do much to reduce corruption and strengthen democratic processes.

Still, sustained pressure from the citizens of the region, by the European Union, NATO and other countries for real progress against corruption and organized crime in the region is necessary if there is to be real change on the ground.

market





I recall my own discussions over recent years with senior government officials from the region on this issue and their strong resistance to acknowledging the problem and to accepting the need to deal with it seriously and credibly.

This perception is now changing. The region's leaders now increasingly realize that action can bolster public confidence and improve the basic business and investment climate.

The private sector

Personally, I believe that the private sector will respond to this regional strategy and co-operation structure. Macroeconomic indicators, I believe, are beginning to show this response. But the private sector is cautious and often skeptical, and looks hard for confirmation of credible implementation and good policy on all fronts. Therefore, this is a constant challenge to the region's governments.

Qualitative change

On the other hand one, must acknowledge the hard work of so many in the governments and the private sector in the region. Supporting the 25 initiatives and task forces, the three Working Tables under the Stability Pact's overall umbrella has given me the opportunity to work closely with people from all ministries and economic sectors in the region, literally hundreds of people.

Their commitment to balancing the interests of the region with their national interests is impressive; their professionalism and focus is similarly strong. The results of this joint work — some of which I've laid out above — will underpin qualitative change in the region.

In some ways, Southeast Europe has followed the example of the new EU members, where progress has meant that elections, while important, have become less critical to that progress given the evolution of a constructive consensus on sound economic policy.

But elections in the region still mean personnel changes with politics reaching down into the civil service and expert ranks to an unfortunate and often counterproductive extent in some cases as valuable momentum is lost.

Still, this positive evolution, supported by the strong web of regional cooperation activities and underpinned by the EU integration process and work toward NATO membership, stands in welcome counterpoint to the difficulties of years past. Fulfilling the region's promise is the challenge, and the region is responding with diligence and great effort, while facing real resource and capacity constraints.

With continued good policies, patience, energy, increasing imagination and continued support, particularly for capacity building and infrastructure, I am confident the region will succeed and achieve the goal set out by the theme of the Ministerial Conference tomorrow, that is to 'deliver prosperity' to the people of this very complex region.

Michael Mozur is deputy special coordinator, Stability Pact for Southeastern Europe.

Speech delivered at OECD Forum 2006, Balancing Globalization, 'Fulfilling the Promise of Southeastern Europe,' Paris, May 2006.

OECD website: www.oecd.org

GREEK PORTS

A new reality and a vision

The development of the port industry

is a sector of great strategic importance for Greece, since our country has a very long tradition in shipping, a strong and vital shipping industry and a unique geographical position in Southeast Europe, connecting European countries with the Middle East, the Black Sea and North Africa. The port industry is also a favorable field for interested investors. And I must stress that in the last two years considerable efforts have been made in order to establish a positive environment for the attraction of private funds for investments in Greek ports, which will boost the modernization and development of the Greek port system.

Globalization and transport

The shipping and port industry must respond to the new reality. The ongoing globalization processes, new transport needs related to modern consumer and production patterns, economic and technological changes, all these elements create a totally new environment full of challenges for all involved. A consequence of the continuing growth of world trade is the increased demand for transport services, while the advantages of seaborne transport in terms of economic efficiency, security and safety as well as environmental protection have become more and more obvious.

On the other hand, strong competition among port operators to serve the increased transport needs creates a strongly competitive environment and stimulates the market. Taking these factors into consideration, it can be seen that there is a continuously increasing demand for ports and port services, resulting in a prosperous environment for low-risk in-

vestments in this sector. This is even more intense in the case of the East Mediterranean region. These developments change the traditional role of Greek ports, transforming them into nodal points in the Mediterranean basin, as well as into potential network hubs of the East Mediterranean transport system.

Greek Port Policy

The challenges and opportunities of the new environment require a new vision for future transport policy in Greece and our port policy has been formed taking these factors into consideration. The Greek Port Policy aims to facilitate transport in a way that economic activities are promoted, as well as balanced national and regional development achieved. For this reason, the establishment of an integrated, effective and reliable framework for the operation of the ports is a vital necessity.

On the other hand, the modernization and development of the infrastructure (piers, dredging works etc) and superstructure (passenger reception buildings, warehouses, equipment etc) of ports and their hinterland connections enhance port competitiveness and guarantee high-quality port services, so that the current and future demands of the national and Mediterranean transport markets will be met and in pursuing these aims

By George Vlachos

the Greek Port Policy is in line with the European transport policy.

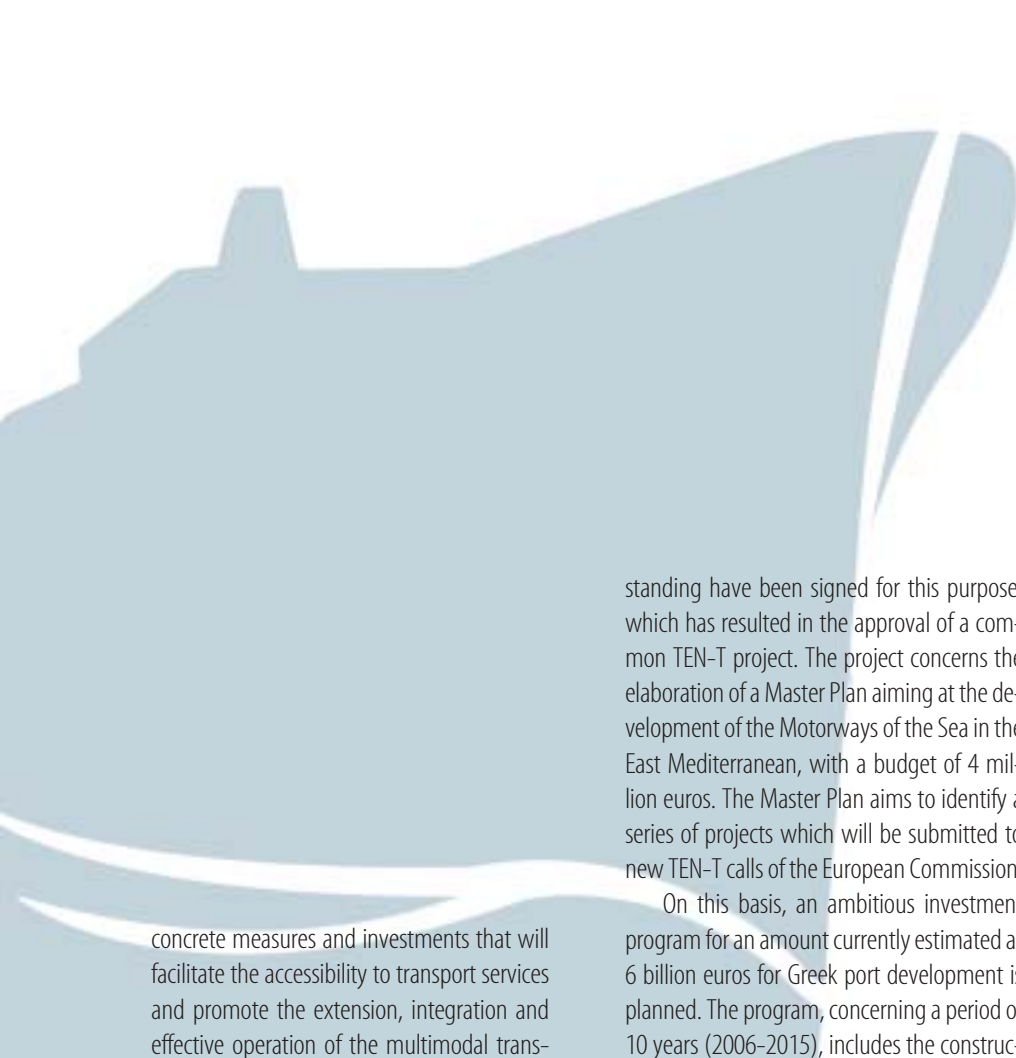
The EU initiatives

Currently there are several EU initiatives in the field of transport. I would like to stress the importance of the development of the Trans-European Network – Transport (TEN-T) and the promotion of the Motorways of the Sea, the promotion of short sea shipping, the development of Pan-European Transport Corridors and the extension of TEN-T, the Euro-Asian Transport Linkages and the promotion of the Euro-Mediterranean Transport Network. Furthermore, a Green Paper on the Future Maritime Policy of the European Union will be published soon, specifying the framework needed to achieve a better maritime transport policy in the EU and providing the guidelines for its development.

Greek planning for ports and other areas takes into account the development of the Motorways of the Sea in order to improve the existing maritime links or establish new, viable, regular and sufficiently frequent maritime links for the transport of goods, resulting in the concentration of transport flows on a selection of ports or port regions in a door-to-door logistics chain. **The development of the ports and their hinterland connections not only contributes to the reduction of transport costs and the promotion of an environmentally friendly transport mode but also meets the requirements of an intermodal transport system.** The improvement of the effectiveness and competitiveness of sea transport requires

market





concrete measures and investments that will facilitate the accessibility to transport services and promote the extension, integration and effective operation of the multimodal transport networks.

The Sea Motorways

The Motorways of the Sea currently constitute the most important new development in the sphere of short sea shipping and they are expected to attract funds from several sources. The creation of a Sea Motorway in the East Mediterranean Sea, connecting Central and Northeast Europe with the southeast edge of the European Union, Cyprus, and the Middle East region, through a trans-European multimodal transport system, offers an opportunity for further development of short sea shipping in the region. Greek ports can and will hereby play an important role.

Within the Framework of the Motorways of the Sea, closer cooperation between Greece, Italy, Malta, Cyprus and Slovenia has been established and memoranda of under-

standing have been signed for this purpose, which has resulted in the approval of a common TEN-T project. The project concerns the elaboration of a Master Plan aiming at the development of the Motorways of the Sea in the East Mediterranean, with a budget of 4 million euros. The Master Plan aims to identify a series of projects which will be submitted to new TEN-T calls of the European Commission.

On this basis, an ambitious investment program for an amount currently estimated at 6 billion euros for Greek port development is planned. The program, concerning a period of 10 years (2006-2015), includes the construction and improvement of infrastructure and superstructure, the purchase of modern mechanical equipment, information technology projects, personnel training programs etc, aiming to offer high-quality port services and improve port competitiveness.

The role of the EIB

For this reason a Financing Protocol between the Merchant Marine Ministry and the European Investment Bank (EIB) has been signed, according to which the Bank will provide loans for investments in ports up to the

amount of 3 billion euros. The loan conditions are favorable, since an attractive and stable rate of interest is foreseen, while there is a loan duration of 25 years and a grace period of seven years. The financing depends on the viability of each individual project. To take full advantage of the EIB resources and support the implementation of the investment plan, the ministry intends to hire a consultant.

Within the context of the 2006-2015 port development plan, it is foreseen that the private sector will contribute significantly to the development of the ports and the improvement of port infra- and superstructure. The contribution of the European Investment Bank to the 2006-2015 port development plan will facilitate and encourage the participation of investors from the private sector. Many leading firms have already expressed an interest in relevant projects and therefore a strong participation of the private sector is to be expected.

The liberalization of the market

Furthermore, the forthcoming liberalization of the port market in Greece is expected to increase significantly the opportunities for the involvement of the private sector and attract private funds for investments in the ports. Granting access to the port market services for private providers will enhance competition and affect positively the quality of port services.

It should be stressed that all programs in which the private sector will be involved will take into account the principle of equality of treatment, transparency, proportionality, mutual recognition, protection of public interest, protection of individuals and, finally, free competition.

The main projects

Some of the main projects which are under consideration are:

- In the ports of Elefsina, Lavrion, Rafina, Iraklion, Alexandroupolis, Corfu, Volos, Igoumenitsa, Patras and Kavala, the implementation and maintenance of security systems according to ISPS Code (estimated budget 50 million euros).
- In the port of Piraeus:
 - The development of the 'letonian' coast (estimated budget 50 million euros);
 - The superstructure of the new container terminal (estimated budget 35 million euros);
 - The development of the Krakari coastal area (estimated budget 90 million euros);
 - The improvement of the Palataki cruise terminal (estimated budget 18 million euros).
- In the port of Alexandroupolis: Development works in port infrastructure and superstructure (estimated budget 30 million euros).
- In the port of Igoumenitsa:
 - The establishment of the Thesprotia freight and distribution center (estimated budget 150 million euros);
 - The construction of a floating parking area and a building for multiple uses (estimated budget 10 million euros).
- In the port of Corfu: The construction of a new marina in the Spilia area (estimated budget 6 million euros).
- In the port of Patras:
 - The construction of the new port (estimated budget 125 million euros);
 - The expansion and development of the marina (estimated budget 10 million euros);
 - The maintenance of the Piraiki-Patraiki building for future commercial use (estimated budget 6 million euros).
- In the port of Rafina:
 - The construction of a new marina (estimated budget 5 million euros);
 - The construction of a passenger terminal (estimated budget 5 million euros);
 - The construction of a multistory parking building (estimated budget 5 million euros).
- In the port of Skopelos: The construction of a new marina (estimated budget 12 million euros).
- In the port of Hania:
 - The construction of a terminal for multiple uses in Souda Bay (estimated budget 8 million euros);
 - The construction of a new harbor for repair works and the reception of small vessels (estimated budget 10 million euros).

Public Private Partnerships

The attraction of private capital to the port industry for investments in infrastructure and superstructure and the collaboration of the public and private sectors are a priority and require long-term planning and policies.

The Greek Merchant Marine Ministry regards the implementation of the Public Private Partnership method as the most appropriate approach to achieve its policy goals. And this is because Public Private Partnerships provide new financial sources for investment projects, encourage innovation and the spread of best practices and guarantee flexibility, and Public Private Partnerships projects often deliver greater value for money compared with conventional methods because of the reduction of operating costs through the achievement of synergies.

Therefore, the Greek government has already taken all the required steps to facilitate

the attraction and the efficient realization of investments. Hereby I would like to mention a number of distinct and constructive initiatives taken to modernize and simplify the legal framework for investment which are the Cargo Distribution Centers Law (3333/2005), the new Development and Investment Law (3299/2004) and the Law regarding Public Private Partnerships (3389/2005).

Maritime transport can be considered as the backbone of economic and commercial growth in Greece. The Merchant Marine Ministry continuously seeks to upgrade the Greek port system in terms of infra- and superstructure and management in order to improve the overall competition and efficiency. At the same time, much remains to be done and the work ahead is both interesting and challenging.

The maritime sector has been identified as a key area which is important to Europe and within which we should be suitably placed to pursue the Lisbon goals of stimulating economic growth while creating more and better jobs. With this in mind, the merchant marine minister invites prospective investors to take advantage of the new investments opportunities opening up in the port sector, and who are most welcome to contact the ministry for any further information they may wish to have.

George Vlachos is secretary-general of Ports & Port Policy at the Greek Merchant Marine Ministry.

Speech delivered at the BHCC Conference 'Greece: Your Strategic Partner in Southeast Europe Investment Prospects & Business Opportunities,' March 3, 2006, London.

Greek Merchant Marine Ministry website:
www.yen.gr

market



The Greek dream:

Southeast Europe and

According to a market survey that was conducted recently on a 7,700-household sample in Southeast Europe and the Arab world, Greece has significant potential to penetrate the markets of these countries.

The sample of this survey included citizens in the capitals of Egypt, the United Arab Emirates, Saudi Arabia, Sudan, Albania, the Former Yugoslav Republic of Macedonia (FYROM), Bulgaria, Romania, Serbia and Montenegro, Turkey, Cyprus and Greece and gave researchers the privilege to examine key economic and social trends and highlight the opportunities for Greece and Greek enterprises.

The survey results

As far as the countries of Southeast Europe are concerned, the most important result garnered from the survey is that 60.2 percent of the respondents trust services and products from Greece, while Cyprus came a distant second in this respect, with only 38.7 percent of the respondents saying they trust its services and products.

The survey also indicated that Greece is really appreciated in the Arab world, since 61.1 percent of the respondents are positive about the perspective of closer financial and commercial links between their countries and Greece.

Furthermore, the positive view that Greece enjoys in these countries came to 74.5 percent. The fact that the respondents have a more positive view of Greece than they do of Great Britain, the US and Russia is

very important. It gives Greece a major competitive advantage and, despite the difficulties many Western countries have in penetrating the region, Greece can promote its role as a financial hub for the enterprises of the Arab countries to reach the European markets and vice versa.

Therefore, it is very important for Greek enterprises and the Greek government to take advantage of this positive image of our country and promote the enhancement and strengthening of commercial and financial ties with the aforementioned countries.

And this effort has already begun. The new government has already started exploiting these positive circumstances and has been expanding its activities and enhancing its diplomatic and economic contacts with the countries of the Arab world. Over the last few months, three very important missions to these countries of high-level-influence Greek delegations have taken place and proved that the message has been received at the highest level possible. Two of

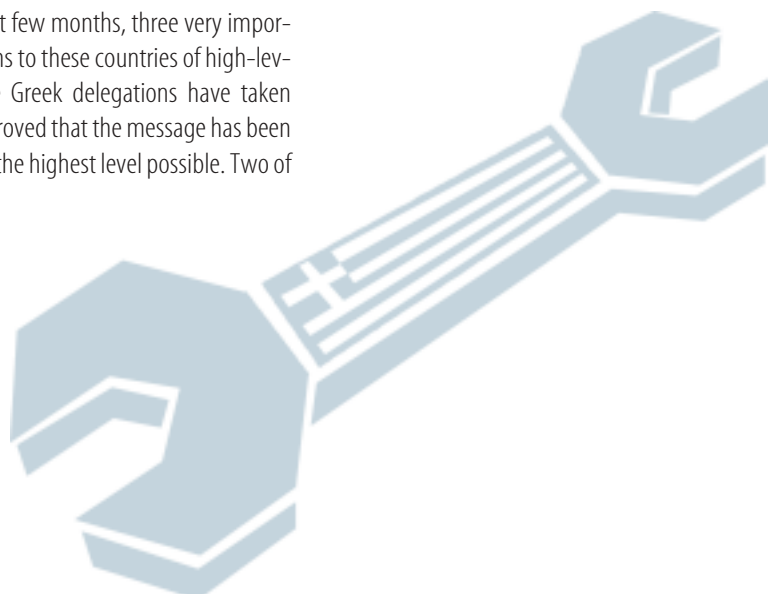
By Constantinos Angelopoulos

these missions were headed by Greek President Karolos Papoulias, something that reveals the importance that the Greek political world gives to these markets, which during the last few years have enjoyed an era of petroleum-fueled high growth.

Moving up a gear

Greece seems to be following the trends of the era and, after several years, it is finally on the train of growth and prosperity. It is also obvious that Greece is not only a passenger but is also trying to lead the way — at least in the broader region of Southeast Europe and the Middle East.

Great business deals are occurring after many years, and European enterprises, international hedge funds and enterprises of the Mediterranean countries, the Arab world and Russia are showing great interest in the liberalization of Greek markets. The deregulation of the natural gas and electricity markets in Greece, after many years of



the Arab world

procrastination, is now a reality and new opportunities and challenges are emerging for domestic and foreign companies in a sector that will attract investments of more than 4 billion euros in the years up to 2010.

The new economic environment is a result of the new government's growth model, which is founded on three main pillars: competitiveness, openness and the development of healthy private entrepreneurial initiatives. The new growth model is already sowing its seeds:

- The Institute for Management Development (IMD), in its annual World Competitiveness Yearbook, has upgraded Greece's ranking in 2006 by eight positions, to 42 from 50 in 2005. Greece achieved the third-best improvement over the previous year, following only China and India, which moved up 12 and 10 positions respectively. These results led Minister of Development Dimitris Sioufas to say that the policies of the new government were responsible for the significant improvement, since the data taken into account mainly concern the period from 2004 (when the new government was elected) to 2006.
- GDP growth is running at 4.1 percent, more than double the EU average, and

the budget deficit was reduced last year by 2.4 percent from 6.9 to 4.5 percent.

- Furthermore, Greek exports in 2005 rose by 13.1 percent and by 22.8 percent in the first three months of 2006.
- Greek tourism sector revenues rose by 7 percent during 2005, with a provision of a 10 percent increase during this year.

Reforms with a cause, and support

Greece is a modern European state with highly qualified and well-educated people ready to exploit the challenges of the new era.

The hardest step is always the first, and this step has been completed.

The main challenge for Greece is to promote entrepreneurship and competitiveness. The business and financial environments are changing. *Greek entrepreneurs have the chance to expand their businesses, but only if they move their main interest away from the Greek market.*

According to Professor Stephane Garelli, director of IMD's World Competitiveness Center, 'more than ever, competitiveness thrives on the ability to manage a totality of competencies and to capitalize on the vast amount and diversity of skills available in a nation or a

firm. Attitude also matters. In this respect, competitiveness can also greatly depend on the willingness to be precisely, competitive.'

Over the last two years Greece has been moving forward and implementing crucial reforms. These reforms are based on four key priorities, namely getting people into work, increasing competition, unlocking business potential and supporting an innovative environment that could trigger growth and more and better jobs.

More growth and more jobs mean a better quality of life for all Greeks, which in turn means a strengthening of the social and regional cohesion. The important fact is that these reforms are adopted by most of the Greek people who vastly support them, according to the latest surveys.

Under these circumstances, the next big challenge for the Greek government is to make the most out of the next Community Support Framework and the National Strategic Reference Framework for the programming period 2007-2013. The design and implementation of this framework will either ensure or jeopardize the convergence of the Greek economy with the most developed European economies. The main concerns should be promoting competitiveness, investing in human capital and enhancing entrepreneurial innovation.

Constantinos Angelopoulos is a mechanical engineer (AUTH) with an MSc in operational research (LSE) and adviser to the special secretary for competitiveness.

market



A LEADER OF SEE MAKES ITS EXPANSIVE STRATEGY

A top priority

NBG Corporate Profile. The National Bank of Greece (NBG) Group is the largest among Greek banks in terms of assets, loans, deposits and market capitalization. NBG was founded in 1841 and has been listed on the Athens Stock Exchange since 1880. Currently, NBG is the largest and most diverse financial group in the country (total assets under International Financial Reporting Standards [IFRS] in March 2006 stood at 61.1 billion euros) and the market leader in almost all banking-related sectors. NBG has a market capitalization of around 14 billion euros. It is a universal bank providing a full range of banking services, including corporate and retail lending, investment banking, asset management, insurance, brokerage etc. It holds a dominant position in Greece's retail-banking sector with 9.6 million sight/savings accounts, commanding a 30 percent market share in domestic sight and saving deposits. In mortgage lending, it enjoys a wide lead over its competitors, with a market share of above 25 percent. In consumer lending, NBG covers a wide spectrum of services ranging from credit cards and open loans to auto financing and retail factoring. NBG's market share in retail credit stands at 18 percent. With a broad network of 555 domestic branches and over 1,300 ATMs, NBG holds a competitive advantage in covering the geographical area of Greece. Furthermore, it is developing alternative distribution channels, through mo-

bile and Internet banking, to improve the service level offered to customers.

One of NBG's main strategic initiatives is to capitalize on its position as the leading financial services group in Greece in order to expand into the wider Southeastern European region. NBG believes that the latter, with a population of 130 million, represents a significant growth area. Seeking to further strengthen its position, NBG has recently agreed to acquire a controlling interest in Finansbank, one of Turkey's leading mid-sized financial institutions, thereby moving considerably closer to the target of becoming a leading regional player.

NBG, with employees at Bank level in excess of 13,500, invests in qualitative growth of its personnel by seeking to upgrade its skills and productivity. *As part of its new corporate culture, the Bank aims at upgrading staff skills and techniques in customer communication and service through continuous training and productivity bonus scheme systems.*

The spectacular 2006 first-quarter achievements can be highlighted as follows:

— Attributable profit climbed to historic highs, up to 28 percent, on a quarter-on-quarter basis, following a record-breaking fourth quarter of 2005 and despite seasonality, which traditionally makes the first quarter the weakest one.

— Return on equity (ROE) boosted by the increased balance sheet leverage, surpassed the record high returns of the previous year's first quarter, gaining 440bps and reaching 31 percent.

— Return on assets (ROA) rose to 2 percent in the first quarter of 2006, up 52bps from the first quarter of 2005, reflecting the Bank's improved asset mix.

— Solid retail lending boosted net interest income (NII) by 13 percent on a year-on-year basis.

— Insurance income maintained momentum, growing by 18 percent on a year-on-year basis, as the bankassurance model is fully rolled out.

— Core earnings in the first quarter of 2006 jumped by 36 percent year-on-year and 9 percent quarter-on-quarter, reaching 287 million euros on the back of booming core revenues and successful cost control.

— Positive 'jaws' continue to widen on a quarterly basis as expenses drop by 12 percent.

— The group's efficiency ratio for the quar-



NATIONAL BANK OF GREECE

ter recorded its best-ever improvement to reach 47.2 percent, exceeding already the 2007 Business Plan target.

The NBG Group's expansive strategy

In recent years, the NBG Group has achieved dynamic growth in both the domestic market as well as in the international environment by expanding its sphere of operations in countries where significant growth prospects are expected, as a result of NBG's strong competitive advantages. Having foreseen the South-eastern Europe (SEE) growth prospects and potential, NBG has capitalized on the geographical and cultural proximity of the region's countries, while remaining dedicated to the task of creating value for its shareholders, customers and employees.

The group's long-term commitment to the SEE region is clearly evidenced by the significant investment of capital and human resources, which now allow successful operation in an environment benefiting from increasing economic and political stability. NBG has invested more than 450 million euros to acquire and build its network in Albania, Bulgaria, Romania, FYROM and Serbia. Management expectations recapitulate the region's contribution to NBG's profitability

to a level of about 12 percent by 2007 — despite the continued rapid growth of NBG's domestic activities.

In line with the target of maximizing shareholder value, NBG finalized an agreement to buy a 46 percent stake in Finansbank, the fifth-largest private bank in Turkey. Noted for its strong management team and successful organic growth story, Finansbank offers a dynamic platform on which the group is to consolidate its growth in the Turkish market, with a population of approximately 70 million.

Finansbank's network comprises 208 branches and its successful operating highlights are manifested by 5,289 million euros total loans, 824 million euros total income and 350.4 million euros profit before tax as of year-end 2005. Moreover, according to year-end data, Finansbank has approximately 1 million retail clients, supporting a 10 percent share in new production of mortgages, 2 million credit cards, 150,000 SME clients, 54,000 corporate clients and focuses on five core sectors of the country's industries, i.e. trade, manufacturing, construction, tourism and agriculture. This acquisition move enhances NBG's role as a key financial player in the SEE region and is expected to provide the group not only with significant funding synergies, but also with the sound poten-

tial to forge a dynamic and successful growth trajectory in a target market.

Following this acquisition, over 30 percent of the group's income will derive from business outside Greece, thereby resulting in significant diversification of its income sources.

NBG's presence in the Southeast European region

The NBG Group has a strong and growing presence in five countries in Southeast Europe with a network of 285 banking branches and a combined regional market share of approximately 8.4 percent in retail lending as of December 2005.

Building on its unrivaled track record in Southeast Europe, the NBG Group is offering its customers a unique and competitive package of banking and financial services, continuously adapting to the international trends and challenges. Building on the principles of efficiency, trust, loyalty and optimal service provision, the group's strong position is further consolidated by leveraging its unique skill sets and cultural diversity.

The group's ultimate goal is to become the banking partner of reference for both consumers and companies in this region, thus serving as a major pillar of its expansion strategy and at the same time contributing to the region's further development and convergence with EU norms.

market



ALBANIA

The NBG Group's presence in Albania comprises a network of 11 units and has grown into a significant retail-banking player of the local market.

The Albanian network ranks among the top three banking institutions acting in the retail banking market, holding a leading position in the retail-lending sector with a market share of 14.6 percent as of May 2006. The Bank is scheduled to have a network of 15 branches by September 2006.

SERBIA

NBG established a presence in Serbia in 2002 and implemented an ambitious plan of expanding its retail banking activities in early 2004. Within two years, NBG managed to gain a market share of more than 6 percent in consumer lending, attracting in excess of 65,000 clients. NBG's network currently comprises 33 branches and is set to grow further, reaching a total of 40 branches by the end of 2006.

FYROM

Stopanska Banka

In 2000, NBG acquired a controlling stake in Stopanska Banka (SB), which is one of the largest banks in FYROM and provides a wide range of banking services with a network of 50 units. It also operates 22 ATMs and 2,147 POS. The Bank has achieved strong growth, particularly in retail banking, and in 2005 its lending portfolio increased significantly, reaching a market share of approximately 50 percent in new disbursements. According to May 2006 data, the Bank's market share in retail lending amounts to 38.4 percent. In line with NBG's strategy of growing consumer lending activities, SB was the first bank in FYROM to introduce the line of credit and issued the first co-branded credit card in the country in cooperation with a big supermarket chain. Moreover, it has extensive telemarketing activities to both cross-sell and up-sell to its existing clientele. In the first five months of 2006, SB recorded year-to-year growth of 27 percent in its loan portfolio (corporate loans increased by 15 percent and retail loans by 43 percent).

BULGARIA

■ **United Bulgarian Bank**

In 2000 NBG acquired a majority stake in United Bulgarian Bank (UBB), the country's third-largest bank, in which it now holds almost 100 percent of its share capital.

UBB offers a full range of retail and corporate banking services through a network of 141 branches and offices, as of June 30, 2006, located around the country. It has a leading position in POS and ATM networks, operating 400 ATMs and more than 2,800 POS.

The Bank has introduced innovative retail banking products in the Bulgarian market, including the issuance of Visa and MasterCard credit cards, the first co-branded scheme in the market, by joining forces with the local mobile phone operator Globul, consumer loans via telephone, financing consumer goods via instant credit schemes, in-store bank branches and phone/Internet banking. With a portfolio of 173,000 credit cards in circulation, UBB today is the pre-eminent credit card force in the market.

In the first five months of 2006, in spite of restrictions imposed by the central bank of Bulgaria in the credit expansion of the banking sector, UBB recorded a year-to-year growth of 16 percent in its loan portfolio, mainly thanks to a retail loan increase of 45 percent. In the same period, UBB presented a year-to-year increase of 18 percent on the customer deposits side. Its market share in corporate and retail lending is 10.7 percent and 15.4 percent respectively, as well as 11 percent in customer deposits.

It is also worth noting that the NBG Group has pioneered the first domestic mutual funds in the market and is in the process of building up a strong presence in bankassurance services. UBB was recently co-awarded the 'Bank of the Year 2005' award in Bulgaria.

■ **Interlease**

Established in 1995 and with the NBG Group's participation since 1993, Interlease is one of the major leasing companies in Bulgaria. The company shows continuous growth in both profit and total assets and has a market share of about 30 percent in asset term, though operating in a highly competitive environment. Interlease holds a fully diversified client portfolio, consisting of lessees from almost all sectors of the country's economical activity, with emphasis on the transportation and industrial equipment industries. Its clientele consists of both local and foreign companies. At present, the company employs 47 persons and is expanding its activities in the promising real estate sector.

ROMANIA

■ **Banca Romaneasca**

In October 2003, NBG acquired a majority stake in Banca Romaneasca (BR), a universal bank providing a wide range of retail and corporate banking services in Romania. Banca Romaneasca is operating a countrywide network of 50 branches. In February 2006, BR increased its share capital by 68 million euros and NBG's shareholding is now 88.7 percent.

During the first five months of 2006, BR continued to improve its performance regarding customer loans, achieving an increase of 23 percent compared to May 2005, and customer deposits, achieving an increase of 53 percent compared to the same period of 2005.

The Bank's sound corporate portfolio (primarily dedicated to financing small and medium-sized companies) has been supplemented by an impressive growth in retail lending (net) by 352 percent in the year period, through the enhancement of loan products and successful marketing efforts, reaching the amount of 249 million euros as of May 31, 2006. Its market share more than doubled, and currently stands at 3.3 percent. BR is the first bank in the country to have introduced telemarketing practices for the promotion and sales of personal consumer loans and credit cards.

Banca Romaneasca's rapid growth will

continue to be supported by the expansion of its branch network, expected to reach 80 branches by the end of 2006.

Recently, the Bank completed its organizational restructuring and set up an efficient centralized infrastructure to process and monitor its loan portfolio. In addition, it relocated business divisions in new modern offices to better serve customers, as well as modernized and upgraded the look of all Bucharest branches. BR is in the process of installing a brand-new, state-of-the-art IT system, which will further enhance its operation and clientele servicing potential.

■ **Eurial Leasing**

During 2005, NBG acquired a majority stake (70 percent) in the share capital of the Romanian leasing company Eurial Leasing. Eurial is a medium-sized leasing company operating primarily in the automobile leasing sector, being the major lessor of Peugeot cars in Romania. In line with the group's successful strategy to support its clientele via alternative financial services and cross-selling operations, as evidenced in the case of Interlease Bulgaria, NBG plans similar actions with Eurial. It will enhance the company's structure and expand its activities to cover the full spectrum of leasing services, in the short run boosting the company to become one of the leading companies in the Romanian leasing sector.

market



NBG-FINANSBANK

Long-term commitment

By Demetris Nellas

It is no secret that Turkey is by far the

largest market in Southeastern Europe, a market largely untapped and with excellent growth prospects. However, the move by National Bank of Greece (NBG) to acquire a 43 percent stake in Finansbank, Turkey's fifth-largest privately owned bank and ninth-largest overall, stirred up a storm, especially since the announcement, on April 3, was followed by turbulence in Turkey's stock market and the depreciation of its currency. The mildest criticism was that 'NBG has made a brave move at a bad time.'

'We do not feel at all like brave pioneers,' responds Paul Mylonas, chief economist and chief of strategy at NBG. The bank, he says, has developed a clear strategy to create the leading banking group in Southeast Europe. Turkey is an essential piece of the puzzle and Finansbank provides an 'excellent platform' for a strong presence in Turkey. NBG has made a commitment with at least a 20-30 year horizon, he says, and a temporary market 'turbulence' — a term he prefers to that of 'crisis' — will not dissuade it.

NBG's strategic objectives

Over the past few years, NBG has repositioned its foreign presence to take advantage of SE Europe's potential in a way that will help it sustain strong revenue and optimize capital allocation: It sold its North American subsidiaries, Atlantic Bank of New

York and NBG Canada, 'because we could not compete with the huge Manhattan-based banks,' says Mylonas; it divested loss-making operations in Frankfurt, Paris and Amsterdam and downsized operations in London. In the past six years it has acquired a 65.7 percent stake in Stopanska Banka, in the Former Yugoslav Republic of Macedonia (April 2000); an 89.9 percent stake in United Bulgarian Bank (July 2000); and an 81.65 percent stake in Banca Romaneasca; it has also acquired Eurial Leasing and Alpha Insurance in Bulgaria and AIG JV in Bulgaria as part of its strategy to create synergies by offering cross-platform products.

According to Mylonas, NBG has a successful merger and acquisition and integration track record in SE Europe. 'Our strategy consists of the following: Follow local brand strategy; appoint or retain local management; centralize audit, risk management and treasury operations; apply a common IT platform to exploit economies of scale and regional synergies; and focus on retail banking and SME business, capitalizing on the experience gained in the domestic market, particularly in mortgage lending,' he says.

Attractive banking sector

Turkey is the largest European emerging market with high GDP growth potential and an underpenetrated banking sector: Loans account for just 23 percent of GDP, far be-

hind the eurozone average (104 percent), Greece (84 percent) and Bulgaria (42 percent) but almost identical to the figures for FYROM, Serbia and Romania. Still, the banking sector has been experiencing fast growth, especially in its retail segments, since the crisis of 2001. Between 2002 and 2005, the compound annual growth rate of loans to enterprises was 40 percent, and was much faster for credit cards (58 percent), auto and consumer loans (109 percent) and mortgages (180 percent). The sector's growth potential has attracted several foreign investors besides NBG: Over the past two years, BNP Paribas, Unicredit, Fortis, Rabobank, GE Consumer Finance, EFG Eurobank and Dexia have all announced acquisitions of, mostly, majority stakes in Turkish banks. Foreign ownership currently accounts for close to 12 percent of total banking assets.

Commenting on the recent 'turbulence,' Mylonas says that one reason for not worrying too much about it was that the sources of shock were external. In any case, strong policy responses, such as rate hikes and interventions in the foreign exchange markets, have partially reversed the depreciation of the lira. Foreign exchange reserves remain at near-record levels of almost \$60 billion. Even



more importantly, fiscal discipline was not abandoned but produced strong results in June, leading to expectations that the primary budget surplus will exceed the initial target of 6.5 percent of GDP.

Finansbank: A strong partner

'Finansbank is a significant player, with strong presence, capabilities and growth potential,' says Mylonas. According to him, the Turkish bank's main strong points are the following:

- A strong brand name, which must be maintained;
- A strong management team, with considerable international experience;
- A dynamic sales culture, supported by highly incentivized staff; as Mylonas remarks, even the lowliest bank clerk is encouraged to bring in customers and sell them the bank's products;
- A focus on retail banking;
- A growing and productive network, with 236 nationwide branches as of March 2006 and developed alternative distribution channels;
- Growing centralized operations, with the branch network focusing on sales;
- Sophisticated IT systems, an integral part of the sales process; and
- Last, but not least, Finansbank posted the highest return on equity (28.7 percent) among the top six privately

owned banks in 2005. The next best result was posted by Akbank, with a return on equity (RoE) of 22.9 percent.

Synergy potential

All that would not matter much if acquiring Finansbank did not offer significant synergy potential: According to Mylonas, these can be found in funding benefits, cost saving potential and revenue enhancement opportunities. National Bank expects to refinance a significant portion of Finansbank's current wholesale funding at more advantageous rates. Likewise, Finansbank's expansion can be funded through NBG's access to cheaper funding. Cost savings will be achieved through the integration of IT infrastructure, back-office operations and card processing for the Group's Southeast Europe subsidiaries. Finally, revenue generation, in Turkey, is expected through an expansion in mortgage and consumer lending using NBG's own expertise in the field, and, in Greece and the rest of SE Europe, by using Finansbank's know-how in credit cards and alternative distribution channels to the Group. Finally, NBG plans to introduce higher-yielding, lira-denominated products to the Greek market.

Despite the significant drop in its share price, Finansbank's overall position was hardly affected by the recent turbulence, claims Mylonas, pointing out that its open foreign exchange balance sheet position is insignificant and that its bond portfolio consists mostly of floating-rate, lira-denominated securities, largely unaffected by changes in interest rates.

Macroeconomic environment

On Turkey's macroeconomic environment, Mylonas is positive; in addition to the continued fiscal discipline, he says, Turkey's export sectors have enhanced their competitiveness. In the banking sector, some retail business, such as mortgages, is expected to slow down, but we will see improvements in spreads.

'The National Bank is well on its way toward realizing its vision of creating the leading banking group in the SE Europe region,' says Mylonas, who clearly believes that the advantages and opportunities of Turkey's economy outweigh the political uncertainties. Will he be proven correct? As he himself has said, National Bank's investment has at least a 20-year horizon.

Demetris Nellas is a journalist.

market



Doing good across the borders

By Marilena Fatsea

Following its rapid expansion in Southeastern Europe, COSMOTE traces the steps to cohesion of its corporate citizenship practices with the aim of having a tangible impact.

Over the years, COSMOTE has built a strong brand that — in the mind of the average Greek — invokes the attributes of ethical commitment, proactive contribution to society and its overlying corporate *raison d'être*: a human-centric philosophy based on the principle of sustainability. That is: financial sustainability, the subsequent continued growth capability for shareholders, and sustainability for all people, communities and natural environments which ultimately shape the markets, work forces and wider operating landscape of the company.

COSMOTE has invested immensely, both in time and resources, in order to structure and preserve a strong social profile. It has opted to achieve that by focusing on the actual implementation of a wide range of corporate

social responsibility (CSR) initiatives. In other words, COSMOTE selected the challenging route of investing and really becoming a positive force in the environments it operates in, rather than just successfully communicating its being a model corporate citizen.

Over the years, the COSMOTE brand has evolved and the COSMOTE family of companies has expanded to include operations in Albania, Bulgaria, the Former Yugoslav Republic of Macedonia (FYROM) and, most recently, in Romania. COSMOTE, as a group now, realizes that its brand equity and associated social capital in Greece may not mean much in those new operating environments.

However, COSMOTE's CSR investment has proven a far more valuable asset. As it started expanding in other countries, the company deployed marketing practices, brand essence philosophies, strategies and, more importantly, human capital culture, all deeply affected by its existing social profile, past track record and reported commitments. Thus, the management teams sent out to those countries have not merely adhered to some CSR ideals but

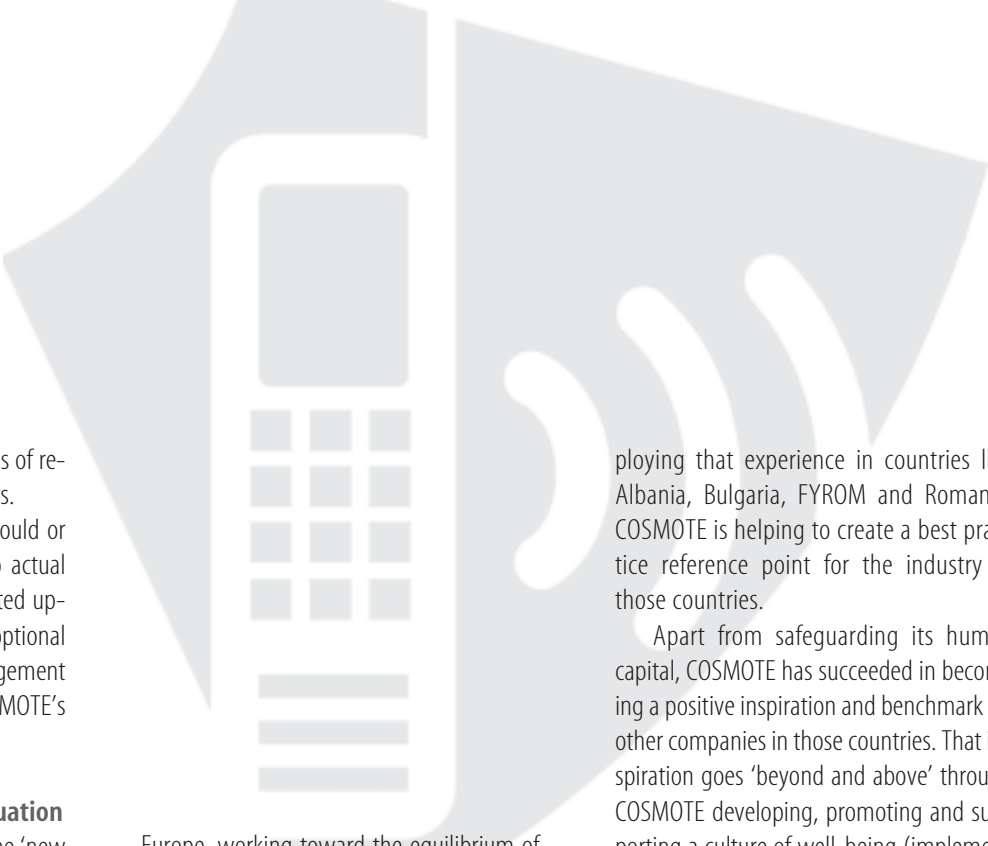
have consciously embraced and applied COSMOTE's core philosophy of human-centric sustainability through taking care of customers, its own human resources, the communities the company operates in and the natural environment.

Strategy deployment, synergies and co-operation in an array of operations have acted as the carrier of these human-centric philosophies, further establishing them in the common corporate practice.

COSMOTE's CSR investment is creating a common reference language for all, a living internal repository of best practices and reference procedures.

Ultimately, COSMOTE's internal concept of human-centric sustainability at all levels of corporate planning and operation is becoming a mantra of inspiration, motivation and transnational Group communication.

However, one should not forget that corporate social responsibility loses its meaning unless it addresses identified is-



sues and helps alleviate the problems of real people, societies and environments.

No centrally enforced strategy could or can be viable unless it responds to actual needs. A philosophy needs to be acted upon. And who better to show the optional way to apply this but the local management and people — the heartbeat of COSMOTE's SE Europe operations?

The Southeastern European equation

The COSMOTE Group has assessed the 'new reality' and concludes that in an era of globalization a transnational company should take into consideration the local parameters of the countries it operates in by adopting a 'think global, act local' mentality without compromising its core values and socially responsible direction that has cemented the brand in Greece.

Most of Southeastern Europe is in a state of flux and comprises transitional economies with unique complexities for each country. The COSMOTE Group has no option but to 'aggressively' move into every single one of those markets by formulating a corporate social agenda, taking into consideration local realities: protecting and fortifying the learning capabilities of Southeastern

Europe, working toward the equilibrium of working conditions in the region, embracing and communicating the uniqueness of the region's cultures, addressing SEE's critical social deficit in health etc.

Essentially, COSMOTE is moving into Southeastern Europe with the same principles, transparent operation and ethical values which have matured in Greece and have created a unique school of thought for all of COSMOTE's human capital, all based on previous experience of positive advancement in specific domains such as social welfare and health, environmental protection, culture and education and volunteerism. **The mantra of 'sustainability' and the COSMOTE core value of becoming 'a positive force' remain intact.**

For instance, COSMOTE has always viewed its human capital as the company's most valuable asset. Its expansion in Southeastern Europe has been a unique opportunity to replicate the creation of a modern and safe working environment offering equal rights and opportunities for all people, as it had done in Greece. In de-

ploying that experience in countries like Albania, Bulgaria, FYROM and Romania, COSMOTE is helping to create a best practice reference point for the industry in those countries.

Apart from safeguarding its human capital, COSMOTE has succeeded in becoming a positive inspiration and benchmark for other companies in those countries. That inspiration goes 'beyond and above' through COSMOTE developing, promoting and supporting a culture of well-being (implementation of recreational activities, employee participation in sporting activities and healthy living endorsement).

An ever-evolving process

Working closely with our subsidiaries in the region, we are helping to spread the word of our core CSR philosophy, adapting it to local needs and addressing identified real-life issues, developing synergies for a wider impact. Even more, we are taking local successful practices into account and incorporating them into the global social agenda.

It is a learning process. Indeed, its challenges are many. The reward for making it happen in a meaningful way, however, can be far greater.

Marilena Fatsea (PhD) is COSMOTE's corporate affairs director.

COSMOTE website: www.cosmote.gr

market



Globalization and profits in the Balkans

By Constantine G. Athanassopoulos
& Vassiliki Delitheou

The framework

Greek private direct investments in Balkan countries carry a special weight because, on the one hand, the country of origin of the capital invested is a member of the European Union and, on the other, it is a neighboring country and those involved are well aware of the business ethics prevailing on both sides. Furthermore, the existing historical bonds between Greece and the other Balkan countries, combined with the large number of immigrants from the latter to the former, contribute to the better understanding and collaboration of all concerned.

One should take into account, though, that this type of Greek investment — up to now and to a considerable degree — has in its favor the lack of any great interest or of the difficulties other countries encounter when attempting to financially ‘infiltrate’ the wider area of the Balkan Peninsula.

At the same time, Greek laws and regulations concerning Greek investments abroad are considered ‘reasonable,’ although some of those involved wish that they would comprise more types of subsidized ventures, such

as the acquisition of existing businesses in the host countries.

The risk

Now, however, it is considered imperative to establish measures that will smooth the path of Greek businessmen who wish to expand their activities and augment their profit¹, since there is no doubt that they are also exposing themselves to a series of risks.²

Within this framework, one should not seek the achievement of bilateral agreements that would be ‘very good’ for the Greek economy and simply ‘good’ for the economies of the host countries. The aim should be for any such proposed agreement to be more functional and fairer than any alternative that

could possibly be devised. Furthermore, this expected fair distribution of profit and opportunities also depends on a series of parameters, such as the establishment of the necessary reforms in the countries involved, but also on international conjuncture within the constantly changing regime of globalization.

For the real risk lies not in whether there will be Greek private investments in the Balkan countries or with their number. And anyway, inasmuch as local societies and markets are willing and allow it and Greek businessmen are profiting from these investments, it is inevitable that, as a consequence of globalization, those investments will be realized with or without the approval or support of the Greek state. Furthermore, it goes without saying that in view of the existing strong competition, capital will continue to strive toward discovering ways to achieve the most favorable business environment for cornering new markets.

1) C.G. Athanassopoulos, V. Delitheou: ‘Greek Private Investment in the Balkan Countries’ and the Hellenic Plan for the Economic Reconstruction of the Balkans (HiPERB) Athens, second edition, 2005. See also: C.G. Athanassopoulos: ‘The Legal Framework of Regional Development’ Vol. III, Athens,

2005, p 290. c) *The Bridge*. Issue 1, 02/2006, p 42.

2) That is to say: political instability, considerable state financial intervention, hostile attitude on the part of the local population, unlawful activities on the part of the team members, insufficient infrastructure etc.

Therefore, the Greek state has the duty to and should aim at lowering as much as possible the risks Greek capital will face through the reforms, establishing conditions of transparency and wiping out corruption in the neighboring countries within the framework of already existing international institutions and regulations and mainly within the framework of the European Union and the individual Stabilization and Association Agreements with the other countries in this area.

Greek investments

Following our investigation in the countries involved, quite reliable evidence shows that the situation, as it is currently developing, is particularly impressive with regard to Greek investments, not only on the agreements level but also on the purely financial level.

Currently 16 special Collaboration Agreements are being enacted with Albania, eight with Bosnia-Herzegovina, nine with Bulgaria, eight with Croatia, five with the Former Yugoslav Republic of Macedonia (FYROM), seven with Serbia-Montenegro and six with Romania.

Already Greek private direct investments, despite the inevitable difficulties that Greek businessmen are encountering because of the nature of the whole venture:

- Are covering 27 percent of the total of direct foreign investment in Albania;
- are second in importance in Bulgaria, totaling \$1.5 billion, while during the

last decade Greek foreign direct investments came to a total of 1 billion euros in Bosnia-Herzegovina;

- to 720 million euros in Serbia-Montenegro — in which the invested capital of Greek origin comes to 1.2 billion euros — and
- to \$1.3 million in Croatia, while they came to
- 700 million euros and have created 9,000 jobs in FYROM, where Greece is the top foreign investor, and, finally,
- are fifth among the important foreign investments in Romania.

The banking system

Precursors of Greek investments in the Balkans have been the Greek banks, either those operating out of Greece or their subsidiaries in the Balkan countries, or even, in certain cases, in collaboration with the Black Sea Trade and Development Bank.

The investments of Greek businessmen in the Balkan countries — hundreds of millions of euros in a new market of 120 million people — could not possibly have been realized without the involvement of the Greek banking system, which has been operating in the area either through the establishment of subsidiaries of Greek banks in the countries of

SE Europe, through the acquisition of local banks, as well as through participation in their capital, or even through simply financing the business ventures of Greeks.

Within this framework, the banks have co-financed Greek business initiatives in the Balkan countries, or have covered the business risk of the ventures being undertaken.

The Black Sea Trade and Development Bank

In certain cases the co-financing of the Greek businessmen was effected also in collaboration with international or multilateral financial institutions including the International Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, as well as the Black Sea Trade and Development Bank.



It should be further noted that the purely regional Black Sea Trade and Development Bank is the first multilateral international institution of its kind to be based in Greece, in Thessaloniki. Greece's participation in the bank's capital comes to 16.5 percent, the same as Russia's and Turkey's; 13.5 percent is the participating capital of Bulgaria, Romania and Ukraine, while the participation of Azerbaijan, Armenia, Georgia, Moldova and Albania comes to 2 percent.

In total, the Black Sea Trade and Development Bank has extended bank credit to Greek industrial developments or those of Greek interest based in Balkan countries to the tune of 150 million euros.

Altera pars

Nowadays, the view that the expansion of Greek business ventures in Balkan countries will prove beneficial to Greece itself — because of the repatriation of capital and profits, the acquisition of new know-how and

the opening of new fields of activity — seems to be gaining in popularity among Greek businessmen.³

The latter quote in their favor the expansion of Greek commercial activities beyond the country's national borders, the possibility of contracting business deals of strategic importance with foreign multinational or other concerns, and the direct or indirect facilitation of Greek exports, as well as that already existing organizations for the Balkans which offer the necessary substructure and operate out of Greece will be used to advantage. These are:

- The European Agency for Reconstruction;
- The Southeastern European Cooperative Initiative;
- The Inter-Balkan and Black Sea Business Center, and
- The Black Sea Trade and Development Bank.

Certainly the effect of Greek investments in Balkan countries cannot be labeled simply as positive or negative depending on the personal views of those involved, since it is an especially intricate and complex venture. Therefore, one cannot offer sweeping aphorisms as a conclusion, since one has to take into account the multifaceted, international economic environment of our times.

Yet it should be pointed out that it is

necessary to seek and find a more functional and fairer way of redistributing the accrued benefits between Greece — the country of origin of the capital and resources that are being invested — the Balkan countries that are receiving the inflow of Greek capital and the Greek businessmen involved.

It has to be done, even though this quest, especially difficult in itself, is being influenced by inherent factors, mainly in the host countries, as well as by outside ones that act to the detriment of all concerned. They are both products of the globalization of the economy, which transcends geographical borders.

3) See the views of the Association of Industries of Northern Greece as presented in a relatively extensive article: D. Symeonides: 'Greek Investments in the Bal-kans.' INTERNAL AFFAIRS. Vol. 3/2001. Athens, 2002, p 116.

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Dr Vassiliki Delitheou is an economist (PhD), specialized in regional development (MSc).



Enlargement 'fatigue'

Well-known politicians, academics and senior European Union officials have been asked to express their views on the cover story of **The Bridge**. The main aim is to examine whether there exists today the necessary political will and potential in order to overcome the already arising difficulties for an enlarged Union encompassing all the states of the greater Balkan region.

As a framework, the following questions were posed:

- Should enlargement of the European Union continue in the area of Southeastern Europe and why?
- Prominent politicians in France and Germany are voicing rejection of the further enlargement of the Union in the Balkans. Instead they are proposing the granting of a special privileged partnership status to the states of Southeastern Europe. Should such a solution be adopted and why?
- In such a case, what will the political and economic implications be, not only for the states of the Balkan Peninsula but also for the broader region of Southeastern Europe and the Union as a whole?

bridge

cover story

Inspiring transformation

By Olli Rehn

Today is just a week after the referendum in Montenegro. The final official results are still pending. There is an ongoing appeals procedure, although I note that most observers do not expect this to alter the announced result. The European Commission did not take sides on the substance of this referendum, but we did insist on certain benchmarks for its conduct to ensure its legitimacy. I am satisfied with the preliminary report of the OSCE/ODIHR (Organization for Security and Cooperation in Europe/ Office for Democratic Institutions and Human Rights), which stated that the referendum was conducted in line with international standards.

One more small country makes an even stronger case for regional cooperation. Large countries have larger internal markets and can better make their voices heard in the global arena, but even they have in Europe pooled their resources into and through the European Union. *Small countries need integration even more than large ones to advance their own interests and improve the lives of their citizens.*

The Nordic example

By way of example, this observation spurred the Nordic countries to pursue political and

economic co-operation and to set up the Nordic Council, establishing a passport-free zone and an integrated labor market in the 1950s, and pursuing economic and trade integration in the wider European framework. This has crucially contributed to the fact that the Nordic countries are nowadays topping the league tables of economic competitiveness and social welfare in global comparisons.

In the Nordic countries, there are roughly 25 million inhabitants, which corresponds to the size of the Western Balkans. Southeast Europe has a different history — with wounds that have not yet fully healed — but this does not diminish the need for regional cooperation, on the contrary.

Why does the EU insist on regional co-operation? First of all, good-neighboring relations are the very essence of the European Union. Second, regional cooperation makes sense both politically and economically. The countries of Southeast Europe mostly have very small domestic markets. By adopting common rules, tearing down barriers and

improving infrastructure, they can increase economic dynamism and make themselves more interesting to investors.

Trade ties

The EU is by far the most important trading partner for the Southeast European countries. All of them have experienced an increase in trade with the EU over the last few years. The largest increases are recorded by Romania and Bulgaria, which highlights how progress in trade and economic integration is linked to the EU accession.

Data confirm that deeper regional trade ties are developing hand in hand with EU integration: These two processes are complementary. It is important to note that the countries that register the highest rates of growth of bilateral trade with the EU are also those which have developed most of their trade within the region.

Despite apparent improvements, the region can do better — both regarding increased trade with the EU, the rest of the world and between themselves. Many countries in Southeast Europe show evidence of ‘under-trading,’ notably with other regions. According to a recent World Bank study, on average Southeast Europe is trading at just over three-quarters of its potential.

Apart from Bulgaria and Romania, which will join the Union in 2007 or 2008, and Turkey and Croatia, which are currently negotiating for accession, all the other countries of the Western Balkans also have a clear perspective to accede to the European Union,

once each of them has fulfilled the EU's well-known rigorous conditions to the letter.

To make this perspective more tangible, the Commission suggested several concrete measures in its January Communication. I am pleased that one of these, the regional free trade area, is on its way to being established. One single agreement instead of the current patchwork of over 30 agreements will increase trade within the region, attract more foreign investments, and thus help create more jobs.

The visa regime

I am also pleased that we have made progress on visa facilitation. The difficulties in obtaining visas isolate people and are bad for business, especially small businesses. Here in Belgrade, there is a man who is running a shoe shop. It has been in his family for generations, but he is now thinking of quitting. How can he persuade suppliers abroad to send him shoes when his bank is unfamiliar, his credit is unheard of and he cannot even go and visit possible suppliers? The main problem for him is to get a visa at a reasonable price and without humiliating queues and excessive bureaucracy.

In Skopje, there is an Italian entrepreneur who has started a small company, employing 10 persons. He wants to send a part of his work force to Italy for training, but that is impossible — it is too costly and difficult for them to get visas.

From Sarajevo, Tirana, Novi Sad, Tuzla and elsewhere we could tell very similar stories. We all understand why it is important

to facilitate procedures to cater for easier and cheaper access to visas.

The Commission will send negotiating mandates for agreements on both visa facilitation and readmission soon for the Former Yugoslav Republic of Macedonia and before the summer for Serbia and Montenegro. Others will follow later this year. It is a two-way street: **The more that the countries in the region do to ensure border controls and document security, the easier it will be for us to convince the EU member states to achieve concrete results on visa facilitation.**

The Stability Pact

This is a big day in the history of the Stability Pact — it is time to move from reflection to decision. The decisions to be made today on the transition of the Stability Pact are the result of intense consultations with the countries of the region, with EU member states as well as non-EU members of the Stability Pact. The Final Report of the Senior Review Group has been a major source of inspiration.

Let me express my gratitude to Dr Alpo Rusi, who has successfully chaired this group over the last months. Alpo, you were present at the creation of the Stability Pact in Sarajevo in July 1999; now you have been the intellectual engine behind its reform, thus making it ripe for an era marked by the EU perspective and by an increasing regional interest in getting behind the steering wheel.

Let me underline some aspects of the Stability Pact transition strategy:

- **First**, we need a transition that is realistic. I am pleased that we can count on Dr (Erhard) Busek to facilitate this process until its completion. But the signal must be clear. The shift of responsibility to the region must be done by early 2008. By then we must have set up a streamlined regional framework, with the region in the driving seat.
- **Secondly**, it is clear that the Southeast European Cooperation Process (SEEC) can play a key role, but it is up to the SEEC to seize this opportunity. I invite the Croatian chairman-in-office and the SEEC member countries to work closely with the Stability Pact, as well as with the European Commission, to harmonize respective plans. The action plan prepared by the Greek Chairmanship is a good basis. An important element will be the creation of the post of secretary-general, to be held by a person from the region and designated by the SEEC. The secretary-general will support the SEEC chairman-in-office and will also chair the proposed Regional Cooperation Council. She or he

will have a key role in the reformed regional framework. The choice of this person is very important. I trust that a person who has high-level competence, regional expertise and international experience will be selected — over other criteria such as nationality or political affiliation.

■ **Thirdly**, the proposed Regional Cooperation Council will aim to build on the legacy of the Stability Pact, and to keep non-EU players engaged. Donor coordination has been a success in South-east Europe, with unique mechanisms such as the European Commission / World Bank Joint Office. We must ensure that sound coordination is maintained. I look forward to intensifying efforts, also with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), which put an increasing focus on the region.

■ **Fourthly**, the countries of this region need to demonstrate their commitment to cooperation, for example through the devotion of modest financial contributions of their own.

■ **Fifthly**, I assure you that the European Commission maintains its active involvement in the region. The Commis-

sion has been involved for long as a partner, in areas such as the environment, transport, research and education, and integrated border management. In some instances the EU has even been a party to regional arrangements. Other EU institutions such as the European Parliament or specialized bodies such as Europol or the European Environment Agency are also actively involved.

Finally, the Commission will remain committed with the future regional program under the Instrument for Pre-accession (IPA), with levels of funding of a comparable magnitude as under CARDS (Community Assistance for Reconstruction, Development and Stabilization). We are ready to take our share of the funding of the streamlined regional framework, although, as the other donors, we do indeed expect that some degree of co-financing is made by the countries of the region.

Let me warmly congratulate Dr Busek for all the work done so far and for his personal commitment to the development of Southeast Europe.

I am pleased to note that many regional initiatives have moved forward recently. Now our common goal is to complete the

negotiations on a Regional Free Trade Area and the ratification of the Energy Treaty. The forthcoming signing of the Agreement on a European Common Aviation Area is another encouraging development.

The Stability Pact was established seven years ago. Profound changes have since then taken place in the region, not least with regard to European integration. I am therefore confident that the region can take responsibility for the transition plan of the Stability Pact.

The Commission will remain as the partner of Southeast Europe, and we are as committed as ever to our common goal of making the region's European perspective a reality.

Olli Rehn is a member of the European Commission, responsible for enlargement.

Speech delivered at SEE Stability Pact Regional Table, Belgrade, May 30, 2006.

Olli Rehn's webpage: ec.europa.eu/commission_barroso/rehn/profile/cv_en.htm



The importance of economic diplomacy

The importance of economic diplomacy

as a driving force for political development is well known and understood. After all, the reason why policy makers consider globalization to be the most important economic and social trend of our era is because localization and its attendant underdevelopment still reign supreme in large parts of the world.

International trade and other areas of global international economic relations are increasing in importance. As a result, if one considers the internal market in Europe, or the United States, and compares it with the level of economic relations between and within other regions of the world, it is clear that there are large areas for progress, prosperity and dynamism that could result from effective economic diplomacy.

By economic diplomacy, we mean the use of our political influence and relationships to:

- Promote international trade and investments;
- Improve the functioning of markets;
- Reduce the cost and risks of cross-border transactions;
- Achieve internationally accepted standards;
- Secure private property rights;

- Develop international telecommunications, energy and transport networks; and of course — first and foremost —
- Consolidate the right political climate to facilitate and institute all of these objectives.

This is a great challenge, especially for governments which must contend with the forces of economic nationalism, cultural anxieties, embedded corruption, and resistance to reform.

Conflict prevention

Economic diplomacy is also of great importance as a long-term instrument for conflict prevention. The most obvious example, and one of the greatest success stories of the past 60 years, is the creation and astounding success of the European Union.

When the Union was first established as the European Coal and Steel Community shortly after the Second World War, its basic idea — explicitly discussed by its founding fathers — was the strengthening of the economic ties between member states and nations as an instrument for preventing fu-

By Theodore Skylakakis

ture wars in Europe.

Indeed, for more than 60 years, Europe enjoyed unprecedented economic growth and political stability. So strong are the mutually beneficial economic bonds and interests that, today, conflict is unthinkable between the member states of the European Union.

However, this success is not the work of Europe alone. The United States played a crucial role, providing within the NATO alliance an immensely important security component. America's long-term commitment, lasting more than 40 years, until the major security threat of the Soviet bloc was eliminated, was essential to Europe's success.

The United States and Europe complemented each other, combining their respective strengths time and again, working together and with other powers and important nations of the international community within the framework of international organizations. That partnership, between Europe and America, is and will remain for the foreseeable future the most important factor for conflict prevention in the world.

But Europe utilized its unique historic experience only partially after communism collapsed and the continent was confronted by the inherent instabilities of emerging democracies and economies in Eastern Europe and the Balkans. Europe did succeed in enlarging the EU to embrace Eastern Europe, but failed to use the same instru-

cover story



ments in time in the case of former Yugoslavia.

This partial success can be explained if one considers some of the obvious disadvantages that limit the usefulness of economic diplomacy in conflict prevention — namely the need for long-term commitment to achieving objectives. Economic diplomacy is necessarily a long-term process. Its results start showing not in mere months or years, but rather after a decade, or even longer. So it cannot be effective by itself when a situation rapidly and unexpectedly deteriorates toward conflict.

Also in recent years, the importance of cultural differences as a fundamental cause for conflicts has influenced policy makers all over the globe. So much so that in some cases policy making has reached the other extreme of the pendulum. It has moved from excessive trust in economic tools and markets to the deterministic belief in cultural schisms. This is a dangerously effective concept, because it can act as a self-fulfilling prophecy. It can make us lose our focus on the fact that all the great achievements of Western civilization, involving human security, technological modernization, economic development and individual freedom, are still desired by billions of people today —

men, women, and children of different cultural backgrounds, but all sharing the same fundamental human needs, the same fundamental human aspirations.

Greek-Turkish relations

Let's now discuss specific Greek policies and initiatives, starting with Greek-Turkish relations, which are of great importance to the stability of the wider region of Southeastern Europe.

The basis of these relations today is the candidacy of Turkey for membership to the European Union. Greece made the brave decision to encourage and support the Turkish candidacy. We believe that if Turkey proceeds with the reforms necessary for European integration, both our countries, and the broader region, will enjoy very substan-

tial political, economic and security benefits.

However, the changes needed, in policies and in mindset, are considerable and daunting, as they have been for every single country that joined the EU. And it is important for Turkey to move in that direction with much more forcefulness and determination.

Granting candidacy status to Turkey was not an easy decision for European governments, especially considering the substantial opposition of European public opinion. Therefore, if the momentum of Europe's supportive decision is lost, it will indeed be very difficult to renew.

Parallel to the European process, Greece is working with Turkey to promote our bilateral economic relations. In the past seven years alone, we have completed an extensive framework of 13 major economic



agreements covering all aspects of our relations and, today, a number of projects and initiatives are being implemented.

I will cite the most important:

- The natural gas pipeline starting from Baku, going through Turkey and Greece to Italy, with construction already under way;
- The agreement to interconnect the electricity networks of Greece, Turkey and Bulgaria; and
- The decisions to jointly construct a new bridge across the Evros, the frontier river between the two countries, to jointly renovate our railroad connection, and to open new maritime corridors between Greek and Turkish ports.

Also in the last five years there has been a significant increase — more than double — in Greek-Turkish commerce, while 55 large Greek and Turkish companies have started investing across the Aegean Sea.

Finally, and this is a very important development, the National Bank of Greece, the country's largest, has entered the Turkish banking sector through the purchase and acquisition of Finansbank, Turkey's fifth-largest bank, for US\$2.7 billion. This is by far the largest single foreign investment of a Greek company anywhere in the world and clearly the dawn of a new era in our economic relations with Turkey.

Greece and the Balkans

Facing northward, our policies toward our Balkan neighbors are based on three pillars:

- Actively encouraging bilateral economic relations in the form of trade and investment;
- Supporting the aspiration of our neigh-

bors to become full members of the European Union; and

- Promoting the creation of a single Balkan economic space.

We have prepared the ground for stronger bilateral relations by signing more than 30 bilateral economic agreements covering most aspects of economic activities, including protection of investment, avoidance of double taxation, seasonal employment, transport, development of border crossings, tourist co-operation and development assistance.

Nearly 3,000 Greek enterprises and businesses have taken advantage of this new environment and are now actively conducting operations in these markets. Overall Greek investment now exceeds 8 billion euros, or more than US\$9 billion, in sectors such as banking, telecommunications, construction, energy, mining, cement production, foods and beverages, oil and petroleum delivery, and an array of professional services.

This process of heavy Greek investment started in the early 1990s and has never stopped, even while the region was in tur-

moil. Today, Greece and all of Europe are reaping the rewards of economic development as the foundation for long-term political democratization and stability within the countries of the Balkans.

Finally, Greek immigration policy has been critical to this success story. Over the past 15 years, Greece has accepted and successfully integrated a wave of immigrants, mostly from neighboring countries, that exceeds 10 percent of the country's entire population. This policy helped all the economies in the region, providing Greece with the needed labor and the countries of origin with sizable remittances and workers who returned to their homelands experienced in the functioning of a modern market economy.

The second pillar, Greece's support for the aspirations of our neighbors to become full members of the European Union, is of great strategic significance. The full integration of the Balkan countries in the EU is Greece's final, hopeful destination. And Greece remains firmly committed to this policy and this destination, even as wider Europe public opinion is showing strong signs of enlargement 'fatigue.'

A free trade area

This brings me to the third pillar of our Balkan policy: the promotion of a single Balkan economic space. Greece's final goal is the full participation in the European Union of all the Balkan countries. Therefore, we must recognize the practical obstacles

that lie ahead, especially in the Western Balkans. These obstacles are rooted in the creation of new states, in unresolved political problems and in continued difficulties in pursuing economic reforms.

So, an added, parallel effort is needed. The creation of a single economic space will facilitate the accession process of lagging Balkan countries and simultaneously provide immediate economic development with long-term benefits.

Greece supports this concept by supporting, together with our EU partners, the creation of a free trade area encompassing all our northern Balkan neighbors. The target date for signing the new agreement is the end of 2006.

Greece is also advancing the work on major trans-European transport freeways, railroads, and other networks that, once completed, will interconnect regional markets and create new arteries to nourish economic development. Though the main catalysts are the European Union and international organization funds, Greece provides considerable national funding as development aid to facilitate this effort, mainly in the X transportation axis that connects Greece with the rest of Europe through Serbia and the Former Yugoslav Republic of Macedonia.

Furthermore, Greece is facilitating the creation of a common energy market in the

region. An Energy Charter has been signed between the 25 EU members and nine countries in the region, harmonizing their internal legal frameworks with that of the EU to integrate energy connections running through the Balkans and enhancing regional and Europe-wide energy security.

In addition to the Greek-Turkish natural gas pipeline and the regional electrical grid, the Burgas-Alexandroupolis pipeline will provide yet another secure corridor for Eurasian oil to reach Western markets.

Greece is also leveraging its sizable development aid to promote economic unification and strengthen financial incentives for investing in the Balkans in smaller projects such as the broadband interconnection of regional education and research institutions.

Greece's economic diplomacy is also very active in the Black Sea region, where stability is utterly critical for the security of the global energy supply networks. Greece is present in the Black Sea through development aid and its membership in the Black Sea Economic Organization, supporting a number of initiatives such as the interconnection of electrical networks among Black Sea countries and the creation of a freeway around the Black Sea that can vastly improve their economic in-

frastructure and development.

The regional advantages

As the Greek economy becomes even more extroverted, in order to sustain our high development rate, now averaging at 4 percent annually, our economic diplomacy is also promoting our role as a gateway to Europe for other regions of the world.

Greece offers potential investors political stability, rule of law, modern infrastructure, and direct access to a newly dynamic economic region. Based on these regional advantages, Greece is strengthening its ties to economies with great development potential, such as China, using also our influential commercial maritime sector, which





owns 16 percent of the world's total shipping tonnage, the largest such fleet in the world. Clearly, Greece's shipping fleet is a genuine global strategic asset that accelerates the flow of international commerce in this 21st century era of globalization more than any other in the world.

Diplomacy and economic relations

If one examines the results of modern conflicts, in most cases the costs far outweigh the actual gains for all the parties involved. Short-sighted political motivations, fueled by ethnic, religious and cultural prejudice, usually explain the reason for irrational decisions.

Economic diplomacy in the long run can contain these forces.

We can visualize economic relations as threads interconnecting people, organizations, regions and countries. These threads are the daily transactions that are by definition voluntary and mutually beneficial and the long-term relations that create personal trust and dismantle hostile stereotypes and misperceptions.

These threads are created by trading goods and services between companies in different countries, by transport and telecommunications networks, and by energy connections and pipelines.

Powerful threads are created by big investments that dominate the news, but even when ordinary people work in one country and provide for their family in another, buying land and building houses, or when tourists travel and experience culture, food and entertainment in neighboring lands, the threads created can be lasting.

If enough such threads form the relations among countries, then gradually the destructive forces motivating conflicts will find themselves constrained and defeated by this net of intersecting economic threads. These destructive forces have long existed, and they will not disappear overnight. But like the ropes of the Lilliputians, the multiple

threads of economic relations, given enough time, can restrain and immobilize the Gullivers who wreak havoc in the world.

This is the long-term paradigm that Greece, as a longstanding member and integral part of the European Union, is actively and forcefully promoting in and throughout Southeastern Europe. Facilitating economic development and working hard not just to prevent future conflicts, but make them unthinkable in our region — this is the spirit, and the success, of our economic diplomacy.

Theodore Skylakakis is general secretary for international economic relations and development cooperation at the Greek Ministry of Foreign Affairs.

Speech delivered at the Woodrow Wilson International Center for Scholars, Forum of the 'Southeast Europe Project,' Tsakopoulos — Kounalakis Lecture Series.

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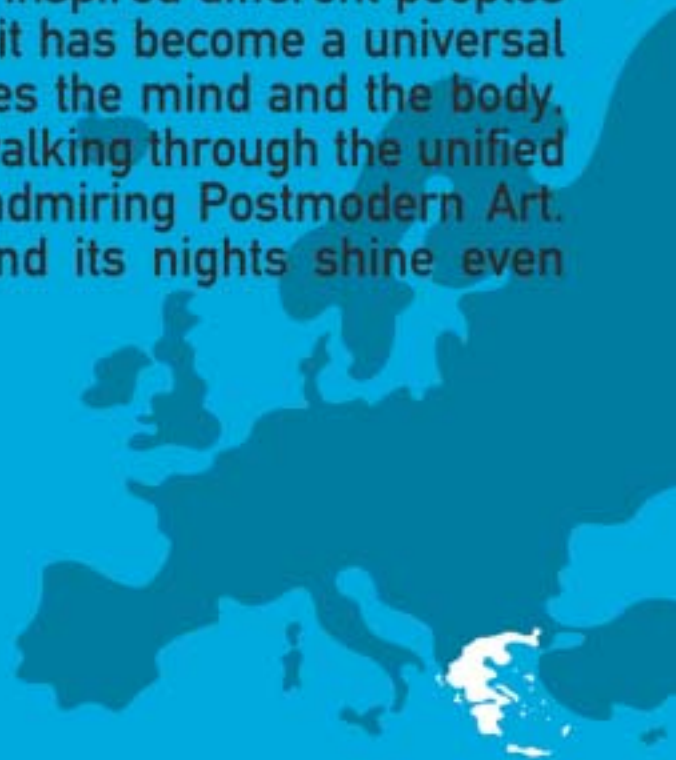
cover story



WONDER

NIGHTS BRIGHTER THAN DAYS

When the Greek culture shines through the starry summer skies in a packed theatre, it also shines upon the rest of the world. Having crossed borders and inspired different peoples around the world and across time, it has become a universal heritage. This culture, which glorifies the mind and the body, can be experienced equally when walking through the unified archaeological sites in Athens or admiring Postmodern Art. Greece is a metropolis of light and its nights shine even brighter than its days.



WONDERFUL GREECE

NIGHTS

The way to a



Yannis Valinakis
interviewed by
Vassiliki Nikoloulia

Professor Yannis Valinakis, Greece's deputy minister of foreign affairs, has a vision 'to transform our neighborhood into a region that is simply like the rest of Europe.' However, as he stresses, 'the only way to the European Ithaca is commitment to the final aim, willingness to move forward and the fulfillment of all the criteria and requirements of the EU.' For the states of the region, this means intensive work plus 'the ability to cooperate and to promote good relations.' 'Success lies in their own hands. There are no short cuts on the road to the EU. *The acceptance of European values and principles is not a matter of cherry-picking.*'

Furthermore, as he points out, 'the European Council has repeatedly confirmed that the future of the Western Balkans lies in the EU, the last time being in the conclusions of last June;' because 'nobody wants to see the Balkans become a black hole in the heart of Europe.'

For Professor Valinakis, responsible for European Union affairs, '*enlargement and deepening... are intrinsically interconnected.*'

■ *Is there really enlargement 'fatigue' in the European Union or is the real problem the ratification of the European Constitution?*

It is true that, following the results of the referenda on the European Constitutional Treaty in France and the Netherlands, a wave of skepticism has spilled over in some parts of Europe. The functioning and effectiveness of the EU, its continuous enlargement and relations between Brussels and EU citizens are under intense scrutiny. In order to meet the challenges of a globalized and fast-changing world successfully, the European Union must rediscover its founding moto: 'An ever closer Union.'

On the other hand, one should not forget that enlargement has historically represented Europe's greatest contribution to peace, security, and democracy. Enlargement and deepening are the two pillars of the European project, and thus they are intrinsically interconnected. Therefore, to get our institutional identity right means reattaining the adequate balance between the two processes.

Our country's position is clear: An enlarged Europe requires much more effort and dedication to the European vision. We must escape the trapings of the current standstill. The reflection period we are going through should very soon become a breakthrough period. This is not an easy task. But it is worth making a responsible, systematic and conscientious effort. It is certainly not the first time that Europe has moved forward despite difficulties. Let me remind you of the successful conclusion of the very difficult negotiations concerning the EU's financial

European Ithaca



perspectives for the period 2007–2013. So, based on past experience, I am confident that we will succeed in breathing new life into the integration process.

The privileged partnership status

■ ***Prominent politicians in France and Germany are already rejecting further enlargement of the Union in the Balkans. Instead, they propose the granting of a special privileged partnership status to the states of Southeastern Europe. Do you agree with such a perspective?***

Our vision is to transform our neighborhood into a region that is like the rest of Europe — a region of peace, democracy, prosperity and stability. That is why we supported — and continue to support — the European course of all the countries of the region. We deeply believe that the European perspective is the best and most appropriate way to enforce peace, stability and prosperity in Southeastern Europe.

The EU is a great force of reform founded on immutable principles and values. It is gradually and thoroughly transforming the destiny of the states and peoples participating in it, in the interest of peace, democracy and prosperity. The overwhelming attractive-

ness of the European model has been the basis of the EU's 'soft power.' I don't think that the EU will undermine its most potent weapon. On the other hand, we must make clear to all the candidate or potential candidate countries in our region that they should do their part by implementing concrete reforms in order to progress toward European integration.

The concerns expressed about enlargement should only serve as an additional incentive for full compliance. The only way to the European Ithaca is commitment to the final aim, willingness to move forward, fulfillment of all the criteria and requirements, intensive work, and the ability to cooperate and to promote good relations. Success lies in their own hands. There are no short cuts

on the road to the EU. The acceptance of European values and principles is not a matter of cherry-picking.

■ ***To what extent do European politicians use the Western Balkan countries as an excuse to forestall the accession of the country that they consider a real problem, namely Turkey?***

Every state aspiring to become a member of the EU at some point first has to give tangible proof of its 'European credentials.' This applies to all the countries of our region. Of course, not all the countries of Southeastern Europe enjoy the same degree of relations with the Union. However, such relations do exist. Bulgaria and Romania are about to join us in a few months; Croatia and Turkey have already started accession negotiations; the Former Yugoslav Republic of Macedonia (FYROM) was granted candidate status. . . In the framework of the Stabilization and Association Process, the other countries of the Western Balkans have either signed or are about to sign the relevant agreement, once they have fulfilled the relevant precondi-

tions. Therefore, the European perspective of the region is well founded.

No doubt it is important that the European Union's commitment to this perspective is clear, so that our neighboring countries can proceed to all the domestic changes that are necessary in order to join the family. Yet entry into the EU comes as a reward for their individual efforts to fulfill the EU criteria and requirements. Allow me to point out here that the greatest profit is indeed the fulfillment of these criteria and requirements, for these represent the essence of the European project. These criteria and requirements are what Europe is all about. They are not simply hurdles that need to be overcome; meeting them means internalizing the full array of values and principles that bind European nations together.

The European perspective

■ ***Do you think that the political leaders of Europe understand how crucial it is to strengthen instead of weaken the European perspective for the Balkan governments?***

The European Council has repeatedly confirmed that the future of the Western Balkans lies in the EU, the last time being in the conclusions of last June. Nobody wants to see the Balkans become a black hole in the heart of Europe.

■ ***What will be the political and economic implications, not only for the states of the Balkan Peninsula but also for the broader region of South-eastern Europe and the Union as a whole, if the perspective of full membership is postponed or thwarted?***

The Balkans have achieved a lot in the last decade. It is no longer a region torn by the conflicts and crises of the recent past. They have mostly slipped off the nightly TV news. The lessons remain, however, especially when it comes to questions of security. The Balkan crises of the beginning of the 1990s have taught the EU nations that we need to be able to respond quickly and effectively to emerging crises. They taught us that it is better to prevent a crisis than try to limit its consequences. Today Europe is wise enough to understand the implications of a wrong response to the expectations of the peoples of Southeastern Europe.

■ ***Will Greece accept the accession of FYROM in the EU without prior resolution of the issue of the official name of the republic at the level of the UN?***

As I have already mentioned, the transformation of Southeastern Europe into a region of peace and prosperity is our strategic goal. Having been a member of the EU for a quarter of a century, Greece will continue to con-

tribute to this end. The rationale is clear: The 'Europeanization' of our neighborhood will create a zone of peace and stability along and beyond northern and eastern borders, and will create a more conducive environment for achieving prosperity and development. That's why we have supported and continue to support the European perspective of our neighbors, including FYROM's. The name issue is a particularly sensitive issue for Greece. It is an issue that has troubled our relationship for many years. I regret to say that this prolonged stagnation was counterproductive. Under these difficult circumstances, we have demonstrated our willingness to revive the talks that take place under UN auspices. Moreover, Skopje's European ambitions provide a window of opportunity for ending this dispute. In fact, the EU has recognized FYROM's obligation to arrive at a mutually acceptable solution as one of the criteria against which Skopje's progress toward the EU will be measured. Greece's position is crystal-clear: In accordance with the 1995 Interim Agree-



tions. In order to get there, Skopje must fulfill the criteria set by the EU. And, as I stated before, good-neighborly relations are now a part of FYROM's obligations.

The case of Kosovo

■ ***Does Greece support Kosovo's right to self-determination or the principle of the integrity of Serbian territory?***

The Kosovo issue is a critical and complex question. The international community — and that includes the European Union, as well as the Contact Group — has set out a number of principles and guidelines. Greece, as a member of the EU and NATO, as a member of the UN Security Council and as a country with a broad network of good bilateral relations with all of the countries in the region, is intensely interested in this issue.

We support the efforts of the international community and of Mr Martti Ahtisaari and his team in particular to achieve a functional and sustainable solution. We also support the valuable role of the Contact Group. Moreover, during the Greek Chairmanship-in-Office of the Southeast European Cooperation Process (SEECP) we managed to achieve a more substantial involvement of the countries of the region in the relevant political process in progress.

It is our position that the solution must not be imposed, but should be the result of substantial negotiations. It must respect international law, as guaranteed by the UN and the relevant Security Council resolutions. It is imperative that the solution promotes regional stability and security, and be compatible with the principles of the EU, given the European perspective of all the countries of the Western Balkans. Kosovo must be multiethnic and secure, for all of its inhabitants, who must all enjoy exactly the same rights; progress in the implementation of the standards cannot be assessed following the determination of Kosovo's status. There

ment, FYROM's European perspective will progress, either after finding a mutually acceptable solution of the problem or under the present name, i.e. FYROM. There cannot be any alternative.

■ ***Why hasn't a date for the start of accession negotiations with FYROM been given, even though it has already been declared a candidate country?***

Indeed, last December the European Council granted FYROM the status of candidate country, without setting a specific date for the commencement of accession negotia-

tion. It is our position that the solution must not be imposed, but should be the result of substantial negotiations. It must respect international law, as guaranteed by the UN and the relevant Security Council resolutions. It is imperative that the solution promotes regional stability and security, and be compatible with the principles of the EU, given the European perspective of all the countries of the Western Balkans. Kosovo must be multiethnic and secure, for all of its inhabitants, who must all enjoy exactly the same rights; progress in the implementation of the standards cannot be assessed following the determination of Kosovo's status. There

must be effective protection of all cultural monuments, Orthodox places of worship etc. Finally, we want the EU to play a substantial role in the process for determining Kosovo's final status. There are no easy solutions to the problem and a great amount of political will is needed by all sides in order to overcome suspicion and transform Kosovo from a symbol of hatred into a symbol of harmonious coexistence. We should not risk the viability and effectiveness of a solution for the sake of maintaining an otherwise inflexible timeframe. If more time will lead to the best possible results, it is worth providing them with this opportunity.

Greek Ministry of Foreign Affairs website:
www.mfa.gr

The EU must keep its promise to the Western Balkans

By Tim Judah

Enlargement has been one of the EU's most successful policies. In the case of the Central and East European countries, the wish to join the Union has helped to foster stability, democratisation and economic reform. The Western Balkans emerged from terrible wars only a decade ago and has since seen bouts of instability and bloodshed. The region's countries need the 'EU anchor' even more than states such as Poland or Hungary did during their transition. Already, the EU has played a positive role in the Balkans. It has helped to broker and implement peace deals, it has sent soldiers and policemen, and it has given aid to rebuild the region's devastated economies. But most importantly, the EU has given the people of the Western Balkans hope — the hope that one day they too will become members of the club.

During 2005, the countries of the Western Balkans all made some progress on their path towards the EU. In 2006, however, the momentum seems to have stalled. EU politicians are openly questioning whether the Union's 'absorption capacity' has been exhausted. Some are already calling for a halt to enlargement once Bulgaria, Romania and Croatia have joined. However, such talk is dangerous at a time when the

The year 2006 is critical for the Western Balkans. Montenegro has voted in favour of independence, Kosovo negotiates its final status and Bosnia is struggling to push through radical reforms.

The objective of joining the EU helps these countries to find solutions to their many problems. But growing 'enlargement fatigue' in the EU could leave them disorientated and angry. If the perspective of EU accession receded, the risk of renewed instability would grow.

EU has a good strategy for the Western Balkans. But EU leaders should not mix the question of Balkan accession with that of Turkey, or with economic concerns at home. They need to reconfirm their promise to bring these countries into the EU as quickly as reforms in the region allow.

Western Balkans needs the European perspective to get through a very difficult year.

2006 — a key year for the Western Balkans

There are two main reasons why 2006 is critical. The first is that a question mark now hangs over the relationship between the European Union and the region referred to as the Western Balkans, namely Serbia, Montenegro, Kosovo, Bosnia-Herzegovina, Macedonia, Croatia and Albania. Over the last few years, strategic planning for the future of the region has relied on the assump-

tion that it is moving slowly but surely towards EU membership. EU leaders accepted these countries as candidates in principle at the EU-Balkans summit in Thessaloniki in 2003. However, since then the EU has shown increasing signs of 'enlargement fatigue'. At another EU-Balkans meeting in Salzburg in March 2006, the EU reiterated its pledge of keeping the door open. However, this time it added a reference to the Union's 'absorption capacity' as a potential barrier to future accessions. Some prominent politicians in Germany and France have suggested the EU should offer the Balkan countries a 'privileged partnership' instead of full membership.

The EU has already shown that it intends to be tough on potential members. On May 3rd, the European Commission called off talks with Serbia and Montenegro on a stabilisation and association agreement (SAA) because the Serbian government had failed to arrest and extradite General Ratko Mladic. The war crimes tribunal in The Hague has indicted Mladic, the wartime commander of the Bosnian Serb army, for genocide, including his part in the murder of some 8,000 Bosnian Muslims following the fall of Srebrenica in July 1995.

The second reason for concern is that fears about the EU's commitment to further



enlargement come at a time when the Western Balkan countries face highly sensitive decisions concerning their statehood and governance. Negotiations over the 'final status' of Kosovo — the overwhelmingly Albanian region that is formally part of Serbia — started earlier in 2006. On May 21st, Montenegrins voted in favour of ending their 'state union' with Serbia. The EU has been heavily involved in both processes. Radical reforms lie ahead in Bosnia, where the EU is expected to play a bigger role than in the past. Macedonia — now officially a candidate country — is hoping to start accession talks soon. Croatia, which is already in accession negotiations, is banking on rapid progress.

If the credibility of the accession process weakens — because EU leaders put short-term political decisions ahead of long-term strategic considerations — the EU's leverage over the weak states of the Western Balkans will diminish drastically. In this case, economic and administrative reforms would slow down, and the search for sustainable solutions to the outstanding political problems would become vastly more difficult. Instead of entering a new era in which the Western Balkans consolidates internally and focuses on getting ready for EU entry, the region could turn into an entrenched base for trafficking and organised crime and a haven for terrorists and Islamic fundamentalists. Such an outcome would be disastrous for the Western Balkans, and soon also for the rest of Europe.

Ever since the end of the Kosovo war in 1999, western governments have shown a growing sense of complacency about the Western Balkans. The Balkans problem, they seem to think, has been more or less dealt with. However, it is critical for EU policy-makers to understand just how important the possibility of membership is for motivating Balkan governments to keep modernising their countries and aligning their political systems with EU norms.

Kosovo seeks status

The single most difficult issue on the current agenda is Kosovo. Technically it remains a part of Serbia. But since the end of the 1999 war, Kosovo has come under the jurisdiction of the United Nations. Of its two million-odd people, well over 90 per cent are ethnic Albanians who have consistently demanded full independence. If they do not get it, or believe they are moving towards it, the hard-liners among them could return to violence.

About 100,000 Serbs remain in Kosovo, either in an area of the north abutting Serbia proper, or in enclaves across the province. In essence, two rights under international law clash in Kosovo: the Albanians' right to self-determination and Serbia's right to territorial integrity. Serbia's leaders have proposed

giving Kosovo "more than autonomy but less than independence". Kosovo Albanian leaders reject this out of hand.

UN-mandated talks on the 'final status' of Kosovo began on February 20th 2006. Both the EU and the US are represented at the talks, which are led by Martti Ahtisaari, a former Finnish president. He is widely expected to recommend to the Security Council later this year that Kosovo should obtain independence, albeit with some, probably time-limited, conditions. Serbia will reject this, although it will not be in a position to do much about it. However, the Serbian leadership could encourage moves that would make any imposed settlement difficult to enforce. For example, it could encourage Serbs in the north of the province to declare independence from Kosovo and eject institutions such as the police, which are already weak in Serbian areas. Clashes could occur in and around the Serbian enclaves, triggering another exodus of Serbs from these areas. The EU is expected to play a major role in Kosovo once its status has been resolved. Assum-

cover story



ing that Kosovo will become independent, the EU is planning to send a representative, establish a rule of law mission and help reform the state bureaucracy.

Radicals are gaining ground in Serbia

Independence for Kosovo would not trigger another Balkan war — 17,000 NATO-led troops in Kosovo and a 6,000 strong EU military force in Bosnia would see to that. But it could fuel support for the extreme nationalist Radical party in Serbia. Although the party's nominal leader, Vojislav Seselj, sits behind bars in The Hague, the Radicals are already the biggest single party in the Serbian parliament, and the latest opinion polls give them support of around 36 per cent, albeit of a very disillusioned electorate of which only 48 per cent say they would be sure to vote.

A Radical-led government would be bad news, not only for Serbia but for the wider region. It could encourage the Serbs in Bosnia and Kosovo to be more obstructive and stubborn. Serbia's talks with the EU (and NATO) on future membership would remain suspended. **An isolated and angry Serbia could once again become Europe's pariah — and a drag on the westward move of the rest of the Balkans.**

A Radical government in Serbia would also play into the hands of the opponents of further EU expansion. They would argue that the Western Balkans are replete with immature and corrupt politicians and that,

rather than integrating the region, the EU should keep its existing tough visa requirements and use other barriers to fence it off.

Some policy-makers in the US are now arguing that the risk of a radicalisation of Serbian politics would be reduced if the process of making Kosovo independent was delayed. This would give the international community more time to help guide Serbia safely into the EU and NATO. It is no longer practicable to put the question of Kosovo on hold, though it is true that Serbia would find it easier to accept independence for Kosovo if the whole region kept moving towards the EU. The EU still holds the carrot of resuming talks for an SAA. An SAA — which covers trade and political co-operation — is an important step on the path to EU membership. Only after such an agreement has been signed can countries hope to gain official candidate status and then start accession talks. If General Mladic were arrested soon, Serbia and the EU could still hope

to sign an SAA before the end of the year, bringing the EU process back on track.

Montenegrins vote on independence

Meanwhile, Serbs are also trying to come to terms with Montenegro's decision to become fully independent. Until 1997 Montenegro had stood steadfastly with Serbia. But after Milo Djukanovic, the then president and now prime minister, fell out with Slobodan Milosevic, he started pushing for independence. After Milosevic's fall, Javier Solana, the EU's foreign policy chief, stepped in. He feared that if the 672,000 Montenegrins voted for independence, it would unsettle Kosovo again. In 2002 he persuaded Montenegro and Serbia to replace the old Federal Republic of Yugoslavia with a loose 'state union', but with the proviso that either republic could opt to leave after three years.

On May 21st 2006, 55.5 per cent of Montenegrins opted for independence in a referendum. EU governments heaved a sigh of relief, not only because the vote went surprisingly smoothly, but also because the outcome did not fall within a

grey zone between 50 per cent and 55 per cent voting. Pro-independence Montenegrins had argued that any vote above 50 per cent would be enough for independence but the EU had insisted that the threshold be raised to 55 per cent.

EU diplomacy was successful, thanks to the EU's two envoys, Miroslav Lajcak and Frantisek Lipka, both seasoned and Serbian-speaking diplomats from Slovakia, a country that had lived through its own 'velvet divorce' from the Czech Republic in 1993. Montenegro will now be allowed to continue SAA talks on its own, which may focus some minds in Belgrade.

Bosnia-Herzegovina — still growing together

The future of Bosnia is also intimately bound up with the EU. Without a doubt, the Dayton peace accord of 1995 was a success in terms of ending the war. However, its legacy is a complicated and dysfunctional state, which urgently needs reform. Today Bosnia, with around 3.5 million people, has two 'entities', a weak central government and one autonomous zone (the Brcko district). The Serb part of Bosnia is called the Republika Srpska and the Croat-Bosniak part is called the Federation (Bosniak is the name now used for Bosnian Muslims). The Federation is subdivided into ten cantons, each with a powerful

local administration. In short, Bosnia is expensive and cumbersome to run.

Since 1997, Bosnia's administration has been overseen by a High Representative who has the power to remove politicians and officials if they refuse to accept reforms. The use of these 'Bonn powers', backed up by EU demands, has set Bosnia on a course towards modernisation and reform. For example, Bosnia had to plough through a list of 16 tough measures, such as energy sector restructuring, improvements in the customs and tax systems and streamlining the bureaucracy, before the EU gave the go-ahead for SAA talks in November 2005.¹

Clearly, a country cannot aspire to EU membership as long as the last word in its governance rests with an appointed outsider. Bosnia's new High Representative, Christian Schwarz-Schilling, therefore aims to abolish the job by June 30th 2007. Like his predecessor, Lord Ashdown, he doubles as EU Special Representative in Bosnia. As the role of the High Representative weakens, the role of the EU Special Representative becomes more important. In other words, Brussels conditionality will gradual-

ly replace the Bonn powers. However, the EU's influence will be a lot weaker if its governments keep sending mixed signals about membership. Already, some in Bosnia suspect that the Bosnian parliament's rejection of key constitutional reforms in April 2006 was related to the EU's dwindling credibility.

Similarly, police reform — another key EU demand — remains stuck. The EU would like new police districts to straddle the boundaries of the two entities so that local politicians can no longer use the police for their own ends (such as protecting rather than arresting indicted war criminals). If the Bonn powers were abolished at a time when EU accession prospects remained bleak, politics would become gridlocked again. Bosnian Serb leaders would retreat from working with the country's central institutions and Bosnia's Croats would clamour ever more loudly for a third Croat entity within Bosnia. Bosnia — an already enfeebled state — would wither. An embittered Muslim entity would be all

1) For a contrary view of the EU's role in Bosnia, see Edward Joseph, 'A decade after Dayton: Lessons not to learn about democracy building from Bosnia', *Democracy at Large*, IFES, Vol 2, No 2, 2006.

that remained. Bosnia could become a failed state. By contrast it is noticeable that in the one area where Bosnia's two entities and three peoples all agree to aim for — European integration — Bosnians can work together in perfect and efficient harmony. This is clearly symbolised by the team brought together by Igor Davidovic, Bosnia's (Serb) chief negotiator and the director of the team in charge of preparations, (Bosniak) Osman Topcagic.

Croatia's fate matters

Croatia's EU accession is often seen as separate from that of the rest of the Western Balkans, but Croatia's fate matters for the whole region. Croatia is richer, more stable and more developed than its eastern neighbours. Even enlargement-sceptic member-states, such as Austria and France, strongly support Croatian accession. Nevertheless, the EU's decision in October 2005 to start accession talks with Zagreb was taken by the other Balkan countries as a sign that the EU is serious about further enlargement.

With its 2,000-strong team of negotiators, lawyers and lobbyists working at full speed on pre-accession preparations, the Croatian government hopes to join as early as 2009. Early Croatian accession would be welcome in the whole region, provided the EU signals that its door remains open. However, if Croatia slipped in while the other

Balkan countries were left with dim prospects, its membership could even serve to destabilise the wider region.

The wealth gap between Croatia and Bosnia would widen further and emigration from Bosnia would accelerate. Many Bosnian Croats (plus those from mixed families) have already obtained Croatian citizenship, and many more could apply, not least because a Croatian passport allows them to travel to the EU without a visa. The number of Bosnian Croats has already halved from 800,000 before the war, and could fall further. The remaining ones would resent the Bosnian state thrust upon them against their will. They would reinforce their inflammatory demands for a Bosnian Croat entity, which would undermine attempts to build a stronger central state in Bosnia.

Macedonia: the EU's unsung success

Macedonia is the EU's big, unsung success story in the Balkans, but a continued EU perspective is crucial for this success to be sustained. At least a quarter of Macedonia's two million-odd people are ethnic Albanians. Just like Bosnia's Croats and Serbs, they were initially unenthusiastic about their new state, especially as it divided them from their ethnic kin in neighbouring Kosovo. In 2001 ethnic Albanian guerrillas, with support from Kosovo, started fighting for a separation from Macedonia.

The EU helped to dampen down the fires, before they could develop into a full-blown war. Diplomats from the EU played a key role in securing and then nurturing the peace agreement of 2001, known as the Ohrid accord. The peace deal came in the wake of the EU and Macedonia signing an SAA — a crucial although not official prelude to the overall deal. To secure the peace, the EU's first-ever military mission took over from the local NATO force in 2003 (this was later succeeded by an EU police mission).

Since then, the former adversaries have worked side by side, within the government and more broadly, towards a common aim: EU membership. To acknowledge the progress made with stabilisation and reform, the EU officially accepted Macedonia as a candidate in December 2005. The Commission has drawn up a list of measures that Macedonia has to implement, ranging from strengthening the rule of law to improving environmental protection.

Although Macedonia is now further on its way into the EU than most of its neighbours, its stability cannot be taken for granted. **A weakening of the EU anchor could encourage Macedonia's Albanian minority to look for an alternative in the form of a 'greater Kosovo' or 'greater Albania'.** If such demands flared up, the result could be violence, mass movements of people and even another redrawing of Balkan borders. Prolonged delays in the accession process would provide ammunition to nationalists in both communities. It would also encourage more and more ethnic Macedonians to leave their country. Already, tens of thousands have used even the most tenuous links to claim Bulgarian passports. The motivation to do so will only become stronger once Bulgaria has joined the EU.

Albanians abroad

Albania can also claim close links with the EU — albeit of a very different nature.

Some 35 per cent of Albania's labour force works abroad, either legally or illegally, of which an estimated 600,000 are in Greece and 200,000 in Italy.² A large part of the Albanian economy depends on remittances from EU countries. If Albania wants to join the EU one day, it needs to build a more sustainable basis for economic growth.

Already, Albania has improved immeasurably since its economic and political meltdown in 1997. The government is stable, and the IMF is holding Albania's hand in trying to fix the economy. The authorities have clamped down on organised crime, in particular the trafficking of people, weapons and drugs across the Adriatic. Some big-name gangsters have been arrested and Albanians are no longer allowed to use speed boats for the purposes of illegal immigration.

Albanians are aware of the enormity of the tasks they face before they will be ready to join the EU. But after decades of communist isolation and 15 years of uncertainty, lawlessness and sometimes outright chaos, the Albanians are extremely willing EU partners. Following the 2005 elections, the new government was able to speed up negotiations on an SAA, which was concluded in early 2006.

Keep up the pace

The end of 2005 was good for the Western Balkans. Every country in the region advanced one step towards the EU, which created an overall sense of momentum: be-

tween October 2005 and February 2006, Croatia started accession talks; Serbia and Montenegro as well as Bosnia began negotiations on an SAA; Macedonia was accepted as an EU candidate; and Albania concluded its SAA with the EU.

In November 2005, the European Commission reconfirmed its commitment to enlargement in an updated strategy. With regard to the Western Balkans, the Commission argued that "a convincing political perspective for eventual integration into the EU is crucial to keep their reforms on track".³ In January 2006, the Commission followed up with a communication that laid out a series of practical measures for the Western Balkans and encouraged the countries concerned to form a regional free trade area.⁴ At present, the Western Balkan states are linked through a complex web of bilateral trade deals. Most of them are more restrictive than the deals that the Western Balkan countries have concluded with the EU. The result is that it is easier to sell, say, Bosnian wine in Germany than in Serbia. Moreover, the paperwork needed to move goods across the region can be prohibitive. The EU wants to see bilateral rules replaced with a

region-wide system to encourage economic integration.

The EU has also made available a chunk of money to help the Western Balkans prepare for accession. During the 2007-2013 budget, the EU will deliver aid through a new instrument of pre-accession assistance (IPA), which consolidates monies in EU programmes such as PHARE and CARDS, currently delivered through the European Agency for Reconstruction (EAR). Although the final details of future funding for the Western Balkans have not yet been agreed, the Commission has pledged that the sums will not be smaller than the 679 million euros earmarked in the 2006 budget, and could hopefully be larger.

Since the end of the Balkan wars, the EU has spent much of its aid to the region on physical reconstruction, such as rebuilding houses in Bosnia and Kosovo, bridges destroyed by NATO in Serbia and

2) Barjaba Kosta, 'Albania looking beyond borders', *Migration Information*, August 2004. <http://www.migrationinformation.org/Feature/display.cfm?id=239>

3) European Commission, '2005 enlargement strategy paper', November 9th 2005. For a summary of the strategy and the Commission communication, see Institute of European Affairs, 'Balkans update', No 10, March 2006.

4) European Commission, 'The Western Balkans on the road to the EU: Consolidating stability and raising prosperity', January 2006

roads across the region. Infrastructure improvements have been key for the region's economic revival and the re-establishment of economic links between the different countries.

More recently, the EU has shifted its focus towards strengthening state administrations and public institutions, to enable them to understand, implement and enforce EU rules and regulations. The EU has extended its successful 'twinning' programme to the Western Balkans. For example, the EU will bring French and Slovene experts together with Serbian and Montenegrin officials responsible for EU integration to share expertise and experience. These kinds of exchanges have already helped some of the Balkan countries. Thus in 2004-05 Macedonian officials managed to answer in record time the 3,000 questions that the Commission had posed to prepare its 'opinion' on the country's membership application. During this exercise they received a lot of help from Croatian colleagues who had only recently undergone the same exercise.

Unemployment remains a problem

EU money and advice are also crucial for addressing two of the more serious problems shared by all the Western Balkan countries, namely economic weakness and organised crime.

Growth has returned to the region and people's incomes are rising gradually. The size of Serbia's economy has more than doubled in the last five years (in dollar terms), and Bosnia's economy has been growing by more than 5 per cent a year. Macedonia's growth is more subdued but the country boasts low inflation, a sound budget and very little public debt.

Nevertheless, the region's economies remain weak. Unemployment remains a major problem, although official statistics tend to overstate jobless numbers. For example, Bosnia's official unemployment rate is 43 per cent and Serbia's 32 per cent. Once those people working in the grey economy are taken into account, real unemployment is probably closer to 16-20 per cent in both countries — though still a worryingly high number. Poverty is widespread and social security systems remain extremely weak. Almost a fifth of Bosnians live below the poverty line, and another 30 per cent hover just above it.

Political stability and the prospect of getting closer to the EU have encouraged economic reform across the Western Balkans. Foreign companies, from French supermarket chains to Italian car-makers, are

moving into the region in the belief that in a decade or so it will join the EU. The experience of other Central and East European applicant countries suggests that the real rush of foreign investors only starts once accession has become a certainty, and economic and legal preparations have speeded up accordingly. Conversely, diminishing accession prospects could lead to a slackening in reform efforts and a loss of confidence among investors. **Slower output growth, rising unemployment and a return to economic instability would trigger new waves of illegal migration to the richer EU countries.**

Another area that has seen much progress in recent years is the fight against organised crime. Again, the EU has been instrumental. First, it has told the governments in the region that progress towards EU accession will depend on reinforced efforts to clamp down on smuggling and organised crime (although some think that the EU could be a lot tougher in its conditionality). Second, gradual EU integration entails closer police cooperation, including

help with modern technology and policing methods, culminating in better relations between interior ministries.

Visa walls

One area where the EU has made little progress in recent years is in making it easier for the people of the Western Balkans to travel.⁵ EU embassies require stacks of documents for visa applications, and some of their requirements do not appear necessary. A well-known Serbian science-fiction writer in his late fifties recounts how one EU embassy asked him for a certificate to prove he was not pregnant. Since many of the required documents need to be translated and notarised, the application process can become very expensive. Obtaining a visa to the EU can cost the equivalent of two weeks' wages, and frequently more. Moreover, the various restrictions encourage corruption in the visa process.

The EU's highly restrictive visa regime harms business and makes the people in the region feel unwanted and isolated. The vast majority of young people in the Western Balkans have never left the region. Some 70 per cent of students at Belgrade University, for example, have never travelled across the border. If the young had greater opportunity to visit West European countries and see what modernisation and reform can deliver, they could become less

amenable to radical and nationalist political options. Businesspeople complain that they are missing out on lucrative deals in the EU since they are still queuing at the embassy while their competitors are already signing the contracts.

EU interior ministers regularly cite the threat of organised crime as a reason for not making the visa process easier and quicker. This is nonsense. Organised criminals run rackets in stolen passports and forged visas, and they seldom have a problem in getting where they want. The EU needs to progressively phase out visa restrictions, as it did in the case of Croatia. It should also make funds available to give as large a number of students as possible the chance to spend some time studying in EU countries.

Hostage to enlargement fatigue

Overall, the EU has a sensible strategy for the Western Balkans, and the Commission and the Council are committed to working together to implement it. However, this strategy is not sufficiently backed by political will in the EU's capitals and more and more people in the current EU are becoming sceptical about future enlargement. According to the Eurobarometer polls conducted in the spring of 2006, only 45 per cent of the people in the EU-25 would support further enlargement. In Germany, France and Austria, support is 30 per cent or less. This matters because France has changed its constitution to insist on referendums on all future accessions after Croatia.

Faced with growing public scepticism, only a small handful of European politicians now make a strong case for further enlargement of the Union. In the words of the International Commission on the Balkans, which included Giuliano Amato and Carl Bildt, former prime ministers of Italy and Sweden, respectively: "Alarmed by the results of the referenda in France and the Netherlands on the ratification of the EU constitution, the leaders of the EU have retreated into policies that, instead of transforming the Balkans, propose merely to manage the status quo".⁶

5) International Crisis Group, 'EU visas and the Western Balkans', November 29th 2005.

6) International Commission on the Balkans, <http://www.balkancommission.org/>

'strategic partnerships'. Similarly, Germany's Chancellor, Angela Merkel, has suggested that a 'privileged partnership' should be an option for Turkey.

It is important to disentangle the arguments used against Western Balkan membership. Some people doubt whether countries such as Bosnia or Albania are capable of making the reforms necessary for membership, and many worry about the risk of resurgent nationalism and political instability across the region. These challenges are real but solvable, especially if the EU anchor remains firm. But there are also obstacles that have little to do with the Western Balkans. Many EU leaders are concerned that unless the EU manages to thoroughly reform its institutions and decision-making procedures, the addition of more countries could bring the Union to a standstill. In short, they fear that further widening of the EU would come at the expense of its ability to drive European integration forward.⁷ Nicolas Sarkozy, the French interior minister and presidential hopeful, is one of those who have called for a freeze on enlargement until the EU has re-organised its institutions. Instead, Sarkozy has suggested that those still queuing for accession should be offered

Absorption capacity as an excuse

These concerns also came to the fore in March 2006, when EU foreign ministers met their counterparts from the Western Balkans in Salzburg. Although EU ministers declared that "the EU confirms that the future of the Western Balkans lies in the European Union", they added that "the EU also notes that its absorption capacity must be taken into account".⁸ Although the ability of the EU to cope with a large membership is already part of the Copenhagen criteria for membership, observers in the Western Balkans took the statement as a reflection of the EU's growing timidity about further expansion.

Clearly, without reforming its institutions the EU cannot absorb new members. However, the question of further enlargement should remain marginal to the broader debates about the future of the EU and its institutions; it should not be used as ammunition by those who dislike the way the EU is developing. With the exception of Bulgaria and Romania (which are already taken into account in the Nice treaty) as well as Croatia, no Balkan country is set to join the Union before 2014 at the very earliest. Irrespective of the fate of the EU constitutional treaty, the EU should have found a way to function effectively with a larger membership by then. It would be a mistake to end or slow moves towards Western Balkan enlargement until the EU has sorted out institutional questions. Such a pause would run the risk of the Balkan countries wasting years deprived of external pressures to reform.

The work of preparing the Western Balkans for membership must go on in parallel with the EU's institutional reforms so that the countries of the Balkans can be ready for the EU when the EU is ready for them.

Perhaps the real reason for EU leaders' apparent ambiguity about further enlargement has little to do with the Western Balkans and more to do with Turkey.

Wolfgang Schüssel, the Austrian Chancellor, has led the calls for the EU to make 'absorption capacity' a key consideration in further enlargement. Like many of his Austrian colleagues, Schüssel openly supports membership for the Western Balkans but opposes Turkish accession. However, not all European politicians have the courage to make this distinction openly. They believe it is politically incorrect to say that they would support Western Balkan accession but not the membership of a large, poor and predominantly Muslim country. Thus the Western Balkans risks becoming collateral damage in the EU's wider debate on whether Turkish membership is a good idea.

Turkey's membership has its own merits. But supporters of Western Balkan membership should have the courage to highlight the differences between the two ac-

7) Katinka Barysch, 'Widening, deepening and the prospects for Turkish membership', paper for the 6th Turkey-EU Membership Observatory, May 2006.

8) Council of the EU, 'Salzburg EU-Western Balkans joint press statement', March 11th 2006

cession processes. For example, Turkey's territory is only partly in Europe. But the Western Balkans will be entirely surrounded by EU countries once Bulgaria and Romania have joined the EU. To exclude the Western Balkans risks creating a zone of instability in the middle of the Union. All the Western Balkan countries together have only 22 million people, which would add only 4 per cent to the population of the EU-25. Turkey has a fast-growing population of 70 million. By the time it is ready for membership it is likely to be bigger than any other EU country.

What the EU needs to do now

The International Commission on the Balkans warned in May 2006 that a failure to integrate the Balkans could have severe consequences for the EU's ability to act in a wider Europe, adding that "unless the EU adopts a bold accession strategy which integrates all Balkan countries into the Union within the next decade, it will remain mired as a reluctant colonial power at enormous cost in places like Kosovo, Bosnia and even Macedonia".

EU politicians need to understand how important a factor accession is in stabilising the Western Balkans. If that attraction fades, the progress made in the region over the last few years could be lost. The Union could

then be faced with an embittered region in its midst, in which sectarianism and organised crime thrive, and from which ever more people will flee, either as economic migrants or as refugees.

It is therefore critically important that the EU stands by its commitment of Thessaloniki eventually to allow the Western Balkan countries to join. The people in the Western Balkans know that many difficult reforms will be necessary to prepare their countries for membership. But EU politicians need to understand that the demands they are making on these countries — from fighting organised crime to privatising industries — will only be credible if they are backed by the EU's continued commitment to Western Balkan membership.

The accession of the Western Balkans is a long-term prospect. But there are various steps the EU could undertake in the meantime to help to sustain the reform momentum in the region.

Most urgently, the EU should signal to Serbia, the key state in the region, that Kosovo independence is inevitable. At the same time, it needs to reassure Belgrade that it can move quickly back to the European mainstream if it is prepared to co-operate on finding a sustainable solution for the Kosovo Serbs, and to work for a mutual and profitable relationship between Serbia, Kosovo and Montenegro. The EU must also make it clear that it is committed to playing

a full and stabilising role in Kosovo and in Bosnia, where it will need to use its weight to help consolidate both states.

Moreover, the EU needs to move faster to ease the tight visa restrictions that currently apply for these countries. The ability to travel, do business and study in EU countries will help to alleviate the sense of alienation and exclusion that is felt by many in the Western Balkans today.

At the Thessaloniki summit in June 2003, EU leaders reassured their counterparts from the Western Balkans that they would "not regard the map of the Union as complete until you have joined us". This is a promise that must be held to for the sake of all concerned.



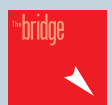
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cover story



Bosnia and Herzegovina: Challenges+opportunities

By Dimitar Bechev

The dual challenge

More than a decade after the fateful Dayton Accord, Bosnia and Herzegovina (BiH) still faces the dual challenge of state-building and successful integration into the European Union and NATO. The country has advanced well beyond the post-conflict reconstruction stage. The three major ethnic groups — Bosniaks, Serbs and Croats — have mostly accepted the country's indivisibility and over a million refugees and internally displaced people (around a half of the total number) have returned to their homes. The town of Mostar has been reintegrated, BiH has a single army and a reform process is under way which should create a single police force; freedom of movement has been established across the territory of the country.

In recognition of the progress made, the EU opened negotiations for a Stabilization and Association Agreement (SAA) in November 2005, which is BiH's first step toward eventual membership. Yet, multiple challenges remain. The Dayton institutional set-up, which back in 1995 was instrumental for securing peace, has now outlived its time. This is a fact which is more or less recognized by a majority of observers and policy makers. The current

framework is, beyond any doubt, ill-suited to deal with the crucial issues of socio-economic development that shape public expectations vis-a-vis the state in BiH. Despite all progress made, the performance of the country's economy is still lagging behind that of the front runners in South-east Europe. *Though pacified, BiH has a long way to go before becoming a 'normal' country. This requires the continued engagement of the international community and the European Union in particular.*

The hardships of transition

The legacy of conflict has made the build-up of market economy more protracted and difficult than in other parts of the Western Balkans. Socioeconomic indicators speak for themselves. Official statistics show that 40 percent of the work force is unemployed. Even allowing for employment in the substantial gray sector, the joblessness figure is as high as 20 percent. Despite the gradual recovery, the GDP levels in BiH are still at about 65 percent of the pre-war ones. For reasons of comparison, one only has to

mention that Bulgaria reached its 1989 level, at nominal rates, in 2004.

The steep decline of heavy industries, characteristic for post-communist economies, had especially grave consequences in BiH due to the war and the break-up of the Yugoslav federation. It has resulted in the worsening of living conditions for sizable portions of the population, the billions of euros of international aid notwithstanding.

To be sure, this gloomy picture is at variance with the positive macro-level outlook. Over the past half a decade, BiH has been growing at an average rate of 5 percent. It has also benefited from low inflation and sound public finances. Exports have also expanded, helped by liberalization of trade with the EU and neighboring countries in Southeast Europe. The gradual withdrawal of foreign aid, prominent in the postwar years, has not jeopardized stability. Yet other figures are not as encouraging and point to the structural impediments besetting the Bosnian economy.

While increasing by one-fourth in 2005, foreign direct investment (FDI) has been slow to come into BiH. In both 2004 and 2005, over half of it flowed into specific sectors like banking. *The BiH economy continues to be beset by negative factors such as the partial implementation of structural reforms, an inflexible labor market, a lack of skilled workers, the pervasiveness of corruption and organized crime.* As a result the private sector is still underdeveloped, even by regional standards. BiH suffers from trade and current account imbalances to a greater extent than its neighbors. In short, BiH is more of a mixed success when it comes to the economy.

The reform of Dayton

The difficulties have a profound impact on public perceptions. The sluggish economic progress is a source of frustration in Bosnia's society. The citizens' expectations for a speedy recovery under international tutelage have been thwarted. Though it is true that the expectations might have been unrealistic in the first place, still the sluggish improvement of living standards has bred dissatisfaction with the political status quo as well as the country's elites. The questionable performance of the eco-

nomy creates pressures for institutional reforms. There is a growing consensus, both within BiH and on the part of the international community, that the reform of Dayton is a key prerequisite for further progress.

The Dayton framework put in place a complicated and costly decision-making process. The multiple levels of governance under the current constitution — the two entities together with the special district of Brcko, as well the 10 cantons within the Bosniak-Croat Federation — have created a bloated and rather dysfunctional public sector which, in addition, is heavily dependent on external financial aid. The complex structure has also exacerbated the problem of state capture salient in many societies in transition.

Nationalism and corruption

Nationalist politicians who rose to prominence during the war in the 1990s managed to carve out their own niches in the large gray economy from very early on. Thus, nationalist elites have tended in the recent past to resist streamlining state functions by empowering the central level wearing the mantle of protectors of their ethnic kin, but in reality motivated by material benefits they reap thanks to the present status quo.

The symbiosis between the gray economy and the nationalist parties has prompted the Office of the High Representative (OHR) to pay greater attention to the rule of law. Both Paddy Ashdown and

his predecessors have taken action to hit the soft underbelly of the nationalists by launching criminal investigations, freezing bank accounts, and pressing charges of corruption and involvement in organized crime activities against leading politicians. Though much remains to be done, such policies have narrowed the power base of the forces obstructing reforms. In addition, the OHR-driven reform agenda has on occasion split the ranks of the nationalists by marginalizing radicals.

The reforms

The anniversary of Dayton created momentum for reform of the constitution. Concrete examples include the reform of police forces, which was a key precondition for opening the SAA talks, the creation of a single customs authority as well as the harmonization of taxes. However, on April 27, 2006 the Lower House of the BiH Parliament rejected a package of reforms which would have substantially upgraded the central authorities. There is a feeling now that a window of opportunity has been missed. Such impediments have in the past been overcome through external intervention.

Over the last 10 years, the OHR has played a crucial role in curbing the power

of nationalists, strengthening the central level of governance and promoting economic reform. Interventionism, however, has fostered a culture of dependency and lack of responsibility on the part of the local actors.

Yet BiH continues to need an external anchor in order to succeed on the path of domestic transformation. The carrot of accession put forward by the EU at the Thessaloniki Summit in June 2003 has been an important catalyst for BiH parties' support for the empowerment of state-level institutions and economic reform. However, the Stabilization and Association Process (SAP), unlike the full-blown pre-accession framework, has limited tools to foster institution-building at both the central and regional level. Moreover, the EU's active role faces serious constraints when domestic commitment to reforms is lacking.

The role of Brussels

Yet the EU's role is not as overwhelming as some in Brussels believe. The Union often plays second fiddle to the US, which speaks and acts in a much more coherent way. In addition, Washington is much more political in contrast to the bureaucratic approach that characterizes Europe. Worst of all, Europe's commitment to enlargement is getting weaker by the day. The regular EU-

Western Balkan summit in Salzburg in March 2006 was not particularly encouraging. However, *the EU has to be more strategic and avoid creating a black hole in its midst once Bulgaria and Romania join in half a year's time.* Though it is less obvious, BiH matters for the EU too.

The Union needs to turn the Western Balkans into a success story if it wants to assert itself as a credible actor in global politics. BiH is critical in that endeavor. It was in Bosnia that its foreign-policy ambitions suffered a deadly blow during the war in 1992-1995. Conversely, stabilizing and turning BiH into a full-fledged member state will boost the profile of the EU's soft power. In addition, BiH could prove an asset in the EU's quest to define its own identity. Though largely secular, the country will bring a tradition of home-grown Islam to the Union at a time when integration of Muslim migrants has become one of the central issues in debates in a number of old member states.

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The missing piece of the Union

The Western Balkans is a subject close to my heart and a region that is part of the European continent, but — for reasons we know only too well — is not yet an integral part of European structures. A region without which it would be difficult to complete European integration, not only in geographical terms, but also in economic, political and public security terms, it in some way still represents the ‘missing’ piece of the European jigsaw since the Western Balkans are not part of the European Union, unlike the other countries of the peninsula, which are already — or are poised to become — full members.

Europe and its institutions are well aware of the mutual benefits of making a special effort. The European Investment Bank (EIB), Europe’s financing institution, is fully committed to the policy of integrating the Balkans and remains convinced that increased support for the efforts being made by the countries in the region continues to be necessary. It therefore plays a role, which I consider to be an important one, through its rapidly growing activity in the countries in question.

But before examining in greater detail the Bank’s role and activities in the Balkans, allow me to share some thoughts on a few relevant aspects relating to the background

against which our activity — as well as that of other international, bilateral and private-sector financial institutions — is developing.

Geopolitical interest

The Balkan region is of major geopolitical interest to Europe. The countries of the region, countries with a troubled history for much of the last century, entered the 21st century with a firm hope that they would gradually move closer to the West and to Europe in particular. It is true that this process has been slower than that for Central Europe, no doubt the unfortunate consequence of the conflicts in Yugoslavia and of a certain hesitancy regarding democratic structures, but also because of difficulties encountered in introducing economic reforms. Whether there are legitimate reasons for it or not, this delay reflects questions that are being raised about the prospects of these countries and about their future.

If I may take an optimistic view, I would like to cite, first of all, the work done by the Thessaloniki European Council in June 2003. Relations with the Western Balkans were among the clear priorities for the program of the Greek Presidency of the

By Gerlando Genuardi

Union and considerable attention was devoted to the integration of these countries into Europe in the deliberations of the heads of state or government, who stated that the Western Balkan countries ‘will become an integral part of the EU, once they meet the established criteria.’ Those criteria, which correspond to the criteria laid down when it was decided to integrate the countries of Central and Eastern Europe, clearly show that the pace of progress toward that objective depends on the countries of the region themselves.

It is true that the Western Balkans have made significant advances since the mid-1990s. [The reconstruction and stabilization phase that followed the conflict in the former Yugoslavia has now ended and the countries have embarked on a process of democratic transition and development.](#) Despite the progress made, the region’s stability is still fragile. Reforms have been delayed by the legacy of the past: huge structural problems, a difficult economic and social situation, political instability etc. The countries can be integrated into European structures only if their own structures are more stable and more democratic. The paradox — if it really is a paradox — is that the key to stability for the Balkans is precisely their European perspective. The report produced by the International Commission on the Balkans, known as the Amato Com-

mission after its chairman, showed clearly and unequivocally the dangers that could arise if Europe did not offer these countries a clear prospect of membership. The declaration made by the European members of that Commission on May 9, 2006, Europe Day, reiterates and reinforces the call for the necessary attention to be paid to the region.

At the same time, Europe is itself wavering between, on the one hand, acting quickly in this area and, on the other, consolidating the Europe of 25, and soon of 27. The shadow of the French and Dutch referendums looms over the new candidates and is reflected in the report adopted by the European Parliament on the Commission's enlargement strategy. While welcoming the commencement of reforms in Turkey, Croatia and all the Western Balkan countries, the Parliament in Strasbourg supports the emphasis placed by the Union's executive on the need to lay down clear and objective requirements for each phase of the accession process and to proceed with negotiations only if 'all the relevant conditions have been met.' [The MEPs have reaffirmed the need for the candidate states and the other Western Balkan countries to undertake wholeheartedly to comply with the fundamental principles of liberty, democracy, respect for human rights and the rule of law.](#) The Union's absorption capacity 'remains one of the conditions for the accession of new countries.'

Let us recapture our optimism. Work is continuing and its success, which would be the success of the countries in the region, calls for close cooperation between all those

concerned. The Stabilization and Association Agreements help to meet precisely this objective, clearly establishing the framework for well-coordinated, well-targeted action. The European Investment Bank is ready to support this work — and it is doing so already — by making its expertise and its financing available to the region.

The EIB's primary role

Having been founded by the Treaty of Rome, the EIB's primary objective since its creation has been to finance investment projects which help to attain the Union's political objectives. First of all, it seeks to strengthen what the Treaty calls 'economic and social cohesion,' justifying the priority the EIB gives to projects located in regions that are lagging behind or in decline; it also seeks to support projects of common interest to the member states, such as trans-European networks and the protection of the environment. Lastly, it seeks to contribute to certain specific policies and objectives, such as promoting innovation.

The EIB's primary role, and therefore the majority of its activities, is still within the enlarged Union. Nevertheless, its activity

outside the Union is growing — in volume, in quality and in the range of operations — on the basis of mandates entrusted to it by treaty or by Council decisions.

For a long time the member states have given the EIB specific mandates in support of the Union's external operations. The most important mandate in this regard has been to help finance investments in the candidate states of Central and Eastern Europe to help them to make up ground and to implement the *acquis communautaire*. This mandate has also enabled the Bank to undertake operations in the Balkan countries and, since the conflicts have ended, to intensify and diversify its support measures.

Initially, in view of the situation in a region that was emerging from a tragic period, it was decided that, if it was to be effective, economic and social support should be coordinated at the regional level. The Bank therefore worked within the framework of joint efforts under the Stability Pact and in cooperation with other international financial institutions (IFIs). It complemented the European Commission's role, providing priority

assistance to the region in the form of emergency aid and reconstruction support. In this context, the Bank also developed specific activity within the Infrastructure Steering Group. The primary focus of the EIB's activity was on financing the reconstruction of basic infrastructure, which is regarded as a key element in the initial stages of the region's development. In addition, the Bank has provided considerable support for projects to stimulate growth in the private sector and among small and medium-sized enterprises (SMEs) in particular.

The development phase

Since then, the EIB's activity in the region has changed somewhat. The reconstruction phase has made way for the development phase and, employing a coordinated strategy at the regional level, the Bank has, I believe, been able to make an important contribution to the growth of investment in the countries in question. The sectors and projects financed by the EIB have gradually reflected more and more the sectoral priorities and policies adopted by the Bank for its activities within the Union, focusing on progressively integrating the Balkan countries with the neighboring EU countries and with Europe.

Stepping up integration in this way places the emphasis on 'connectivity' and on extending and completing the pan-European corridors throughout the region. The region is traversed by several of these pan-European corridors, linking it to its neighbors and also to Northern Europe. A number of sections of

these corridors still need to be improved considerably in order to fulfill their purpose properly and facilitate communications between the countries and their peoples. Substantial investment is also needed to repair highway infrastructure. The decision reached at the Summit of Heads of State or Government concerning the process for cooperation with the countries of Southeastern Europe clearly shows the importance that all the partners attach to developing a reliable rail network between the region's capital cities.

Energy infrastructure is a shared priority for the countries of the region and the EIB. Here, too, the question of energy integration is becoming a priority. Without neglecting the role that the Western Balkan countries could play in gas transit, for example, it would be essential for those states to exploit their complementarity in terms of production capacity or type of resources to achieve solutions that are beneficial to all. This sector should remain one of the central priorities for the Bank's activities over the next few years.

As regards the environment, the EIB follows existing regional initiatives. Alongside the strategy that it put in place for the new member states during their pre-accession period, the EIB will increasingly address the needs of local authorities. To that end it will be necessary to develop institutional capacities for loan management and program lending,

which represent a considerable challenge and call for new structural approaches that must be adapted to each country.

Moreover, it has been recognized that productivity and economic growth have been compromised due to inadequate health and human capital resources, in particular the lack of innovation and R&D. The first models in the education sector and in the health sector have already been implemented in Serbia and others may follow, in other countries of the region as well. The Bank is continuing an active dialogue with governments and the other IFIs with a view to identifying and putting in place financing for viable projects in these two sectors.

The private sector

In addition, the private sector (including foreign direct investment) should also benefit greatly from recent reforms, trade liberalization and economic growth in the region. Significant reform in the banking sector has already enabled the EIB to undertake a large number of 'global loan' operations in several Western Balkan countries in support of SME growth, and this form of financing is destined to expand given the role played by SMEs in the economic fabric of the countries in question.

Foreign investment offers the economies of these countries greater scope and setting up such investment is often a key center of activity for the region or country concerned. The EIB draws on its own network of relations with the majority of European multinationals to encourage businesses to invest in the region. It can also act as a catalyst in attracting investment and co-financing from large European companies and institutions, which are well aware of the region's considerable economic potential but which, given their lack of local experience and the perception of a relatively risky investment environment, see their association with the EIB as providing additional reassur-

ance, allowing them to take action.

This overview of the EIB's activity in the Western Balkan countries would not be complete without some figures. Because the Bank has a very large annual turnover (47.4 billion euros in 2005), the majority of which (42.3 billion euros) relates to the 25 member states. Two billion euros has been earmarked for operations in the acceding countries (Bulgaria, Romania) and the accession states (Croatia, Turkey). The Balkan countries have received a total of 400 million euros. This sum is considerably higher than in previous years.

The institutional framework

Despite the difficulties created by a complex institutional framework (in particular in Serbia and Montenegro and Bosnia and Herzegovina) and a still uncertain political context, the countries of the region continue to achieve satisfactory results. In the last few years significant progress has been made in terms of structural reforms and economic performance in all these countries, with annual GDP growth rates in the order of 4 to 5 percent and an improved budgetary situation (surplus of 0.4 percent of GNP for Serbia and Montenegro). The growing trade deficit (Serbia and Montenegro, Albania) and renewed inflation (18 percent in Serbia and Montenegro) are giving cause for concern, while social indicators, in particular the unemployment rate (around 25 percent on average, according to official figures), show that the economic and social situation is still difficult. It is true that, looking beyond a few encouraging statistics, the balance of the region is still fragile. The risks of social instability are still high. Hence the need for the process of integration into the European Union to be ac-

celerated insofar as possible, since it is the only real hope for these countries to achieve long-term social and economic stability. The candidate country status granted to the Former Yugoslav Republic of Macedonia (FYROM) is an encouraging step in the right direction. For the time being, however, the stability of the countries in the region remains closely bound to job creation prospects and to a real improvement in the quality of life of the people living there.

From an operational point of view, it should be mentioned that lending activity is still hampered by persistent structural deficiencies in the countries in question. These deficiencies often lead to difficulties in adhering to or complying with EU procurement and environmental policies and guidelines, restricting EIB involvement in projects which would otherwise be viable. However, most of the countries in the re-

gion have already undertaken significant reforms in areas such as fiscal administration (including taxes and customs duties), the financial sector, the privatization process and liberalization of trade and capital markets.

The Bank remains committed to playing a proactive role in the future development of the region. The ability to achieve this objective will depend on both political and economic developments in the Western Balkans. While the EU remains committed to the region, ultimate responsibility must undoubtedly lie with the individual countries themselves. The governments of the region's countries must be fully determined to see through the political and economic reforms that will allow them to comply with European standards. The future of the Balkans is in Europe. Together, we can make it easier to bring the timetable forward.

Gerlando Genuardi is vice president of the European Investment Bank (EIB).

Speech delivered at OECD Forum 2006, Balancing Globalization, 'Fulfilling the promise of Southeastern Europe,' Paris, May 2006.

EIB website: www.eib.europa.eu

cover story



The roses & the thorns of enlargement

By Nikos Vakalis

Enlargement has proven an historic

opportunity for the European continent. It is, and will continue to be, the main driving force for the attainment of peace, security, stability, democracy and the rule of law, especially for the Western Balkans.

People tend to focus unilaterally on the benefits of the enlargement process for the former Eastern European countries. However, benefits are reciprocal: Enlargement is a strategic option for the EU because it has helped the latter become a more competitive and dynamic economy and because it has contributed to the increase of Europe's prestige in a globalized world.

The pace of enlargement

There has been much discussion lately about the new rules of the game concerning enlargement. It is a fact that the language used by European political leaders vis-a-vis the candidate countries has become stricter. Thus, it is stated in the conclusions of the European Council of June 15/16, 2006 that 'it will be important to ensure in the future that the Union is able to function politically, financially and institutionally as it enlarges, and to further deepen Europe's common

project,' as well as that 'the pace of enlargement must take the Union's absorption capacity into account.'

The above refer to the now-famous concept of the EU's 'absorption capacity,' which was picked up in the European Commission's 2005 Enlargement Strategy Paper. The EU leaders formalized the concept by inviting the Commission to provide a special report on all relevant aspects pertaining to the Union's absorption capacity at the same time as it presents its annual progress reports on enlargement and the pre-accession process. From now on, these specific reports should cover both the capacity of EU institutions to function efficiently and to produce common policies, as well as the issue of present and future perceptions of enlargement on the part of European citizens.

The observance of commitments

In spite of this new trend in the EU's enlargement process, it is important to stress that the absorption capacity is just an aspect to be co-evaluated and not an autonomous

criterion for new candidate countries. Furthermore, political analysts tend to forget that the first and foremost principle of enlargement is the observance of commitments taken by the EU: The European Council 'confirmed that the future of the Western Balkans lies in the European Union.'

Thus, there is no doubt that the EU re-confirmed the European perspective of the Western Balkans, as set out in the Stabilization and Association Process, which is designed to encourage and support domestic reform processes. Furthermore, according to the Agenda of the European Council of Thessaloniki in 2003, the ultimate goal of all the Southeastern European countries is full EU membership. Not only is there absolutely no mention of a 'special partnership' relationship between the EU and the Western Balkans in the official European documents, but the Union continues to adopt practical measures to make the European perspective of these countries more tangible.





The latest initiative in this respect is the participation of the Commission with 60 million euros in the European Fund for South-east Europe (EFSE) launched on June 19. The EFSE, a Luxembourg investment fund set up to support the development of the private sector in the countries of the Western Balkans, is a clear indication of the seriousness and the long-term character of the European promise given to those countries.

The prerequisites of accession

Of course, each country's progress toward accession to the European Union depends primarily on its individual merits and its own efforts in meeting the requirements, both of the Stabilization and Association Process and of the so-called 'Copenhagen criteria,' i.e. the establishment of democracy, the rule of law, the respect of human rights and the protection of minorities, together with a functioning market economy and the full adoption of the *acquis communautaire*. No doubt this is a steep mountain to climb. Good-neighborly relations, the fight against corruption, the building of an efficient pub-

lic administration and judicial system, and full collaboration with the International Criminal Tribunal for the former Yugoslavia (ICTY) are some of the hurdles the Western Balkans still have to overcome before their European dream materializes.

But all these problems, real as they might be, must not make us lose sight of the amazing dynamics of the European Union's enlargement. On June 21, Finnish Prime Minister Matti Vanhanen declared in his address to the Finnish Parliament that he will make consensus between member states on EU enlargement the main theme of the forthcoming Finnish Presidency of the Union. I am fairly confident that Finland, a country that for many decades has played the role of intermediary between Western Europe and the former Soviet Union, and which is the country of origin of Olli Rehn, the commissioner responsible for enlargement, is well qualified for this task.

To recapitulate, we can affirm that the EU will not change its attitude and eject the

countries of the Western Balkans in the midst of the process. On the contrary, it will continue to assist those countries in their difficult task of approaching European standards. Of course, the EU has every right to expect concrete results in the near future and might even exert some unpleasant pressure in order to obtain them. But this pressure must be seen simply as a means of obtaining progress, not as a supplementary obstacle on the European path of Western Balkan countries.

As a Greek member of the European Parliament, I will stand beside our neighboring countries in order to facilitate their route toward the European Union. There is a place for them there. The time has come for Europe to really unify itself. The Union will be simply incomplete without the Southeast European countries.

Nikos Vakalis is a member of the European Parliament (EPP), Greece (ND).

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In the enlargement arena



By George Kasimatis

The 'absorption criterion'

It is a fact that during the last five years the perspective of the integration of the Western Balkan states in the EU, in combination with the enhancement of the financial development and cooperation in the area, was the main lever of political stability in the Balkans.

Enlargement has proved to be an historic opportunity, contributing to ensure peace, security, stability, democracy, the rule of law, as well as growth and prosperity in the European Union as a whole. Equally, it is helping the EU to become a more competitive and dynamic economy and be better prepared to meet the challenges of a globalized and changing world.

However, new issues have emerged in the enlargement arena. The EU Council Summit in June 2006 decided to promote a new informal criterion, the 'absorption criterion.' According to that, the EU will analyze and decide if a candidate country is in the economic, political and institutional

position to be accepted into the EU. This measure has been introduced mainly because of Turkey's candidacy.

The accession procedure


The situation nowadays for our neighboring countries seems to be as follows:

- Romania and Bulgaria: These two countries are expected to enter the EU on January 1, 2007, provided that they make considerable progress in the:

1. Fight against corruption and organized crime; and
2. Reform of the judiciary system, so as to reinforce transparency, efficiency and impartiality.

If they do not manage to comply in due course, their entrance may be delayed by a few months.

- Croatia, the Former Yugoslav Republic of Macedonia (FYROM) and Turkey: Croatia and Turkey are two candidate countries with which accession negotiations started in October 2005. FYROM is a candidate country with which accession negotiations have not started yet. The European Council granted



FYROM the status of candidate country in December 2005.

- Albania, Serbia and Montenegro, Bosnia and Herzegovina, and Kosovo: Albania, Bosnia and Herzegovina, and Serbia and Montenegro, including Kosovo, are potential candidate countries. Their progress toward being recognized as candidates depends on their engagement in the Stabilization and Association Process (SAP).

The Western Balkans have the prospect of eventual accession, but they have major work to undertake and will only be able to join once they are fully prepared. The European Parliament (EP) supports this attempt and in the European Perspective of the Western Balkans it is stressed that the EU must keep its promises toward these countries. In particular, that they will join the EU if and when they fulfill all the criteria.

The privileged partnership status

Another issue that seems to have become a trend these days is the privileged partnership status. The EU has decided to apply to the countries of the Western Balkans the same methodology as that followed for the new member states. The enriched SAP therefore remains the overall framework for the European course of the countries of the Western Balkans, all the way to their accession.

European partnerships are being established with Albania, Bosnia and Herzegovina, Croatia, FYROM, and Serbia and Montenegro, including also Kosovo.

The European partnerships provide a framework covering the priorities resulting from the analysis of the partners' different situations where preparations for further integration into the European Union must concentrate in the light of the criteria defined by the European Council. Also, where appropriate, the progress made in implementing the SAP, including Stabilization and Association Agreements (SAA) and in particular regional cooperation, is taken into consideration.

However, the status of a European partnership should not be a permanent one, since it can only offer a few advantages for the countries of the Western Balkans and

not for the EU as a whole. Any country that accedes to such a status receives economic and business advantages for the country itself, but without participating in any decision-making process or in the European institutions. Moreover, this situation hinders the trade and the economy of the other member states and it also undermines the existing commercial relations among them.

Therefore, the EU remains in a continuous enlargement process in order to establish stability, peace and prosperity in the wider area of Southeastern Europe, but, as time goes by, new issues may affect the enlargement perspectives of our neighbors.

George Kasimatis is director of the Office of the European Parliament in Greece.

European Parliament website:
www.europarl.europa.eu

By Efthymios N. Christodoulou

During the last two years, assurance of adequate energy supply has become a principal concern around the world, attracting the attention of governments, commentators and the public.

Of course, no one would expect something different in a situation with crude prices of US\$70 per barrel.

In the 1990s we lived in a world that was characterized by low energy prices. Crude oil averaged around \$20 per barrel and at one point some commentators and analysts were seeing single-digit figures for the crude price in the near future.

And there were reasons for that. To mention some of them, even at the risk of multiple repetition:

- Demand for energy was suppressed due to the weakening of the Russian economy, among others;
- The first Gulf war in 1990 was a matter of some weeks only, leading to the conclusion that the USA was a superpower which could 'fix' geopolitical problems effectively and quickly, so oil would be plentiful; and
- On the supply side, political changes around the world (especially in Russia) led to a gradual opening of areas that were previously closed to investments, and the resources of the Caspian began to be accessible to international companies. I can still remember discussions

ENERGY

SECURITY

The big issue of the future

around the theme of Caspian crude flooding the market, and moving prices to very low levels.

All this contributed to a low-prices environment, and energy security was not at the top of the agenda. It seemed the market could operate efficiently and be left alone to do the job.

Since the beginning of the 21st century, however, a series of events changed the situation and removed this sense of complacency. The energy landscape started to change.

The demand for energy

Firstly and most importantly of all, the demand for energy started to grow. Driven mainly by China, which since the beginning of the century contributed more than 50 percent of the total demand growth, the average compounded growth rate during the

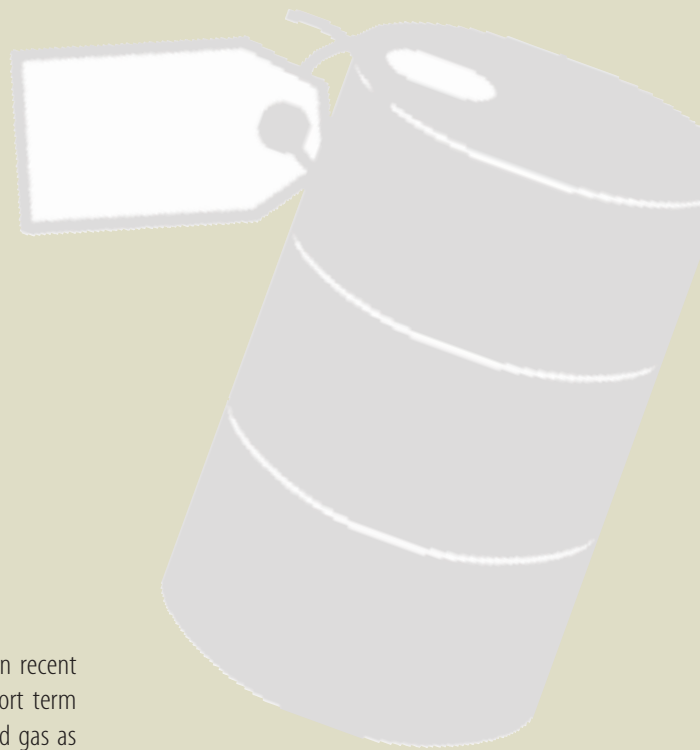
first five years of the 21st century climbed to 3 percent, while during the 1990-2000 period it was just 1.1 percent.

At the same time, production from the mature fields in the non-OPEC established oil provinces such as the North Sea and Alaska began to decline.

The second war against Iraq was not resolved in a matter of weeks and that continuing conflict has reminded people that energy security cannot be achieved by military means alone.

In Russia, the Yukos affair reminded people that Russia, despite much progress, was still somewhat unpredictable and the unexpected could still happen. And the 2006 Ukraine episode triggered additional discussion on how secure Europe was when relying on Russian gas supplies for covering its energy needs.

And in addition to all the crude oil supply/demand issues, a new factor came into the equation to increase the overall uncertainty. That was the lack of spare refining



capacity: After a prolonged period of limited investment in refining infrastructure, refineries were running at high utilization rates. In 2005 the ban of the use of MTBE as a high-octane gasoline component cast doubts on whether there would be enough gasoline to cover the high season of demand in the USA, and the September 2005 supply disturbances by the US East Coast hurricanes made things even worse.

Add to all the above the geopolitical tension in the Middle East and Iran, and here we are with a crude price of \$70 per barrel.

The issue of energy security

Again, it is worth stressing that the insecurity is not based on any prospect of a coming physical shortage. There are at least 40 years of proven supplies of oil at today's rate of consumption and almost 70 years of natural gas supplies. The proven reserve numbers go up each year rather than down, despite production. In addition, there are huge volumes of both oil and gas yet to be found. Technology is improving recovery rates. And there are vast supplies of so-called unconventional oil — in Canada and Venezuela for instance. So, there is no physical shortage.

So why then is energy security such a big issue?

There are quite a few reasons for this, and I will state a few key observations of the IEA outlook to 2030.

- Demand will continue to grow especially in Asia, although at more moderate

rates than those experienced in recent years. That demand in the short term can only be supplied by oil and gas as nuclear and renewable sources of energy will grow at a low pace.

- Although there is a certainty that the Earth's oil resources are adequate until 2030 and beyond, it is less certain whether sufficient investment will flow to the 'right' locations and at the 'right' time. Access to much of the world's remaining oil reserves is restricted to international oil companies (IOCs).
- The NOCs which have access to these reserves have publicly expressed their concerns about the flip side of the security of energy supply, which is security of demand. Why should they invest to create production capacities that will be used only if required, and this use is not always guaranteed? (Note that in 2005 total increase was only 1.5 percent.)
- OPEC producers are quick to remind us of the painful experience of the 1980s, when they had to cut their production to half of their capacity, in a failed attempt to keep prices from collapsing, due to weakened demand, while non-OPEC production continued to rise.

The OPEC President and Nigerian Oil Minister Edmund Daukoru recently stated that

'the need of security of demand is a legitimate concern for producers. Security of supply and security of demand must go hand in hand.' And OPEC's secretary-general, Nigeria's Mohammed Barkindo, has questioned the demand predictability, saying that 'there is a difference of more than 12 million b/d between the highest and lowest forecasts for global oil demand in 2020.'

So, although there are adequate reserves, these are limited to a few countries. By 2015, up to 80 percent of supply will come from just three areas of the world: West Africa, Russia and overwhelmingly the Middle East and the five states around the Gulf including Iran and Iraq. Few of those countries are democracies and few are open to international investment while channeling their excess earnings to the world's banking system.

Another concern is that the oil trade is constantly increasing, since the major economies of the US, Europe, Japan and now China are all facing the need for increased imports over the next decade. The IEA proj-



ects that energy trade between regions will more than double by 2030, most of which will be in the form of oil. Consequently, ‘the risk of an oil-supply disruption will grow as trade and flows through key maritime and pipeline chokepoints expand.’

And the last factor is the environment. Almost 10 years ago, the Kyoto meeting set an objective of reducing emissions by just over 5 percent from a 1990 baseline. In fact, by the end of last year emissions were 25 percent above the 1990 level across the world and rising by 1.5 to 2 percent a year. Climate change has become an issue of popular public concern and not just a topic debated at academic conferences. Few politicians can now afford to ignore the subject. So there may be different utilization levels for different types of crude oil plus the need for substantial new investment to permit the utilization of heavy crudes.

Those are some of the reasons — immediate and long-term — why energy security is on the agenda, and why so many people are focused on the question of energy policy.

The level of oil prices

All these support a market with high oil prices. And the question comes to ‘for how

long and at what level?’ I certainly count myself among the vast majority that cannot tell — the market discounts a long-term crude price at the level of \$40–45 per barrel, but I have also seen \$30–35 ranges and quite a few at much higher levels. And all these are being used for asset acquisition, so they must be pretty serious.

So, the working hypothesis of the industry is that oil prices will remain higher than historical levels even if demand and supply continue to grow in a manageable way, meaning that additions to crude capacity production will effectively cover the demand pattern.

We should remember, however, that while effects have been meaningful in years past, they are less likely to be as relevant in the future due to structural changes in the global economy. At issue is that in the previous oil shocks of 1972–1973 and 1979–1980, the global economy utilized much more petroleum to produce a dollar of GDP than is the case today. Petroleum represented a more significant component of the global economy and its price indices (which are monitored), so that monetary policy could be appropriately formulated.

Another important issue in earlier periods is that wage contracts etc were often linked to consumer prices with escalator

clauses, and so, as petroleum prices rose, a classic wage-price spiral ensued.

However, markets have liberalized and labor union power has declined, and wage increases have increasingly become de-linked from consumer price indices. The unfavorable economic multiplier effects related to inflation have been reduced as well. The link between changes in petroleum prices and inflation is less obvious as a result, except in countries in which oil use intensity is very high.

The implications

Nevertheless, the direct and indirect economic effects of higher petroleum prices are likely to have significant implications for economic growth. The impact between countries and regions depend on 1) the degree of dependence on imported oil, 2) the share of the cost of oil in national income or GDP, and 3) the degree to which the rise in petroleum prices translates into rising prices for end-users.

Regarding direct economic impacts, while higher petroleum costs for consumers, businesses etc correspond to a similar rise in revenues for producers, refiners and marketers of petroleum, the net change to global GDP is unfavorable because the propensity to consume in the countries that lose out as a result of higher prices is greater than that in exporting countries.

The reason is that many exporting countries have substandard budgetary situations, low foreign currency reserves, higher individual savings rates etc, and may utilize funds for these purposes as financial windfalls materialize. Such an outcome could exacerbate the economic effect of higher petroleum prices.

Higher petroleum costs for consumers, businesses etc will result in an unfavorable net change to global GDP, but the effects now are much softer and take a longer time to appear than in previous oil crises, since our economies have established mechanisms for absorbing this type of shock.

Still, we need a lot of work to re-establish energy security, assuming of course that energy policies have again to be international and inclusive. Possibly, if things got to be more critical, some elements of international coordination may have to be necessary.

As for the general impact on the world economy, it is an issue that has been discussed almost to death by practically everybody.

We all know now about 'second-round impact' anti-inflationary interest rate shocks, non-oil investment of excess profits,

reduced oil content in GDP increasing new consumption patterns on oil producers and consumers etc.

The final conclusions

The conclusions are relatively few and obvious. Oil-induced price increases do not have the immediate effects observed in the previous oil crises. Inbuilt shock absorbers smooth out violent developments, helped by the fact that now a longer time is needed for price 'anomalies' to become critical.

Summarizing my notes, I would like to draw your attention to the following:

- We have entered a new era of reinvestment economics, where significant additional investment is needed on the supply side to meet growing demand.
- Although there is no cause for despair, since there are quite a few options for the development of technology in ways which could produce viable, at least partial, alternatives, we will have to live with higher oil prices in the years to come.
- Higher petroleum costs for consumers, businesses etc will result in an unfavorable net change to global GDP, but the effects now are much softer than in previous oil crises, since our economies have established mechanisms for absorbing this type of shock.
- Still, we need a lot of work to re-establish

energy security and energy policy has again to be international and inclusive.

- Oil prices will probably remain high, at least in the near future, while oil trading will be subject to stock exchange rules (and not behave as a commodity) as more and more money enters the market.
- Take or pay conditions will tend to become more common as investment of windfall profits of NOC becomes more demanding.

Finally, strange as it may seem, high prices may end up being considered as desirable in order to induce changes in oil products use patterns and advances in technology either in economies of utilization or development of new oil extraction techniques.

Abbreviations:

NOC: National Oil Companies
IEA: International Energy Agency
MTBE: Methyl Tertiary Butyl Ether

Efthymios N. Christodoulou is chairman of the board, Hellenic Petroleum, Greece.

Speech delivered at OECD Forum 2006, BALANCING GLOBALIZATION, 'Energy and the Economy,' Paris, May 2006.

Hellenic Petroleum website: www.elpe.gr



focus



Health & consumer protection

We have now entered the final six-

month run-up to the date foreseen for Romania and Bulgaria to join the European Union. With the finishing line so close, it is an opportune moment to discuss key issues for the future enlargement of the EU in the context of these two countries, although of course many important issues also surround the possible future membership of Croatia, Turkey and other potential candidates.

The period of preparation for this further enlargement of the EU has been lengthy, with considerable changes and challenges for both countries along the way. As health and consumer protection is one of the most visible EU policy areas for European citizens, much public attention has naturally been focused on whether or not Romania and Bulgaria will be able to meet EU standards in relation to food and product safety, public health measures and veterinary controls. The Commission has worked closely with the Romanian and Bulgarian authorities from the outset to try to ensure that both countries meet all the required standards on time.

Credit must be first given where it is due. Romania and Bulgaria have made strenuous efforts toward preparing for EU membership and meeting the necessary requirements. **Huge improvements have been made in the areas of public health, consumer protection, food safety and animal health since the start of the accession process.** The vast majority of the very large

body of EU legislation has now been implemented and both countries have worked hard to bring their political, economic and social standards in line with those of EU member states. Romanian and Bulgarian citizens should already be feeling the benefits of these changes.

The monitoring report

However, there is still work to be done in the field of health and consumer protection if Romania and Bulgaria are to join the EU without restrictions. The monitoring report published by the Commission in May 2006 identified a number of serious concerns. For example, both countries have so far failed to establish the required animal rendering processes which are a crucial aspect of the EU's defense against bovine spongiform encephalopathy (BSE). Romania has serious problems regarding genetically modified organisms (GMOs), and will have to make very rapid progress if it is to meet EU legislative requirements and controls for genetically modified food and feed. Increased efforts are also needed to finish work in cer-

tain other areas. Weaknesses in animal identification, problems with border inspections, incomplete upgrading of food establishments and the lack of access to proper healthcare for the whole population are just some of the concerns with regard to Bulgarian and Romanian preparedness raised in the May monitoring report. The European Commission will not allow flexibility on such issues, and urgent action must be taken by Bulgaria and Romania to address the identified shortcomings.

Assurances have been given by the Romanian and Bulgarian national authorities that plans are in place to resolve these problems, and that criteria will be met in time to allow for accession to the EU on January 1, 2007. The next Commission monitoring report, due in the autumn, will reveal the real level of progress. It must be stressed that if there are any public health, animal health or food safety concerns linked to Bulgaria's and Romania's accession to the EU, the Commission will apply safeguard measures until they are fully addressed. There will be no compromises as regards the protection of EU consumers.

It is important to add that work will not stop on the day that Romania and Bulgaria join the EU — quite the opposite. Sustained efforts will be necessary to follow up



and maintain the work already carried out. It is not enough to merely transpose EU legislation into national law — it must also be fully implemented and properly enforced, and the Commission will be watching closely to ensure that this is done.

Public health

The Commission and other EU member states will also have responsibilities to ensure the smooth integration of the two new members into the European Union. In certain areas, Romania and Bulgaria will still have some catching up to do and considerable support and resources will have to be provided to achieve this. Take public health as an example. Both countries have a lower life expectancy than the EU average, infant mortality rates are higher (almost four times the EU-25 average in Romania in 2004) and certain diseases, such as tuberculosis, are far more prevalent than they are across the current EU. Mental health promotion and proper care for the mentally ill — highlighted as a priority by Health and Consumer Protection Commissioner Markos Kyprianou — is another important area where Bulgaria and Romania are seriously lagging behind. However, with sustained efforts, these gaps could be closed within a relatively short period.

EU structural funds can be used to supplement national funding for healthcare, in order to raise the overall standards. As EU citizens, Bulgarians and Romanians will benefit from the Commission's work to highlight health risks, provide information on healthier lifestyles and raise issues that may not have been given much attention at national level, such as mental health. National authorities in these countries will have the opportunity to join other member

states in exchanging information and best practice on health issues, and in working together against certain health threats. There has already been good cooperation between Bulgaria and Romania and the EU and the World Health Organization (WHO) on preparation for a possible influenza pandemic. Such collaboration can be extended further to cover many other health threats.

Animal diseases

Another important issue to be addressed, both now and after enlargement, is the problem of animal diseases, such as classical swine fever in both countries, Newcastle disease in Romania and of course avian influenza. Measures are already in place to ensure that these diseases do not spread to current EU member states, and these measures will remain in place for as long as it takes to eradicate the diseases. Protecting animal health throughout the EU is an absolute priority in this respect. However, Romania and Bulgaria can also rely on the Commission and other member states' support in tackling these diseases. Already expert assistance has been provided to each country to various degrees, as part of the effort to bring the classical swine fever and avian influenza situations under control. The Commission is also looking at the possibility of providing financial support, including 0.5 million euros to fight avian influenza in Romania, and possible further funding to both countries soon after accession to carry out con-

trol and vaccination programs as regards classical swine fever.

The benefits of enlargement

As the 10 countries which joined the EU in May 2004 would no doubt verify, there are many benefits to being part of the EU which Bulgaria and Romania can look forward to. However, we should not forget that the current 25 member states also have much to gain from this enlargement. The EU will expand by another 30 million consumers, bringing new business and trade opportunities. Bulgaria and Romania are also likely to introduce new and traditional goods to the EU market, thereby broadening consumer choice.

Judging by past EU enlargements, which have been very successful, we can be optimistic about Romania's and Bulgaria's accession to the Union. At the same time, however, there is no room for complacency. **Bulgaria and Romania must keep up the momentum in their preparations to join the Union and fill the gaps that remain.** If they do this, we can look forward to an EU of 27 member states next year, which all enjoy a high level of health, consumer protection and food safety.

Margaritis Schinas is head of Cabinet to Commissioner Markos Kyprianou (Health and Consumer Protection).

Health and Consumer Protection Directorate General website:
ec.europa.eu/dgs/health_consumer/index_en.htm

themes



Euro-Mediterranean:

By Rodi Kratsa

What have our commitments, policies and strategies achieved up to now within the framework of the Euro-Mediterranean Partnership? What should our priorities and objectives be for the near future in order to respond effectively to the global and regional challenges of our era? And why should the results of this policy be characterized as poor?

In Barcelona, the starting point of the Euro-Mediterranean Partnership, known and as the Barcelona Process, a wide framework of political, economic and social cooperation was marked in 1995 between the member states of the European Union and the partner countries of the Southern Mediterranean and the Middle East.

The Euro-Mediterranean Partnership, a unique, ambitious and integrated political project, laid the foundations for the establishment of stability, security and prosperity, plus a free trade area for the countries on both sides of the Mediterranean.

However, as regards the poor results that have been attained during the first decade of the Euro-Mediterranean Partnership, both sides could be held responsible. On the one hand, the EU's financial and political priority was enlargement toward Central and Eastern Europe, a priority that diverted attention from the Mediterranean. On the other hand, the Mediterranean partners demonstrated a lack of political determination and willingness to

complete the necessary political and economic reforms that would bring them closer to the European Union and international developments. They did not fully realize that their targets were closely linked with the growth of democracy, the protection of human rights and the full implementation of international law in relation to human rights, freedom of speech and the enhancement of the role of the civil society.

The Israeli-Palestinian conflict

Furthermore, the Israeli-Palestinian conflict remained at the center of the preoccupations of the countries of the region, affecting regional integration negatively. Therefore, **a solution to the conflict in the Middle East is today the essential condition for achieving peace, stability and cooperation in the Mediterranean.**

However, it must be noted that the Barcelona Process is the single institutional framework of cooperation where Palestinians and Israelis work together.

The economic field

In the economic field, Mediterranean partner countries have not fully benefited from the fi-

nancial cooperation with the EU and the Association Agreements that were signed. Therefore it is no surprise that the economic situation remained static. As a result, unemployment rates are still very high today while investment rates are very low. This situation, combined with the very low average age of the population, has had a distinct influence on migratory flows. Taking all these facts into consideration, the economic aspect of the Partnership should today be redirected toward social and territorial cohesion and sustainable economic development.

The MEDA program is the Partnership's principal financial instrument for the implementation of Euro-Mediterranean cooperation. The program offers technical and financial support measures in order to accompany the reform of political, economic and social structures in the Mediterranean partner countries. Under MEDA I, more than 3,400 million euros was committed for the period 1995-1999, while MEDA II raised the commitments to the level of 5,350 million euros for the period 2000-2006. In addition, the European Investment Bank (EIB), with its financial mechanism known as the 'Facility for Euro-Mediterranean Investment and Partnership' (FEMIP), provided 7,400 million euros in loans for investments in the Mediterranean. Furthermore, within the framework of the New Financial Instrument of the European Neighborhood Policy, the EU has de-

A productive partnership

cided to set aside about 1.3 billion per year up to 2013 for all neighboring countries including the Mediterranean partners.

A free trade area

Unfortunately, the objective of establishing a free trade area in the region by the year 2010 appears to be unrealistic. The gap between the member states of the EU and the partner countries as regards the level of economic development remains significant. Furthermore, not only did the partner countries fail to create the necessary conditions for a fruitful cooperation and productive economic growth, but also the international framework was not positive for our common goals. Today the international competition is harsher. New world players with high levels of development and growth rates, such as China, Brazil, India, and South Africa, have emerged. Additionally, the stagnation of the European economy has become a major negative factor for the Mediterranean economies, which rely on the EU for 50-80 percent of their exports and a large part of their investments and tourism.

Another handicap emerges from the lack of territorial cohesion and the unstable economic and financial environment, which dis-

courages foreign direct investments, competitiveness and economic development.

Today, in order to proceed to a Euro-Mediterranean Free Trade Area, our partners have to support far-reaching economic reforms and eliminate the existing barriers. At the same time, we have to create the regulatory framework that is needed for the promotion and improvement of fields such as knowledge-based education, vocational training and access to new technologies for all our Mediterranean partners. It is also important to promote women's rights, enabling their participation in social, economic and political life, since nowadays gender equality is an integral part of good and efficient governance.

Additionally, the development of these countries will reduce the migratory flows toward the member states of the EU, while good cross-border cooperation is absolutely necessary in order to confront illegal migration. At the same time, our common strategy should be to accomplish the social integration of foreign migrants within the EU.

Cultural dialogue

Significant efforts and cooperation have to be promoted for the enhancement of the cultural dialogue as well. After the events of September 11, 2001, there has been a considerable rise in terrorism in the region and a significant rise of political Islam as a key interlocutor throughout the Arab Mediterranean area.

One of the most important initiatives was the establishment of the Euro-Mediterranean Parliamentary Assembly (EMPA), which aims to promote dialogue and mutual understanding among politicians, parliamentarians, local authorities and civil societies in order to enhance the need to identify and maintain a common basis for shared universal values via all the policies of the Euro-Mediterranean Partnership.

It is necessary for all involved to cooperate in order to mobilize all social, economic and political players to fight against racism and xenophobia (including anti-Semitism and Islamophobia) and to build on a common cultural heritage and respect for diversity and tolerance, leading to a true dialogue of civilizations. In this framework, initiatives such as the UN's Alliance of Civilizations project and the activities of the Anna Lindh Foundation are of great additional value.

It is high time we re-evaluated the importance of our partnership for our common goals and mobilized all our political potential, economic resources and efficiency in order to achieve our visions and aims to the benefit of all Mediterranean peoples.

Rodi Kratsa is a member of the European Parliament (EPP), Greece (ND).

European Parliament website:

www.europarl.europa.eu/

EMPA webpage:

www.europarl.europa.eu/intcoop/empa/default.htm

themes



Challenge of the Joint History Project

The Center for Democracy and Reconciliation in SE Europe (CDRSEE) is a non-governmental, non-profit organization that seeks to foster democratic, pluralist, and peaceful societies in Southeast Europe by advocating principles of social responsibility, sustainable development, and reconciliation among the peoples in the region. Our goals are accomplished via seminars, conferences, research projects, exchange programs, opinion polls and publications. Founded in 1998, the CDRSEE is an international organization that has its headquarters in Thessaloniki, Greece.

The Center's project work is aimed at overcoming the challenges of a fragmented civil society in the Balkans, working from the grass-roots level upward, by empowering participants to feel a sense of ownership over the projects. We are committed to investigating specific ways of enhancing and encouraging social dialogue and building social cohesion in this part of Europe. The CDRSEE's activities raise awareness via publications, workshops, textbook analysis, academic conferences, opinion polls, training sessions and cultural and artistic programs. An increased exchange of information between the countries of the region via textbooks, school lessons, media, popular cul-

ture, art and regional youth initiatives is essential to lasting peace.

The CDRSEE operates on the principle of inclusion. We are motivated by the belief that a synergy combining all of our professional and personal actions will be greater than the sum of the parts, creating a powerful force that would change the societies and the region for the better. By including local organizations and individuals in the creative process of the projects, the participants will feel a sense of ownership, which will increase the impact and ensure the sustainability of the projects. In this way, the CDRSEE aims to facilitate a new mindset and a new awareness that will ripple throughout the local communities and have a tremendous impact on the civil society sector in the region.

The CDRSEE supports regionally owned civil society initiatives in the Western Balkans as part of a long-term process of reconciliation. The challenge is the fact that there is a lack of genuine peace in the region, despite the huge amount of resources that have been channeled into the former Yugoslavia by the International Community. In order to change attitudes, mindsets and pat-

By Theano Savvaoglou

terns of hostility, the CDRSEE aims to empower citizens from various walks of life in the region who have the hope and optimism needed, but not necessarily the opportunities, to build a better future for themselves and for their children. **All participants in CDRSEE projects serve as nuclei in their own communities to generate a critical mass of people who will sign up to a shared set of civic values that will replace the old paradigms based on ethnicity and nationalism.**

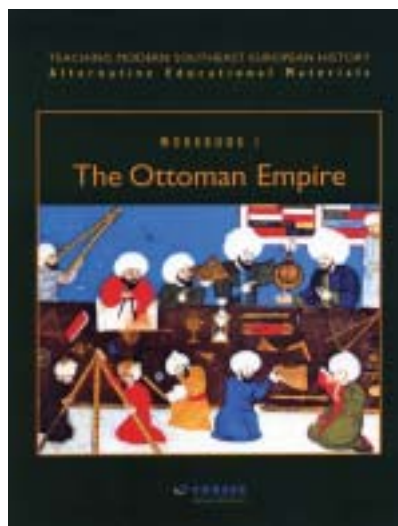
The Joint History Project and its latest publication, 'The Workbooks'

The 'Workbooks Project' is one of the initiatives under the umbrella of the Southeast European Joint History Project (JHP), the flagship project of the CDRSEE. The JHP is an ongoing and open-ended educational, social and political program with the goal of bringing about informed, significant and realistic change in historical research and education in the countries of Southeast Europe. The long-term aim that we are all working toward is to encourage and support reconciliation in the region by allowing children to view the area's

shared history from many points of view, thus opening up the past to discussion and debate through a participative and collaborative method of learning. In this way, the notion that there are many 'truths' and versions of events, as well as many common experiences (rather than just a national viewpoint and an unfavorable image of 'the other') will enable the process of reconciliation for the future to start. Through the innovative pedagogy, the children will also gain the skills and attitudes necessary for an open and democratic society to emerge.

The Workbooks Project consists of developing alternative teaching materials for history teachers, mainly at the secondary-school level, in Southeast European countries. The main activity of the project since 2002 has been the preparation of the publication 'Teaching Modern Southeast European History: Alternative Educational Materials.' Having completed the different phases of the project, as outlined below (gathering, selecting and translating materials into English), organizing four workshops for teachers to assess the material for the workbooks, proofreading and reviewing the workbooks, the Workbooks Project ('Teaching Modern Southeast European History: Alternative Educational Materials') was launched in spring 2005.

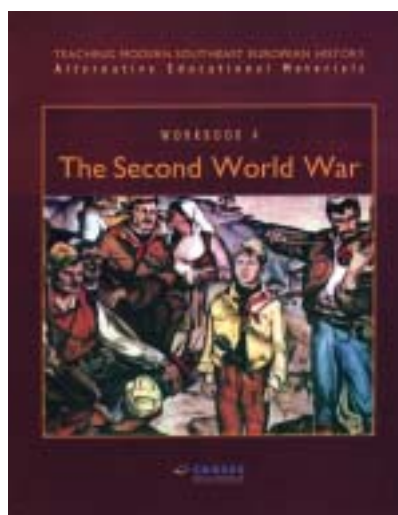
We aim to offer history teachers a tool to improve and enrich their teaching and, in some cases, to overcome the deficiencies of existing textbooks. Rather than waiting for textbooks to change, the creation of additional materials which can help teachers in the classroom is a more rapid, efficient and



flexible response to teachers' needs.

The workbooks present the different points of view of different countries, trying to sensitize teachers and pupils on the one hand to have a respect for facts that can be securely established, and, on the other, to the relativism of what is often thought of as historical 'truth' and help them to use multi-perspectivity in history teaching. Instead of presenting one general view of each major historical period covered, the workbooks attempt to show the perspective of the 'other' by relying on comparative methods, specifically comparing different versions of the same event.

Having already published the English-language version of the workbooks, the



CDRSEE is currently proceeding with the publishing of the local Southeast European-language versions. The Serbian publication was completed in November 2005 while the Greek publication will be completed by the end of July 2006. The CDRSEE has secured the funding for the translation of the publication into the Albanian language and is optimistic that the resources for the Bosnian and Croatian publications will also be available by the end of 2006. The CDRSEE is undertaking extensive fund-raising for the remaining local Southeast European-language version publications and has also provided the rights for a commercial publication in Japanese to the Akashi Shoten publishing house in Tokyo.

The teaching materials have already been created by an international team of experts. The materials consist of four workbooks that are organized thematically, and contain original source material from the 11 countries of Southeast Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Greece, the Former Yugoslav Republic of Macedonia, Romania, Serbia and Montenegro, Slovenia, and Turkey. The materials were translated into English, compiled, and then evaluated during four assessment workshops for teachers.

The four workbooks have the following four themes:

- The Ottoman Empire (assessed at a workshop in Istanbul, July 2003);
- Nations and States in Southeast Europe (assessed in Bucharest, November 2003);

- The Balkan Wars (assessed in Cyprus, February 2003); and
- The Second World War (assessed in Zagreb, September 2003).

These historical events or periods are common to all Southeast European peoples, and thus will correspond to the curricula in all countries involved.

One or two contributors from each of the 11 countries collected the material — pictures, diplomatic texts, treaties, memoirs, literature, testimonies, newspapers — for each topic. The sources are documents on different aspects of each historical topic presented from different national perspectives, thus providing, by definition, multi-perspectivity via a comparative approach. The contributors were in constant communication with the coordinators regarding the materials that they were gathering and sending; they also met with each other on two occasions. The first meeting was early on in the project, in November 2002 in Belgrade, for the coordinators to discuss their roles and responsibilities and the aim of the project with the contributors. The second meeting was toward the end of the creation phase of the workbooks. Any omissions in the first drafts were identified, and the contributors were able to see the complete result of their work. Following the Belgrade workshop, the contributors sub-

mitted the final materials that were needed for all four workbooks.

The first drafts of the workbooks have been tested and evaluated by teachers themselves during four workshops; one workshop per subject, held in each of the following places — Cyprus, Istanbul, Zagreb and Bucharest. The teachers' comments and feedback have been incorporated into the workbooks. The aforementioned team of editors has revised and finalized the workbooks, considering the balance of information, representation of all 11 countries, pedagogical content, relevance of each source, and sensitivities in each country.

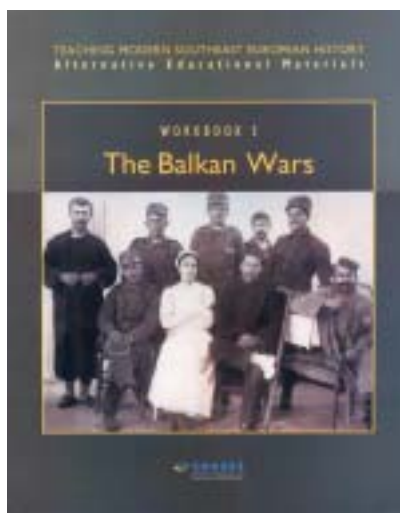
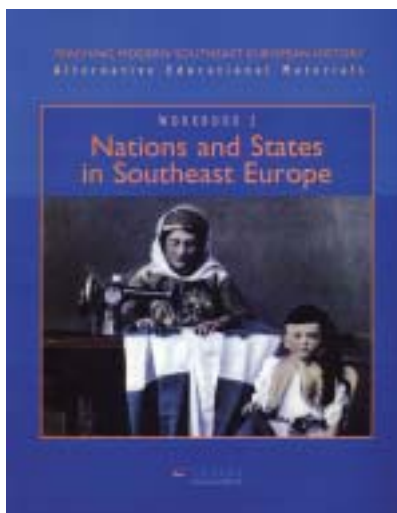
The Workbooks Project is guided by the History Education Committee, 17 individuals who are university professors of history and

education, textbook authors, schoolteachers and experts in the field of education working within the region. Having organized workshops on textbooks and teacher training over the past few years, the members of this committee have the necessary knowledge, experience and contacts to create the additional teaching material.

The target group consists of:

- History teachers in public and private schools;
- History students in public and private schools;
- University professors;
- Graduate and undergraduate university students;
- Other NGOs working on themes of education, especially history education; and
- Ministries of education.

The workbooks will be used mainly by secondary-school teachers. They will also be useful for university courses such as sociology, education, history, Balkan studies, European studies, political science, policy studies etc. University professors can use the workbooks in their undergraduate classes while graduate students can use them in their PhD research.



Theano Savvaoglou is operations manager, joint history project coordinator at the CDRSEE.

CDRSEE website: www.cdsee.org

The quest for a **modern** **Balkan** literature

In her book 'Imagining the Balkans'¹

Maria Todorova enumerates hundreds of ideological patterns through which different travelogues, diplomatic accounts, academic surveys and belles lettres oeuvres in many languages attempted unsuccessfully from the 18th century on to isolate and describe a specific area of Southern Europe, based on a very wide variety of criteria including geographical, cultural, political and religious ones

In whatever way different writers, historians, geographers, travelers, politicians and diplomats tried to approach the Balkans, something always remained outside. Sometimes it was Romania, which would not fit into the pattern because the Danube was set as the geographical border to the north. At other times it was Croatia and Slovenia, since historically they were Austro-Hungarian rather than Ottoman, which left them out of the loop. Furthermore, Romanians and Albanians often remained outside since the Slavs differ from the Illyrian and Latin populations, whereas the Turks generally were left out as they were Muslims and their territory extended too far into Anatolia. Thus far, we refer to the determination of the Balkans by third parties.

Self-determination

The situation was similar as far as self-determination was concerned. Before 1989 there were few who were aware of their Balkan identity. It took a series of terrible events, including wars, bombing campaigns, economic crises, poverty, embargoes, quarrels about borders and even country names, emigrating populations, as well as trafficking and the trading of human organs.



It took the actions of NGOs, which would 'teach' the different people democracy and a new kind of nationalism based on the concept of 'respect of human rights,' linking the rage for all upcoming degradation and exploitation toward those who were until recently fellow citizens, friends and relatives. It took millions of people to emigrate, it took the interest of the 'International Community' with funds and subventions for 'market development,' in order for writers, publishing houses² and critics to discover (or invent?) a common 'Balkan identity' to be manifested through a common 'Balkan literature.'

On the other hand, the term 'Southeastern Europe' constituted a more elegant variation of the term 'Balkans,' since its fascist past during the Third Reich had in the meantime been forgotten.

The Balkan literature

The Balkans as a 'cultural crossroads,' the Balkans as a 'bridge' — these are the most popular metaphors for those who face this mental fabrication in a sympathetic fashion with the intention of giving an identity to an area of Southern Europe whose geographical borders and affinity have still not finally been defined.

By Alexandra D. Ioannidou

What exactly is this identity and what is this particular affinity? What is this so-called Balkan literature? How should one define such terms for an area made up of collective make-believe, forgetting for a moment the perspective of funding 'peace, security and stability'?

If by trying to describe a common Balkan literature one took as a criterion the language, failure would be unavoidable. Apart from the Slavic language group and the purely linguistic — i.e. unknown to the average speaker, reader or man of literature of the 'Balkan languages-union' — and also apart from the hundreds of Turkish loanwords that are shared by all languages in the Balkans but which hardly contribute to the understanding of their speakers, the Balkan languages still remain, in an offending way, alien and strange.

Folk songs and history

It is true that folk songs like 'Arta Bridge' and 'The Song of the Dead Brother' are common to all Balkan folk literatures, since in each case there is only a change of the respective

1) Maria Todorova, 'Imagining the Balkans,' NY: Oxford University Press, 1997.

2) The best-known series of Balkan literature in Greece today has been created by the Kastaniotis and Kedros publishing houses.

names. But who is still aware of all this? On the other hand, **when one refers to 'Balkan literature,' it is not oral folk poems one is talking about, but modern literature in an environment of free communication, influences and cultural exchanges.** What would one expect after so many decades of discord, alienation and rejection of each other, of the nonexistence of any exchange, language-teaching and appropriate educational programs, and of distrust and obscurantism?

It might be possible to seek common ground in the experience of the Ottoman occupation. But who of all the modern writers would still insist on this subject? One could possibly revive the Western stereotype of the 'wild, undisciplined Balkan man,' who in fact served the intentions of the great powers after the First World War by acting with hostility against his neighbors.³

The Western civilization

'Personally I feel that the biggest affinity connecting me with my contemporary Balkan colleagues is the America-inspired Western civilization at the end of the 20th century, which tremendously influenced — if not enslaved — all of us,' stated the writer Vangelis Raptopoulos in response to a question about whether his work belonged to a common Balkan literature.⁴ Theodoros Gregoriades, on the other hand, during an international conference on the subject of contemporary prose-writing in Southeastern Europe, declared that he felt tired and trapped by the countless references to the 'Balkan literature' phenomenon and also by this 'intellectual encirclement.'

There are of course some others, like Milimir Djukanovic or Ismail Kadare, who envisage Balkan literature as a European islet of Latin American-inspired magic realism.⁵

The origin of the term

What is the true origin of the term 'Balkan literature'? The argument of geographical

proximity alone is no way to establish a distinctive category of literature. Is there any common subject, if we were to exempt the references to the high mountains which come up in landscape descriptions? **One wonders whether this Balkan literature is not a simple idol built up hastily, gilded through heavy funding and respectfully worshipped in order for us to exorcize hate and quarrels, indifference and a lack of education, which has lasted whole decades, if not centuries.**

A modern Balkan literature does not yet exist. It might exist one day. Now that we again know of each other's existence and have decided to translate from and into each other's languages and to travel and work in each other's countries, a Balkan literature may start to take shape.

The idea of the wandering Balkan citizen, who, with a century's delay, explores his neighboring countries, getting into both mental and physical tangles, could possibly at sometime in the future constitute a reference point for literature historians in their search for a description of a distinctive category labeled 'Balkan literature.'⁶

The Balkan emigrants

The Bulgarian poet Alexander Kiossev looks forward to a Balkan literature which would come from the Balkan emigrants, from those who will have escaped the suffocating cluster and the coercion of national and regional literature images and would speak as cosmopolitans about their countries and their international experience at the same time.⁷

A Balkan literature might exist some day under the precondition that we will start ignoring the myths about the centuries-long Ottoman occupation, about the common cuisine, the common Turkish coffee and the *tsifteteli*-driven rave-ups. And

only under the precondition that we pay no regard to the bubble of funds against diverting crises, that we let it rise slowly and be swept away by the wind in order to land in some distant Arabic desert where the West, having again divided, bombarded and disbanded, will have decided to 'fund' the 'process of democratization,' cultivating there also a new Arabic, Middle Eastern or whatever bridging literature. . .

3) About the particular subject see: D.A. Norris, *'In the Wake of the Balkan Myth: Questions of Identity and Modernity'* (New York, 1999, St Martin's Press), where there is a very detailed description of how the West built the picture of the belligerent, agricultural Balkan populations through its own reading of the Balkan countries' folk poetry, especially Serbian.

4) M. Pimplis, *'Edo den einai Valkania'* (Here is not the Balkans), *Ta Nea*, 13/5/2000.

5) Ibid., as well as: L. Keza, *'Geografikes Symptoseis'*, *To Vima*, 4/10/1998.

6) See *'The Sinner of the Balkans'* (*'O Amartolos ton Valkanion'*) by Dimitar Kirkof (Athens, 2005, Kedros, transl. P. Stathoyannis), or *'Silence Blots'* (*'Stigmata Siopis'*) by Milisav Savic (Athens, 2005, Kedros, transl. G. Rosic).

7) G. Csejka, *'Assymetrien der Modernisierung. Interview mit Alexander Kiossev,'* *New Literature, Review for Cross Connections*, 1999, 1, pp. 4-7.

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The new Balkan identity?

Does Balkan literature have its own identity nowadays? If so, what is this identity? Is there any unity? Does this literature have common characteristics and, if so, what are they? What do Balkan writers think about nowadays?

Where do they get their themes from? Do they look toward the West or the East, the past or the future? What occupies their minds theoretically and practically? Do they feel like members of a community or not?

The historic tribulations of the Balkan

states have linked them in the public opinion, while they also appeared united in 1989 due to their common regimes. Historical developments have shaped Balkan literature, assigning to it specific importance. The aim of our special theme is to cause debate, as many question whether there is in fact a common literary identity and seek instead to identify the variety of literary references in the Balkan Peninsula.

Albania

Besnik Mustafaj is a poet, novelist and diplomat. In his book *'The Void'* (Kedros, 2005), he delves into the fear of the void between life and death. In *'The Dream of Damocles'* (Kedros, 2005), Fatos Kongoli presents a Kafkaesque psychological drama concerning the past and the present of his country.

Bulgaria

In his book *'The Sinner of the Balkans'* (Kedros, 2005), Dimitar Kirkof follows a

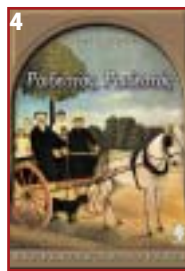
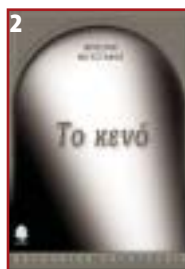
man born on the road between Bulgaria and Greece. After killing a blackmailer in self-defense, the hero of the book travels in the Balkans. Sevda Sevan is a writer of Armenian descent born in Bulgaria, where her parents fled after the Armenian genocide of 1915. Armenians, Turks and Greeks mingle in her book *'Raideostos, Raideostos'* (Kedros, 2005), not suspecting the turmoil in the East that will change their lives.

FYROM

Venko Andonovski has studied literature and theater and has written numerous novels, short stories, studies and plays. In his book *'The Navel of the World'* (Kedros, 2005), the writer combines two stories. A man suffering from unrequited love asks for a final favor before he commits suicide. His brother discovers a strange novel among his belongings.

Serbia

Two Greek publishing houses, Kedros and Kastaniotis, have an especially high output of books translated from the Serbian language. Furthermore, the Greek public is better acquainted with Serbian writers than with other Balkan authors. Two of



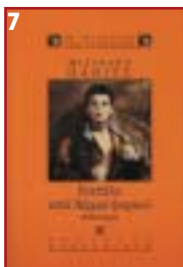
1. The Dream of Damocles

2. The Void

3. The Sinner of the Balkans

4. Raideostos, Raideostos

5. The Navel of the World



1. Iva
2. The Peacock Feather
3. Stains of Silence
4. Early Troubles
5. Stairway to Heaven
6. The Dictionary of the Khazars
7. Fish Skin Hat
8. Lost Diaries of Constantinople



Milorad Pavic's books can be found in Greek bookshops: his famous bold text *'The Dictionary of the Khazars'* (Kastaniotis, 2003) and *'Fish Skin Hat'* (Kastaniotis, 1999), a love story set in the 3rd century BC. Ljiljana Habjanovic-Djurovic's newest offerings to be translated into Greek are *'Iva'* (Kedros, 2003) and *'The Peacock Feather'* (Kedros, 2005). The first book is a strange story of unrequited love, while the latter is set in Thessaloniki, the Cultural Capital of Europe in 1997. Dobritsa Tchossitch's *'The Age of Power'* (Kedros, 2001) discusses the fate of a concentration camp prisoner detained by his former comrades. The late Danilo Kis, one of the greatest Serbian writers, describes his childhood in *'Early Troubles'* (Kedros, 2004). Gaga Rosic's *'Stairway to Heaven'* (Kedros, 2004) is a travelogue on countries as diverse as Greece, Mexico and Tibet. Milislav Savic meshes love, literature and politics in his book *'Stains of Silence'* (Kedros, 2004). Svetislav Basara's *'Damned Land'* (Kedros, 2004), among a total of more than 20 works, presents his view on modern democracy. Predrag Matvejevic, an anti-Titoist who went into self-exile after 1991,

pores over the Mediterranean in the book *'Mediterranean Synopsis'* (Patakis, 1998).

Turkey

Necati Cumali's *'The Last Lord of the Balkans'* (Agkyra, 2005) has not only been translated into Greek but was also adapted for an international TV production. Mehmet Coral explores Constantinople in his two books *'Stories of an Age Lost — Byzantium, Constantinople, Istanbul'* (Kedros, 2002) and *'Lost Diaries of Constantinople'* (Kedros, 2005). The well-known writer Zulfu Livaneli offers a 17th century story in *'The Great Eunuch of Constantinople'* (Patakis, 1999) and a tale of revenge set in Finland in *'A Man, a Cat, a Death'* (Patakis, 2002). Orhan Pamuk, the famous writer/activist, weaves the tale of an old woman recollecting her youth in *'The House of Silence'* (Patakis, 1994). His last book, *'Constantinople'* (Oceanis, 2005), is an historical view of the city featured in the title.

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Eureko's strategic decision

According to Interamerican's chairman, Adrian Hegarty, the **Eureko Group** has made a strategic decision to utilize its subsidiary Interamerican to expand group activities in the markets of Southeastern Europe.

Mr Hegarty stresses that there is an important role for Interamerican to play, particularly in developing new business for Eureko in the Balkan region, while consolidating its position in the Greek insurance sector, where for three-and-a-half decades it has enjoyed a leading position. Given Eureko's intention to apply the best practices in use among the group's other European companies, Interamerican can acquire a major competitive advantage.

It is worth mentioning that in 2005 Interamerican returned to profitability in the life insurance sector, reporting pre-tax profits of 5.3 million euros, as well as in its general insurance business, where its earnings reached 10 million euros. As the company has stated, Interamerican's clinics also doubled their profits.

Eureko companies are now also trading under the Interamerican name in both Romania and Bulgaria. In the former, Interamerican has been selling insurance since 1995, offering products and services in both the life insurance and healthcare sectors. In 2005 it launched its Medisystem, which is scheduled to expand to include 38 cities by the end of 2006. In the Romanian capital, Bucharest, the Medisystem network will comprise a total of six medical centers. The first of these was opened on February 14, 2006, while the remaining five will operate from associate clinics.

In 2005 Bucharest saw the opening of the Euroclinic, the first private hospital in the country, offering outpatient services, surgery and obstetrics — all in state-of-the-art facilities. Interamerican Romania has so far invested a total of 14 million euros in the healthcare sector, 10 million of which was used to finance the Euroclinic. The company's product distribution network in Romania consists of 35 sales points, staffed by 360 trained insurance brokers.

Interamerican has also been active in Bulgaria in the area of general insurance since 1998, while also offering emergency road assistance services in Cyprus.

Fifty years of experience

ICME ECAB SA, a Greek company which manufactures all kinds of telephone and data cables, including ACSR conductors, has developed an almost 50-year presence on the Romanian and other international cable markets. Founded in 1949, ICME ECAB SA, a Hellenic Cables SA affiliate company since 1999, is based in Bucharest and employs about 500 people.

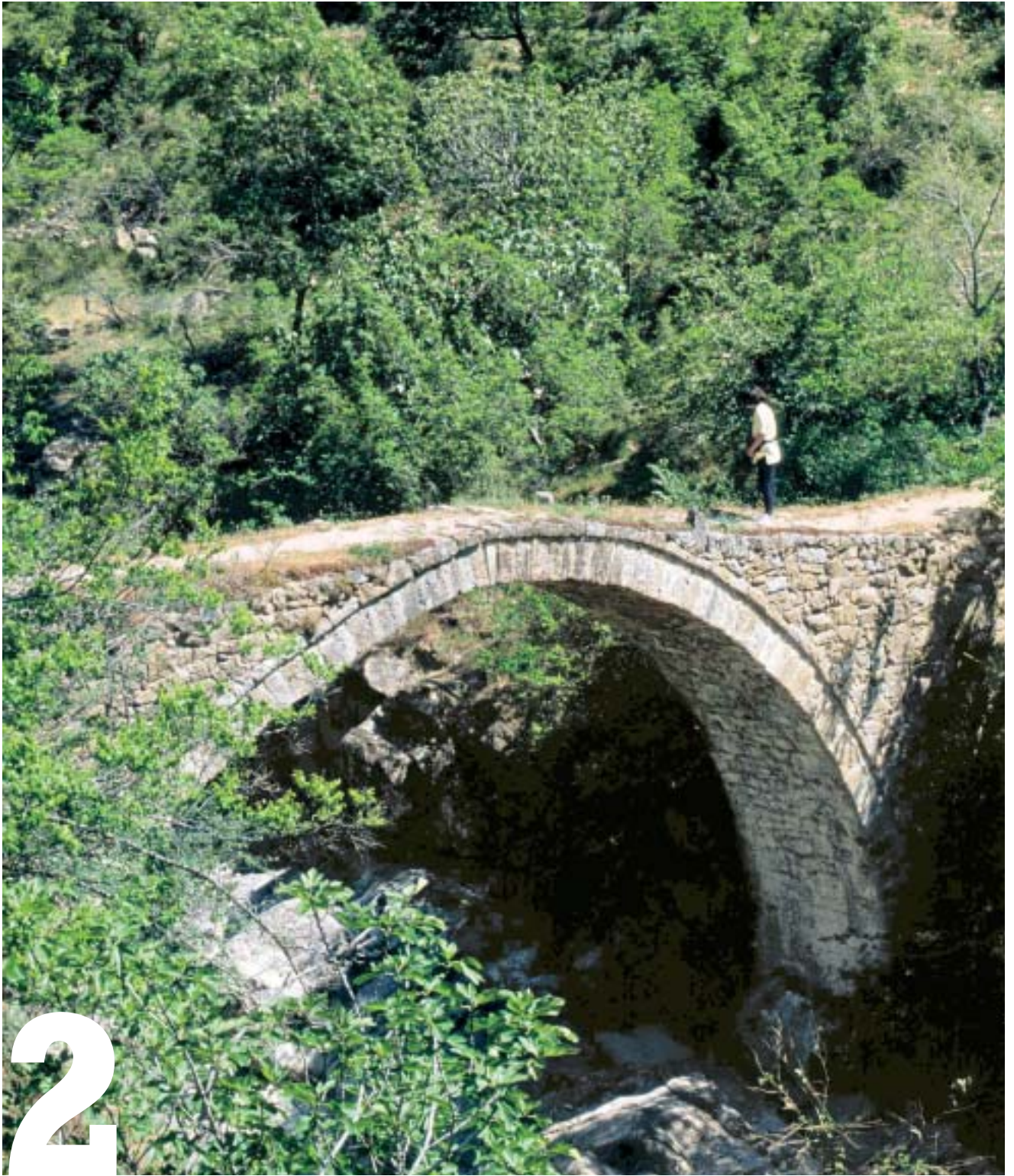
ICME ECAB SA is a leading cable manufacturer in Romania and its products are distributed on the Romanian and international markets under the registered trademark CABLEL®. The company sells and distributes its products from its facilities in Bucharest and its warehouses in Cluj, Bacau and Timisoara to the Romanian market. Meanwhile, the Hellenic Cables network distributes ICME ECAB products throughout the international market.

In the coming years, the company aims to further enhance its position on the domestic market, in neighboring countries (Bulgaria, Hungary, Serbia, Moldova, the Czech Republic and Slovakia) as well as additional markets further afield.

In 2005, the sales turnover of the company amounted to 56 million euros (10 percent growth against 2004), profits before income tax amounted to 3.3 million euros (122 percent increase against 2004), and earnings before interest, taxes, depreciation and amortization (EBITDA) to 6.4 million euros (52 percent increase against 2004).

companies





2 The bridge

Rodopi Bridge
Thraki - Greece
photo: ANA-MPA www.ana-mpa.gr



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