Greek-Turkish Economic Cooperation: Guarantor of Détente or Hostage to Politics?

Constantine A. Papadopoulos

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St Antony’s College
University of Oxford
Abstract
The post-1999 expansion in Greek-Turkish economic exchanges has led to hopes in some quarters of a ‘decoupling’ of relations from the constrictive bonds imposed by traditional bilateral politics. The ultimate goal would be that, through their own ‘normalising’ effects, intensifying economic relations in time render irrelevant or obsolete many of the issues that for decades have divided the two countries.

This paper argues (i) that the prospects for trade, tourism, energy cooperation and FDI, though positive and therefore supportive of a more benign climate, are unlikely by themselves to overturn long-held foreign-policy priorities in either country, and (ii) that the economic dimension as a means of conflict resolution will prove more effective if allowed to develop in parallel with Turkey’s EU accession process.
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1. Introduction

Economic cooperation between Greece and Turkey in the form of significant levels of foreign trade and investment is a recent phenomenon. Considering the two countries’ geographical proximity, the various complementarities – actual and potential – that exist between their economies, and hence the apparent prospects for fruitful cooperation in a range of fields, one tends to turn to political factors for an explanation of this historical fact. Likewise, political considerations come strongly to the fore whenever an understanding of the recent surge in economic exchanges is sought.

The long-held notion that politics – and the antagonistic mind-set that it is supposed to have fostered all these years – plays an overarching role in shaping the environment of Greek-Turkish relations in all areas is, of course, the tacit assumption underlying the vast majority of analyses treating the bilateral relationship. Lately, however, the expansion of economic ties – which, as will be shown below, can be essentially traced to the post-1999 thaw in political relations, the launching of Turkey’s EU accession negotiations in October 2005 and both countries’ budding participation in the world-wide globalisation phenomenon – has led to hopes in some quarters of a ‘decoupling’ of relations from the constrictive bonds imposed by political relations and their attendant ups and downs. Not surprisingly, among the strongest advocates of this view from early on were Turkey’s and Greece’s business communities. Indeed, in its more enthusiastic form this theory – in accord with, if not yet explicitly grounded in, the main ideas of the ‘interdependence’ school – claims/hopes that economic relations might actually start exerting a strong normalising effect of their own on the less-predictable, volatile world of politics. The ultimate goal, of course, would be a fundamental

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1 As early as April 2000, Greek and Turkish business leaders were calling for closer cooperation in trade and economic affairs. At an Economist conference held in Athens on 19 April 2000, the Vice-President of the Turkish Industrial and Business Association Aldo Kaslowski insisted that in fact Turkish-Greek cooperation should take precedence over all other kinds of regional cooperation. For his part, the President of the Greek-Turkish Business Cooperation Council Panagiotis Koutsikos declared that “the hope and wish of businessmen from both countries is the disengagement of trade and economic relations from the dependence on political conditions.” (Athens News Agency, 20 April 2000). Ironically, only fourteen months earlier, and in retaliation for Greece’s harbouring of PKK leader Abdullah Öcalan in the Greek Embassy in Kenya, Rahmi Koç, Chairman of the Executive Board of the Turkish-Greek Business Council, claimed that relations between the two countries had been brought to a level which “could not be repaired”, and forthwith announced the canceling of all planned joint meetings of the business council. (Anadolu Agency: News in English, 8 October 1999.) At the same time, Turkey launched a boycott of Greek products. (The Council was reconvened on 12 October 1999; see, Anadolu Agency: News in English, 8 October 1999.)

For an account of Greek-Turkish economic relations in the period from 1988, when the first serious contacts between Greek and Turkish businessmen were initiated, to 2000, see Maria Ververidou, “Greek-Turkish Economic Cooperation: Problems and Prospects” in Institute of International Economic Relations, Market without Frontiers, Vol. 7, Issue 1, Summer 2001 (in Greek).
recasting of the bilateral framework in such a manner that, *e.g.*, policy instruments such as the use of force would henceforth be deemed irrelevant, or at least counterproductive.

The belief in the benevolent influence of a deepening of economic relations between states has a long intellectual lineage, originating essentially in the works of the classical liberal school. Western economic thought has tended to emphasise the harmonious, cooperative aspects of economics, based on a more productive division of labour, expanding markets and hence enhanced prosperity for all.

A deeper look at the history and nature of cross-border exchanges reveals, of course, another side: their inherently competitive nature. One does not have to subscribe to the radical world views of Hobson and Lenin to realise that, just as competition between firms brings in its wake winners and losers, so in the international economic arena nations, in seeking to promote their self-interest, strive to out-compete or even dominate their neighbours and competitors. In the process, they will adversely affect the fortunes of those countries whose economies fail in due course to react, adjust and compete. However, those countries that rise to the challenge will end up being better off.

In what follows, we will argue that stronger economic relations between Turkey and Greece are likely to have a positive effect on bilateral relations. Insofar as economic exchanges continue to flourish, they may well create the conditions for a greater multiplicity of opinions – born primarily of the new communities of common interests that will emerge – and hence a greater resistance to any comprehensive deterioration of relations. By themselves, however, they will not dislodge conventional politics from its pivotal role as the ultimate determinant of the quality, and future, of the relationship.

This essay relies on two lines of reasoning in order to support the above contention. The first will be through appeal to various ‘objective’ facts and observations relating to recent and prospective bilateral trends in the areas of trade, tourism, energy and foreign direct investment. Reinforcing the specific conclusions will be the general observation that, despite recent progress, both countries perform relatively poorly in terms of their economic integration with the rest of the world; consequently, the economic instrument is already somewhat handicapped. The initial argument, in sum, will be that for a number of factual reasons it is highly unlikely that economic relations will become so advanced in any domain as to assume a position of primacy in the bilateral relationship as a whole.

The second line of reasoning goes further and claims that, even if the two economies became closely intertwined, this would not be enough, *by itself*, to preclude the possibility of tension and conflict at a given moment. This thesis has considerable basis not only in the historical experience of nation-states, but also in theory, as we will try to show below.

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2 See, *e.g.*, “The Globalization Index”, *Foreign Policy*, Nov/Dec 2007, pp. 68–76. In a study of 72 countries, and based on a list of 16 political and economic criteria, Greece ranked a mere 45th in the world and Turkey 65th. Furthermore, both countries moved down several places compared with 2006 (13 and 8 places, respectively). However, in relation to the more strictly economic criteria, *viz.*, trade and FDI, Turkey fared considerably better than Greece.

3 For reasons of analytical clarity, we will not bring into the discussion the Cyprus issue. For some students of Greek-Turkish relations, the non-resolution of the Cyprus question is sufficient to prevent a total normalisation of Greek-Turkish relations. Our reasoning in what follows does not depend on this argument.
2. The theory of cooperation: a study in ambiguity

As mentioned above, the idea that cooperation—economic or otherwise—is superior to non-cooperation occupies a privileged position in the social sciences; furthermore, it is psychologically appealing. Yet despite the optimistic overtones, a more critical look at international relations theory as well as of economic history itself tends to reveal considerable ambiguities. The Greek–Turkish case is no exception.

As the main point of departure, the classical liberal school contends that free trade generates net gains for both partners; i.e., a positive-sum environment is what should be expected under the right policies. However, a critical—albeit political rather than economic—question, often downplayed in this connection, is: what if, by the very workings of the multilateral trading system, the two countries’ bilateral trade is not in balance? What if the imbalance keeps growing? Will this not exacerbate underlying tensions? The realist school zeroes in on this possibility and points out that bilateral interdependence seldom means equal mutual dependence (which, in turn, can lead to critical asymmetries in the relationship). The pluralist school (led by Karl W. Deutsch), for its part, promotes the idea that certain ‘security communities’ privilege peaceful means of conflict resolution over violent means (but why has belonging to the Western camp since the early 1950s not helped Greece and Turkey resolve any of their bilateral differences in over 50 years?). The neo-functionalist school (founded on the work of David Mitrany and Ernst Haas6) advances the notion of positive functional as well as political spill-over effects flowing from a successful regional-integration process, a seemingly powerful concept on which Greek governments have (loosely) based their strong support for Turkish membership of the EU since the watershed Helsinki European Council in December 19997 (but why is this view directly challenged by a large number of member states in specific relation to the Turkish candidacy?). And from the theory of interdependence itself, essentially originated by Keohane and Nye,8 comes the

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4 As such, it lends itself to ready popularisation. For a modern statement of the peace-through-trade-and-prosperity argument at the global level, see, e.g., Stanley A. Weiss, “A fundamental truth”, International Herald Tribune, 7–8 July 2007. Weiss is founding chairman of Business Executives for National Security, a non-partisan organisation based in Washington, D.C. The “fundamental truth” advocated by the writer is, “if you want peace, promote trade”. The favourable reception with which this view is generally met is reflected in international opinion polls. For example, a 47-country poll conducted in spring 2007 by Pew Research Center found large majorities everywhere saying that trade is a good thing (though, at the same time, people did express concerns about its side-effects, viz., threats to their cultures, damage to the environment and challenges posed by immigration). See, International Herald Tribune, 5 October 2007.

5 Hence, also, the corollary: states’ frequent reliance on economic sanctions against other states in situations of conflict, usually deemed the most serious punitive measure available to the aggrieved party, short of outright aggression.


7 An on-line article by the author treating Greece’s ‘Turkey’ policy in the EC/EU framework since 1981, including a discussion of Athens’ famous volte face in 1999, can be found at http://www.euborderconf.bham.ac.uk/case/GreeceTurkey/index.htm.

notion that increasing interaction between states in a number of fields circumscribes their ability to chart entirely independent courses in the related policy areas, causing the cost–benefit analysis pertaining to the peace–or–conflict choice to become more complicated for those contemplating the latter option. From a Greek–Turkish standpoint, this proposition is still a work–in–progress, an hypothesis awaiting validation.

The history of nations’ relations with each other suggests that it is not just non–cooperation that can lead to tension and conflict, but on occasion ‘cooperation’ itself. This idea may prove less difficult to accept if one is prepared to acknowledge the often fine line that exists between ‘cooperation’ and ‘competition’ and between ‘competition’ and ‘antagonism’. History is replete with examples of tension and war brought about not by a lack of engagement in world economic affairs, but by the occasional attempt to take this involvement to extremes. Impoverished, isolated North Korea may be perceived as dangerous by its neighbours and others, but equally poor and isolated Myanmar/Burma, Cuba and Cold War Albania are (or were) a danger only to themselves. Contrariwise, two world wars were triggered by some of the world’s most advanced nations not because they were isolated from the international community or segregated against by it, but because they felt they were being deprived of their proper rank in the world.

Free–trade theory explains how specialisation and commercial interaction between countries leads to a better world–wide allocation of resources from which all can (potentially) gain.⁹ The theory’s greatest strength, and source of its resilience, is that, ultimately, its conclusions are not dependent on the very stringent assumptions underlying the standard theory of optimal resource allocation, viz., perfect competition, absence of technical progress, perfect information, etc. Economists have long known that departures from either the simple Ricardian model or the more sophisticated neoclassical, general–equilibrium model of trade (in the sense of relaxing some of the assumptions on which they are built) can weaken the case for free trade – but not necessarily overturn it.

An example of such a departure is the case of imperfect competition among producers (where the attendant distortion may take the form of a strategic competition over industry rents). In this case, the economist’s reply would be that, although imperfect competition does violate the static optimality conditions of standard welfare theory (thus undermining the case for using market prices as reliable guides for the efficient allocation of resources), it may also provide the conditions for more growth and innovation, which are desirable in the long run. Another example is the introduction of technical progress where countries’ comparative advantage is treated as given (this can turn the terms of trade against the country experiencing productivity growth in its export sector).¹⁰ In the latter case, the reply is that comparative advantage should not be understood as a static concept, its current configuration forever describing a country’s productive characteristics, but as a dynamic precept, a notional target that is ever–changing

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⁹ The gains from trade from any individual country’s standpoint are said to be more than sufficient to compensate those factors of production that are used intensively in the production of the import–competing goods. Countries unambiguously benefit; the income–distribution effects that the abandonment of autarky may subsequently have on their citizens is another matter.

¹⁰ It can be shown with the tools of neoclassical analysis that certain types of sector–specific productivity–led growth will lead to increasing terms of trade and to positive effects on national income growth; but other types of growth might lead to deteriorating terms of trade and to little, if any, positive effect on a country’s national income.
and geographically-shifting. In every case, the prevailing view is that the alternative, i.e., protectionism (and, a fortiori, autarky) will most likely make things worse. Furthermore, acknowledging that an ‘imperfect’ setting can be consistent with first-best outcomes – a theme closer to the subject of this section – opens the way to an understanding of why states in the short run can act as ‘partners’ engaged in mutually beneficial transactions, but still behave as ‘rivals’ in the long run.

The drive of nations to constantly improve their standing in the competitiveness rankings, therefore, is not motivated by a fear that economic exchanges between states represent little more than a cut-throat zero-sum game; as just seen, economic theory, but also the history of economic development especially after the Second World War, indicate otherwise. Rather, it derives from the fact that the actual distribution of the net gains associated with free trade is not given a priori, i.e., it is not pre-determined from the initial conditions – as it is in the Ricardian and static neoclassical models. In the real world, i.e., where allowance is made for economic growth and technical progress, analytically speaking the manner in which the gains are actually distributed reverts to centre-stage. Thus for a country to continually maximise the potential gains from trade over the longer period, it must above all be ready to adjust and change its lines of comparative advantage so as to take into account the new supply and demand conditions prevailing in the world.

Which countries, then, will tend consistently to obtain the lion’s share of the benefits from trade? Clearly, countries that display adaptability and a willingness to learn and apply new techniques; whose domestic markets are flexible and efficient; countries which more likely than not are technologically proficient. These traits will mostly be acquired or developed outside the confines of the international trading system per se (though they may be partly improved or honed inside it). Furthermore, such important attributes as bargaining power/negotiating clout, organisational skills, technical prowess, business acumen, asymmetric information, market dominance, the prevalence of one’s own regulatory standards, political influence and power, etc., will, in a dynamic setting, add their influence, first, as important facilitators of the wider structural adjustment process and, second, as key elements determining how the gains from free trade will actually be apportioned – to the benefit of those countries that possess them and, of course, to the detriment of those that do not. This is a world far removed from the deterministic, impersonal world of myriads of atomistic, competitive firms striving merely to adapt to the status quo without, individually, being in the least capable of affecting it. A more appropriate economic model that can be used to illustrate, by analogy (but not only), the dynamics underpinning the international system is the

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11 In a two-country static model, the distribution of gains (or terms of trade) will be determined by both countries’ joint demand and supply conditions. In a world model, world prices – and hence the terms of trade – will be given by world demand and supply conditions; therefore, the distribution of the gains from trade typically will be outside the control of any one country.

12 Recent work on ‘new trade theory’ suggests the existence of a “Smithian” trade-induced division of labour. Positing, analytically, a high degree of disaggregation of goods and processes, this can increase productivity and therefore the overall benefits of trade. In particular, productivity growth can result from expanded trade that is directly traceable to attempts among countries to introduce measures of ‘deep integration’ (i.e., ‘positive’ policy measures that, by leveling the playing field, open up new opportunities for trade). More on this interesting topic can be found in David Evans, Peter Holmes, Leonardo Iacovone and Sherman Robinson, A Framework for Evaluating Regional Trade Agreements: Deep Integration and New Regionalism, University of Sussex, December 2004, http://www.sussex.ac.uk/Units/PRU/tradelib_firms_Robinson.pdf.
one of monopolistic competition and oligopoly. In this model, all firms, large and small, vie for an increasing share of a market that may or may not be growing as the key to meeting the basic existential prerequisites to their future development and survival. In the process, they will constantly alter the status quo with the help of product, process and other innovations designed to help them stay abreast of or, preferably for them, ahead of the game.

In the short run – where (by definition) comparative advantage is given – an individual economic transaction freely and willingly entered into will in all likelihood be judged mutually advantageous by those involved in it, and to this extent be deemed conciliatory and harmonious. In the long run, the mechanisms of exchange and of apportioning surplus gains will tend to assume ‘imperfect’ characteristics (in the technical sense), given the nature of the race to adapt quickly and before one’s competitors to the market’s ever-changing desiderata; to this extent they will be antithetical and disequilibrating. In a competitive world, winner-countries will see their share of markets expand, their population’s incomes go up, and their power enhanced, just like winning firms see their corporate income and profits rise, reinforcing their ability to cope with future challenges. Loser-countries that lose markets through being undersold will suffer a loss of income, security, status and influence, just like firms do. Nearly fifty years ago, Professor Joan Robinson wrote:

International competition and national policy have been a great spur to economic development. Behind the façade of laissez-faire theory the governments of all capitalist nations have boosted trade and production, conquered territories and adopted institutions to help their own citizens to gain advantage. Free-Trade doctrine itself, as Marshall shrewdly observed, was really a projection of British national interests.\footnote{Joan Robinson, \textit{Economic Philosophy}, Pelican Books, 1964, p. 119 (first published by C. A. Watts in 1962).}\footnote{For a recent book that emphasises the two-way interaction between trade and geopolitics, and the importance of such interactions for world economic development, see Ronald Findlay and Kevin O’Rourke, \textit{Power and Plenty: Trade, War and the World Economy in the Second Millennium}, Princeton University Press, 2007.}

In sum, despite the fundamentally ‘universalist’ character of classical free-trade theory, experience strongly suggests – and most economists today would tacitly acknowledge – that free trade’s practical benefits are evaluated, typically, from one’s own country’s point of view. The well-being of others is desirable, but not for its own sake; rather, it is deemed a ‘good thing’ because it is an integral part of the wider paradigm of shared prosperity. When the others’ prosperity threatens ours, it is less desirable.

Clearly, the multitude of questions thrown up, deliberately or inadvertently, by the various theories mentioned above – including the ‘peace-through-trade’ thesis – make the Greek-Turkish example more of an interesting test case than one that can ‘prove’ any particular theory. However, if one message can be drawn from the above discussion, it is that economic interaction can improve the lot of both partners, but the actual distribution of the gains is a matter that will have to be settled on the ground.
3. Integration as an advanced stage of cooperation: The case of the European Union

The previous section argued that ‘economic cooperation’ is generally to be desired and encouraged, though it will be useful to bear in mind that in its wider, more ‘realpolitik’ sense, it may not always be the universally concord-producing institution that it is often portrayed. It may now be worth going a step further and exploring whether there is a relationship between the degree of cooperation existing between countries and the irrelevance of the use of force as a policy option. In fact, the examples exhibiting such a positive correlation are extremely rare. A brief journey through history gives very little outright support to the notion that an advanced state of economic interdependence causes nations to sideline or downplay the other elements which, between them, shape the ‘national interest’; or, better yet, that economic ‘cooperation’ can act as a virtual substitute to military conflict, as some would have it perhaps inspired by the well-known, but historically contentious, adage (variously attributed to Richard Cobden, Frederic Bastiat and Abraham Lincoln) “Borders that goods do not cross armies may”, or the Kantian-inspired maxim that “democracies never go to war with one another” (democracies, typically, being ‘open’ and therefore deeply engaged in trade and other forms of economic interaction with each other). There are examples of countries where conflict does appear almost inconceivable, but it is far from clear that this is due to the advanced state of their economic cooperation (which exists\textsuperscript{15}), and not to other factors such as the likeness and kinship between their peoples and social systems. The rare instances that come to mind include the U.S. and Canada, the Benelux countries and the Nordic states. There are, also, historical examples based not on friendship but on fear, viz., the case of Finland and the USSR in the days of the Cold War. At that time, this Nordic country effectively could dismiss the possibility of aggression from the Soviet Union: so thorough was her dependence, economic and otherwise, on her vastly larger and stronger neighbour that the threat of war was deemed to be beside the point (giving rise to the new term ‘Finlandisation’ to describe a non-violent state of effective helplessness and submission in the face of overwhelming potential military power\textsuperscript{16}).

From Greece’s perspective, the limitations of the ‘peace-through-trade’ approach have become particularly obvious in the wake of Athens’ inability to resolve for more than fifteen years another cross-border dispute, in the event involving the Former Yugoslav Republic of Macedonia, another non-EU neighbour: despite being one of the foremost economic partners of FYROM (including the top foreign direct investor since the mid-1990s\textsuperscript{17} and one of its top three trading

\textsuperscript{15} The country groups mentioned below by way of illustration also consist of very close trading partners. Conceptually, this gives rise to a direction-of-causality problem. In the final analysis, this problem can only be sorted out by means of an empirical-historical appraisal of the facts – even if different individuals interpret them differently.

\textsuperscript{16} In the Turkish-Greek case, the existing balance of power bolstered by their relative roles in NATO preclude the possibility of either Greece or Turkey succumbing to a state of ‘Finlandisation’ \textit{vis-à-vis} the other.

\textsuperscript{17} Hellenic Republic, Ministry of Economy and Finance, \textit{Fact Sheet on the Greek Economy, January 2007}, p. 8, http://www.mnee.gr/export/sites/mnee/en/economics/greek_economy_prospects/FactSheet_January07_En.pdf. The amounts invested are of the order of €950m, accounting for approximately 20,000 jobs. (Data directly communicated to the author from the Ministry of Economy and Finance.)
partners in terms of both exports and imports\textsuperscript{19}), Athens has had to date no success in making its smaller and economically-weaker neighbour yield in the dispute caused by the adoption of the name ‘Republic of Macedonia’ by Skopje.\textsuperscript{19} Likewise, Thessaloniki, despite being a Greek city that has benefited substantially from the FYROM trade, politically remains as antagonistic as ever on the name issue. This example vividly challenges any theory of conflict resolution based on economic relations alone.

In very few cases, therefore, can the resort to force, or the threat of it, be ruled out \textit{a priori} – indeed, since June 1995 Greece herself has been living with a \textit{casus belli} issued by the Turkish Grand National Assembly\textsuperscript{20} to pre-empt Greece from exercising the right, enshrined in international law, to extend her territorial waters in the Aegean Sea from 6 to 12 nautical miles.

The only other modern case in which war is generally deemed to be unthinkable is that of the European Union. True, the post-war European vision of peace and prosperity \textit{via} a policy of regional integration \textit{was} originally founded on ideas drawn from economics, \textit{viz.}, the notion of pooling resources for the common good, in the event in the coal and steel industries.\textsuperscript{21} And to be sure, the new security conditions created by the Soviet threat during the Cold War further reinforced the case for some form of European cooperation that went deeper and beyond the range of possibilities offered by an organisation such as NATO. But the ultimate goal of peace on the continent – it can now be claimed – would probably not have been secured without the deep institutional cooperation and sovereignty-sharing in key areas that are the modern hallmarks of European integration. It is thanks to their willingness to submerge any bilateral differences in a web of multilateral trans-societal and institutional – and not simply market transaction-based – relationships and common projects, that the EU’s democratic member states seem to have succeeded in banishing the use of force as a means of conflict resolution.\textsuperscript{22}

Greece’s support for Turkey’s EU membership bid since Helsinki in 1999 is based on the belief that the EU offers a common, comprehensive vision that provides wider benefits all-round, even as it circumscribes states’ freedom of action in conformity with certain new, binding, supranational, yet in the final analysis fundamentally cooperative, rules. In this view, only Turkey’s accession-driven ‘Europeanisation’ can generate the society-transforming experiences in that country that in due course will foster the appropriate combination of goodwill and rule-of-law necessary to both a fair and mutually-desired resolving of differences. In such a setting – so the argument goes – the incentives to a peaceful resolution of disputes are, in fact, overwhelming. Very importantly, Turkish officials, too,

\textsuperscript{18} Data from 2006 provided by the Central Intelligence Agency, \textit{The World Factbook}, https://www.cia.gov/library/publications/the-world-factbook/geos/mk.html#Econ.

\textsuperscript{19} Greece regards the use of the name ‘Republic of Macedonia’ by FYROM as potentially concealing expansionary intentions.

\textsuperscript{20} \textit{Reuters News}, “Turkish parliament gives cabinet war powers”, 8 June 1995.

\textsuperscript{21} Under the terms of the Treaty of Paris (1951) establishing the European Coal and Steel Community between France, West Germany, Italy, Belgium, Luxembourg and the Netherlands.

\textsuperscript{22} Some authors go further and claim that by the 1980s ‘the decline in violence’ had transformed international and domestic politics not only within the EU but continent-wide: hence, also, the astonishingly peaceful collapse of Communism. See, James J. Sheehan, \textit{Where Have All the Soldiers Gone? The Transformation of Modern Europe}, Houghton Mifflin Company, 2008.
apparently share the view that keeping alive the wider EU accession process is a necessary pre-requisite to making a success of fundamental domestic change.\textsuperscript{23}

The ‘Kantian’ overtones of this approach are clear. Yet at its heart lies a misunderstanding. In the Greek view, the European ‘route’ hopefully will prove superior to decades of efforts to resolve differences bilaterally with Turkey based on recourse to the tenets of international law and existing international treaties. These efforts have proven fruitless in the face of Turkish power: for example, it is telling that Turkey is one of the very few countries in the world not to have signed the 1982 United Nations Convention on the Law of the Sea (UNCLOS) which regulates such issues as the width of territorial waters and national airspace, and the nature of the continental shelf, while she has also, in recent years, taken to questioning Greek sovereignty over a number of small islands and islets that Greece believed (and believes) had been ceded to her under the terms of the Treaties of Lausanne (1923) and Paris (1947).\textsuperscript{24} Turkey’s on-going efforts to integrate the \textit{acquis communautaire} and adapt to European norms and practices (including, eventually, those relating to minorities and religious freedom) help explain why Greece has chosen essentially to be a follower in Turkey’s accession negotiations with the EU: by giving up the role of ‘valued obstructionist’, Greece has obliged the other member states to seriously contemplate the full consequences of a possible Turkish accession. If Europe is serious about admitting Turkey into the EU, then bilateral disputes have no place at all in the relationship.

Turkey, for her part, rejects Greece’s primordial strategy consisting in bringing the Greek–Turkish dispute\textsuperscript{25} – and, \textit{a fortiori}, the Cyprus problem – within the EU framework. Ankara insists that, at core, the disagreements in question – \textit{e.g.}, the delineation of the Aegean continental shelf, the militarised status of some of the Greek islands in the Eastern Aegean, the disparity between Greece’s territorial waters and airspace\textsuperscript{26} – are not matters falling within the EU’s competence.\textsuperscript{27}

\textsuperscript{23} See, \textit{e.g.}, \textit{Financial Times}, “Turkey warns on ‘dilution’ of EU status”, 8 November 2007.

\textsuperscript{24} After the Imia/Kardak crisis in January 1996, Turkey developed the novel concept of ‘grey zones’, which involved questioning the status of an undetermined number of islands and islets some of whose sovereignty Greece believes was transferred to her from Turkey under the terms of the Treaty of Lausanne in 1923 and some of whose sovereignty was transferred to Greece from Italy under the terms of the Treaty of Paris in 1947. Greece views any negotiations that include Turkish claims based on the theory of ‘grey zones’ as inconceivable – which is probably sufficient by itself to explain the lack of any real progress in the ‘exploratory’ talks held between the two sides since March 2002. Ankara’s alleged insistence on incorporating the ‘grey zones’ as a full-fledged part of the negotiating agenda is what is generally thought to have led Athens to become disenchanted with the process and forced the New Democracy government to place, in a sense, even greater faith than its predecessors in the conflict-diffusing properties of the EU framework – possibly, as PASOK implies, at the cost of prolonging the life of the dispute.

\textsuperscript{25} Of course, far from relying on an ‘automatic pilot’ to conflict-resolution supposedly guaranteed by recourse to the EU framework, the two countries, starting in 2000, first engaged in a process of bilateral contacts on non-contentious (or so-called ‘low-politics’) issues such as the promotion of trade and investment (\textit{cf}, the Economic Cooperation Agreement signed on 4 February 2000, which governs the institutional framework of Greek–Turkish economic cooperation; the agreement on mutual promotion and protection of investments, signed in Athens, 20 January 2001; and the bilateral agreement on the avoidance of double taxation of income signed on 2 December 2003), the improvement of transport and energy interconnections and the development of common policies to combat crime. This process of rapprochement has led to significant concrete results and to an improved political climate with frequent ministerial–level visits between the two governments.

\textsuperscript{26} For the official Turkish view on the issues involved, see, \url{http://www.mfa.gov.tr/MFA/ForeignPolicy/Regions/EuropeanCountries/EUCountries/Greece/GreeceLinks/Turkish_Greek_Relations_Aegean_Problems.htm} (26 June 2007).
Strictly speaking, this may be correct. But it neglects two factors: first, the greater economic incentives to a resolution of the conflict created by economic integration itself (cf., the stalemate over Aegean energy resources, to be discussed below\textsuperscript{28}); and, second, the greater political incentives to a resolution of conflicts created by a convergence of legal frameworks and philosophies (not to mention the ‘carrot’ of membership itself). When Turkey becomes a party to UNCLOS (as she will be obliged to eventually, given that the latter is part of the acquis), at least the scope and nature of the Aegean dispute will be better clarified: currently, there is not even agreement over what the ‘Aegean dispute’ consists of, with Turkey insisting that there is a list of unresolved issues to address, and Greece saying there is only one, \textit{viz.}, the delineation of the continental shelf.

At best, therefore, under these circumstances Turkey’s acceptance of the politics of compromise, compliance and accommodation that are part-and-parcel of the aspiring member-state’s \textit{pre}-accession learning experience would set the stage for an amicable resolution of all outstanding bilateral differences with a cooperative Greece – prior to accession. (A cooperative Greece, of course, is another \textit{sine qua non} condition for progress: as the Government delves deeper into the technical aspects of the Aegean discord and begins to realise that it, too, perhaps will have to accept painful compromises,\textsuperscript{29} it may be tempted to procrastinate or even stray off course – as, according to some of its domestic critics, it has shown signs of doing.\textsuperscript{30})

At worst, Turkey’s refusal to acknowledge the relevance of European norms and methods in the specific context of her differences with Greece would perpetuate some of the bilateral quarrels and, in a close-to-worst-case scenario, bring Greece to veto Turkey’s accession into the EU. Given that Greece in effect is investing as much in the EU’s methodology (\textit{viz.}, peaceful and good-neighbourly rules and patterns of behaviour) as in its legal provisions (which, as already mentioned, do not, strictly speaking, cover all of the issues of relevance), there is a

\textsuperscript{27} For a paper that argues that both countries see ‘Europeisation’ not as an end in itself but as a means to achieve their preconceived \textit{national} interests because of the prevalence of instrumental–strategic thinking in both capitals, see Tarık H. Oğuzlu, “The latest Turkish-Greek détente: instrumentalist play for EU membership, or long-term institutionalist cooperation?”, \textit{Cambridge Review of International Affairs}, Volume 17, Issue 2, July 2004, pp. 337–354.

\textsuperscript{28} For example, a resolution of the continental-shelf issue in the framework of a prospective Turkish EU accession would be more attractive for both countries than in the absence of such a perspective if, in the meantime, as prospective partners within the EU they had developed wider common business and economic interests in the energy field.

\textsuperscript{29} For example, previous cases brought before the International Court of Justice by litigant parties relating to continental shelf issues suggest that the Greek side might receive less than 100% satisfaction should the case be referred to The Hague: the 1982 Treaty does make some distinction between islands of a notable size and small uninhabitable islets and rocks.

\textsuperscript{30} Athens in the past has been admonished by domestic critics (above all, opposition Pasok, the ‘architects’ of Helsinki) for ‘abandoning Helsinki’, \textit{i.e.}, for allegedly turning her back on the European Council’s quasi-binding recommendation to the two countries issued in 1999 to solve their bilateral differences or otherwise agree, by December 2004, to refer them to the International Court of Justice at The Hague. The new Greek government that came into office in March 2004 decided to overlook this stipulation, citing an inability on the part of Greece and Turkey to “solve in two months what they did not solve in 30 years”, to quote the new Prime Minister Costas Karamanlis (from an interview given on 12 September 2004). The European Council, meeting on 17 December 2004, subsequently proceeded to offer Turkey accession negotiations. Though diplomatic experts from both sides have held at least thirty-seven meetings since 2002 in the framework of ‘exploratory’ talks, there is no evidence six years later of any imminent breakthrough.
greater element of risk involved in her chosen strategy than perhaps is commonly supposed. In this sense, economic interests could also be adversely affected, rather than the other way around. But a Turkey estranged from the EU would serve Greek interests even less, from this perspective.

Greece’s faith in the EU’s democratising and pacifying virtues has been a steady feature of the country’s domestic politics and its foreign-policy vision, having been a primary beneficiary of them herself (cf. the period after the fall of the military government in 1974). It also explains Greece’s strong support for EU enlargement to the South Eastern European region as a whole (upon fulfilment, of course, of the well-known conditions by each candidate country). Whether or not the European Union has a limitless capacity to transform societies on its periphery at no cost to itself is another issue, which, however, falls beyond the scope of this paper. Suffice it to say that it is a question fraught with uncertainty over which Europeans are divided.

4. Trade

Cross-border trade is the most straightforward and simple form of inter-country economic interaction. It also carries its own safety mechanism insofar as globalisation diminishes the relative harms of a disruption of commerce with any one trading partner. As such, trade was the first activity to respond to the recent thaw in political relations between the two countries.

The Greek-Turkish trade relationship has flourished in recent years, with 2000 marking a new upswing, mainly thanks to a 65%-plus surge in Greek exports to Turkey. This was four years after Turkey’s Customs Union with the EU came into effect, to a slow start, and one year after Helsinki. The ensuing political thaw almost certainly played an important role, as it did in the even greater surge of Turkish exports to Greece in the following years, especially in the wake of Turkey’s gradual recovery from the 2001 financial crisis. In 1989, trade between the two countries stood at $206.5/$226m. In 2000, it had more than quadrupled to $946/$869m. By end–2006 it had tripled yet again, to $2.72/$2.64bn. Although both countries have very large, and growing, current-account deficits with the outside world, in this instance the bilateral balance is in Turkey’s favour, and the gap generally displays a tendency to grow over time (though not every year), while falling as a proportion of total bilateral trade itself.

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31 During the four-year period 1996–1999, bilateral trade increased annually by a modest 14% on average. (See, International Monetary Fund, Direction of Trade Statistics.) The expansion of trade that could have been expected to follow upon the entry into force of the Customs Union was undercut by two important crises, that of Imia/Kardak in January 1996 and the Ocalan affair in February 1999.

32 International Monetary Fund, Direction of Trade Statistics. As the figures given by the two countries’ authorities do not entirely coincide, we present here the figures given by the Greek authorities first, followed by those given by the Turkish authorities.

33 The 2006 figures presented here have been drawn from official Turkish and Greek sources obtained by the author from the Hellenic Ministry of Foreign Affairs.

34 By way of illustration, the trade gap in the last five years (based on Greek figures) has grown from $244m in 2002 to $591m in 2006. But in 2005 it went down, compared with the previous year, to $245.5m. The volume of bilateral trade grew from $940m in 2002, to $1.41bn in 2003, $1.91bn in 2004, $2.12bn in 2005 and $2.72bn in 2006.
The question is: how important are the two countries to each other’s external trade? According to official Turkish statistics for 2006, Greece ranks a mere 15th in importance as an export market for Turkish products. In 2006 Turkey exported goods worth $91.7bn to the rest of the world. Of this, $1.5bn’s-worth went to Greece, (i.e., 1.6% of the total). This puts Greece on a par with, say, Bulgaria, and considerably below Romania (countries whose GDP in official exchange-rate terms in 2006 was only 11% and 31%, respectively, that of Greece).

At the same time, imports from Greece were worth $1,040m, accounting for 0.8% of Turkey’s total import bill of $137bn. This placed Greece only in 32nd position in a ranking of countries to which Turkey turns for its foreign-produced goods (just behind Finland and Austria, and before Indonesia). Turkey’s imports from Bulgaria, in contrast, were 60% greater in value than those from Greece, and the value of Romanian goods reaching the Turkish market was over two-and-a-half times as large, which again is surprising, considering the much smaller size of the two Balkan countries’ economies.

In commercial terms, Turkey is more important to Greece than Greece is to Turkey – not surprisingly, given the two economies’ relative size. For Greece, Turkey in 2006 ranked the 6th most important export market, accounting for 5.1% of Greece’s total exports. Yet in 2000, Turkey was in 5th place, only to fall to 11th place the following year as a result of the severe financial crisis Turkey experienced that year. Bulgaria, with only a tenth the population of Turkey and less than one-twelfth the GDP (measured in official exchange-rate terms), was in 2006 Greece’s third most important export market, absorbing almost 25% more goods than Turkey.

As for Greek imports from Turkey, these amounted to $1.66bn in 2006, accounting for approximately 2.6% of Greece’s total import bill of around $63.6bn. This placed Turkey in 13th position among countries from which Greece buys foreign goods, roughly on a par with Japan.

The overall picture, therefore, is one of still puzzlingly low volumes of trade, notwithstanding the high underlying growth rates. What are, then, the prospects for the future?

Official and semi-official pronouncements speak of a doubling of bilateral trade to $5bn sometime soon. Probably one of the earliest references to the $5bn figure was by Prime Minister Recep Tayyip Erdoğan himself in Athens in 2004. Again, on the sidelines of a multilateral summit meeting of Balkan countries that took place in Thessaloniki on 4 May 2006, Prime Ministers Erdoğan and Karamanlis agreed to more than double bilateral trade from the then current $2bn to $5bn. However, they did not set a time frame for achieving this goal. Such optimism is...

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35 See the Turkish Statistical Institute, Turkstat, http://www.turkstat.gov.tr/VeriBilgi.do.
37 One explanation may be that, because Turkey has considerable amounts of FDI in these countries, much of the registered trade may be intra-firm trade.
39 /bid.
40 Quoted at a luncheon hosted by the Greek-Turkish Business Forum in Athens on May 7, 2004: “We can soon raise this to EUR 5 billion,” See, INV.gr, “Greece–Turkey: bilateral business, trade, tourism and investment relations” (http://www.inv.gr/invqt.htm).
repeatedly expressed by officials and experts.\textsuperscript{41} Greek (then) Deputy Foreign Minister Euripides Stylianides reportedly told Reuters in an interview in May 2006 that the Government saw bilateral trade reaching €5bn from €2bn (at the time) in less than two years.\textsuperscript{42,43}

However, on closer scrutiny these numbers seem more to be based on an extrapolation of recent trends (and perhaps the vibrancy of exchanges in many border areas) than any analysis of the underlying dynamics shaping the two countries’ international trade patterns and domestic structural developments.

A closer look at the composition of trade between the two countries suggests that the rapid growth in the volume of trade seen in recent years may not be entirely immune to a slowdown effect in the relatively near future, especially from the Greek end. Greek exports to Turkey are heavily biased in favour of two products: (i) petroleum products/fuel (Turkey in 2005 was by far Greece’s most important export market in this sector, taking up 24.2\% of Greece’s total petroleum product exports\textsuperscript{44}), and (ii) raw cotton (accounting for between 15\% and 20\% of total Greek exports to Turkey, which then often returns to Greece in the form of clothes and textiles). Between them, these two categories account for almost half of Greece’s exports to Turkey. But both are potentially vulnerable.

The rise of Greece’s petroleum-product exports to single most important export good world-wide status is a relatively recent phenomenon and carries substantial benefits given that these products are of relatively high value-added.\textsuperscript{45} However, Turkey is in the midst of a comprehensive investment programme to boost capacity, as well as modernise her refineries and produce oil products in conformity with EU standards, in theory by 2007.\textsuperscript{46}

Greece’s cotton exports to Turkey – a much more ‘traditional’ activity – are not typical of Greece’s overall export patterns\textsuperscript{47} (which lately have shown a significant tendency to shift to more high-technology products and products

\textsuperscript{41} Panayiotis Koutsikos, Chairman of the Greek-Turkish Business Council, said in an interview with the daily “To Vima” on 10 July 2005 that “considering how business relations [..] are developing today, it is predicted that in the next three years Turkey will become our second or third most important partner”.


\textsuperscript{43} Over a year and a half later, on the occasion of the Greek Prime Minister’s official visit to Turkey in January 2008, the chairman of the Turkish-Greek Business Council at the Foreign Economic Relations Board (DEIK) Selim Egeli said in an interview with the \textit{Turkish Daily News} that in the near future $5bn of trade between the two countries could easily be reached. Reported in \textit{Kathimerini} (English-language edition), 23 January 2008.


\textsuperscript{45} In the earlier part of the current decade, Greek petroleum-product exports accounted for between 6\%-10\% of the country’s total merchandise exports (\textit{Ibid}, p.7). In 2006 their value rose to 13\% of the total (see, Report of the Governor of the Bank of Greece for 2006, Athens, 2007, p. 275 and PFE, next footnote).


embodying higher labour skills\(^{48}\)). This phenomenon must be attributed, partly, to the supply-boosting distortions implicit in the Common Agricultural Policy and, partly, to strong demand from Turkey. Unfortunately for Greece, cotton is a famously water-intensive – product facing an uncertain future within the planned revision of the Common Agricultural Policy.\(^{49}\)

The balance of Greek exports to Turkey consists of agricultural goods and semi-industrial products such as processed leather and skin, plastics and aluminium products and some ready-made clothes, textiles and steel products, also ‘traditional’ goods in which Turkey is competitive. This concentration makes Greek exports to Turkey relatively vulnerable to such things as price fluctuations in international markets. In contrast, Turkish exports to Greece are more diversified, which makes for greater stability in Turkish export patterns and a more positive outlook for the future. Up to 85% of Turkish exports to Greece are classified as ‘industrial’ goods\(^{50}\) and cover a wide range of products, including iron and steel, machinery, automotive and spare parts, ready-made garments and clothing, textile products,\(^{51}\) furniture, consumer durables, etc. Reinforcing this notion of ‘concentration’ on the Greek side and ‘dispersion’ on the Turkish side, in 2005 Greece’s top 20 exports to Turkey accounted for 74% of all Greek exports to Turkey, whereas Turkey’s leading 20 exports to Greece accounted for only 31% of the total.\(^{52}\)

On current trends, therefore, Turkey seems better poised to strengthen her commercial penetration of the Greek market than vice versa. For Greece to counter the eventual emergence of an ever-growing bilateral trade deficit with Turkey – and the political fallout that that may engender – she will have to shift her focus, \textit{mutatis mutandis}, to higher-value and/or higher-technology exports to Turkey. After all, ‘industrial’ goods account for approximately 60% of Greece’s total exports


\(^{49}\) Cotton’s future is highly precarious given changes under way in the CAP. These changes began mainly with the 2003-04 reforms which saw the EU move further from a price-support policy to an income-support policy through ‘decoupled’ payments (\textit{i.e.}, commodity support prices continue to exist, but alongside direct payments to farmers which are handed out independently of requirements to plant a particular crop). The ultimate goal is a greater rationalization of the sector. Greece will suffer proportionally more (with Spain) than other EU Member States as a result of the reforms as they affect cotton production because she is (together with Spain) the EU’s largest producer of a crop in which the EU is a net importer. This is in addition to the fact that its production is highly water-intensive in an otherwise dry country facing deteriorating water-supply prospects.

(Any number of websites, including those of the European Commission (\url{http://ec.europa.eu/agriculture/markets/cotton/index_en.htm}) and the United States Department of Agriculture Economic Research Service (\url{http://www.ers.usda.gov/Briefing/EuropeanUnion/PolicyCommon.htm}), provide useful information on this topic.)

\(^{50}\) This percentage mirrors very closely the percentage of Turkish exports to the EU that are classified as ‘industrial’.

\(^{51}\) Turkish clothing and textiles, of course, are also vulnerable to competition from such countries as China and India. Already, these sectors – representing almost 20% of Turkey’s total exports – are under pressure from these and other developing countries as a result of the wider liberalising tendencies agreed under the WTO.

to the rest of the world, but only 30% in the case of Turkey despite the fact that nearly 60% of Turkey's imports from the rest of the world consist of industrial goods (mainly capital- and intermediate-goods required for Turkey's industrialisation).

Although, clearly, such a restructuring of the country's export mix cannot be dictated 'from above', and will have to rely primarily on market signals to proceed rationally, policy can also sometimes play a role, even if an indirect one: the outlook for cotton production in Greece being what it is, there is scope (not yet officially recognised) for a managed transition of resources to alternative lines of production that are more consistent with actual world supply and demand conditions, undistorted by policy interventions. This presupposes first and foremost that both producers and the authorities will heed the available market signs in a timely fashion – though EU experience suggests that governments and farmers often form coalitions to slow down the necessary adjustments.

Finally, one must also mention the existence of certain administrative barriers that are impeding Greek exports' access to the Turkish market. These barriers are highlighted in various European Commission reports and usually involve excessive administrative requirements, including the non-application of certain rules regarding the mutual recognition of standards, the application of additional sanitary requirements (despite Greek goods' 'EU' origin), extra customs duties in the agricultural and alcoholic beverage sectors (that the Greek side considers to be in breach of the 1995 EU-Turkey Customs Union agreement), time-consuming procedures for the issuing of import permits (allegedly in breach of Articles 5 and 6 of Decision 1/95 of the EU-Turkey Association Council), as well as discrimination in public tenders by reason of inadequate transparency. According to the Greek side, all of these issues will have to be addressed before trade is able to reach its full potential.

5. Tourism

Tourism could be said to occupy the second tier in the hierarchy of modes of economic interaction in that it can take the relationship beyond the mere utilitarian and allow direct personal experiences that touch on the cultural, the historical and even the inter-personal.

Tourism can be a very significant source of income for some countries, having evolved in recent decades into one of the international economy's most dynamic industries. But while policy-makers will tend to make assessments of tourism's impact mainly on the basis of foreign-exchange earnings, the tourists themselves will be primarily motivated by leisure, cultural and other interests that are not straightforwardly economic in the narrow meaning of the term; as such,

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54 For example, the 2004 reform of cotton production was challenged by the Spanish government and subsequently annulled by the European Court of Justice in September 2006. (The European Commission is working on a revised version of its proposals.)

The Greek government, too, seems intent on defying not only market forces, but also those of Nature: in a bid to preserve the production capacity of the Thessaly plain, the country's main agricultural region which is currently suffering from wasteful overexploitation of the water table, the Government is carrying out a massive project to divert the Acheloos river away from its natural course in Western Greece toward the Ionian Sea into the (eastern-lying) Thessaly plain – to the consternation of local and environmental groups.
they will not entail much in the way of risk and investment. This being a typical ‘buyer’s market’, therefore, it enables people to readily shift attention to other parts of the world at will and at no cost.

Greek tourists have constituted one of the more important groups, alongside Western Europeans, visiting Turkey ever since the early 1980s. The number of Greek visitors to Turkey grew by an additional 100,000 in one year to reach 585,000 in 2005 (146,000 in 1999), placing Greek visitors in 8th position overall (e.g., there were 34% more Greek visitors than Americans in 2005). The number of Turks visiting Greece is considerably smaller: according to Greek sources, in 2006 a total of 67,996 visas were issued to Turks of which 51,479 were for tourism purposes (which itself represents a 36% jump over the previous year, the highest percentage increase of the decade). These numbers might have been greater were it not for existing visa requirements from the EU and a high departure tax from Turkey ($50, reduced to 15 YTL in March 2007).

Industry experts also set great store by the prospect of common package deals for third-country tourists who want to visit both countries – to which end an initial bilateral agreement was signed in June 2005 between TURSAB and HATTA, the two countries’ travel-agency associations, in Kuşadası. Turkey and Greece are the world’s 11th and 17th most important tourist destinations measured in terms of tourist arrivals, respectively (2006 estimates). Initiatives to facilitate cross-border travel –bilateral, but also international, travel – can be expected to produce significant synergies to the benefit of both countries. For example, if Turkey could attract, on a side-trip of a few days, just 10% of the annual visitors whose main destination was Greece, this would amount to a 7% increase in tourist arrivals for Turkey (1.4m extra visitors, using 2006 figures). Conversely, if Greece could attract 10% of visitors whose main destination was Turkey, this would boost total arrivals to Greece by 14% (2m extra visitors). For this to be a positive-sum game, of course, more tourists as a whole (or the same numbers but for longer periods) would have to come to the region, attracted by the new ‘joint’ product in question. This, in turn, presupposes not only a greater degree of private-sector business cooperation, but also a greater effort on the part of the two governments to address such issues as air and road infrastructure, specialised personnel, visa

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56 These figures are provided in an internal report of the Hellenic Ministry of Foreign Affairs obtained by the author. The difference between tourist visas and total visa numbers is accounted for by transiting lorry drivers and Turkish migrants to and from Western Europe.

57 Though the Turkish side is aware of the restrictions implied by the Schengen *acquis*, it often requests a more flexible application thereof (as had been tried on a trial basis in the past for summer day trips to the Aegean islands, but is no longer possible), as well as more efforts on the part of the Greek consular authorities to speed up procedures.

58 On 29 June 2005, the Association of Turkish Travel Agencies (TURSAB) and the Hellenic Association of Travel and Tourist Agencies (HATTA) signed a protocol in Kuşadası to set up a joint council to promote joint tourism packages for long-distance tourists (mainly from the Far East).


60 Oft-mentioned problems in Greece are the late announcement of summer schedules for passenger ships and ferries (though great progress is reported to have taken place recently on this score), and insufficient investment in many ports across the country, which inhibits the docking of larger and more modern ferries. See, e.g., an interview with the President of the Coastal Shipowners’
issuance, *et al.* More generally, it is plausible to assume that a ‘common tourist area’ in this sense, *i.e.*, one that is characterised by an adequate degree of internal market-‘seamlessness’, will be easier to establish the higher the position of the countries involved in the ‘tourism competitiveness’ rankings. However, based on an index compiled by the World Economic Forum, Greece ranks only 24th among 124 countries, and Turkey 52nd. Therefore, more remains to be done in this field. No doubt, this is why the two tourism ministers signed in Antalya on 12 November 2006 a memorandum providing for easier travel for third-country visitors from one country to another, the launching of new ferry links, the strengthening of air links, cooperation in sea tourism, and the encouragement of private initiative. Other areas included the exchange of know-how and experience regarding the use of marinas, certification systems on agri-tourist accommodation, and tourism education.

Tourism as an area of ‘strategic’ cooperation has its limitations, of course, given the special sensitivity of tourist markets to local and regional crises and instability. This seems to be well understood by the two governments, which have tried to contribute their share by way of a summer moratorium on military exercises, originally introduced in the earlier part of the decade. Therefore, one could claim that at times when bilateral relations and the international environment are benign, the tourist sector will act in a ‘pro-cyclical’ fashion. But in times of political uncertainty, it will be among the first to suffer: *e.g.*, in 2006 following several attacks in Turkey and worries about the Iraq war, tourism revenues and numbers fell by approximately 7% as against 2005, while the number of Greek tourists also dropped, to 480,000 (from 585,000, *i.e.*, an 18% fall). Indeed, in such times there will be a direct divergence of interests, as the respective destinations become directly competitive with one another. It is unclear to what extent the creation of a ‘common tourist area’ along the lines mentioned above can counteract this effect.

6. **Energy**

Energy cooperation is another, relatively new, area that will increase interdependence between the two countries, both highly dependent on imported energy. This development must be seen against the wider redrawing of the energy map in the wake of the emergence of the Caspian Sea as a vital energy-producing region, the parallel rise of Russia as a critical and assertive energy player,


63 According to the World Economic Forum’s 2007 Tourism Report, *op. cit.*, Turkey saw a decline of international tourist arrivals in 2006 to 18.9m, from 20.3m in 2005 (*i.e.*, a 6.9% drop). Revenues also fell to $16.9bn from $18.2bn in the previous year (another 7.1% decline).

64 See “Warming in the Aegean”, *International Herald Tribune*, 19 January 2007, a report that quotes tourist officials from both countries.


Russia has the world’s largest confirmed reserves of natural gas (26% of the world’s total); it is also the world’s largest exporter. (Runners-up are Norway, the Netherlands and Algeria.) But
emergent role of South Eastern Europe as an important energy corridor between East and West, and European countries’ (including Turkey’s and Greece’s) anxious attempts to reconcile security of supplies with sufficient diversification of their provenance. Generally speaking, cooperation in this important field suggests a readiness by the two governments to pursue, or at least accept, the development of overlapping interests with whatever constraints on their freedom of action this may entail, in exchange for a greater degree of – joint, in the event – energy security vis-à-vis the rest of the world and a more important – joint – role in European energy geopolitics. But ‘cooperation’ has not meant overlooking ‘diversification’, and, as will be argued below, both countries seem to espouse the view that energy policy remains essentially a national-level undertaking.

To date, Turkish-Greek energy cooperation has focused primarily on the $300m, 285 km-long natural-gas pipeline running from Karacabey, located on the Asian shores of the Sea of Marmara, to Komotini, located in Western Thrace. The joint project was agreed on 23 February 2003 between DEPA and BOTAS, the Greek and Turkish state gas utilities. The pipeline itself was connected at the border on 3 August 2007 and formally inaugurated by the two Prime Ministers on 18 November 2007. In the beginning, it will carry Azeri natural-gas supplies from the Caspian Basin to Turkey and Greece. But once the network is extended from Hegoumenitsa, on Greece’s Ionian coast, to Otranto in Italy (purportedly, in 2012), it will transport natural gas further into Western Europe. Clearly, the project has

during the last ten years, Russia has reportedly under-invested in new gas fields, leading to fears in some quarters of a ‘gas gap’ in Europe as early as 2010. See, Katinka Barysch, “The best answer to Gazprom is faster reform”, Financial Times, 3 September 2007. After Saudi Arabia, Russia is also the second-largest producer and exporter of petroleum in the world.

66 This goal now contains a sub-issue that could be termed the ‘competition vs. ownership’ issue. The latter refers to current efforts by the European Union to open up the home market to more competition while ensuring that there are effective checks on foreign ownership, particularly of transmission networks. On this particular issue, see European Commission, “Energising Europe: a real market with secure supply”, IP/07/1361, Brussels, 19 September 2007, and International Herald Tribune, “Liberalize energy market? EU looks again”, 19 September 2007.

67 The ‘cooperation vs. diversification’ problématique seems to underlie current energy politics and economics in other parts of the world as well. For a recent publication that treats issues of energy cooperation and non-cooperation in the Western Hemisphere, see Sidney Weintraub, Annette Hester and Veronica R. Prado (eds.), Energy Cooperation in the Western Hemisphere: Benefits and Improvements, Center for Strategic and International Studies, Washington, D.C., 2007.

68 A first agreement was signed to this effect on 4 November 2005 between Edison of Italy and DEPA, subsequently formalised on 26 June 2007 when ministers from Turkey, Greece and Italy signed an agreement in Rome for the construction of the so-called Poseidon pipeline, which will cost €900m, to be shared by Edison and DEPA. The 820-km long Greek-Italian segment, from Komotini via Thessaloniki to Hegoumenitsa, on Greece’s northwestern coast, and under the sea to Otranto, will purportedly see completion by 2012.

On 25 January 2008, Edison and DEPA announced they were setting up a joint company by March to build the 206-km undersea link. (Reuters, 26 January 2008.)

69 Out of a capacity of 11.5bn cubic metres annually, only 70m m³ was to be purchased by Greece from Turkey in 2007, scheduled to rise to 750m m³ in 2009. (A natural gas sales and purchase contract was signed on 23 December 2003 by BOTAS and its Greek counterpart DEPA. According to the contract, BOTAS was to sell 250m cubic metres of natural gas in the first year of the operation of the new pipeline, 500m m³ in the second year and 750m m³ thereafter to DEPA. See, International Energy Agency, Energy Policies of IEA Countries, Turkey – 2005 Review, op. cit., p.104. However, delays in launching the pipeline in the summer of 2007 meant smaller supplies for that year.)
wider repercussions, not only for Greek–Turkish cooperation but also for the resource-rich Caspian countries, as well as for energy-hungry Western Europe (the EU is the world’s largest importer of energy). For Western Europe, as for Turkey and Greece themselves, the pipeline will provide a supplementary source of natural gas to Russian gas and, as such, represents a milestone in Europe’s new strategy to diversify its energy sources.70

At the same time, Greece and Turkey maintain a large degree of independence in the energy field vis-à-vis each other. Both countries import energy from a variety of sources.71 New pipeline projects under way in both Turkey and Greece appear consistent with efforts to preserve this kind of diversity, as well as to forge for each country, via the appropriate alliances, a role as an important energy ‘hub’ in its own right. In this sense, one could argue that the fact that the Karacabey-Komotini is almost the only, so far, common major infrastructure project between the two countries is just as noteworthy as the pipeline itself.

Turkey is set to become a major crossroads for pipelines carrying natural gas and oil to the Mediterranean region and Western Europe from Russia, the Middle

As of 2011, 8bn m$^3$ is expected to be carried on the Greek-Italian segment, of which 20% will be reserved for DEPA for a 25-year period and the rest for Edison. On 22 May 2007, the European Commission conditionally approved a derogation to the relevant gas directive (2003/55/EC) that will exempt the new infrastructure from third-party access rules. The Commission based this decision on the contention that this type of arrangement would promote more effective competition on the Italian gas market and, more generally, that this was a project of strategic importance for Italy, Greece and Europe as a whole.

By 2011, Greece’s annual natural-gas requirements are forecast to rise to more than 6bn m$^3$, from around half that in 2007. For Western Europe, as for Turkey and Greece themselves, the pipeline will provide a supplementary source of gas to Russian gas. In the case of Greece, it will be capable, in principle, of supplying a little under half of Greece’s total estimated needs, based on the supply and allocation arrangements that have been announced to date.

70 To those who fear that Europe may be building too great a reliance on Russia for her energy needs, the counter-argument is that the EU has negotiating power, too. The fact that 60% of Russia’s oil exports go to the EU, as do 50% of her natural gas exports, means that Russia, too, is developing a kind of dependency on Europe – based on the ensuing steady income flows and the commitment to certain supply routes, in turn grounded in certain specific long-term infrastructures. See, e.g., Andris Piebalgs, Energy Commissioner, Oil and gas geopolitics, Speech at the Lisbon Energy Forum 2007, Lisbon, 2 October 2007, Speech/07/586, p. 5.

71 For domestic-consumption purposes, Turkey’s primary source of natural gas is Russia, though Azerbaijan’s role is also set to rise dramatically. Turkey also imports gas from Iran, as well as from Algeria and Nigeria. Attempts have been made to diversify natural-gas imports; however, the share from Russia in 2003 was 61% because many contracts with other suppliers had remained inactive as a result, at the time, of oversupply concerns. See, International Energy Agency, Energy Policies of IEA Countries, Turkey – 2005 Review, op. cit., p. 75.

As far as oil is concerned, in 2003 Turkey’s crude oil came mainly from the Middle East and Africa; the largest sources were Iran (29%), Libya (19%) and Saudi Arabia (16%), with Russia only in 5th position.71 (IEA, op. cit.) Crude oil was also imported from Iraq, Syria, Algeria, Egypt, Tunisia, Azerbaijan, Kazakhstan and Italy in 2003 (op. cit., p. 28). However, the new pipelines mean that not only Russia, but also Azerbaijan, and in the near future Kazakhstan as well, will increase their relative weight from Turkey’s perspective.

Turkey hosts three main international gas pipelines: one from Tabriz in Iran to Ankara, which became operational in January 2002, another from Azerbaijan which runs parallel to the Baku-Ceyhan oil pipeline (see below) to Erzerum in N.E. Turkey, completed in 2006, and a third, the so-called Blue Stream pipeline, running from Djubga, on Russia’s Black Sea coast, across the seabed to Turkey, which was officially inaugurated in November 2005. Gazprom’s original plans envisaged extending this pipeline from Turkey westward through Bulgaria, Romania and Serbia into Hungary. The ‘extended’ Blue Stream would then compete with/complement (depending on one’s predisposition) the ‘rival’ Nabucco project, linked to the new Caspian gas fields. The Nabucco project – hailed as the EU’s first attempt to forge a common energy security policy (and included in 2002 in the EU’s Trans-European Energy Network programme) – provides for the building, theoretically in 2008–2012, of a pipeline to deliver Central Asian natural gas (from Azerbaijan, Iran, possibly Turkmenistan and Kazakhstan, and later Iraq and Egypt) to Central Europe via Turkey, Bulgaria, Romania, Hungary and Austria. This gas infrastructure project, whose cost is expected to reach at least €5bn, consists of a 3,300km pipeline that in principle will start operating in 2012 at the earliest, and transport up to 31bn cubic metres of natural gas annually at full capacity.

However, plans for a new, Russian-inspired, South Stream pipeline traversing the Balkans and Greece announced in June 2007 have put the westward extension of Blue Stream in doubt; it has also raised questions, at least among some experts, as to the viability of Nabucco itself, in which Turkey, of course, is a key player. Although the European Commission and the region’s political leaders do

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**Notes:**


73 The pipeline is 1,213 kms-long and carries 8bn cubic metres of natural gas annually, expected to double by 2010. It was built by a consortium comprising Gazprom and Eni at a reported cost of $3.2bn.

74 See also European Commission, “Commission approves regulatory regime for the Austrian section of the Nabucco gas pipeline”, IP/08/201, Brussels, 11 February 2008.

75 About half the gas would be used by countries along its route, from Turkey to Austria.

76 On 23 June 2007, Gazprom and Italy’s Eni announced they would build, by 2013, a new pipeline system to carry about 30bn cubic metres of natural gas annually from Novorossiysk, on the Black Sea coast of Russia, under the Black Sea to Burgas in Bulgaria. From there, it would go to Romania, Hungary, Austria and Serbia and, via another branch further south, Italy. Two days later, the Greek Prime Minister Costas Karamanlis announced, after a meeting with President Putin in Istanbul, that Greece also would be a part of the South Stream project. See, e.g., “Rival pipeline deals expose EU’s energy disunity”, *International Herald Tribune*, 27 June 2007.

77 From a Russian perspective, South Stream has the added advantage of furthering Russian government objectives in removing or at least reducing the leverage of so-called problematic transit states for its energy exports. Thus, Russia would not have to rely on the Ukrainian pipeline, nor depend on Turkey to develop new routes connected to Blue Stream: Turkey and Ukraine would simply become markets (rather than transit states too) for Russian gas. In this, it is not unlike the Nord Stream project, which avoids Poland and the Baltic states. See, e.g., “Putin woos Europeans with new gas pipeline”, *Financial Times*, 28 June 2007.

78 The Nabucco project has been beset by delays due to a lack of agreement among the five members of the consortium on financing and on finding another partner to make the project viable. Some experts claim that Nabucco would be viable only if in addition to Azeri and Iraqi gas its operators secured an agreement with Iran, which is in possession of the world’s second largest gas reserves. (See, *International Herald Tribune*, 27 June 2007, op. cit.) Another possibility mooted in mid–2007 was that Gazprom itself would become a stakeholder/supplier, and talks to that effect reportedly were held by the consortium, eager to see any source of gas supplies for the project, and Gazprom. Such a development would alter Nabucco’s ‘non-Russian’ character and undermine its role
not concur with the latter view (they regard Caspian gas and Russian gas as complementary, not competitive)\textsuperscript{79}, South Stream will nevertheless pare down Turkey’s aspiring status as an international energy hub: first, it will reduce Turkey’s role as the new transit corridor for Russian gas to southern and south-central Europe (\textit{via} an ‘extended’ Blue Stream\textsuperscript{80}), and, second, it will upset her role as the sole transit conduit of Central Asian gas, especially following a May 2007 agreement between Russia, Kazakhstan and Turkmenistan reinstating Russia’s role as an export conduit for Central Asian gas.\textsuperscript{81}

Turkey also plays a major part in the petroleum transportation business following the coming on stream of the 1,760km, $3.6bn Baku-Tbilisi-Ceyhan (BTC) oil pipeline in May 2006. Hailed as one of the technical feats of our times (with a price-tag to match), it is projected to carry over 100m tonnes yearly of Azeri and Kazakh oil by 2008.\textsuperscript{82} Its strategic importance lies in the fact that it provides a new outlet for Caspian oil, in so doing ending Russia’s sole control of the Caspian oil export routes. The result of proactive U.S. diplomacy directed at Turkey, Azerbaijan

\textsuperscript{79} The European Commission claims it does not see the project as a competitor to Nabucco, saying any new infrastructure is helpful to secure energy supplies for the EU. In the words of a Commission spokesman, “Security of supply is not only having new suppliers. It is also having new supply routes. We see no opposition between the two projects. Any infrastructure that can match this demand is seen as a positive development by the Commission.” (See, \textit{Financial Times}, 26 June 2007.) In the same vein, Bulgarian Prime Minister Sergei Stanishev told Parliament on 25 January 2008 – in response to claims that “Bulgaria had stabbed the EU in the back” for joining South Stream – that “statements that this project [South Stream] is an alternative to Nabucco [are] complete nonsense.” See, “Bulgaria confirms political support for EU gas scheme”, \textit{Kathimerini} (English-language edition), 26–27 January 2008.

\textsuperscript{80} Turkey may be consigned to the lesser role of conduit of Russian gas to Israel and the Middle East, by way of a Blue Stream II mooted earlier by Gazprom and ENI. Based on quotes from Alexander Medvedev, Gazprom’s deputy chief executive officer, cited in “South Stream Pipeline threatens Turkey’s role in gas transit to Europe” by Andrew Neff, in \textit{Acturca}, 26 June 2007 (\url{http://acturca.wordpress.com/2007/07/03/south-stream-pipeline-threatens-turkeys-role-in-gas-transit-to-europe/}).

\textsuperscript{81} At an energy summit bringing together President Putin, Kazakh President Nursultan Nazarbayev and Turkmen President Gurbanguly Berdymukhammedov on 11–13 May 2007, the three leaders agreed that the immediate requirements for export volumes would go through Russian export routes, and, in due course, \textit{via} a new ‘Caspian shore’ gas pipeline running north through Russia. Turkey is also trying to revive the idea of a trans-Caspian gas pipeline (TCGP) linking Turkmenistan to Azerbaijan, so far unsuccessfully. See, e.g., “EU bets all on Nabucco, shrugs off South Stream”, \textit{New Europe}, 30 June 2007, Issue 736, (\url{http://www.neurope.eu/view_news.php?id=75584}); and “South Stream Pipeline threatens Turkey’s role in gas transit to Europe”, \textit{Acturca}, 26 June 2007 (\url{http://acturca.wordpress.com/2007/07/03/south-stream-pipeline-threatens-turkeys-role-in-gas-transit-to-europe/}). Uzbekistan is also expressing a desire to cooperate with Moscow in the development of a network of gas pipelines in Central Asia. See, \textit{Kathimerini}, 7 February 2008.

\textsuperscript{82} Kazakhstan will supply 25m tonnes of oil annually through the BTC pipeline but not before 2009–2010, by virtue of an oil-transportation agreement signed between Kazakhstan and Azerbaijan in mid-2006. See European Commission, MEMO/06/282 of 13 July 2006, and \textit{Financial Times}, 28 June 2006.
and Georgia, it is widely understood to reflect a strong geostrategic desire by Washington to curb Moscow’s ascendancy in the energy field in the region. Another oil pipeline runs from Kirkuk in Iraq to the Mediterranean port of Ceyhan in eastern Turkey (sabotage on the Iraqi side has repeatedly disrupted oil flows since the reopening of the pipeline after the Iraq war in 2003).

Finally, Turkey in April 2007 decided to build an oil pipeline from the Black Sea port of Samsun to Ceyhan.\(^83\) This will increase the flow of oil originating from the region, as well as reduce the growing pressure of maritime oil transport through the Bosphorus and Dardanelles straits, which threatens Istanbul. It is a $1.5bn, 550km-long project with an annual planned capacity of initially 50m and later 70m tonnes of crude oil. Its opening is scheduled for 2011. Original plans envisaged that it would carry both Russian and Caspian (Azeri and Kazakh) oil.\(^84\) But following an agreement in March 2007 between Russia, Bulgaria and Greece to build an oil pipeline between Burgas and Alexandroupolis linking Bulgaria’s Black Sea coast with Greece’s Thracian coast in the northern Aegean, Russia is understood to view the Samsun–Ceyhan pipeline as a rival to her own common project with Bulgaria and Greece. Therefore, Russia should probably not be counted on to contribute as an important supplier.

In sum, Greece has also been diversifying her energy sources, while carving a role for herself as a transit country. On the one hand, Greece is engaged in the Caspian gas pipeline project with Turkey and Italy described above. On the other, the Government is strengthening the country’s existing ‘Russian’ connection, to multiple effect: (i) Greece has sought to extend the current natural-gas supply agreement with Gazprom to 2040, with a view to almost doubling the quantities purchased. This reflects a need to secure extra supplies in light of projected increases in demand\(^85\), while at the same time allowing alternative Caspian supplies a reasonable counter-balancing role (as of 2012–13, about 40% of Greece’s gas deliveries will originate in the Caspian\(^86\)), (ii) by participating in South Stream,

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\(^83\) See, e.g., the European Commission’s announcement, “Commissioner Piebalgs welcomes commencement of construction of the Samsun–Ceyhan oil pipeline”, IP/07/545/24.4.2007.

\(^84\) This is a venture set up by Calik Energy and Italy’s ENI, with a 12.5%-stake taken up by the Indian Oil Corporation.

\(^85\) The current agreement with Gazprom guarantees DEPA 2.8bn m\(^3\) of natural gas annually through 2016. The plan is to increase these supplies to 5bn m\(^3\) by 2040. (See, e.g., “Greeks in Russia for energy talks”, Kathimerini, English-language edition, 9 November 2007.) According to the experts, Greece’s annual natural-gas requirements are forecast to rise to more than 6bn m\(^3\) as soon as 2011. This will leave room for additional imports from sources other than Russia’s Gazprom. In fact, as of 2012, 8bn m\(^3\) of gas is expected to be carried on the Greek–Italian segment of the Turkey–Greece–Italy pipeline of which 20%, or 1.6bn will be reserved for DEPA for a 25-year period and the rest for Edison. If one adds to this (i) supplies of 750m m\(^3\) annually from Botas and (ii) Greece’s current purchases of 0.5bn–0.75bn m\(^3\) per annum from Algeria’s Sonatrach as LNG (the agreement runs until 2020), it transpires that in the years 2012–13 roughly just under 40% of Greece’s gas supplies will originate in the Caspian, somewhat less than 50% from Russia and about 12% from Algeria.

\(^86\) Greece’s interest in renewing her agreement with Gazprom under the specific terms mentioned above has provoked concern in the European Commission and U.S. government circles of an allegedly excessive reliance, on the part of Greece, on Russian supplies. (Proportionally speaking, the reliance on Russian gas was greater before, when the only alternative that Greece chose to avail herself of was Algerian liquid natural gas – but demand was also much lower then.) Concerns have also been expressed in the same quarters in relation to the use of Greece as an additional gateway by Russia into Western European gas and electricity markets: Gazprom says it is willing to cover the country’s needs in natural gas until 2040, but also wants to trade directly any amounts of gas over and above the current levels as a full-fledged retailer. However, this would not be the first such agreement with a Western European country: in 2006, Eni and Gazprom signed an agreement that lets Gazprom sell
Greece would not only ensure that these extra Russian supplies are deliverable, but would also become a ‘diversified’ transit country herself; and (iii) the agreement to build and exploit the Burgas–Alexandroupolis oil pipeline jointly with Russia and Bulgaria signed in Athens on 16 March 2007 (after a thirteen-year gestation period) will – thanks to the Russian (and possibly Kazakh) oil deliveries it will make possible – act as a counterbalance to Greece’s current dependence on Middle Eastern oil as well as reduce the dependency of Greece and other countries on oil shipped through the Bosphorus straits.

For Greece to seek to have separate access to the region’s biggest sources of natural gas, as well as to become a conduit for both Caspian and Russian gas deliveries, appears logical enough. But Turkey seeks very similar objectives. Up to a point, the positive-sum game elements will prevail. Beyond some point, however, interests may well collide. Indeed, Turkey’s original ambitions – which include no less a desire to leverage the country’s location to allow her to become a gas supplier in her own right – may have been affected by the Greek initiatives. This perhaps helps explain why Turkey, not to be outmanoeuvred, announced jointly with Iran in mid-August 2007 an agreement to establish a joint company to carry up to 35 bn cubic metres annually of Iranian and Turkmen natural gas via Turkey to Europe – in gas directly on the Italian market (which allows it to control all revenue from its gas and avoid losing most of the value to end-user suppliers). Perhaps not unrelated to this is Eni’s purchasing of the ArcticGas and Urenoil assets at auction in early 2007, following the forced break-up and sale of former oil major Yukos. See, “Pipeline ignores Turkey”, Kathimerini (English-language edition), 25 June 2007.

87 A substantial increase in natural-gas supply from Russia to Greece would entail finding greater pipeline capacity than is available through the old-established Soyuz pipeline now supplying the country via the Ukraine, Moldova, Romania and Bulgaria (and covering 80% of the country’s imports). South Stream would comfortably meet the extra requirements.

88 Kazakh oil is considered essential to make the project viable. See, e.g., Kathimerini, 25 August 2007.

89 The pipeline will be 279 km long, and it would transport at first 15–23 million tonnes of oil per year, and subsequently 35 million. (Transneft website, http://www.transneft.ru/Projects/Default.asp?LANG=EN&ID=229.)

90 As mentioned above, over half of the petroleum Greece consumes is imported from the Middle East (55% in 2003). The second biggest source is the countries of the former USSR.

In Greece, the share of oil in total primary supply of energy is among the highest in the EU. Greece also imported electrical power, in 2006 equivalent to 13% of total demand, 73% of which came from Bulgaria. See, Kantor Capital A.E., A Survey of Energy Markets – A Synopsis, Athens, March 2007, pp. 3 and 16 (in Greek). Bulgaria’s role is set to diminish, however, after the shutdown of two nuclear reactors at the Kozloduy power plant.

91 At a high-level conference held in Istanbul between Turkish and European Commission officials at the beginning of June 2007, Energy Minister Hilmi Güler reportedly said as much, insisting at the same time that Turkey was set to become Europe’s fourth vital energy corridor, balancing the flow of oil and gas from Russia, North Africa and the North Sea. Reuters, in Kathimerini (English-language edition), 7 June 2007.

92 The Economist, 25 August 2007, op. cit. The final agreement was expected to be signed by April 2008, and would involve a transportation deal, but also an exploration agreement worth approximately $3.5bn whereby the Turkish Petroleum Corporation (TPAO) would undertake to develop in three phases the South Pars gas field (see, SEEurope.net, “Turkey to Earn USD 600 mln From Iran Natural Gas”, 25 September 2007, http://www.seeurope.net/?q=node/12598, and Islamic Republic News Agency, “Iran to export 35bn cm/y gas to Europe via Turkey”, 19 August 2007, http://www2.irna.ir/en/news/view/menu-273/0708193583165239.htm).
defiance of very firm U.S. objections.\textsuperscript{93} Once the necessary infrastructure is in place, these supplies will act as a major prop to Turkey’s role as a transit corridor, particularly in view of some of the questions that have been raised as to the ability of the Azeri fields to feed by themselves both the Nabucco and Turkey–Greece–Italy gas pipelines.\textsuperscript{94} The Azeri fields are anyway not expected to reach peak production until 2012 when new deposits from the Shakh Deniz field come on stream.\textsuperscript{95} At the time of writing, the four countries (Azerbaijan, Turkey, Greece and Italy) had not proceeded beyond the stage of discussing launching negotiations to draw up the agreements that would secure the necessary supplies of Azeri natural gas.\textsuperscript{96}

Another common project in the energy field – hailed as the second major joint endeavour currently being undertaken by the two countries – has consisted in linking, in early 2008, their national electricity grids. This project arose from a memorandum of understanding signed between DEH, Greece’s public power corporation, and TEIAS, the Turkish Transmission System Operator, in Ankara on 28 March 2002.\textsuperscript{97} The agreement provides for a single, high-intensity power line (380–400 kV) 264 km-long across the Thracian border (of which 200km will be on Greek soil) with a total transmission capacity of 1,000MW built to enable the two sides to trade electrical power. It, too, is an important step on the path to greater economic cooperation, bearing in mind Greece’s growing demand and the fact that the Turkish grid was the only one in South Eastern Europe not connected with the Greece–Balkan UCTE system.\textsuperscript{98} However, for the full benefits of interconnectivity, convergence of standards, cooperation and trading to start flowing to the region,

\textsuperscript{93} The politics of Iranian–Turkish cooperation in the gas field also deserve a mention. Washington has already protested against the plans on the grounds that they lend support to Iran, a country which currently is under censure in the West for its nascent nuclear programme. Ironically, however, Washington’s strategy in recent years ostensibly has been to support the tapping of any alternative sources to Russia’s in order to avert Europe’s over-dependence on that country. Yet, as mentioned above, the longer-term viability of alternative gas routes to the ones offered by Russia, according to the experts, may well depend on Iranian gas. See, \textit{International Herald Tribune}, 27 June 2007, \textit{op. cit.} However, according to Nicholas Burns, U.S. Under Secretary of State for Political Affairs, other options for Turkey include Turkmenistan and Kazakhstan. See, \textit{Turkish Daily News}, 6 September 2007.

\textsuperscript{94} From the beginning, some experts claimed that Nabucco would be viable only if in addition to Azeri and Iraqi gas its operators secured an agreement with Iran, which is in possession of the world’s second largest gas reserves. See, “Rival pipeline deals expose EU’s energy disunity”, \textit{International Herald Tribune}, 27 June 2007.


\textsuperscript{96} Meeting in Rome on 26 July 2007, Ministers from the four countries agreed to a proposal concerning the signing of a four-party inter-state agreement that would arrange the details for transporting natural gas from the Caspian region. See, Hellenic Center for Investment, eNews, August 2007, \texttt{http://www.elke.gr/newsletter/newsletter.asp?id=&cat=747&iid=759&lang=1}.

\textsuperscript{97} A provisional link across the Hevros/Maritza river was inaugurated on 6 August 2007. Based on the Protocol for the Exchange of Electrical Power signed in Ankara on 19 July 2007, the hook-up will allow Greece to import up to 180 MW from Turkey in August, and Turkey to import a similar amount in January–February from Greece. \textit{Kathimerini}, 7 August 2007 (in Greek).

\textsuperscript{98} The UCTE, or Union for the Co-ordination of Transmission of Electricity, is the association of interconnected power-transmission system operators of central and western continental Europe.
Turkey will also have to become a party to the Energy Community Treaty, which at the time of writing she had yet to do, preferring the status of ‘observer’. This treaty, signed in Athens between the South Eastern European countries and the EU on 25 October 2005, is important not only for symbolic reasons, i.e., for being the first legally-binding act ever to be signed by all of the states of the region, but also because it consolidates regional cooperation in the energy field on the basis of EU standards with shared trade, transmission and environmental rules. As such, it encourages, predictably, increased cross-border electricity and gas trading.

At this point, it should be mentioned that, periodically, Turkey expresses an interest in exporting electricity to the Greek islands of the eastern Aegean. Fearing that this could turn into a case of interdependence gone too far, the Greek side – not surprisingly – steadfastly refuses to give its assent, preferring to pursue on-going plans to achieve the islands’ energy sufficiency through domestic means.

Finally, one other seldom-mentioned but critical aspect of Turkey–Greece relations in the energy field relates to the situation in the Aegean Sea and the current semi-declared state of abstinence observed by both sides with respect to the exploration of oil in the aftermath of the 1987 Greek-Turkish North Aegean crisis. In March that year, the two countries nearly went to war over the mere possibility of Greek exploration east of the Isle of Thassos, where oil was first struck in 1973. The modern Greek-Turkish Aegean dispute, in fact, grew out of this seemingly secondary event dating from the 1970s, over time acquiring harder characteristics as new issues were added to the list of claims and counter claims.

So long as the continental-shelf issue remains unresolved, Greece will continue to be viewed as an ‘underexplored country’. The economic cost of this

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99 The treaty extends the EU’s Internal Market for Energy (electricity, natural gas and renewable energy sources) to the region as a whole. The aim is to bolster security of supplies, diversification of sources and encouragement of new investments, expected by the World Bank to reach $30bn within the next 10 years. The Treaty came into force on 1 July 2006.

100 Turkey claims it needs a transition period to make major investments in its domestic energy infrastructure before joining. By contrast, the European Commission, as well as Tusiad (Federation of Turkish Industries), places higher priority on Turkey’s adopting the right legal framework first (viz., that underlying the Energy Community Treaty). In this view, adopting EU standards would help Turkey assist the EU secure its energy supply, while at the same time enabling Turkey to build a functioning and reliable domestic energy market and the infrastructure needed for its own rapid economic growth. According to some analysts, Turkey prefers to hold the prospect of opening up its energy sector to foreign investors as a bargaining chip in its negotiations for EU membership. See, “Turkey unimpressed by EU Energy Community”, Kathimerini (English-language edition), 6 June 2007. For a broader-ranging survey of EU-Turkey energy relations, see European Commission, EU Energy Policy and Turkey, Memo/07/219, Brussels, 1 June 2007.

101 Whereas the original oil find lay well within Greek territorial waters (the oil-producing Nestos-Prinos basin is located between Thassos Island and the mainland, which is 7km away), another concession to the North Aegean Oil Company (NAPC), an international consortium formed by Canadian firm Denisson Mines, further east lay outside them but within Greece’s presumed continental shelf. Prime Minister Andreas Papandreou was not willing to test the credibility of Ankara’s threats and so essentially abandoned any efforts to explore for new deposits not only there but in the entire Aegean. At a minimum, this tactic seemingly preserved the unicity of Greece’s share of (and claims to) the Aegean continental shelf. (A decision to limit exploration, e.g., to the western half of the Aegean Sea would lend credence to Turkish claims of that period that the Aegean continental shelf should be split down the middle, a view based on the notion – at odds with the Law of the Sea – that Aegean islands are not entitled to their own continental shelf. Current Turkish views on this issue may have become less rigid compared with the 1970s and 1980s.)

102 This is the term used by the International Energy Agency in Energy Policies of IEA Countries, Greece, op. cit., p. 70.
state of affairs apparently is very significant: international experts estimate the production potential of the Northern Aegean at up to 200,000 barrels per day, sufficient to cover 50% of Greece’s needs. Bilateral negotiations aimed at delineating the respective continental shelves could open the way not only to the tapping of a long-underexploited resource, but also to Greek-Turkish cooperation in oceanographic research, sea-bed exploration and other related aspects of the oil business. The ensuing expertise could even prove useful more widely, encouraging cooperation and joint endeavours in the broader region.

In sum, in times of stable conditions energy cooperation between Turkey and Greece may be expected to exert a benevolent influence based on shared interests. But in times of a reconfiguration of conditions or of volatility, energy geopolitics can provoke competitive actions and reactions and/or expose certain underlying rivalries. The Turkish-Greek energy case is a good example illustrating how the new energy landscape has opened up new prospects for closer cooperation between Greece and Turkey in a vital area, including the chance to jointly play an important role in the wider European framework. But it also illustrates how countries only with great difficulty renounce the classical nation-state’s dedication to strategies designed to promote the national interest; in the present context, this means not only achieving long-term security of energy supplies via the appropriate alliances and partnerships with other states, but also trying to maximise one’s own mark on the European energy map as a means of projecting influence beyond one’s borders (though the actual benefits of ‘pipeline diplomacy’ can sometimes be overrated). In the present example, it has not meant questioning the primacy of vital issues deemed of ‘national’ importance, such as those relating to sovereign rights, for the sake of economic gain.

103 Ibid.
104 Today, of the amounts consumed only 4,000 to 5,000 are produced locally. Crude-oil production commenced in early 1981 with 8,000 to 10,000 barrels per day. It peaked at more than 30,000 bpd by 1989. Production then started to drop as the main oil deposit gradually became depleted. All of the oil is pumped out of the Prinos oil field, off the Isle of Thassos, in the North Aegean Sea.
105 How important these may become is unclear, though to date alleged national disappointments in the energy domain (e.g., Turkey in the wake of South Stream) do not appear to have made it to centre-stage in the bilateral relationship. That said, in such cases one should not rule out the possibility of knock-on effects eventually making themselves felt in other areas not directly linked to the issue at hand. Such effects have already been suggested in the press. For example, the publication on 26 June 2007 (a day after the Greek prime minister announced that Greece would participate in South Stream) in the Turkish press of excerpts of a decision by the 4th section of the Turkish highest appellate court reiterating that the Patriarchate of Constantinople had no right to use the term ‘Ecumenical’ was seen by some commentators in Greece as a direct consequence of the frustration felt by the Kemalist establishment upon being wrong-footed by South Stream. Nor did the fact that the verdict was issued one day after the Greek Prime Minister went to Istanbul to meet his Turkish counterpart and the Patriarch pass without commentary in Athens.
106 Though there can be little doubt that those countries that can, do try to play a wider role as energy transit ‘hubs’, the latter role may be actually somewhat overrated: experience has shown that at times this role, by virtue of the interdependencies and ensuing responsibilities it tends to create, can also be confining, if not turn into an outright double-edged sword: suppliers that cut off their best customers will incur a non-recoverable revenue loss since they will be unable to redirect their piped gas anywhere else, i.e., other than where the pipes currently lead. The recent experiences of Russia with the Ukraine and Belarus each in their own way highlight the perils of too much interdependence and largely explain Russia’s latest plans for the construction of pipelines that will actually bypass these two countries. See also, Vijay V. Vaitheeswaran, “Oil”, Foreign Policy, November/December 2007, pp. 24–30, in particular p. 26.
In fact, the Greek-Turkish case provides an extreme illustration of an instance in which energy may be seen to lie at the root of most of the problems conventionally placed under the rubric of ‘high politics’ (viz., the state of affairs triggered by Turkey’s challenging of the status quo in the Aegean beginning in 1973). At the least, therefore, it is worth bearing in mind that energy may lead to co-operation but also to non-cooperation, and so in and of itself will not necessarily act as a ‘normalising’ factor in every single circumstance.

7. Foreign Direct Investment

Foreign direct investment represents arguably the deepest form of inter-state economic cooperation outside of a common market per se. It reveals not only investors’ confidence in the economic prospects of the host country, but – bearing in mind the size of the potential risks entailed by the wholesale commitment of significant capital in an ‘alien’ sovereign entity – also a willingness on their part to show a large degree of trust in that country’s institutions and political and legal culture.107

In the case of Greece and Turkey, bilateral direct investments traditionally have been extremely low – lower than could be expected in light of the wider capital in- and out-flow patterns prevailing in both countries vis-à-vis the rest of the world. That political considerations have played a key role in this connection could be argued on both intuitive and empirical grounds.

In recent years, both countries have built up considerable stocks of direct investment abroad. But until 2006 neither had constituted in any way a favourite destination for the other. In 2006, Turkey’s stock of outward foreign investment stood at almost $9bn.108 Of this amount, investments in Greece accounted for a minute fraction. In December 2005 and then in April 2006, four Turkish firms specialising in clothing and footwear109 opened a small number of retail outlets in Greece, joining about half a dozen Turkish firms which were already active on the Greek market (land transport, manufacturing of tubes, IT and advisory services).110 All told, Turkish direct investments in Greece at the time did not exceed $2.5m.

The low level of Turkish FDI in Greece, at least in part, may be symptomatic of a wider phenomenon: despite belonging to the world’s most open group of economies by virtue of her EU and Eurozone memberships, Greece has had a long-standing problem attracting inward FDI. This may be due to a large extent to

107 For a recent paper that discusses the relationship between FDI and institutions in the host country, see, e.g., Agnès Bénassy-Quéré, Maylis Coupet and Thierry Mayer, “Institutional Determinants of Foreign Direct Investment”, The World Economy, Volume 30, Number 5, May 2007, pp. 764–782(19), Blackwell Publishing.


109 İpekyol (with Maçka), Koton and Inci. In spite of the relatively small size of the investments (€1.95m), the Chairman of the Turkish-Greek Business Council Selim Ereğli declared that these could be put down, at least partly, to the climate of political stability between the two countries. See, Referans, 5 April 2006.

110 Interestingly, however, some of these Turkish retailers are said to view the Greek market as a stepping stone in their plans to venture into the wider European and North American markets. This indicates that Turkish entrepreneurs themselves are moving upmarket insofar as higher wage costs in Greece no longer constitute the prohibitive, single-issue, factor that once had Turkish investors preferring, say, Bulgaria or Egypt over Greece. See, “Athens a first stop in the European expansion of Turkish companies”, Kathimerini, 2 December 2006 (in Greek); see also, Referans, op. cit., and To Vima, 28 January 2007, for remarks to the same effect made by representatives of the firms.
objective reasons (small size of the domestic market, unsteady tax régime, etc.); it may also be due partly to bureaucratic and administrative reasons: a major complaint among non-EU citizens has been the visa and work-permit régimes in force. Although this is a common complaint directed at the EU in general, in Greece the law is allegedly applied with particular, almost protectionist, zeal by the Greek authorities (perhaps a kind of mirror-image of the administrative barriers faced by Greek exports to Turkey – see above). In the past, this not only affected the development of trade relations with Turkey, but also acted as a break on in-coming Turkish FDI. Until recently, residence and work permits reportedly had been entirely withheld from Turkish businessmen interested in investing in the country, as well as from executives representing companies with investments in Greece, with obvious consequences. A new law was passed by the Hellenic Parliament in August 2005 (Law 3386/4.8.2005, in force since 1.1.2006) which for the first time made special provisions to ease the entry of non-EU investors and managerial staff of foreign companies (Article 26). However, the law stipulates that, for the above special provisions to apply, the company in question must plan to invest a minimum of €300,000 within a year (this was supposedly designed to weed out the ‘serious’ from the ‘non-serious’ investors). This is still considered by Turkish businessmen as excessively restrictive, and such conditions allegedly are not encountered practically anywhere else.\footnote{From an interview conducted by the author with the head of the Economic and Commercial Section of the Turkish Embassy in Athens in May 2006.}

In 2005, Greece’s stock of outward foreign investment was close to $13.5bn.\footnote{UNCTAD, World Investment Report 2006, op. cit. By end–2004, Greece was 22nd on the list of biggest investors in Turkey.\footnote{By March 2006, 35 Greek firms were confirmed as active on the Turkish market, accounting for investments worth approximately $60m\footnote{Internal document of the Hellenic Ministry of Foreign Affairs.} (or 0.08% of the overall inward capital stock\footnote{UNCTAD put the stock of inward FDI in Turkey at end–2005 at $64.43bn and at $79.1bn at end–2006. See, UNCTAD, World Investment Report 2007, op. cit. (A notional figure for end–March 2006 is arrived at by assuming a linear monthly increase for the 12 months of 2006.)}). Many of these were joint ventures, and included investments in mines and quarries, gaming, information technology, hospital services, agricultural products, packaging, plastics, pharmaceuticals and cosmetics, fish farming, tourism, construction, trade and dealerships, and advisory services.\footnote{Internal document of the Hellenic Ministry of Foreign Affairs.} By way of comparison, Greece’s investments in Bulgaria at the same time stood at over €1.2bn, in Serbia at €1.3bn and in Romania at €3bn. According to Minister Kursad Tuzmen, later in the spring of that year (2006), the number of Greek firms in Turkey had risen to about 230.\footnote{Hürriyet, 6 April 2006.}}

Starting in 2005, and especially in 2006, the Greek banking sector undertook a number of initiatives that had the effect of placing economic relations
between the two countries on a quite different footing. Between March 2005\textsuperscript{118} and February 2007,\textsuperscript{119} Greece’s three largest financial institutions announced separately that they were investing approximately €4.5bn in three Turkish commercial banks and a brokerage firm (two buy-outs and one joint venture) and a brokerage firm (a buy-out),\textsuperscript{120} causing Greece to account for about a fifth of Turkey’s already augmented 2006 FDI inflows.\textsuperscript{121}

This development marked a spreading out to the Turkish market of a tendency that had been under way in the Greek banking industry for at least a decade, a trend with a direct lineage to the policies of the 1990s designed (i) to liberalise the economy (itself prompted by the EU’s Single Market programme and preparations for EMU) and (ii) to enable Greece to qualify for membership of the Eurozone by 2001 through a policy of ‘nominal convergence’, \textit{i.e.}, the Treaty of Maastricht-based disciplines imposing on Member States national budget and public-debt consolidation, exchange-rate stability and inflation control. This relatively new phenomenon of outward Greek FDI had seen Greek-owned financial institutions occupy one of the top three positions in South Eastern Europe, with investments of around €8bn\textsuperscript{122,123} thanks to a sustained process of mergers, acquisitions as well as organic growth. Thoughts to carry out such initiatives in Turkey earlier had been upset by the 2001 financial crisis, but by 2005-06 Turkey’s impressive macroeconomic progress and the start of EU accession negotiations (October 2005) finally made a strong and convincing case for FDI.

The sheer size of the investments provoked not only a minor shock in the two business communities, but also considerable commentary in political and journalistic circles in both countries. On balance, Turkish reactions (including opinion polls\textsuperscript{124}) were positive. Fears about the undue influence that Greek capital (but not

\textsuperscript{118} On 28 March 2005, Eurobank EFG announced it had agreed to take a controlling share in HC Istanbul Holding A.S., a stock brokerage firm. This was the first venture by a Greek bank into the Turkish financial-services industry.

\textsuperscript{119} In February 2007, the National Bank of Greece raised its stake in Finansbank from 46% (originally acquired in April 2006) to 89.44%; see following footnote.

\textsuperscript{120} In April 2006, the National Bank of Greece announced it had reached a deal to acquire 46% of Finansbank for $2.77bn (3.6 times book value). Finansbank is the country’s 8\textsuperscript{th} largest, with a market share of about 3.3%. Following a tender offer made by NBG in January 2007, NBG raised its stake to 89.44% by the end of the following month (which cost NBG another approximately $2.25bn).

\textsuperscript{121} Panhellenic Federation of Exporters, Centre of Export Research and Studies, \textit{Observations: Spectacular Increase in Trade with Turkey}, \textit{op. cit.}, p. 3.

\textsuperscript{122} See, \textit{To Vima}, 5 December 2007.

\textsuperscript{123} The actual market-share figures keep changing, but it is safe to say that in some Balkan countries Greek banks are in one of the top two positions. In the region as a whole they account for about 15\% of the sector in some countries, rising to over 25\% in others. See, \textit{e.g.}, \textit{Hemeresia}, 23 June 2007. The Institute for Economic and Industrial Research (IOBE), \textit{The Role of Greek Multinational Companies in the Economy and Conditions for Further Expansion}, Athens, June 2007, makes a similar point.

\textsuperscript{124} In an opinion poll conducted a few days after the announced acquisition of Finansbank by NBG (Kappa Research, 5-6 April 2006, interviews with 613 households in Athens and 602 households in
only) would acquire in the workings of the Turkish economy were, of course, expressed, but mostly at the more nationalistic end of the spectrum in Turkey. The modern mainstream view – more akin, at least according to some scholars, to the cosmopolitan attitude displayed by the Ottomans than to the latter-day nationalistic Kemalist model – was that, at a time when the Turkish economy was called upon to bolster its performance, shore up its defences against macroeconomic shocks, boost its reputation on the international stage (as well as, allegedly, provide proof of the ruling AK Party’s modernist credentials), foreign capital inflows needed to be embraced – hence the welcome granted the enormous surge of incoming FDI that began essentially in 2005. To this end, Greek capital was as good as any, and \textit{inter alia} demonstrated the pull effect exercised by Turkey’s European prospects.

That said, this otherwise ‘mature’ attitude exhibited by the Turkish authorities and Turkish public opinion was put to the test in early August 2007, when Turkey’s Banking Regulation and Supervisory Agency (BDDK) unexpectedly

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125 A day after the announcement, there were allegations in the Turkish press that the Army had withdrawn a sum of about €3m from Finansbank in a show of displeasure at the deal. For a comment in the press that purports to highlight potential dangers for the future of the Turkish economy from too much Greek/foreign control particularly of the banking sector, see, \textit{e.g.}, “Son pişmanlık fayda etmez” by Mahfi Eğilmez in \textit{Radikal}, 11 May 2006.

126 Similar reactions greeted the announced 100%-sale, on 19 June 2007, of Oyak Bank, the country’s tenth largest, which is controlled by Ordu Yardimlasma Kurumu, the military retirement fund known as Oyak, to ING, the Dutch banking and insurance group. While many Turkish analysts praised the high price secured by Oyak ($2.67bn in cash), nationalistic circles and organisations representing retired officers and NCOs expressed anger at the deal. Oyak is the country’s biggest pension fund. See, \textit{Kathimerini}, 23 June 2007; also, \textit{International Herald Tribune}, 20 June 2007, a report by Bloomberg; and \textit{The Financial Times}, 20 June 2007. The ING Group obtained approval for the acquisition from the BDDK, the Turkish banking regulator, on 14 December 2007. See, ING press release, 14 December 2007.

127 See, \textit{e.g.}, Ioannis Gregoriades and Antonis Kamaras, "Is Turkey Safe for Greek Strategic Investors?", \textit{Kathimerini}, 3 January 2007 (in Greek).

128 According to Gregoriades and Kamaras, Turkey in the three years 2005–2007 would have received more FDI than in the whole period from the Republic’s birth in 1923 through to 2004; \textit{ibid.} In the period 1990–2000, FDI inflows in Turkey averaged $791m annually. In 2002, they increased to $1,137m, in 2003 to $1,752m, and in 2004 to $2,837m. In 2005 they jumped to $9,681m, more than doubling the following year to reach $20,120m! See, UNCTAD, \textit{World Investment Report 2007}, \textit{op. cit.} Turkey failed to meet its $25bn FDI target in 2007 (the actual figure was to $21.8bn), while for 2008 the Treasury’s target was lowered to $18.5bn. \textit{Reuters}, reprinted in \textit{Kathimerini} (English-language edition), 25 January 2008, 16–17 February 2008 and 20 February 2008 (based on an AFP report).
disallowed the sale of a 50%-stake in Alternatifbank to Alpha Bank ostensibly on legal grounds.\footnote{See, e.g., “Turk ‘no’ to Alpha Bank deal”, Kathimerini (English-language edition), 9 August 2007. In early October 2007, Alpha Bank’s management pronounced the deal ‘finished’, alleging ‘undeterminable political reasons’ as the real explanation behind the Turkish authorities’ negative stance. See, Kathimerini, 5 October 2007.}\footnote{A second example involves the apparent failed attempt by Marfin Investment Group (MIG), a Greek holding company, to take part in the auction of the Turkish shipping company UN Ro-Ro Isletmeleri A.S. As reported in the press, MIG was considering participating in the auction in conjunction with private-equity firm Kohlberg Kravis Roberts & Co (KKR) of the U.S., but was thwarted in its efforts by the Turkish authorities allegedly because a company belonging to the Group had shareholders from Cyprus. See, Marfin’s Press Release of 4 September 2007 (http://www.marfininvestmentgroup.com/Detail.aspx?amid=11276) and Kathimerini, 6 October 2007. In the event, the Turkish shipper was bought by KKR acting alone, subject to the competition authorities’ approval. See, Reuters, “KKR buys 98 pct of Turk shipper in $1.28 bln deal”, 8 October 2007, http://www.reuters.com/article/innovationNews/idUSIST00121720071008.} Adding to the paradox, this occurred soon after the Bank of Greece’s approval (in July 2007) for the opening of two bank branches in Greece by T.C. Ziraat Bankası, Turkey’s state-owned agricultural bank and the country’s largest.\footnote{Interestingly enough, the fact that Ziraat’s main focus is Komotini, centre of Greece’s Muslim minority, did not elicit any particular response from Greek public opinion or from the country’s nationalist circles. However, the Turkish side complained of bureaucratic obstacles faced by it while trying to carry out the routine administrative formalities required to take the investment forward. See, Kathimerini, 6 October 2007.}

In Greece, the general public’s reaction to Greek banks’ new focus on the Turkish market was generally positive, though not altogether devoid of doubts on account of the huge financial sums at stake. At a deeper level, these ventures added new evidence that globalisation, including the dual phenomenon of capital outflows and expansion of economic activity by Greek concerns outside the country’s borders, required revisiting certain well-entrenched, but obsolete, ideas about Greece’s role in the world economy. But while the venture was cleared without much ado by the Greek government, main Opposition PASOK, despite the initial welcoming remarks by its Chairman stressing the political benefits of this kind of cooperation, reverted to a hostile stance, claiming that the political and economic risks had not been weighed properly and criticising the price agreed for the transaction. According to PASOK, this kind of ‘foolhardiness’ put at risk Greek citizens’ savings and the very future of the country’s largest bank. Less than a year later, the financial data – to focus on the most immediate aspect – suggested otherwise, with Finansbank accounting for an impressive one-third of NBG’s total net profits on the back of a strong expansion of business.\footnote{Finansbank’s 1st-quarter results for 2007 (i.e., after the acquisition) showed that loan issues had increased by 47.7% over the same period in the previous year (i.e., before the acquisition). Thus, in the first quarter of 2007 Finansbank contributed over a third of NBG’s profits of €381m (after tax and minorities), itself a historic high and representing a 52% increase over the corresponding period of the previous year. In addition, according to NBG’s Chairman and CEO, NBG’s investment in Turkey also had the effect of drawing into the Turkish market another 53 Greek firms as direct investors. See, Kathimerini, 6 June 2007 (in Greek). More recent data confirm the impressive rate of increase of Finansbank profits: in the first nine months of 2007 these reached €349m, vs. €56m for the corresponding period of 2006. See NBG’s press release of 29 November 2007 (http://www.nbg.gr/pdf/DT_291107.pdf).} In addition, a number of subsequent acquisitions of Turkish banks by some of the West’s largest credit
institutions appeared to vindicate Greek lenders’ decision to enter the Turkish market when they did.133

Conjecturing about the future is no easy task, and both countries have been known to succumb to protectionist tendencies from time to time. There have also been instances of joint ventures that have actually failed to take off, such as the Greek-Turkish Chamber of Commerce’s ‘Aegean Business Bank’, first mooted in February 2005. Despite certain bilateral accords designed to encourage FDI,134 a factor that will tend, ceteris paribus, to restrain Turkish FDI into Greece in the medium term is Turkish entrepreneurs’ preference for low-wage foreign sites, in keeping with the more standardised type of outward investment undertaken by Turkish firms.135 A sector often mentioned as holding considerable promise is that of construction,136 especially in the form of joint projects and ventures, including in third countries in the wider region.137 Other possibilities for Turkish entrepreneurs include services such as tourism, transport and certain specialised activities (e.g., ground handling at airports).138 Greek businessmen for their part are known to be interested also in smaller-scale ventures including in the areas of fish farming, textiles and the food industry. Last but not least, energy exploration and exploitation in the Aegean could be an important area of cooperation in the future.

133 On 31 May 2006, French-Dutch bank Dexia announced it would acquire a 75%-stake in Turkey’s 10th largest bank, Denizbank, for $2.44bn, or 3.9 times book value. (Denizbank’s market share in March 2006 stood at 2.3%.) In January 2007, Citibank concluded an agreement to obtain a 20%-stake in Akbank, the country’s largest private-sector bank, in a deal worth approximately $3.1bn. In February 2007, Merrill Lynch opened a new office in Istanbul. In July 2007, Saudi Arabia’s National Commercial Bank acquired 60% of Türkiye Finans Katılım Bankası A.S. (TFKB), a leading Islamic Bank in Turkey, for $1.08bn (5.82 times book value). And as previously mentioned, in June 2007 ING agreed to buy Oyak Bank for $2.67bn in cash, or 3.26 times book value (Oyak has a 3%-market share). Prior to the NBG acquisition, other foreign banks present in Turkey were GE Consumer Finance, Fortis, Unicredito (which controls Yepi Kredi with conglomerate Koç Holdings), Soros Investment Capital, Novabank, HSBC, BNP Paribas and Deutsche Bank.

134 Here we may include the Agreement on the Mutual Promotion and Protection of Investments signed between the two governments on 20 January 2001 (in force since 24 November 2001), and the Agreement on the Avoidance of Double Taxation signed on 2 December 2003 after four years of painful negotiations (in force since 1 January 2005).

135 In the meantime, there have even been instances of joint ventures that actually failed to get off the ground, such as the Greek-Turkish Chamber of Commerce’s ‘Aegean Business Bank’, first mooted in February 2005.

136 Turkey’s strength in this sector is well known, with Turkish contractors carrying out projects from Russia to Saudi Arabia. Their revenues are an important source of foreign exchange for Turkey. The total value of projects undertaken by Turkish contractors abroad reached $15.9bn in 2006, and were expected to exceed $17bn by the end of the following year. Based on statements by Turkey’s Trade Minister Kursad Tuzmen on 31 October 2007, reported by Reuters and reproduced by Kathimerini (English-language edition, 1 November 2007)

137 See, e.g., an interview with the Undersecretary of the Prime Ministry for Foreign Trade Tuncer Kayalar, for GRTnews.com, 21 July 2004. Actually, the first major joint venture between a Greek company (Meton–ETEP) and a Turkish company (Yapi Merkezi) was signed on 20 December 1999 and concerned the establishment of a tube and pipe manufacturing unit in Greece. See, Maria Ververidou, op. cit. But the most impressive joint venture to date, surely, is that between construction companies AKTOR and ENKA who have been chosen to complete the first phase of the construction of the ‘Blue City’ leisure resort, a 15-year, $20bn project in Oman. The AKTOR–ENKA 6-year deal is worth a reported $1.9bn; Express, 5 January 2006, http://news.pathfinder.gr/finance/business/272628.html.

138 Çelebi Ground Handling Services took part in a tender organised by the Athens International Airport in autumn 2007. However, it failed to win the contract (Bloomberg, 24 January 2008).
once the underlying political problems are solved. Such precedents exist in other parts of the world, not least in the recent case of Turkey’s and Iran’s multi-billion dollar cooperation deal in the fields of transportation and exploration of natural gas, mentioned in the previous section.

8. Conclusion

The building of significant synergies between, on the one hand, economic and, on the other, political relations between Greece and Turkey is a matter of much hopeful speculation in political, business, academic and journalistic circles in both countries, especially in the wake of the recent, post-Helsinki (1999), surge of trade and investment activity across the Aegean. At a minimum, there appears to be agreement around the basic idea that closer economic relations are not only symptomatic of a more benign environment, but that in themselves they can encourage a more constructive attitude on the part of the two governments vis-à-vis one another, leading perhaps even to beneficial spill-over effects in other, more contentious, areas of the relationship. We have tried to show that, even if this were true, there are various ‘objective’ reasons why the hypothesis of an unencumbered, unlimited expansion of economic relations should not be taken for granted. Such a hypothesis must first be filtered through a deeper analysis of the two countries’ evolving economic structures and their economic relations with the rest of the world: both of these will play an important part in determining the future prospects of the bilateral economic relationship. Our examination of the trade, tourism, energy and FDI sectors of economic activity suggests that, although there is scope for significant future development, the latter is also limited by among other factors (i) Greece’s weakness as a goods-exporting nation (which theoretically could raise the possibility of politically-unpalatable trade deficits from Greece’s vantage point), (ii) Turkey’s still-developing status as a capital-exporting nation (which may stoke the flames of nationalism in the event where the flows of FDI become too one-sided), (iii) the future availability, to both sides, of a multitude of perhaps equally if not more attractive alternative options for cooperation elsewhere in the region and beyond, and (iv) a hurdle common to both of them, the relatively slow progress (despite the recent improvement) exhibited by both countries in their economic integration with the rest of the world.

Even if for the sake of argument one were to disregard these problems, it is a matter of very theoretical conjecture whether or not ever-closer economic integration between the two countries would be capable of altering the two governments’ traditional political mind-set, particularly in respect of the more sensitive topics centred on issues of sovereignty and sovereign rights, the protection of minorities and religious freedom that presently divide the two countries. Experience suggests that, even in those cases where the economic relationship is heavily and indisputably tilted in favour of one of the two parties locked in a political dispute, there can be no assurance that the weaker, let alone both, will abandon strongly-held core principles (cf. the FYROM name issue). Indeed, in such cases there is always a danger that, should the dispute enter a tenser phase, this may push into the limelight the vulnerability of business interests with a heavy exposure in the other side’s economy. Finally, one must not dismiss, either, the notion that, unless there are countervailing factors at play (e.g., long-held traditions of trust and cooperation), economic competition itself may at times intensify underlying political rivalries.
The Turkish-Greek case, for its part, does seem to support the view that an improvement in political relations (viz. post-1999) can bring in its wake an expansion of economic ties. The development of economic relations has proven resistant not only to changes in government in both countries, but also to the occasional crisis or setback (e.g., the mid-air collision of two fighter jets in international airspace near the island of Karpathos on 23 May 2006, which caused the death of the Greek pilot; the dispute over the partial freezing in December 2006 of Turkey’s EU accession negotiation agenda\textsuperscript{139}, the continuing impasse over Cyprus). However, the converse – viz., progress in the political domain as a direct or, more to the point, indirect result of closer economic cooperation – is less easy to prove. This could be due either to the fact that the economic dynamic has not had time to fully flourish, or to the kinds of theoretical and practical reasons outlined above.

If it is because of the latter, and the earlier arguments regarding the limitations of the ‘economic route’ to conflict resolution are closer to the mark, where does this leave us?

Given both the breadth and depth of Turkish-Greek differences, as well as the lack of any progress in resolving them during the last 35 years, it would appear, based on the experience available, that no single line of attack is capable on its own of inducing the requisite degree of willingness-to-compromise or, perhaps more to the point, willingness-to-negotiate, in either side. Neither bilateral diplomacy, nor multilateral diplomacy (in the framework of Turkey’s EU accession process), nor increased exchanges at the level of civil society and academia, nor economic interpenetration has produced so far any concrete results. This suggests that, since neither the facilitating institutions and mechanisms, nor the ambient climate are essentially at fault, what may explain the current state of affairs is a shared lack of urgency on both sides to resolve their differences. On the Turkish side, the political agenda at the dawn of the 21\textsuperscript{st} century probably includes other, more important and pressing issues both at home and in the region\textsuperscript{140}. On the Greek side, the lack of urgency may perhaps be traceable to a fear that any compromise solution – whether bilaterally arrived at or following an appeal to the International Court of Justice – will entail sacrifices on the territorial/sovereign rights ‘chapter’ without, moreover, guaranteeing any progress in the hitherto less-publicised, but equally important for Greece, minority and religious rights area.

Not for nothing, therefore, do Greek governments view Turkey’s full ‘Europeanisation’ via the EU accession process as the ultimate strategy for resolving

\textsuperscript{139} This argument between the EU and Turkey was triggered by Turkey’s refusal to fully implement the Additional Protocol to the Association Agreement regarding Cyprus and provide access to Cypriot ships and aircraft to Turkish ports and airports. Turkey insists that the EU must first allow direct international trade with northern Cyprus, in keeping with earlier ‘promises’ by the European Council and in line with the General Affairs Council Conclusions of 26 April 2004 (just four days before Cyprus joined the EU). The latter affirmed the Council’s determination “to put an end to the isolation of the Turkish Cypriot community and to facilitate the reunification of Cyprus by encouraging the economic development of the Turkish Cypriot community.”

\textsuperscript{140} In the meantime, it is apparently the country’s armed forces that have bestowed upon themselves the role of principal challenger to the \textit{status quo} in the Aegean Sea. (The theory of ‘grey zones’ is supposed to have originated in the Turkish Armed Forces’ General Staff.) The Greek government seems unclear as to how far this policy is fully sanctioned by the political leadership or supported and/or understood by public opinion in Turkey. The mixed signals that ensue thus contribute to Athens’ caginess.
bi-lateral problems. The theory is that the prospect of membership will raise the ‘urgency level’ from Turkey’s perspective from its currently low position, even as it rebalances the agenda in a way that gives more weight and credence to Greece’s own grievances. This allegedly will shift the two countries’ relative bargaining power sufficiently in favour of Greece, the incumbent Member State, to make it all worthwhile.

However, as argued above, this strategy, too, is not devoid of risks: just as international law by itself cannot provide solutions to disputes if the parties involved do not actively seek a solution, so the EU cannot provide ‘ideal’ solutions without the full cooperation of the parties involved. What the EU arguably can do – more likely in an implicit rather than explicit manner – is convince the parties that they want a solution.

In this scheme of things, economic relations appear to play a helpful, even essential, but secondary role. In the Greek–Turkish context, it is difficult to imagine economics autonomously occupying a critical, if not dominant, position at any stage of the bilateral relationship. Even within the EU integration process, the main thrust behind the increasing economic interdependence between member states appears to be the evolving politics of integration, including policies of ‘positive integration’\textsuperscript{141}, rather than any self-sustaining tendency inherent in a strategy of cross-border liberalisation. The case is perhaps best exemplified by EMU: an institution that promotes deep economic interdependence, but is also based on a profound political commitment.\textsuperscript{142, 143} For Turkey, attaining this level of intimate economic interdependence with the EU’s member states and their common institutions implies EU membership, which in turn pre-supposes a complete prior normalisation of political relations with Greece.

Having said that, Turkey’s economy already has strong ties to the European economy. EU membership vs. non-membership undoubtedly would strengthen those links, though from a more narrow Turkish–Greek perspective perhaps not as decisively as is commonly supposed: e.g., non-member Turkey’s and member Greece’s distribution-of-trade patterns with the EU are not that dissimilar, adjusted for geography.\textsuperscript{144} There is no a priori reason why the two countries would become each other’s privileged partner once Turkey became a member. Indeed, entirely different direction-of-trade options for a recently-admitted Turkey could also offer themselves in a globalising world; ironically, Greece’s own experiences suggest such

\textsuperscript{141} Defined conventionally as the adoption of common and co-ordinated policies – whereas ‘negative integration’ refers to the removal of barriers to trade and factor movements.

\textsuperscript{142} Turkey already is largely inside the Single Market as a trading partner, if not as a decision-maker, by virtue of the 1995 Customs Union Agreement with the EU. (However, the latter does not cover agricultural products or services.) But shared monetary sovereignty is an entirely different proposition, which perhaps explains why France, in June 2007, expressed her opposition to the opening of the EMU negotiating chapter with Turkey but not two other, related, chapters, viz., financial control and statistics.

\textsuperscript{143} Clearly, it is an unwillingness to make such a leap of faith that explains the British, Danish and Swedish decisions not to join the monetary union, not any pure economic calculations.

\textsuperscript{144} Turkey’s total trade with the EU (imports and exports) accounted in 2006 for 44.4% of all its international trade (European Commission, \url{http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113456.pdf}). In Greece’s case, the corresponding figure was 55.1% (2005), but this must be seen also in the light of her geographical position in Europe relative to Turkey (see, e.g., National Statistical Service of Greece, \textit{Greece in Figures}, 2006, p.17, \url{http://www.statistics.gr/eng_tables/hellas_in_numbers_enq.pdf}).
a possibility. Tourism would probably not be significantly affected either, while on the energy front Turkey is building a strong ‘European’ function for herself independently of her membership prospects. As far as FDI is concerned, Turkish membership would improve some host-country features (e.g., political and macroeconomic risks) but weaken others (e.g., input costs): it is worth noting that today both countries have a similar stock of accumulated inward FDI in dollar terms (adjusted for GDP), which suggests that there is no simple correlation between FDI inflows and membership per se. Membership would also eventually strengthen Turkey’s role as an outward investor, if the Greek experience is anything to go by; again, however, this says little about whether or not Greece would gain from increased Turkish FDI outflows, as opposed to other destinations. In the long run, Greece and Turkey would continue to enjoy fruitful economic relations under both scenarios.

In conclusion, whether economic relations would be capable by themselves of leading to a normalisation of relations – i.e., without the manifold interwoven inducements and pressures, political, social and economic, accompanying the EU accession process – remains in doubt. Our analysis suggests many reasons, of both an empirical and theoretical nature, why economic considerations are unlikely to unseat politics from its position of primacy in the foreseeable future. On the other hand, politics and economics can be mutually reinforcing in a positive direction; but just as easily they may become entangled in a less-than-benign downward spiral – unless there are strong countervailing factors at play. Of these, EU membership for a fully-qualifying Turkey would be no doubt one of the most, if not the most, important.

The paradox implicit in the economic dimension of international relations, based on our analysis in this paper, is that for it to cement peaceful relations between nations, peace must have already begun to take root. But that is unlikely to happen without a solid contribution from the economic sphere.

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145 Greece herself affords an exceptional, but by no means unique, example in the specific context of the post–EMU experience, being the only Eurozone country to have seen a relative shift in her trade toward non-Eurozone countries upon introduction of the euro, even as her Eurozone partners were busy validating the hypothesis of trade-flow intensification within a new currency union. (Obviously, for Greece the attractions of the newly-opening Eastern European markets outweighed the intra-currency union trade-boosting effects that applied to the other Eurozone member states. Perhaps geography has something to do with this.) Turkey, too, could find herself setting her sights on other regions – considering also her geographical position – if her new, hypothetical EU status gave her, e.g., a newly-acquired competitive edge vis-à-vis other, non-EU, countries. (Many studies have been undertaken to explore the trade effects of a common currency. One highly-recommendable one is Harry Flam and Håkan Nordström, “Trade Volume Effects of the Euro: Aggregate and Sector Estimates”, Seminar Paper No. 746, June 2006, Institute for International Economic Studies, Stockholm University.)

146 UNCTAD reports that in 2006 the stock of inward investment in Turkey amounted to 19.6% of GDP and 15.1% in Greece. UNCTAD, World Investment Report 2007, Country Fact Sheet: Turkey, 16 October 2007, op. cit.
About the Author

Constantine Papadopoulos is Advisor on European Affairs at Eurobank EFG, Athens. In this capacity, he advises the bank’s management on economic and political developments in the EU, as well as in Eastern and South-eastern Europe. From 1986 until 1998, he was a career diplomat with a special interest in EU affairs. Dr Papadopoulos holds a B.A. (1975), M.A. (1976) and D.Phil. (1984) in Economics from the University of Sussex, England, and has taught and published on various topics in the fields of economics and European integration. He is a Fellow of the Weatherhead Center for International Affairs, Harvard University.

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**South East European Studies at Oxford** (SEESOX) is part of the European Studies Centre at the University of Oxford. It focuses on the interdisciplinary study of the relationship between European integration and the politics, economics and societies of the Balkans, Greece, Turkey and Cyprus. Drawing on the academic excellence of the University and an international network of associates, it conducts policy relevant research on the multifaceted transformations of the region in the 21st century. It follows closely conflict and post-conflict situations and analyses the historical and intellectual influences which have shaped perceptions and actions in the region. In Oxford’s best tradition, the SEESOX team is committed to understanding the present through the *longue durée* and reflecting on the future through high quality scholarship.

SEESOX has the following objectives:

- To support high-quality academic and policy-relevant research on South East Europe;
- To organise conferences, workshops and research seminars;
- To promote multi-disciplinary study of the region’s development within Oxford University (e.g. politics, international relations, law, sociology, economics) working in collaboration with other Centres and Programmes within the University, including student societies;
- To spearhead intellectual exchanges and debate on these issues among networks of individuals and institutions beyond Oxford;
- To foster cooperation between the academic and the policy making communities.