

## **A POLITICAL ECONOMY APPROACH TO THE EXPANSION OF TURKISH-GREEK RELATIONS: INTERDEPENDENCE OR NOT?**

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### **Abstract**

*Turkish-Greek bilateral economic relations expanded significantly in the last decade and reached an unprecedented level in history. Given the increasing importance of business groups as a result of the intensifying economic relations, some scholars go on to argue that interdependence theory, which underlines the importance of non-state actors in the decision-making process, became relevant within the context of Turkish-Greek relations. In order to assess the relevance of interdependence theory, the determinants of the expansion in bilateral economic relations are analyzed in the present paper. It is argued in the final analysis that although non-state actors (especially business groups) become visible in the new aura of relations within the framework of interdependence theory, they are not likely to create functional spillover into 'high politics' given that the two major determinants in the 2001-2007 period are subject to change in the post-2008 period.*

### **Key Words**

Turkish-Greek Bilateral Economic Relations, Structure of World Political Economy, Europeanization, Interdependence Theory, International Political Economy.

### **Introduction**

Turkish-Greek relations have always been one of the most difficult and sensitive issues for the ruling elite on both sides of the Aegean Sea. From the very beginning of the independence of Greece in the early 19<sup>th</sup> century, the language of the relations has been dominated by 'mistrust' and 'tension.' Although the relations functioned smoothly without any significant problems from roughly the mid-fifteenth century up until the

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Greek uprising in 1821 under the *pax-Ottomana*, the post-independence period started to be characterized by conflicts in different issue areas. Finally, the Greek invasion of present-day Turkish territories and the defeat of the Greek army by Turkish forces in the 1920-1923 War of Independence added new ‘conflicts’ to the heavy baggage of two nations’ history. The tensions between Turkey and Greece escalated in the mid-1950s and after that point, the two NATO allies came very close to war several times due to the Cyprus issue, Greek-Turkey border disputes in the Aegean Sea and problems regarding the sovereignty of the islands and islets in the region. The problems and distrust between the two countries reached such a level in the mid-1990s<sup>1</sup> that one retired ambassador and former deputy undersecretary of the Turkish Ministry of Foreign Affairs, Şükrü Elekdağ, described Turkey’s position as a country in “two and a half wars” against Greece and “her natural allies” Syria and the Kurdistan Worker’s Party (PKK).<sup>2</sup> The relations were further strained and then bottomed out with the arrest of PKK leader Abdullah Öcalan in possession of a Greek Cypriot passport, having been provided shelter by the Greek embassy in Kenya.<sup>3</sup>

Turkish-Greek relations, however, have not always been characterized by conflict and tension. There have also been periods of *rapprochement* between the countries during the course of the relationship. Historically speaking, it is possible to define three major rapprochement phases in bilateral relations.<sup>4</sup> The first period of improvement in relations was started by Turkish President Mustafa Kemal Atatürk and Greek Prime Minister Eleutherius Venizelos in 1930 with the signing of the Treaty of Friendship and lasted up until the mid-1950s.<sup>5</sup> Yet, thanks to the

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<sup>1</sup> The Turkish Grand National Assembly adopted a resolution unanimously at its 8 June 1995 session which declared the expansion of territorial seas by Greece to be a *casus belli*.

<sup>2</sup> Şükrü Elekdağ, “2 ½ War Strategy”, *Perceptions: Journal of International Affairs*, Vol. I, No. 1 (March-May 1996).

<sup>3</sup> M. Fatih Tayfur, “The Turkey/Greece/Cyprus Security Complex and the EU Enlargement: Implications for the Euro-Mediterranean Partnership and Eastern Mediterranean Relations”, in Thanos Dokos and M. Fatih Tayfur, *Greece and Turkey*, EuroMeSCo Papers, No. 28 (March 2004), p. 12.

<sup>4</sup> Ziya Öniş and Şuhnaz Yılmaz, “Greek-Turkish Rapprochement: Rhetoric or Reality?” *Political Science Quarterly*, Vol. 123, No. 1 (2008), pp. 123-149.

<sup>5</sup> For a detailed account of the 1923 and 1954 periods, see Murat Hatipoğlu, *Yakın Tarihte Türkiye ve Yunanistan: 1923-1954*, Ankara, Siyasal Kitabevi, 1997.

developments regarding Island of Cyprus<sup>6</sup> and the changing political economy and foreign policy orientations of both Greece<sup>7</sup> and Turkey, the relationship worsened dramatically over the following three decades. The second phase of détente in Turkish-Greek relations materialized immediately after Turkey's application to the EC for membership in 1987. Turkish Prime Minister Turgut Özal and his Greek counterpart Andreas Papandreou met at the World Economic Forum in Davos in 1988 and kicked-off the so-called 'Davos process' with the aim of establishing dialogue between the parties.<sup>8</sup> However, the 'Davos spirit' proved to be fragile and unsustainable under the domestic and international pressures on the shoulders of both countries. The final *rapprochement*, and at the same time the most important phase for the aim of this paper, is the post-1999 period, which was initiated by Turkish Foreign Minister İsmail Cem and his Greek counterpart George Papandreou that was underpinned by a series of developments in both domestic and international *fora*.<sup>9</sup>

One of the distinguishing characteristics of the third phase of *rapprochement* is the inclusion of various civil society actors in the relationship.<sup>10</sup> Accordingly, new kinds of non-state actors started to become visible in the political, social and economic *fora*. Among them, the role played by the business elites on both sides of the Aegean evolved into a different dimension and in the existing conjuncture "economic relations form

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<sup>6</sup> For a historical and system-level analysis of the political economy of Cyprus and its relations with Greek-Turkish rivalry over the region, see M. Fatih Tayfur, "Akdeniz'de Bir Adanın Kalın Uçlu Bir Kalemle Yazılmış Hikâyesi: "Kıbrıs", in Oktar Türel (ed.), *Akdeniz'de Bir Ada: KKTC'nin Varoluş Öyküsü*, Ankara, İmge, 2002, pp. 13–53.

<sup>7</sup> For a detailed account of the changing political economy and foreign policy orientations of Greece in the post-war period, see M. Fatih Tayfur, *Semiperipheral Development and Foreign Policy: The Cases of Greece and Spain*, Aldershot, Ashgate, 2003 (Chapters 2 and 3).

<sup>8</sup> For the details of Davos process and the evolution of the stance of both countries' leaders, see Mehmet Ali Birand, "Turkey and the 'Davos Process': Experiences and Prospects", in Dimitri Consta (ed.), *The Greek-Turkish Conflict in the 1990s*, New York, St. Martin's Press, 1991, pp. 27-39.

<sup>9</sup> Ahmet O. Evin, "The Future of Greek-Turkish Relations", *Southeast European and Black Sea Studies*, Vol. 5, No. 3 (2005), pp. 397–398.

<sup>10</sup> Bahar Rumelili, "Society and the Europeanization of Greek-Turkish Cooperation", *South European Society and Politics*, Vol. 10, No. 1 (2005), pp. 45–56.

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a central part of non-state partnership and have gradually acquired a higher profile in the literature on bilateral relations.”<sup>11</sup> Even a brief survey of the recent literature on Turkish-Greek relations reveals the fact that the expansion of the bilateral economic links between the two countries has already aroused the attention of the scholars. In the same vein, the political spillover effects of the economic relations and the relevance of the interdependence theory within the Turkish-Greek context has turned out to be a growing field of academic inquiry.<sup>12</sup>

In their classic study, in which they produced the nucleus of interdependence theory,<sup>13</sup> Keohane and Nye argued that it was not possible anymore to understand world politics just by relying on the realist understanding of inter-state relations,<sup>14</sup> and claimed that “states are by no

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<sup>11</sup> Dimitris Tsarouhas, “The Political Economy of Greek-Turkish Relations”, *Southeast European and Black Sea Studies*, Vol. 9, No. 1 (2009), p. 42.

<sup>12</sup> For a negative account on the effectiveness of the intensification of economic interdependence on ‘high politics’, see Constantine A. Papadopoulos, “Greek-Turkish Economic Cooperation: Guarantor of Detente or Hostage to Politics?” *South East European Studies at Oxford: Occasional Paper No. 8/08* (March 2008). For a positive account on the issue, albeit with reservations, see Dimitris Tsarouhas, “The Political Economy of Greek-Turkish Relations...”

<sup>13</sup> For a detailed account on interdependence theory, see Robert O. Keohane and Joseph S. Nye., “An Introduction,” in Robert O. Keohane and Joseph S. Nye (eds.), *Transnational Relations and World Politics*, Massachusetts, Harvard University Press, 1973; Robert O. Keohane and Joseph S. Nye, “A Conclusion”, in Robert O. Keohane and Joseph S. Nye (eds.), *Transnational Relations and World Politics*, Massachusetts, Harvard University Press, 1973; Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence*, Harper Collins Publishers, 1989 (Chapters 1 and 2).

<sup>14</sup> Interdependence theory is one of the fruitful conceptual frameworks to analyze Turkish-Greek relations, a study area overly dominated by the realist paradigm. The security problems between the two countries and the balance of power politics over the Eastern Mediterranean region are interpreted within the context of realist understanding, especially during the Cold War period. Although it is not possible to define one general type of realist understanding, it can be said that realism refers to the superiority of politics over economics, and can be characterized with three basic assumptions. First of all, realists assume that the nation-states are the dominant actors in international political economy and are thereby the proper unit of analysis. Moreover, the ‘state’ in realist terminology, refers to a unitary actor like a ‘black box’ in which decisions are taken and implemented coherently. Secondly, nation-states act in a way to maximize their own power. Since power is a relative concept,

means the only actors in world politics.” They put special emphasis on transnational relations and developed the idea of a ‘world politics paradigm’ that aimed to fulfill the lack of the state-centric realist framework. Accordingly, “world politics paradigm, the approach that puts emphasis on the increasing role of transnational relations other than nation-states, is necessary if scholars and statesmen are to understand the current [complex interdependent] problems in world affairs.”<sup>15</sup> There are three main characteristics of interdependence. These are multiple channels of communications, an absence of hierarchy among the issues (or the rejection of ‘high politics’ vs. ‘low politics’ dichotomy offered by realists), and the diminished role for military power. By touching upon the abovementioned points, interdependence scholars aimed at rescuing international relations from the monopolized stature of states. In their alternative ideal model, Keohane and Nye introduced the concept of ‘complex interdependence’ and emphasized cooperation among states instead of conflict. They pointed out that increasing transnational relations via multiple communications channels and overlapping economic links will enable (and force) states and non-state actors to cooperate with each other in order to solve the non-security-related issues. In this sense, the idea of ‘complex interdependency’ created fertile soil to theorize cooperation among states by means of non-state actors, even in an anarchic world system.<sup>16</sup>

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the increase in the power of one state makes the other one vulnerable to the prior. This makes the politics a zero-sum game, and perceives the international system inherently anarchic. The third assumption of realism is the rationality of the nation-states in the same sense that liberals assume individuals are rational. See Jeffrey A. Frieden, and David A. Lake, “International Politics and International Economics,” in Roe Goddard, Patrick Cronin and Kishore C. Dash (eds), *International Political Economy*, Boulder, Lynne Rienner Publishers, 2003, pp. 30–32; Jack Donnelly, “Realism”, in Scott Burchill et al. (eds.), *Theories of International Relations*, New York, Palgrave Macmillan, 2001, pp. 29-54.

<sup>15</sup> Robert O. Keohane and Joseph S. Nye, Jr., “A Conclusion”, in *Transnational Relations and World Politics*, Robert O. Keohane and Joseph S. Nye, Jr. (eds.), Massachusetts, Harvard University Press, 1973, p. 371.

<sup>16</sup> In his opus magnum, *After Hegemony*, Robert Keohane developed the functional theory of international regimes. In his theory, Keohane revealed the reasons for states to cooperate in an anarchic world by putting special emphasis on legal liabilities, transaction costs, and the information asymmetry problems. Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy*, Princeton, NJ, Princeton University Press, pp. 85–109. For the details of international regimes discussions, see; Stephen D. Krasner (ed.),

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The sea changes brought by the end of the Cold War further underpinned the logic of interdependence theory, and theorizing the “analytical shift away from analyzing state-nations toward analyzing the governing processes of state and societal transformation”<sup>17</sup> turned out to be one of the major *problematiqué* of the study of international political economy. In this context, the changing nature of the game between states and firms attracted the attention of many scholars.<sup>18</sup> For example, Susan Strange, in order to further elaborate on the research agenda of interdependence scholars, identified two new forms of diplomacy in addition to the classic state-state diplomacy in international relations.<sup>19</sup> Accordingly, she proposed to pay proper attention to the ‘state-firm’ and ‘firm-firm’ relations in the setting of a foreign policy agenda in bilateral state relations.<sup>20</sup> Hence, studying the level

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*International Regimes*, London, Cornell University Press, 1983; Stephan Haggard and Beth A. Simmons, “Theories of International Regimes,” *International Organization*, Vol. 41, No. 3 (1987), pp. 491–517.

<sup>17</sup> Andrew Gamble, “The New Political Economy”, *Political Studies*, XLIII (1995), p. 523.

<sup>18</sup> As Strange and Stopford argued, the firms have ascended their gravity in the analysis of foreign policy studies;

“The upheavals of the international political economy... have altered, irreversibly... the relationships among states and multinational enterprises. Growing interdependence... now means that the rivalry between firms for a secure place in the world economy has become much fiercer, far more intense. As a result, firms have become more involved with governments and governments have come to recognize their increased dependence on the scarce resources controlled by firms.” John Stopford and Susan Strange, *Rival States, Rival Firms: Competition for World Market Shares*, Cambridge, Cambridge University Press, 1998, p. 1.

<sup>19</sup> Susan Strange contributed to the interdependence theory from the perspective of British IPE. Her aim was not to mimic the American way of ‘doing IPE’ (or PIER School), but to enlarge the horizons of international political economy. In fact, one can argue that the interdependence theories benefited considerably from the grand debate between British IPE and the PIER School. For the epistemological and ontological differences between the PIER School and British IPE, see “The Transatlantic Divide: Why are American and British IPE so Different?” *Review of International Political Economy*, Vol. 14, No. 2, pp. 197–219; Benjamin Cohen, *International Political Economy: An Intellectual History*, Princeton NJ, Princeton University Press, 2008.

<sup>20</sup> Susan Strange, “State, Firms And Diplomacy”, *International Affairs*, Vol. 68, No. 1 (1992), pp. 1–15; Susan Strange, “An Eclectic Approach”, in Craig N. Murphy and Roger Tooze (eds.), *The New International Political Economy*, Boulder, Lynne Rienner Publishers, 1991, pp. 13–14.

of economic interactions and the depth of civil society relations, with special reference to their roles as the ‘silent agents’ in transforming the bilateral political conflicts via concentrating on non-political and non-security issues, has become the major area of concentration for students of international political economy.

In this context, given the basic premises of interdependence theory and taking the unprecedented level of Turkish-Greek bilateral economic relations attained in the 2001-2008 period, this paper aims to search for an answer to two main questions: (1) What are the main determinants of the expansion of Turkish-Greek economic relations, i.e., how did it become possible; and (2) Whether the economic interdependence has reached a point of creating functional spillover in the political realm? In this regard, the first part of the article will determine the scope and depth of bilateral economic relations with special reference to trade, foreign direct investment and tourism. The second part will concentrate on the political economy determinants of the expansion in economic relations and the conclusion will make a critical assessment of the relevance of the interdependence theory in the light of future projections.

### **I. The Expansion of Turkish-Greek Economic Relations: Some Stylized Facts**

In this part of the paper, some stylized facts regarding the expansion of Turkish-Greek economic relations will be crystallized with particular reference to the developments in bilateral trade, the increasing penetration of each side’s firms via foreign direct investment, the intensifying intercultural dialogue by means of the tourism sector and newly institutionalized cooperation in other fields.

#### ***Trade***

Cross-border trade between parties is one of the frequently used statistics and is a practical way of understanding the level of economic integration. It is useful not only to show the state of commercial interaction, but also to reveal the degree of political harmony, albeit roughly, between the decision-making elites. In this sense, it can be argued that the direction and volume of the trade flows is both an indicator of the state of political rapprochement of the parties and a facilitator of overcoming existing

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political tensions. As a result, expanding trade relations has been seen as a promoter of mutual political understanding by some of the statesmen involved in Turkish-Greek relations. For example, Turgut Özal in the late 1980s argued that “if trade between the two countries rose from 60 million to 2 billion dollars, it would be far easier to deal with mutual problems and with the bureaucracy.”<sup>21</sup>

The Turkish-Greek economic relationship, however, could not be improved substantially during the 1990s. Although there occurred a very geostrategic asset to be actualized in the aftermath of the liquidation of Socialist regimes in the region – ‘geographical proximity’ between the parties – the 220 million dollars of bilateral trade volume in 1990 was increased up to merely 695 million dollars at the end of the century. Even the Customs Union (hereafter, CU) formed between Turkey and the EU in 1995 did not make any significant contribution to the amount of trade flowing between Turkey and Greece, because in the first four years of the CU the bilateral trade volume increased by 14% annually, which is in fact a modest level.<sup>22</sup>

In retrospect, two factors came to the fore in explaining the sluggish economic relations during the 1990s. The first was the domestic political economy developments in Turkey. From economics point of view, during the 1990s, the Turkish economy became vulnerable to the attacks of short-term foreign speculative investments (so-called ‘hot money’) and experienced two serious financial crises in 1994 and 1999<sup>23</sup> due to the unbalanced/inconsistent economic policies and the ‘premature decision’ to fully liberalize the capital accounts in the summer of 1989.<sup>24</sup> The same years

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<sup>21</sup> Birand, “Turkey and the ‘Davos Process’: Experiences and Prospects...”, p. 33.

<sup>22</sup> Papadopoulos, “Greek-Turkish Economic Cooperation: Guarantor of Detente or Hostage to Politics?...”, p. 12.

<sup>23</sup> For a detailed analysis of the Turkish financial crises, see Nurhan Yentürk, *Körlerin Yürüyüşü: Türkiye Ekonomisi ve 1990 Sonrası Krizler*, İstanbul, İstanbul Bilgi Üniversitesi Yayınları, 2005, pp. 129–157.

<sup>24</sup> For the arguments on the ‘premature liberalization’ of Turkish economy, see Korkut Boratav, *Türkiye İktisat Tarihi: 1908–2002*, Ankara, İmge, 2005; Korkut Boratav and Erineç Yeldan “Turkey, 1980–2000: Financial Liberalization, Macroeconomic (In)-Stability and Patterns of Distribution”, 2002, available at <http://www.bilkent.edu.tr/~yeldane/B&YCEPA2002.PDF>; Ziya Öniş and Caner Bakır, “Turkey's Political Economy in the Age



also witnessed important turmoil in Turkish political life. Once the economic hurdles combined with the political fluctuations, the 1990s became 'lost years' for Turkey. The second reason for the stagnant economic relations between Turkey and Greece in the 1990s was the political turmoil between the two countries. The Greek-Turkish space, as two commentators note, "had been characterized [in the 1990s] as a volcanic zone that was expected to erupt into generalized warfare at anytime, anywhere between the Aegean and Cyprus."<sup>25</sup> The crisis broke out over the Imia/Kardak islets in December 1995, and the Öcalan crisis in February 1999 brought the parties to the brink of war, not to mention the many clashes over the Aegean disputes and the Cyprus issue. Under this stressed political and economic environment, Turkish-Greek bilateral economic relations remained almost nonexistent and it was not possible to create new spaces in which the business elites could manoeuvre on both sides.

Parallel to the positive developments in the political realm, the Turkish-Greek bilateral trade relations entered into a virtuous cycle and started to improve dramatically in the 2000s. As shown in Figure 1, the bilateral trade volume passed the 1 billion dollar threshold for the first time in history (1.34 billion dollars) in 2003 and reached 3.58 billion dollars as of the end of 2008. In other words, the trade volume increased 312% over the 2000-2008 period. While the Greek exports to Turkey increased from 266.2 million dollars in 2001 to 1.15 billion dollars in 2008, Turkish exports to Greece expanded from 590.3 million dollars to 2.42 billion dollars during the same period. Moreover, the two Prime Ministers, Turkey's Recep Tayyip Erdogan and Greece's Kostas Karamanlis, agreed in May 2006 to increase the trade volume to a value of more than 5 billion euros, albeit no time schedule was set out for this ambitious goal.<sup>26</sup>

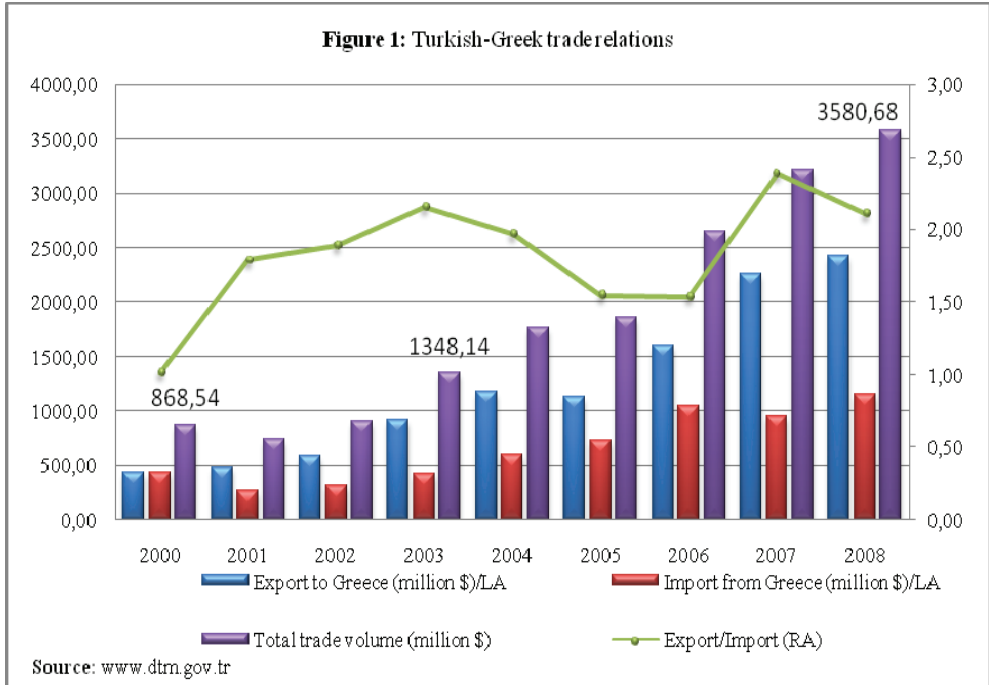
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of Financial Globalization: The Significance of the EU Anchor", *Southeast European Society and Politics*, Vol. 12, No. 2 (2007), pp. 142-164.

<sup>25</sup> Theodore A. Couloumbis and Alexander E. Kentikelenis, "Greek-Turkish Relations and the Kantian Democratic Peace Theory", *Southeast European and Black Sea Studies*, Vol. 7, No. 4 (2007), p. 517.

<sup>26</sup> "Close Greek-Turkish business ties show politicians the way forward, minister says", *Kathimerini*, 25 May 2006. Quoted in Papadopoulos, "Greek-Turkish Economic Cooperation: Guarantor of Detente or Hostage to Politics?...", pp.14-15; see also "Yunanistan ile bir 49 yıl daha beklemeyelim", *Referans Gazetesi*, 4 February 2008.

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As the bilateral trade relationship expanded, however, Greece's trade deficit increased *vis-à-vis* Turkey. The Greek trade deficit, which was about 278 million dollars in 2002, skyrocketed to 1.27 billion dollars as of the end of 2008 and the trade deficit/total trade volume ratio, which is a heuristic indicator for the sustainability of trade deficit, deteriorated from 30.7% in 2002 to 35.7% in 2008 (although it improved to 21% in 2005). In a similar vein, the commercial dependence of Greece increased as a result of the fact that Greece could not diversify its export products to Turkey. Greek exports in the post-2000 period have concentrated mainly on petroleum products and row cotton, the two of which compose approximately half of the total Greek exports to Turkey (refer to Table 1).

Table 1: Turkey's imports from Greece: Sectoral breakdown (%)	2000	2002	2004	2006	2007	2008
Agricultural Sector-Herbal products	38,36	36,82	29,68	21,68	13,67	15,32
Agricultural Sector-Animal products	1,19	4,44	2,42	1,98	2,31	1,52
Agricultural Sector-Water products	0,10	0,02	0,10	0,60	0,85	0,28
Non-metallic quarrying products	0,14	0,09	0,22	0,20	0,39	0,87
Other mining products	0,23	0,47	0,42	0,32	0,49	0,48
Industry Sector-Agr. based processed products	1,39	2,83	2,71	1,68	3,06	4,12
Industry Sector-Processed petroleum products	30,49	9,84	19,65	36,25	32,37	31,06
Industry Sector-Industrial products	28,02	45,43	44,72	37,12	46,80	46,24
<b>Source:</b> www.dtm.gov.tr						

On the contrary, Turkish exports to Greece are more diversified and Turkish exporters seem to be more solidly positioned in the Greek market in the sense that more than 80% of Turkish export products to Greece are classified as industrial products and stretch from iron and steel to machinery and automobiles, and from clothing to textiles (refer to Table 2).<sup>27</sup>

Table 2: Turkey's exports to Greece: Sect. breakdown (%)	2000	2002	2004	2006	2008
Agricultural Sector-Herbal products	5,11	6,40	6,14	4,28	3,60
Agricultural Sector-Animal products	0,00	0,01	0,02	0,01	0,01
Agricultural Sector-Water products	1,56	2,97	1,95	1,74	2,09
Non-metallic quarrying products	0,91	1,45	1,26	1,24	1,06
Other mining products	0,04	0,01	0,03	0,03	0,01
Industry Sector-Agri. based processed products	3,00	2,80	2,09	2,06	1,78
Industry Sector-Processed petroleum products	0,21	3,74	3,26	10,03	9,95
Industry Sector-Industrial products	88,00	81,58	85,19	80,15	81,28
<b>Source:</b> www.dtm.gov.tr					

In summary, Turkish-Greek trade relations expanded dramatically in the 2000-2008 periods thanks to multivariable reasons that will be discussed in the second part of the article. The economic relations during this period, however, were not restricted to the commercial flows. On the contrary, the

<sup>27</sup> For a detailed account of Turkish-Greek trade relations, see Papadopoulos, "Greek-Turkish Economic Cooperation: Guarantor of Detente or Hostage to Politics?...", pp. 12-16.

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increase in trade created functional spillover effects and paved the way to the developments in foreign direct investment.

*Foreign Direct Investment*

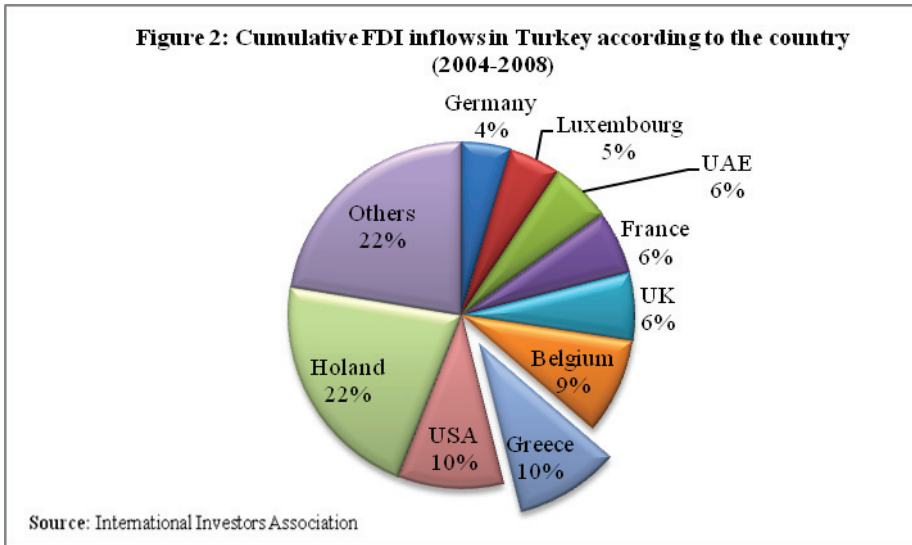
Among the various types of foreign investments, foreign direct investment (FDI) tells us much not only about the level of bilateral relations between the parties, but it also gives an idea about the depth of the economic integration. In theory, FDI is the most desirable way to further economic integration because it shows the willingness of the investors to share the destiny of the country in question.<sup>28</sup> Moreover, the links established as a result of FDI tend to be more enduring and long-term in nature.<sup>29</sup>

In the Turkish-Greek case, the role of FDI has recently undergone a significant transformation and during the last five years, Greece has become one of the most important countries from which Turkey has attracted a considerable amount of FDI. As is demonstrated in the following figure (Figure 2), Greece ranked as the third biggest source of FDI in Turkey over the last five years after Holland and the USA.

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<sup>28</sup> Paul Krugman and Maurice Obstfeld, *International Economics: Theory and Policy*, 7<sup>th</sup> Edition, New York, Pearson Addison Wesley, 2006, pp. 609-614.

<sup>29</sup> It also acts as a crucial pushing factor for the business elites to shift their loyalty to ‘a new centre’ rather than ‘a purely national orientation’ in the Neofunctionalist lexicon. See, Ernst B. Haas, *The Uniting of Europe: Political, Social, and Economic Forces 1950-1957*, Stanford, Stanford University Press, 1968, pp. 13-14.



Having taken the history of FDI between the two countries into consideration, the abovementioned figure represents an extraordinary situation, mainly due to two reasons. First of all, neither Turkey nor Greece has been able to attract enough FDI from a historical point of view. For example, in the Turkish case, the total FDI that Turkey attracted between 1980 and 2000 was just 10.3 billion dollars. Secondly, and mainly as an epiphenomenon of the first reason, the bilateral FDI flows between Greece and Turkey have remained extremely low. For example, the FDI inflow from Greece to Turkey was merely 54 million dollars between 1980 and 2000 (refer to Table 3).

**Table 3: FDI inflow in Turkey (million \$)**

	1980–2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Total</b>	10.382	3.352	1.133	1.752	2.885	10.029	20.185	22.046	17.718
<b>From Greece</b>	54,14	3,47	4,85	24	38	11	2.701	2.263	778

Source: Undersecretariat of Treasury

The dismal picture of the FDI regime, however, started to change, especially after 2001 and increased spectacularly thereafter. Turkey attracted about 10 billion dollars of FDI just in 2005 alone, which actually corresponds to the total amount attracted between 1980 and 2000. This

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amount increased to more than 20 billion dollars in both 2006 and 2007. Parallel to these developments, the FDI inflow from Greece to Turkey reached 2.7 billion dollars in 2006 and 2.2 billion dollars in 2007. Accordingly, the economic integration between the parties reached a historically unprecedented level. Based on these figures, some scholars, even tentatively, underscored the emergence of new dialogue channels and pinpointed the potential role for newly emerging ‘autonomous business groups’ in solving the political imbroglio in Turkish-Greek relations.<sup>30</sup> While these claims have validity to a certain extent, a more in-depth analysis is required in order to make solid projections of whether the expansion of economic relations may create functional spillover into the ‘high politics.’ In the second part of the present paper, a critical account of these arguments will be elaborated more comprehensively within a wider political economy context; yet, underlining two facts with regard to FDI is of vital importance at this point.

First of all, as tabulated in Table 3, the Greek FDI inflow into Turkey does not show a secular trend in the sense that there is not a significant amount of investment documented except in 2006 and 2007. The main reason for the increase in those years was the acquisition of Finansbank by the National Bank of Greece (NBG). In April 2006, NBG acquired 46% of the sixth largest private bank of Turkey, Finansbank, in an amount of 2.77 billion dollars and in the subsequent year, NBG raised its stake to almost 90% by paying another 2.25 billion dollars to the Turks. By acquiring Finansbank, a bank that had a 287 million euro net profit, 972 million euro equity capital and 11 billion euro total assets at that time, the NBG increased its total assets by 18% and equity capital by 26%.<sup>31</sup> The Finansbank deal, as a result, accounted for almost the entire Greek FDI inflow in 2006 and 2007 in Turkey.<sup>32</sup> The second important point regarding the FDI accounts is the unilateral characteristics of investments. In other words, while Turkish firms invested in Greece at almost negligible amounts over the 2000-2008 period,

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<sup>30</sup> Refer to the sources in footnote 12.

<sup>31</sup> Hurşit Güneş, “Finansbank'ın satışı: Yunanlılar Türkiye'ye güveniyor”, *Milliyet Gazetesi*, 6 April 2006.

<sup>32</sup> The other deals are the Eurobank EFG's acquisition to take the controlling share of HC Istanbul Holding as of 28 March 2005 and Eurobank EFG's acquisition of a 70% stake in Tekfenbank for 182 million dollars on 8 May 2006.

albeit Greece attracted considerable amount of FDI.<sup>33</sup> The only noteworthy cases are the opening of two bank branches in Greece by T.C. Ziraat Bankası, the biggest state-owned agricultural bank in Turkey, and a handful of Turkish investments.<sup>34</sup>

Finally, it is appropriate to touch upon the increase in the number of Greek capital companies operating in Turkey. According to the Undersecretariat of the Turkish Treasury, the number of companies established in Turkey by Greece-based investors increased from 76 in 2003 to 346 in 2008 (refer to Figure 3).<sup>35</sup>

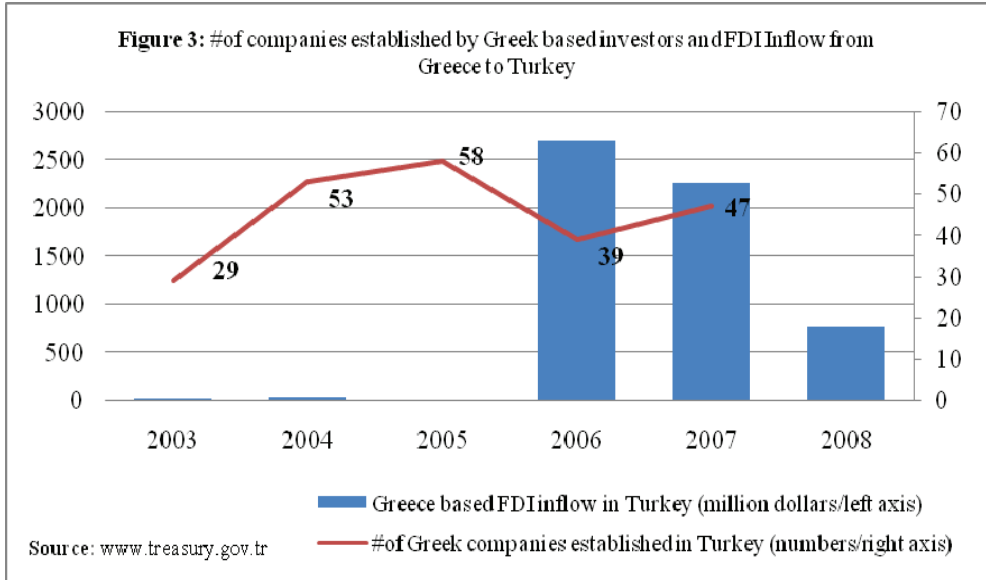
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<sup>33</sup> There are mainly two reasons for Turks not to invest in Greece. First is the unsuitable FDI Regulations in Greece that restrict non-EU investors considerably. The Greece government, however, has enacted a new law (Law 3386/2005), which provides new possibilities for the entry of non-EU investors. The new law was enacted to attract FDI in Greece from neighbouring countries, yet the FDI Regime in Greece still has considerable hurdles. For example, investing more than 300,000 euros within a single year is *sine qua non* in order for non-EU investors to benefit from the provisions of the new Law. The second reason for the Turks not to invest in Greece is their preference to invest in countries with low production and labour costs in the region like Bulgaria and Romania. For more information, see Papadopoulos, "Greek-Turkish Economic Cooperation: Guarantor of Detente or Hostage to Politics?...", pp. 28-32.

<sup>34</sup> According to the Undersecretariat of the Prime Ministry for Foreign Trade there are ten Turkish firms operating in Greece.

<sup>35</sup> For a detailed analysis of FDI inflows in Turkey, see Undersecretariat of Treasury, General Directorate of Foreign Investment, Foreign Direct Investments in Turkey: 2007, June 2008, available at <http://www.treasury.gov.tr>.

## A Political Economy Approach to the Expansion of Turkish-Greek Relations: Interdependence or Not?



### *Tourism*

Tourism is another important indicator that shows the level of integration among the countries due to two main reasons. First of all, it directly shows the level of intercultural dialogue and societal level of interaction. It also transforms the relationship from merely a rationalist understanding of economics to the personal and emotional understanding of interpersonal communication. Secondly, it sometimes plays a crucial role in the development of national economies, given that the geographical conditions are favourable.

Having taken the abovementioned two characteristics into consideration, both of them play a role in the tourism sector between Turkey and Greece. Regarding the first characteristic, the intercultural dialogue at a societal level is of vital importance to lift the heavy baggage of history from the shoulders of the public opinion on both sides. Regarding the second characteristic, as a result of the geographical positioning of the countries and the 'geographical proximity' between Greece and Turkey, tourism is an important source of revenue to improve the balance of payments statistics. In this context, the development of cooperation in tourism has the potential to create a 'win-win' situation.



During the last eight years, the number of Greek visitors arriving in Turkey, and *vice versa*, has increased considerably. For example, the number of Greek visitors arriving in Turkey increased from 156,599 in 2001 to 572,212 as of the end of 2008. In a similar vein, the number of Turks visiting Greece grew from 114,353 in 2001 to more than 413,000 in 2007.<sup>36</sup> In the final analysis, the tabulated tourism figures clearly show that the intercultural dialogue evolved into a different phase after the 2000s.<sup>37</sup>

In summary, in the first part of the present paper, the expansion of economic relations between Turkey and Greece is revealed with special reference to bilateral trade, foreign direct investment flows and tourism sector. The economic data tabulated above reveals that the economic interaction increased considerably during the first decade of the 21<sup>st</sup> century. As a result, new players and interest groups, other than the state-centric and bureaucratic actors, started to stand out. Based on these figures, two very important questions come to the fore: What are the main determinants of the unprecedented bilateral economic expansion between Turkey and Greece and does the newly-emerging economic 'interdependence' have the potential to spillover into 'high politics' so as to facilitate solving the long-standing political imbroglio in Turkish-Greek relations? The second part of this paper, in this regard, will search for an answer to these questions by giving special emphasis to the wider context of international political economy.

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<sup>36</sup> "Karamanlis'ten Expo adaylığına destek", *Radikal Gazetesi*, 26 January 2008.

<sup>37</sup> In the final analysis, the increase in the number of visitors is an important indicator that shows the political stability both *inter* and *intra* countries. As a result of the political rapprochement between the parties and the domestic economic and political stability, the actualization of tourism potential became possible at least to a certain degree. The importance of stability came to the fore in 2006 with the terrorist attacks directed towards tourist towns in Turkey. For example, after these attacks, the number of Greek tourists in Turkey dropped by almost 30% in 2006 *vis-à-vis* the previous year. For the details of terrorist attacks in those regions in 2006, see İhsal Bal, "Marmaris Bombalamaları", *USAK Stratejik Gündem*, 28 August 2006.

## II. The Determinants of the Expansion of Turkish-Greek Economic Relations

In retrospect, there are two main determinants of the expansion of Turkish-Greek economic relations over the last decade, which are the conditions in the world political economy in the post-2001 period and the 'Europeanization' not only in Turkey, but also in Greece during the period in question. In this part, the role of these determinants will be scrutinized.

### *The conditions in the world economy in the post-2001 period*

In order to understand the nature and dynamics of the recent surge in Turkish-Greek economic relations, this paper argues, it is of vital importance to concentrate on the expansion in the world economy over the post-2001 period. Unless one places the Turkish-Greek relationship into the context of that wider political economy, misinterpretations may arise not only in understanding the last decade, but also in foreseeing the future of the relationship.

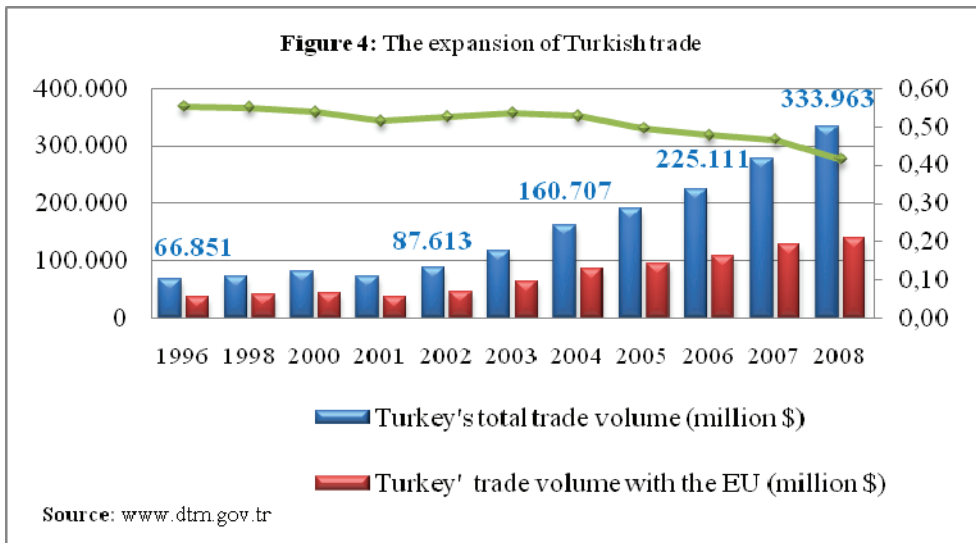
After the collapse of the famous 'technology bubble' and with the devastating destabilising consequences of the 9/11 terrorist attacks, the economic decision-making elite in the U.S. quickly intervened in the global markets. At first, the American Federal Reserve Bank (the 'Fed') started to follow a 'loose' monetary policy and cut interest rates to 1% in mid-2003 (the lowest level over the last fifty years) in order to provide liquidity in the global financial markets. Moreover, the Bush administration underpinned the expansionist monetary policy with an expansionist fiscal policy for economic and political reasons. Once the Americans were followed by the central banks and governments of other developed countries, *inter alia*, the world witnessed a historic level of global liquidity. Under these conditions, the economic activity in the world accelerated dramatically and emerging markets turned out to be important destinations for realizing huge amount of profits.<sup>38</sup>

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<sup>38</sup> For example, just in 2006 alone, the total foreign investment to 29 "emerging market economies" was calculated as \$453.6 billion by the *Institute of International Finance*, and Turkey attracted 12.7% of this amount (\$57.7 billion).

During the same period, Turkey also experienced unique years. Backed by the domestic conditions and improvements in relations with the EU – a case of which will be examined below – the Turkish economy showed a high level of performance with regard to trade figures, growth rates and FDI inflows, a pattern that is also valid for the Greek case.

In this context, after the 2001 crisis, the Turkish economy started to recover very quickly and Turkish foreign trade documented a historic rate of growth. The total trade volume, for example, increased from 87.6 billion dollars in 2002 to about 340 billion dollars as of the end of 2008 (refer to Figure 4).



Greece, during the same period, also benefited from the favourable conditions and increased its penetration into neighbouring countries.<sup>39</sup> As was written in the latest OECD survey on Greece:

<sup>39</sup> This point is also underlined by a recent IMF document: “After years of strong growth, the Greek economy is entering a downturn. During the upswing, per-capita incomes approached the euro-area average. This occurred in an unusually benign global environment with ample liquidity and low interest rates. However, with limited reforms and insufficient policy adjustment, competitiveness deteriorated.” See International Monetary Fund,

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“[Greece] has benefited from its geographical proximity to some of the fastest growing export markets, particularly in the Balkans, Central and Eastern Europe and the Middle East. The opening up of trade in the Balkans as well as Central and Eastern Europe has coincided with a major shift in the geographic structure of trade; the share of goods exports going to the Balkans has nearly tripled to 17% between the first half of the 1990s and the first half of this decade. Conversely, the share of goods exports to euro area countries has fallen from 55% to 35% over the same period.”<sup>40</sup>

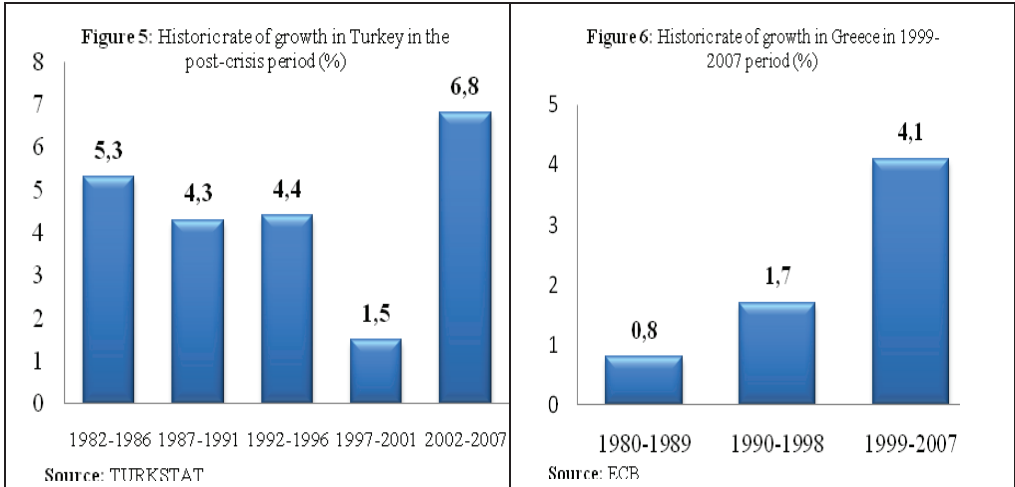
The period in question was also characterized by high growth rates for both countries partially, thanks again, to the buoyant activity in the world political economy. On the one hand, Turkey experienced an era of unusual economic growth in 2002-2007 *vis-à-vis* the previous periods (refer to Figure 5) by growing 6.8% annually. On the other hand, the growth performance of Greece in the 1999-2007 period is well above the historical growth rates because, in the period in question, the Greek economy grew by 4.1%, compared to 1.7% in 1990-1998 and 0.8% in 1980-1989 (refer to Figure 6). According to the Economist Intelligence Unit, the Greek economy also grew well ahead the euro area average during the same period.<sup>41</sup>

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“Greece: 2009 Article IV Consultation Concluding Statement of the Mission”, Athens, 25 May 2009.

<sup>40</sup> *OECD Economic Surveys: Greece*, Vol. 2007, No. 5 (May 2007), p. 27.

<sup>41</sup> During the five years from 2001 to 2005, the Greek growth rate was 4.4% *vis-à-vis* 1.4% in the euro area. In 2006 it was 4.2% compared with 2.8% in the euro area. See The Economist Intelligence Unit, Country Profile 2008: Greece, p. 18.



When it comes to foreign direct investment, one has to refer to the global economic circumstances one more time. As revealed in the first part of this article, Greek FDI outflows reached very high levels in the last six years and it has turned into a major ‘investor’ country in Turkey. This process is also a derivative of abundant global liquidity in the period in question. Once the profit margins entered into a notable decline in developed countries as a result of the availability of credit, emerging markets like Turkey became the favourite destinations for acquisitions, mergers and takeovers. Accordingly, a massive FDI inflow took place not only in Turkey but also in Greece during this period.<sup>42</sup>

One important point for the Greek case to differentiate it from the Turkish case is that Greece followed an aggressive strategy to become an investor in neighbouring countries so as to become the “centre of a circle around which stretches a large market of more than 340 million people, located in the Balkans, the Black Sea and the Middle East, with immense opportunities for Greek businesses or for joint Greek-foreign ventures.”<sup>43</sup> Today, the loan exposure of the four biggest Greek banks in Southeast

<sup>42</sup> The total FDI inflow in Turkey between 2003 and 2008 was 74.3 billion dollar. During the same period Greece attracted more than 28 billion dollars of FDI.

<sup>43</sup> This aim is expressed by Miltiadis Varvitsiotis, the Greece’s Deputy Foreign Minister, responsible for economic diplomacy, see Miltiadis Varvitsiotis, “Greek transforming investment initiatives in Southeast Europe”, 22 May 2009, at [http://www.ekathimerini.com/4dcgi/\\_w\\_articles\\_world\\_2\\_22/05/2009\\_107396](http://www.ekathimerini.com/4dcgi/_w_articles_world_2_22/05/2009_107396) [last visited on 24 May 2009].

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European countries exceeds €47.5 billion, *i.e.* 22% of total loan exposure of the banks in question.<sup>44</sup> In this context, as Miltiadis Varvitsiotis, Greece's Deputy Foreign Minister responsible for economic diplomacy, declared, as of the beginning of 2009:

“Greece ranks first in foreign direct investment (FDI) in many Balkan countries, where there are more than 4000 companies of Greek interest, which have created more than 200,000 jobs. Regarding the banking sector, more than 3,200 Greek branches operate in the region (Turkey included), increasing their market share to more than 20 percent.”<sup>45</sup>

In summary, the favourable economic conditions all around the world in the post-2001 period enabled both Turkey and Greece to boost their trade figures and diversify their export markets mainly as a result of strong growth rates. Under these conditions, the Turkish-Greek bilateral economic relationship also captured its share from the pie. One important point to be noted here is that the political dialogue initiated in the late 1990s and the ‘Europeanization’ process opened avenues for the business elites to benefit from the very suitable global economic conditions in favour of the bilateral economic relations between two countries. In the following part, the ways in which political dialogue and ‘Europeanization’ helped expand the bilateral economic links will be analyzed in detail.

*The ‘Europeanization’ effect for both countries*

The European Union, especially after 1999, turned out to be an important (f)actor in Turkish-Greek relations. For Turkey's account, the importance of the EU has gained more gravity after the 1999 Helsinki Summit in which Turkey was declared a formal candidate country and the relations, arguably, reached its climax after 2004 with the European Council Summit<sup>46</sup> that announced the beginning of accession negotiations on 3

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<sup>44</sup> Jens Bastian, “Falling Behind Again? Southeast Europe and the Global Crisis”, *ELIAMEP Thesis*, March 2009, p. 4.

<sup>45</sup> Miltiadis Varvitsiotis, “Greek transforming investment initiatives in Southeast Europe...”

<sup>46</sup> The current relations have plunged into a deadlock due to internal and external reasons. For a recent article on the cycles of EU-Turkey relations and on the current stalemate, see

October 2005.<sup>47</sup> Accordingly, for the first time in history, the prospect of EU membership became a ‘real possibility’ for Turkey as a result of which the EU increased its transformative role in the Turkish political economy. Within the context of Turkish-Greek bilateral relations, the Europeanization of Turkey has shown its impact via three main channels.<sup>48</sup> The first of these

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Ziya Öniş, “Turkey-EU Relations: Beyond the Current Stalemate”, *Insight Turkey*, Vol. 10, No. 4 (2008), pp. 35-50.

<sup>47</sup> Fuat Keyman and Ziya Öniş, *Turkish Politics in a Changing World: Global Dynamics and Domestic Transformations*, Istanbul, Istanbul Bilgi University Press, 2008, p. 89.

<sup>48</sup> In this paper, although Europeanization is analyzed within the context of bilateral Turkish-Greek relations, the concept itself refers to more than the normalization of relations between actors. Instead, it connotes the institutional and discursive transformation of domestic and foreign policies of the states in question. In the literature, there are different definitions of Europeanization. For example, according to Tanja A. Börzel (2002: 193–194), Europeanization is defined as “a two-way process. It entails a ‘bottom-up’ and a ‘top down’ dimension. The former emphasizes the evolution of European institutions as a set of new norms, rules and practices, whereas the latter refers to the impact of these new institutions on political structures and processes of the Member States.” In recent years, however, new approaches that try to conceptualize Europeanization as an interplay between member states domestic policies and the supranational level have appeared in the literature. For example, Claudia Major (2005:177) defines Europeanization as “an ongoing, interactive and mutually constitutive process of change linking national and European levels, where the responses of the Member States to the integration process feed back into EU institutions and policy processes and vice versa.” Whether one follows top-down or bottom-up approaches, Europeanization refers to in-depth changes in the institutional and discursive domestic, foreign, and security policies of the states that are the members of the EU or oriented towards EU membership. For the top-down and bottom-up definitions of Europeanization, see Tanja A. Börzel, “Pace-Setting, Foot-Dragging, and Fence-Sitting: Member State Responses to Europeanization”, *Journal of Common Market Studies*, Vol. 40, No. 2 (2002), pp. 193–214. For the third approach in Europeanization literature, see Claudia Major, “Europeanization and Foreign and Security Policy – Undermining or Rescuing the Nation State”, *Politics*, Vol. 25, No. 3, pp. 175–190. For a review on Europeanization, see Johan P. Olsen, “The Many Faces of Europeanization,” *Journal of Common Market Studies*, Vol. 40, No. 5, pp. 921-952. Regarding Turkey’s Europeanization, this paper follows the methodology of Aydın and Açıkmeşe in the sense that Europeanization in Turkey seems to portray a ‘top-down’ mechanism. Accordingly, the EU conditionality principle transforms Turkey to the extent that Ankara perceives membership as an attainable goal. The impact of Europeanization of Turkish-Greek relations should be interpreted in this wider conceptual framework. This interpretation is also compatible with the main arguments of this paper,

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channels is the political aspect of Europeanization. The Turkish side came to the understanding in time that normalizing relations with Greece was an important precondition for the smooth conduct of negotiations. In other words, Turkish policymakers understood the link between Turkey-Greece relations and the EU membership bid. As one diplomat put it “[Turkey] is pursuing [...] negotiations with Greece because [it] wants to be in the EU.”<sup>49</sup> The second channel in which Europeanization runs its course is the civil society aspect of Europeanization. As Rumelili<sup>50</sup> underlines, the EU has acted as a source fund and a legitimizer within the context of Turkish-Greek civil society dialogue. Since Turkey became a candidate country in 1999, the Turkish and Greek civil society organizations have started to benefit from EU funds to conduct joint projects. Moreover, the EU has provided the common denominator for these organizations and Europeanization became a legitimizer, not only for civil society leaders, but also for politicians to depart from the conventional interpretation of the ‘national security’ concept. The third channel is the economic aspect of Europeanization, which in fact showed its influence in the post-crisis period in Turkey. Especially after 2001, when the biggest economic crisis of the Republican era occurred, the need for structural reforms is understood by a wide majority of the interest groups in Turkey and the transformative power of the EU significantly affected the Turkish economic and political atmosphere in terms of institutional quality and the rule of law.<sup>51</sup>

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which are put forward in the conclusion part. For an illuminating analysis of Europeanization of Turkey with the help of EU conditionality and its impacts upon Turkish foreign policy, see Mustafa Aydın and Sinem A. Açıkmeşe, “Europeanization Through EU Conditionality: Understanding The New Era In Turkish Foreign Policy,” *Journal of Balkan and Near Eastern Studies*, Vol. 9, No. 3 (2007), pp. 263 – 274.

<sup>49</sup> The interview was conducted by Bahar Rumelili and quoted here from the following source: Bahar Rumelili, Transforming the Greek-Turkish Conflicts: the EU and ‘what we make of it!’” in Thomas Diez, Mathias Albert and Stephan Stetter (eds.), *The European Union and Border Conflicts: The Power of Integration and Association*, Cambridge, Cambridge University Press, 2008, p. 109.

<sup>50</sup> Bahar Rumelili, “Society and the Europeanization of Greek-Turkish Cooperation...”, pp. 49–54.

<sup>51</sup> Fikret Şenses and Ziya Öniş, “Global Dynamics, Domestic Coalitions, and a Reactive State: Major Policy Shifts in Post-War Turkish Economic Development”, *METU Studies in Development*, Vol. 34, No. 2 (2007), pp. 251–286.



On Greece's account, the EU has long been used as a platform to be manipulated *vi-á-vis* the Turks. From the very beginning of Greek membership in 1981 up until the late 1990s, Greece used its 'veto' card against Turkey in order to gain bargaining superiority and negotiating leverage.<sup>52</sup> In this regard, Greece used its veto power both regarding the financial aid within the framework of the Turkey-EU Customs Union and the 12-13 December Luxembourg Council, in which the EU refused to grant Turkey candidate country status.

Greece's foreign policy strategy against Turkey and Turkey-EU relations, however, started to shift after the mid-1990s and Greece lifted its veto for the candidacy of Turkey at the Helsinki European Council on 10-11 December 1999. After this period, Greece pursued an engagement policy regarding Turkey in order to control it by enabling the Europeanization of Ankara. One major development triggered the paradigm shift in Greek foreign policy. Greece, during the 1990s, was considered the 'black sheep' of European integration thanks to its underperforming economy and uncompromising foreign policy within the EU foreign policy framework on the issue of the dissolution of Yugoslavia and the non-recognition of Macedonia.<sup>53</sup> Under the Kostas Simitis government (1996-2004), Europeanization became the *leitmotiv* of Greek foreign policy in order to reposition itself as a respected country at the centre of the EU. As put by Ioakimidis, for the Simitis government, making Greece a model country for its neighbours "as a European country in the Balkans, not a Balkan country in Europe" became the major aim.<sup>54</sup> In this regard, becoming a member of the Economic and Monetary Union (EMU) occupied the central agenda of Greek foreign policy-making elite and it was seen as more of a political issue

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<sup>52</sup> Bahar Rumelili, "The European Union's Impact on the Greek-Turkish Conflict: A Review of the Literature", *Working Paper Series in EU Border Conflict Studies*, No. 6 (January 2004), pp. 10-15.

<sup>53</sup> Its policies regarding Cyprus issue and Former Yugoslav Republic of Macedonia (FYRM) came to the fore in 1990s. For a general assessment, see Spyros Economides, "The Europeanization of Greek Foreign Policy", *West European Politics*, Vol. 28, No. 2 (2005), pp. 471-491.

<sup>54</sup> Quoted in Ioannis N. Grigoriadis, "On the Europeanization of Minority Rights Protection: Comparing the Cases of Greece and Turkey", *Mediterranean Politics*, Vol. 13, No. 1 (2008), p. 29.

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than an economic matter.<sup>55</sup> In the final analysis, it was understood by the pro-EU leaders of the governing party at that time, PASOK, that without solving the uneasy Turkish-Greek relations which had the ubiquitous potential to turn into armed conflict, “Greece’s full integration into the EU will always remain incomplete.”<sup>56</sup>

In summary, the Europeanization process after the mid-1990s in Greece and after 1999 in Turkey helped contribute to the political *rapprochement* of Turkish-Greek relations. Although the reasons and dynamics of Europeanization are different in the two countries, the EU became the common denominator for both sides, which in turn contributed to the order and stability of bilateral political relations between Turkey and Greece in the last decade. Once political stability was sustained for the functioning of economic relations and was backed by global conditions in the world economy in the post-2001 period, the bilateral economic relations between Ankara and Athens expanded at an unprecedented level.

### **Conclusion: Interdependence or not?**

As it is documented in this paper, the relations in terms of bilateral trade, foreign direct investment, acquisitions and tourism expanded significantly in the post-2001 period. Moreover, new possibilities for cooperation emerged in the energy sector. Given the increasing impact of the business groups as a result of the intensifying economic relations between Turkey and Greece, some scholars go on to argue that interdependence theory, which underlines the importance of non-state actors in decision-making, became meaningful within the context of Turkish-Greek relations. As the figures show, the importance of the economic links, hence the power and influence of business groups, as well as other sectors of civil society, has become more visible than a decade ago. As a result, it is likely for the decision-makers in foreign policy mechanisms of both countries to reconsider the traditional state-centric approach to bilateral relations. Yet, in order to understand whether the involvement of non-state actors, especially business groups, is sustainable in the coming years, it is necessary to revisit

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<sup>55</sup> M. Fatih Tayfur, *Semiperipheral Development and Foreign Policy: The Cases of Greece and Spain...*, p. 134.

<sup>56</sup> *Ibid.*

the determinants of Turkish-Greek rapprochement within the context of change in the world political economy.

Regarding the economic side, the favourable conditions (interim expansion period) in the world economy came to an end with the global crisis, which started in the U.S. sub-prime mortgage sector in mid-2007 and turned into a full-fledged global economic crisis in a very short period of time. The immediate repercussions of the crisis for developing countries like Turkey and relatively vulnerable EU member countries like Greece are starting to be observed with the contraction in trade volumes, decline in investment flows and increase in bankruptcies of small and medium enterprises.<sup>57</sup> In other words, it is not possible for businessmen to assume they will have the global economic winds at their backs anymore. Inescapably, Turkish-Greek economic relations will be affected by the global turmoil. As argued in the second section, the fluke of history regarding Turkish-Greece economic relations is mainly determined by the expansion period in world economy and is thereby expected to suffer from the global turmoil in the same vein. What makes things worse in the current crisis is that the recovery is forecasted not to materialize in the short term. The EIU estimates world trade will contract 9.7% and world GDP will shrink 3% in 2009.<sup>58</sup> Accordingly, the Greek economy is estimated to contract 3.1% in

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<sup>57</sup> In the Turkish case for example, the availability of capital would turn out to be one of the crucial aspects of the economy. Since the savings fall short of investments, keeping financial channels open and attracting foreign capital is *sine qua non* for oiling the wheels of Turkish industry. The Institute for International Finance, however, forecasts net private sector capital flows to emerging markets will be no more than \$165 bn (€125 bn, £116 bn) this year, less than half the \$466 bn inflow in 2008, and only one fifth of the amount sent in the peak year of 2007. See Peter Thal Larsen, "Capital flows to developing world at risk of collapse", *Financial Times*, 28 January 2009.

<sup>58</sup> This point is underlined by the latest EIU country report on Greece. The EIU stated that "the outlook for the global economy has deteriorated dramatically since September 2008. We have made major downgrades to our forecasts for all major countries. We expect world trade to contract by 9.7% in 2009 and forecast severe recessions in the US, Europe and Japan. GDP in the US is forecast to decline by 3.2%, while the euro area economy is forecast to contract even more severely, by 4.3%. At market rates, we forecast that the global economy will contract by 3% in 2009. This would be the first such contraction since the end of the Second World War. We continue to expect a moderate recovery in the global economy in 2010, but the EU economy will contract further. *There is a risk that the global*

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2009 and 0.7% in 2010. During the same period, the Turkish economy is expected to shrink 4.5% in 2009 and modestly recover in 2010.<sup>59</sup>

Regarding the second determinant of the expansion of bilateral economic relations, namely Europeanization, the rapprochement process and the validity of the interdependence theory is not immune from fragilities. In the literature, the Europeanization process is taken, most of the time, as a 'progressive' parameter for Turkish-Greek relations. Yet, in the Turkish context at least, Europeanization in the post-1999 period is at the same time characterized as the Europeanization of bilateral Greek-Turkish political disputes. Starting from the mid-1990s, Greece worked hard to multilateralize (i.e. Europeanize) the bilateral conflicts and the Cyprus question in the existing structure became as much an EU problem as a bilateral conflict. The EU, by making Greek Cyprus a member of the EU as the 'legal representative' of the island, became a party to the conflict and caused the Turks to question the position of the EU since "the EU decision to enlarge towards 'Cyprus' ... contradicts the EU principle of not accepting countries with political and border problems in the Union."<sup>60</sup> What is more important is that the EU, by intervening on the island, disturbed the long-established balance of power between Turkey and Greece in the Eastern Mediterranean region.<sup>61</sup> In terms of power structures, as Tayfur<sup>62</sup> underscores, the Island of

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recovery will be delayed beyond 2010." See, *The Economist Intelligence Unit*, Country Report May 2009: Greece, pp.7-8.

<sup>59</sup> *The Economist Intelligence Unit*, Country Report May 2009: Greece, p.8; *The Economist Intelligence Unit*, Country Report June 2009: Turkey, pp. 8-9.

<sup>60</sup> M. Fatih Tayfur, "The Turkey/Greece/Cyprus Security Complex and the EU Enlargement: Implications for the Euro-Mediterranean Partnership and Eastern Mediterranean Relations...", p. 13.

<sup>61</sup> The balance between the parties was first disturbed with Greece's membership to the EU in 1981. As Eyüp Özveren puts "...as of the last quarter of the twentieth century, the deliberately created equilibrium between Turkey and Greece with respect to the Cyprus question has been brought under further strain by Greece's membership of the European Union. This has paved the way for the involvement of the European Union in the regional power equation as a party to Greek and Greek-Cypriot interests." See Eyüp Özveren, "Geo-Strategic Significance of Cyprus: Long-Term Trends & Prospects", *Perceptions: Journal of International Affairs*, Vol. 7, No. 4 (December 2002-February 2003).

<sup>62</sup> For a theoretical analysis of the issue in line with Susan Strange's 'Structural Power Approach', see M. Fatih Tayfur "Susan Strange Goes to the Eastern Mediterranean: An

Cyprus is located at the heart of the Eastern Mediterranean region and geopolitically has a key position in controlling the ‘security’, ‘transportation’, ‘energy’ and ‘welfare’ structures in the region. From this point of view, what Europeanization means in the Turkish case is a shift in the balance of power structures in favour of the Greek side as a result of the EU’s 2004 enlargement. Obviously, the medium and long-term consequences of the EU’s reshuffling will create an important impediment to Turkish-EU relations, i.e. the Europeanization of the Turkish political economy.<sup>63</sup> Therefore, Turkish-Greek relations are expected to be influenced to a certain extent in a manner in which economic spillover is unlikely to solve the political dispute.

In conclusion, the Turkish-Greek bilateral economic relations expanded significantly in the last decade and reached an unprecedented level in history. Two major phenomena, the expansion of the world economy in the post-2001 period and the Europeanization of Greece and Turkey, accompanied by domestic political economy transformations, have been scrutinized as the major determinants of the expansion in bilateral economic relations. It is argued in the final analysis that, although the non-state actors (especially business groups) became visible in the new aura of relations within the framework of interdependence theory, they are not likely to create a functional spillover into ‘high politics’ in the foreseeable future given that the first of the two major determinants in the 2001-2007 period, global economic conditions, are subject to change in the post-2008 period, and the second set of determinants, namely Europeanization, are to face more structural, historical, political economy and security challenges in the Eastern Mediterranean region.

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Alternative Approach to an Explanation of the International Political Economy of Turkish-Greek Relations in the Eastern Mediterranean”, *Perceptions: Journal of International Affairs*, Vol. VIII, No. 2, pp. 111-143.

<sup>63</sup> In fact, the EU has already frozen 8 chapters and decided not to close the other chapters until Turkish side opens its ports to Greek Cypriot ships.