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The Greek Crisis and Its Repercussions on the Balkan Neighbourhood: The End of the Myth

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ABSTRACT
This article explores the role of Greece in the Balkans since the end of Communism and the impact of the sovereign debt crisis that followed. Since the beginning of the 1990s, while Greece failed to accomplish its vocation at the political level, at the level of the economy the country acted as an important regional actor. The article examines the dynamics of the Greek crisis on the Balkan economies and analyses the major challenges for Greece in this new reality. At the same times, it tries to identify the triple crisis faced currently by Greece: at the level of credibility and status, at the level of mediation between the region and the EU and, finally, at the level of the gradual peripherisation of the country.

Keywords: Crisis, Balkans, Greek Banks, Migration, EU

Yunan Krizi ve Krizin Balkanlar Bölgesi Üzerindeki Etkileri:
Bir Mitin Sonu

ÖZET

Anahtar Kelimeler: Kriz, Balkanlar, Yunan Bankaları, Göç, AB
Introduction

At the beginning of the 1990s, Greece appeared as the best situated country to contribute to a peaceful transition to democracy and the introduction of a market economy in South-eastern Europe. As the only NATO and EU member state in the region, Athens had the potential to act as a facilitator of economic and political transition with a view to creating a wider consolidated regime of peace and stability in South-eastern Europe. On the other hand, Greece had every interest to transcend decades of geographic isolation, gain access to an emerging and largely unexplored market of 90 million people and emerge as the political broker of Europeanization in South-eastern Europe. Economically, Greece punched above its weight; politically, Greece largely failed to play its role.

With the collapse of the collective security umbrella of the Warsaw Pact and the unravelling of the territorial status quo in former Yugoslavia, Greece had to reflect on its new role in the region. However, Athens failed to play the role of a mediator and a guarantor of stability. The main reason was that Greece never quite had a vision that would transcend regional confrontation to harness regional integration. Athens was absent in addressing the great political challenges of the region, be it state-building in Albania or democratic consolidation in the Former Yugoslav Republic of Macedonia (FYROM).

Moreover, Athens was often part of the problem. In the years of political consensus over economic and social policy, several opinion leaders in Greece succumbed to the temptation of building a political career on the back of a narrative of national triumph over ‘the other’. Identity politics in the 1990s allowed individual political entrepreneurs to carve out a patriotic outlook. While Greece had no territorial claims in the Balkans, Athens projected a narrative of historical vindication, triumphing over its neighbours rather than emerging as a regional facilitator of a ‘Return to Europe’. This triumphant narrative was underlined by migrants making their way to Greece, which was unprecedented for a country with no colonial past and a long track record of net emigration.

However, at an economic level, things were different: Athens was instrumental in aiding the region's transition to a market economy. Greek companies moved into strategic sectors – energy, banking, telecommunications, mining, shipping, transport, and construction– bringing with them a cluster of emerging small and medium enterprises that soon gained market share and size, especially in textiles and the food industry. Foreign direct investment from Greece became a key driver of development in South-eastern Europe, especially in labour intensive industries.

At the beginning of the 90s, Greece reacted defensively to the “sea of volatility” that surrounded the country. During that period, relations were strained with practically all neighbouring countries except Bulgaria. As a Thanos Dokos notes, Athens failed to exploit opportunities for multilateral initiatives that would have institutionalized Greece as the broker of Europeanization in the region. It was only in the Thessaloniki Summit in 2003 that Greece took a concrete step towards consolidating its role as a regional catalyst for Europeanization.

Unfortunately, ethno-nationalist rhetoric undermined the political value of Greece’s economic role in the region. The metaphor of Greece’s ‘penetration’ of the Balkans underscored the logic and quality of the spirit of the times. At the time, nationalist political entrepreneurs of every ilk and colour were evoking images of a ‘drachma zone’ and a ‘Greek hinterland’, appealing to kneejerk patriotism.

The Rise and Fall of a European Economic Power in the Balkans

At an economic level, Greece moved swiftly to consolidate its position as a regional leader. When the system of centrally planned economies collapsed, favourable conditions, like geographical and cultural proximity facilitated the Greek presence at the forefront of economic transition. By 2000, Greece had a larger GDP than all 7 post-communist Balkan countries combined. Both public and private initiative paved the way towards a kind of economic leadership that Greece has never before experienced. Athens led foreign direct investment and remittance flows. For nearly two decades, Greek capital transformed the Balkan economies, which in turn transformed the Greek economy.

In the 1990s, Athens saw South-eastern Europe as an El Dorado of quick margins, minimum regulatory barriers, and cheap labour. That labour boosted Greek productivity, giving a new lease of life in sectors that had been struggling to keep up with competition in the Single European Market, such as textiles. Within a few years, about 3400 Greek companies operated across the Balkans, investing by the mid-90s more than $2.5 billion. This first phase was mainly characterized by the small-scale investment, mainly in the food and garments retail sector. But, the 2000s saw a lift-off of investment. From 2001 to 2011 Greek FDI capital surged 8 times in telecommunications, banks, energy, steel, cement, food, garments, retail, and others.

At the same time, through seasonal and permanent settlement, Greece was transformed from a country of net migration to a host community. As thousands of immigrants made their way throughout Greece, they replenished the social security system of a demographically strained population and boosted productivity. Moreover, the care economy for children and the elderly had wider significance for productivity and social mobility for the Greek middle class. That transformation was mutually constitutive, as migrants also sent home remittances, especially in Albania and Bulgaria, which accounted for 5-to-10% of their GDP for more than a decade. These remittances far outweighed the significance of Official Development Assistance from either individual states or multilateral donors (World Bank, USAID, EU, etc.).

Early on, there was an attempt to integrate Greek investment in the Balkans with a politically significant strategic narrative. State-owned companies and successive governments promoted the notion of ‘national champions’ in strategic sectors. The political consensus at the time envisaged the reframing of national strategic networks with a regional scope – banking, energy, and telecommunications – creating an ecosystem capable of bolstering a wider cluster of businesses.
Scale was the strategic objective. For Greece, the Balkans was the answer to the perennial failure to go beyond very small and medium businesses to bigger corporations of regional significance. Indeed, for nearly two decades, Greek exports to South-eastern Europe increased, just as its trade deficit vis-à-vis EU member states widened.

However, this vision never quite evolved into a successful master plan, with the small but notable exception of the Hellenic Plan for Economic Reconstruction of the Balkans (HiPERB), presented after the Kosovo war (1999). HiPERB was an instrument designed to fund the creation or maintenance of infrastructure in the Balkan area, as well as to facilitate Greek FDI in the region. The plan had important advantages for Greece: it contributed to the image of a serious regional actor that could act as a guarantor of stability and, therefore, a necessary partner for the transition economies of the Balkans. Through this plan, Greece managed to gain some of the diplomatic capital lost by the Macedonian imbroglio. Unfortunately, bureaucratic obstacles, the lack of coordination between the ministries, as well as problems in the recipient countries resulted in an implementation level in the region of 10-15%. The instrument was formally terminated in 2013.

Ultimately, where the state failed to provide strategic vision, banks succeeded. By 2008, Greek banks accounted for the 30% of total banking assets in Bulgaria and FYROM, 25% in Albania, 15% in Serbia and 17% in Romania. At that time, these banking assets had an estimated value of 70 billion Euros. By 2009 Greek systemic banks had 3050 branches in South-eastern Europe and 43,184 personnel. Deep into the crisis, in 2015, Greek banks had still a 22% share of total banking assets in Bulgaria, around 20% in FYROM, 16% in Albania, 14% in Serbia and 12% in Romania. For Greek banks, the Balkans have been an alternative source of high revenues, a strategy that protected them from toxic bonds. The expansion of banking networks created the

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8 Ilia Roubanis, “3-for-1 for the black sea: 3x development, 3x soft power”, Neighbourhood Policy Paper No.3, Center for International and European Studies, Istanbul.
11 Panagiotou and Valvis, How is the Sovereign debt crisis, p.65. From 1999-2002, the program showed minimum results. The program was relaunched in 2002, with the relevant legislation being adopted by the Parliament. Albeit the efforts, the program seemed unable to function until 2005-6 and in 2006 it was given a five-year extension. The following sovereign debt crisis resulted in the cancellation of all projects that had not started, as in 2013 the Greek Government notified all Balkan governments concerned, that due to lack of resources, the program could not be implemented. Yorgos Christidis and Ioannis Armakolas et al., Greek Bulgarian Relations: Present State and Future Challenges, ELIAMEP, Research Report, March 2017, p.31-32.
foundation for tight interdependence between the Greek and South-eastern European economies that is now taken for granted.15

To this day, strategic Greek lenders continue to be mostly profitable in the Balkans. For one generation, the Greek banking system played a crucial role for the growth of Greek companies in the region, operating as a Launchpad for various businesses ventures. However, Athens missed the historic opportunity to become a regional hub for human resources, education, training, research, development, technology, and financial services, creating a durable and multi-layered relationship with its newly rediscovered neighbours.

The global financial crisis of 2007 as well as the euro crisis that followed, significantly affected the region.16 Greek FDI flows collapsed and reduced demand for exports led countries to recession.17 The state of the Greek economy was not the single determining factor, but it was significant. Existing vulnerabilities combined with the effects of the Greek, regional, and global financial crisis to push South-eastern Europe to recession.18 Many Balkan states turned to the IMF for support: for Bosnia Herzegovina and Romania it took the form of large front-loaded support packages. FYROM adopted a Precautionary Liquidity Line, while Serbia got a Stand-by Arrangement loan of 523$ billion at the end of 2008.19

On average, in 2009 states in South-eastern Europe saw a 5% nosedive in their GDP.20 Within two years they were able to return to growth, but not without lasting damage to regional growth prospects. In 2015, the region’s cumulative GDP grew by 2.25% in average, thanks to a surge in investment and an improvement in the overall macroeconomic environment.21 In 2016, the average rate of GDP growth was 3%;22 there was a revival of public spending, and external imbalances were under control. For 2017, the revision is 3.3% GDP growth and one could argue that the regional economy is back on track, as forecasts for 2018 are in the region of 3.6%, boosted mainly by domestic demand.23

As all data indicate, the slowdown of economic activity in the Balkan countries after 2010 is mainly due to Greek crisis. Greek banks accounted for as much as 25% of the assets’ deposits and

17 Mateo Bonomi,” Economic Governance in the Balkans: towards a more sustainable path of economic development?”, European Policy Center-EPC, Policy Brief, 10 November 2016.
22 Bank of Greece, Governor's Annual Report for the year 2016, February 2017, p.46 [in Greek].
loans in FYROM, 23% in Albania and between 15 and 20% in Serbia. Together with Italian banks they controlled little under half of the sector in Western Balkans. Albania was the country most affected by the Greek crisis, one of the reasons being the high percentage of Albanian migrant workers in Greece who contributed through their remittance to the country’s GDP. But it was the banking sector which was most affected by the crisis.24

With regards to Greek banks, at the end of 2016 the four systemic Greek banks had a total of 1366 branches in the Balkan countries with 18,174 personnel, with a trend to reduce even further.25 Greek banks were obliged to follow the restructuring programs that were agreed in the framework of commitments they have undertaken, after the third recapitalization at the end of 2015, and have already started limiting their presence in the region. The implementation of this plan, will lead to the end of Greek ambitions for a banking hegemony in South-eastern Europe. If the banks do not comply with this restructuring plan, the Directorate General on Competition could acquire the financial control. The basic argument is that Greek banks that have received state aid through the recapitalization cannot be competitive outside the country.26 In this framework, under the new restructuring plans signed in 2015, until the end of 2018, Greek banks must limit their presence outside the country. For the NBG and Piraeus Banks it means the complete disinvestment internationally (because of the state aid received) while the commitments are lighter for Eurobank and Alpha Banka which have received private aid.

As of 2009, Greece's outward FDI stock in the Balkans was about US$ 10.5 billion or 26.5% of Greece's FDI stock worldwide. From the point of view of Balkan countries Greece is an important source of FDI but not the biggest: it accounted for 6% of Balkan countries inward FDI.27 From 2011-15, Greek businesses withdrew from the Balkans and Greek invested capital fell by 32.5% in total. Greek FDI fell from 17.3 billion euros in 2011 to 8.1 billion euros in 2015 (minus 53%).28

As mentioned above, migrants from the Balkans working in Greece numbered during the pre-crisis period between 700,000 and 1 million, two thirds or even more of which came from Albania. The decline of remittances from Europe- and Greece in particular- is crucial for these economies as they are essential in maintaining consumption. But, as unemployment rose in Greece and the construction sector, where many migrants worked, was severely hit, in 2010 alone remittances contracted by as much as 15% in Albania and 14% in Serbia. Especially in Albania they have not picked up since, as what we face now is reverse migration from formerly fast-growing Greece back to the region. The end results are an additional burden for already strained state budgets. The worsening of the situation in Greece between 2012 and 2017 further exacerbated the situation in Albania, Bulgaria and Romania.29

25 Date provided by the banks.
26 A. Doga, “New model for the banks in the Balkans”, Naftemporiki, 18.7.2016 [in Greek]. The objective was, through the liquidation of their assets, to be able to return the state aid they received during the capitalization. The amended plans had a three years horizon, so that all the necessary arrangements should have been concluded between 2016 and 2018. See also, G. Papadogiannis, “Final stage for the restructuring plans of the banking sector”, Kathimerini, 24/6/2017, [in Greek] http://www.kathimerini.gr/915455/article/oikonomia/epixeishseis/sthn-telikh-ey8eia-ta-sxedia-anadiar8rws-h-tw-trapezwn/ (Accessed on 15 October 2017).
27 Persephone Economou and Margo Thomas, “Greek FDI in the Balkans: How it is affected by the crisis in Greece?”, Columbia FDI Perspectives, Vale Columbia Center, No.51, 21 November 2011, p.1.
28 Bank of Greece, Governor’s Annual Report for the year, p.50.
29 Dimitar Bechev, “The periphery of the Periphery. The Western Balkans and the euro crisis”, European Council on
Greek capital was forced by the crisis to abandon the region. In fact, the crisis created a two-way movement: away from the Balkans and back to Greece and a trend of relocation of Greek firms to Bulgaria mainly, because of lower taxes and wages. This reveals an important disinvestment in Greece on the one hand and important gains, mainly for Bulgaria, on the other.30 In fact, Greek business move abroad to escape austerity31 as the higher taxes punished businesses, forcing many to shut or move to lower tax jurisdictions such as Bulgaria or Cyprus, helping those economies but undermining the recovery needed at home. The number of Greek owned businesses based in Bulgaria, where the corporate tax rate is 10%, has risen to 17,000 from 2000 in 2010 when Greece had its first bailout, according to Bulgarian authorities.32

According to the Bulgarian Institute for Market Economics, in the last few years Greek enterprises injected up to 5 billion euros to Bulgarian economy. Most Greek owned companies settling in Bulgaria are small and medium sized which trade internationally in the sectors of retail, tourism, fuel distribution, glass industry, metallurgy, real estate and construction. They provide jobs to over 4000 Bulgarians.33 Greece currently ranks as the third largest investor in Bulgaria with 3.6 billion euros in investments. Still, according to data of the Greek Ministry of Economy most of the companies that fled to the Balkans including Bulgaria, present zero activity while they do not appear to have any employees.34 In many cases this involves the creation of a virtual and nominal identity while they still operate in Greece.

The End of the Myth

The picture is not an optimist one. Having said that, what is important to understand is the way the economic crisis that hit Greece contributed to the end of three narratives that formed the self-image of Greeks after the end of the Cold War: a) The ‘Greek hegemony on the Balkans’ and ‘the Balkans as a Greek hinterland’; b) ‘Greece as a bridge to Europe’ – ’Model Greece’; c) ‘Greece as core country of the EU and of Euro-Atlantic institutions’.
The Greek Hegemony on the Balkans and the Balkans as a Greek Hinterland

While, during the 90s, Greece had bad relations with practically all its neighbours, except for Bulgaria, the reality at the economic level gradually contributed to a new discourse concerning the ‘hegemonic’ role of Greece in the region, the ‘penetration of Greece’, or even ‘Greece -leader of the Balkans’. This narrative came to an end with the economic crisis and the need for Greek capital to return home.

During the 1990s, Greece controlled (together with Austria) the major business clusters in the region: telecommunication, banks, energy. Today the situation is different. The major economic actor is China through the One Belt One Road Initiative while at the same time Turkey and Russia try to have a strong presence in the region, either acting as spoilers or trying to reaffirm their role. Especially in the banking sector, the new buyers are not established European banks but banks from the Gulf States, the Emirates and Egypt. With regards to other Greek investments, the void is covered by China, Turkey and Russia and to a lesser extent by Italy and France. What is obvious is that Turkey and Russia are united in their effort to reduce the influence of the EU in the Balkans. What is also clear is that the Balkans are not Europe’s unique playground anymore. In this unprecedented framework, Greece’s influence seems to diminish. Major initiatives in the region, such as the Berlin Process initiated by Germany, do not include Greece who was not even invited. The same goes for the 16+1 Initiative by China, a mechanism for engaging with Central and Eastern European countries, closely linked to the Belt and Road Initiative as China’s core narrative of global engagement. In this framework, the whole discourse about ‘leading role in the region’ cannot be supported anymore. In fact, the crisis marked the end of the ‘economic imperialism’ of a self-confident and assertive Greece. But this strategic void is also a challenge for Europe. Who will replace the Greek network, is still the main question.

Greece as a Bridge to Europe –Model Greece

For many years, amidst the difficult relations with FYROM or Albania, Greece played a positive role in advancing the Balkan candidature to the euro Atlantic institutions. Greece’s advocacy has been instrumental in getting the region closer to Europe. Starting from the beginning of the 90s with culminating point the Thessaloniki Agenda of 2003, Greece presented itself as the bridge to Europe, the model country the Balkans states should imitate and follow to accede to the Union. However, the crisis deeply influences the conditions in which enlargement in Western Balkans takes place. But there was another consequence as well, that influenced greatly the Western Balkan countries: a practically bankrupt European country as Greece, had no real leverage on the European decisions concerning the future of the region. During 2009, the newly elected Greek government made a final effort to renew the whole process in the region by introducing the Agenda 2014. The idea was that a hundred years after the 1st World War, the region should be able to conclude its negotiations with Brussels and

37 From a discussion with Dr Jens Bastian, economist analyst and financial sector consultant.
be integrated in the Union before 2014. In that way, Agenda 2014 proposed a concrete roadmap for accession, something that was out of the question for Brussels: the last time a date was given was for Bulgaria and Romania with rather negative results on the pace of reform in the two countries. In any case, this initiative was ended by the economic collapse of the country in 2010 due to the sovereign debt crisis and the following ‘era of the memoranda.’

The slower economic recovery makes it difficult for the countries of the region to implement reforms and convince the public of the need for sacrifices. If Greece, who was for so many years member of the EU got itself in such a dire situation, then the EU is not the paradise promised to the population. On the other hand, the crisis enhanced the negative image of the region as a problematic one, with no discipline in public finances and high corruption level (something very common also in Bulgaria and Romania). If we combine this with the enlargement fatigue in Brussels and the generalized preference for a ‘pause café’, then the result is a tendency to impose more strict criteria, which are already stricter than in previous enlargements. In fact the euro crisis resulted in a de facto slowdown of the accession process. However, after years of inertia, given the negative developments of recent months in the region, President Juncker, in his State of the Union Speech underlined the need to move faster declaring “if we want more stability in our neighborhood, then we must also maintain a credible enlargement perspective for the Western Balkans”, marking a renewed commitment in the process.

Greece as Core Country of the EU and of Euro-Atlantic Institutions

The crisis and the difficult years that followed put in question the geostrategic role of Greece as well as the level of convergence between the country and EU. From the idea that Greece was among the core countries of the Union, a role model, to the realization of the progressive peripheralization of the country, it was an economic crisis away. The Greek ‘success story’ with Thessaloniki Summit in 2003 as its highlight, was over. The migrant crisis of 2015 blew an ultimate coup to the perception that Greece co-decides on an equal footing with other member states. In fact, what is EU if not the three liberties and the security umbrella? Concerning Greece in the Balkans all these collapsed during the last years due mainly to the economic plus the refugee crisis. The powerful image of Austrian border guards stationed not on Greek (member state) territory but inside FYROM-a third country- to protect its borders from migrant flows from Greece, had severe consequences: apart from turning the EU into an agent of instability in the region, it was also a sign that Greece was not treated any more as ‘one of us’, on an equal footing with other member states, as everybody watched on their TV screens the European forces protect, not the member state but an outsider from flows from an EU country.

What is more, Greece seems to have lost its reflexes in the Euro-Atlantic framework: On January 2016, Romania proposed the creation of a NATO Black Sea Fleet, as a means to securing the Eastern Flank of the Alliance. Although Ukraine was favourable to the idea, Bulgaria reacted negatively and tried to postpone all decisions. In fact, what is really happening is that Romania strives to be the leading country in the region, calling for a more active role of NATO while developing its relations

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39 Daborowski and Szpala, “The Impact of the Greek crisis”.
with the US on a bilateral level. Bulgaria’s reaction had more to do with its particular relations to Russia. In this debate Greece was totally absent. Even the thought that a strategic discussion for the region could take place in NATO without the active participation of Greece and Turkey (who chose not to support NATO operations in the Black Sea for its own reasons), would be unthinkable some years before. Let us note that it refers to two newcomers to NATO, and that this incident shows the rebalancing of the regional dynamics. If we add to all that various statements by European leaders, then we realize that Greece is not perceived in different European capitals as a point of stability as it used to be some time ago.

As the situation seems to be stabilized, Greece must reinvent itself in the region and become relevant again. The unique geostrategic position of the country, linked to the new challenges in the Middle East and the new realities in Turkey could permit to redefine its role in the region. This new era, characterized by the enhanced presence of post-imperial States (Russia, Turkey, and China) in the Balkan region produces new dynamics and new threats. As long as relations between EU and Turkey are strained and problematic, Greece’s role in the Balkans will be enhanced through time. However, what is necessary is a common internal front to face new challenges. But one should underline that today more than ever, Greece must put an end to bilateral differences in the region. First and symbolically most important is the name dispute with FYROM. Kosovo’s recognition can be the next. But, putting an end especially to the name difference which has costed Greece enormous political capital, will allow the country to make a new start in the region leaving the past behind, redefining a new role for the future in this new era.

The Effects of the Greek Crisis: Final Thoughts

The crisis has affected the dynamics of the whole region, including regional relations, EU accession prospects as well as political and social change. With regards to Greece, the country has shifted its priorities away from the region towards regaining its lost credibility in Brussels.

In 2007-8 Europe entered in a pervasive economic crisis and the Greek economy collapsed. This had serious repercussions on the economies of the Balkans. That failure has not been Greek alone. South-eastern Europe has failed to achieve the social transformation hoped in the 1990s. Chronically high unemployment, continued immigration, and poverty exhausted much of the political capital of Europeanization. The ability of the region to attract greenfield investment and guarantee upward social mobility is abysmal. Even if there is employment growth recorded of 4.7% in the first half of 2016 in Serbia and 6.7% in Albania, it is still below pre-crisis levels in all South-eastern countries except FYROM and Montenegro. Unemployment in the general population has been between 15 and 30% (2012-2016), and between 30 and 60% among young people. These numbers make up a regional average of 25% and 47.7% for youth. Since 2010, the Western Balkan region has created little more than 300,000 new jobs. GDP growth since 2012 has not changed this

picture. In sum, the ability of the Europeanization model to generate hope is called into question and expectations management is politically more difficult. Significantly, Greece can no longer act as a regional role model.

The Western Balkans remain in a prolonged state of economic depression that is toxically combined with democratic backtracking. The public mood is characterized by an “explosive combination of frustration, confusion and despair.” The flow and return of volunteer Jihadi fighter and their return to the region threatens to add new dimensions in this socially explosive environment.

43 Albania, Bosnia-Herzegovina, Montenegro, FYROM, Serbia and Kosovo with its special status.
45 Krastev, “EU goes back to the future in the Balkans”.