

EFFECTS OF GREEK CRISIS ON FYROM/REPUBLIC OF MACEDONIA

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The Economic Context

The onset of the world financial crisis in 2007-2008 initially did not have a major effect on the southern Balkans. Most countries – whether European Union members, candidate members or those awaiting an EU relationship have similar banking systems in which the more speculative aspects of contemporary finance are almost wholly absent. This was not the case with Greece where banking is closely integrated into wider globalised financial groups and where growing national indebtedness had been a concern of regional observers for some time<sup>i</sup>.

The crisis that has developed in Greece in 2009-2010 around the debt issue, with the possibility of a default or a return to the drachma currency and the wider Eurozone financial instability has inevitably given rise to concern about the prospects of Former Yugoslav Macedonia (FYROM/Republic of Macedonia). It is generally seen as a small and weak economy on the northern Greek border with many trade and business links to Greece and relatively uncertain internal politics and governance issues. At one level this is certainly true, with major Greek investment in areas such as the food and drink industries and petroleum, within FYROM, and Greece a main market for exports like quarrying and mineral products. Real political stability is still elusive nearly ten years after the 2001 Ohrid Accords. It is also somewhat misleading, as the nation retains also strong trade links with Serbia, Turkey and Russia and some EU members such as Germany are important inward investors.

In general the very gloomy predictions of some commentators about the likely effects of the Greek crisis have not been borne out by events. Although there was short period of severe funding stress in late 2008-early 2009 the banks have avoided a major crisis, and an early involvement of the International Monetary Fund produced public expenditure reductions that avoided the need for a renewal of the three year stand-by agreement with the IMF that expired in 2008. Thus risks to macroeconomic stability remain but are not generally thought to

be as serious now as a year or more ago. The current account deficit is high but so far has proved possible to finance, with a budget deficit of about 2.8% of GDP in 2009, the largest for some years. There has been a very sharp decline in inward direct investment in 2009, as in other Balkan countries like Serbia, Montenegro and Croatia. In most cases this is because most (or all) worthwhile enterprises have been sold or privatized (e.g. the tobacco industry in FYROM), and construction development has been a victim of the general economic crisis everywhere. Monetary policy is controlled by the relationship of the Denar to the Euro, at a semi-pegged rate that has been the same for some years. Until 2008-2009 capital inflows meant that debts could be paid off, but this is no longer the case and is a cause of concern for the future. Exports are rising and in February 2009 were up 19% on the previous year, an excellent achievement in current economic circumstances.<sup>ii</sup>

Pledges of financial aid have been received from the EBRD, mainly for road improvements, although the Skopje government would most like funding to complete the long-delayed rail link to Bulgaria that is only partly built. An agreement with the World Bank is in force for a four-year partnership strategy. Financial remittances, mainly to the 25% Albanian minority in the West are down but remain at a reasonable level as the majority of this Diaspora work in the rich German-speaking countries in central Europe, particularly Switzerland where economic life has sustained itself better than in Greece or Italy. Criminal cash continues to be a positive background economic factor in providing liquidity in the economic system, however undesirable it may be in other ways

The relatively optimistic fiscal picture is countermanded, though, by sharply rising unemployment, residual ethnic tension between the Albanian minority and the government, very widespread bribery and corruption and the intense pressure on vulnerable institutions such as schools and hospitals. Government cash flow is poor and probably worsening. The poor revenue position of the government is leading to closures of diplomatic missions, withdrawal of troops from NATO-led coalitions and weakening public services.

In the recent period there have been few major decisions or major changes affecting the political structures of FYROM/Republic of Macedonia. The reform process has stagnated to the point of invisibility, and although the political elite claim to want EU membership it must be open to question how far this is really the case now that visa-free travel has been conceded by Brussels. This was overwhelmingly the most important popular-level issue in the country. The framework of inter-ethnic relations established by the international community through the Ohrid Accords signed in August 2001 that ended the short inter-ethnic war that spring/summer remain in place. On the Macedonian side of the ethnic divide, all political structures are now dominated by the conservative nationalist VMRO government of Gruevski which controls the Presidency, the Parliament and many local government areas and other institutions<sup>iii</sup>. It governs in partnership with the Albanian BDI party of Ali Ahmeti, the largest of the ethnic Albanian parties, in a de facto spoils system. Recent elections have been more peaceful than those in the immediate post-Ohrid period but many problems remain in achieving an international standard. The relationship with the European Union remains stalled at an ostensible level because of the dispute over the state name with Greece, but also over the lack of reform of many obsolete and dysfunctional structures in FYROM society. The same applies to NATO membership, although the nation has supplied troops to US-led coalitions. It is very doubtful whether Skopje could afford the required national level of defence spending for NATO membership in present economic and fiscal circumstances. Reform is a problem in the military sphere as much as the civilian, so that, for instance, the officer corps of the army remains overwhelmingly Slav-Macedonian dominated despite numerous attempts by NATO and other agencies and advisers to engineer reforms over the last fifteen years.

In the international community, in general, all concern over these and other issues is condensed into the arguments about the 'name' issue which has been seen as the main obstacle to NATO and EU membership. The thirteen year long Nimitz United Nations mission remains active, with a new initiative involving Prime Ministers Gruevski and Papandreou promised for this autumn. While the name issue is obviously very important, it is often used as a cover for other much more serious problems connected with with FYROM finding a secure and respected place in the world. The uncomfortable fact for the international community is that nearly all the good record the country has in surviving the world economic crisis and receiving plaudits from the IMF and other IC organizations for its economic management has rested on the fact that many elements of centralized control remain in what is still in some senses a semi-socialised or state capitalist economy.

This is particularly the case in the large agriculture and food sector which is generally well run and has benefitted considerably from the boom in world food prices. Here the fact that

Serbia is a main market for many goods is important. The prices currently being received by farmers for grain are considerably higher on the local informal market than they would obtain in the EU. The rapid economic clampdown that saved the situation in 2008-2009 would have been much more difficult to achieve without the centralization based on Skopje, in the same way that Montenegrin leader Milo Dukanovic was able to do much the same at the same time for the same reasons using the same methods of internal patronage networks in Podgoritsa. Thus there is a contradiction, in current grim economic circumstances, between reforms needed for EU membership progress, and the local system that so far, at least has avoided major social and economic instability.

### The Name- Macedonian Totem and Greek Taboo

It is hard to judge if any progress could- or is likely to be made on the name issue. At the onset of the Greek crisis there was a school of thought among some diplomats that the economic crisis might force Greece to back down on some long-held positions and embrace the 'Macedonian' reality. This has not taken place for the simple and entirely understandable reason that with much of the Greek Left is in vitriolic opposition to government austerity plans and frequently on the streets, the last thing the PASOK government in Athens is likely to want is to incite the ire of the clerical Right with a major concession over the name. The northern part of Greece which is being most seriously affected by the economic crash is also adjacent to FYROM/Republic of Macedonia and where the influence of the Greek Orthodox Church and the clerical Right is greatest. A major name concession by Athens would be very unpopular. This would certainly be required for any deal to have any chance of top level agreement although whether anything at all could ever pass the Greek or Skopje parliaments is extremely doubtful in any circumstances.

American faith is often put in the fact that the great majority of the 25% Albanian minority in FYROM would like a settlement and NATO membership, and their numbers and influence are growing. This is undoubtedly true but it is also true that it would be very dangerous indeed for Skopje government internal stability to have a semi-imposed deal by the United States/IC that depended on the Albanians in a way that many Slav-Macedonians would see as a direct attack on their national identity. Critics of the Skopje position often do not seem to realize how many people in FYROM/Republic of Macedonia still treasure what Tito 'gave' them, the first 'Macedonian' entity in Europe, according to their view of history, since 168 BC. The atmosphere of the UN Nimitz mission remains dedicated to a 'top down' solution but how far this is responsible policy given the recurrent political stresses in Skopje is an open question.

The Nimitz mission is in essence a hangover from the long past Vance-Owen period of international activity in the Balkans where deals could be brokered by strong negotiators with undemocratic leaders like Milosevic or Tudjman and then handed down to local populations. The development of better formal democracy over the last fifteen years throughout the Balkans has made this perspective rather obsolete. In a reasonably democratic state like contemporary FYROM/Republic of Macedonia this is a very dubious strategy (as the mostly US-led discussions about the need for a validation referendum indicate). In Greece with its long (if sometimes flawed) tradition of parliamentary government this is even more the case.

In the years since its creation as a new independent state in 1991-1992, FYROM/Republic of Macedonia has shown a sure survival instinct in often highly difficult circumstances, from the early Greek economic boycott, difficulties of recognition, loss of its original flag and other issues in the 1995 'small package' agreement with Greece, the appalling strains of the Kosova war refugee crisis and a full scale armed conflict with the Albanians in 2001. It is showing generally good common sense in the current world economic crisis and precipitate international pressure on either government to force through a name solution could be very destabilizing. A better strategy could be to try to find ways of increasing economic, environmental and regional cooperation to steer both countries through their acute economic difficulties, and reduce the current European and Obama administration preoccupation on political progress via deals involving entry to international organizations with very onerous bureaucratic and legal requirements that also involve potentially destabilizing changes to the Skopje national identity.

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<sup>ii</sup> For general background on the Greek crisis in 2009-2010, see Pettifer.J,' The Greek Crisis A Pause', Defence Academy RAG Publication 10/07 <http://www.da.mod.uk/r-and-a-b> .

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<sup>ii</sup> This and other relevant data is taken either from the Economist Intelligence Unit Country Reports, 'Macedonia', June 2010, and later data from World Bank and International Monetary Fund publications.

<sup>iii</sup> It is perhaps worth noting that the Prime Minister's Gruevski family comes from near Florina/Lerin, in northern Greece and his grandfather claims to have suffered severe human rights violations at Greek hands in the aftermath of the defeat of the communist KKE Democratic Army in the Greek Civil War after 1949.