

The political economy of Greek-Turkish Relations

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Türk-Yunan İlişkilerinin Ekonomi Politığı

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Abstract

This thesis following the post-1999 Greek-Turkish rapprochement takes as a starting point the expansion of economic exchanges between the two states and seeks to explore possible linkages between economic and political relations. This expansion of economic relations led to the creation of hopes in the political and business elites that economic cooperation can have a potent normalizing effect on contentious issues that for decades have divided the two countries. This thesis -through an evaluation of the two states trade, Foreign Direct Investment, tourism and energy cooperation- argues that; there are economic limitations in these fields that should first taken under consideration before one move on to the political problems; and further that it is unlikely for economic cooperation by itself to lend long-held political positions and relations vulnerable to economic interests, especially in the more sensitive issues like the Aegean disputes.

Keywords: *Greece, Turkey, economic cooperation, bilateral political relations.*

Özet

Bu tez, 1999 Türk-Yunan yakınlaşması sonrası dönemi iki devlet arasındaki ekonomik ilişkilerin gelişmesinin başlangıç noktası olarak iki ülkenin siyasi ve ekonomik ilişkileri arasındaki bağlantıları araştırmayı hedeflemektedir. 1999 sonrası ekonomik ilişkilerin gelişmesi, siyaset ve iş dünyası ileri gelenlerinin iki ülkenin arasında yıllardır var olan sorunların güçlü bir normalleştirme sürecine gireceği umuduna kapılmalarına yol açmıştır. Bu tez; iki ülke arasındaki ticari ilişkiler, doğrudan yabancı yatırım ve turizm ve enerji alanındaki işbirliklerini inceleyerek bu konuların siyasi problemler üzerinde yaratabileceği pozitif etkiyi düşünmeden önce, bu konulardaki ekonomik kısıtlamaların göz önüne alınması gerektiğine işaret etmektedir. Bu bağlamda, ekonomik ilişkilerin, Ege'deki özellikle ekonomik kaygılar taşıyan sorunlar da dâhil olmak üzere uzun zamandır süregelen siyasi meselelerin çözümü için yeterli olmayacağını savunmaktadır.

Anahtar kelimeler: Yunanistan, Türkiye, ekonomik işbirliği, ikili siyasi ilişkiler.

Contents

Acknowledgements	vii
Introduction	1
CHAPTER 1: International Political economy	
1.1 The theoretical base	5
Conclusions	20
CHAPTER 2: Greek and Turkish political economy and their economic cooperation	
2.1 Introduction	21
2.2 The evolution of Greek economy	23
2.3 The evolution of Turkish economy	30
2.4 The origins and evolution of Greek-Turkish economic partnership	37
Conclusions	45
CHAPTER 3: The bilateral Economic relations	
3.1 Introduction	48
3.2 Trade	49
3.3 Foreign Direct investment and joined ventures	55
3.4 Tourism	65
3.5 Energy	70
3.6 The case of Greece and Turkey within our theoretical framework; interdependence or not?	79

Conclusions 86

Conclusions 90

Bibliography 96

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Introduction

Greece and Turkey have faced the threat of armed confrontation several times in their history, and the main reasons were the bilateral problems and the Cyprus question.¹ It is an unfortunate truth that nationalism- as a powerful political force- frequently caused tensions to the bilateral relations of the two states.²

After 1999, however, the relations of Greece and Turkey change significantly. It was after the devastating earthquakes in Greece and Turkey -which accelerated the diplomatic relations as well as the informal ties between the civil societies of both sides-³ and the Helsinki Summit where Turkey was accepted as candidate state that a new rapprochement was initiated and underpinned mainly by Turkish Foreign Minister (FM) Ismail Cem and his counterpart George Papandreou.⁴ The two ministers realized that a new approach was needed in order to formulate a policy that would bring the two countries closer, by cooperation and mutual understanding on matters out of the sphere of constant disagreement and potential conflict between them, such as the Aegean or Cyprus, and tried to built this new relationship on the basis of cooperation on what is called *low political significance*, on matters of

¹ The Cyprus issue is left out of the scope of this paper as it is an issue that stands at the centre of multiple transformative effects both in the domestic and foreign policy paradigm of both Greece and Turkey. D. Tsarouhas, op. cit., p. 50. For relevant readings on Cyprus, see Andreas Theophanous, 'Prospects for Solving the Cyprus Problem and the Role of the European Union', *Publius*, vol. 30, no. 1-2, Winter-Spring 2000, pp. 217-241; Tozun Bahcheli, 'Searching for a Cyprus Settlement: Considering Options for Creating a Federation, a Confederation, or Two Independent States', *Publius*, vol. 30, no. 1-2, Winter-Spring 2000, pp. 203-216; Thomas Diez, ed., *The European Union and the Cyprus Conflict: Modern Conflict Postmodern Union* (Manchester: Manchester University Press, 2002). S. Akgonul, "Reciprocity: Greek and Turkish Minorities, Law, religion, and Politics" (Istanbul: Istanbul Bilgi University, 2008)

² G. Bertrand, "Greek-Turkish relations from the Cold War to rapprochement", *Observatory of European Foreign Policy*, EUTR 5/2003, pp. 1-3

³ Z. Onis, Greek-Turkish relations and the European Union: a critical perspective, revised draft, (April 2001), pp. 3-10

⁴ A. O. Evin, "The Future of Greek-Turkish Relations", *Southeast European and Black Sea Studies*, Vol. 5, No. 3, 2003, pp. 397-398

tourism, trade, environment and others.⁵ It was in this context that bilateral economic relations developed between the two countries and a network of civil society and economic actors was formed.

This expansion of economic cooperation between Greece and Turkey has aroused the attention of scholars how have seek to examine if economic partnership - in accord with interdependence theory- might be able to have a potent normalizing effect of their own on the political realities of the two states.⁶

This thesis will try to build on these researches and analyze the possible linkages between economic and political relations by looking the Greek-Turkish relations under the prism of economic cooperation. More specifically, it is going to be explored if economic cooperation can have positive spillover effects in the political realities of Greece and Turkey. Thus, it will be researched if stronger (flourishing) economic relations between the two states can possibly have a positive effect on their bilateral relations and problems⁷-as they may create the necessary conditions for a bigger and stronger variety of opinions (developed and expressed mainly by the business communities) and therefore make harder the deterioration of relations. In order to analyze this we will examine the bilateral economic relations since the rapprochement following 1999 until 2010, where Greece started experiencing one of

⁵ J. Ker – Lindsay, “Crisis and reconciliation: a year of rapprochement between Greece and Turkey”, (I. B. Tauris & Co. Ltd Publications, 2007), p. 51

⁶ Many papers that try to analyze Greek and Turkish economic relations and their role on the political relations have been written some of them- which we will also going to mention and frequently cite later on- are: D. Tsarouhas, “The political economy of Greek-Turkish relations”, *Southeast European and Black Sea Studies*, Vol. 9, No. 1, pp. 39-57, C. A. Papadopoulos, “Greek-Turkish Economic Cooperation: Guarantor of Détente or Hostage to Politics?” *South East European Studies at Oxford*, Occasional Paper No. 8/08, March 2008, M. Kutlay, “A political Economy Approach to the expansion of Turkish-Greek relations: Interdependence or Not?” *Perceptions*, Spring-Summer 2009.

⁷ When we refer to their bilateral relations and realities the thesis is mainly referring to the in the more sensitive issues like the Aegean disputes –which are the territorial water; the demilitarised status of the Eastern Aegean Islands; sovereignty over certain islands, islets and rocks; the extent of Greek air space; and Air traffic services and Command and control within NATO that remain unresolved until today. For further bibliography on the disputed issues look at: A. Hraklidis, *Greece and the east danger*, (Athens: Polis, 2001), I Balinakis, *Introduction to Greek Foreign Policy*, (Athens: Paratiritis), M. Aydın, K. Ifantis, *Turkish-Greek relations: the security dilemma in the Aegean*, (Portland, OR: Frank Cass, 2004).

the worst economic crises in its history. Although the Greek economic crisis will be taken under consideration in this thesis, it is not going to be further analyzed as it is still an evolving process. As far as the economic areas -that are going to be analyzed and examined- is concerned these are; trade, foreign direct investment, energy and tourism. In the framework of economic cooperation many researchers have focused on the field of armament as well. Armament, is a sector of great importance in the Greek-Turkish case, especially if one takes under consideration the continuous arms race between the two states for many years (specifically in the 1990s when arm race expenditures were risen⁸). Although, armament is a crucial sector of cooperation in the bilateral relations it is beyond the scope of this thesis on the grounds that the focus of this thesis is going to be limited in most obvious economic fields -like trade, investments, tourism and energy- that can also be clear indicators of economic cooperation.

In order to examine the above research question primary sources and data, like bilateral agreements signed by the two countries in the areas of tourism, energy, taxation, trade, and other, statistical data about their economic interaction from the national statistical services of both countries, ministries and consulates official economic reports, statements by state officials, and also secondary sources, like scientific articles, edited books and articles of international and national press, are going to be analyzed.

The thesis is organized in the following way; the first chapter gives a perspective around the main discussions (like the role of the state and economics, the

⁸ E. Evaghorou, "The Economics of Defence of Greece and Turkey: A Contemporary Theoretical Approach for States Rivalry and Arms Race", *Center for International Politics Thessaloniki*. Retrieved June 25, 2011. <http://files.mgkworld.net/cipt/docs/CIPTEvaghorouDefEcoGRTR.pdf> . For more information on the armaments see: G. Georgiou, P. Kapopoulos, S. Lazaretou, "Modeling Greek-Turkish Rivalry: An Empirical Investigation of Defence Spending Dynamics" in *Journal of Peace Research*, 33:2, (May 1996).

relations between states) and theories of International Political Economy. In what follows we elaborate on the evolution of the Greek and Turkish economies towards a market oriented, liberalized system and their bilateral economic ties in order to see what led to today's realities. Following, the bilateral economic relations with a special emphasis on the commercial relations, investments, and energy agreements are examined, while at the end an effort is made to link our theoretical framework with the Greek-Turkish case. Also, in this framework a small analysis concerning the role that economic association's, institutions, NGO's play in Greek-Turkish cooperation is going to be provided. It should be noted, however, that although these economic associations and institutions could be important parts of the analysis an overall observation shows that these associations are far below the role they could play within the framework of Greek-Turkish political economic relations. In the concluding chapter, problems identified following our analysis -like limitations in the economic field, that may affect future development and hence the power and influence of business groups, and the possible limitation that economic interdependence can have as a normalizing tool in the bilateral relations- is going to be discussed.

Chapter 1

International Political Economy

1.1 The theoretical base

International Political Economy (IPE), from the very beginning of its creation as an independent academic field in the 1970s⁹, has constantly tried to close the gap between economics and politics. The political actions and choices of nation-states affect international trade, finance and monetary flows which of course affect the environment in which states take political decisions and entrepreneurs make economic choices.¹⁰ It is these crucial interactions of the market and the state, which both economists and political scientists fail to capture, that created IPE. To use R. Gilpin's words "*the parallel existence and mutual interaction of "state" and "market" in the modern world create "political economy"; without both state and market there could be no political economy*".¹¹

The definition, therefore, that could be used for the study of IPE is the one provided by S. Strange that states that "*IPE concerns the social, political and economic arrangements affecting the global systems of production, exchange and distribution, and the mix of values reflected therein. Those arrangements are not divinely ordained, nor are they the fortuitous outcome of blind change. Rather they are the result of human decisions taken in the context of man-made institutions and sets of self rules and customs.*"¹²

⁹ The breakdown of the Bretton Woods monetary system and the oil embargoes of the 1970s are frequently cited as key events that made clear how much the two fields were intertwined.

¹⁰ M. Veseth, "What is International Political economy". Retrieved Jan. 10, 2011.

<http://www.pugetsound.edu/academics/departments-and-programs/undergraduate/ipe/what-is-ipe/>

¹¹ R. Gilpin, *The political economy of International relations*, (Princeton: Princeton University Press, 1987), p.8

¹² S. Strange, *States and Markets*, (London: Pinter Publishers, 1994), p. 18

As the world changes and new developments occurred in the world of political economy, new and different schools of thought that try to explain the interaction of economics and politics have developed in IPE. Although there are many theories that try to explain the relationship of economics and politics attention is going to be given on the most influential of these theories; economic nationalism, Marxism and economic Liberalism. Its true that, though scholars have produced a number of theories in an effort to understand and explain the relationship between economics and politics, these three theories stand out as they have not only had a profound influence on scholarship but also to political affairs.¹³ Today, contemporary theories focusing on the function of IPE have been developed. Nonetheless, most of them have derived principally or have been strongly influenced form economic nationalism, liberalism or Marxism.¹⁴ And that is why the focus of this thesis will be given to these three most influential theories.

Through an evaluation of the main positions, strengths and weakens and thus discussions of these theories an effort will be given in order to set the framework where IPE could be better understood. These theories vary on a wide range of issues such as their conception of the role of the state, the role of economics and the relationships among society, states, and market.¹⁵

Therefore, our discussion and evaluation of these theories will start with economic nationalism and Marxism not only because these theories have developed as a reaction to liberal economics¹⁶ but also because it is this context of liberalism that the theory of interdependence -in which we are going to base our theoretical understanding about the Greek-Turkish relations - is going to be analyzed. As it going

¹³ R. Gilpin, *op. cit.*, pp. 26-66

¹⁴ *Ibid.*

¹⁵ S. Strange, *op. cit.*, p.18

¹⁶ *Ibid.*

to be noticed, in contradiction with liberalists who believe that interdependence among national economies tend to foster pacific relations, economic nationalists like Marxists see interdependence as an asymmetrical situation that is identified as a source of conflict and insecurity.¹⁷ By analyzing the theoretical framework it going to be easier to research and explain the Greek-Turkish case.

Economic nationalism

The central idea of Economic nationalism is that economic activities are and should subordinate to the interest of the state. Economic nationalism except form advocating the primacy of politics over economics it also supports the idea of “protecting domestic consumption, labour and capital formation, even if this requires the imposition of tariffs and other restrictions on the movement of labour, goods and capital”. For economic nationalists the state is not only the main actor in international relations (IR) but also the “instrument”¹⁸ of economic development. Furthermore for nationalism the security of the state is a prerequisite for the well being of its economy and policy. As far as the market is concerned, economic nationalism acknowledge the fact that markets must and should function in a world of “competitive groups and states”.¹⁹ Nationalist recognize the fact that it is a cyclical relation and that as political relations among groups and states affect the operation of the markets, the market affects political relations. To summarize economic nationalism could be characterized by the following assertions: “a nation’s citizenry largely shares (or should share) a common economic fate; the state has a crucial *positive* role in guiding the national economy to better performance; and the imperatives of nationalism should guide the

¹⁷ Ibid

¹⁸ R. Gilpin, op. cit., p. 46

¹⁹ Ibid.

state's economic policies".²⁰

The main objective of economic nationalism is industrialization as it is thought to have a spill-over effect in the economy which of course leads to its overall modernization and development. Most importantly industrialization is associated with economic self-sufficiency, political autonomy and finally military power and national security.²¹ And that is why industrialization is extremely prized, in opposition to interdependence, according to the nationalist school of thought. For economic nationalists trade and generally economic cooperation is one more area of international competition, as the economic interdependence raises the vulnerability of the states- especially weak states- to external economic and political forces.²² Therefore, in a competitive world self-sufficiency and relative gains are considered to be extremely important for nationalists. Of course, economic nationalism tends to have some weakness as a theory of IPE, such as its tendency to:

- Consider international economic relations as zero-sum game.²³ Trade, investments and in general all economic interactions are seen primarily in a conflictual way. It's true that markets are able to bring mutual gains. As Gilpin rightfully states "the possibility of mutual benefit is the basis of the international market economy".²⁴
- In addition, although nationalist do have a point when they support that the state must have an important role in economic development the state –centric

²⁰ D. Levi-Faur, "Economic nationalism: from Friedrich List to Robert Reich", *Review of International Studies*, (1997), 23, 359–370. Retrieved Jan. 10-2011.

<http://mfaishalaminuddin.lecture.ub.ac.id/files/2009/11/listreich.pdf>

²¹ Ibid

²² C. M. Harlen, "A Reappraisal of Classical Economic Nationalism and Economic Liberalism", *International Studies Quarterly* (1999) 43, pp. 733–744

²³ That is one states gain is another's loss.

²⁴ R. Gilpin, op. cit.

beliefs that they have followed is not in line with the developments of the world political economy.

- Also nationalism tends to neglect the role of society in the making of policy, as it considers society and state as one. And thus forgets that society, as liberals claim, is consisted by individuals and groups that have there own agendas and there own political and economic interests.

That is why alternative approaches that include other societal actors into the state-market interaction, developed. However, these days- as well in the interwar period- due to the world economic crises economic nationalism has been enjoying great attention form both its opponents and its proponents.

Marxism

Marxism is an economic and social system set forth by the political and economic theories of Karl Marx and Friedrich Engels. Marxism is mainly an economic and socio-political view for how to change the society by implementing socialism. Marxism introduced itself in mid 19th century as a reaction against liberalism and classical economics. The main standpoint of Marxism is that economics drives politics. Social change and political conflict –according to Marxism- occurs because of the struggle between different classes within society over the distribution of wealth. This battle lead to the conclusion that capitalism, leads to the oppression of the proletariat (the poorer majority), and thus in order for political conflict to cease the market and the society of classes must be eliminated.²⁵

The main characteristic of Marxism is the general view and understanding of

²⁵ See the full text of “*The Communist Manifesto*” English edition of 1888 from the Marxists Internet Archive. Retrieved Jan. 10, 2011. <http://www.marxists.org/archive/marx/works/1848/communist-manifesto/index.htm>

capitalism and capitalist development along with the normative commitment to socialism. Moreover, Marxism is based upon a materialistic approach to history; the battle between classes over distribution and means of production is central to the change of history. Further, Marxists support that there is no inherent social harmony or return to social equilibrium and that is why the nature of reality is “dynamic” and “conflictual”.²⁶ Therefore, for Marxism- as well as economic nationalism- economic relations are indeed conflictual.

As far as capitalism is concerned Marxism believes that the former is driven by wealthy capitalists who seek profits and capital accumulation by exploiting the other classes. Marxism argues that the structural contradictions within capitalism will eventually lead to its demise and its replacement by socialism. The belief was that capitalism would inevitably produce internal tensions which would lead to its destruction. And that is because there is an inherent contradiction in capitalism. A competitive market needs capitalists to save, invest and accumulate. However, accumulation of capital leads to overproduction of goods, this “disproportionality” between production and consumption decreases the incentive to invest and this causes economic depressions which lead to the uprising of the proletariat to overthrow the system.²⁷

In the beginnings of the 20th century the strengthening of nationalism, the continuation of capitalism and the advent of imperialism lead to the transformation of Marxism through the work of Lenin. Lenin argued that capitalism escaped its demise through overseas imperialism. Colonies had enabled capitalist economies to exploit them; capitalist economies had to expand in order to escape economic stagnation and internal revolution. Nonetheless, Lenin argued that because capitalist economies grow

²⁶ R. Gilpin, op. cit., p. 35

²⁷ R. Gilpin, op. cit., pp.35-37

unevenly a capitalist system can never be stable for a long time. This “uneven” economic growth of power among states and the conflict for division of territory will cause the demise of imperial powers. As Gilpin puts it “Lenin believed that the inherent contradiction of capitalism resided in the consequent struggle of nations rather than in the class struggle”.²⁸ Therefore in summary, Lenin argued that political competition among rising and demising capitalist powers leads to economic conflicts, rivalries and at the end war.

Another Marxist criticism of market/capital society is that it has the tendency to pursue aggressive foreign policies.²⁹ Marxists as well as economic nationalists, claim that interdependence is a source of conflict and insecurity. Interdependence according to Marxism creates dependency relations among states and as interdependence is never symmetrical, trade becomes a source that increases the political power of the strong over the weak. And that is why both -Marxists and economic nationalists- advocate policies of economic autarky. In every case, it is hard to believe, that protectionism (and all the more autarky) will not most probably make things worse than cooperation.³⁰ On the other hand, it seems to be true that there is a fine line between cooperation and competition and at that matter between competition and antagonism.³¹ Hence, it will be a very interesting case-study to see, where Greek-Turkish economic relations lead us in accordance with our theoretical standpoint of economic interdependence as a beneficial source of cooperation on more sensitive issues.

However Marxism has also limitations as a theory of world economy. The main limitation of Marxism as a theory is its weakness to appreciate the role of

²⁸ R. Gilpin, *op.cit.*, pp. 39-42

²⁹ R. Gilpin, *op. cit.*, p. 53

³⁰ C. Papadopoulos, *op. cit.*, p. 4-7

³¹ *Ibid.*

political and strategic factors in International relations.³² As it is seen Marxism perceives that economics drive politics, as capitalist societies impose policy through their governments, due to the fact that capitalist economies need to export goods and surplus capital. Thus the dynamic of international relations is driven by this need. However, the above does not prove that competition for markets is the only explanation for conflicts and wars between states. If one, for example, witness the Greek-Turkish example it will see that they are conflicts/disputes that have mainly to do with issues centred on topics of political, security and sovereignty rights³³ and not with the nature of domestic economics.

Liberalism

Liberalism developed in the Enlightenment and can be seen as a response to the wide-ranging state policies that tended to shape economic activity for state purposes. According to liberalism politics and economics exist in separate spheres. Liberals tend to oppose government intervention in the markets and argue that the latter should be free from political interference. Liberal theory advocates minimal interference of government in a market economy and free markets. This theory maintained that individual consumers (people, firms, enterprises, households) should be left alone in a self-regulated market by their self-interests activities. It is thought that individual interests are guided by natural economic laws that are far more beneficial and constructive for the society's/individuals welfare than the state economic activities.³⁴ Liberalism claims that the primary objective of an economic activity is to benefit individual consumers as the individual consumer is the basis of the society.

³² R. Gilpin, *op. cit.*, p. 56

³³ C. Papadopoulos, *op. cit.*, p. 34

³⁴ D. Henderson, "The Changing Fortunes of Economic Liberalism; Yesterday, Today and Tomorrow", *The Institute of Public Affairs*, New Zealand Business Roundtable, February 1999, pp. 3-9

Liberalism could be defined according to Gilpin “*as a doctrine and a set of principles for organizing and managing a market economy in order to achieve maximum efficiency, economic growth, and individual welfare*”.³⁵

However, at the same time, the liberal theory reserves an important place for the state, in economic as well as political life. More generally, to use David Henderson’s words “*the liberal blueprint assigns to governments an indispensable strategic role in establishing and maintaining a framework in which markets can function effectively, in particular through the definition and enforcement of property rights, and in making possible the provision of goods and services, such as national defence, which are collectively rather than individually consumed*”.³⁶

Furthermore, liberals tend to believe- in contrast to economic nationalists and Marxists- that interdependence and mutual economic benefits are the source for peaceful relations between nations. Market competition is not an area of conflict, they argued, but rather an area of peaceful cooperation. Liberal theoreticians explained that trade among nations, could be mutually beneficial, as all men would gain through participation in a global division of labour.³⁷ As liberals perceive it, economics in contrast to politics unite people. According to liberals trade and economic interdependence create ties of mutual interest and a vested interest in international peace. Economics are seen as the ultimate science that explains the relations of states and societies and that is according to Gilpin one of the main weaknesses of Liberalism. Gilpin in his book “The political economy of International relations” identifies four great limitations of liberalism;

³⁵ R. Gilpin, op. cit., p. 27

³⁶ D. Henderson, op. cit.

³⁷ Richard M. Ebeling, “A new World Order: Economic Liberalism or the New Mercantilism”, *The Future of Freedom Foundation*, July 1991. Retrieved Jan. 10, 2011. <http://www.fff.org/freedom/0791b.asp>

- The first weakness of liberalism is that economics “artificially” separates the economy from other factors of society and takes as a given the existing social political and cultural framework.
- Another limitation of this theory is its tendency to “disregard the justice or equity of the outcome of economic activities”. What Gilpin actually suggests is that the Marxist criticism on liberal economy was right to the point that liberal economies do act as a tool kit for managing a capitalist/market economy.
- The main limitation however is the assumption that exchange is always free and has mutual gains if the two parts are equals how posses full information. However, the terms of an exchange can be highly affected by political, non-economic factors like, differences in bargaining power/ negotiation clout, asymmetrical information, coercion, political influence and power and interests, and so one and so forth. These elements -as the nationalist’s stress- can be of a huge importance in the organization of economic relations. These attributes can be significant factors determining how the gains from free trade will actually be distributed- in favor of the countries that posses them and to the loss of those that don’t.³⁸ It seems that Gilpin point is that by leaving out the effects that noneconomic factors can have on the exchange and further the effects of the exchange itself in politics, liberalism lacks a “true political economy”.³⁹

³⁸ C. Papadopoulos, *op. cit.*, p. 4-7

³⁹ R. Gilpin, *op. cit.*, p. 44-46

However, despite its limitations Western society has been affected by liberalism and through the releasing of the market mechanism from political and social ties the West has reached a level of “unprecedented affluence”.⁴⁰

After the end of the Cold War and over the last 20 years the world has changed once more dramatically. It is true that the Cold War provided the framework in which the world economy operated. Nonetheless, the rise of “globalization” has brought real changes in the world politics and economics. Economic globalization more particular has introduced important developments in trade, finance, and foreign direct investment (FDI) by multinational corporations.⁴¹ Thus, as one can imagine globalization has change a lot the subject of IPE. Today with the expansion of world trade and the gradual impact of international finance in global economy national economies are much more linked closely to one another as international economic cooperation advances.⁴² Of course all these have lead to the emergence of new types of relations between states and to the “parallel growth in interdependencies between actors” (political, economic, or social).⁴³ In today’s world a new way has been opened to new diplomacy, economic and non-state actors. These new actors according to the interdependency theory have the power and the opportunity to put forward policy recommendations.⁴⁴

The interdependence theory- outlined in its most comprehensive way by Keohane and Nye- is of direct relevance to non-state actors. According to Nye and

⁴⁰ Ibid.

⁴¹ R. Gilpin, *Global Political Economy: Understanding the International Economic Order*, (Princeton: Princeton University Press, 2001), p. 5

⁴² Ibid.

⁴³ D. Tsarouhas, “The political economy of Greek-Turkish relations”, *Southeast European and Black Sea Studies*, Vol. 9, No. 1, 2009, 39 -57

⁴⁴ Σ. Κωνσταντινίδης, Εισαγωγή στις Διεθνείς Σχέσεις, Δημοκρίτειο Πανεπιστήμιο Θράκης, Τμήμα Διεθνών Οικονομικών Σπουδών και Ανάπτυξης, Διαλέξεις, [S. Kostadinidis, Introduction to International relations Theories, University of Thrace, Department of Internatioanl and Economic Studies]

Keohane, the fathers of the interdependence theory, it is not possible anymore to understand the world politics just by taken under consideration the interstate relations as realists suggest.⁴⁵ The theoreticians of interdependence in contrast to the realist school of thought diminish; the role of the military power; reject the hierarchy among issues (that is the absence of the realist dichotomy between high politics versus low politics issues) and thus the distinction between domestic and foreign issues becomes blurred; and finally introduce multiple channels of communication where the state is not the only unit and other types of relations do exist.⁴⁶ This is what Keohane and Nye introduced as the concept of ‘complex interdependence’⁴⁷ whereby growing economic and social interdependence and cooperation among states -instead of conflict- is stressed.

What actually the two theoreticians suggest is that when complex interdependence prevails due to intensifying economic relations the importance of non-state actors- like multinational banks or corporations- in policy making is increased. As Keohane and Nye argue, corporations, banks, trade unions make decisions that transcend national boundaries and thus domestic policies of different countries impinge on one another more and more.⁴⁸ Thus, due to that and to transnational communications the lines between domestic and foreign policy are blurred and the state is not the single unit organizing policy.⁴⁹ And finally due to intense relations of mutual influence the likelihood of the use of military force is reduced, as its effects can be both costly and uncertain. Consequently,

⁴⁵ R. O. Keohane and Joseph S. Nye, Jr., “A Conclusion”, in R. O. Keohane and Joseph S. Nye, *Transnational Relations and World Politics*, (eds.), (Massachusetts, Harvard University Press, 1973), p. 371.

⁴⁶ S. Kostadinidis, *op. cit.*

⁴⁷ R. Keohane, J. Nye, “Power and interdependence in the information age” *Foreign Affairs* 77, no. 5, 1998, pp.81–94.

⁴⁸ R. Keohane, J. Nye, *Power and Interdependence: World politics in transition*, (USA: Little, Brown and Company, 1977), pp. 24-29

⁴⁹ *Ibid.*

interdependence seems to lead to more political cooperation and the use of force is either irrelevant or unimportant as instrument of policy.⁵⁰

As it is noticed from the above the idea of cooperation –mainly economic- has seized a privileged position in the social sciences. According to the liberals economic cooperation is generally to be desired and encouraged as it perceived to foster pacific relations as it can act as a virtual substitute to military conflict. According to Keohane and Nye there are examples of countries where conflict does appear almost inconceivable. For example, Keohane and Nye in the book “Power and Interdependence” identify as the most indicative example of complex interdependence the case of USA and Canada. In general, Canadian-American relations seem to fit the three conditions of complex interdependence set by the two theoreticians. Military force plays only a minor role in their relationship, their relations are also notable for the multiple channels of contact, and finally the agenda of American-Canadian relations demonstrates a variety of issues “without a preponderance or domination of military security concerns” while at the same time a hierarchy among issues was hard to be established.⁵¹

According to scholars who have elaborate on the effects of economic cooperation and the role of interdependence another example that a resort to force seems unthinkable due to interdependence is the case of the European Union.⁵² Although, Europe was an area of military conflict and war after WWII the European states started seeking out ways to reconstruct the continent and create a peaceful and prosperous post-war Europe. The way to achieve the above was based on the notion of

⁵⁰ Ibid.

⁵¹ R. Keohane, J. Nye, op. cit., pp. 167-172

⁵² C. Papadopoulos, op. cit., p. 9 and Mr. Myisli, “Οικονομική Αλληλεξάρτηση και Επίλυση τοπικών συγκρούσεων” “Το ελληνοτουρκικό παράδειγμα” [Economic Interdependence and Conflict resolution: the Case of Greece and Turkey], MA Thesis in European and International Studies, National and Kapodistrian University of Athens, (Athens 2006) pp. 8-10.

pooling resources for the common good, in the event in the coal and steel industries⁵³ and other economic fields as well. Today, according to academicians, the EU member states seem to have banished the likelihood of force as a means of conflict resolution as they are highly interdependent not only economically but also socially and politically.⁵⁴ Multiple channels of communications are open and functioning between all the member states, a wide range of issues without domination of military security concerns exists while at the same time a hierarchy among issues is hard to be established as the EU members have -through the creation of multilateral trans-societal, institutional, and also market transaction based relations- forge common policies and projects.⁵⁵ In this context France, Britain and Germany no longer feel threatened by each other as force is irrelevant or unimportant as an instrument of policy.⁵⁶ Actually, the Franco-German paradigm is considered to be one of the most successful examples of cooperation relatively with the EU.⁵⁷

However, this pacific view of trade and cooperation raises some critical questions like; What if, the two countries bilateral trade is not in balance? What if the imbalance keeps growing? Will this not exacerbate underlying tensions?⁵⁸ Therefore, does cooperation brings competition and thus antagonism or further cooperation and peaceful relations among states (especially in a realist-anarchic world where states seek to maximize power)? For economic nationalists and Marxists, bilateral interdependence seldom means mutual dependence, which lead to asymmetries in the relations and thus trade becomes a source of power of the strong over the weak.

⁵³ The European Coal and Steel Community were established by the Treaty of Paris in 1951 between the Benelux countries, France, Italy and West Germany.

⁵⁴ C. Papadopoulos, op. cit., p. 9

⁵⁵ Ibid.

⁵⁶ R. Keohane, J. Nye, *Power and Interdependence: World politics in transition*, (USA: Little, Brown and Company, 1977), pp. 24-29

⁵⁷ M. Tsinisizelis, *Quo Vadis Europa*, (Athens: Modern Academic and Scientific publications, 2001), p. 192 and D. Tsarouha, op. cit., p. 53

⁵⁸ C. Papadopoulos, op. cit., p. 9

This argument seems to be supported by the theoreticians of complex interdependence who also agree that “the politics of economic interdependence involve competition even when large net benefits can be expected from cooperation”⁵⁹ further the two writers hold that interdependences should be perceived a situation of asymmetries in dependence that is likely to provide source of power over an issue to the less dependent actor.⁶⁰ This conclusion made by the two writes seems to contradict their main argument that claims that under the conditions of complex interdependence the world politics is very different than under the realist conditions. And that increasing integration among states circumscribes their ability to develop totally independent courses in related policy areas, causing the cost-benefit analysis relating to the peace-conflict choice to be become more complicated for those think of the latter option.⁶¹ Nonetheless, although the two writers seem to contradict themselves about the role of cooperation and interdependence for the sake of this research it is going to be taken under consideration their main argument and framework about cooperation.

Conclusions

As it is seen from the analysis of the theories of IPE scholars differ on the nature of the relationship between economic and politics. In oversimplified terms, economic nationalism assumes and supports the primacy of politics over economics and advocates that economic interdependence is indeed conflictual. Marxism on the other hand holds that economics drive politics. Political conflicts arise from the struggle among classes over the distribution of wealth. Therefore, for Marxism as well economic relations are conflictual. However, they are conflictual not only on societal

⁵⁹ R. Keohane, J. Nye, op. cit., pp. 10-11

⁶⁰ Ibid.

⁶¹ C. Papadopoulos, op. cit., pp. 4-5

level but also on international level as cooperation and interdependence are perceived as a cause of conflict and insecurity. For liberalism on the other hand economics are very important as they are seen as a source of cooperation and pacific relations in contrast to politics that is perceived as a source of conflict. For Liberals interdependence is a way to better understand and characterize world politics. Keohane and Nye perceived that interdependence will increasingly characterize world politics as each of the three conditions –lack of hierarchy among issues, presence of multiple channels of contact between societies and the absence of force- of complex interdependence better portray reality. Thus, what is going to be explored in the chapters that follow is if interdependence theory is a better explanatory model to apply to the Greek-Turkish situation. Because as the fathers of complex interdependence, Keohane and Nye, support in their book “sometimes realist assumption will be accurate or frequently accurate...Before one decides what explanatory model to apply to a situation or a problem, one will need to understand the degree to which realist or complex interdependence assumptions correspond to the situation...Most situations will fall somewhere between these two extremes.”⁶²

After having examined the main schools of thought of IPE and their ideas of the conflict between politics and economics, we will move on with empirical facts that will help us explore our theoretical understanding of interdependence. In the chapter that follows- in order to better understand Greek-Turkish economic relations and cooperation- the Greek and Turkish political economy after the 1980s when their economic liberalization and enter into market-oriented system started, is going to be explored.

⁶² R. Keohane, J. Nye, op. cit., pp. 10-11

Chapter 2

Greek and Turkish political economy and their economic cooperation

2.1 Introduction

The quest for economic development and stability has been a defining factor for Greece and Turkey in the 20th century. It is true that in the twentieth century both - Greece's and Turkish- economies have walked a difficult and long road with a lot of ups and downs. Coming out of a tradition of a state-directed economy that was relatively closed to the outside world both countries suffered from a series of weak economic policies, leading to high-inflation boom, a deep economic downturn, economic depression, fiscal deficits, and an increase in unemployment.

In order to have a coherent overall picture of the changes that these two countries went through since the second half of the 20th century, we will provide a brief intro on the evolution and profile of Greek and Turkish political economy, their bilateral economic relations and the role that external players like the European Community/Union and the International Monetary Fund (IMF) played in the transformation of their economies and consequently to their bilateral relations.

Main focus will be given since the 1980s, a decade of liberalization of the national economies of Greece and Turkey and a turn to privatization and market-oriented reforms heavily linked to internationalization of the world economy.⁶³ It is observed that since the 1980s the world started to change dramatically. Globalization has brought real changes in the world politics and economics. Economic globalization more particular has introduced important developments in trade, finance, and foreign

⁶³ D. Tsarouhas, op. cit., p.40

direct investment (FDI) by multinational corporations.⁶⁴ In this context business sector gained globally a vital role in 1980s and onwards as the role of the state in economy has lessened considerably. These changing dynamics of world economy that came into being had also an effect on the transformation of the Greek and Turkish economy, their bilateral cooperation and further to the role of business elites of the two countries.

Moreover, the EU and the Europeanization effect⁶⁵ that the former has on member and potential member states has played a critical role in the transformation of the two countries political and economic life. Europeanization has not only support and urged the liberalization of the two economies and their absorption to market⁶⁶-oriented system but also through encouraging and helping to the creation of political

⁶⁴ R. Gilpin, *Global Political Economy: Understanding the International Economic Order*, (Princeton: Princeton University Press, 2001), p. 5

⁶⁵ One of the most widely accepted conceptions of Europeanization is by Robert Ladrech, who qualifies the top-down perspective and his definition is: “*Europeanization reorients the direction of politics where the political and economic dynamics of European integration become part of the organizational logic of national politics and policy making*”. R. Ladrech, “Europeanization of Domestic Politics and Institutions: The Case of France”, *Journal of Common Market Studies*, Vol.32, No.1, 1994, p. 69. For relevant readings look at: Johan P. Olsen, “Europeanization” in Michele Cini (ed) , *European Union Politics*, Oxford University Press, 2004, pp. 334 and P.J. Olsen, The Many Faces of Europeanization, University of Oslo, *Arena Working Paper*, No 1, 2002, C. Major, “Europeanization and Foreign and Security Policy: Undermining or Rescuing the Nation State?” *Politics*, Vol.25, No.3, 2005, P. Graziano, M. P. Vink (eds.), *Europeanization: New Research Agendas*, (New York: Palgrave MacMillan, 2007), M.E. Smith, ‘Conforming to Europe: the domestic impact of EU foreign policy cooperation’, *Journal of European Public Policy*, Vol. 7, 2000, and B. Tonra, “Denmark and Ireland”, in I. Manners and R.G. Whitman (eds.), *The Foreign Policies of European Union Member States*, (Manchester: Manchester University Press, 2000),

⁶⁶ In the case of candidate states, like Turkey, the process of Europeanization is manifested through the mechanism of conditionality. Europeanization in the case of candidate states takes place through the Union’s conditionality strategy that is formalized by the Copenhagen Criteria of 1993.⁶⁶ In 1993, at the Copenhagen European Council, the Union took a decisive step towards the accession criteria, which are often referred to as the ‘Copenhagen criteria’. The Copenhagen political criteria is as follows: “*Membership requires that candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and, protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.*” Cited by the Turkish Ministry of Foreign Affairs. Retrieved Apr. 8, 2011. <http://www.mfa.gov.tr/relations-between-turkey-and-the-european-union.en.mfa>. In the case of member states like Greece the EU especially in the Greek example pressured for the acceptance of economic reforms in line with the Union’s Single Market program and its goal for EMU.

stability-which became a pre-requisite for developing economic ties between countries- has fostered the economic cooperation among the two states.

Therefore, by trying to locate Greek-Turkish political economic evolution, in historical perspective it will be managed to better understand the domestic and international factors that led to the transformation of their policies and their bilateral political and economic relations. This will not only give us a clearer image of the parallel but also diverse roads that the two countries followed but also it will help us to better understand their economic relations in a wider context; the effects of global changes; the indirect role of third power in their economic relations; the role that business elites had on the economic rapprochement and so on and so forth.

2.2 The evolution of Greek economy

In the case of Greek economy the post-1949 period was an era of rapid growth and fiscal stability. However in the post-1974 environment the oil crisis along with the expansionist policies pursued by successive governments were preceded by limited growth, executive stagnation, and higher unemployment, loss of competitiveness symptoms of deindustrialization, dramatically high inflation,⁶⁷ accumulated debts, and most importantly decline of investments. As D. Close puts it “the first fact to be explained about the economy between 1974 and 1993 is the worsening performance of most sectors for much or all of the period”.⁶⁸ According to Close the reason for this poor economic performance was the disappearance of prior conditions like; regimes friendly to big business, low wages and farmers almost no existed incomes, tariff protection and the decline of investments foreign and domestic.⁶⁹ Furthermore,

⁶⁷ From 1979 - 1993 inflation was averaging 18.9 per cent, a number well above EC's corresponding figure.

⁶⁸ D. Close, *Greece since 1945*, (Great Britain: Longman, 2002). p. 168

⁶⁹ D. Cole, op. cit., p. 170

although efforts were made in 1985-87 and in 1992-93, to stabilize the economy the measures taken were proved to be inadequate to deal with the problem not only because they were implemented for a short period of time-due to the pressure of political considerations- but most importantly because they could not be backed up by the then-existing institutional framework for economic and monetary policy-making.⁷⁰ Thus, it seems like that the Greek economic of the 1979-1993 period reflected the influential role and interaction of various economic, structural and political factors.⁷¹

It was the economic crisis that was beginning to erupt along with Turkey's intervention in Cyprus in 1974⁷² that pushed almost immediately the New Democracy (ND) Government to apply for full membership to the EEC in early 1975.⁷³ What Prime Minister C. Karamanlis hoped was the consolidation of the fragile democratic order, economic development and security against the Turkish threat, through closer integration with the EC. Karamanlis goal was to Westernize and modernize Greece.⁷⁴ Greece joined the EEC, as its tenth member, in 1981. However, the situation didn't change considerably on the ground. It seems that after 1974 nationalist economic

⁷⁰ R. C. Bryant, N. C. Garganas, G. S. Tavlas, *Greece's Economic Performance and Prospects*, (Athens: Bank of Greece & Brookings Institution, 2011), pp. 34-36

⁷¹ Ibid.

⁷² In 1974 the situation in Cyprus was culminated when a coup d'état was organized, by the Greek military junta in power, against Cypriot President Makarios. These events pushed the Turkish government in July 1974 to intervene in Cyprus, citing its right to intervene as one of the guarantor powers. Almost a month later the second move by the Turkish army led to the occupation of 37% of the northern part of the Island by the Turkish army and eventually to the territorial regrouping of the populations of the two communities. For relevant readings on Cyprus, see Andreas Theophanous, 'Prospects for Solving the Cyprus Problem and the Role of the European Union', *Publius*, vol. 30, no. 1-2, Winter-Spring 2000, pp. 217-241; Tozun Bahcheli, 'Searching for a Cyprus Settlement: Considering Options for Creating a Federation, a Confederation, or Two Independent States', *Publius*, vol. 30, no. 1-2, Winter-Spring 2000, pp. 203-216; Thomas Diez, ed., *The European Union and the Cyprus Conflict: Modern Conflict Postmodern Union* (Manchester: Manchester University Press, 2002), A., Βερέμης, *Ιστορία Των Ελληνοτουρκικών Σχέσεων 1453-2003*, [The history of Greek-Turkish relations], (Αθήνα:Σιδέρης, 2003), pp. 116-119.

⁷³ Z. Onis, Greek-Turkish relations and the European Union: a critical perspective, revised draft, (April 2001), pp. 3-10. Greece was the first country to sign an Association Agreement with the EEC as early as 1961. The "Athens Agreement" was aiming at the accession of Greece into the EEC within 22 years. The Agreement was partly frozen for seven years, from 1967 to 1974, at the initiative of the Commission of the EEC, as a reaction to the military coup that assumed power in Athens in 21 April 1967. The agreement re-entered into force on the restoration of democracy in Greece under the Premiership of C. Karamanlis in 1974.

⁷⁴ Ibid

tendencies were raised.⁷⁵ An indicative example of these tendencies was the nationalization by the ND government in 1975 and 1977 and from 1981 from the socialist PASOK government of some public-private enterprises such as Olympic Airways, Commercial Banks, city transport companies etc.⁷⁶ The takeover of Olympic Airways by the state, an action which by itself is a contradiction with practices of the EC, presented as the epitome of the lack of Europeanization in internal affairs.⁷⁷

Although, in the 1980s protective trade barriers were removed- thus an excessively regulated banking system started gradually to liberalise- and cohesion funds were contributed in was obvious by the late 1980s that Greece had fallen behind the other developing countries (i.e. Portugal, Spain, and Ireland) of the EEC.⁷⁸ Since her accession to the EEC, with the exception of a stabilization parenthesis between 1985 and 1987⁷⁹-which was introduced due to the rapid deterioration in Greece's external accounts and extremely high inflation- Greece consistently increased her distance from the Community.⁸⁰ As the necessity to Westernize and modernize its policy and economy was becoming systematic, Greece had to make a great effort in order overcome *'continual problems which characterise the Greek polity, and are rooted in the historical and political culture of the country: institutional centralisation combined with ineffective policy-making and implementation, intense*

⁷⁵ P. Spyropoulos, T. Fortsakis, *Constitutional Law in Greece*, (Netherlands: Walters Kluwer and Sakoulas, 2009), pp. 172-173

⁷⁶ Ibid.

⁷⁷ Ch. Tsardanidis, St. Stavridis, The Europeanisation of Greek foreign policy: a critical appraisal, *Journal of European Integration*, vol. 27, No. 2., p. 218, originally augmented at D. Keridis, The foreign policy of modernisation: from confrontation to interdependence?, in: P. Tsakonas, (ed.) *Σύγχρονη Ελληνική εξωτερική πολιτική*, [Contemporary Greek Foreign Policy], Vol. 1, (Athens: Sideris, 2003), pp. 305-306

⁷⁸ D. Cole, op. cit., p. 169

⁷⁹ In 1985 supported by a 1.7 billion ECU loan from the EC, the Greek government implemented a two year "stabilization" program in order to try and deal with the deterioration of the economy and focus on economic policies towards macroeconomic stabilisation. R. C. Bryant, N. C. Garganas, G. S. Tavlas, op.cit., p. 56

⁸⁰ P. Kazakos, 'Socialist attitudes towards European integration in the 1980s', in T.C. Kariotis (ed.), *The Greek Socialist Experiment*, (New York: Pella, 1992)

*politicisation of economic and social relations, an absence of stratagem, an overwhelming public sector, a weak paternalistic state and a ubiquitous network of clientelistic relations*⁸¹.

It is thus obvious that Greece was the country with the most pronounced overall economic and structural divergence from the EU standard. The fact that Greece's entrance to the EC was accompanied with the rise to power of the socialist party (PASOK) of Andreas Papandreu how carried out an anti-EC and populist agenda didn't help much coming closer to EC. In fact one could argue that in the contrary Papandreu's 'structuralism' policies of state interventionism ended up increasing consumption and budget deficits.⁸²

Although the PASOK government managed to increase the funding of the Greek economy by the EEC and avoided suggested liberalization reforms, the country failed to benefit from the loans and subsidies that had bargained. The PASOK administration continued to pursue expansionary policies, which fuelled inflation and led to balance-of-payments difficulties. Furthermore, the huge growing public sector deficits were financed by borrowing. By the end of the 1980s, Greek public spending had climbed to 55.7 per cent of GDP that means it was 16 per cent higher than the OECD average and 8 per cent higher than the EC average.⁸³ At the same time no privatization measures were implemented and no market liberalization programme was adopted or enforced.⁸⁴ Therefore, it doesn't come as a surprise the fact that from at least 1985 until approximately 1998, international agencies such as the OECD and the European Commission consequently reported serious faults in the economy, slow

⁸¹ E. Mossialos, A. Mitsos, Contemporary Greece and Europe: introduction and synopsis, at A. Mossialos, A. Mitsos, (eds), *Contemporary Greece and Europe*, (Aldershot: Ashgate, 2000), p. 3

⁸² G. Pagoulatos, "Economic Adjustment and Financial Reform: Greece's Europeanization and the Emergence of a Stabilization State", *South European Society and Politics*, 5: 2, December 2009, p. 193

⁸³ Ibid.

⁸⁴ Ibid. There was a single notable exception: the gradual liberalization of the financial system.

growth and deindustrialization.⁸⁵

Due to all the above, Greece during most of the 1990s was under the supervision of the European Commission and the IMF, who worked to ensure the reduction of the budget deficit and the de-nationalization of economy.⁸⁶ All these along with the serious pressure from the EU marked a change in Greece's economic policy. Starting from 1991, Greek governments sought to minimize the role of the state and start privatization schemes. However, in 1993 the program came to a halt as *etatist* tradition seems to have had deep roots and was sustained by multiple institutional arrangements and informal practices.⁸⁷

Although, in the 1980s the Greek government followed anti-European, nationalistic policies, in the mid-1990s Greece started to transform politically and economically. The 1990s, was a decade characterized by stability, continuity of policies "and a gradual build-up of economic policy success".⁸⁸ This change had much to do with EU's effect and role. As Tharouhas puts it, "Greek policymakers came under EU pressure to accept the need for economic reforms in line with the Unions Single Market program and its goal for an Economic and Monetary Union (EMU)".⁸⁹

After the establishment of the Maastricht criteria for EMU entry -low inflation, deficit reduction, currency stability-, satisfaction of the criteria became the

⁸⁵P. Kazakos, "Europeanisation, Public Goals and Group Interests: Convergence Policy in Greece, 1990- 2003", *West European Politics*, vol. 27, No.5, November 2004, p. 904

⁸⁶D. Cole, op. cit., p. 169. The paradox with the Greek case is that although the country's policy changed after the 1989 vis-à-vis the EEC and Greeks turned out to be the most fervent supporters of the European integration process, 'the country's inability to improve its economic indicators at the rate of its European counterparts, as well as its perception of being perceived as the most difficult and problematic member, suggest an irreconcilable gap between the perceived enthusiasm of the Greek people and the Greek political elite for the EU, and the incapacity of Greek governments to behave in a *communitaire* fashion'. M. Tsinisizelis, *Greece in the European Union: A political/Institutional Balance Sheet*, (2009), pp. 145-158. Retrieved Apr. 08, 2011.

http://video.minipress.gr/wwwminipress/aboutgreece/aboutgreece_greece_eu.pdf

⁸⁷P. Kazakos, op. cit., p. 906

⁸⁸G. Pagoulatos, op. cit., pp. 198-200

⁸⁹D. Tsarouhas, op. cit., p. 42

primary objective for the Greek policymakers.⁹⁰ The adoption of domestic market policies of neo-liberalism is in accordance with EMU as the latter is considered to reinforce globalization's characteristics of free capital movement, open trading, and threats of exit from mobile transnational businesses unless domestic tax and regulatory costs are reduced."⁹¹

The need to cope with forces of globalization and benefit from the EMU was accompanied with the rise to power of C. Simitis in 1996, a strongly pro-European politician who made his main priority the country's entrance to the Eurozone.⁹² Prime Minister Simitis realized that the entry of Greece in the EMU was of great importance as exclusion from the later would mean exclusion from a major new step in European integration.⁹³ Thus, the task was to keep Greece on track with European and international trends. Further, EMU was seen as a means to an important strategic objective at home, one that could not be easily achieved by another means. According to K. Featherstone for Greece, Italy, and Spain, 'the strategic opportunity arose from additional factors: a recognition that EMU was consistent with the demands of the wider global economy, to which adjustment was also necessary; and, a calculation that reform of the EMS and then EMU itself was unstoppable. It was in this framework that the Simitis government introduced a reform package included plans for privatization, labour market and pension reform. Finally, Greece's entrance in the EMU in 2001 was perceived firstly as the end of a long and difficult road who led to the boosting of the country's economy and secondly as the beginning of new era of

⁹⁰ M. Tsinisizelis, *op. cit.*, pp. 145-158

⁹¹ K. Dyson, "Introduction: EMU as Integration, Europeanization and Convergence", in Kenneth Dyson, (ed.) *European States and the Euro*, (Oxford: Oxford University Press, 2002), p. 16

⁹² D. Kairidis, Εξωτερική πολιτική και πολιτική κουλτούρα: Η Ελληνική Πολιτική έναντι της Τουρκίας σήμερα, στο X. K. Gialouridis, Tsakonas (eds.), *Ελλάδα και Τουρκία μετά το τέλος του Ψυχρού Πολέμου*, [Greece and Turkey after the end of the Cold War], (Athens: Sideris, 2002), p. 95

⁹³ K. Featherstone, The Political Dynamics of External Empowerment: the emergence of EMU and the challenge to the European social model, in A. Martin, G. Ross, (eds.), *Euro and Europeans: Monetary Integration and the European Model of Society*, (Cambridge: Cambridge University Press, 2004). Retrieved Jul. 20, 2009. http://www.docstoc.com/?doc_id=17744243&download=1

economic stability, growth and-at least in theoretical level as Tharouhas rightfully states- promising developments regarding its attractiveness as an investment site.⁹⁴

At this point, however, it has to be pointed out that this economic strategy of Europeanization was supported by both big political parties (PASOK and ND) in Greece. Greece's political culture was totally transformed and matured as both big parties and their politicians, had abandoned old nationalistic frames and had adopted a new more productive rhetoric. There was a more wide understanding and support for the socioeconomic reforms necessary to be made in order to join the EMU. Except of the necessary political commitment, public support for transformation, development and stability, along with the improved institutional framework for monetary policy, and finally the financial support mechanisms of the European Union, EMU seemed to have contributed heavily to the creation of a more stable and vibrant economy.⁹⁵ And that has mainly to do with the fact that EMU and the Maastricht criteria; foster policies that resulted in the lessening of state's role in economy; help to adopt, and put forward policies that –not only fulfil the Maastricht criteria- create more flexible markets; and finally help tackling the limitations and gross inequities of social welfare provision.⁹⁶

Unfortunately, although, Greece is a member of the EU for 30 years and a member of the EMU for almost 10 years it failed to harmonize its economic policies with the rest of the EU members and EMU's objectives. Greece's failure to adjust its economic policies in the long term, along with global economic crises of 2009 -that had tremendous effects on the Greek economy- and Greece's high fiscal imbalances,

⁹⁴ D. Tsarouhas, op. cit., p. 42

⁹⁵ R. C. Bryant, N. C. Garganas, G. S. Tavlas, op. cit., pp. 34-36

⁹⁶ For more on the Maastricht criteria look at the EU's official site: http://europa.eu/index_en.htm and R. Afxentiou, "Convergence, the Maastricht criteria, and their benefits", *The Brown Journal of World Affairs*, Winter/Spring 2000 – Volume VII, Issue 1, 245-254

deterioration of competitiveness (that hindered the external balance of the economy) and the rise of deficit (in 2009 the budget deficit was around 12.7 percent)⁹⁷ that contributed to the extreme growth of public debt (121 percent of GDP in 2010)⁹⁸ led to the current economic crisis and Greece's resort to austerity measures and to an emergency economic package by the IMF/EU.⁹⁹

Therefore, it is observed that the Greek economy was and still is highly affected by wider economic transformations, political changes, and thus global economic changes. The effects of globalization and more specifically Europeanization significantly transformed the Greek policy and economy and facilitated the convergence of Greece towards European norms and standards. The EU especially through the EMU had been instrumental in convergence process of economic policies.

2.3 The evolution of Turkish economy

In the case of Turkey, from the very beginning of the Turkish Republic in 1923, subsequent governments have followed centralized policies and economic protectionism.¹⁰⁰ Central principle of economic policymaking was the role of the state; the state was not just a regulator but also employer and producer.¹⁰¹ This extensive role of the state had a tremendous effect on the economy, as fiscal policy was seen as an extension of politics. This led to inefficiencies in state-owned

⁹⁷ "Timeline: Greece's economic crises, Reuters", February 2010. Retrieved Apr. 08, 2011.

<http://www.reuters.com/article/2010/02/03/us-greece-economy-events-idUSTRE6124EL20100203>,

⁹⁸ Ibid.

⁹⁹ "The Prime Minister on April 23, 2010 requested an emergency assistance program from his Euro-area partners and the International Monetary Fund (IMF). In early May, the Greek parliament, Euro-area leaders, and the IMF Executive Board approved a 3-year €110 billion (about \$145 billion) adjustment program to be monitored jointly by the European Commission, the European Central Bank, and the IMF." US Department of State, Greece's profile. Retrieved Apr. 08, 2011. <http://www.state.gov/r/pa/ei/bgn/3395.htm>,

¹⁰⁰ N. Onder, "The Turkish project of globalization and new regionalism", *Alternatives: Turkish Journal of International Relations*, Vol. 7, No. 2 & 3, Summer & Fall 2008, p. 87-88 and M. Muftuler, "Turkish Economic Liberalization and European Integration", *Middle Eastern Studies*, Vol. 31, No. 1, Jan., 1995, pp. 85-98

¹⁰¹ Tharouhas, op. cit., p.42

enterprises (SEE) due to widespread clientelism and corruption. Macroeconomic instability that dominated the economy of the country throughout the 1970s and 1980s was mainly initiated by the political elites of the country from previous decades.¹⁰²

One can thus understand that Turkey is a country with a tradition of a state-directed economy that was relatively closed to the outside world. Turkey's politic and economic realms were heavily interrelated with no clear and sufficient boundaries between them. Business cycles were closely interacting with political elites creating thus clientelistic patterns and the rise of populist circles. Through the 1960s and 1970s democratically elected governments initiated "populist cycles" in order to gain broad electoral support and campaign funding in exchange for lucrative government contracts.¹⁰³ The weakness of democratic governments to govern effectively the economy led to high inflation, reduced growth and finally led to persistent payment crises of the late 1950s and late 1970s.¹⁰⁴

It was after these crises that the then Prime Minister and later President Turgut Ozal decided to open up the economy in the 1980s, and adopt a neoliberal economic model. The program involved both short-term stabilization and longer-term structural adjustment based on collaboration between the IMF and the World Bank. The program's target was the liberalization of the country's economy and its integration into the world market.¹⁰⁵ In line with financial globalization Turkish economy became

¹⁰² Ibid.

¹⁰³ M. Ozay, Crisis management in Greek-Turkish relations: A political economy analysis since 1974, in M. Aydin, K. Ifadis, (eds.), *Turkish-Greek Relations; the Security Dilemma in the Aegean*, (Great Britain: Routledge, 2004), pp. 175-178

¹⁰⁴ In each case, a period of rapid expansion, marked by a sharp increase in imports, resulted in a balance of payments crisis. Devaluations of the Turkish lira and austerity programs were implemented according to the lines given the IMF. I. Karatepe, O. Genc, "The Financial Crises in Turkey: A Self-Fulfilling Prophecy", paper presented at the 'Stabilising an unequal economy? Public debt, financial regulation, and income distribution' organized by the Research Network Macroeconomics and Macroeconomic Policies, (29 – 30 October 2010, Berlin)

¹⁰⁵ Z. Onis, The development of the Turkish economy: A political economy perspective, C. Koliass, G. G. Senesen, (eds.), *Greece and Turkey in the 21st century; conflict or cooperation, a political economy perspective*, (New York: Nova science publishers, 2003), p.71

more open and integrated into the global economy. Moreover, in the new political-economic framework the economic role of the state was redefined- in a degree.¹⁰⁶ Unfortunately, that did not stop the crises which were becoming more and more frequent in an environment accompanied by massive inflow of short-term international capital inflows.

In the 1990s, the economy of Turkey suffered from a series of coalition governments with weak economic policies, leading to high-inflation boom-and-bust cycles which led to the successive crises of 1994 and 2001. Furthermore, financial liberalization gave to the government the ability to borrow domestically and that along with the huge budget deficit resulted to the increase of domestic debt which caused a move towards higher interest rates.¹⁰⁷ Thus, Turkish economy was trapped in a circle of increasing deficits and rising rates. This “premature”- as Z. Onis puts it- exposure to financial globalization was the reason for an extensive “increase in foreign-denominated liabilities, as Turkish banks engaged in *arbitrage*, gaining from high profits and an extremely lucrative tax and regulatory system.”¹⁰⁸

A positive development in the mid-1990s, however, was Turkey’s closer integration with the European Union by agreeing to a customs union (CU) in 31 December 1995.¹⁰⁹ The CU has been instrumental in the adoption of crucial regulatory reforms like competition policy and intellectual property rights, measures that facilitated Turkey’s compliance to global norms of competition. M. Bac points out that prior to the European Parliament’s vote on the Customs Union in December 1995, the Turkish government adopted a major package of constitutional change in

¹⁰⁶ Ibid.

¹⁰⁷ Ibid.

¹⁰⁸ Tharouhas, op.cit., p.43

¹⁰⁹ Turkish Ministry of Foreign Affairs, downloaded at: <http://www.mfa.gov.tr>. The Customs Union has significantly increased the volume of trade between Turkey and EU member states. Today, more than half of Turkey’s trade is with the EU, downloaded at www.europa.eu

order to satisfy the Members of the European Parliament (MEP) regarding the state of democracy in Turkey. According to M. Bac, this is an important illustration of the EU's impact on Turkey's Europeanization even in the absence of a membership perspective, solely within the premises of its Association.¹¹⁰

Nevertheless, this development didn't stop Turkey's economic problems to culminate in the severe banking and economic crisis of 2001, which was followed by a deep economic downturn and a dramatic increase in unemployment. The paradox of the 2001 crises was that when it happened the country was under an economic program agreed with the IMF since 1998, the "Staff Monitoring program" that led to a stand-by agreement of 1999. The goal of the program was to tackle with problems like structural budget deficit and chronic inflation. The anti-inflationary program also would also deal with key problems in the areas of taxation, privatization of public enterprises, banking regulation and also the reform of agricultural price support schemes.¹¹¹ The program was aiming, therefore, to the stabilization and reform of Turkish economy, a prospect that was welcomed with optimism. One should note however that another cause for this optimism was the fact that, the same month that the agreement was signed, Turkey was granted with its EU "candidacy status" at the EU's Helsinki Summit. This development was a milestone in Turkey's transformation as it filled the Turks with new enthusiasm and triggered one of the most intense periods of economic and political reform in Turkish history.¹¹² The Turkish government now had a strong incentive for its democratization, as Turkey was for the first time given a clear perspective for membership.

¹¹⁰ M. Müftüler Baç, "Turkey's Political Reforms and the Impact of the European Union", *Southeast European Society & Politics*, Vol. 10, No 1, (April 2005), pp. 17-31

¹¹¹ Z. Onis, E. F. Keyman, *Turkish politics in a changing world: Global dynamics and domestic transformations*, (Istanbul: Istanbul Bilgi University Press, 2007), pp. 113-122

¹¹² See the Turkish MFA for the changes that Turkey underwent after the Helsinki Summit. Retrieved Apr. 08, 2011. <http://www.mfa.gov.tr/relations-between-turkey-and-the-european-union.en.mfa.>

It wasn't long after the EU's decision and the signing of the stand-by agreement with the IMF that it became apparent that the coalition government¹¹³ that was formed in 1999 under the leadership of Bulent Ecevit lacked cohesion and commitment to successfully implement the economic program. This lack of commitment affected investor confidence and became one of the underlying sources of the massive exodus of short-term capital in November 2000.¹¹⁴ It is intriguing, nonetheless that the presence and participation of the IMF to the program failed to fill with confidence the market participants.

However after the 2001 crises the IMF increased its power and gained successfully the upper hand, making it thus easier for key components of the reform package to be implemented. Monetary and fiscal policies and structural economic reforms were adopted and implemented with the objective of both stabilizing and strengthening the growth process of the country so as to provide for a long-term growth while at the same time protecting Turkey from another crises.¹¹⁵ The reform process had not only with the support of the IMF but also of the World Bank and the EU. Actually, one of the most positive outcomes of the crises was the fact that it offered a great opportunity for implementing a series of reforms while at the same time it improved the role of external players like the EU and the IMF in accelerating the momentum of the reform process.

So, as far as, re-establishing macroeconomic stability, accelerating growth (Turkey's economy grew an average of 6.0% per year from 2002 through 2007), reducing inflation and interest rates, and redacting the government debt (39.5% of

¹¹³ The coalition government incorporated the left nationalist DSP under the leadership of Bulent Ecevit, the radical nationalist MHP under Devlet Bahçeli and finally the right of the centre ANAP under Mesut Yılmaz.

¹¹⁴ Z. Onis, E. F. Keyman, op. cit., pp. 113-122

¹¹⁵ A. Marco, K. Dervis, "Stabilising Stabilization", EU-Turkey Working Papers, *Centre of European Policy Studies*, No. 7, September 2004, p. 1

GDP in 2008), is concerned the programme has been quite successful and Turkey's economy has been recovered.¹¹⁶ Of course in this effort the autonomy and the regulatory role that was given to the Banking Regulation and Supervision Authority have been crucial to these developments. Furthermore, the Law on foreign direct investment (FDI) in 2003 played a determinant role in improving investment conditions and creating important investment incentives that led to a serious increase in FDI inflows. An indicative fact of Turkey's success in attracting FDI is that after years of low levels of FDI, Turkey succeeded in attracting \$18.3 billion in net FDI in 2008.¹¹⁷ According to the US Department of State factors like; large privatizations, strong and stable growth, and structural changes in the banking sector, retail, and telecommunications sectors contributed heavily to the 2008 rise in foreign investment.¹¹⁸

However, another influential factor for macroeconomic stability, growth and attraction of FDI was the stability fostered by the start of Turkey's EU accession negotiations. The decision to start accession negotiation initiated a momentum of genuine change; the reform process was now beginning to gain traction. In the years following the Helsinki summit, the European Union through the conditionality policy¹¹⁹ has empowered those domestic groups that favour Turkey's membership and

¹¹⁶ Information's cited from the US Department of States. Retrieved Apr. 08, 2011. <http://www.state.gov/r/pa/ei/bgn/3432.htm>,

¹¹⁷ Ibid.

¹¹⁸ Ibid.

¹¹⁹ EU's conditionality tool is also called "*carrots and sticks*" strategy that the Union utilizes to induce non-member states to comply with its principles of legitimate statehood.¹¹⁹ To put it simply, by applying conditionality the EU helps the candidate states in producing expected outcomes and behaviours whereby it provides material or immaterial assistance for meeting certain criteria. Moreover, conditionality in the accession process requires the candidates to comply with written and unwritten norms and rules put forward by the EU. Considering the foreign policy dimension, EU conditionality requires candidate states to solve their border disputes and have good neighbourly relations within the framework of the Union's fundamental values and the international law. Failure to do so can hinder their membership. What makes the EU's approach so powerful is that "once a credible membership perspective has been established, adoption costs in individual policy areas are discounted against the benefits of membership, rather than just the benefits in this particular policy area." However, when the "domestic cost of adaption is higher conditionality is less effective as it appears

has played a crucial role as a trigger of political and economic reforms' within the country.¹²⁰ The EU managed Turkey to transform its state-centric polity into a more democratic, economically stable and pluralist one.¹²¹ The progress made by Turkish government, in Europeanization and fulfilling the EU's Copenhagen criteria was remarkable. The prospective of EU membership provided a very strong incentive and the necessary "excuse" to the moderately Islamist Justice and Development Party (AKP) to make these difficult changes. According to academicians and more informed observers the EU has indeed been an "anchor" facilitating the development process of Turkish political and economic reforms.¹²²

In comparative perspective to the Greek case, Turkish experience seems to have started approximately from the same point. Both economies were characterized by weak economic policies, state-directed economies, which caused inflation, unemployment, slow growth etc. However despite the fact that the goals that would lead to economic transformation and complying with the forces of globalization, set by IMF and EU in case of Greece and Turkey resemble each other to a large extent, the sources to reinforce the reforms were quite very different. While in Greece the main actor fostering necessary changes was the EU in the case of Turkey the economic prevalence of the IMF over the EU in shaping economic reforms was obvious. Nonetheless, after 2000 and Turkey's EU candidacy the EU acquired a more active role in helping accelerating the momentum of the reform process. Therefore, it

from the case of Turkey." F. Schimmelfennig: The Europeanisation of Eastern Europe, *European Stability Initiative*, available at: <http://www.esiweb.org/enlargement/> and N. Tocci. Europeanization in Turkey: Trigger or Anchor for Reform?, *South European Society and Politics*, Vol. 10. Issue 1, 2005, pp. 73-83

¹²⁰ M. Müftüler Baç, "Turkey's Political Reforms and the Impact of the European Union", *Southeast European Society & Politics*, Vol. 10, No 1, (April 2005), pp. 17-31

¹²¹ Z. Onis, E. F. Keyman, "Helsinki, Copenhagen and beyond: Challenges to the New Europe and the Turkish state", in M. Ugur and N. Canefe, *Turkey and European Integration: Accession prospects and issues*, (London & New York: Routledge, 2004), pp. 190-191.

¹²² N. Tocci, Europeanization in Turkey: Trigger or Anchor for reform?, *South European Society and Politics*, Vol. 10, Issue, 1, (April 2005)

is seen that also in the case of Turkey globalization and Europeanization played a crucial role in the political and economic transformations.

2.4 The origins and evolution of Greek-Turkish economic partnership

Regardless of the fact that, geographic proximity could foster beneficial economic ties -from the advantages of cross-border trade relations such as commerce, investment, tourism, infrastructure, international networks, energy and transportation- for both countries, Greece and Turkey had not managed to promote economic integration until very recently. One could easily argue that economic relations up to the 1980s, was of no significance and that had mainly to do with the political differences between the two countries.¹²³ The political climate of tensions and uncertainty between the two states had really affected their bilateral economic relations.

This situation started changing in 1988 during the works of Davos world economic forum where T. Ozal and A. Papandreou decided to establish a Turkish-Greek Business Council. This resulted in a temporary rapprochement between Greek and Turkish businessmen. It was under this spirit of cooperation that 91 Greek and Turkish businessmen came together and agreed to cooperate in a number of industrial and trade sectors. Soon however attempts for cooperation were put in the side of fear, uncertainty and complex political agenda. Although, economic cooperation seemed to be attractive for investors and businessman, enterprises acted reluctantly to the opportunities because of the uncertainty in political affairs.¹²⁴

Indicative of this situation is Turkey's Customs Union membership in 1996, which could have opened the doors to a significant increase in economic cooperation.

¹²³ P. Liargovas, Greek-Turkish economic relations, in C. Kollias and Gulay Gunluk-Senesen (eds.), *Greece and Turkey in the 21st Century: Conflict or Cooperation - The Political Economy Perspective*, (NOVA publishing, 2003), pp. 133-134

¹²⁴ Ibid.

Nonetheless, once again political problems between the two states heavily affected any possibility for cooperation. The Imia/Kardak crises- which almost led to open conflict in 1996- and the Öcalan event¹²⁵ in 1999 not only proved to be extremely risky for Greek-Turkish bilateral relations but also didn't leave any space for utilization of opportunities offered by the CU. Therefore, it is quite obvious that the political climate has worked negatively to the creation of bilateral economic relations and business initiative's.

An indicator of this situation is the reactions¹²⁶ of the public opinion against an effort made from the then president of TUSIAD Muharrem Kayhan who tried in the aftermath of the Imia/Kardak crisis to develop close relations with a leading member of the Federation of Greek Industrialists, Nicos Epthimiadis. As it appears the two men agreed on holding in Thessaloniki on the 29th of October to celebrate two great statesmen of modern times Mustafa Kemal Atatürk and Elefteros Venizelos.¹²⁷ Unfortunately, this spirit of cooperation was not shared by the by local communities that apparently could not tolerate any rapprochement between the two countries.¹²⁸ Another example was also the unilateral cancelation by the Turkish side of the scheduled meeting of the Turkish-Greek business council after the Öcalan event. At that time, it appears that even the most pro-Greek business personalities felt the need to make anti-Greek statements on that occasion.¹²⁹

¹²⁵ In February 1999 Abdullah Öcalan, leader of the Kurdistan Workers Party (PKK) was captured after leaving the Greek Embassy in Nairobi, in which he was hiding for a few days. More on the Öcalan event see Hakan Abacı, "The Öcalan Affair and Its Effect on the Turkish-Greek Rapprochement Process in 1999", *Turkish Review of Eurasian Studies*, Annual 2004-9, p.1.

¹²⁶ The entire concept brought forth a severe and violent reaction by local communities that could not tolerate any rapprochement between the two countries. And made the two sides to understand how sensitive subject the Greek-Turkish cooperation was. S. Özel, "Turkish-Greek Dialogue of the Business Communities," in Taciser Ulaş-Belge, (eds.), *Voices for the Future: Civic Dialogue between Turks and Greeks*, ed. (İstanbul: Bilgi University Press, 2004), pp. 166-168

¹²⁷ Ibid.

¹²⁸ Ibid.

¹²⁹ Ibid.

All the above, thus, could be seen as the reason why - to use A. Evin's own words- "evolving economic relations between Turkey and Greece are often taken as a litmus test indicating the degree of political stability".¹³⁰ In the pre-1999 period many NGO initiatives that started with the best of intentions could not be sustained for a long time and the businessmen's efforts and initiatives had only a limited impact on the overall setting and development of bilateral relations. A majority of conciliation efforts proved to be in vain but most importantly because of the political climate of that era. In the best of circumstances the disconnectedness of the process undertaken by private initiative from official circles rendered it a dead-end track.¹³¹ Hence, it is quiet clear that the political tensions and uncertainty between the two states really affected their bilateral economic relations.

However, as N. Loizides observes the Öcalan episode helped discredit nationalistic frames, as they proved to be threatening for the national interest.'¹³² Political actors understood that only through cooperation and coordination of policies with fellow EU members' values and interests, Greece would enjoy the advantages of being a member-state.¹³³ This realization was one of the reasons that Athens reversed its long-standing opposition to Turkish candidacy to the Union. In the eyes of Greek policymakers, 'it was far better to start the process of accession and hope that the EU would play a transformative role in bilateral relations than to keep Turkey out of the Union, which would leave Greece with *an erratic, unpredictable but still powerful neighbour*.'¹³⁴ It was believed that through conditionality Turkey would have to carry

¹³⁰ A. Evin, "Changing Greek Perspectives on Turkey: an assessment of the post-earthquake rapprochement", *Turkish Studies*, 5 (1), p. 15

¹³¹ S. Özel, op.cit., 166-168

¹³² N. Loizides, Greek-Turkish Dilemmas and Cyprus EU Accession Process, *Security Dialogue*, Vol. 33(4), (2002), pp 429-442. See also Hakan Abaci, "The Öcalan Affair and Its Effect on the Turkish-Greek Rapprochement Process in 1999", *Turkish Review of Eurasian Studies*, Annual 2004-9, p.1.

¹³³ Ibid.

¹³⁴ J. Ker-lindsay, The Policies of Greece and Cyprus towards Turkey's EU Accession, *Turkish Studies*, Volume 8, Issue 1, March 2007, pp 71 - 83

out democratic reforms, change its foreign policy perspectives, and rid itself of fears. Once these changes are made, Turkey will be equipped to seek solutions to disputes and problems, including bilateral relations with Greece and the Cyprus issue.¹³⁵ Also if Cyprus and Turkey were EU members then bilateral problems would be eliminated in the EU framework.

This realization was one of the main reasons that led to Athens' revision of its long-standing opposition to Turkish candidacy to the Union. Hence, Turkish EU candidacy in the EU Helsinki Summit in 1999, along with the devastating earthquakes in Greece and Turkey- which accelerated the diplomatic relations as well as the informal ties between the civil societies of both sides¹³⁶- offered the two states' Foreign Ministers Ismail Cem and George Papandreou a common platform where problems and solutions could be found. It is true that the two Foreign Ministers, spent great amount of efforts for constructing peaceful relations based on mutual understanding and cooperation on "low significance politics" issues. One can easily understand, therefore, that the year 1999, is crucial for the new rapprochement in multiple ways.

Accordingly, things changed to a great extent in the aftermath of the Helsinki Summit and the earthquakes diplomacy put forward by G. Papandreou and I. Cem.¹³⁷ The efforts of the two Foreign Ministers led to the signing of more than 20 low politics bilateral agreements since 1999 in the field of tourism, environment, technology, trafficking and organize crime, trade, agriculture, commerce etc.¹³⁸ Most

¹³⁵ J. Reuter, 'Reshaping Greek-Turkish Relations: Developments before and after the EU-summit in Helsinki', *ELIAMEP*, Athens, 2000.

¹³⁶ Z. Onis, Greek-Turkish relations and the European Union: a critical perspective, revised draft, (April 2001), pp. 3-10

¹³⁷ The devastating earthquakes of 1999 accelerated the diplomatic relations as well as the informal ties between the civil societies of both sides. Z. Onis, Greek-Turkish relations and the European Union: a critical perspective, revised draft, (April 2001), pp. 3-8

¹³⁸ A. Evin, op. cit., pp. 4-20

of these intergovernmental agreements affected bilateral economic relations and favoured the development economic cooperation between the two countries. More particularly it was the agreement on economic cooperation that set the framework of partnership. According to the agreement the two countries set as a fields of cooperation in the areas of energy, industry, including ship-building and ship repairing, agriculture, including agro-industry, constructions, including consultancy services, transportation, including maritime transportation, telecommunication, banking, insurance and other financial services, tourism, vocational training and management training, environment and last but not least health. Another very important outcome of this agreement was the creation of “Greek-Turkish Joint Economic Commission”, whose role is to act as a consultant between the two parts and for see the successful implementation of this agreement. Furthermore, a set of economic related agreements- that demonstrate the political willingness to overcome not only excessive administrative problems but also to foster cooperation and mutual trust- were signed in the framework of bilateral cooperation, these were the:

- “Agreement on mutual promotion and protection of investments (signed in Athens on 20/1/2001, ratified by Law no. 2907/2001)
- Agreement of cooperation in the sector of tourism (signed in Ankara on 24/10/2000, ratified by Law no. 2897/2001)
- Agreement on the Avoidance of Double Taxation with respect to Income (signed in Ankara on 2/12/2003, ratified by Law no. 3228/9.2.2004)
- Agreement on cooperation and mutual assistance in the customs sector (signed in Athens on 4/2/2000, ratified by Law no. 2895/2001)

- Agreement on sea transports (signed in Athens on 4/2/2000, ratified by Law no. 2900/2001)
- Agreement on scientific and technological cooperation (signed in Athens on 4/2/2000, ratified by Law no. 2896/2001)
- Agreement regarding the connection between Greece and Turkey for transportation of gas and supply of natural gas from Turkey to Greece. (signed in Thessaloniki on 23.02.2003, ratified by Law no. 3246/2004)
- Protocol on technological, scientific and economic cooperation in the agricultural sector (signed in Ankara on 22.6.2000, ratified by Law no. 2964/2001)¹³⁹

Moreover, except from the economic agreement that was signed between the two parts another equally important agreement was the one about Double taxation. The signing of the agreement was extremely welcomed by the business elite's of the two countries as it was expected to resolve many frustrating administrative problems.¹⁴⁰

¹³⁹ Cited from the General Secretariat of International Economic Relations and Development Cooperation. Retrieved Apr. 08, 2011.
<http://www.agora.mfa.gr/frontoffice/portal.asp?page=RESOURCE&resrc=278&cnode=126&clang=1>,

¹⁴⁰ More particularly the agreement provided for: Profits deriving from the operation of ships engaged in international transportation lines are taxable only in the state in which the ships are registered. Furthermore, dividends paid by a company which is a resident of one of the two states to a resident of the other state may be taxed in the other state. However, the tax rate will not exceed 15% of the gross amount of the dividends. Also the tax rate on the branches profits is 15%. Profits derived from the operation of aircraft or road vehicles in international transportation lines are taxable in the state in which they are registered. The tax rate on interest does not exceed 12% of the gross amount of interest. The profits derived from insurance services are taxable through representatives in each country. And finally, where an enterprise of one state participates directly or indirectly in the management, control or capital of an enterprise of the other state or the same persons participate directly or indirectly in the management, control or capital of an enterprise of one state and an enterprise of the other state and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have been accrued to one of the enterprises, but, as a result of those conditions, have not been so accrued, may be included in the profits of that enterprise and taxed accordingly." Cited from E. Kehrioti, *op.cit.*, p. 24, for more information's about the exact provisions and articles of the agreement visit the tax institution "e-forin". Retrieved Jun. 23, 2011

At this point it should be noted that since the initiation of the new rapprochement there has been a significant increase in business contacts between the two countries. Especially during 2005-2006 big investments in the banking sector were utilized by both countries.¹⁴¹ Thus, we see that business communities were eager to seize the opportunities offers by the rapprochement and to expand economic relations and seek cross-border investment opportunities.

Today, ten years after the initiation of the rapprochement the belief that closer economic cooperation- particularly after the post-Helsinki increase in economic activities- can foster a more productive attitude in the political arena and even have a benevolent effect on the contentious areas of the relationship, is even stronger. The rise to power of Papandreou as prime minister along with Ahmet Davutoğlu's appointment to the post of Minister of Foreign Affairs of Turkey on May 1st 2009 gave a new push to the bilateral relations and economic cooperation. According to Davutoglu's policy in order to expand Turkey's role in the regional area, a new dynamic and positive engagement in all of Turkey's neighboring regions is needed using a circumstantial, social, economical and historical base and leading thus to "zero problems with neighbors".¹⁴² The importance of economics to the resolution of contentious issues is demonstrated on the words of foreign minister Davutoglu:

"It is impossible for a country experiencing constant crises with neighbouring states to produce a regional and global foreign policy [...] Relations with these countries have to be detached from the long and difficult process involving politics and bureaucrats. A broader basis,

<http://www.forin.gr/articles/article/4669/convention-for-the-avoidance-of-double-taxation-between-greece-and-turkey>, May 2011

¹⁴¹ For more information on the subject look at chapter 3 of the thesis.

¹⁴² "Turkish Foreign Policy: from status quo to soft power", *European Stability Initiative*. Retrieved Apr. 08-2011. http://www.esiweb.org/index.php?lang=en&id=281&story_ID=25,

focused largely on intra society relations, including economic and cultural elements, must be found. [...] A comprehensive peace plan and a package to develop economic and cultural relations have to be put into place simultaneously to overcome security crises with the closest neighbours."¹⁴³

Since Davutoglu and Papandreou took office, relations have changed for the better, mainly through economic openings towards and from the markets of the two countries.¹⁴⁴ An important step in the economic cooperation of the two countries was the meeting of the two Prime Ministers G. Papandreou and T. Erdogan in Athens at May 2010. Prime Minister Erdogan came to Greece with a team of 320 people- which 10 of them were ministers (in the sectors of economics, tourism, energy security etc.) and the majority of the rest Turkish businessmen from a variety of fields that had contacts with the Greek business elite-¹⁴⁵ in the framework of the first Greek-Turkish High-Level Cooperation Council. The satisfaction for the outcomes of this first meeting is shown in the words of the Greek Foreign Minister Mr. Drougas:

“We are satisfied at the results we had from the first meeting last May, during Turkish Prime Ministers Erdogan’s visit to Athens. We believe in this mechanism, its practicality, its potential for further enhancing Greek-Turkish cooperation in very important sectors like trade, economy,

¹⁴³ “Davutoglu and the policy of “zero problems with neighbours””, *European Stability Initiative*. Retrieved Apr. 08-2011.

http://www.esiweb.org/index.php?lang=en&id=281&story_ID=25&slide_ID=2.

¹⁴⁴ “Turkish Foreign Policy: from status quo to soft power”, *European Stability Initiative*. Retrieved Apr. 08, 2011, available at http://www.esiweb.org/index.php?lang=en&id=281&story_ID=25, May 2011

¹⁴⁵ “Ερντογάν: Αυτή η επίσκεψη θα έχει διαφορετικό φινάλε” [Erdogan: this meeting will have a different finale], *Ta Nea*, 14-05-2010

*culture, tourism, citizen and environmental protection....Spearheading this effort is our cooperation in the economic sector. We observed with satisfaction that there has been an increase in Greek exports to Turkey over the past year. It is a fact that both sides have very active business communities. And we, as the government, want to facilitate and encourage all initiatives that broaden the economic cooperation between us.*¹⁴⁶

Hence, we see that after the post-1999 expansion in Greek-Turkish economic exchanges the belief that economic integration can have a positive effect on bilateral relations has gained momentum.

Conclusions

Following our analysis of Greek and Turkish political economy it is quite clear that both economies started with a tradition of a state-directed economy, closed to the outside world and troubled by a series of weak and fruitless economic policies, leading a deep economic downturn, fiscal deficits, high unemployment rates and many times-especially in the case of Turkey- to deep economic crises. However after the 1980s in both countries an effort towards liberalization of national economies and their integration to the world market started to develop.

The road towards privatization, liberalization and market-oriented reforms was long and difficult for both countries. In spite of the fact that different actors (IMF, EU) prevailed in the transformation process, both Greece and Turkey necessitated the presence of external anchors in transforming their institutions and policies and conducting their reform programs. Nonetheless, due to the economic globalization,

¹⁴⁶ Meeting of Foreign Minister Droutsas and his Turkish counterpart, Mr. Davutoglu, *Greek Ministry of Foreign Affairs*, 08-03-2011. Retrieved Apr. 08, 2011. http://www.mfa.gr/www.mfa.gr/Articles/en-US/080311_AH1929.htm

the openness of world markets and EU's role as an "anchor" of political and economic changes to the two countries, Greece and Turkey - in the late 1990s early 2000s- became more liberalized market economies, with strong banking systems, and economic growth (Greece's entrance to EMU and the fact that today Turkey is the 15th biggest economy in the world in terms of size of national income is a indicative proof).

This moving from, state-centric, etatist economic policy making to liberalized market-oriented economies also helped foster economic cooperation between Greece and Turkey. Further the EU anchor and the Europeanization effect turned out to be a very effective mechanism in diminishing the political risk that would have not have been easily dismissed- only- by the efforts of national policymakers. The EU thus helped the democratization, assisted the development of solid and accountable institutions, and contributed to political and macroeconomic stability. Nevertheless, it should be point out that these activities would have been realized if it weren't also for the commitment that the two Foreign Ministers, Papandreou and Cem, showed. In retrospect, the encouragement of Greek-Turkish business relations was always- as it appears from our analysis- combined by political cooperation and initiatives.

Although, this chapter is not directly linked with our research question, indirectly is of high significance as it does not only offer a better understanding of the changes that the economies of the two countries underwent in order to reach to today's economic status of cooperation; but also it try's to show that our theoretical understanding of an interdependent world where the two states are not the only unit organizing and affecting their relationship is indeed valid, at list to an extent. Following our analysis it appears that the EU had a strong role both in the political and economic rapprochement among the two states. While at the same time the

contribution of the two business elite-after the post Helsinki era- in the procedure of Greek-Turkish cooperation as channels of communication should not be disregarded.

By analyzing the evolution of Greece and Turkish economy and their bilateral economic cooperation it was sought to demonstrate that the bilateral relations can be properly understood only in the framework of wider economic transformations, global economic variations, and political changes affecting domestic policies and structures. In that sense, economies can be subjected to global economic transformations like the global economic crisis that for example heavily affected the Greek economy and revealed its deficits. However, a simple analysis of their economies and their bilateral cooperation is not enough to prove our theoretical standpoint/question. Hence, in order to prove our theoretical understanding about economic cooperation and its presumably beneficial effects on the political realities we are going to explore, in the following chapter, some of the economic areas- trade, FDI, tourism and energy- that Greece and Turkey have developed cooperation.

Chapter 3

The bilateral Economic relations

3.1 Introduction

In this chapter we shall try to examine some of the economic areas that Greece and Turkey have developed cooperation and try to see if the gradual development of Greek-Turkish economic relations does indeed inform our theoretical standpoint/question of interdependence.

The purpose is to examine sectors that serve the purpose of this thesis, thus concentration is going to be given on fields that are obvious indicators of economic cooperation. Therefore, special reference will be given to the developments in areas like trade, foreign direct investment, tourism and energy. In that context, bilateral trade will offer us a better understanding of the level of economic integration and cooperation, while FDI flows are strong indicators of bilateral relations and political harmony, finally tourism and energy relate to more traditional notions of economic diplomacy.¹⁴⁷ For example energy and more specifically new pipelines is argued to be able to foster a more interdependent set of relations as they more difficult to break but also stakes of conflict.¹⁴⁸

In the final section of the chapter it will be tried to unite the economic with the political realities in an effort to explain the linkage between our theoretical approach and Greek-Turkish case.

¹⁴⁷ C. Papadopoulos., op. cit., pp. 12-28, D. Tsarouhas, op. cit., pp.44-47, and M. Kutlay, A political economy approach to the expansion of Turkish-Greek relations: Interdependence or not?, *Perceptions*, Spring-Summer 2009, pp. 97-104

¹⁴⁸ "Greece's New Strategic Environment", *RAND institution*, p. 12. Retrieved May 05, 2011. http://www.rand.org/content/dam/rand/pubs/monograph_reports/MR1393/MR1393.ch2.pdf,

3.2 Trade

Bilateral trade is one of the simplest forms of economic integration. And that is why after the 1999 developments and the beginning of the new *rapprochement* bilateral trade became a part of the Turkey-Greek relations' realities. For Turkish and Greek businessmen the rapprochement was seen as an opportunity for gains and market expansion. Particularly, the Turkish tradesmen saw an opening for business export in the country's most developed neighbor while on the other hand, Greek tradesmen saw in the Turkish market another road of trade diversification away from EU partners and possible difficulties that they may face in the competitive EU markets.¹⁴⁹

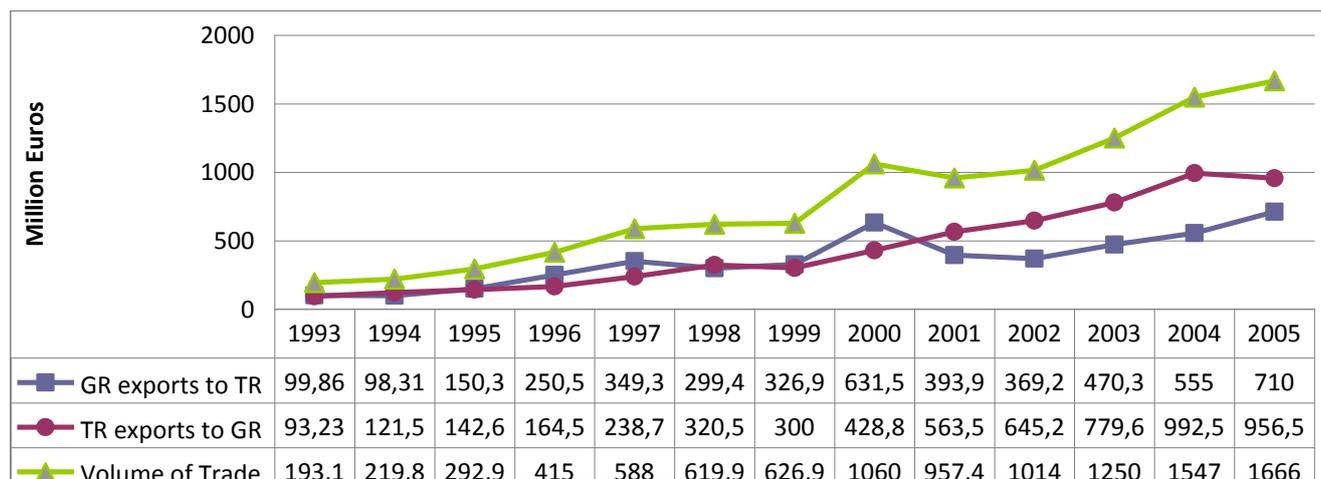
Trade was thus one of the economic sectors that were benefited from the improvement of bilateral relations. It should be stressed that- in the past- trade being influenced by the political tensions of the previous years was not able to flourish. In 1989 the total trade volume was approximately no more than \$220 million.¹⁵⁰ By 2000 it reached €1.060 billion in 2000, while in 2003 the two countries passed the limit of 1 billion by reaching 1.245 billion Euros.¹⁵¹ As one can see, the improvement in bilateral relations following the Helsinki summit in 1999 was also mirrored in the bilateral trade. Moving on in the same trend in the proceeding years the volume of the trade continued to increase (€ 1.547 in 2004 and € 1.666 billion in 2005) reaching finally in 2007 the amount of 3 billion Euros.¹⁵²

¹⁴⁹ D. Tsarouhas, op. cit., p. 45

¹⁵⁰ C. A. Papadopoulos, op. cit, p. 12

¹⁵¹ "Η εξέλιξη του διμερους εμπορίου Ελλάδος-Τουρκίας 1995-2007", [The developments of Greek and Turkish bilateral trade 1995-2007], *General Secretariat of International Economic Relations and Development Cooperation*, Office of Ankara, July 2008. Retrieved May 05, 2011. <http://www.agora.mfa.gr/frontoffice/portal.asp?cpage=NODE&cnode=7&xcc=tr&mid=111>,

¹⁵² Ibid.

Table 1. Trade volume between Greece and Turkey (Million €)¹⁵³

Source: Kotios A. and G. Petrakos, *The Industrial and Trade Structure of the Greek and Turkish Economies: Possibilities for Cooperation*. (Volos: University of Thessaly Discussion Papers, 2003).

The situation changed relatively in 2009 when due to the global economic crises¹⁵⁴ the trade volume decreased to 2.6 billion from 3.3 billion in 2008 (a percentage higher than 20%).¹⁵⁵ More particularly according to NSSG and the Pan-Hellenic exporters Association, Greek exports to Turkey were approximately €607, 3 million Euros in 2009, when in 2008 the Greek exports to Turkey were near €621.7 million, that means that we had a decrease of 2.3%.¹⁵⁶ A curious fact, however, is that although in 2010, Greece entered into a deep economic crisis the Greek exports to Turkey increased by reaching €858.3 million.¹⁵⁷ As it appears this has mainly to do with the booming global commodity prices. Chiefly due to higher world oil prices,

¹⁵³ Cited from: A. Couloumbis, A. Kentikelenis, "Greek-Turkish relations and Democratic peace theory", *Southeast European and Black Sea Studies*, Volume 7, Issue 4 December 2007, pp. 517 - 532

¹⁵⁴ Due to the International economic crises the international trade was heavily affected and experienced a decrease of 12% (the biggest decrease since the 1930s), Speech by K. Papadopoulou, "Προγραμματισμός Δράσεων Οικονομικής Διπλωματίας", [The organizing of Economic Diplomacy] *Ministry of Foreign Affairs*, 31/1/2011. Retrieved May 05, 2011. www.mfa.gr

¹⁵⁵ Dokos T, "Το Αλφαβητάριο των Ελληνοτουρκικών Σχέσεων" [An Overview of the Greek-Turkish relations], *ELIAMEP*, Working Paper, No. 11/2010 and Speech of Sp. Kouvelis, "Η σημασία της Ελληνοτουρκικής συνεργασίας στο πλαίσιο της εξωστρέφειας της Ελληνικής οικονομίας" [The importance of Greek-Turkish cooperation in the context of Greece's economic extraversion], *Greek-Turkish Business Forum*, 14.5.2010. Retrieved May 05, 2011. <http://www.agora.mfa.gr/frontoffice/portal.asp?cpage=NODE&cnode=1&clang=0>,

¹⁵⁶ Source the National Statistical Service of Greece. Retrieved May 05, 2011. <http://www.statistics.gr/portal/page/portal/ESYE>. And the Pan-Hellenic Exporters Association. Retrieved May 05, 2011. <http://www.pse.gr/en>

¹⁵⁷ Ibid.

foreign sales of petroleum products have experienced a 97 percent year-on-year rise.¹⁵⁸ Furthermore, cotton and corn led all agricultural exports in price rise.¹⁵⁹ Hence, this change in Greek exports to Turkey is mainly owned to the global price fluctuations of petroleum products and cotton, which are the major exported items from Greece.

However, for the same year 2010, according to the Turkish statistical institute (TurkStat) the Greek exports to Turkey reached \$1.541.600 billions -which is something more than €858.3 million- while imports from Turkey reached \$1.456.208 billions, hence 2010 was the first time that Greek exports were bigger than the Turkish one.¹⁶⁰ Greek export of goods, thus have noted an important- as it appears-average annual growth rate of approximately 30% (36.6% according to TurkStat¹⁶¹) making Turkey the 5th most important export accounting for 5.4% of the total Greek exports¹⁶² and 13th supplier of Greek market's good corresponding to 2.6% of the total imports.¹⁶³

¹⁵⁸ H. Papahristou, "Greek exports surge but don't pop the champagne", *Reuters*, 07/03/2011. Retrieved May 05, 2011. <http://uk.reuters.com/article/2011/03/07/uk-greece-exports-idUKLNE72601S20110307>,

¹⁵⁹ Devastating floods in Pakistan - one of the world's largest producers - and fears over this year's crop in China have sent cotton prices surging to 15-year highs in recent weeks. As it appears according to the latest figures cotton prices are up 54% year-on-year. Cotton seems to have had experienced a rise of 154% over 12 months, in 2010. "Soaring cotton prices put pressure on inflation", *The Independent*, 14/09/2010. Retrieved May 24, 2011. <http://www.independent.co.uk/news/business/news/soaring-cotton-prices-put-pressure-on-inflation-2078855.html>,

¹⁶⁰ TurkStat. Retrieved May 05, 2011. http://www.turkstat.gov.tr/PreTablo.do?tb_id=12&ust_id=4. It has to be noted that the total imports of the country were extremely decreased in 2010 (54.326 million Euros) especially in comparison with 2008 that the total imports accounted for 70.146mil. Euros and in 2009 that accounted for 57.095 million Euros. However this can be due to the fact that in Greece because of the economic crisis the public consumption (172.215 million Euros in 2010) has fallen significantly in contrast with the previous years (168.691 million Euros in 2009). The crisis has brought insecurity to the consumers- about the future stability and developments of the economy- and this along with the high rates of unemployment have been identified as the reasons for the fall of consumption and demand. "Further deterioration of economic climate in April in Greece - Fall in the consuming confidence", *The Foundation for economic & industrial research* (IOBE). Retrieved May 10, 2011. http://www.iobe.gr/media/engoik/IOBE_Greek_econ_01_11_en_final.pdf,

¹⁶¹ Ibid.

¹⁶² Source the National Statistical Service of Greece. Retrieved May 05, 2011. <http://www.statistics.gr/portal/page/portal/ESYE>

¹⁶³ C. A. Papadopoulos, op. cit., p. 13 and "Ελληνικές εξαγωγές στην Τουρκία" [Greek Exports to Turkey], *Turkish Greek News*. Retrieved May 05, 2011. <http://www.turkishgreeknews.org/>,

Table 2. Trade volume between Greece and Turkey (*Million \$*)¹⁶⁴

	2010	2009	2008	2007	2006
GR imports from TR	1 456 208	1 629 637	2 429 967	2 262 655	1 602 590
GR exports to TR	1 541 600	1 131 066	1 150 715	950 157	1 045 328

From the other hand Turkish exports to Greece have recorded a negative average change of -10.64% which doesn't represent a big share of total Turkish exports making Greece the 25 most important exporting market for Turkish products.¹⁶⁵ Thus although Turkey has become an important trade partner for Greece, the latter has not managed to acquire the same important position for its partner as it appears from the data.

Moreover, the difference in Greek imports which were -until 2009- higher in value than the exports created a deficit problem in the trade balance that exceeded the 1 billion Euros in 2007.¹⁶⁶ These facts according to the “relative gains”¹⁶⁷ point of view can constitute a problem as Turkey's market is of a greater significance for Greek exports than Greece's for Turkish exports. This can cause further dependence on Turkey that can be translated into state power; hence according to economic

¹⁶⁴ Data offered to the author by the by the Economic Office of the Greek Consulate in Istanbul.

Retrieved May 13, 2011. The Table is made by the author itself and it is in accord with the data offered by the Greek consulate and the Turkish statistical institute, TurkStat.

¹⁶⁵ TurkStat, retrieved May 05, 2011. http://www.turkstat.gov.tr/PreTablo.do?tb_id=12&ust_id=4,

¹⁶⁶ “Η εξέλιξη του Ελληνικού διμερούς εμπορίου Ελλάδος-Τουρκίας 1995-2007”, [The developments of Greek and Turkish bilateral trade 1995-2007], General Secretariat of International Economic Relations and Development Cooperation, Office of Ankara, July 2008. Retrieved May 05, 2011. <http://www.agora.mfa.gr/frontoffice/portal.asp?cpage=NODE&cnode=7&xcc=tr&mid=111>,

¹⁶⁷ According to some scholars, the obstacles can be traced to the concern by national policymakers that even if all states gain from cooperation (an increase in absolute gains) some will do so more than others thereby enhancing their power. Thus, states are primarily concerned with the distribution of gains from cooperation (or relative gains).

nationalists and Marxists these asymmetries in trade become a source of power of the strong over the weak. In the case of Greece and Turkey, however, is quite difficult to see what that means as their trade relations are not that sophisticated.

Table 3. Greater Exporting Countries for Turkey in 2010 (*million \$*)¹⁶⁸

2010		Toplam - Total	113 979 452
	1	Almanya	11 486 808
	2	İngiltere	7 238 433
	3	İtalya	6 508 644
	4	Fransa	6 055 125
	5	Irak	6 041 861
	6	Rusya Federasyonu	4 631 496
	7	A.B.D.	3 770 780
	8	İspanya	3 563 472
	9	B.A.E.	3 337 660
	10	Iran	3 043 426
	11	Romanya	2 599 020
	12	Hollanda	2 462 185
	13	Mısır	2 260 755
	14	Çin	2 259 785
	15	Suudi Arabistan	2 219 407
	16	İsrail	2 082 970
	17	İsviçre	2 057 083
	18	Belçika	1 961 202
	19	Libya	1 934 791
	20	Suriye	1 848 784
		
	25	Yunanistan	1 456 208

¹⁶⁸ Information offered to the author by the Economic Office of the Greek Consulate in Istanbul. Retrieved May 13, 2011.

Also Greece's exporting products to Turkey have tended to be restricted on specific sectors, like raw cotton (61%) petroleum products (12%) and plastic which as it appears are affected by global price fluctuations.¹⁶⁹ While on the other side Turkish exports to Greece diversified entailing thus a more extended variety of industrial products that have a greater value-added component.¹⁷⁰ Turkey's major export items to Greece are iron-steel, clothing, fabric, fruits and vegetable, fish, machinery, leather, glass, ceramics, and electrical sound equipment.¹⁷¹

This concentration of exports that Greece is presenting makes Greek exports to Turkey- according to Papadopoulos- more vulnerable as their characterized by limited diversity and variety. Further, one more vulnerability is that products like cotton and petroleum can be affected by third factors, like global price fluctuations.¹⁷² On the other hand Turkish exports are more stable due to their diversity.¹⁷³ Thus in order for Greece to deal with the growing trade deficit between the two states and the "political fallout" that this deficit may cause, she has to focus more on qualitative and diversified products (higher value/higher technology) exports to Turkey.¹⁷⁴ Therefore, a more consistent with actual world demand and supply conditions line of production

¹⁶⁹ Data for 2009 cited from the Turkish Ministry of Foreign Affairs. Retrieved May 08, 2011. http://www.mfa.gov.tr/turkey_s-commercial-and-economic-relations-with-greece.en.mfa and "Greece-Turkey: bilateral business, trade, tourism and investment relations", *Invest in Greece*. Retrieved May 08, 2011 <http://www.invgr.com/invgt.htm>,

¹⁷⁰ D. Tsarouhas, op. cit., 39-57

¹⁷¹ Data for 2009 cited from the Turkish Ministry of Foreign Affairs. Retrieved May 08, 2011. http://www.mfa.gov.tr/turkey_s-commercial-and-economic-relations-with-greece.en.mfa and Greece-"Turkey: bilateral business, trade, tourism and investment relations", *Invest in Greece*. Retrieved May 08, 2011. <http://www.invgr.com/invgt.htm>,

¹⁷² For example cotton is a water friendly product in a generally dry country thus its production and the cost of it can be highly affected. A good example is the one mention about the devastating floods in Pakistan which limited the world production of cotton and thus skyrocket the world price of cotton.

¹⁷³ C. A. Papadopoulos, op. cit., pp. 14-15

¹⁷⁴ D. Chalepidis, "Trade and Investment Relations between Greece and Turkey", Counsellor, Economic and Commercial Affairs, Consulate General of Greece, İstanbul, *TURKTRADE*. Retrieved May 05, 2011 [.http://www.turktrade.org.tr/tr/article/b05c8dd3-fbe6-4251-819a-901e794e7b9a/trade-and-investment-relations-between-greece-and-turkey.aspx](http://www.turktrade.org.tr/tr/article/b05c8dd3-fbe6-4251-819a-901e794e7b9a/trade-and-investment-relations-between-greece-and-turkey.aspx), and C. A. Papadopoulos, op. cit., pp. 14-15

is needed, especially in the case of Greece.¹⁷⁵ These are issues that would be preferably to be addressed if the bilateral trade is to reach one day its full potential and the goal of 5 billion Euros set by the two countries.¹⁷⁶ As long as these problems remain unaddressed and bilateral trade cannot even reach an economic goal -of 5 billion Euros- set years ago then it is quite a matter of theoretical speculation if their economic cooperation and particularly their trade sophistication can have pacific effects on political relations.

3.3 Foreign Direct investment and joined ventures

Foreign Direct investment (FDI) despite the fact that it is one of the most obvious indicators of economic integration it also reveals much about the level of bilateral relations between states.¹⁷⁷ What FDI inflows actually show is the investor's confidence in the potential economic profits on the host country and further how comfortable the former feel with the legal and financial framework of the host country.¹⁷⁸ From the states side attracting FDI inflows is of significant importance as the latter play a major role in the economic growth of the country.¹⁷⁹

In the case of Greece and Turkey, FDI used to be extremely low until lately¹⁸⁰, the reconciliation process however between the two states had a spectacular spill over

¹⁷⁵ Turkey seems better positioned as far as the bilateral trade is concerned as its exports to Greece are in a large percent classified as industrial. Ibid and C. A. Papadopoulos, op. cit., p. 16.

¹⁷⁶ Prime Minister Recep Tayyip Erdoğan, in Athens in 2004 seem to have said: "We can soon raise this to EUR 5 billion," cited from "Greece-Turkey: bilateral business, trade, tourism and investment relations", Invest in Greece. Retrieved May 08, 2011. <http://www.inv.gr/invgt.ht>, Two years later the same declaration was made Thessaloniki on 4 May 2006, when Prime Ministers Erdoğan and Karamanlis agreed to more than double bilateral trade from the then current \$2bn to \$5bn. Cited from C. A. Papadopoulos, op. cit., p. 14

¹⁷⁷ M. Kutlay, op. cit., p. 102, C.A. Papadopoulos, op. cit., p. 28 and D. Tsarouhas, op. cit., p. 44

¹⁷⁸ P. Pantelidis, E. Nikolopoulos, "FDI attractiveness in Greece", International Advances in Economic Research, February 2008. Retrieved May 08, 2011. <file:///C:/Users/%CE%95%CE%B9%CF%81%CE%AE%CE%BD%CE%B7/Desktop/GREECES%20FDI%20ATTRACT..html>

¹⁷⁹ "Foreign Direct Investment Policy", *Economy Watch*. Retrieved May 08, 2011. <http://www.economywatch.com/policywatch/fdi-policy.htm>,

¹⁸⁰ An indicative example is the fact that FDI inflow from Greece to Turkey was merely \$54 million between 1980 and 2000. M. Kutlay, op. cit., p. 103

effect on the FDI flows which flourished in the past few years.¹⁸¹ From Greece's side, Turkey offers great opportunities for investments as an outcome of its impressive macroeconomic progress (see more on chapter 2), its large domestic market (78,785,548 people according to CIA's data from 2011¹⁸²), and most importantly its geographical proximity and its affiliation with the countries of Caucasus and Central Asia. These even bigger markets are set as primary target-markets from the Greek state.¹⁸³ All these, along with the EU candidacy status and opening of accession negotiations with the EU seemed pretty attractive for further cooperation in the eyes of the Greek entrepreneurs.¹⁸⁴ EU's commitment helps to reinforce positive perceptions and suitability of the country as investment location.¹⁸⁵ EU through the conditionality policy presses for changes both in the political, democratic and economic realities of the country and thus helps the creation of conditions of political credibility and security which are necessary- as we saw – for investment attractiveness. An indicative factor of EU's role could be that following EU's decision to start negotiations with Turkey as of October 2005- along with the rapid recovery in the Turkish economy in the past years- appeared to really have helped Turkey to attract the attention of potential investors.¹⁸⁶ This attraction of investors was translated in 2006 in a total

¹⁸¹ I. N. Grigoriadis, "Greek and Cypriot views of Turkey's Accession to the European Union: On the endurance of a spectacular paradigmatic shift", in M. Müftüler-Bac and Yannis A. Stivachtis (eds.), *Turkey and the European Union: Dilemmas, Constraints and Opportunities* (Lanham MD: Lexington Books, 2008), pp. 151-167

¹⁸² Central Intelligence Agency (CIA), Country's Profile. Retrieved May 24, 2011. <https://www.cia.gov/library/publications/the-world-factbook/geos/tu.html>,

¹⁸³ "Economic Policy; Goals and Targets", Greek MFA. Retrieved May 05, 2011. <http://www.mfa.gr/www.mfa.gr/el-GR/Financial+Policy/Priorities+and+Aims/>, P. Koutsikos, "Greek Investments in Turkey", *Athens Chamber of Commerce and Industry*. Retrieved May 08, 2011. http://www.acci.gr/trade/No26/TRADE_4_7.pdf,

¹⁸⁴ Ibid.

¹⁸⁵ A. Bevan, S. Estrin, "The impact of EU accession prospects on FDI inflows on Central and eastern Europe" *Centre for New and Emerging Markets*, London Business School and Heather Grabbe, Centre for European Reform, June 2001

¹⁸⁶ V. Demianova, "EU FDI in Croatia and Turkey", *Eurostat*, 68/2008. Retrieved May 24, 2011. http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-08-068/EN/KS-SF-08-068-EN.PDF

number of FDI of \$20.223 millions, (the highest point of Turkey's FDI).¹⁸⁷ Greece role in this rise of FDI figures was of major significance as it going to be shown.

From Turkey's side, Greece offers a transit corridor to the European market and a "profitable opportunity for the initiation of EU-funded projects", a fact that constitutes an advantage for the Turkish investors.¹⁸⁸ However, a number of serious problems, like the bad macroeconomic performance of Greece, the weak incentive policies of the country and general the structure of Greek economy have been negative factors for investments and have led Turkish investors to invest in other transit countries like Bulgaria and Romania that are also EU members.¹⁸⁹

As Turkish market is bigger and offers better opportunities for investments, in comparison with the Greek one, we will notice that Greek companies have invest much more in the Turkish market than the opposite. Like in the case of trade, bilateral agreements -on a political level- like the Mutual Protection and Promotion of Investment signed in 2001 have helped and reinforce the acceleration of investment plans. Form Turkish side, in December 2005 four Turkish firms –Koton, Ipekyol, Macka, and Inci- specializing in clothing and footwear entered the Greek market by opening few retail outlets in Greece, joining about six more Turkish firms which were already active on the country. Therefore, as it maybe expected Turkish direct investments in Greece were not of a huge significance as they didn't even exceed \$2.5

¹⁸⁷UNCTAD Report. Retrieved Jun. 03, 2011. <http://unctadstat.unctad.org/TableViewer/tableView.aspx>,

¹⁸⁸ D. Tsarouhas, op. cit., p. 46

¹⁸⁹ P. Pantelidis, E. Nikolopoulos, , "FDI attractiveness in Greece", International Advances in Economic Research, February 2008. Retrieved May 08, 2011. <file:///C:/Users/%CE%95%CE%B9%CF%81%CE%AE%CE%BD%CE%B7/Desktop/GREECES%20FDI%20ATTRACT..html>. "Investment by Turkey in Bulgaria and Romania represented 11% of the total EU-27 inward stocks from Turkey in 2004, falling to 4% in 2006. During the period 2004 – 2006, Turkey invested especially in neighbouring countries, such as Bulgaria, Romania and Malta within the EU." V. Demianova, "EU FDI in Croatia and Turkey", *Eurostat*, 68/2008. Retrieved May 24, 2011. http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-08-068/EN/KS-SF-08-068-EN.PDF

million.¹⁹⁰ Turkish investors did not significantly invest in Greece, and that may be partly, owned to Greece's general low attractiveness of FDI inflows.

Despite being a member of the EU and the Eurozone Greece has a long problem of attracting FDI. According to the Report of World Investments 2010 that was present in the United Nations Conference on Trade and Growth (UNCTAD), the total number of FDI in Greece decreased to \$3.355 millions in 2009 from \$4.499 millions in 2008.¹⁹¹ Compared, thus, with 2008, FDI into Greece showed a 25% decrease as a consequence of the international crisis.¹⁹² The weakness of Greece to attract FDI becomes even clearer if one compares its total FDI numbers with other EU members. For example, Poland which is one of the new member states (2004) has a total number of FDI is \$11.395 millions in 2009.¹⁹³ Even Cyprus which a not only considerable small country and thus market had a total FDI number of \$5.797 millions.¹⁹⁴

This is partly due to the general structure of Greece's economy; the small size of the market (11,171,740 consumers¹⁹⁵), the continuing changing tax regime,¹⁹⁶ the inability to offer significant investment incentives and today the economic crisis that has almost bring the country to brink of bankruptcy, do not constitute the ideal environment for foreign investments. As we mentioned above investors seek for economic prospects in relatively steady and trustworthy environments therefore Greece is not seen as the land of opportunities and profits. Furthermore the political

¹⁹⁰ C. A. Papadopoulos, op. cit., p 28

¹⁹¹ “Μείωση 25% στις άμεσες ξένες επενδύσεις στην Ελλάδα το 2009”, [Reduction 25% in the direct foreigner investments in Greece in 2009], *Isotimia*, 23-07-2010. Retrieved Jun. 03, 2011. <http://www.isotimia.gr/default.asp?pid=24&ct=3&artid=85837>,

¹⁹² Ibid, and Invest in Greece, retrieved May 05, 2011. <http://www.investingreece.gov.gr/default.asp?pid=21&la=1>

¹⁹³ UNCTAD Report. Retrieved Jun. 03, 2011. <http://unctadstat.unctad.org/TableViewer/tableView.aspx>,

¹⁹⁴ Ibid.

¹⁹⁵ Invest in Greece, retrieved May 05, 2011. <http://www.investingreece.gov.gr/default.asp?pid=52&la=1>,

¹⁹⁶ Ibid.

instability of the last years may have also played a contributing part to this situation. In the last seven years Greece has not only experienced three election rounds but also in the last three years extensive riots and protests have troubled the country and thus worsen its attractiveness in terms of FDI inflows.¹⁹⁷

Moreover another problem that foreign investors face is the heavy bureaucracy that characterizes Greece.¹⁹⁸ Non-EU citizens -including Turkish businessmen- have been really troubled by the visa and work permit regimes. Trying to facilitate the situation the Greek state in 2005 adopted a new law in order to change the conditions for the acceptance of non-EU investors and managerial staff of foreign companies. Yet, the law made clear that these special provisions would apply only in the case of companies that plan to invest a minimum of €300,000 within a year.¹⁹⁹ However, these kinds of restrictions are not particularly welcomed by investors as they seem restrictive and that is how they were perceived by Turkish investors as well.²⁰⁰ Therefore, it can be argued that the general macroeconomic condition of Greece is not the desired one by the foreign investors.

Turkey on the other hand, after the 2001 economic crisis, developed -as it appears- successful policies in an effort to attract foreign investments and a key component in these policies was the Law on foreign direct investment (in 2003) that played an important role in improving investment conditions and creating important investment incentives that led to a significant increase in FDI inflows (see sub-chapter

¹⁹⁷ P. Pantelidis, E. Nikolopoulos, "FDI attractiveness in Greece", *International Advances in Economic Research*, February 2008. Retrieved May 08, 2011. <file:///C:/Users/%CE%95%CE%B9%CF%81%CE%AE%CE%BD%CE%B7/Desktop/GREECES%20FDI%20ATTRACT..html>

¹⁹⁸ Foreign direct investment (FDI) inflows to Greece have dropped, and efforts to revive them have been only partially successful as a result of declining competitiveness and a high level of red tape and bureaucracy. US Department of State, "Greece's profile". Retrieved Apr. 08, 2011. <http://www.state.gov/r/pa/ei/bgn/3395.htm>,

¹⁹⁹ C.A. Papadopoulos, op. cit., p. 29, D. Tsarouhas, op. cit., p. 48

²⁰⁰ The above conclusion is cited from C. Papadopoulos's research and his personal interview with the head of the Economic and Commercial Section of the Turkish Embassy in Athens in May 2006, C. Papadopoulos, op. cit., p. 29

2.3). It was in line with these developments that the Greek businessmen reach opportunities for investments in the neighbouring country.

Until today approximately 173 Greek firms are doing business in Turkey.²⁰¹ However the most important of these investments was by far the acquisition of Finansbank by the National Bank of Greece (NGB)²⁰² that reached a final level of 2.77 billion dollars for a controlling stake of 46% (become 94% in 2008) of Finansbank.²⁰³ According to the official announcement of the acquisition made by the NGB and Finansbank the deal will help NGB to built up on its regional strategy in Southeastern Europe (SEE) by “diversifying its operations and enlarging its footprint to cover a region with attractive economic prospects. The combination with Finansbank will create the leading banking group in the dynamic economies of SEE, with a presence in six countries in the region outside Greece.”²⁰⁴ Furthermore the deal integrated NGB to Turkish economic and political developments. The acquisition, except from the fact that constituted the biggest Greek investment in Turkey until then- as its total cost was approximately \$5 billion- it was also a “manifestation” of the extent to which the rapprochement process had affected the Greek-Turkish economic relations.²⁰⁵ The acquisition is indeed a more of a proof that improvement in political relations can affect economic relations and bring in its wake an increase in economic cooperation, than vice versa. The above investment along with Eurobank’s acquisition and Greek investments in other fields of the Turkish market- examined

²⁰¹ Information offered to the author by the Economic Office of the Greek Consulate in Istanbul. Retrieved May 13, 2011

²⁰² NGB is the biggest bank in Greece and Finansbank the 8th largest bank with a share of about 3.3%. C.A. Papadopoulos, op. cit., p. 30 [footnote 120]

²⁰³ “National Bank of Greece and Finansbank: the deal”, *The Bridge*. Retrieved May 08, 2011. http://www.bridgemag.com/magazine/index.php?option=com_content&task=view&id=21&Itemid=37,

²⁰⁴ “NGB agrees to acquire a controlling shareholding in Finansbank and intends to undertake a rights offering to finance part of the acquisition”, The joint Announcement of NGB and Finansbank. Retrieved May 08, 2011. <http://www.nbg.gr/wps/wcm/connect/d3318d8048da02c2b529bdcdfc0d024f/NBGFinansbank.pdf?MOD=AJPERES&CACHEID=d3318d8048da02c2b529bdcdfc0d024f>

²⁰⁵ Tsarouhas, op. cit. p. 47

later on- led to Greece's account as the 5th of Turkey's 2006 total FDI inflows and the 1st of the EU-27 FDI flows.²⁰⁶

This development gave a push to other Greek banks that wanted to seize similar opportunities. Eurobank's²⁰⁷ decision to buy out Tekfenbank²⁰⁸, on May 2006, was realized in this framework although it wasn't of the same size and significance as the NGB investment. Eurobank announced that it had agreed to acquire a 70% stake of Tekfenbank for \$185 million.²⁰⁹ Greek Alpha Bank also sought to proceed with an agreement with Turkey's Anadolu Group in an effort to create a new holding company that would include the Turkish Alternatif Bank. Both sides would create a common holding company, participating by 50% respectively and therefore paying only the half of the deals cost that was priced in \$492,5 million.²¹⁰ The transaction was unsuccessfully terminated in October 2007 in accordance with a decision made by Turkish Banking Regulation and Supervision Agency (BDDK). However no official explanation was given from the regulators. The paradox was that the same year two Greek and one Turkish bank had already entered the Turkish market and the Greek market respectively therefore it was fully expected Turkey's authorities to bless the deal. According to certain Greek-Turkish and International media the rejection was because of national security, since one of Alpha's board members was a former

²⁰⁶ Tsarouhas, op. cit. p. 47, I. Grigoriadis, op. cit., pp. 151-167 and V. Demianova, "EU FDI in Croatia and Turkey", *Eurostat*, 68/2008. Retrieved May 24, 2011. http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-08-068/EN/KS-SF-08-068-EN.PDF,

²⁰⁷ Eurobank EFG is the third-largest Greek banking group and National Bank of Greece SA and Alpha Bank SA are the largest and second-largest, respectively. Cited from "Greece-Turkey: bilateral business, trade, tourism and investment relations", *INVgr*. Retrieved May 08, 2011. <http://www.invgr.com/invgt.htm>,

²⁰⁸ Tekfenbank is a universal bank that provides a complete range of banking products and services in Turkey. The bank has an efficient and selective network of 30 branches in the country. Cited from "Greece-Turkey: bilateral business, trade, tourism and investment relations", *INVgr*. Retrieved May 08, 2011. <http://www.invgr.com/invgt.htm>

²⁰⁹ "Η Εμπορική εξαγοράζει το 70% της Tekfenbank", [Eurobank is buying out 70% of Tekfenbank], *Capital*, 08-05-2006. Retrieved May 08, 2011. <http://www.capital.gr/NewsPrint.asp?id=73078> and "Η Εμπορική εξαγοράζει την Tekfenbank" [Eurobank is buying out Tekfenbank], *Ethnos*, 09-05-2006., Retrieved May 08, 2011. <http://www.ethnos.gr/article.asp?catid=11379&subid=2&pubid=42524>

²¹⁰ "Alpha bank expands in Turkey", Press Release, *HEMSCOTT*, 23-11-2006. Retrieved May 08, 2011. <http://www.hemscott.com/news/static/rna/item.do?newsId=37628208519295>,

chief of Greece's national intelligence service (EYP).²¹¹ A part of the press also raised questions and doubts as whether Turkish authorities were eager and willing to accept so soon a third acquisition by a Greek bank.²¹²

Another development in the banking area was the entrance of Turkey's state owned agricultural bank, Ziraat Bankasi,²¹³ in the Greek market. In July 2007 the Bank of Greece approved the opening of two bank branches in Greece one in Athens and the other in Komotini (today there is one more branch in Xanthi as well).²¹⁴ Pointing out the recent developments in the banking sector between the two states Ziraat officials stated that, "Our goal is to contribute to trade relations between the two countries and hold a better share in the growing trade market." Further it was said that "Ziraat Bank will use its position to introduce Turkey and its businesses abroad to the Greek business and finance sector."²¹⁵ However, today Ziraat's relations with Greek state are experiencing some ups and downs as the former has been accused in the Greek Parliament by Greek deputies that "the Bank intended to coax Greek landowners to sell their lands to the bank in return for attractive loans with relatively low interest rates. While, others claimed that the bank wanted to take control of the

²¹¹ "Mixed signals: A bad time to scare off foreign investors", *Economist*, 06-03-2008 and E. Baysal, "Oyakbank satisina onay MIT'ten gelecek "mayin" raporuna bagli", *Zaman*, 15-08-2007. Retrieved June 03, 2011. <http://www.zaman.com.tr/haber.do?haberno=576333&keyfield=416C70686162616E6B>, and "Yunan ajan, teskilatini sikayet etti", *Hurriyet*, 13-09-2007. Retrieved June 03, 2011. <http://hurarsiv.hurriyet.com.tr/goster/ShowNew.aspx?id=7277451>

²¹² According to the *Economist* "another possibility is that with around 40% of Turkish banks and 70% of the stock market in foreign hands, there is growing resentment towards anyone from abroad. Either way it's a bad time for economic nationalism." "Mixed signals: A bad time to scare off foreign investors", *Economist*, 06-03-2008 and "Alpha: Από κοινοῦ με Anadolu για Alternatif Bank", [Alpha: Cooperating with Anadolu for Alternatif Bank], *Euro2day*, 08/08/07, available at: <http://www.euro2day.gr/news/enterprises/122/articles/136210/Article.aspx> and "Greece-Turkey: bilateral business, trade, tourism and investment relations", *INVgr*. Retrieved May 05, 2011. <http://www.invgr.com/invgt.htm>

²¹³ Ziraat Bank is Turkey's biggest state-run bank.

²¹⁴ Ziraat expects to attract Turkish expats living in the country, particularly in Western Thrace, home to a relatively large Turkish population.

²¹⁵ "Turkish Ziraat Bank to open in Greece", *Turkish Weekly*, 21-07-2007. Retrieved May 08, 2011. <http://www.turkishweekly.net/news/46981/turkish-ziraat-bank-to-open-in-greece.html>,

country's sugar production industry.”²¹⁶ These claims really frustrated Can Akın Çağlar, the general manager of Turkey's Ziraat Bank how seem to stated in an interview to Today's Zaman that, “Looking at what is happening in Greece today, Greek deputies are putting further pressure on us by bringing new accusations and claims concerning Ziraat to the Greek Parliament.” Çağlar further said that he doubts “if the Greek authorities would show the same understanding as in Turkey if Ziraat Bank planned to acquire a bank in Greece.”²¹⁷

In both countries, in generally the acquisitions both from the political elite of the countries and the public²¹⁸ were welcomed and seen as positive developments. From the Turkish side the Greek investments were seen as good as any as it was in these years that the Turkish economy had to build up its defences against new macroeconomic shocks, boost its performance and support its reputation internationally and one way to achieve the above to become an attractive destination for foreign capital.²¹⁹ Of course there were some doubts about the huge amounts at stake mainly raised by the opposition party PASOK that claimed that the future of the

²¹⁶ “Ziraat discouraged by criticism in the Greek Parliament”, *Today's Zaman*, 05-04-2011. Retrieved May 08, 2011. <http://www.todayszaman.com/news-240172-ziraat-discouraged-by-criticism-in-greek-parliament.html>,

²¹⁷ Ibid.

²¹⁸ A research was conducted regarding the acquisition of Finansbank from the NGB by the Greek company Kapa Research on the behalf of the Greek newspaper ‘To Vima’. The research took place on April 5th and 6th 2006 in Athens and Istanbul in approximately the same number of Greek and Turkish households. The results of the research indicated that both Greek and Turkish public opinion welcomed the deal of NGB with Finansbank. In particular, in the question ‘The NGB proceeded to the acquisition of the Turkish bank Finansbank. How do you assess this decision of the NGB?’ 73.4% of the Greek public and 64.1% of the Turkish public answered positively. Moving on the same pattern in the question ‘Should the government's follow the cooperation example between the two banks and reduce the tension between the two countries as well as the defence expenditures?’ The Greek responders replied ‘yes’ to a 73.4% and the Turks to an 80.8%. An interesting fact of the survey was the fact that although Greeks were positive to the fact that a Greek bank bought a Turkish one and wish for other companies to enter this Greek Turkish economic cooperation, they did not see with a positive eye the chance of Turkish companies buying out Greek ones. More specifically, the 68.2% would express negative feelings if the bank in which he/she is client was of Turkish interests¹⁷⁹. On the other hand, the Turkish public seems to be more open and less nationalistic in there response to the same questions. Cited from C. A.Papadopoulos, op. cit., p. 31

²¹⁹ C. A. Papdopoulos, op. cit., p. 31

bank and thus people's savings were at risk.²²⁰ From Turkey's side, according to Turkish press, the Army had withdrawn a sum of about €3m from Finansbank, declaring their disagreement for the deal. Yet, these were only allegations that were not confirmed.²²¹

Except from the banking sector the two states have been involved in a variety of investments and joint ventures. An important development was the successful partnership of a Turkish–Greek construction consortium, Turkey's ENKA and Greece's AKTO ATE, in delivering the first phase of Blue City, an estimated €20 billion project 100 km from Oman's capital.²²² The contract was effective as of 2006, and the works are scheduled to be completed by the end of 2014.²²³ Other important investments are also; The successful joint venture of TURKCELL and INTELTEK, a company of the Greek INTRALOT Group one of the worlds biggest gambling services providers, to runs the local popular game IDDAA since 2004 and for ten years.²²⁴ Nireus, a Greek leading producing company in the area of sea bream and sea bass worldwide, has been also active in the Turkish market by acquiring the Turkish company IKLNAK A.S in 2006.²²⁵ Furthermore, METKA has signed 2 energy projects- that comprise the supply of the majority of equipment and construction works for a natural gas fired power plant- of a total power 1.645MW at Denizli and

²²⁰ Ibid.

²²¹ Ibid.

²²² Blue City Project, ENKA., Retrieved May 08, 2011.

<http://www.enka.com/Enka.aspx?MainID=67&ContentID=274&SubID=207&ReferenceID=223>

²²³ Ibid.

²²⁴ S. Kokkalis, "Greece benefits from Turkey's political stability and economic development"., Speech by S. Kokkalis the Chairman & CEO of INTRACOM HOLDINGS Group and Chairman of INTRALOT Group, 28-11-2006. Retrieved May 08, 2011. <http://www.intracombg.com/news.php?n=125>

²²⁵ "Εσπευσαν να πάρουν θέσεις οι ελληνικές επιχειρήσεις", [Greek companies jumped at the chance in Turkey] *Eleutherotipia*, 16/04/2006. Retrieved May 08, 2001. http://www.enet.gr/online/online_text/c=114,id=37957996

Samsun and of total budget 925 million Euros.²²⁶ This makes METKA the biggest Greek Company exporting today in Turkey.²²⁷ In addition, there have been also cases of joint ventures that haven't manage to take off, such as the "Aegean Business Bank" initiated by Greek-Turkish Chamber of Commerce's in 2005.²²⁸ Today, the intensity of investment is not the same as no investments of the same or even close to the magnitude of NGB-Finasbank acquisition have been made. However, this could be owned to a general considerable slow of inflows in light of continuing economic turmoil in Greece and Europe, the source of much of Turkey's FDI.²²⁹

3.4 Tourism

Tourism is another field of cooperation that was developed after the initiation of the rapprochement process. Tourism is one of the most important and a dynamic industry in both countries as it is a significant source of every year's gross domestic product.²³⁰

²²⁶ Cited from the official site of METKA. Retrieved May 08, 2011.

http://www.metka.gr/default.asp?siteID=2&pageid=159&tablepageid=170&langid=1&f_sector_categoryArr1=1&f_sector_categoryArr2=1&f_status=2&f_sector_category=1&x=8&y=10, and "Απόβαση των Τούρκων επιχειρηματιών στην Αθηνά", [The landing of Turkish businessmen in Athens], *Capital*, 30-04-2010. Retrieved May 08, 2011. <http://www.capital.gr/news.asp?id=958241>

²²⁷ Ibid.

²²⁸ The Greek-Turkish Bank would be established with the participation both of "Greek and Turkish Investors in cooperation with the Chambers of Bodrum, Aliaga and Pergam with Participial Capital shaped in 100 million Euros. The Bank is estimated to have forty (40) branches in Greece and Turkey targeting the accommodation of Greek and Turks Businessmen." *Greek-Turkish Chamber of Commerce*. Retrieved May 08, 2011. <http://www.eteer.gr/>

²²⁹ The total number of FDI in 2009 had a downward trend as it decreased to \$7.611 millions from \$18.148 millions in 2008. *UNCTAD Report*. Retrieved June 03, 2011. <http://unctadstat.unctad.org/TableViewer/tableView.aspx> and CIA, Country's Profile. Retrieved May 24, 2011. <https://www.cia.gov/library/publications/the-world-factbook/geos/tu.html>

²³⁰ For example Greece is one of the world's top 20 tourist destinations attracting about 15 million visitors each year. According to various data the tourism sector accounts about 15% and 18% of GDP and almost one to five jobs. While according to the Turkish Statistics Institute [TurkStat], Turkey's tourism revenues rose above \$25 billion in 2010. Cited form: "Greek tourism arrivals seen rising at least 10% in 2011", *NASDAQ*, 28-04-2011. Retrieved May 08, 2011. <http://www.nasdaq.com/asp/stock-market-news-story.aspx?storyid=201104280855dowjonesdjonline000515&title=greek-tourist-arrivals-seen-rising-at-least-10in-2011union> and Y. Ercan, "Turkish tourism may benefit from turmoil on the Arab world, *Sunday's Zaman*, 14 April 2011. Retrieved May 05, 2011. http://www.sundayszaman.com/sunday/newsDetail_getNewsById.action?newsId=240963,

However, except from the economic benefits and the effect that tourism can have on economic bilateral relations, tourism can also result on a better understanding of the two countries people, history, and culture as it accommodates direct and personal experiences.

The framework for bilateral tourism cooperation is determined by a cooperation agreement that was signed in 2001. The main aim of this agreement was the development and promotion of tourism between the two states not only for Greeks and Turks but also for foreign visitors who want to visit both countries. Moreover the agreement also provided for the cooperation between cooperation's, and organizations that are active on the tourism sector such as the Hellenic Association of Travel and Tourist Agencies (HATTA) and the Association of Turkish Travel Agencies (TURSAB).

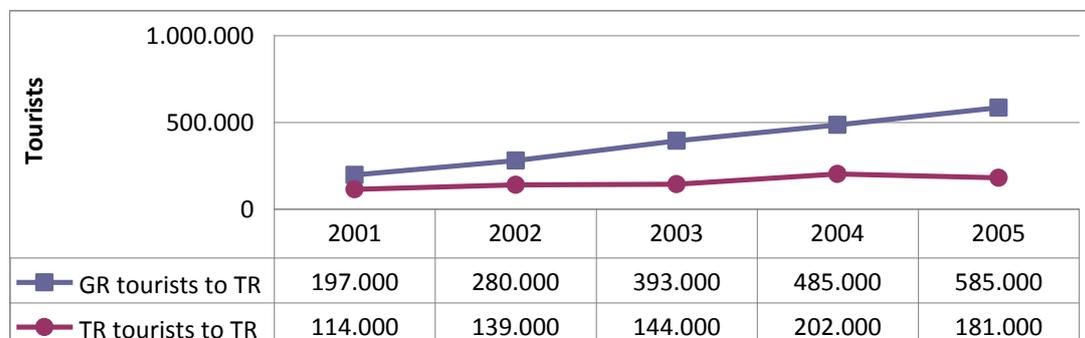
According to the tourism data Greeks, continuing with the patterns above, tend to visit Turkey far more than Turks visit Greece. Greek tourists constitute one of the most important groups visiting Turkey. For example, while in 1999 only 146.000 people visited Turkey in 2005 this number increased to 585.000 people. Hence, Greek visitors were placed in the 8th position of total visitors.

The situation continues in the same pattern as according to more recent data from the Ministry of Tourism and Culture and the Association of Greek Tourism Enterprises (SETE) while 616.489 Greek's visited Turkey only 200.348 Turks visited Greece.²³¹ Thus as one can easily observe the number of Turks visiting Greece is significantly smaller. That is partly owned to the fact that Turks have to face the strict

²³¹ Data cited from the official site of SETE. Retrieved May 08, 2011. <http://www.sete.gr/default.php?pname=EllinikosTourismos&la=1>, and data cited from Ministry of Tourism and Culture. Retrieved May 08, 2001. <http://www.kultur.gov.tr/EN/belge/2-27503/number-of-arriving-departing-foreigners-and-citizens.html>,

EU visa policy. Turkish side has repeatedly put pressures on this matter by requesting one or two-day valid visa.

Table 2 Greek-Turkish Tourism



Source: Greek Statistical Service (www.statistics.gr), cited from A. Couloumbis, A. Kentikelenis, op. cit.

Today, the Greek and Turkish governments are really putting an effort on this issue. A step towards this direction was made when Prime Minister Erdogan visited Greece in 2010. The two sides- Athens and Ankara- concluded that Turkish citizens that hold a Green Passport²³² will not need visa in order to enter Greece.²³³ However, Ankara along with governors of Greek and Turkish islands- like Chios, Lesbos, Samos and the Dodecanese island group and Çeşme – are pursuing for Turkish citizens to be also exempted from visa requirements for visiting Greek islands.²³⁴ “It would definitely be a positive development for both sides,” tourism expert Birol Güçlü told the *Hürriyet Daily News & Economic Review*. “Greek people already come to Turkey without a visa, why can’t Turks have the same opportunity? It would

²³² Green passports are a type of passport that is issued for public employees, military personnel, academicians, first, second or third degree public servants etc.

²³³ “Επιαναπροώθηση μεταναστών και κατάργηση “βίζας”, [Repromotion of immigrants and suppression “visa”], *Ptothema Thema*, 14-05-2010. Retrieved May 08, 2011. <http://www.protothema.gr/politics/article/?aid=68516>,

²³⁴ “Visa-free Greek Islands could open the Aegean for Turkish tourism”, *Hürriyet Daily News*, 07-05-2010. Retrieved May 08, 2011. <http://www.hurriyetdailynews.com/n.php?n=visa-free-greece-for-turkes-back-on-the-agenda-2010-05-07>

definitely increase the number of visitors and help improve their economy.”²³⁵ However, these suggestions for visa-free- for Turkish citizens- has been seen negatively form a part of the Greek press and it is argued this may be due to the crisis and the frustration the latter has caused.²³⁶ Nevertheless, it is feared that this negatives may also affect the Greek people and cause their reaction to such measures.²³⁷

In this bilateral cooperation framework Greek and Turkish entrepreneurs- like HATTA and TURSAB- considering the geographical location, the common history and culture on both sides of the Aegean signed a protocol in 2005 for the creation of a joint council that would promote joint tourism packages for long-distance tourists form third countries, like the USA, China and Japan. These developments were welcomed from the tourism companies- of the two countries- who sized the opportunity for cooperation and promoted common packages for cross-border bilateral travel and also international. Steps like that can really result to a significant increase of the benefits of both states.

However for the successfulness of common programs and the development of the tourist sector in both countries greater and more significant degree of business cooperation along with the cooperation of the two governments on issues like air, sea

²³⁵ Ibid.

²³⁶ A part of the Greek press “reacted negatively toward a statement by Chios Gov. Polidoros Lambrinudis, who, in his letter to Greek Prime Minister Papandreou, mentioned the possibility of allowing Turkish people to settle in Greece.” Daily To Paron has characterized Lambrinudis’ words as “nationally dangerous and politically opportunistic.” “Να εποικιστούν νησιά μας του Αιγαίου από μόνιμους τούρκους κατοίκους”, [The occupation of our Aegean islands of from permanent Turk residents], *To Paron*, 02-05-2010. Retrieved May 08, 2011. <http://www.paron.gr/v3/new.php?id=53699&colid=37&catid=42&dt=2011-05-29&search=%CB%E1%EC%F0%F1%E9%ED%EF%F5%E4%E7%F2>

²³⁷ According to journalist Ariana Ferentinou, there is a feeling of vulnerability among Greek people. “The economic situation in Greece has created a very sensitive atmosphere. There is a general feeling of weakness,” Ferentinou told the Daily News. “The negativity of the media toward removing the visa [requirement] is a reflection of these feelings. People are angry at the current situation and they cannot punish those who are responsible. So any other issue might raise hostility,” she said. “These issues should be handled very carefully; if they are not, the results can be very bad.” “Visa-free Greek Islands could open the Aegean for Turkish tourism”, *Hürriyet Daily News*, 07-05-2010. Retrieved May 08, 2011. <http://www.hurriyetdailynews.com/n.php?n=visa-free-greece-for-turkes-back-on-the-agendaunder-discussion-2010-05-07>

and road infrastructure, visa issuance are crucial and needed. Although the two governments have worked towards the resolution of issues like the above many need to be done.

Tourism is an area that can really improve the cooperation opportunities creation and the confidence atmosphere between Greek and Turkish entrepreneurs and thus help cooperation in a wider socio-political-economic framework. However it should be stressed that tourism is an extremely sensitive area heavily affected by international and local problems like crises, instability, uncertainty and wars. Thus it could be claimed that at peaceful and stable times tourism can flourish and develop but in times of political or economic unrest it will be one of the first areas that will suffer. For example, Greece's tourism fallen on hard times the two couple of years as violent protest and riots in Athens in 2009 and the 2010 economic crises lead to weak tourist traffic.²³⁸ Another indicative example is that after the rift between Israel and Turkey, Greece experienced a significant increase of Israeli tourists as an alternative destination of Turkey.²³⁹ Therefore in times like that it is possible to be a divergence of interests, as the two destinations become competitive with each other as it can be – also- seen by the word's of the Culture and Tourism Minister Ertuğrul Günay:

Greece has made an offer to share tourists coming from China and Japan, which are commonly referred to as faraway countries. Visiting Greece with the prime minister, we received serious proposals about

²³⁸ Tourists- mainly from the U.K. and Germany--flocked to less-expensive destinations, such as Turkey and Egypt. Turkey has always promoted itself as the cheap alternative of Greece.

²³⁹ "In May Israel raided the Gaza bound flotilla in which 10 Turks were killed. There was huge outrage in Turkey over the deaths and people came out of streets protesting against Israel. Following the mass protests, Israel issued travel advisory for citizens asking not to visit Turkey." at "Tension Between Israel And Turkey Helping Greece Tourism", *Travel News*. Retrieved May 08, 2011. <http://www.easydestination.net/blog/?itemid=985>

*cooperation in tourism. But like Syria, Lebanon and Jordan, Greece is no longer in the same category as us... We are happy to help them, but we will also continue to conduct our own promotional campaigns and projects. As for this year, it seems very difficult to conduct joint tourism projects concerning tourists arriving from remote destinations.*²⁴⁰

Following the above, it appears that indeed in such times of political or economic uncertainty a direct divergence of interest, as the two destination-countries become competitive with each other, can occur.

3.5 Energy

Energy cooperation is another sector that can presumably increase interdependence between Greece and Turkey. However the development of this relatively new area of cooperation must be seen in a more general/International framework where the energy security supply has become a major issue in the EU and other consuming markets leading to a need of diversification of energy supply routes and sources and thus to the emergence of the strategic significance of South Eastern Europe as a transport hub, and finally to the rise of Caspian Sea as an energy producing region along with the emergence of Russia as one of the most important players in the energy chessboard.

It is true that cooperation in this crucial field of energy at least implies willingness by the two states -Greece and Turkey- to compromise by accepting overlapping interest in exchange for energy security, economic benefits and a key role

²⁴⁰ Y. Ercan, "Turkish tourism may benefit from turmoil on the Arab world, *Sunday's Zaman*, 14 April 2011. Retrieved May 08, 2011. http://www.sundayszaman.com/sunday/newsDetail_getNewsById.action?newsId=240963

in the European energy security.²⁴¹ The biggest and most important development in this field of cooperation- one could easily argue- is the natural-gas pipeline joint project that was agreed on February 2003 between the Turkish state gas company BOTAS and the Greek natural gas company DEPA. The Turkey-Greece-Italy (TGI) interconnector had two phases. In the first phase a 285 km-long pipeline between Karacabey²⁴² to Komotini, of which 200 km would be on Turkish and 85 km in Greek territory, would connect Turkey and Greece. In the second phase, a 220 km undersea pipeline would connect Stavrolimenas/Greece to Otrando/Italy. The pipeline which transports Azeri natural gas²⁴³ is expect to increase its capacity from 0.75 bcm in 2007 to 12 bcm in 2012. At that time it is expected to also transport natural gas to the Western Europe through Italy. The construction of the Greek-Turkish line was initiated on July 2005 and it was completed on 2007 when it also started to deliver gas.

As one may understand the TGI project will not only prove to be beneficial for Europe as it will reduce its dependency on Russian natural gas²⁴⁴ but also helps on forging cooperation between Turkey and Greece, who on there turn will also be benefited from this supplementary source of natural gas. Furthermore the TGI project will play an important role in the upgrade of the geostrategic role of Greece and Turkey as it will transform them into gas transit players and in addition with other energy projects- that we are going to analyse below- it will help them upgrade there

²⁴¹ C. A. Papadopoulos, *op. cit.*, p. 19-

²⁴² The line includes a 17km-long off-shore section beneath the Marmara Sea.

²⁴³ In the future it is expected to transport natural gas supplied from sources located in the Caspian Basin, the Middle East, Southern Mediterranean countries, and other international sources through Turkey and Greece within the INOGATE Programme (Interstate Oil and Gas Transport to Europe) of the EU Commission, info available at: <http://www.botas.gov.tr/index.asp>. Retrieved May 10, 2011.

²⁴⁴ "Reducing dependency from Russia is one of the most important goals of EU. Both in the Green Paper and in the 24 March 2006 European Council Declaration it was declared that the aim of the EU is to reduce dependence on Russia by supplying energy from North Africa and the Caspian region. In order to use the North African energy, the EU expands its pipeline networks across the Mediterranean." A. O. Evin, I. Ozer, "The European Energy Security Policy in the Black Sea Region", Sabanci University, 2009, [Unpublished Paper report]

position into the European energy security by supplying the latter with hydrocarbons of Caspian Sea, and most probably Middle East and Africa. However, the fact that the two countries have similar objectives could lead to a conflict of interests in the future.

From Turkey's side becoming an energy hub between East and West is one of the main goals of its pipeline and energy diplomacy.²⁴⁵ Turkey, today, is an important transit state of oil and gas for the Mediterranean region and of course Western Europe. As far as the gas transportation is considered, Turkey hosts three very important natural gas pipelines; the Iran-Turkey gas pipeline from the Iranian city Tabriz to Ankara; the Shah-Deniz pipeline that follows the same route with the Baku-Tbilisi-Ceyhan (BTC) oil pipeline;²⁴⁶ the Blue Stream undersea gas pipeline,²⁴⁷ which according to Russia's plans was expected to be extended with a second project Blue Stream II, with the potential either to complement Nabucco (see below) or to compete it. Nabucco gas pipeline is "EU's most significant gas supply project"²⁴⁸ as it is expected to add to the European energy security as it will help the former limit its energy dependency from Russia. Thus, it can be seen that Nabucco was put forward with the same rationale of TGI project. It was planned to provide Europe with additional non-Russian natural gas supplies and is because of this that the project is heavily supported by the USA and EU. The pipeline is planned to supply Central

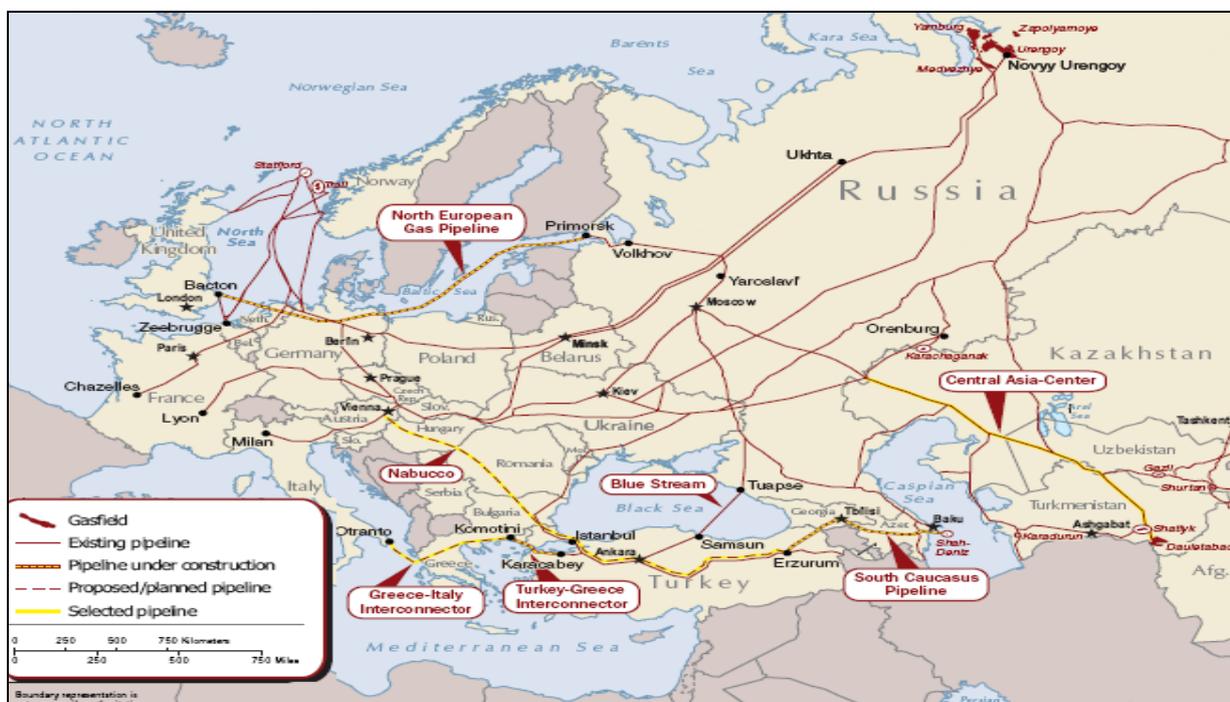
²⁴⁵ D. Triadaphyllou, E. Fotiou, "The EU and Turkey in energy diplomacy", *Insight Turkey*, 2010, p. 56,

²⁴⁶ It is 692 kilometres (430 mi) long, of which 442 kilometres (275 mi) is laid in Azerbaijan and 248 kilometres (154 mi) in Georgia. The pipeline transports natural gas from the Shah Deniz gas field in the Azerbaijan sector of the Caspian Sea to Turkey. More information about the Shah Deniz field and pipeline on BP's site: <http://www.bp.com/genericarticle.do?categoryId=9006615&contentId=7018471>. Retrieved May 10, 2011.

²⁴⁷ The pipeline is transporting Russia natural gas to Turkey, with the capacity of 16 bcm per year. It is 1213 km long and around \$3.2 billion has been invested on the project. The pipeline is projected to be expanded by connecting to the South Stream project. The project was first to be expended via Turkey, however, Russia later decided on expanding it via Bulgaria. Energy Information Administration. Retrieved May 10, 2011. <http://www.eia.doe.gov/>

²⁴⁸ Z. Baran, R.A. Smith, "The energy dimension in American Policy towards the Black Sea region, *Southeast European and Black Sea Studies*, Vol. 7, No. 2, 2007, p. 268

Asian gas²⁴⁹ from Turkish border to Austria across Bulgaria, Romania and Hungary, with the maximum capacity of 31 bcm per year. The pipeline will be approximately 3.900 km long.²⁵⁰ The first construction phase is projected to start in 2012 covering the route between Ankara and Baumgarten.²⁵¹



Map 1 Selected Gas Fields and Pipelines Delivering Natural Gas to Europe (source: Macron International, 1-5-2010)

However, Russians exclusion from the project, heavily supported by the USA and the European Commission, which as we mentioned wanted to limit the dependency with Russia, along with the latter's need for diversification of energy roads²⁵² facilitated the inspiration and launch of the South Stream pipeline that would traverse the Balkans and Greece and would bypass Turkey. The project has raised some serious fears that the project might create a blow for Nabucco-in which Turkey

²⁴⁹ From Azerbaijan, Middle East and Egypt

²⁵⁰ Nabucco Gas Pipeline Project available at: http://www.nabucco-pipeline.com/portal/page/portal/en/Home/the_project. Retrieved May 10, 2011

²⁵¹ Ibid. The remaining route's (from Turkish to Georgia and possibly from Iran to Ankara) construction is planned to begin in 2014 to be completed in 2015.

²⁵² From Russian side the pipeline would also reduce its dependency on the so called problematic transit countries like Ukraine.

is a key player- since this pipeline “would erode EU hopes of reducing its growing reliance on Russia”.²⁵³ However the EU has stated that although “The European Union remains committed to Nabucco... and doesn’t consider (South Stream) a priority project in the same sense that we would Nabucco”²⁵⁴ it regards the two pipelines as complementary and not competitive.²⁵⁵ Specifically, EU’s spokesman Tarradellas Espuny said:

*“We’re not against South Stream. We think South Stream is a pipeline that could help security of supply. Maybe the Russians think it’s against Nabucco, but we don’t think it could endanger Nabucco because what Nabucco is going to provide is gas from different suppliers. What South Stream is going to provide is what we already have – Russian gas. It’s going to come from a different route, but it’s the same,”*²⁵⁶

Nevertheless, South Stream will have a blow on Turkey’s aspirations as a future energy hub between East and West. Firstly because the extension of the Blue Stream was cancelled and thus Turkey’s role as a transit country for Russian gas to South-central Europe was reduced and moreover the pipeline will further affect its role as the only transit channel of Central Asian gas.²⁵⁷

²⁵³ “Russia, Bulgaria sign deal for gas pipeline”, *Today’s Zaman*, 19-01-2008

²⁵⁴ Ibid.

²⁵⁵ K. Geropoulos, “Will Gazprom’s South Stream challenge EU’s Nabucco?”, *New Europe*, 05-05-2008. Retrieved May 10, 2011. <http://www.neweurope.eu/articles/86300.php>

²⁵⁶ Ibid. Nevertheless according to more inform observers-like Anisa Redman, an EMEA (Europe, Middle East & Africa) oil and gas research analyst with HSBC Bank in London- it’s not still certain if the is “enough room for everyone.”

²⁵⁷ C. A. Papadopoulos, op. cit., 22

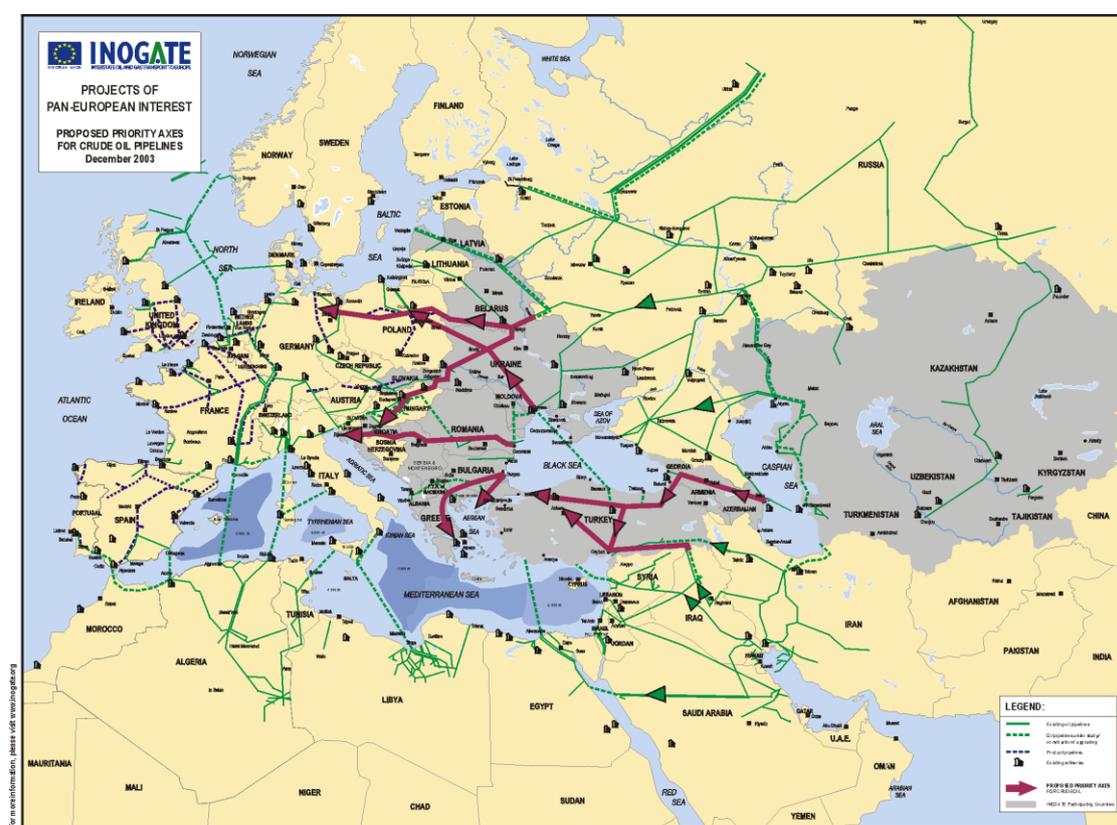
In the petroleum transportation Turkey²⁵⁸ also plays a significant role with the BTC oil pipeline. Baku-Tblisi-Ceyhan pipeline that starts from the Sangachal terminal near Baku through Azerbaijan, Georgia and Turkey to the Ceyhan marine terminal carries 100m tonnes yearly of Azeri and Kazakh oil. BTC was strongly advocated by the USA that supported the construction of the project although this route was much more costly than other alternative projects. The pipeline was based on Washington's strong energy strategy desire to transfer non-Russian energy supplies exports to the European market. This project along with Shah Deniz natural gas pipeline-both supported by the USA and EU- managed to "restrain" Russia's monopoly over oil and gas export and gave to the EU the necessary diversity in its energy supplying routes.

From its side Greece has also been actively taking part at the "energy game" by diversifying her energy sources but also by upgrading her position as a transit state. Although generally aligned with EU's policy's by engaging in the TGI Caspian natural gas pipeline project (see above), in the past few years it has started to conduct a semi-independent energy policy- according to her supply needs and geostrategic interests- by strengthening its ties with Russia. By participating in South Stream pipeline Greece seeks to promote her self as a diversified transit country and achieve its regional strategic goals. Plus, through and along with the TGI Greece will manage to cover its future energy needs. The same goals however Turkey seeks through the Nabucco project that- as we mentioned before- could be affected by the Greek initiatives.

Moreover, another common project of Greece and Russia is the Burgas-Alexandroupolis oil pipeline. The agreement was signed between Russia, Greece and Bulgaria aiming to construct a 280-kilometre pipeline with a 35 mt/y capacity that

²⁵⁸ Another important oil pipeline is the Kirkuk-Yumurtalik pipeline that runs from Kirkuk in Iraq to the Yumurtalik-Ceyhan marine terminal.

will cost around €709 million.²⁵⁹ It is decided that Russia will be holding the majority stake with 51% while Bulgaria and Greece will be holding 24.5%.²⁶⁰



Map 2- Proposed and existing crude oil pipelines²⁶¹

The pipeline will carry Russian and Caucasian oil and as Papadopoulos points out, it will help diversifying “Greece’s dependence on Middle Eastern oil as well as reduce the dependency of Greece and other countries on oil shipped through the Bosphorus straits.”²⁶² It should be noted that one of the reasons that Russia promotes the construction of the pipeline is its willingness to bypass the congested Turkish Straits and thus reduce into a point its dependency on the Straits for its oil

²⁵⁹ “Burgas Alexandroupolis oil pipeline”, *Hellenic Republic*, 15-03-2007. Retrieved May 10, 2011. http://www.minpress.gr/minpress/en/enhmerwtiko_entypo_mpoyrgas.pdf

²⁶⁰ J. Roberts, “Energy Cooperation Among the BSEC Member States - Towards An Energy Strategy for the BSEC”, *ICBSS, Xenophon Paper No.3*, October 2007, p. 49

²⁶¹ INOGATE Map of Crude Oil Pipelines

²⁶² C. A. Papadopoulos, op. cit., p. 24

transportations.²⁶³ However due to many delays and setbacks that the program has faced -mainly due to Bulgaria's indecisiveness if it is going to move on with the project or if it's going to abandon it-²⁶⁴ Russia has cut back on spending while at the same time "Russian companies are likely to focus on development of the Samsun-Ceyhan pipeline linking Turkey's Black Sea port of Samsun and the Mediterranean terminal in Ceyhan."²⁶⁵ The Samsun-Ceyhan pipeline which will be 555 km is expected to bring Russian and Caspian oil "from the Black Sea port of Samsun to Turkey's main Mediterranean oil terminal at Ceyhan."²⁶⁶

It is clear that both Turkey and Greece try to adjust to this new global era by adopting energy policies which aim to; upgrade their international and regional position; give them access to the biggest and most important natural gas and oil sources; and finally become transit countries that will help to the diversification of routes and supplies as they will be channels of both Russian and Caspian gas and oil. However, the similarity of their objectives raises the question; of how much their policies create an antagonistic or a cooperative environment between the two states. It is true that as I. Grigoriadis observes "*the TGI project has become possible through extensive Greek-Turkish economic cooperation and comprises an example of paradigmatic shift that has characterised Greek-Turkish relations since the late 1990s*".²⁶⁷ Accordingly, it could be argued that the TGI project could presumably bring the two countries closer as energy relations are considered to be important points for cooperation that are difficult to break. At the same time cooperation on the

²⁶³ A. Piebalgs "EU and Turkey: Together for a European Energy Policy", Speech at the conference Turkey and the EU, 05-06-2007, *Avrupa Birliği Genel Sekreterliği*. Retrieved 25 June, 2011. <http://www.abgs.gov.tr/index.php?p=5964&l=2>

²⁶⁴ Bulgaria has threatened to abandon the project over environmental risks.

²⁶⁵ "Russia to cut spending on Burgas-Alexandroupolis oil pipeline-Transeft", *RiaNovosti*, 16-02-2011. Retrieved May 10, 2011. <http://en.rian.ru/business/20110216/162631354.html>,

²⁶⁶ Roberts, p.51

²⁶⁷ I. Grigoriadis, op.cit., p. 3

energy sector offered the opportunity to Athens and Ankara to commonly play an significant role in the European framework.

Hence, as Papadopoulos observes, “the positive-sum gain elements will prevail, up to a point. Beyond some point, however, interests may well collide.”²⁶⁸ Energy cooperation can exert a positive influence on Greek-Turkish bilateral relations based on mutual interests and benefits. Nevertheless, the energy field can possibly become a theater of conflict and competition between the two countries. That is, mainly, because states, in general, hardly renounce policies and strategies that aim to upgrade their national interests; which in this case comprise not only their security of energy supplies but also the advancement of their respective roles –and thus influence- on the European energy map. Furthermore, it is crucial to underline that Greek and Turkish energy policies are also (and can be in the future) influenced by third parties like the USA, Russia and EU. Being participants in the energy game and more particularly involving members of two different- and according to some competitive- projects (Nabucco, South Stream), it is possible for the two countries to experience changes that might affect their geopolitical and geostrategic roles and to a further extent their bilateral relations. Energy landscape *“Is like a chess game. You move this, I move that, you move this, I move that...At the end of the day, countries defend their interests,”* to quote the words of Fadel Gheit, an analyst at Oppenheimer & Co. in New York, referring to the energy game between Washington and Moscow.²⁶⁹

²⁶⁸ C. A. Papadopoulos, op. cit., 24

²⁶⁹ K. Geropoulos, “Will Gazprom’s South Stream challenge EU’s Nabucco?”, *New Europe*, 05-05-2008. Retrieved May 10, 2011. <http://www.neurope.eu/articles/86300.php>

3.6 The case of Greece and Turkey within our theoretical framework; interdependence or not?

In this section, the linkage between the theoretical framework hitherto presented and the research question in this thesis, which is seeking to see if economic relations between the two states can possibly have a positive effect on their bilateral relations, will be provided. In this regard, a brief outline of the political questions between Greece and Turkey will be also presented. These questions have to do with a “package” of issues over sovereignty and sovereign rights in the Aegean Sea which are; the continental shelf; the territorial waters; the airspace; the demilitarised status of the Aegean Islands; sovereignty over certain islands, islets and rocks; air traffic services and Command and control within NATO. These problems touch upon sensitive issues in which the two governments have held traditional policies that have proven hard to change.

Following our theoretical analysis, a number of questions regarding the effects of interdependence and economic cooperation- like; is economic cooperation a source of pacific relations or competition and conflict; does indeed interdependence limit the likeliness of military confrontation- in state relations, especially in contentious issues, were raised. Clearly the questions raised by the different theories that were analyzed in theoretical chapter make the Greek-Turkish example an important and interesting case. However, where does this lead us then in the case of Greece and Turkey?

As far as the political, academic, business circles -in both countries- is concerned there seems to be an agreement around our theoretical understanding. Political and business elites seem to believe that closer economic cooperation can foster a more productive attitude in the political arena and even have a beneficial

effect on the contentious areas of the relationship.²⁷⁰

Both the Greek and the Turkish government since the initiation of the rapprochement have invest a lot in the belief that economic cooperation can have a beneficial role in the political arena as well. And that is why they have helped the expansion of economic ties. That was the case from the beginning of the rapprochement and the initiation of bilateral cooperation in non contentious areas - especially economics- that was put forward by the two foreign ministers G. Papandreou and I. Cem,²⁷¹ until today were again Ankara and Athens continue to support economic cooperation as a tool that can have benevolent effects on politics (see chapter 2). The agreement that cooperation on “low politics” can help solve problems on “high politics” is demonstrated on the words of the then Deputy Foreign Minister Yiannos Kranidiotis, in an interview on a Greek newspaper:

“The initiative for a Greek – Turkish dialogue of issues of “low political significance” is designed to discuss specific issues in sectors that are basic for cooperation between two neighboring nations that lack a fundamental framework... the sectors that have been chosen for a dialogue are being offered because both sides can benefit from them and they do not involve a concept of winners and losers. This initiative also aims to improve the climate in bilateral relations. This could contribute to the settlement of other issues, such as Greek – Turkish affairs and Cyprus. Thus, having a discussion and cooperating on

²⁷⁰ C. A. Papadopoulos, op. cit., p. 2

²⁷¹ J. Ker – Lindsay, *Crisis and reconciliation: a year of rapprochement between Greece and Turkey*, (I. B. Tauris & Co. Ltd Publications, 2007), p. 51

*issues of “low political significance” can help to solve problems of “high political significance” ...*²⁷²

Moving on the same pattern business elites from both countries seem to agree with the aforementioned as it appear from Mr. Kyriacopoulos, the Chairman of the Federation of Greek Enterprises (SEV)²⁷³, speech to Greek-Turkish industrialists, *“that politics has been undoubtedly important in creating a positive climate which also facilitated economic cooperation. Moreover, while economic cooperation would bring wealth and prosperity to both partners, it would also secure peace and stability.”*²⁷⁴ By investing billions of dollars in Turkey the Greek business community not only gave a vote of confidence to Turkey’s EU membership but also to the irreversibility of Greek-Turkish reconciliation.²⁷⁵ From Turkey’s side, Turkish Industry and Business Association (TUSIAD) has also promoted and supported the business rapprochement between Greece and Turkey.²⁷⁶

Both- Greek and Turkish- business groups and “working groups” (created

²⁷² J. Ker – Lindsay, op. cit., p. 53

²⁷³“Most branches and sectors of the present day Greek economy are already represented in Hellenic Federation of Enterprises (SEV) which this year turns 100 years old. SEV voices the unity and joint action of the entrepreneurial community, constitutes a basic vehicle for business and innovation values, of vocational education and training, sustainable development, corporate governance and corporate social responsibility. Today SEV constitutes the institutional representative of private venture par excellence. It represents those forces which produce wealth and generate new jobs. It is the independent voice of those who venture in Greece. SEV is an institutionally established social partner that participates in the dialogue within Greek society and fights for social progress and cohesion.” Retrieved June 25, 2011. <http://www.sev.org.gr/online/index.aspx?lang=en>

²⁷⁴ U. Kyriacopoulos, “Strengthening of Greek-Turkish Relations”, Speech of the chairman of Federation of Greek Industrialists at the WIN-World Industry 2005, 17-03-2005. Retrieved Apr., 08, 2011. <http://www.sev.org.gr/online/index.aspx>.

²⁷⁵ I. N. Grigoriadis, “Greek and Cypriot views of Turkey’s Accession to the European Union: On the endurance of a spectacular paradigmatic shift”, in M. Müftüler-Bac and Yannis A. Stivachtis (eds.), *Turkey and the European Union: Dilemmas, Constraints and Opportunities* (Lanham MD: Lexington Books, 2008), pp. 151-167

²⁷⁶“A significant indicator of the growing closeness between the business communities was the presence of Mr. Ulysses Kyriacopoulos, the chairman of Federation of Greek Industrialists at TUSIAD’s higher advisory council meeting in Çeşme in September. The Greek side then hosted the TUSIAD members in the nearby island of Chios.” Soli Özel, “Turkish-Greek Dialogue of the Business Communities,” in Taciser Ulaş-Belge, (eds.), *Voices for the Future: Civic Dialogue between Turks and Greeks*, ed. (İstanbul: Bilgi University Press, 2004), p. 168

within the Business Council) -by utilizing the opportunities offered by the rapprochement- worked on sectors like banking, stock exchange, shipping, construction, trade, energy, industry, and tourism and paved the ground for the cooperation of the two countries in these fields while at the same time try to contribute to the development of the relations of the two countries.²⁷⁷ The Greek-Turkish chamber of Commerce, the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Union of Hellenic Chambers (KEEE); the local chamber of Commerce, the Turkish-Greek Business Councils created in the framework of the Foreign Economic Relations Board (DEİK)²⁷⁸, the Hellenic Federation of Enterprises (SEV), and the Turkish Industrialists' and Businessmen's Association (TUSIAD), have -not only played a decisive role in the economic rapprochement of the two countries by actively promoting economic cooperation and partnership among small and medium-sized businesses as well as major companies-²⁷⁹ but they have further contribute in the procedure of Greek-Turkish cooperation as alternative channels of communication.²⁸⁰

According to K. Kirisci associations like; the Independent Industrialists and Businessmen's Association (MUSİAD); the Turkish Union of Chambers and Commodity Exchanges (TOBB); TUSİAD, and DEİK, are some of the most

²⁷⁷ Turkish-Greek Business Council, Foreign Economic Board (DEİK). Retrieved Apr. 08, 2011.

http://www.deik.org.tr/pages/EN/IK_AnaSayfa.aspx?IKID=50

²⁷⁸ "The foremost purpose of the Foreign Economic Relations Board of Turkey (DEİK) is to pave the way for the development of Turkey's economic, commercial, industrial and financial relations with foreign countries as well as international business communities. DEİK mainly operates through Bilateral Business Councils. DEİK's Bilateral Business Councils are established by a cooperation agreement signed with foreign counterparts with the purpose of promoting business relations. These Business Councils ensure an effective follow-up mechanism and a continuous flow of information to member companies on trade and industrial cooperation possibilities." Information's cited from the Turkish-Greek Business Council, Foreign Economic Board (DEİK). Retrieved June 03, 2011. http://www.deik.org.tr/pages/EN/IK_AnaSayfa.aspx?IKID=50

²⁷⁹ A. Evin, Changing Greek Perspectives on Turkey: an assessment of the post-earthquake rapprochement", *Turkish Studies*, 5 (1), pp. 4-20

²⁸⁰ D. Tsarouhas, op. cit., p. 52

influential and powerful business associations in Turkey.²⁸¹ From Greece's side these influential associations are the SEV, the Federation of Greek Industrialists,²⁸² the Union of Hellenic Chambers, and again local business chambers of commerce such as the Commercial & Industrial Chamber of Rodopi. These interest groups, to use K. Kirisci words, "not only interact with various government agencies, but also have direct access to the government itself and are capable of shaping public opinion. They are also able to form alliances with government agencies as well as their counterparts in other countries, for the purposes of lobbying in support of policies typically associated with a trading state."²⁸³

Another practice that not only demonstrates the importance attributed to economics and the strengthening of economic cooperation but also shows the possibility of business people to influence policy is the latter's participation in major state visits and in Greek-Turkish Business Forums introduced mainly by SEV, and DEIK.²⁸⁴ These occasions are not only important because they offer business people the opportunity to develop contacts with their counterparts in the countries being visited, but most significantly because they give to business people the opportunity to interact with important decision-makers directly.²⁸⁵ The large delegation of the Turkish Prime Minister Erdogan on his visit to Athens in 2010 is a case in point.²⁸⁶

²⁸¹ K. Kirisci, "The Transformation of Turkish Foreign Policy: The Rise of the Trading State", *New Perspectives on Turkey*, No.40, Spring 2009, pp. 46-50

²⁸² "The FGI represents and speaks for Greek Industry and for the economy's private sector in general in its relations with the State and with its partners in society, such as labour unions, in Greece and abroad. It intervenes publicly, responsibly and using substantial arguments to help shape the business environment and labour relations in Greece and the European Union. The FGI strives to explain the social role of industry and private enterprise in order to garner public support for the private sector. Concurrently, it urges the business world to respond to the requirements of society. Information cited by the International organization of Employers." Retrieved July 10, 2011. [http://www.ioe-emp.org/en/member-federations/index.html?tx_gsifeuserlist_pi1\[showUId\]=56](http://www.ioe-emp.org/en/member-federations/index.html?tx_gsifeuserlist_pi1[showUId]=56)

²⁸³ K. Kirisci, "The Transformation of Turkish Foreign Policy: The Rise of the Trading State", *New Perspectives on Turkey*, No.40, Spring 2009, pp. 46-50

²⁸⁴ Ibid.

²⁸⁵ Ibid.

²⁸⁶ Prime Minister Erdogan came to Greece with a team of 320 people- which 10 of them were ministers (in the sectors of economics, tourism, energy security etc.) and the majority of the rest

Therefore, it is observed that business elites have -by taking advantage of the opportunities given by the rapprochement of the two states- really tried to attribute to the expansion of economic ties, led by the hope of a “decoupling of relations from constrictive bonds imposed by political relations and their attendant ups and downs”.²⁸⁷ However, according to an overall analysis it appears that these economic association and players are far from the role they could play within the context of Greek-Turkish political economic relations. This may be –for example in the case of Turkey- due to the fact that “business associations do not have an autonomous role in shaping foreign economic policies since they remain within the policy framework set by the state and refrain from challenging the policy objectives of state actors”.²⁸⁸

Although, the business communities of both states have an increasingly important place in the bilateral economic relations their role seems to be limited in providing feedback, actively participating in the economic cooperation, and organizing business forums. This may be due to the fact that “In the Greek-Turkish case, economic cooperation was led by the political leadership displayed by Ankara and Athens, as it was improvements in political relations that brought in their wake an increase in economic cooperation. Without underestimating the role played by the non-state economic actors, and their contribution in the procedure of Greek-Turkish cooperation it was (and still is in to great extent) the political leadership of the two countries that opened the way to the business communities for new economic opportunities.

Turkish businessmen from a variety of fields that had contacts with the Greek business elite- in the framework of the first Greek-Turkish High-Level Cooperation Council. See more on chapter 2.4 of this thesis.

²⁸⁷ C. Papadopoulos, op. cit., p. 2

²⁸⁸ A. Alti, “Businessmen as Diplomats: the roles of business associations in Turkey’s foreign economic policy”, *Insight Turkey*, vol. 13, no. 1., Winter 2011

Indeed, all these appear to be in line with our theoretical base as it does seem that political and business entrepreneurs support economic cooperation as a tool that can contribute to the resolution of problems of high significance. Could, however, in the case of Greece and Turkey be proved that economic interdependence has fostered progress in their political relations and further lead to the diminishing of a possible military confrontation?

Although, it seems easy to prove that economic relations have been quite resistant to changes in governments, bilateral crisis or more general setbacks,²⁸⁹ it is much more difficult to prove that economics can by themselves have a positive spill-over effect in the political arena. Specifically if one takes under consideration the fact that no real changes have been made in the sensitive bilateral questions discussed above. For example, there are some incidents that developed during 2005-2006 that could have affected bilateral economic relations- especially as far as FDI is concerned as it is a field where stability is necessary as we saw from an examination of FDI inflows- however in those years that the most significant investments were made. These incidents were; the almost repentance of the Imia/Kardak crisis of 1996 on April 2005. It was during Greek Foreign Minister Petros Molyviatis' visit to Turkey, as an official guest of Foreign Minister Abdullah Gul, when a crisis over the Kardak-Imia islets developed. Each country's naval forces were on alert when a Greek boat anchored near the islets. The standoff ended when Molyviatis along with his Turkish counterpart embarked on negotiations leading to the withdrawal of the assault

²⁸⁹ Like the EU's decision at the December 2006 European Council to exclude all the negotiating chapters, from Turkey's EU accession negotiations that related to the recognition of RoC. These chapters are: (a total of 8) are: "Free Movement of Goods", "Right of Establishment and Freedom to Provide Services", "Financial Services", "Agriculture and Rural Development", "Fisheries", "Transport Policy", "Customs Union" and "External Relations". The Council's decision at the end did more bad than good as it underlined the relevance between the Cyprus dispute and Turkey's EU membership and caused further frustration to Turkey. Verney, S., Ifantis, K., *Turkey's Road to European Union Membership: National Identity and Political Change*, (New York & London: Routledge, 2009), p. 121

boats.²⁹⁰ Almost a year later a new incident occurred with an air collision of two F-16 fighter jets -one Greek and one Turkish- near the island of Karpathos on 23 May 2006 that led to the death of the of the Greek pilot.²⁹¹

Therefore, one can understand that it is quite difficult to prove, not only the possible connection between the growing economic interdependence and political cooperation but also the formers role in the reduction of military confrontation. Although, signs are very encouraging, as far as the possibility of military confrontation is concerned and indeed the two incidents -and the way the crises were resolved- demonstrate that the likeliness of a confrontation has been reduced again it seems hard to establish if this progress is due to economic interdependence or not. It is likely that the economic costs, which a possible confrontation could have, were taken under consideration but so could other reasons like for example Turkey's EU membership so on and so forth. Therefore, it is quite hard to validate our theoretical understanding that economic integration benefits political realities and diminish the possibility of military confrontation.

Conclusions

As we saw economic cooperation and business relations between Greece and Turkey during the last decade have experienced a steady growth, in trade, investment, energy as well as tourism. Yet, the potential for further advancing cooperation between Turkish and Greek is still considerable. Even though ranking records by themselves may not be as impressive as the two states and business elites would like them to

²⁹⁰ "Fog descends again over Ankara and Athens", *Turkish Weekly*, 18-04-2005

²⁹¹ "Ελληνική" [Hellenic]. Retrieved May 10, 2011. http://helleniclegion.blogspot.com/2010/08/blog-post_7904.html

be,²⁹² however the upward trend that has been noticed during the last years is indeed noteworthy. Recent growth in economic transactions is not- as we explained- accidental, but a consequence of the gradual rapprochement between the two countries and the significant effort that the two states (like the bilateral agreements in areas of taxation, investments etc.) have done in order to promote and foster economic cooperation between entrepreneurs. Hence, the volume and character of Turkish Greek economic partnership has been transformed as the economic elites grasped the opportunities for cooperation that rose mainly due to capital's new exit options that were created.

Although, important steps –that are likely to have a positive effect on bilateral relations and to the creation of a variety of opinions making it thus harder for relations to hinder- have been made in all fields of cooperation, it's obvious that there are also some relevant factors likely to affect this relation in the future. Our examination of trade, FDI, tourism and energy sectors of bilateral economic activity showed that although there are possibilities for future progress this is also limited by other factors as well. These are; Greece's weak exporting status as a good-exporting state;²⁹³ furthermore Greece's unattractiveness as an FDI destination²⁹⁴ along with Turkey's yet-developing status as a capital exporting nation, (which as Papadopoulos argues can rise the “flames of nationalism” in the case where the FDI flows become too one-

²⁹² The goal- set since 2004 and referred at many times by Prime Minister Erdogan and Greek prime ministers- that the bilateral trade will reach the 5 billion Euro's.

²⁹³ C. A. Papadopoulos, *op. cit.*, p. 34. An indicative factor of the limitations in the trade sector is that the goal set by both, Greek and Turkish, governments and business elites since 2004 to reach 5 billion Euros in less than 3-4 years has not yet been realized six years later. Of course these maybe because the above goal was not based on an analysis of the two countries international trade patterns and domestic developments.

²⁹⁴ According to P.Pantelidis & E. Nikolopoulos research Greece's attractiveness as a host country for FDI during the last few years not only has not improved, but it has followed a downward trend. P. Pantelidis, E. Nikolopoulos, “FDI attractiveness in Greece”, *International Advances in Economic Research*, February 2008. Retrieved May 08, 2011. <file:///C:/Users/%CE%95%CE%B9%CF%81%CE%AE%CE%BD%CE%B7/Desktop/GREECES%20FDI%20ATTRACT..html>

sided²⁹⁵); the availability, for both sides, of other attractive options for economic cooperation-in all the examined fields- elsewhere in the region and beyond. At the same time one should not disregard the role that economic competition can and may play by intensifying “underlining political rivalries”.²⁹⁶ All these problems may well affect an ever-closer economic integration between the two states. Consequently, it becomes clear that there are already political economy factors that should be taken under consideration before considering purely political problems.

Nevertheless, even if the above limitations and asymmetries can be successfully addressed and overcome in the future it is a matter of a theoretical speculation whether or not ever-closer economic integration between Greece and Turkey would lead to normalization of political relations, especially in the more sensitive issues like the Aegean disputes. Specifically, if one takes under consideration the fact that it was improvements in political relations that brought in their wake an increase in economic cooperation and not vice-versa. Without underestimating the role played by the non-state economic actors, and their contribution in the procedure of Greek-Turkish cooperation and their part as channels of communication²⁹⁷, it was (and still is in to great extent) the political leadership of the two countries that opened the way to the business communities for new economic opportunities. Of course, this opportunities were well utilized by the business groups and “working groups” (created within the Business Council) as the case of the NGB-Finansbank and the TGI project prove. Nonetheless, it quite hard to connect this evolution in economic realities with changes like the avoidance of military

²⁹⁵C. A. Papadopoulos, *op. cit.*, p. 34. Although speculating for the future is not an easy task is true that both countries have been known to give in protectionist tendencies from time to time. About protectionism in Turkey also look at: “Doing Business in Turkey: 2008 Country Commercial Guide for U.S. Companies”, US & Foreign Commercial Service and US department of state, 2008. Retrieved June 03, 2011. www.buyusa.gov/turkey/en/249.doc

²⁹⁶C. A. Papadopoulos, *op. cit.*, p. 34

²⁹⁷D. Tsarouhas, *op. cit.*, p. 52

confrontation, in the Imia/Kardak case in 2005 and the incident with the death of the Greek pilot in 2006.

Therefore, it is difficult for one to imagine that, in the case of Greece and Turkey, changes in vital issues of national importance like the continental shelf can be questioned by economic gains. Although, a resolution of the continental shelf could be translated in significant economic profits both in the fields of trade and energy (e.g. the exploitation of the Aegean oil resources could possibly benefit both countries²⁹⁸ and the usage of sea routes as transit option would help further development of trade²⁹⁹) this will not be materialized as long as the Aegean dispute is not resolved.

²⁹⁸ C. A. Papdopoulos, *op. cit.*, p. 27

²⁹⁹ D. Tsarouhas, *op. cit.*, p. 49

Conclusions

Realities in international relations started to change and new types of political and economic relations, away from the traditional state-centric understanding started to develop- approximately near before the end of the Cold War. The rise of “globalization” brought real changes in the world politics and economics; as interdependencies between a set of actors (political, economic, or social) grew, non-state actors became really influential in policymaking, and economic factors significantly molded power relations between states. In this changing world Greek and Turkish relations started changing as well, after the initiation of the rapprochement in 1999. A system of interactions that did not only consist of politicians but also non-state actors, like civil society and economic elites, was formed. With the role of economic relations rising the role and importance of the business communities in the rapprochement rose as well.

This increase of economic interaction- traced back to the post-1999 normalization of political relations, Greek-Turkish economic liberalization and participation in the globalization phenomenon and the opening of the latter’s EU accession negotiations- seems to have led to the hopeful belief in both countries, that economic relations can foster a more productive stance on the part of Ankara and Athens vis-à-vis each other. Hence, the change in political relations could even have a positive spill-over effect in the more sensitive issues of their relationship.

However, our theoretical examination of the relationship of economics and politics has raised a number of serious questions concerning the pacific or conflictual role that economic cooperation and interdependence have. According to economic nationalism and Marxism economic cooperation and interdependence is a source of

conflict and insecurity as it creates asymmetries that usually give leverage to the stronger state over the weaker. Liberalism on the other hand, advocates that economic cooperation provides for a different more pacific framework of relations among states. More particularly, from the interdependence theory itself comes the argument that; increasing integration- mainly economic- among states limits their ability to develop totally independent courses in related policy areas, making thus the likeliness of a conflict to be become more complicated for those think of the latter option as a cost-benefit analysis is taken under consideration. Where does this lead us, however, in the case of Greece and Turkey within our theoretical understanding about interdependence and our research question, which is if economic cooperation can have a beneficial role in the political realities of the two states?

Greek and Turkish bilateral relations have been extensively troubled for more than 35 years due to the Cyprus issue, the Aegean disputes. Generally the relations of the two states were characterized by antagonism and zero sum game approach.³⁰⁰ The common participation at NATO since 1952 seemed incapable of preventing crises and armed conflicts among the two members. Greece's accession at EC also proved to be an inadequate solution to deal with the formers main foreign policy challenge, although Greeks were able to enmesh their own security concerns to an EC context and make EC vulnerable to the increased pressure of Greece in this respect.³⁰¹³⁰²

After 1999 a change characterized the Greek-Turkish relations. It was right after the Öcalan incident, the devastating earthquakes in Greece and Turkey- which accelerated the diplomatic relations as well as the informal ties between the civil societies of both sides- and the Helsinki Summit where Turkey was accepted as

³⁰⁰ D. Tsarouhas, op. cit., p 53

³⁰¹ H. Arikian, *Turkey and the EU: An Awkward Candidate for EU Membership*, (USA: Ashagate, 2003), pp. 157-165

³⁰² C. Tsardanidis, S. Stavridis, The Europeanization of Greek foreign Policy: a critical appraisal, *Journal of European Integration*, Vol. 27, Issue 2, 2005, p 229

candidate state that a swift in politics was observed. The main representative and initiators for this rapprochement were the Turkish Foreign Minister (FM) Ismail Cem and his counterpart George Papandreou. The two ministers supported that, a new approach was in need in order to bring the two countries closer and to foster cooperation on matters- out of the sphere of constant disagreement and potential conflict between them- of “low significance” politics like tourism, trade, and others. It was in this framework that economic cooperation was also realized.

Today, something more than ten years later economic cooperation, materialized through increase trade, FDI flows, tourism and energy, has played an important role not only to the better understanding of the two sides but also to the creation of a business elite that acts as another channel of communication. Acquisitions like the NBG-Finasbank, energy projects like the TGI interconnector demonstrate a promising future as the full potential for further advancing cooperation between Turkish and Greek is still to be completed.

Nevertheless, our analysis of trade, FDI, tourism and energy sectors of bilateral economic interaction demonstrated that although there are possibilities for critical future progress, this can be also limited by a variety of factors, like; Greece’s weak exporting status as a good-exporting state; its unattractiveness as an FDI destination; Turkey’s yet-developing status as a capital exporting nation which could also rise nationalistic sentiments if these investments become too one-sided; the existence, of other interesting available options for cooperation elsewhere in the region and beyond. Finally one should not reject the fact that economic competitiveness may at times intensify underlining political controversies. Moreover, another possible limiting factor for the further development of economic partnership between Greece and Turkey can be the economic crisis that the former is

experiencing. The economic crisis and its economic and socio-political consequences have really affected the general FDI inflows, trade imports, and tourism of the country.

Furthermore, this thesis tried to show that the economic relations of the two states can be better explained and understood in the framework of not only wider economic transformations but also political changes ‘affecting domestic institutions and structures’ (see chapter 2 and 3).³⁰³ In that way, their economic and political relations are under the affect of the EU and more particularly Turkey’s EU membership. Nevertheless, today, due to the fact that EU-Turkish relations have lost momentum,³⁰⁴ as both parts have been shown to be skeptical about the future of their relationship, we cannot be sure about Turkey’s full EU membership. Although this would be an unwelcome outcome, it is yet a possibility. It is therefore important for both governments to develop a new approach to the bilateral relations as a possible end of EU-Turkish relationship should not mean the end of Greek-Turkish cooperation especially if one takes under consideration the affect that Turkey’s EU candidacy had on the bilateral economic relations.³⁰⁵ Consequently, it seems likely enough that all the above limitations may well affect an ever-closer economic integration between the two states, as these problems is unlikely to be overcome in the near future. Therefore, it can be observed that there are wider economic limitations that one should consider before move on to the political problems.

As far as, our theoretical understanding about interdependence is concerned, it seems to capture up to a point the dynamics of Greek-Turkish relations, as indeed the contribution of the business elites in the process of cooperation should not be

³⁰³ D. Tsarouhas, op. cit., p. 54

³⁰⁴ M. B. Christensen, “EU-Turkey relations and the functioning of the EU”, *Danish Institute for International Studies*, May 2009, p. 11

³⁰⁵ Interview with Mr. I. N. Grigoriadis, Assistant Professor & Jean Monnet Chair at the University of Bilkent, May 2010

underestimated. However, at the same time it is hard to prove that economic cooperation and interdependence among the two states had a benevolent effect in the political arena or to the reduction of the possibility of military confrontation. Hence, it is difficult to speculate whether or not ever-closer economic integration between Greece and Turkey could lend political relations vulnerable to economic interests, especially in the more sensitive issues like the Aegean disputes. This “spill-over effect” speculation becomes even more difficult not only because the distinction between domestic and foreign policy issues in the Greek and Turkish case is something more than clear and the pivotal role and influence of the two states still remains- especially in these sovereignty issues -but also because now due to the economic crisis in Greece we can't be sure if the government- that know has its full attention to the tremendous economic crisis- will have the strength and willingness to focus on the important “national issues of foreign policy”³⁰⁶.

All in all, growing economic relations are of great importance, as they appear to play a contributing role in the creation of a greater variety of opinions and hence in the bilateral relations themselves. However, in the case of Greece and Turkey it is quite difficult to imagine economics being able by themselves to obtain a prevailing position at the bilateral relations and thus lead to the resolution of the bilateral problems. This may be because the resolution of the bilateral problems is a matter of political leadership.³⁰⁷ The public opinion, on both countries, still has long-lasting stereotypes about the bilateral issues that it will take a great effort from the leadership of the two countries in order to change them and convince the people about the

³⁰⁶ In the case of Greece and Turkey these are the Aegean disputes and the Cyprus issue, T. Kouloubis, *Foreign Policy in the years of economic crisis*, [in Greek], Kathimerini, 08-05-2011

³⁰⁷ Interview with Prof. I. N. Grigoriadis, Assistant Professor & Jean Monnet Chair at the University of Bilkent, May 2011

necessity of policies that will lead to an eventual resolution.³⁰⁸ Of course, improvement in economic relations is very important as it contributes to the interconnection of economies, people, organizations and business groups and thus creates personal trust, a more coherent image of the country and its people while at the same time helps to the removal of social stereotypes and misperceptions.³⁰⁹ Therefore, although the importance of economic links, and thus the power and influence of business groups, have become more obvious and strong in these couple of years it is quite hard to imagine them occupying a predominant role in the bilateral relations just by themselves.

³⁰⁸ Ibid.

³⁰⁹ Ibid.

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