

The Konstantinos Karamanlis Institute for Democracy
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Pantelis Sklias
Nikolaos Tzifakis *Editors*

Greece's Horizons

Reflecting on the Country's
Assets and Capabilities

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The Konstantinos Karamanlis Institute for Democracy Series on European and International Affairs consists of edited multi-author works dealing with contemporary political and socio-economic issues of European and international concern. It attempts to offer comprehensive and up-to-date accounts of the relevant debates currently taking place within the discipline of International Relations. The series is addressed to a wide audience: undergraduate and postgraduate students, scholars, think tanks and decision-makers.

Pantelis Sklias • Nikolaos Tzifakis
Editors

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and Capabilities



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August 2012

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Journal of Southern Europe and the Balkans, Perspectives on European Politics and Society, and Southeast European and Black Sea Studies. In 2008, he was awarded the Marcel Cadieux Distinguished Writing Award for his co-authored article with Professor Asteris Huliaras in *International Journal*.

Abbreviations

ADB	Asian Development Bank
ASEP	Supreme Council for Civil Personnel Selection
ASO	Autonomous Currant Organisation
BAP	Burgas–Alexandroupolis pipeline
BEP	Break-even point
BSEC	Organization of the Black Sea Economic Cooperation
BTC	Baku–Tbilisi–Ceyhan
CAREC	Central Asia Regional Economic Cooperation
CCS	Carbon capture and storage
CEE	Central and Eastern Europe
CHP	Combined heat and power
CSU	Christlich-Soziale Union in Bayern, Christian Social Union of Bavaria
DEPA	Public Gas Corporation
EATL	Joint Study on Developing Euro-Asian Linkages
EBRD	European Bank for Reconstruction and Development
EC	European Communities
ECB	European Central Bank
ECO	Economic Cooperation Organization
ECOFIN	Economic and Financial Affairs Council
EEC	European Economic Community
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilization Mechanism
EGS	Enhanced Geothermal System
EGEC	European Geothermal Energy Consortium
EIB	European Investment Bank
EL.STAT.	Hellenic Statistical Authority
EMR	Eastern Mediterranean Region
EMU	Economic and Monetary Union
EPIA	European Photovoltaic Industry Association
ERE	Ethniki Rizospastiki Enosi, National Radical Union
ESCB	European System of Central Banks
ESM	European Stability Mechanism

ESPO	European Sea Ports Organisation
ESTIF	European Solar Thermal Industry Federation
EU	European Union
EurAsEc	Eurasian Economic Community
EUROS	European Registry
EWEA	European Wind Energy Association
FDI	Foreign direct investment
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross domestic product
GHG	Greenhouse gas
GRT	Gross registered tons
HELMEPA	Greek Marine Environment Protection Association
ICJ	International Court of Justice
IDB	Islamic Development Bank
IGB	Interconnector Greece–Bulgaria
IKA	Social Insurance Institute
ILO	International Labour Organization
IMF	International Monetary Fund
IMO	Intergovernmental Maritime Organization
INSEE	French National Institute of Statistics
IO	Implementing Organisation
IOBE	Foundation of Economic and Industrial Research
IRR	Internal rate of return
ISPS	International Ship and Port Facility Security
ITGI	Interconnector Turkey–Greece–Italy
JPTS	Joint Permanent Technical Secretariat
LED	Light emitting diode
LTROs	Longer-term refinancing operations
MARPOL	Marine pollution
MNCs	Multinational corporations
MNEs	Multinational enterprises
MoS	Motorways of the sea
MoU	Memorandum of understanding
NATO	North Atlantic Treaty Organization
ND	New democracy
NPV	Net present value
OECD	Organization for Economic Cooperation and Development
PASOK	Pan-Hellenic Socialist Movement
PDI	Percentage difference index
PEPs	Politically exposed persons
PERS	Port environmental review system
PIDA	Programme for Infrastructure Development in Africa
PMs	Photosynthetic microbes
PPP	Public–private partnership
PSOE	Partido Socialista Obrero Español, Spanish Socialist Workers' Party

PV	Photovoltaic
SAFEMED	EuroMed Cooperation on Maritime Safety and Prevention of Pollution from Ships
SEE	South East Europe
SEEP	South East Europe Pipeline
SEZ	Special Economic Zone
SGP	Stability and growth pact
SHP	Small hydropower plants
S&P	Standard and Poor's
SOLAS	Safety of life at seas
STE	Solar thermal electricity
SYRIZA	Synaspismos Rizospastikis Aristeras, Coalition of the Radical Left
TAP	Trans Adriatic Pipeline
TEM	Trans-European North-South Motorway
TER	Trans-European Railway
TEN	Trans-European Networks
TEN-T	Trans-European Transport Networks
TMN-T	Trans-Mediterranean Transport Network
TRACECA	Transport Corridor Europe–Caucasus–Asia
UK	United Kingdom
UN	United Nations Organization
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
USA	United States of America
WTTC	World Travel and Tourism Council
WTO	World Tourism Organization
WW II	World War II

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Beyond Nemesis and Salvation: A Reorientation of the Debate on the Greek Economic Crisis

Pantelis Sklias and Nikolaos Tzifakis

The Greek economic crisis has imperilled the stability of the eurozone, generating much global anxiety. Policymakers, analysts, and the media have daily debated the course of the Greek economy, prescribing ways to move forward. While many European decision makers have expressed faith in the country's recovery on the basis of the Second Economic Adjustment Programme and its merits, an increasing number of commentators have questioned the programme's fundamental assumption—the indispensability of austerity measures amidst the economic recession (Krugman, 2012a; Stiglitz, quoted in Moore, 2012). Some economists have insisted on the need for a European-wide approach to the crisis, with greater institutional steps towards a fiscal union (e.g. Varoufakis, in an interview, Sales, 2012). Others (predominantly German analysts and decision makers) have suggested that, at present, each country should assume primary responsibility for its own problems, so as not to encourage or reward fiscal imprudence and profligacy (e.g. Dieter, 2012). Another strand of the debate concerns Greece's future in the eurozone. Although most European decision makers tirelessly affirm that the country's membership in the European Monetary Union is not in question,¹ some analysts have predicted (and recommended) Greece's exit from the European common currency (Rogoff, in an interview, Böll & Sauga, 2012; Sinn, in an interview, Kaiser, 2012; Roubini, 2012). A few commentators even assert that the country is a 'lost cause' or 'beyond repair' (Krugman, 2012b; Feldstein, quoted in Michelson, 2012). Apparently, most pessimistic economic analyses refer to the main deficiencies of the Greek economy, namely, low competitiveness and productivity, red tape, large-scale corruption, an extensive shadow economy, and a bloated

¹ For an opposite view, see Alexander Dobrindt, General Secretary of the Christian Social Union (CSU) in Germany, quoted in Jones and Hudson (2012).

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and inefficient public sector. More importantly, they direct attention towards the country's insufficient progress in implementing certain structural reforms.

Notwithstanding the merits of the above criticism of the Greek economy and its performance, one should not underestimate the efforts that the country and its citizens have made. Contrary to conventional wisdom, Greece ranks first among all OECD countries in terms of its responsiveness to reforms from 2008 to 2011 (OECD, 2012, 24–30). In addition, we should not lose sight of the fact that the country's authorities have taken unprecedented austerity measures and very unpopular decisions to manage the crisis. Successive cuts in salaries and pensions and recurrent increases in taxes have contributed to the reduction in fiscal deficit. According to a report of European Commission officials, Greece has, in the last 2 years, achieved a fiscal adjustment that is 'much larger than most other fiscal consolidation episodes in EU countries observed in the past' (Mors et al., 2012, 1). Indeed, a J.P. Morgan brief remarks that the limited success of the country's fiscal adjustment is because of the extreme magnitude of the Greek fiscal effort—a task further complicated by its occurrence in the context of a monetary union (Panigirtzoglou, Mac Gorain, Lehmann, & Evans, 2012, 2–3). In 2012, the Greek economy is in its fifth consecutive year of recession and has shrunk by around 15 % in the previous 4 years. Unemployment has risen from 8.3 % in 2008 to 22.6 % in the first quarter of 2012 (EL.STAT, 2008, 2012). Tens of thousands of small and medium enterprises have closed down and poverty is widespread and endemic. Goldman Sachs (2012) reports a 23 % reduction in the average labour cost since mid-2010 and concludes that the 'Greek economy has adjusted more than the market has given it credit for'.

Many criticisms of the Greek economic performance have been fair and to some extent well deserved. The main causes of the crisis are indeed domestic, and Greece itself is primarily responsible for its macroeconomic problems. However, the constant reproduction of negative discourses has, in time, led to their transformation into negative stereotypes and, in the words of Andreas Antoniadis (see next chapter), into 'negative signifiers'. The Greek people have been commonly presented as corrupted, lazy, unreliable, and feckless. A few very pejorative analyses have gone so far as to depict Greece as a 'junkie' (Geert Wilders quoted in *DutchNews.nl*, 2011). As a Romanian commentator explains, 'According to the myth that accompanies these portrayals, national vices are at the origin of the crisis that has engulfed the European project' (Stoiciu, 2012). In other words, searching for simplistic monocausal explanations is frequently more attractive than striving to unravel a far more complex picture involving several factors (both domestic and international). In this context, a few very interesting grassroots public diplomacy campaigns, such as 'Give Greece a Chance', 'Repo(we)r Greece', and 'We are all Greeks', have been launched with the aim of challenging the misperceptions about the country.

This book analyses the main causes of the crisis and assesses the efficiency of the fiscal consolidation policies followed so far. However, it proceeds further. It attempts to stimulate discussion on the country's development model and long-term prospects. It goes beyond the immediate management of the crisis and it debates on Greece's assets and capabilities which may propel the return to

sustainable growth and prosperity. It endeavours to raise those issues that will preoccupy the country once the austerity-first policies come full circle. This is all the more important as the success of these policies will most likely depend on the extent to which they are embedded within a broader strategic vision for the country. Hence, this collection of essays seeks to provide motivation and inspiration for change by indicating some of the economic sectors where Greece maintains a comparative advantage.

The book is loosely divided into three parts. The first part discusses the political dimensions of the crisis. It explores the impact of the financial crisis on Greece's image and influence in the international system and it analyses various aspects of the country's political-administrative outlook. While taking note of the international consolidation of a negative image of the country, it highlights Greece's persistent Europeanisation and unchanged foreign policy orientation and prescribes new directions and initiatives for the country's external relations. Moreover, it discusses the political factors that caused the crisis and presents some ideas on the reform of Greece's leadership and policymaking models. The second part focuses on the macroeconomic framework of the crisis and analyses the policies followed so far at both the national and eurozone levels. It discusses the major deficiencies in the management of the crisis and offers some ideas for increasing the efficiency of Greek policies and improving the governance of the eurozone. The third and final part focuses on microeconomic concerns. It explores the potential for revival offered by sectors such as shipping, tourism, and agriculture and presents the advantages of certain economic policies, such as investments in renewable energy, the construction of the Burgas-Alexandroupolis Pipeline, and the creation of a special economic zone (SEZ) in Thrace.

The first chapter examines how the international press has portrayed the Greek economic crisis. Andreas Antoniadis undertakes a systematic study of the reporting of the crisis by daily newspapers in eleven countries from September 2009 to October 2010. The author observes the gradual consolidation of a very negative portrayal of the country at the international level. He analyses these negative discourses on Greece and concludes that only time and considerable effort on the part of the country can reverse this negative representation.

In the next chapter, Aristotle Tziampiris assesses how the economic crisis has affected Greece's foreign policy priorities. The author demonstrates that the country's geographical position and its participation in Euro-Atlantic institutions have contributed to preserving much of its influence on crucial external relations issues. The chapter claims that Greece's foreign policy might even prove to have been an underutilised asset in the country's return to growth strategies, if opportunities are exploited in the construction of regional networks for the transportation of energy resources and in bilateral relations with countries such as Israel, Russia, and China.

Kostas Lavdas and Maria Mendrinou investigate whether Greece's Europeanisation is a failed project. The authors observe that although Greece's European orientation commenced as an elite-driven mission, it has in time evolved into a widespread and enduring process. This is best manifested in the attitudes of the Greeks towards the Union and in the country's extent of compliance with the

EU legislation. The chapter suggests that Greece's Europeanisation is a persistent and interactive process whose prospects will be eventually determined by the complex interplay of domestic and European developments.

The chapter by Manos Papazoglou examines the responsibility of the country's leadership for the many dysfunctions of the state and economy since the restoration of democracy in 1974. It notes the prevalence in the 1980s of the model of transactional leadership, based on populism, clientelism, and polarisation. Although subsequent governments initiated some reforms, their results were modest at best and did not affect the clientelistic and populist networks. The author argues that adherence to a model of transforming leadership, revolving around sustainability, Europeanisation, and political stability, will facilitate the country's return to prosperity.

Stella Ladi focuses on policymaking in Greece. She shows that these processes are best explained, both theoretically and empirically, by the incremental and garbage can models. A central feature of the country's policymaking is the predominance of patronage and legalism at the expense of expertise and best practices. Ladi contends that the introduction of the evidence-based model of policymaking in the Greek political-administrative system might be beneficial—given the country's high level of human capital—if it is done carefully and with the full support of the government.

In the next chapter, Panagiotis Liargovas and Spyridon Repousis argue that Greece's current policy mix, based on austerity, generates recession and renders fiscal targets elusive. The authors assert that Greece should follow a different set of policies, focusing on the attainment of growth and stimulation of supply. They advocate a series of structural reforms, emphasising the need to combat corruption and fraud in both the public and private sectors, through the implementation of certain measures.

Angelos Kotios and Spyridon Roukanas discuss the continuing mismanagement of the Greek economic crisis, pointing to both the ineffectiveness of domestic policies and the deficiencies in the eurozone's governance. The authors claim that overcoming the crisis requires the adoption of different policies at two levels. For Greece, its economy and political system require a broad set of structural reforms. At the eurozone level, the authors advocate a more centralised crisis management, through the establishment of permanent transfer mechanisms of funds and the creation of a European Banking Union.

Pyrros Papadimitriou observes that policies in the eurozone have so far fought the symptoms of the crisis but not its root causes. In particular, these policies have not effectively addressed the problems of unsustainable debt burdens and the deteriorating competitiveness of some eurozone members. The European approach to the crisis has hitherto been in terms of south Europe making adjustments rather than in terms of a common convergence endeavour by the north and south. The author thinks that overcoming the crisis will require creditor countries to assume a much larger share of its cost.

The contribution of Gregory Grigoropoulos explains the role of the shipping sector in the Greek economy. It notes that this sector constitutes the largest source, after exports, of foreign currency for the country and provides employment to thousands of

people. However, although Greek ship owners control around 15 % of the world transport capacity, the country does not take advantage of shipping's full potential contribution towards economic development. Grigoropoulos recommends that Greece should improve its ship management and operations infrastructure and provide incentives to ship owners to increase investment in the country's shipping sector.

The next chapter, by George Galanos, deals with the contribution of tourism to the Greek economy. This sector generates more than 15 % of the country's GDP and employs more than 18 % of its workforce. The author analyses the development of tourism in Greece and highlights the fact that the expansion of this sector has been unorganised and un-co-ordinated and has progressed with little regard for the environment. The chapter explains the negative impact of the crisis on tourism and recommends its re-organisation, on the basis of a new model of sustainable development that will emphasise the improvement of infrastructure and establishment of a new investment framework.

Evangelia Georgitsoyanni, Eleni Sardianou, Alexandra Lappa, and Evangelia Mylona investigate how Greece's rich cultural heritage can contribute to its development. They study the theme of cultural tourism and demonstrate its potential for generating sustainable economic activity for the benefit of local communities in different regions of the country. The authors use the municipality of Sikyon as their case study and highlight the critical role of local residents in developing cultural tourism. If the local community has a positive perception of tourism, it will invest in associated activities and will support Greece's overall efforts to take advantage of its cultural heritage.

The chapter by Anna Saiti explains the relationship between education and economic development and notes the benefits to society from substantial investments in higher education. Saiti asserts that the Greek education system is suffering from a chronic crisis, not remedied by the state's ceaseless corrective interventions. The chapter argues the need to introduce long-term strategic planning in the country's education system to increase its efficiency and improve the quality of human capital.

Costas Kiparissides advocates the need of embedding the Greek development model into energy-conservation policies; he includes higher energy conversion efficiency, recycling, and increased use of renewable energy technologies. The author expresses concern about the country's high dependence on energy imports and its reliance on coal-fired power plants, which generate large quantities of greenhouse gas emissions. Kiparissides suggests that Greece should exploit more of its renewable energy potential (especially wind and solar power), in order to benefit in terms of growth, competitiveness, and job creation.

The contribution of Periklis Gogas and Theophilos Papadimitriou focuses on a specific investment project in the energy sector that has not materialised so far, namely, the construction of the Burgas-Alexandroupolis Pipeline. According to plans, this proposed pipeline will transport crude oil from the Black and Caspian Seas to the international markets. The authors analytically demonstrate the financial viability of the project and its positive macroeconomic impact at both the national and the local levels, predominantly in terms of employment and government revenues.

In the next chapter, John Mourmouris investigates the impact of investments in transportation infrastructure on the stimulation of growth. The chapter challenges the widely held view that there is a straightforward causal relationship between these two factors. Mourmouris explains that transport investments do not necessarily trigger new productive activities and discusses some examples of failures and deficiencies in recent investments in Greek transportation infrastructure. Overall, the chapter contends that Greece should adopt a regional development plan which considers its economic needs.

The chapter by Dimitrios Tsamboulas discusses Greece's role in the regional transportation networks from a geopolitical perspective. Tsamboulas presents the planning of different projects in which Greece participates, for example, the trans-European transport network (TEN-T), the so-called Motorways of the Sea; Trans-Mediterranean Transport Network (TMN-T); Black Sea Ring Highway, Trans African Network, and a series of Euro-Asia links. The author concludes that if Greece takes advantage of the opportunities provided in the creation and extension of these networks, it can evolve into a regional transport node.

Maria Tsampra examines the prospects for the Greek agricultural sector in the contemporary globalised market, in which there is a rising demand for traditional region-specific food products characterised by high safety, quality, and diversity. The author outlines the main characteristics of the Greek agro-food sector, indicating its fragmented entrepreneurship, the prevalence of independently owned small-scale production units, and its orientation towards the domestic market. Tsampra suggests that some Greek agro-food firms could exploit opportunities in the international market for niche or specialty production, if they received more institutional support and access to marketing expertise and financing.

The contribution from Konstantinos Hazakis observes the growing influence of SEZs worldwide and proposes the creation of such a zone in Thrace. The chapter draws on the experience of similar zones elsewhere to identify the possible key obstacles in their creation in Greece. Hazakis asserts that an SEZ can act as 'a catalyst of structural shift' in Thrace and articulates a set of guidelines which might increase the zone's creation spillover effects over the regional economy.

Finally, Aristidis Bitzenis and Vasileios Vlachos examine the prospects for the Greek outward foreign direct investments (FDIs) in the Balkans. The two authors provide a theoretical analysis of the benefits a country acquires from its outward FDIs, including, among others, the repatriation of profits and the growth of employment and the enhancement of human capital in the regions of origin of investments. The authors argue that though the sovereign debt crisis at home has seriously weakened the resources of most Greek multinationals in the Balkans, yet preserving most outward FDIs is crucial for stimulating economic growth in the country.

Taken as a whole, this collection of essays progressively moves from an analysis of the causes of the crisis and the policy responses so far to a debate on some of the country's advantages and capabilities that should underpin its new development model and propel the return to growth. Therefore, the book challenges the picture of Greece as a country doomed to failure, where everything falls apart.