

Semiperipheral Development
and Foreign Policy
The Cases of Greece and Spain

To the memory of my mother and father

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ASHGATE

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Published by
Ashgate Publishing Limited
Gower House
Croft Road
Aldershot
Hants GU11 3HR
England

Ashgate Publishing Company
Suite 420
101 Cherry Street
Burlington, VT 05401-4405
USA

Ashgate website: <http://www.ashgate.com>

British Library Cataloguing in Publication Data

Tayfur, M. Fatih

Semiperipheral development and foreign policy : the cases
of Greece and Spain

1.International relations – Philosophy 2.International
relations – Case studies 3.Spain – Foreign relations – 20th
century 4.Greece – Foreign relations – 20th century 5.Spain
– Economic conditions – 20th century 6.Greece – Economic
conditions – 20th century 7.Spain – Politics and government
– 20th century 8.Greece – Politics and government – 20th century

I.Title

327.4'6'09045

Library of Congress Control Number: 2003105086

ISBN 0 7546 1964 8

Printed in Great Britain by Antony Rowe Ltd, Chippenham, Wiltshire

Contents

<i>Acknowledgements</i>	vi
<i>Preface</i>	vii
1 World-System Analysis and the Concept of Semiperiphery	1
2 Greece: 1945-1974	39
3 Greece: 1974-2000s	73
4 Spain: 1945-1976	141
5 Spain: 1976-2000s	169
6 Conclusion	231
<i>Bibliography</i>	237
<i>Index</i>	255

In the period of the world-economy's expansion that started after the Second World War under the US hegemony, Greece exhibited the general characteristics of a semiperipheral state. This lasted for 30 years until the period of contraction in the world-economy set in. As discussed in this chapter, parallel to its semiperipheral economic development, Greece experienced direct intervention in its domestic affairs, and became a satellite and a political agent of a hegemonic power in its external relations.

Now, let us turn to the post dictatorship period and see whether Greece followed a semiperipheral foreign policy between 1974 and the 2000s, a period which overlapped with a contraction period in the world-economy.

Notes

- 1 Ellis gives typical examples on how the monopolistic and oligopolistic interests protected their privileged position in the market through political pressure, see Ellis, 1964, pp.185.
- 2 Ellis points out that in 1950, 80 percent of the total savings came from abroad, mostly in the form of US economic aid. This dropped to 12 percent in 1960.
- 3 In December 1946, the American and Greek governments agreed to the purchase of 100 Liberty type carrier ships, for \$545,000 each, by Greek shipowners. Only a quarter of the total amount was paid and the Greek state was the guarantor of the remaining amount that was to be paid over 15 years, see Serafetinidis et al., 1981, pp.294-295.
- 4 At the beginning, the Americans were against the reactionary-conservative and far-right groups in Greece. The US State Department had opposed the British idea of restoring the monarchy. They were highly critical of the Greek monarchy, both as an institution and as personified by the King George II, see Iatrides, 1980, p.57 and Roubatis, 1987, p.15. The King was seen a man of limited vision and an arm of the Metaxas dictatorship. Yet official US policy had remained neutral on the issue, implying that the King should not seek American support for the restoration of monarchy, see Woodhouse, 1986, p.254.
- 5 Interview with Field Marshall Papagos, *Vema*, 27 April, 1952, quoted in Couloumbis, 1966, pp.58-59.
- 6 *Journal of Parliamentary Debates*, Athens, 25 November 1953, p.62, quoted in Couloumbis, 1966, p.85. Couloumbis also points out that there was no provision in the NATO agreement that envisaged Greece's expulsion in case of non-ratification.
- 7 For Yorgos Papandreou's bold conversations with the Americans, see Papandreou, 1973, pp.137-138 and also Roubatis, 1987, pp.176-177 and 180.
- 8 For a discussion on the American tolerance to, and European reactions against, the Colonels, see US Congressional Hearings, 1971 various sections and Treholt, 1972, pp.210-227.
- 9 For the official American assessment of Greece's importance to the global interests of the US and NATO in this period, see US Congressional Hearings, 1971.

Chapter 3

Greece: 1974-2000s

Greece's semiperipheral development and foreign policy in the contraction period of the world-economy is the focus of this chapter. In world-system analysis, the period that began in the early 1970s corresponds to the relative decline of American hegemony and the emergence of Europe (the EC/EU) as a new economic and political centre of power. Accordingly, this chapter investigates whether, in the changing world context, Greece's internal economic and political dynamics and processes responded semiperipherally.

In world-system analysis, it is argued that during the periods of contraction some of the strongest semiperipheral countries might be able to improve their position in the hierarchy of states by upgrading their production structures and trade patterns in the world-economy. In such cases core-like producers begin to become dominant in the production processes of the semiperipheral economy. Parallel developments are expected to occur in the internal and external politics of upwardly mobile semiperipheral states: political intervention by the hegemonic/core power(s) comes to an end; the old political structures collapse; and they change their international alliances, thus ceasing to act as satellites of hegemonic powers, and increasing their margin of independence to pursue their own national interests. They may also increase their influence in the management of international problems. Furthermore, upwardly mobile semiperipheral countries assert their intermediary (bridge/sub-imperial) role between geographically, historically or culturally contingent areas and the core regions. A main motive behind this orientation is create both privileged and stable markets for their export goods while reaping the (secondary) economic and commercial benefits of being a springboard for the core for those areas, and at the same time, to create their own political sphere of influence. Moreover, in contraction periods, intra-semiperiphery rivalries for favours from hegemonic and/or core powers will probably occur. When rivalries occur, the foreign policies of semiperipheral states are either directed towards curbing the inflow of benefits from hegemonic power or core states to rival state(s) or, conversely towards encouraging similar types of favours for themselves.

The Economic Environment: 1974–Early 1980s (Karamanlis Period)

Developments in the Greek economy after the collapse of the military regime and the establishment of democracy in 1974 created the impression that a significant shift from the old mechanisms was underway. The state, the most crucial actor in the semiperiphery was, again, at the centre of these developments.

During the post-junta period, the intervention of the Greek state in the economy acquired new dimensions (OECD, 1992: 57). In the 1945–1974 period, state intervention had occurred through subsidies, licences, protectionist policies, etc. The state had restricted its role to providing incentives (mostly financial) to the private sector, rather than directly contributing to the industrial development of the country (Giannitsis, 1991: 214). The state supported low-technology, labour-intensive uncompetitive traditional industries, and invited foreign capital to invest in non-traditional (mainly intermediate and capital goods industries) sectors. Accordingly, the state's overall participation in total industrial investment was only 0.7 percent between 1965–1974 (Giannitsis, 1991: 228). The state encouraged the accumulation of capital, either in the hands of periphery-like domestic producers or foreign investors who invested in relatively high-technology, non-traditional sectors of the economy. In the post-junta period, however, state intervention in the economy centred mainly around nationalisations and assuming the role of entrepreneurship. These policies indicated that the Greek state was attempting to become the engine of development.

Although the new Greek government had announced economic freedom as its principal policy (Karamanlis, 1974: 224 and 1979: 227), it undertook a number of nationalisations which enormously increased the economic sphere the state controlled. According to the Minister of Industry, the degree of state control in the economy had reached well over 60 percent in 1979 (Clogg, 1987: 157). Unlike postwar interventions, this new policy was aimed at achieving two main objectives. First, to balance economic and social inequalities, and hence replace private initiative whenever economic and social concerns required such a policy (Karamanlis, 1979: 226). Second, the new policy aimed to reduce the power of the economic elite (mainly the Union of Greek Shipowners - EEE who had collaborated with the military regime between 1967–1974) over the economy. Accordingly, the state established a great number of industries in the areas of sugar, fertilisers, petrochemicals, armaments, as well as others. They also nationalised Olympic Airways of Onassis, the Aspropyrgos refinery of Niarchos, the Commercial Bank Group and urban transport company of Andreadis

(Karamanlis, 1979: 228). The new government maintained development could be achieved through state control of the economy. In 1979 a cabinet minister stated that the state controlled 95 percent of the banks; 100 percent of the energy companies; 100 percent of the communications; 100 percent of the public utility companies; 100 percent of transport; 60 percent of the insurance companies; 50 percent of the refineries; 50 percent of shipyards; and 70 percent of the fertilisers (see, Loulis, 1981b: 23 and Kolmer, 1981: 300–303). Furthermore, following a government initiative, a consortium of four major domestic banks (ELEVME) was established to fill gaps in the industrial structure by creating new enterprises or financing investments by already existing private companies, especially to exploit the country's natural resources, such as mining and the chemical industry (OECD, 1976: 47). Hence in this period the Greek state gave the impression that it had taken on the entrepreneurial role itself and had become the pioneer of the development process.

The political elite in power in the immediate post-junta years were developmentalist and progressive elements of both the right-wing and the centre in the 1960s and early 1970s. Their economic outlook was based upon the disintegration of the mechanisms and habits of the (periphery-like) postwar economic system. One of the most prominent technocrats of the new government, the governor of the Central Bank of Greece, X. Zolotas, expressed the principal expectations from Greek industrialists, emphasising the crucial necessity of a change in their habits:

In industry the strongest effort must be made by the industrialists themselves...Greek businessmen must recognise, with boldness, realism and resourcefulness, that the strong financial incentives, excessive protectionism and low labour cost, which ensured the fast and comfortable growth of their firms, belongs to the past...[They] must also understand as early as possible that it is both a duty and an advantage for them to cooperate among themselves and with the state for the purpose of restructuring the economy, changing the attitudes shaped within the confines of a closely protected market, and at the same time strengthening the economy's export orientation and competitiveness...It is also necessary to change organisational, administrative, and marketing methods procedures at the level of business firm, with the ultimate objective of attaining optimum size. This is the only way in which Greek industry can cope with foreign and domestic competition, which will grow keener with the passage of time. Furthermore, business firms... should stop relying mainly on bank credit for financing their investments (Zolotas, 1976: 37–38).

One of the objectives of Karamanlis's interventionist economic policy was to reduce the economic bases of two groups: the monopolies, a point which was included in article 106 of the 1975 Constitution; and the economic elite, which had worked with the Junta by taking advantage of the enormous concessions it offered. Thus these nationalisations were politically motivated. This economic elite primarily constituted the "American-oriented comprador bourgeoisie" of Greece. In fact, in the summer of 1974, the Greek economic elite was in a very difficult political position because of their cooperation with the military regime. In an official meeting in 1974, Karamanlis told the Greek Shipowners Union (EEE) that they did not have good reputation among the people (quoted in Lavdas, 1997: 133). Indeed, Karamanlis used this opportunity to discipline the business community and to shift the power balance against the monopolies and the EEE. Accordingly, the Piraeus-based EEE leadership group under Andreadis was replaced by a rival leadership group with links to the diaspora shipping capital group, namely the London-based Shipping Cooperation Committee (Lavdas, 1997: 127 and 133). Andreadis, a shipping, a banking, and an industrial magnate, was put on trial for violating banking laws by channelling funds illegally to his business ventures and creating market obstacles to new entrepreneurs through credits and other mechanisms.

Initially the Federation of Greek Industrialists (SEV) was worried about the government's attacks on the EEE and its nationalisation policy fearing of the radicalisation of the political environment, and criticised these policies as "socialist attitudes" (Lavdas, 1997: 134). Furthermore, the SEV also criticised the government for not consulting the business community in the economic policy-making process. The new government's view however was that the political requirements of the transition to democracy necessitated political stability and social peace, which in turn required intensified investment, high employment, restraints on pricing and social dialogue. The business community, according to Karamanlis, had to understand these requirements and help the government attain its goals (*Deltion*, 31 October, 1975, quoted in Lavdas, 1997: 134).

Unlike in the Shipowners Union there were no drastic changes in the SEV leadership, but they were under the pressure of Andreadis' nationalised industrial, banking and shipping group to adopt a hard line against the Karamanlis government's economic policies (Lavdas, 1997: 127). However, despite the strong pressure coming from Andreadis group, the Federation preferred to keep good relations with the new democratic government. As a result of Karamanlis' reassuring message that "the main pillar of the economic development would be the private sector despite the state's

necessary interventions in the production process for establishing economic democracy", the SEV followed a conciliatory line and thus declared industry's policy of cooperation with the state and the trade unions for a smooth industrial growth, political stability and social peace in the country (see Lavdas, 1997: 134-135). In 1976, the governor of the Central Bank of Greece, Mr. Zolotas, pointed out that the chairman of the Federation did not ask the government for any privileges but demanded the same treatment as that given by EC members to their own industrial sectors (Zolotas, 1976: 37-38). In this way, the Federation, taking into consideration the public perception of the notorious grants and business practices of the previous period, attempted to make a distinction between the SEV and the corrupt business community supported by the state during the Junta period (Lavdas, 1997: 136). The implication of this stand was also the SEV's consent to the punishment of its corrupt cousins, which was another venue for supporting the democratic government policies.

Thus, despite the heavy state interventionism and nationalisations in the economy, the Federation of Greek Industrialists' (European-oriented domestic bourgeoisie) was, in general terms, close to the Karamanlis government, and supported Karamanlis's primary aim of accession to the EC (Kohler, 1982: 119-120). The Federation took a very positive attitude towards the European integration and emphasised the need for quick EC accession. Accordingly, the SEV engaged in lobbying activities in the Union of Industries of the European Community (UNICE) in which it was a member since 1962 (Lavdas, 1997: 127). Indeed as early as December 1974 the UNICE issued a declaration that they enthusiastically supported Greek membership in the EC and emphasised their continuing support at the level of EC authorities until Greece become a full member (Lavdas, 1997: 140). SEV President Kyriazis declared the role of Federation in Greek-EC relations was twofold: First, to inform the Greek side about the EC, and second to lobby the European side (*Deltion*, 31 August, 1974, quoted in Lavdas, 1997: 126). To this end, SEV organised conferences, workshops and all kinds of meetings bringing together various business associations and public authorities to exchange information, views and debate on the EC issue. Furthermore, it established a research centre in 1975 to provide additional support to Greek industry in preparation for full membership in the EC. Indeed, although the Federation represented of all industrial interests, it was the big business faction that generally set the tone in the decisions, and particularly in relations with the EC (Kohler, 1982: 143). The Karamanlis government, in turn, supported the pro-European (core-like) economic elites in their preparations to join the EC through the Ministry of Economic

Coordination, the National Bank and the Development Bank, (Kohler, 1982: 119-120).

In the context of its European policy, SEV also developed a strategy for industrial relations and proposed an agreement between social partners (see Lavdas, 1997: 137-138). The plan was a national strategy in view of the EC membership in which all the partners (trade unions, government, employers unions) would benefit in the end, provided that everybody refrained from short-term benefits. This policy was presented as a struggle to make Greek industry more competitive within the European market, and the strategy was called "the commitment" for succeeding in Europe. In this framework a prominent member of SEV, Papalexopoulos, emphasised the need for the modernisation of industrialists, managers, trade unions and state bureaucracy in the new period. He suggested that employment policy should concentrate more on human capital, training and technical assistance for the better skilled staff than only in achieving certain employment levels.

The renewed Union of Greek Shipowners (EEE) also developed a favourable attitude towards Greece's membership in the EC (see Lavdas, 1997: 275-276, endnote 62). The shipowners' international orientation and their dominance in the Euro-Atlantic transport lines, EC's liberal policies in the shipping sector, and the possibility of influencing future developments in the EC shipping policy from inside encouraged the EEE to give its support to Karamanlis's accession policy. However, the EEE had reservations on the speed of the EC membership, as they did not want to lose their control over the domestic maritime lines, and also because of the problems with the manning of the vessels and harmonisation of maritime legislation.

From the point of view of semiperipheral Greece, the new interventionist policies of the state and the cooperation between pro-European (core-like) economic elites and the government gave the impression that in the absence of strong, core producers, the state took the economic initiative and cooperated with pro-EC, "core-like" economic actors in order to increase their strength in the economy, and hence to upgrade Greece in the world-system hierarchy of states. This policy was identified with catching-up with the EC economies, and with full membership in the Community. On the other hand, from the perspective of the Greek economic elite the choice for EC membership and siding with Karamanlis government's policies both at home and towards Europe meant probably two things. First of all, it was apparent that there was no other alternative for the post-junta Greek economic elite (SEV) other than to collaborate with the state, as they were not strong enough to resist state policies and/or promote their interests by themselves. Second, they wanted to control and minimise the power shifts

associated with the regime change and establish the SEV as the most powerful representative of the Greek business world (see Lavdas, 1997: 128 and 137).

The relations between the state and foreign capital in the post-junta period was, however, no different from the traditional Greek approach. In keeping with the policy of attracting foreign capital, as specified under law 2687 of 1953, the government underlined the significance of enhancing the incentives and guarantees provided under that law by promoting them once more to the constitutional level (*Democracy in Greece*, n.d.: 91). Accordingly, article 107 of the 1975 constitution guaranteed the protection of foreign investment in Greece. The relatively advanced, core-like sectors of the Greek economy (chemicals, metallurgy, electrical material, transport means, plastics, etc.) have been under the control of foreign capital since the early 1960s (Giannitsis, 1991: 215 and 218). Indeed, the Federation of the Greek Industrialists was representing mostly the weak industries in the economy (Lavdas, 1997: 128). Accordingly, private foreign direct investment played a significant role in developing certain important industries, including some major export industries (OECD, 1976: 23). As a result, the economy depended significantly on the export of the industrial products of transnational corporations (Georgiou, 1988: 67). Under these circumstances in which domestic capital had shown little interest in the non-traditional advanced (core-like) industrial sectors, the Karamanlis government had no immediate alternative other than to support the inflow of foreign investment capital in order to encourage the process of catching-up with the EC economies. The policy of attracting foreign capital can be a semiperipheral means of upgrading the production structures as long as it leads to structural transformations in the economy. However this transformation did not occur in Greece in the post-1974 period. Foreign investment capital remained reluctant to invest in Greece and its inflow into new fields declined (OECD, 1979: 20 and 1986: 41; Georgiou, 1988: 65; Kleinman, 1988: 212).

The Karamanlis government considered full EC membership the most strategic target to restructure the Greek economy. From the semiperipheral development perspective, accession to the EC was pivotal in adjusting the economy to the core-like production structures. Zolotas, governor of the Central Bank of Greece, explained the Greek (developmentalist) expectations from the EC membership in this way (Zolotas, 1976: 22-24): first, the entry of a small country like Greece into a wider economic group would have the direct effect of expanding its market. Second, accession to the EC would give Greece the possibility of benefiting from the advanced

and constantly improving technology of the member countries. Third, Greece would become familiar with new organisational and managerial techniques, and attract increased flows of venture capital. Fourth, it would relieve Greece's balance of payments problems. Fifth, membership would allow Greece to benefit from various EC funds that could help Greece to restructure and modernise its economy (Zolotas, 1976: 34-35). In June 1979, during the parliamentary debates on the Accession Treaty, Prime Minister Karamanlis echoed these expectations by emphasising: "social and industrial progress", "attraction of foreign capital" and "expertise, and stimulus of competition". According to Karamanlis, Europe should promote economic justice and help developing countries (Woodhouse, 1982: 275-277).

Greece's determined orientation towards full EC membership, coupled with its impressive macro-economic indicators in a period of world wide recession, had created an impression that it was moving from its semiperipheral position towards the core zone of the world-economy. This "upward mobilisation" was identified with Europeanisation. The Financial Protocol signed between the EC and Greece in 1977 provided for the Community's participation in measures to promote the rapid development of the Greek economy (Opinion, 1979: 65). Indeed, with the revitalisation of the Association Agreement in 1974, the Community accepted the necessity of reducing the disparity between the Greek economy and the economies of the member states (Opinion, 1979: 66). Given the Community's formal approval of Greek accession in 1979, it was not unrealistic to think that EC membership provided an important opportunity to upgrade Greece towards the core zone. Hence, it was expected that Greece (as an "upwardly mobile" semiperipheral state) would adjust its economy to the economies of the member countries by using the financial and technical opportunities of the Community. It was thought that the semiperipheral balance would shift in the Greek economy towards core-like production patterns.

After 1974, the Community focused on financial transfers to the Greek economy. In the pre-accession period (1974-1981) the EC's contribution was limited to the release of \$56 million of the First Financial Protocol which had been blocked since 1967, and to the Second Financial Protocol that provided \$336 million to Greece. There were also transfers from the European Investment Bank in 1975 and 1980 that amounted to \$30 and \$77 million respectively.

There was a further reason for the impression that the Greek economy had shifted towards the core-zone in the post-junta period: some economic indicators improved even in a period of increasing oil prices and world wide recession. For instance, Greece's average annual GDP growth rate between

1975-1980 was around 4.5 percent (OECD, 1982), and the GNP per capita increased from \$2205 in 1974 to \$4348 in 1980 (OECD, 1976 to 1981). According to OECD surveys, this relatively strong economic growth up to the 1980s was due to a rapid expansion in foreign transactions with the result that the share of total exports of goods and services in GDP rose from 12.5 percent in 1970 to 25.5 percent in 1980, and that of imports from 19 percent to 27 percent (OECD, 1983: 41).

Perhaps the most striking development was the rise in exports and, accordingly, a remarkable exploitation of new markets. In this period, Greek exports to the Middle East, North Africa and other oil producing countries rose particularly sharply (by 55 percent in drachma values) so that this group's share in total Greek exports rose to roughly 16 percent (OECD, 1976: 17). Greek exports to the Middle East continued to increase until the early 1980s; exports to the Middle East accounted for 23 percent of total Greek exports in 1980 (OECD, 1982: 26). Furthermore, another important export market for Greece in this period was the EC. Indeed, although foreign transactions between Greece and the EC had been increasing since the 1960s,² Greece's access to EC markets increased more than a hundred percent in value terms between 1974 and 1980 (however, this corresponded to an increase from 47.7 to 48.2 percent respectively in total Greek exports) (OECD, 1982: 27). Similarly, imports from the EC increased almost a hundred percent in value between 1974 and 1980 and constituted a large proportion of total Greek imports (more than 40 percent), but without a significant change in total percentage (OECD, 1982: 27). Another important development was the increasing share of semi-processed and manufactured goods in exports, mainly in value terms. They increased from 1.5 percent in 1977 to 11 percent in 1978, and to 19 percent growth in 1979 (OECD, 1978: 18 and 1980: 21). In sum the relatively quick rise in industrial exports until the early 1980s was due to increasing access to the EC market and, especially, to the rapid increase of exports to the Middle East (OECD, 1982: 26). When it is recalled that another indicator of positional shift in contraction periods is an improvement in the sphere of trade, these developments further strengthened the impression that Greece had shifted towards the core zone.

A final point which is significant from the perspective of world-system analysis is Greece's economic relations with the US. The 1982 OECD survey on Greece shows that trade between Greece and the US decreased significantly between 1974 and 1980 for while exports to the US decreased from 8.9 percent in 1974/1975 to 5.6 percent of total exports in 1979/1980, imports from the US fell from 7.7 percent to 4 percent of total imports in the

same period (OECD, 1982: 27). Moreover, in the field of foreign investment there was a shift from American to European investment. In the post-junta period, the EC investment share became higher than that of the US: 7 and 6 percent of total assets respectively (Tsoukalis, 1981: 46 and Mitsos, 1980: 140). This pattern of increasing Euro-centricity in the post junta period was also apparent in the number of tourists visiting Greece. The number of European tourists reached 74 percent of the total in 1978, while those from North America remained around 14 percent (Couloumbis, 1983b: 98).

In fact, invisible items, mainly emigrant remittances, tourism and shipping have played a significant role in offsetting Greece's balance of payments deficits since the 1960s. The OECD surveys on Greece between 1975-1982 show that the role of invisibles in the economy increased in the post-junta period. For instance, in 1977 the substantial increase in the trade deficit (from \$3.3 billion to \$3.9 billion) was covered significantly by a sharp rise in invisible receipts with the result that the current external deficit widened by only \$0.2 billion (OECD, 1978: 16). In 1978, the rise in net invisibles exceeded the rise in trade deficit by almost 18 percent (OECD, 1979: 17 and 19). In other words, the invisible surplus offset about four-fifths and two-thirds of the trade deficits in 1978 and 1979 respectively (OECD, 1980: 19), and the growth of net invisible receipts rose from an annual increase of about 17.5 percent in the few years prior to 1978 to 27 percent in 1979 (OECD, 1980: 24). Tourist receipts grew the fastest: the annual growth rate of tourism between 1975 and 1979 was 27 percent, while emigrant remittances grew by 5 percent and shipping receipts grew by 18 percent in the same period (OECD, 1982: 28). The important point is that both tourism and emigrant remittance receipts were heavily dependent on European tourists and Greek workers in Europe. This demonstrates that (together with the Euro-centric trade and investment patterns) the Greek economy was dominated by Europe in the period between 1974 and 1981.

It has been noted that developments up until the early 1980s created the impression that Greece had entered a process of upward mobilisation from its semiperipheral position in the world-economy towards the core region. In world-system analysis semiperipheral states are expected to improve their trade patterns in the contraction periods of the world-economy, and upwardly mobile states are expected to have high growth rates. In the case of Greece, therefore the (relative) improvement of trade patterns with the EC and especially with the Middle East (both qualitatively and quantitatively), coupled with high growth rates, indicated semiperipheral development in the second half of the 1970s. Furthermore the elimination of old financial, monopolistic and some shipping interests of the previous periods (mostly

periphery-like producers) through state intervention, the increasing role of the state in the economy, the willingness to become a full member of the EC, and the state's support of the pro-European economic elite implied that the Greek state (as an agent of semiperipheral development) had taken on a developmentalist-entrepreneurial role and supported the strengthening of core-like producers in Greece.

The Political Environment: 1974-Early 1980s

Two main developments are expected in the domestic political spheres of semiperipheral states in the contraction periods of the world economy. First, the old political structures collapse, and second, the intervention of hegemonic/core powers in the domestic affairs of the state ceases. Politically, Greece experienced radical developments in the post-junta period. Three principal actors had previously dominated the Greek political establishment: the Monarchy, Army and Parliament, all of which collaborated closely with the Americans. In the immediate post-junta years these institutions were either abolished or had to abandon their old roles and habits as democratisation occurred.

First, the monarchy was abolished by referendum. Established as the agent of foreign powers, it had always been a powerful force against progressive change and a destabilising force in Greek politics by establishing and changing alliances with other conservative forces. In the 1974 referendum on the future of the monarchy, almost 70 percent of the electorate voted against it, and monarchy was abolished in December 1974. The Greek conservatives were forced to dissociate themselves from royalism.

The second issue was the question of the military. According to Karamanlis, the Greek military would have to disengage from politics and confine its activities to the defence of the country. Although the military had already been discredited by the junta experience, the mismanagement of the Cyprus issue and the subsequent defeat on the island, liberal-conservatives thought that the military should be transformed into a respectable organisation that would satisfy both its members and Greek civilians. Accordingly, the junta elements were purged from the army, and the so-called "Turkish threat" was used towards this end. In this way, the military was not excluded from the emerging national consensus, instead it was legitimised and integrated into the new political system as the country's protector against "external threat". The position and duties of the army were

clearly prescribed by law without giving it any pretext for intervention in domestic affairs. Thus, after years of active intervention in Greek politics, the military was subordinated to civilian rule. This was the end of authoritarianism in Greece.

Perhaps the most critical transformation in the Greek political system in the post-junta period was the change in the outlook of the parliamentary political elite (especially the right wing). The main consensus among the Greek political elite in this period was upon the need to establish democracy with political freedoms and civil rights. The new conservative right, which widened its appeal towards the centre and even towards the left (Macridis, 1981: 11) took a liberal attitude and abandoned its old die-hard and simplistic anti-Communist stand. In this respect, an important event, which consolidated national reconciliation and the process of democratisation, was the legalisation of the Greek Communist Party. Under the impact of the Pax-Americana and in the context of the Cold War, a die-hard and passionate anti-communism had been the most important credential of the parliamentary elite (especially the conservatives) between 1949-1974. Thus, the new liberal-democratic outlook of the parliamentary elite was indeed a revolution in Greek political life. Couloumbis summarises the revolutionary change in the Greek right:

The old traditional right known for its dynamic methods such as electoral manipulation, repressive techniques, royal and military intervention in politics, and monopoly control over the army and security services, is being pushed into a far and uncomfortable corner. The new right, mainly Karamanlis's creation...is a centre right coalition, committed to genuine parliamentary politics with a Western European orientation (Couloumbis, 1981b: 188).

Karamanlis's aim, however was to ensure bourgeois modernisation and rationalisation, which would be crowned by Greek accession to the EC. From the very beginning, he directed his main efforts to this endeavour (Mavragordatos, 1983: 75 and 76). When he formed the New Democracy party, he stated that:

ND believes that Greece is not only entitled, but can assure the distinguished place and happiness of its people within the Europe to which she belongs, if it mobilises all its abilities and if it makes use of all the virtues of its people. A fundamental precondition, however for all this is the implanting in our country of a genuine and up-to-date democracy. Towards this end the great camp of ND is totally and unanimously dedicated (Karamanlis, 1974: 225).

Moreover, in the post-junta period constant American intervention into Greek politics came to an end. In the summer of 1974 the Junta collapsed as a result of Turkish intervention in Cyprus following a Greek coup that aimed at unification of the island with Greece. When the Junta collapsed, anti-Americanism was at the top of the Greek political agenda. There was a consensus among the political elite and the ordinary people that the US had helped the Colonels to seize power in 1967 and had supported them afterwards. The resentment against the US reached its peak during the Cyprus crisis, and Greeks began to accuse the Americans of being insensitive to the Turkish intervention and of siding with the Turkish arguments. In an environment in which their strongholds were either discredited and put under civilian control (the military), abolished (the monarchy), or had abandoned their unconditional Atlanticist orientation (parliamentary elite), it was almost impossible for the Americans, who had been experiencing a relative decline of their hegemony, to intervene and impose their policies any longer in Greek domestic affairs. The centre of the decision-making gravity in Greece moved to a pro-European cabinet and Prime Minister (Couloumbis, 1983b: 113). The Americans realised that "a return to the old bilateral relation of dependence was virtually impossible, and for many people also undesirable" (quoted in Tsoukalis, 1981: 157).

Foreign Policy: 1974-Early 1980s: "Europeanisation"

In the contraction period of the world economy, in parallel to economic and political changes, a number of developments are expected to occur in the external relations of an upwardly mobile semiperipheral state. It is expected to change its international alliances, abandon satellite-type foreign policies, and develop the ability to pursue foreign policy relatively independent of the hegemonic/core powers. Moreover, the upwardly mobile semiperipheral state competes with other semiperipheral states for economic and political gains, and tends to assert its intermediary and bridge (or sub-imperial) role between geographically, historically and culturally contiguous areas and the core regions. Furthermore, they attempt to become involved in the management of international problems. In the case of Greece, most of these characteristic semiperipheral foreign policy orientations can easily be observed. The foreign policy of Greece in the post-junta period was erected upon the following principles:

- a) Greece still belonged to the West, but not simply as a loyal and unconditional ally. The Western alliance would have to accept that Greece had its own national interests that would no longer be sacrificed to the interests of Atlanticism.
- b) In order to promote its economic and political interests and further diversify its foreign policy, and to also get rid of the "disillusionment" caused by the Atlantic Alliance (that is NATO and the US), Greece had to integrate into the European Community.
- c) Greek foreign policy would not be unidimensional but would pursue a multidimensional orientation. To this end Greece would promote its relations with the USSR, Eastern Europe, China, the Middle East and Non-Aligned countries.

The most striking foreign policy change in the post-junta period was the extent to which Greece abandoned its postwar unconditional Atlanticism and followed a strong pro-European/EC line. This is what world-system scholars would call "a change in international alliances". The indicators of this shift were, first, Greece's withdrawal from the military wing of NATO in August 1974 ostensibly because of NATO's "inaction" against the Turkish intervention in Cyprus following the Greek coup on the Island. This demonstrated that Greek "national interests" would now come first, and would no longer be sacrificed to the interests of NATO or the US. Later, when Greek perceptions of NATO had changed somewhat, Karamanlis offered up a "special agreement": Greek forces would be integrated in NATO only in the event of East-West warfare. A second indication of breaking with Atlanticism and the US was the reduction in the number of US military bases in Greece from seven to four. These bases were brought under Greek control with the insistence that the operation of the bases would be permitted only when it was considered necessary for Greek national interests (Coulombis, 1981a: 176). The status of the bases remained a problem between Greece and the US until 1983. Moreover, the home-porting agreement of the US 6th Fleet was also terminated. The changing nature of Greek-American relations was noted in a US Congressional Study Mission Report in 1975, which stated that "in January 1975, when the study mission arrived in Athens, the level of Greek-American co-operation had reached its lowest point in the entire postwar period. Even more important it seems likely that these relations will soon be redefined in a significantly different way" (quoted in Symeonides-Tsatsos, 1991: 19).

As Atlantic relations were put on a new track, Karamanlis proceeded with his policy of making Greece a full member of the EC as soon as

possible. The Greek intention was first expressed to the French and German governments as early as September 1974, and they responded positively (Lavdas, 1997: 139-140). Karamanlis wanted to decrease Greece's security dependence on the US by making military procurement agreements with France, and by attracting French private investment capital. Thus, having secured the French and German support, Karamanlis emphasised, from the time of his first electoral campaign, that he would pursue a policy of accelerated entry of Greece into the Community (Clogg, 1987: 63). Karamanlis believed that Greece was a part of Europe, and that it should take its proper place in the realisation of a united Europe (Karamanlis, 1974: 225). His determined efforts to convince the nine EC leaders played a decisive role in the decision of the Community to accept Greece as the Tenth member (as of January 1981) in May 1979 (see Siotis, 1981: 99-110).

The signing of the Treaty of Accession in May 1979 marked Greece's formal shift from unconditional Atlanticism to Europeanism. EC membership was seen as an invaluable step in escaping from American influence and client status, and upgrading the position of Greece in the international sphere. A few months before signing the Accession Treaty, Karamanlis stated that "on joining the mighty European family as an equal member Greece will no longer be obliged to seek protection from one or another superpower" (quoted in Woodhouse, 1982: 274). "Europeanism" was not considered a new form of Atlanticism (dependence) because Greece would be an equal member in this new alignment, as opposed to the asymmetrical relationship of postwar Atlanticism. Karamanlis noted the "upgraded" position of his country in an address to the party congress: "within the Community...[Greece] will have a say not only in its own fortunes but in the future course of Europe, since it will influence Community resolutions through its vote" (Karamanlis, 1979: 226).

Another semiperipheral tendency of Greek foreign policy was to abandon its satellite-like policy and to emphasise its independent stance. Not surprisingly, this policy was explained as "independence-from-the-US". The Community was seen as an alternative alliance of Western states whose interests were not identical with those of the US. Furthermore, since Community decisions are taken by unanimous vote, a decision contrary to Greek national interests could not be imposed on the country, and this would strengthen Greece's independent foreign policy stance.³ Greece also established independent relations with the Balkans, Eastern Europe, the Middle East, the USSR and China. Previously relations with the Soviet Bloc, Balkans, and China had been based on American established norms and policies. Even when western Europeans revised their policies vis-à-vis

Eastern Europe, Greece had refrained from taking an independent stance (Stavrou, 1980: 157-158). Thus Karamanlis's opening to the Soviet Bloc, the Balkans and China (on both political and economic grounds), and the setting up of bilateral and multilateral relations, were clear examples of Greece's new "non-satellite and independent" foreign policy line (see Woodhouse, 1982: 260-269).

Fighting against other semiperipheral countries like Turkey, Spain and Portugal for economic and political gains on the way to full membership in the EC was another semiperipheral characteristic of Greece's external policy (semiperipheral rivalry). The negative response of the EC Commission in 1976 to the Greek application for full membership, partly on the basis of the conflict between Turkey and Greece and its possible ramifications on the Community's future relations with Turkey, seemed an important obstacle to Greece's future membership in the organisation.⁴ Turkey had enjoyed an associate status comparable to that of Greece until then. With the prospect of Greece's accession, Turkey could suffer discrimination both economically and politically in its relations with the EC (de la Serre, 1979: 41) and this would undermine the balance between the two vis-à-vis the Community. However, the reports linking Greek accession with the settlement of disputes with Turkey, and the emphasis on the identical status of the two countries were unacceptable to the Greek government. Karamanlis protested the Commission's decision on moral and political grounds (Verney, 1987: 261). He argued that Greece had no economic disputes with Turkey, and its accession would not affect the development of the Community's relations with Turkey (Siotis, 1981: 102). Karamanlis launched an intensive diplomatic campaign directed at the nine-EC member states. The problem was solved in favour of Greece thanks to his persistent and determined policy. A second problem emerged with the Spanish and Portuguese applications for full membership in 1977. Indeed, these developments changed the context of the Greek application in the minds of Community policy makers; concessions to Greece, once given, could be used as precedents by Spain and Portugal (Wallace, 1979: 23). Accordingly, they proposed the globalisation of the Community's Mediterranean policy. However, from the Greek perspective this would decrease the economic gains Greece expected from the EC. Once again, as a result of Karamanlis' swift and intensive diplomacy (see Verney, 1987: 262), which was based on the uniqueness of each application and Greece's special position in the Community because of the Association Agreement of 1959⁵ as well as Karamanlis' policy of further acceleration of negotiations for accession

(Verney, 1987: 263), the problem of globalisation of the EC Mediterranean policy was also overcome.

A more striking example of Greece's semiperipheral foreign policy was the intermediary role it was willing to play between the EC and the Middle East and North Africa. In world-system analysis, this represents the sub-imperialist disposition taken by an upwardly mobile semiperipheral state. Karamanlis pursued a very active diplomacy in both of these regions between 1975 and 1980 (Woodhouse, 1982: 269-271). As noted above, Middle East markets had become a major outlet for Greek exports, and on this basis Greece was willing to play a sub-imperial or a bridge role in this region for the Community. This policy was justified by Greece's geographical proximity to the region and "historical ties" maintained over centuries (Zolotas, 1976: 20 and 1978: 50). According to the Governor of the Central Bank, X. Zolotas, one of the advantages the EC would gain from the accession of Greece was:

the geographic position of Greece which lends itself to the establishment of industrial and other firms - involving the collaboration of Greek with foreign venture capital - that will be aimed at penetrating the markets of the Middle East and Africa (Zolotas, 1976: 20).

A further sound reason for the Community to use Greece as a bridge to these regions was the extensive activities undertaken by Greek architectural, planning and engineering firms in Iraq, Libya, Saudi Arabia, Iran, Syria, United Arab Emirates and Africa (Zolotas, 1976: 12-13 and 1978: 50-51). In 1978, there were about thirty Greek firms with a combined staff of over eight thousand Greek engineers and skilled workers, who undertook construction projects worth \$5 billion in these countries. The activities of these Greek construction companies contributed heavily to the expansion of Greece's exports to the Middle East - from \$66 million in 1973 to \$533 million in 1977. These export items mainly consisted of cement, building materials, metal structures, transport equipment (see Zolotas, 1978: 51). This strong presence of Greek technical firms in the Arab countries, and the dynamic growth of Greek exports, would help to promote the EC's interests in the Arab markets:

This could be achieved by setting up joint Greek-EEC ventures capable of developing their activities either in the construction sector or in the commercial penetration of the Arab countries...Greek technical experts and businessmen, who are fully aware of the special economic, political and cultural condition

prevailing in the Arab countries, would considerably facilitate the access of joint Greek-EEC companies to the area of the Middle East (Zolotas, 1978: 52).

Moreover, Greece was also seen as a springboard to African markets for joint Greek-EC ventures. Such joint enterprises could supply the developing countries of Africa with a wide variety of products, including building materials, chemicals, electrical and telecommunications equipment, clothing, foodstuff, etc. (Zolotas, 1978: 52). The intermediary and/or sub-imperialist tendencies that could turn Greece into a regional power were also evident in Greek efforts to make the country the financial and transit centre in the region (Woodhouse, 1982: 270-271 and Zolotas, 1978: 52-53).

The Federation of Greek Industrialists (SEV) also enthusiastically supported this bridge policy of the Greek state. The SEV continuously put its emphasis on the Federation's services for members in the Middle East and North Africa (Lavdas, 1997: 145). The Federation assumed the role of coordinating and assisting the Greek firms in order to reap the benefits of business opportunities in the Middle Eastern and North African markets, and emphasised that "Greece should take the full advantage of its Mediterranean position" (*Deltion*, 15 March 1975 quoted in Lavdas, 1997: 276, endnote 67).

With regard to the Balkans, Karamanlis's pledge to contribute to peace and order (that is, to European efforts at preserving detente and arms control) through its economic and cultural relations with the Balkans (Woodhouse, 1982: 274 and Veremis, 1983: 176) was an indication of Greece's aspiration to play a wider role in the region. The Balkan states conferences convened by Greece in 1976, 1979, 1981, 1984 and 1986 (Kofas, 1991: 115) that aimed at economic and technical cooperation were a step taken in this direction.

It was apparent that Greece attempted to present itself as a bridge between the geographically and historically contiguous areas of the Middle East, Africa and the Balkans and the EC core zone, and hence attempted to play a sub-imperial role in the Eastern Mediterranean. Woodhouse neatly summarises Karamanlis's policy: "He recognised that... he could enhance Greece's standing with her associates by providing them, through Athens, with a window to the East, looking out in particular on the Arab world and the Communist bloc." (Woodhouse, 1982: 287).

The Economic Environment: Early 1980s-1990 (Papandreou Period)

All the indications gave the impression that Greece was experiencing, in the terminology of the world-system analysis, a shift towards the core zone in

the world-system hierarchy of states. There was indeed an improvement in the position of Greece. Yet the decisive point is that Greece's shift upwards in the hierarchy of states was not based on structural transformations in the production structures of the country. In world-system analysis, a shift from the semiperipheral position towards the core zone corresponds to a substantial shift in production patterns towards high profit, high-technology and high wage sectors of the world-economy. However, OECD surveys on Greece indicate that in the period between the mid-1970s and early 1980s, Greek industry expanded in the traditional branches such as textiles, food, beverages and construction materials (cement, steel and aluminium), but actually lacked investment in more sophisticated, technologically advanced new lines of production (that is core-like) and activities (OECD, 1977 to 1983). Almost all the traditional Greek industries were classified as regressive industries (that is periphery-like), and their relative importance in world demand stagnated or declined (Giannitsis, 1991: 218-219 and OECD, 1990: 74 and Table 25). Thus Greece continued to specialise in resource (raw material) intensive and labour intensive products, and it retained a comparative disadvantage in technologically advanced goods (OECD, 1990: 74). The sectors that typically use more advanced technology in both labour and capital intensive industries remained small (OECD, 1990: 75). Between 1975 and 1979 while the shares of resource and labour intensive industries in total Greek exports were 42.2 percent and 32.2 percent respectively, in technologically advanced sectors it was 18.2 percent for scale-intensive industries, 4.7 percent for differentiated goods, and 2.3 percent for science based industries (OECD, 1990: Table 24). The attempts made by the Greek business community and the state in the immediate post-junta period to transform the structure of the economy thus proved unsuccessful.

On the other hand, during this period wages increased considerably (see OECD, 1977 to 1983). The annual growth of unit labour cost in the private and non-agricultural sector was around 19 percent between 1974-1979, and it increased to 26 percent in 1980 (OECD, 1982: 23). In world-system analysis, substantial and successive increases in wages may also indicate an upgrade in the position of a state, because it is hypothesised that wage increases may correspond to an improvement in production structures. However, as OECD surveys show, this was not the case in Greece. On the contrary, the substantial increases in wages in this period contributed to the deterioration of the Greek economy in subsequent years, rather than indicating an upgrade in the status of the country.

Furthermore, despite the new developmentalist intentions of the government in the post-junta period, state ownership was limited to public

utilities and was almost nil in the manufacturing sector (Tsoukalis, 1981: 36). The state's participation in total industrial investment accounted for 4.3 percent in the period between 1975-1980 (Giannitsis, 1991: 229).

In fact there were good reasons that could explain the unsuccessful performance of the semiperipheral Greek economy. First of all, the Federation of Greek Industrialists (SEV) "commitment" strategy (see above) aiming to make Greek industry competitive in Europe was not put into practice successfully (see Lavdas, 1997: 138). The timing of the strategy coincided with both oil price shocks and political change that did not allow the government to follow accommodating policies. The state pursued expansionary policies and tried to reduce unemployment, but labour costs increased as a result of democratisation and the increasing power of trade unions, which in turn created a few incentives for labour to enter into a cooperative relationship with the other social partners. Furthermore, despite the SEV's efforts to differentiate themselves from the economic elite of the Junta period, the public image of the economic elite in the post-junta period remained poor and this also contributed to the failure of their "commitment" strategy that was based on cooperation between the private sector, the state and the labour unions. Second, starting from 1978, the SEV strongly and repeatedly emphasised the need for a reform in the public sector for "Europeanisation" and successful performance in the EC (Lavdas, 1997: 14). They also demanded strengthening of business confidence with a new incomes policy, and asked for new measures to curb public borrowing. Moreover, SEV also argued for the need of the retreat of the state from the economy and less state intervention in the market, and demanded a more responsive approach to the needs of the Greek industry. However, none of these proposals and demands was dealt with effectively. Yet, in view of the EC negotiations the SEV began to demand protection from the state (Lavdas, 1997: 145 and 276, endnote 65). For instance, the Industrialists lobbied for the preservation of the closure on public procurement as a policy line and thus pressed for preservation of national procurement contracts. Moreover and strikingly enough, they also demanded protection for the declining sectors of textiles, steel and shipbuilding, which were experiencing difficulties in the domestic and world markets.

In sum, although some economic indicators suggested an improvement in the Greek economy in the period between the mid-1970s and early 1980s, the improvement was not due to a structural transformation based on genuinely competitive, technologically advanced new lines of production. It was the result of the increasing share of invisibles and total exports (especially to the Middle East) in the GDP, and also due to the competitive

advantage of Greek products despite the constant increase in labour costs (OECD, 1983: 41). To put it differently, periphery-like production patterns and producers continued to dominate the Greek economy in this period.

This situation in the Greek economy did not change throughout the 1980s. All the OECD surveys of this period indicate that the Greek economy could not adjust to changing production and worldwide trade patterns, and to technological progress (OECD, 1983 to early-1990s). Greek producers failed to adopt new productive structures in response to the new requirements of world demand (OECD, 1991: 27). The economy remained dependent on resource and labour intensive (periphery-like) industries for which demand in the world market was declining. Between 1980-1987 the share of ascending, technologically advanced (core-like) industries in total Greek exports remained between 2 to 13 percent, while the share of resource and labour intensive (periphery-like) industries was around 35 to 45 percent (OECD, 1990: 76).

Greek exports were concentrated in a few products. Textiles, clothing, footwear, cement, aluminium, iron and steel together presented about three-quarters of manufacturing exports and there had been no apparent tendency to change this since the mid-1970s (OECD, 1990: 75). Furthermore, the failure to develop new technologically advanced (core-like) lines of production, coupled with increasing labour costs and falling profits, caused further deterioration in the cost competitiveness of traditional (periphery-like) Greek products (see, OECD, 1982 to 1992). Additionally, essentially low average net profit rates turned negative after 1982 (OECD, 1982: 78).

Unlike Greece, most of the OECD countries adopted their production structures to new world demand, especially after the second oil shock in 1979. Moreover, new more cost efficient suppliers (in South East Asia) emerged for labour and resource intensive products in which Greek exports specialised. The level of wages for production workers was three times as high as that of production workers of Greece's Asian competitors (OECD, 1990: 78, footnote 32). In these fields South Korea and Hong Kong emerged as the most challenging competitors after the mid-1970s. Thus throughout the 1980s, periphery-like production patterns and producers remained dominant in the Greek economy.

In fact, the new PASOK socialist government's and Prime-Minister Andreas Papandreou's outlook on the economy and on the Greek economic elite was somewhat more radical than the conservatives (ND), especially in PASOK's early years in office. Soon after coming to power, Papandreou declared that the public sector (read state) would be the growth motor of Greece's economic development, while strongly criticising Greek big

business (see Lavdas, 1997: 149-153). Papandreou declared Greek capitalism and the private sector as weak and unwilling and unable to become the motor of development, and accused them of being short sighted and speculative in their attitude. According to Papandreou, the weaknesses of Greek capitalism and big business was the result of their dependence on the generous and mismanaged state subsidies and the corrupt system of credit allocation. A second significant aspect of PASOK's new economic policy was a reform in the public sector, which was defined as the motor of economic modernisation. The reform aimed at restructuring industry through changing the role of the public sector, and redefining the goals, instruments and the institutions of the industrial policy, and resolving the problems of ailing private firms. Economic planning was perhaps the most striking part of PASOK's new policy, which included intervention in the economy by supporting the cooperatives, local authority enterprises and SMEs; engaging in public investment; and integrating private sector activities and investments into the goals of the plan. All these policies however caused strong resentment among the economic elite, and led to a confrontation between the socialist government and the big business.

The industrial restructuring policy of the PASOK government also aimed at extending incentives, subsidies and credits only to selected and target sectors of the economy in order to encourage the economic elite to invest in non-traditional lines of production (Lavdas, 1997: 152). Those dynamic sectors that would receive the state's generous investment support were electronics, information technology, biotechnology and precision instruments. On the other hand, the state support for investment in traditional industries such as construction, textiles, food and beverages etc., were considerably reduced, and so investment in these sectors discouraged. In other words, the semiperipheral Greek state attempted to support core-like industries and core-like investors while simultaneously punishing the periphery-like lines of production and economic elite. However, this new industrial policy did not work as planned, and once again the state support went to projects coming from the traditional sectors since some of those traditional industries still maintained a comparative advantage in the international markets, and also because of the resistance coming from the traditional (periphery-like) economic elite that dominated the Greek economy. The investments in new and dynamic lines of production continued to remain very limited. The Greek industrial world, and most big business, had concentrated their activities in traditional (periphery-like) production lines, and accordingly they saw the Papandreou's economic and industrial policy as a threat to their interests. Thus they strongly supported

horizontal measures (expansion in the existing sectors and the usual investment policies), and resisted government intervention into the economy in favour of new and ascending lines of production (Lavdas, 1997: 152).

Thus state-economic elite relations during the PASOK's first term in power (1981-1985) were generally tense in nature (see Lavdas, 1997: 159-169). The structural adjustment policy and the state's role in its implementation; reform measures in industrial relations and the new labour law; and the expansionary policies of the government particularly disturbed the big business community. The Federation of Greek Industrialists (SEV) publicly attacked the government's economic policies, and the government responded publicly accusing businessmen of making use of semi-legal methods, manipulating public works contracts, defrauding public funds, and misusing investment loans. The SEV leadership, on the other hand, held that the state policies since the mid-1970s were responsible for the structural economic difficulties, without referring to the reorientation of the industrial elite to investments in declining traditional (periphery-like) sectors such as textiles, clothing, food and beverages. Consequently, private industrial investments declined to their lowest level in 1985, and the result was a significant loss in the competitiveness of Greek products in the international markets, not only because of rising labour costs in industry, but also as a consequence of a low level of diversification in high-technology products (Lavdas, 1997: 174-175).

The resistance of the economic elite to the economic policies of the PASOK government culminated in the establishment of the "National Council of Private Enterprise" (ESIP) for the coordination of all business interests, and the establishment of a common business policy vis-à-vis the government. This was followed by a series of middle class demonstrations organised in cooperation with the conservative New Democracy Party. In the end the strong resistance coming from the organised (periphery-like) business interests forced the PASOK government to reconcile with the economic elite. Papandreou declared the government's recognition of business demands for "satisfactory profits" and promised to extend necessary incentives for their investments in the Greek economy (Lavdas, 1997: 167). Accordingly, just before the 1985 elections and especially during the PASOK's second term in office, government-business relations were soothed and SEV's role was strengthened. This, in turn, marked once again the victory of the periphery-like traditional economic elite in Greece. Subsequently, a cooperation and partnership was developed between the government and the SEV during the preparation and implementation of the 1985 stabilisation plan (austerity program).⁶ Immediately after the

introduction of the plan, business investments and profitability increased, and this situation lasted until 1988 when the government abandoned the implementation of the plan and returned to expansionist policies in the face of approaching 1989 general elections.

State policies, and the relations between the state and capital, indicated that periphery-like interests continued to control the Greek state throughout the 1980s. In this sense, the post-junta "developmentalist image" of the Greek state diminished in this period. The Greek financial system (the two largest commercial banks, special credit institutions, and the biggest insurance companies) was under excessive (direct and indirect) state control⁷ and hence four-fifths of the total credits extended to private business were controlled by state agencies (OECD, 1986: 55 and 1992: 72). The striking point was that credits were often given irrespective of banking and financial criteria, and they were extended especially to (periphery-like) large enterprises at the expense of better performing ones (OECD, 1986: 55). Furthermore, commercial banks sometimes refused to extend credit to efficient firms in order to protect enterprises with similar activities with which they had privileged relations (OECD, 1986: 71, footnote 56). Moreover, when the privileged but inefficient (periphery-like) firms faced difficulties paying back their credits, state controlled commercial banks participated in their management in order to protect their own interests. In this way, the banks either continued to supply credit to these firms, or acquired many of the loss making (periphery-like) enterprises, in this period (OECD, 1986: 56 and 1987: 34). Hence, far from becoming an engine of semiperipheral development, the Greek state itself turned into a periphery-like producer in the 1980s.

The state provided subsidies and grants to non-viable traditional (periphery-like) industries with problems of overmanning and heavy indebtedness.⁸ This policy however diverted real and financial resources from the competitive economy and from more profitable uses (OECD, 1990: 61). The problematic firms absorbed about half of total state grants and subsidies, and a fifth of total bank credits. Even so, the financial situation of these enterprises improved very little (OECD, 1990: 61). Furthermore, problematic firms were comprised of some forty of the biggest companies in the country (OECD, 1991: 14). The financing of the large deficits of the inefficient, loss-making public enterprises by state grants and special bank loans further indicated that resources were allocated to the periphery-like production patterns (OECD, 1990: 61). In sum, it had become clear in the 1980s that the Greek state was unable to turn itself into a developmentalist

state in order to accomplish a shift towards the core zone of the world-economy.

The PASOK governments, especially in the first half of the 1980s perceived the EC as an institutionally weak and organisationally loose framework, and they did not take its rules and regulations seriously (Lavdas, 1997: 155-158). Accordingly, Papandreou frequently violated the EC's institutional and legal framework, and such violations were rationalised as necessary *de facto* adjustment measures. At the same time, Papandreou strongly demanded (and managed) the renegotiation of Greece's EC entry conditions with the EC authorities on the basis of EC Treaty obligations, which allow for the adjustment of the economies of less developed member states to those of the developed ones. Accordingly, in a memorandum submitted to the EC in March 1982 (see Nicholson and East, 1987: 195-200), Papandreou demanded special agreements with the EC on the extension of Greece's transition period exemptions for a number of EC rules and regulations, and he also asked for increased EC financial transfers to overcome the difficulties in the Greek economy. Between 1982 and 1986, the memorandum became the basis for renegotiation of the Greece's entry terms. In the framework of the Integrated Mediterranean Programs (IMP), the overall response of the EC to Papandreou was basically positive (see Nicholson and East, 1987: 200-202).

In fact, a massive influx of EC transfers to the Greek economy materialised after Greece's accession in 1981. First, the Community extended 2.542 million ECU to Greece in response to the 1982 memorandum from the socialist government demanding recognition of Greece's special problems, and asking for special treatment and assistance to bring the Greek economy closer to those of its partners (Verney, 1987: 265). Net EC transfers increased substantially (77 percent) between 1981-1983 (OECD, 1983: 38), stabilising at around \$700 million annually in 1985 (OECD, 1986: 15 and 35). The inflow of capital from the EC also played an important role in offsetting Greece's balance of payments deficits. In 1983-1984 EC capital financed an average of 35 percent of total Gross External Financing Requirements (Kefalas and Mantzaris, 1986: 70). Similarly, in 1985, in the face of a financial crisis when the current deficit stood at almost 10 percent of GDP, the EC provided 1.7 billion in ECU loans to support an austerity program (OECD, 1991: 24). Moreover, EC transfers to Greece continued to increase in the second half of the 1980s. Between 1980-1985 net transfers from the EC were equal to 1.5 percent of GDP, and they reached 4.9 percent of GDP in 1989 (OECD, 1990: 68). Furthermore, receipts from the EC amounted to \$3 billion in 1990 (OECD, 1991: 24) and total outstanding EC

loans represented 8 percent of GDP, or a quarter of Greece's foreign debt in 1991 (OECD, 1991: 24).

Although net EC inflows reached more than \$20 billion (including special and EIB loans) between 1981-1991, the Greek economy was unable to match the growth and structural changes in other EC countries (Kapetanyannis, 1993: 80). EC transfers and loans either played a role in averting a balance of payment crisis, or limited the resort to foreign private credit throughout the 1980s (OECD, 1991: 22; Kleinman, 1988: 208 and Kefalas and Mantzaris, 1986: 78), or went into consumption rather than into investment, or were wasted (Tsoukalis, 1992: 155). In short, they did not contribute to the structural transformation of the Greek economy. As Verney puts it, "success in channelling more Community resources to Greece often seemed to become an end in itself. All too frequently, the Greek government appeared unable to absorb the financial support it was offered or to coordinate its use in a way that would help the country to adjust to the challenge of Community competition" (Verney, 1993: 150). Hence, despite the inflow of massive amounts of EC funds, and contrary to expectations, the Greek economy could not overcome its structural weaknesses, nor its low level of technology, poor infrastructure and its specialisation in regressive industries.

Furthermore, direct foreign investment in Greece was hardly influenced by EC membership, and Greece was little affected by the transnational mergers and acquisitions that restructured European industry (Tsoukalis, 1992: 155). Moreover, in the second half of the 1980s, it became apparent that foreign companies (especially European) were unwilling to use Greece as an intermediary in the Middle Eastern and North African markets (Tsoukalis, 1981: 45 and 47). While the share of the Middle Eastern and North African markets in total Greek exports amounted to 23.2 percent in 1981, this figure declined dramatically to 11.7 percent in 1987 (OECD, 1990: 104). However, trade relations between Greece and the Community increased significantly after accession. While the share of Greek exports to and imports from the EC were 46.3 and 47.7 percent respectively in 1981, they reached 60.3 and 54.3 percent in 1987 (OECD, 1990: 104). The increasing share of invisibles (especially European tourist receipts) in the Greek economy (OECD, 1987: 22), and their positive role in offsetting balance of payments constraints, were other significant developments in Greek-EC economic relations in the 1980s.

These developments in the 1980s show that the "Europeanisation" of Greece, which is identified with the concept of "semiperipheral development" or "mobilisation towards the core zone", can be explained in

terms of the transfer of huge amounts of money from the EC, increasing Greek-EC trade relations, the inflow of EC tourists, and so forth, but not in terms of structural transformations in production patterns. In world-system analysis, an upgrade in the hierarchy of state refers first, to an upgrade in the sphere of production. This did not occur in Greece in the 1980s. On the contrary, the Greek economic elite invested in regressive industries rather than in technologically advanced sectors capable of inducing significant modernising and restructuring effects in industry (Giannitsis, 1991: 218 and Petras et al., 1993: 181). Greek industrialists were seeking easy profits (a periphery-like characteristic), rather than investing in productive spheres. An OECD survey shows that Greek industrial firms, which had privileged access to credit, borrowed more than they required in order to re-lend the money to domestic and import traders with which they had business relations (OECD, 1986: 57-59).⁹ On the other hand, Lavdas argues that despite the agreements reached with the EC in 1982 over the Integrated Mediterranean Program, which brought the EC's substantial contribution to the Greece's "catching up" policy, the main aspects of the transitional regime remained in use. This, in turn, meant that the Greek state (as a defining characteristics of a semiperipheral state) remained the major target of the economic elite for lobbying for assistance, either in the form of subsidies, credit allocation and procurement in the domestic sphere, or as a lobbyist in the EC for achieving derogations or extensions (Lavdas, 1997: 159 and 184).

The state's continuous financial support of ailing and problematic firms, and the loss of competitiveness and foreign market shares, clearly indicated the dominance of "periphery-like" production patterns in the economy. An OECD survey on Greece points to the state oriented policies of these periphery-like producers, and to the way they articulated their interests at the state level. Moreover, it emphasises the central position of the state in the semiperiphery:

[State intervention]...has had strong bearings on mentalities and behavioural attitudes as economic agents become accustomed to state interference and to petitioning the government for permanent assistance and protection whenever relative income positions are felt or perceived to be threatened by competitive forces and structural change (OECD, 1990: 58).

A point that seems to deviate from one of the semiperipheral hypotheses is related to the increases in the per capita GNP in this period. As we saw, per capita GNP can be accepted as an indicator of the world-system position of a state, and continuous and remarkable increases or decreases in GNP are

a sign of upward or downward movement in the world-system hierarchy of states. The Greek GNP per capita income, which was \$4348 in 1980, decreased to \$3380 in 1984 and increased moderately to \$3966 in 1986 (OECD Reports from 1980 to 1986). However, this trend came to an end when the GNP figures rose up to \$5058 in 1988; to \$5359 in 1989; and to \$6629 in 1990. From the world-system perspective, it is strange for GNP per capita to increase in an economy that is dominated by periphery-like structures, and which performed badly for a decade (OECD, 1989 to 1992).

In sum, Greece did not experience an upgrade in its status in the world-economy in the 1980s. On the contrary, it fell to the bottom place in the OECD area at the beginning of the 1980s and remained there throughout the decade (OECD, 1992: 76). Greece's actual and potential output growth rate was 1.5 percent during the 1980s, one of the lowest in Europe (OECD, 1991: 18), and the growth of GDP fell to 0.1 percent in 1990 compared with 2.6 percent in the OECD area (OECD, 1991: 9). The poor performance of the Greek economy in the 1980s opened a development gap between Greece and the rest of the OECD area (OECD, 1991: 84) and the EC (Verney, 1993: 151). Subsequently, Greece fell behind Portugal in the EC to the twelfth and the worst economy (Kapetanyannis, 1993: 80 and Verney, 1993: 151). This in turn created a controversy about the economic and political status of Greece in the EC. On the one hand, Greece retained full membership in the prestigious Community of advanced (core-like) economies as an equal member. On the other hand, it created a "Greek problem", by becoming a discordant member and a constant drain on the EC budget (Verney, 1993: 151). From the perspective of semiperipheral development, all these facts once again indicated that although Greece was a member of the Community since 1981, membership did not lead to an upgrade in its status towards the core zone of the world-economy throughout the decade.

The Political Environment and Foreign Policy: Early 1980s-1990

Politically, Greece entered the 1980s with a socialist government, which indicated an important step forward for the consolidation of democracy. In the context of semiperipheral politics, this step is a continuation in the transformation process of the old political structures dating from post-junta period. Accordingly, despite the socialist government's unsuccessful performance in improving the structure of the Greek economy, democratic political structures remained intact during the 1980s. However, it should be borne in mind that the EC's massive transfer of resources into the Greek

economy during this period played a decisive role in protecting Greek democratic structures.

In parallel with its poor economic performance, Greece did not exhibit the characteristic behaviour of an upwardly mobile semiperipheral state in the foreign policy sphere. What was expected from upwardly mobile semiperipheral Greece was a gradual increase in influence in the EC and in world politics; harmonious relations with its partners in the western alliance - especially in the EC; and the emergence of a Greek sphere of influence (though in a secondary sense) in geographically and historically contiguous areas. Greece did not attain these objectives in the 1980s.

In fact, in the 1980s Greek foreign policy was based upon the rhetoric of "independence",¹⁰ a characteristic foreign policy orientation of upwardly mobile semiperipheral states. The main objective was to show that Greece was no longer a satellite state. However, now it was clear that the unconditional Atlanticist years were over, and Greece was an equal member of the highly prestigious EC. Furthermore, the re-entry of Greece into NATO in 1980, and the agreement reached with the Americans on the operation of US bases in 1983, were other indicators of Greece's non-satellite status in so far as the agreements (especially the bases agreement) observed Greek interests and established a balance in the relations between Greece and the US (Pranger, 1988: 256). Hence, the socialist governments' rhetoric of "independence" did not constitute a new phenomenon.

However, contrary to the expectations from an upwardly mobile semiperipheral country, Papandreou's "independent" Greek foreign policy disharmonised political cooperation both in NATO and in the EC. Moreover, Greece itself became a problem in the western alliances. In relation to the US and NATO, Papandreou declined to participate in NATO military exercises in the Aegean Sea because of Greece's disputes with Turkey. During the boycott of a NATO exercise in 1983, Papandreou permitted a Soviet fleet to visit the Greek port of Piraeus, which also coincided with an EC meeting on political cooperation in Athens. At a NATO Defence Ministers' meeting, he demanded a NATO guarantee of Greece's borders with Turkey. Furthermore, Papandreou responded negatively to the deployment of American Cruise and Pershing II missiles as part of NATO's Intermediate Nuclear Force Modernisation Program, while making no reference to the USSR's SS20s. He also defined the USSR as a factor that restricted the expansion of capitalism and its imperialistic aims (Loulis, 1985: 7), and he similarly described NATO as the first politico-military bloc that caused the inevitable emergence of the Warsaw Pact (McCaskill, 1988: 318). Papandreou promoted the Romanian idea of establishing a Balkan nuclear-

free zone, which in turn led to significant rapprochement with the Soviet Union. He refused to condemn the shooting down of a South Korean Airliner by the Soviets on the grounds that it had been on a spying mission, and he established good relations with radical Arab states with which the US had problems.

In relations with the EC, Greece's disharmonising "independence" line was demonstrated in a number of ways. In 1981, the Papandreou government rejected the Community's plan to send peacekeeping troops to Sinai, and to be associated with Camp David. Papandreou also complained about an EC resolution that supported the withdrawal of Libyan forces from Chad. In 1982, he resisted Western sanctions following the introduction of martial law in Poland, and he also dismissed his deputy foreign minister for signing an EC communiqué condemning Soviet involvement in Polish affairs. Papandreou then vetoed an EC attempt to condemn the USSR for shooting down Korean Airlines Flight 007. Moreover, after the American bombing of Libya in 1986, Greece refused to apply measures against the Libyan regime unless there was tangible proof that Libya fostered terrorism. Finally, Greece refused to align itself with its EC partners in the condemnation of Syria for its role in blowing-up an Israeli airliner. Consequently, contrary to the expectations from an upwardly mobile semiperipheral state, in the foreign policy sphere Greece became a problem both in NATO and in the EC.

However, the socialist government's position towards the EC began to change in the second half of the 1980s due to the difficulties experienced by Greek economy (Christodoulides, 1988: 289-292 and Verney, 1993: 145-150). The financial transfers of the EC's Integrated Mediterranean Program and the Agricultural funds for the modernisation of the Greek agriculture, which increased the incomes in the rural areas, were the two important factors that led to a change in the socialist government's attitude towards the Community. Now it became clear that EC was the future framework and motor of economic development of Greece. As the Greek economy became more and more dependent on EC transfers, Greek foreign policy was modified. Moreover, PASOK clearly realised that the EC membership provided advantages in the international relations of Greece. One indication of this shift was the signing of the Single European Act in December 1985 and acceptance of the institutionalisation of the European Political Cooperation (see Verney, 1993: 146-147).

Relations with the US also began to improve because Papandreou realised that strained ties with Washington would be bad for Greece's defence policy. Greece's American friends also warned Papandreou that if he did not refrain from anti-American policies, Greece would lose the support

of US Congress, which had been considerably influenced by the Greek-American lobby since 1974 (Haas, 1988: 63).

Another main indication that Greece had failed to achieve an upgrade towards the core zone was its inability to create a sphere of influence, and/or to participate in the management of international problems. In this context, Greece's relations with the Middle East represent the best example. As mentioned earlier, during the second half of the 1970s Greece asserted its intermediary role between the Middle East, North Africa and the EC hoping to become an economic and financial centre and a crossroads in the region. Although this policy proved unsuccessful in the early 1980s, the Papandreou governments continued the policy. In opposition years, Papandreou had already established close relations with the "progressive" and radical regimes of the Middle East such as Syria, Libya, PLO etc., (Elephantis, 1981: 113 and Clogg, 1984: 22). Once in power, Papandreou initiated a new opening to the Arab World. In contrast to Karamanlis, he based his Middle East policy on pro-PLO and pro-Arab policies. The PLO was granted recognition at the end of 1981; closer relations were cultivated with Libya and Algeria; Papandreou visited a number of Arab countries (Ioannides, 1991: 147-148); a direct line of communication was established between Greece and Syria (Kourvetaris and Dobratz, 1987: 115); and an agreement was signed with Syria against world imperialism and racist Zionism (Loulis, 1985: 28). Papandreou emphasised Greece's support for the Palestinian cause and denounced the Israeli occupation of Arab lands (Ioannides, 1991: 147). This new opening to the "progressive" and radical Arab states was largely based on an economic rationale; it was expected that this policy would bring an influx of Arab capital and investment into the Greek economy (Ioannides, 1991: 147 and McCaskill, 1988: 310). Various economic agreements (especially on oil and improved trade) were signed with Arab states during the 1980s (McCaskill, 1988: 316). However, the Arab contribution to the Greek economy (capital flows, investment, commercial and trade benefits, etc.) remained negligible; the Arabs were reluctant to embrace Greece (see McCaskill, 1988: 312 and 316; Ioannides, 1991: 147). Accordingly, although Greece attempted to contribute to the solution of the Middle East conflict as a member of the EC, pledged to work as a go-between (Kourvetaris and Dobratz, 1987: 115), and declared the need for an effective Greece-EC initiative to resolve the crisis (Constas, 1991: 52), all these attempts proved unsuccessful and did not bring any benefit to Greece. Furthermore, the pro-PLO and pro-Arab policies did not encourage the Arabs adopt a pro-Greek stands vis-à-vis Turkey on the Cyprus issue and Aegean problems. Finally, Greece did not participate and play a role in the international management of

the Iran-Iraq War, or later in the Gulf War in 1990, other than sending a few warships for surveillance.

Similarly, Greece was no more successful in playing an active role in the Balkans (Kofas, 1991: 116). The Balkan conferences convened on Greek initiative in the 1970s and 1980s and the proposal to create a nuclear-free zone in the Balkans were important developments, because for the first time in the postwar period security problems began to be discussed in Balkan forums (Kofas, 1991: 116). However, the interests of the Balkan states soon waned and the Balkan conferences did not lead to a privileged status for Greece in the Balkans (Kofas, 1991: 115).

1990-2000s: Mitsotakis, Papandreou and Simitis Periods

During the latter phase of the contraction period of the world-economy, Greece revealed reluctance towards becoming an upwardly mobile semiperipheral state. Despite the modernising efforts of the new conservative government, the Greek economy did not experience a substantial transformation towards core-like production structures in the first half of the 1990s, and the periphery-like producers continued to dominate the economic and political domains. Thus semiperipheral Greece waited until Simitis' PASOK governments gave signs of a new phase of economic development and upward mobilisation in the world-system hierarchy of states towards the core zone. In the second half of the 1990s, together with the significant changes in the economic sphere, the influence of the core-like producers, and their representatives in the political domain (in the state structures), increased considerably. With the Simitis governments after 1996, the core-like interests gradually challenged the semiperipheral balance of power, which was in favour of periphery-like actors in both the economic and political spheres, and thus the fight over the state policies became intense in the second half of the 1990s. Clearly, these developments were reflected in the foreign policy of Greece.

The Economic Environment

In the early 1990s, the prospects for the Greek economy were not promising. Greece was burdened with heavy external debt, slow growth, high inflation, a large balance of payment deficit, poor state of infrastructures and inefficient public administration (OECD, 1991). Furthermore, state intervention in the economy increased rapidly in the form of state subsidies, financial assistance

and transfers to the industrial, agricultural and service sectors (OECD, 1990: 50). The wide range of this state support was realised in an *ad hoc* manner, and the selection of branches and the instruments used in this policy were not carefully evaluated in that a considerable amount of capital was wasted and inefficient and low-technology (periphery-like) production patterns were protected.

Furthermore, the losses in Greece's market shares in world trade continued in the first half of the 1990s, and this was the direct result of the deterioration in the cost competitiveness, and the lack of adaptability of production structures to changing world trade patterns (see OECD, 1991: 24; 1993: 25 and 1995: 7). According to an OECD survey, Greece's economic performance sharply contrasted with the Spanish and Portuguese experiences. Spain and Portugal had similar market shares to Greece in the early 1980s but managed to make significant market gains in the medium and high-technology products thereafter (OECD, 1993: 25). In fact, in Greece the structure of the exports and the commodity composition changed very little after its accession to the EC, and Greece could not benefit from the trade creation effects of full membership as much as the other southern European countries did (OECD, 1990: 68 and 1993: 12). On the other hand, the competitive power of Greek products in the world markets was based not on product mix but on price and quality, which suffered from increasing labour cost and lack of investment respectively. Unlike Spain and Portugal, Greece's export output structure continued to concentrate on declining industries, medium to low technology and resource and labour intensive sectors of production (OECD, 1993: 29 and 1995: 9). Accordingly, the loss of Greek market shares reached 15 percent in the early 1990s in comparison to its world market shares in the late 1980s (OECD, 1991: 49 and 1995: 8).

The public sector, on the other hand, was strongly politicised in that the governing parties constantly appointed "political friends looking-for-jobs" to public sector managerial positions without taking into account any merit criteria (OECD, 1992: 57 and 1993: 33). In many branches of the economy, state controlled companies and institutions continued to represent a large portion of the firms especially in banking and manufacturing, and employment in the state controlled sectors reached more than 15 percent of the total employment (OECD, 1992: 65).

The level of foreign investment in the Greek economy also remained very low in this period. Again, compared with Spain and Portugal, the amount of foreign direct investments in Greece was very small (OECD, 1992: 41). In this regard, "lack of confidence" and "instability" appeared as particularly important factors for the low inflow of both entrepreneurial and

financial capital in Greece (OECD, 1992: 53). The major reasons for the weak foreign investment in Greece (less than \$2 billion in the 1980s, while it was \$46 and \$6.5 billion in Spain and Portugal respectively) were the external difficulties of the early 1990s (the Gulf War and especially the conflicts in Yugoslavia), but particularly the long standing domestic obstacles of "frequent policy changes (uncertainty)", "shortfalls of Greek bureaucracy", "lack of transparency and clear rules", and "infrastructural deficiencies", such as poor transport and communication lines and "the inability of Greek business elite to develop cross-border links with the foreign business" (OECD, 1993: 18-19 and 22).

The EC's contribution in the Greek economy was, again, profound in the early 1990s. The EC transfers that reached to 4 percent of the GDP largely offset the deficits in the trade balance, and total EC loans represented one-quarter of the Greek foreign debt (8 percent of the GDP). All together, total EC transfers and loans averted a balance of payment crisis in Greece, and given the reluctant attitudes of foreign creditors towards Greece, the 1990 EC loan of \$3 billion was a well-timed relief for the Greek economy (OECD, 1991: 24 and 1992: 31). Thus despite the losses in the market shares and growing deficits in the trade balance, thanks to the EC transfers the overall Greek balance of payments deficits remained considerably lower and was in a downward trend after 1990 (OECD, 1993: 24 and 1995: 1). Moreover, the amounts of EC transfers increased towards the mid-1990s, reaching almost 5 percent of the GDP as investments in infrastructure increased and were financed by the EC structural funds (OECD, 1995: 9). In July 1993, the EC signed an agreement with Greece providing ECU 20 billion from the "Community Support Framework" for 1993-1998 period, and in July 1994 this agreement was replaced with a new one providing ECU 40 billion for the 1994-1999 period (OECD, 1995: 83 and 85).

In fact, the conservative New Democracy party that came to power in April 1990 came in with an all-encompassing reform policy for the economy in order to bring solutions to the long-lasting problems of the Greek economy. Thus the new government announced major institutional and structural reforms and prepared an adjustment program in fiscal retrenchment and public sector reorganisation, and it aimed at the ambitious target of preparing Greece for full participation in the economic and monetary union of the European Community (see OECD, 1991: 55-72). The adjustment plan was welcomed by international institutions, and the EC agreed to extent a loan of ECU 2.2 billion (\$3 billion) to support it.

However, in 1992 the initial strategy and priorities of the Adjustment program changed. First of all, the key point and the short-term objective of

the plan, fiscal adjustment, was abandoned (OECD, 1992: 15). Furthermore, although laws and regulations for the reorganisation of the public sector and the administration were passed by the parliament, they were not implemented properly. In fact, the opposition coming from the (periphery-like) vested interests within the administration, the strong lack of concern for a change in the system and the lack of badly needed political consensus for radical reforms were the major factors for the failure of the ND government plan for adjustment (OECD, 1992: 58). According to the 1992 OECD country survey, professional associations and labour unions effectively blocked the modernisation efforts of the Mitsotakis' ND government in order to provide high profits and incomes to their members (p.76).

Nonetheless, the New Democracy government managed to decrease the inflation rate from 23 to 18 percent in 1992 and to 12 percent in 1993, export subsidies and some regulatory import restrictions were abolished, and subsidies to ailing firms reduced. Perhaps more importantly, crucial reforms were introduced to deregulate financial markets in light of the plans for joining the European economic and monetary union (OECD, 1993: 36). Furthermore, competition laws were improved, controls on profit margins were abolished and almost all price controls were lifted, and monopolies over postal services, telecommunications and airways were also abolished (OECD, 1993: 41-42). On the other hand, the government had announced an extensive privatisation program in 1990, but it was put into practice properly only in 1992 (see OECD, 1992: 67). Initially, a number of small industrial firms were privatised. Only later in 1992 did the two largest state enterprises, AGET Heracles Cement Company and Elousis Shipyard follow suit. However, plans for privatising Olympic Airways and Athens Urban Public Transport Company were dropped due to a lack of domestic and foreign interest in these firms and the privatisation of Telecommunication Company (OTE) became a gradual process. In fact, the privatisation policy of the government was not satisfactory (OECD, 1993: 42) and moved slowly (OECD, 1995: 34). The economy was still in a difficult position with a public debt of 116 percent of GDP, Public Sector Borrowing Requirements remaining at over 10 percent of GDP, and the inflation rate at around 11-12 percent- meaning that Greece was very far from catching up with its EC partners and the Maastricht criteria (OECD, 1993: 79 and 1995: 1). Progress in structural reforms and in reducing the deficits were far below initial targets (OECD, 1995: 17).

On the other hand, by the mid-1990s the inflexible and the complicated framework of the Greek financial system was practically liberated. Foreign exchange controls were lifted in 1991/1992, controls on the movement of

medium and long-term capital were lifted in 1993, and finally with the termination of the restrictions on the short-term capital movements in 1994, full liberalisation of the capital movements was ensured (OECD, 1995: 48-49). However, the restructuring of the banking system was far from being sufficient, because it continued to be dominated by the state owned banks with bad loans and public banks channelling resources to low value uses.

In order to overcome all of these difficulties in the economy and to participate in the European economic and monetary union, Mitsotakis's ND government prepared a convergence plan for the 1993-1998 period, and a Community Support Framework (CSF) agreement was signed with the EU providing Greece ECU 20 billion in the same period.

Yet the 1993-1998 Convergence Plan (structural reforms) was not implemented properly partly because of the 1993 general elections, and thus in July 1994 the new PASOK government drew up a new Convergence Plan for the 1994-1999 period which aimed at, among other things, fiscal consolidation and reduction of inflation to 3 percent and government deficit to 1 percent of the GDP by 1999 (OECD, 1995: 17). The previous CSF agreement was replaced by this new one, which provided Greece ECU 40 billion for the period 1994-1999 (OECD, 1995: 85). In fact, in the mid-1990s Greece was at a crossroads. The imperfect implementation of the restructuring program during the first half of the 1990s caused the persistence of the gaps between Greece and its EU partners. In this context, the OECD 1995 survey on Greece emphasised the strong need for an adjustment process through a credible strategy, and determination, in order to cope with the longstanding imbalances affecting the Greek economy: "there [was] not really any other solution if Greece [was] to continue along the path towards integration and play a full part in the construction of Europe" (OECD, 1995: 67). Thus the 1994-1999 Convergence Plan of Papandreou's PASOK government aimed at "a sustainable recovery of the Greek economy to a position where it is an equal partner in a common European market and competitive internationally". And, once again, the plans' key component was fiscal consolidation in order to attain the EU's Maastricht criteria (OECD, 1996: 22).

Indeed with the 1994-1999 Convergence Plan, the Greek economy began to perform considerably better in the second half of the 1990s (OECD, 1997: 37). The Community Support Framework II (CSF II) funds, which was extended for facilitating the Convergence Plan, aimed at upgrading the infrastructure of the economy in the transport, energy and telecommunication sectors (47 percent of the CSF II); stimulating private sector industrial productive investment (16 percent); and supporting health, education and

training programs for improving the human capital (16 percent) (OECD, 1996: 50). From the outset the funds were timely and successfully used and considerable progress was achieved in the economic situation (OECD, 1997: 16-17). In fact, Greece began to show the signs of an upwardly mobile semiperipheral state in 1997. Perhaps one of the most striking indicators of the good performance of the economy was the decline in the rate of inflation from 9 percent in 1996 to 6.6 in May 1997. Furthermore, despite the remaining substantial fiscal deficits, the government was successful in reducing fiscal imbalances by almost halving the government deficit from 16 percent of GDP to 9 percent in 1996 (OECD, 1996: 1). Moreover, domestic business confidence and investment increased, the Athens Stock Market boomed (OECD, 1996: 3 and 8, and 1997: 33), and despite weak export performance in the EU and in the world markets, Greek exports made large inroads into the new Balkan and Central European markets (OECD, 1996: 13). The 1996 OECD survey underlined, the significance of central and eastern European markets for Greece, and also as a unique opportunity to undertake investments (p.106). Yet, overall losses in export market shares exceeded 10 percent in the period 1993-1996 (OECD, 1997: 27-30).

However, the major (peripheral) shortcomings of the Greek economy in this period continued to be the very low absorption of new and high-technology, inability to innovate, and a low level of educated workers (see OECD, 1996: 86-87). Medium and low-technology production structures and exports commodities continued to be a defining characteristic of the Greek economy. A tiny portion of the Greek GDP- only 0.5 percent- was spent on the R&D activities (the OECD average was 2 to 3 percent). Most of those funds came from the government, and the R&D projects were carried out by the universities that had weak links to the industry. Another significant shortcoming of the Greek economy was the long-lasting poor performance of the public administration and the privatisation program (see OECD, 1997: 51 and 63). The government remained reluctant to give up control of the state over the large public enterprises and state owned banks, and progress in the privatisation was disappointing.

In the latter part the 1990s the economic policies of the Greek government continued to register steady progress, especially in reducing the large fiscal imbalances and high inflation rates that existed at the beginning of the decade (OECD, 1998: 41). The strategic target of meeting the EU Maastricht criteria for economic and monetary union was relatively successfully implemented, especially after 1996. The general government deficit that was around 16 percent of GDP in the early 1990s was brought down to 3 percent at the end of 1998. Furthermore, inflation rate, which

was around 23 percent in 1990, was reduced to 5.3 percent in November 1998. Moreover, in accordance with the monetary policy of the government that aimed at joining the European Monetary Union (EMU) at the beginning of 2001, the parliament approved the independence of the Central Bank in December 1997, and the Greek Drachma was devalued and entered the EU Exchange Rate Mechanism (ERM) in March 1998. These developments strengthened the credibility of the government's monetary policy and the Drachma joined ERM II (second stage) in January 1999 (OECD, 2001: 34). The structural reform program envisaged in the 1994-1999 Convergence Plan was thus largely attained at the end-1998 (see OECD, 1998: 68-73). In view of this favourable picture, the business sector continued strong investment in industry (OECD, 1998: 17).

The overall successful (core-like) performance of the Greek economy continued in and after 1998. In response to the Simitis government's tight fiscal and monetary policies, the inflation rate fell down to 3 percent in the first half of 2000- the satisfactory level set by the Maastricht criteria- and accordingly in June 2000 Greece's membership was accepted by the EMU as of January 1st 2001. Furthermore, the general government deficit dropped further to 1 percent in 2000 (see OECD, 2001: 33-36). Public enterprise reform, and the privatisation of public enterprises, that became a policy priority after 1996 progressed slowly but steadily despite significant obstacles and traditional (periphery-like) vested interests in front of it (see OECD, 2001: 73-85). In March 1998, with entry to the ERM, the Simitis government launched an extensive privatisation program as a part of the policy to join the European Economic and Monetary Union. In the private sector, business confidence and investment boosted (OECD, 2001: 21-22). Moreover, Greece signed the third Community Support Framework (CSF III) with the EU in November 2000 providing Greece \$45 billion in the 2000-2006 period. Finally, at the end of 2000 the Greek government, together with EMU authorities, wrote a "stability and growth program" for the period 2001-2004 that foresees ambitious targets for economic growth, inflation, the fiscal balance and the public debt, and also outlines structural reforms to be carried out (EIU Country Report, April 2001: 19).

Catching up with the EU per capita income levels has been one of the primary objectives of upwardly mobile semiperipheral Greek governments especially after 1996, and in this regard significant steps have been taken since the early 1990s. Greek GDP growth exceeded the euro area average for the five consecutive years between 1996-2000, thus the sizeable gap in living standards have been reduced (OECD, 2001: 54). Accordingly, Greek per capita income levels have begun to show signs of convergence with those of

its EU partners. Greece's GNP per capita income, which was \$6825 in 1991, gradually increased to \$8681 in 1993; \$9610 in 1994; \$11,181 in 1995; \$11,514 in 1997, and to \$12,159 in 1999 (OECD surveys 1993-2001). Thus Greek per capita GDP convergence with the EU average increased from less than 60 percent in 1990 to nearly 70 percent by the end of 1999 (Christodoulakis, 2000: 94). However, according to the 1998 OECD survey, compared with the faster growth experiences of Spain and Portugal after their incorporation into the EC in 1986 and in view of Greece's 1981 entry into the EC, Greece's efforts towards increasing its per capita income may not be considered a success story (OECD, 1998: 67). Furthermore, it is argued that even if the recent relatively high growth rates in the Greek economy are maintained, it would take almost half a century for Greece to catch up with the average living standards of the EU (Alogoskoufis, 2000: 150).

It is clear that after Kostas Simitis came to power in 1996, the Greek state took the initiative in overcoming the decades long Greek economic maladjustment problem in the face of the threat of missing, perhaps, the last chance of participating in the European Economic and Monetary Union, and thus being marginalisation in the EU. It was only after the March 1998 devaluation of the Drachma and entry into the ERM that the Simitis government seemed rather determined to effectively implement liberalisation reforms (see Pagoulatos, 2000: 237-238).

Despite all these favourable economic indicators and progress in the Greek economy, especially since 1998, a number of significant structural impediments have still been awaiting attention for a real convergence with the EU partners to be actualised. In other words Greece's semiperipheral characteristics still persist. The Greek GDP, irrespective of its recent high growth rates, is among the lowest in the EU area, just slightly ranking over Portugal. Greece's improved economic performance is largely due to the successful adjustment of fiscal imbalances, but important structural problems in the product and labour markets, public sector management and export markets, etc. are still challenging the Greek government (see, OECD, 1998 and 2001). The Simitis governments have accelerated the pace of structural transformation, but there still remains considerable scope for further improvement in many areas by international comparisons (OECD, 2001: 61). Even in the sphere of fiscal consolidation and financial markets where the Greek government took significant successful steps there remain important problems. Thus, the public debt ratio to GDP (debt/GDP ratio), though declining from 111 percent since 1996 to 103 percent in 2000, is still very high compared to the 60 percent limit of the EU Maastricht criteria for

economic convergence. According to optimistic OECD estimates, reducing the very high debt/GDP ratio to the 60 percent limit would take Greece at least ten years, while the pessimistic estimates foresee not less than some forty more years (see OECD, 1998: 63 and OECD, 2001: 43-44). Moreover, despite liberalisation and the significant steps taken in the privatisation of state-owned banks, the Greek financial market structure is still very different from that of the EU financial markets (OECD, 2001: 44). The OECD 2001 survey emphasised the need for the privatisation of the remaining state-owned banks since two of the five biggest banks of Greece are still under the control of the state (OECD, 2001: 60 and 82). Although the direct holdings of the state in the National and Commercial Banks of Greece have been reduced or listed in the Athens Stock Exchange, the state has continued its control over these banks indirectly through state-owned pension funds (EIU Country Report 1st Quarter, 2000: 24 and April 2001: 24). The OECD 2001 survey also points out the necessity for strict supervision over reforms and further modernisation of capital market regulations (OECD, 2001: 60).

The Athens Stock Exchange Market (ASE), although highly volatile, began to play a significant role in the capital market for corporate financing since 1997 (see OECD, 2001: 85-88) with the result that the firms have applied less frequently to bank credits for their capital needs. In this way, perhaps, Greek firms have partly realised one of the dreams of the ex-chief of Central Bank X. Zolotas (see above). However, ASE is still a state-controlled institution. The Greek state controls the operation of the stock exchange market through the holdings of publicly owned banks and institutions, and the Ministry of National Economy has the ultimate authority over its operations (EIU Country Profile, 2000: 30 and 2001: 33).

In the product markets, Greece is traditionally known as a country providing a wide range of subsidies to industry often in combination with the EU structural funds (OECD, 2001: 68). State subsidies are still extended to declining, periphery-like, industrial sectors in the form of direct grants, tax incentives and soft loans, and furthermore there is a wide range of incentives to support investment in industry. It is only very recently that a law (2601/98) was passed that supports newly established enterprises investing in high-technology, alternative energy resources or protecting environmental resources. Despite these changes in the legal framework, public support programs can still distort competition and allocative efficiency, especially when granted in an *ad hoc* manner, and furthermore they have adverse budgetary consequences (OECD, 2001: 70). On the other hand, the effectiveness of the competition policy has been very small and the Competition Committee does not have the capacity and power to affect

regulations and government decisions that impair competition through state subsidies (OECD, 2001: 76). Besides, the Committee is also unable both to deal with the competition problems arising from the policy of protecting the inefficient state-owned (periphery-like) enterprises and to investigate the sectors that show significant competition problems. Moreover, it is noted in the 2001 OECD survey that the rules and regulations governing the obtaining of licences and permits still presents a significant barrier to entrepreneurial activity (OECD, 2001: 52), which in turn implies the persistent traditional politicised nature of the state-business relationship in Greece. Inadequate state support to R&D and innovation is another significant problem in the product markets. Greece is lagging far behind the OECD average: as a percentage of the GDP, the total expenditure on the R&D in Greece is 0.49 percent compared to the OECD average of 2.23 percent¹¹ (OECD, 2001: 70, Table 11). On the other hand, agriculture is still important and the most heavily subsidised sector in the Greek product markets. It accounts for 7.2 percent of the GDP and 19 percent of civilian employment (OECD, 2001: 70-71). Furthermore, the Greek agricultural sector also suffers from (peripheral) structural weaknesses such as large number of small and inefficient farms, poor international competitiveness, weaknesses in promotion and distribution, a small percentage of processed goods (30 percent) and heavy use of fertilisers.

The public sector and its management are further problematic areas that need serious reform to affect convergence with the EU. In public sector, Greece is still known for its strongly centralised and bureaucratic structure with heavy favouritism and clientelism, and one that lacks a modern infrastructure (OECD, 1998: 73). The inefficient performance of the public enterprises, and the financial strain they put on the state budget, reached to 2 percent of the GDP annually in the late 1990s; and despite heavy investment expenditures, most of these enterprises remained unable to modernise their technological base or renew their infrastructure and equipment (OECD, 1998: 96 and 107). On the other hand, public sector management is still characterised by over-regulation and extensive administrative formalities, which in turn creates problems for private enterprises and causes corruption. Accordingly, in order to escape from these problems, private firms seek improper ways to speed up procedures or avoid regulations altogether (OECD, 2001: 52).

In the labour market, a Pact of Confidence was reached between the government and the social partners in 1997 on the necessity of structural reforms in the economy for job creation and improved competitiveness, but the practice fell short of the Pact's objectives (OECD, 1998: 69). Another

round of talks between the government, employers, and the trade unions for labour market reform collapsed in late 2000. Yet, the government and parliament had passed a reform bill in early 2001 but without any real improvement in the labour market flexibility (EIU Country Report, April 2001: 8 and OECD, 2001: 62-65). Employment Protection Legislation in Greece is quite strict compared to EU standards. Another significant problem in the labour market is the considerable mismatch between private sector demands for new employees and their skills. The emphasis put on the training programs in the convergence plans have remained on paper, and most of the training programs have been delineated only for absorbing EU funds (Alogoskoufis, 2000: 153).

Another challenge comes from the sphere of export market shares and the export structure of Greece. Although the exports and imports have improved, and competitiveness increased since 1999, trade integration of Greece with the euro area remains lower than in any other European country, and Greece became an anomaly in the EU (OECD, 2001: 23 and 44). Greece has long been registering a large deficit on merchandise trade with exports covering only a quarter of imports (EIU Country Profile, 2000: 32), and Greece's current account deficit continued to widen in early 2000- from \$3.3 billion at the end-1999 to \$5.7 billion at the end-2000 (EIU Country Report April, 2001: 33). In fact until the late 1990s, Greece continuously lost its export shares in the international markets and that loss was concentrated in the Greece's main EU markets (OECD, 1998: 27). In the 1993-1997 period, Greeks exports experienced a 20 percent decline in the international market share for total goods, and loss of competitiveness (one-third) was observed in the traditional manufacturing sectors of footwear and clothing (OECD, 1998: 32). Its poor performance in the EU, however, was partly offset in the exports to Central and Eastern European markets, in that they accounted 20 percent of Greek total exports of goods in 1997 (up from 13 percent in 1994) (OECD, 1998: 35). Thus, better performance and market gains after the second half of 1999 reflect new business opportunities in, and increasing exports to, the neighbouring Balkan countries (OECD, 2001: 23).

Another problem is related with the export structure of semiperipheral Greece (see OECD, 1998: 32-35). First of all, agricultural products constitute more than one-quarter of total Greek exports, which is a high ratio by international standards. Second, it is emphasised that overall Greek manufactured exports have been concentrated in goods that compete on price rather than on quality basis, and Greece still continues to concentrate on traditional and declining (periphery-like) lines of production such as textiles, footwear, beverages, petroleum products, cement, raw materials and semi-

finished goods, minerals, cotton and tobacco. The declining power of Greek competitiveness in the export markets has also raised concerns for the domestic market shares. The government warned producers that there is a need for maintaining internal markets vis-à-vis foreign competition (EIU Country Report April, 2001: 35).

The lack of interest of the foreign direct investors in Greece has remained another persistent feature of the Greek economy. In the late 1990s, the amount of foreign direct investment (FDI) in Greece remained at \$300 million on average (see EIU Country Reports and Profiles between 2000-2001). On the other hand, the level of portfolio investment, which was around \$12.2 billion in 1998, decreased to 6.4 billion in 1999 before rising again to the level of \$7.7 billion in 2000 (EIU Country Report, July 2000: 38 and Country Profile, 2001: 38). Moreover, foreign institutional investors are absent in the Greek market despite considerable efforts spent by the Athens Stock Exchange market (EIU Country Report April, 2001: 30). However, there has been increased investment activity by Greek investors abroad since the late 1990s, and thus Greece, in an upwardly mobile semiperipheral state manner, became a net direct investor in formerly communist neighbouring countries. In 2000, net outward investment of Greek firms reached \$1.25 billion (EIU Country Profile, 2001: 39).

Despite the recent considerable investments financed mainly by the EU CSF funds, the relatively poor level and quality of the public infrastructure is another important obstacle facing the development and modernisation process of the Greek economy. Greece's very poor motorway and railway systems, inadequate capacity of airports, and telecom (communication) networks need to be upgraded to meet international standards in order to attract FDI, increase the competitiveness of the Greek economy, and become a business and transportation hub in the region (see Mamatzakis, 2000).

The EU on the other hand still plays the key role in the Greek economy without which the Greeks, by themselves, may not have been capable of carrying out a structural transformation program aimed at upward mobilisation in the world-economy. The Convergence Plans that have been implemented since the early 1990s have been made possible only with massive transfers from EU funds (see OECD surveys between 1990-2001). It is those large and ever increasing transfers from EU structural funds that have provided an opportunity for a structural change in Greece (OECD, 1998: 1 and 31). EU transfers financed the fiscal consolidation program in the second half of the 1990s. The large fiscal deficits and the public investment programs (equivalent to nearly 2 percent of GDP in 1997) were all financed by capital transfers from the EU (OECD, 1998: 41 and 49).

According to the 1998 OECD survey, between 1984-1997 the cumulative capital transfers to poorly performing public enterprises reached 30 percent of GDP, and to a large extent it was financed by EU structural funds (p.96). Since 1990, the EU funds, especially the CSF I and CSF II, have played a key role in narrowing large investment and technological gaps in the public sector (OECD, 1998: 107 and 2001: 22). It is estimated that the cumulative amount of the EU funds will reach to 20 percent of the current GDP in 2006 (OECD, 2001: 54). Annual GDP growth, averaging between 3.5 to 4 percent between 1996-2001, has been primarily investment led growth that is funded mainly by the EU (see EIU Country Profile 2001: 27 and Country Reports January and April 2001). Furthermore, in 1999 the current account deficit in the balance of payments exceeded 4 percent of the GDP, and again a sizeable amount of the deficit was offset by means of EU transfers (OECD, 2001: 23). Moreover, in the heavily subsidised agricultural sector, 75 percent of the total supports (2.8 percent of the GDP) comes from the EU's Common Agricultural Policy (CAP) transfer programs, and according to the EU's "Agenda 2000", Greek agriculture will receive the same level of budgetary transfers until 2006 (OECD, 2001: 71).

Another significant development since the mid-1990s has been the transformation of the Central and Eastern European Countries (CEECs), but especially the Balkans, into a Greek economic sphere of influence - a clear indication of upwardly mobile semiperipheral economic foreign policy. It is clear that Greece has been increasing its economic relations with the Balkans and aims to establish itself as a "trading centre" in the region (see EIU Country Profile, 2001: 10). In this respect, Greek tradesmen have taken advantage of the economic transformation in the Balkans and the Black Sea regions and quickly made inroads in the markets of the regional countries. The Greek state/governments have supported Greek entrepreneurs in these areas by providing commercial credits through state-controlled banks (EIU Country Profile, 2000: 33). Hence, Greece's share in Balkan trade has increased quickly, and Greece has begun to run trade surpluses by quadrupling its exports in the region in the decade after 1989 (Wallden, 2000: 433). According to reports, the Balkans and the Black Sea markets have absorbed at least 15 percent of the total value of Greek exports (EIU Country Profile, 2001: 37), which is reminiscent of Greek export performance in the Middle Eastern markets in the second half of the 1970s. The main Greek exports to the Balkans consist of food, industrial consumption goods, and intermediate industrial goods, while the main import items include intermediate industrial goods and raw materials (see Wallden, 2000: 435-436).

Greece also aims at becoming a "regional hub for telecommunication" in the Balkans, and to this end the state-controlled Telecommunications Organisation OTE has launched a policy of regional expansion. Accordingly, OTE acquired 90 percent of the Armenian telecommunication system, and subsequently controls 35 percent of the Romanian and 20 percent of Serbian telecommunications systems. OTE also became a part of the consortia operating a microwave network in the Ukraine and cord phones in Georgia. Moreover, OTE acquired mobile services in Bulgaria and Albania through its subsidiary Cosmote (see EIU Country Profile, 2000: 15 and 2001: 17). In fact, it is partly because of the regional investment activities of OTE that the Greek state is willing to retain its control over OTE arguing that the organisation is instrumental to the Greek state's broader economic strategy in the region (EIU Country Report January, 2001: 21).

Another strategic aim of Greece is to establish itself as an "energy-exporting centre" in the Balkans (EIU Country Report April, 2001: 23, and see also Wallden, 2000: 438). To this end, in 1995, the Greeks signed a protocol with the Russians and Bulgarians for the construction of trans-Balkan oil pipeline to transport oil from the Caspian Sea to the Aegean Sea. A more concrete development in this field is that the state-controlled Hellenic Petroleum Company, El.Pet, has acquired a controlling interest in the oil refinery of FYR of Macedonia and is constructing an oil pipeline from the port of Thessaloniki to FYR of Macedonia (see EIU Country Profile, 2001: 19).

Greece also aims to play a "prominent role in the financial and the banking sectors" in the Balkans by providing finance and other services to the transition countries and to Greek firms operating in the region. Two state-controlled banks, National Bank and the Commercial Bank of Greece, and three private banks, Alpha, Piraeus, and EFG Eurobank, opened subsidiaries and branches in the Balkans and in Central and Eastern Europe (EIU Country Profile, 2001: 32). Accordingly, Greek commercial banks acquired a number of local banks in the Balkans: Post Bank of Bulgaria was acquired by EGF Eurobank in 1998, Kredinata Banka of Macedonia by Alpha Bank in 1999, Stopanska Bank of Macedonia by National Bank of Greece in 1999, Pater Bank of Romania by Piraeus Bank in 1999 and the Interlease of Bulgaria by National Bank of Greece in 1999 (OECD 2001: 85 and 137, endnote 80). Furthermore in the financial sector, an online satellite-trading floor was established to operate in Thessaloniki with the principal aim of providing services in the Balkans (see EIU Country Profile 2001: 33).

An important consequence of Greece's economic activities in the Balkans is increasing Greek foreign direct investment (FDI) in the region, which has reached nearly \$1.5 billion in 2000 (EIU Country Profile, 2001: 28). Although they are not mature enough yet, Greek investments in the Balkans occur mostly in the fields of telecoms, banking, energy, food production, and distribution networks and are geographically concentrated in Bulgaria, Albania, Romania, FYR of Macedonia and Yugoslavia (see Wallden, 2000: 437 and EIU Country Profile, 2001: 28). The Greek investments in the region are indeed a remarkable achievement and can be considered a sign of upward mobilisation by semiperipheral Greece. The number of Greek foreign investor companies, which were almost non-existent in 1989 (just 3 companies all around the world), reached to 521 after the opening of the Balkans/CEECs markets (Labrianidis, 2000: 457). The majority of the Greek FDI projects are geographically concentrated in Bulgaria (41.7 percent), Albania (20.3 percent), and Romania (20.3 percent), and the distribution of these FDIs according to the sectors is 47.2 percent in trade, 36 percent in industry and 13.2 percent in service sectors (Labrianidis, 2000: 466-467). Furthermore, while industrial companies are mainly invested in clothing (47.8 percent) and food and beverages (25.5 percent), trading companies are active in the food (27.2 percent), general trading (22.1 percent), clothing (5.8 percent), oil products (5.1 percent), beverages (4.1 percent) and furniture (3.4 percent) sectors (Labrianidis, 2000: 467). A further development in relation to Greece's economic activities in the Balkans is the transfer of labour intensive lines of production to Balkan countries by some Greek firms operating in declining sectors, especially in the garment sector, by reorienting their production in Greece towards higher quality and higher value added goods (EIU Country Profile, 2000: 27 and 33).

A final indicator of Greece's attempt to play a prominent role in the Balkans, perhaps as an upwardly mobile semiperipheral state, is its active position in the reconstruction of the Balkans. In this regard, Greece unilaterally launched a 180 billion Greek Drachma (\$500 million) worth "Balkan Reconstruction Program" for the 2001-2005 period. Through this program, Greece provides credits to the regional countries in infrastructural, industrial and social restructuring projects. However, Greek firms are given priority (51 percent) in the consortia that carry out these projects in the Balkan countries. Of the 180 billion Drachma, Dr 70 billion goes to Serbia; Dr 25.5 billion to FYR of Macedonia; Dr 25 billion to Kosovo; Dr 24 billion to Romania; Dr 18.5 billion to Bulgaria; and Dr 17 billion to Albania (EIU Country Report, April 2001: 17). In its new role in the Balkans, it seems that

one strategic consideration of Greece is to upgrade the capacity and density of intra-Balkan transportation networks with assistance from the EU and the US-led initiatives towards southeast Europe (see Wallden, 2000: 437).

Greece's remarkable opening to the Balkans/CEECs as an upwardly mobile semiperipheral state, however, is not immune from drawbacks or negative effects (see Labrianidis, 2000 and Wallden, 2000: 440-442). First of all, by concentrating on the less demanding CEECs/Balkan markets, it seems that Greece is turning away from the highly competitive and demanding EU market thus risking a qualitative downgrading in Greece's production structures. Due to the limited income conditions and subsequently the demand for lesser quality products in the Balkan markets, Greek producers supply intermediate quality products with affordable prices, which in turn diverts Greece from upgrading its production structures towards high-technology, high quality and internationally competitive products (in short, core-like products and production structures). In other words, Greek products in the Balkan/CEECs markets compete on the basis of price, not on the quality/differentiation of the product (Wallden, 2000: 440 and Labrianidis, 2000: 458 and 472). Second, the present dominant position of the Greek investors in the region is basically due to the reluctant and "wait and see" policy of the leading Western economies towards the politically and economically volatile Balkans/CEECs region (Labrianidis, 2000: 458). Here, the threat to Greece is that when the Balkan economies are restored, and the domestic and western investors begin to establish themselves in these markets, Greece's comparative advantage will erode and Greek exporters and investors will face increasing competition from their both Balkan/CEECs and their EU counterparts (Wallden, 2000: 440 and Labrianidis, 2000: 476). Third, Greek investments in the Balkans/CEECs, despite a few notable exceptions, are basically labour intensive, small in size and operation, concentrated in commercial activities, present in industries with mature technologies, lack an established brand name, and have no experience in FDI (see Wallden, 2000: 436-437 and Labrianidis, 2000: 468-471 and 479). Furthermore, most Greek firms/investors in the Balkans/CEECs can be described as emigrant entrepreneurs who wants to try their fortune abroad using skills and capital, rather than real foreign direct investors (Labrianidis, 2000: 478). A fourth negative point is that Greek firms lack a clear-cut strategy in the Balkans/CEECs markets, and their basic drive for investing in these regions has been reducing labour cost. The result is that more than 95 percent of the total volume of world-wide Greek FDI takes place solely in the Balkans/CEECs region, and moreover only a negligible part of this amount has been invested in the relatively more

mature markets of Hungary, Poland and the Czech Republic (Labrianidis, 2000: 472-473).

Not surprisingly, semiperipheral Greek state has remained an important and omnipresent actor in the economy in this period too. Accordingly, the other actors in the Greek economic establishment (mainly, financial, business and shipping elite) have continued to arrange their relationship with the state in such a way that protects and promotes their respective interests at the state level (see Tsoukalis, 2000: 35). In other words, fragmented powerful interests (periphery-like and core-like interests) have continued to compete for state favours and power in an institutional environment controlled by the public sector unions, party officials and bureaucrats (see Lavdas, 1997: 55). The economic environment of semiperipheral Greece has thus witnessed the effective hindering of the formation and implementation of state policies for liberalisation and privatisation by entrenched traditional, periphery-like, powerful interests, and the intervention of state in the settlement of conflicts over economic and social issues. In the 1990s, the economic reform policies of the semiperipheral Greek state for a real convergence with the EU were resisted by a number of actual and potential losers, some of whom are politically powerful (see Tsoukalis, 2000: 39-40). The losers include mainly the traditional sectors of Greek economic elite (periphery-like producers) who are protected from foreign and domestic competitors by the state, and whose survival is heavily dependent on public procurement contracts. Another group of losers resisting EU adjustment policies and processes are the public sector trade unions that represent organised labour in the overmanned and relatively high pay, but low productivity, state-controlled firms and utilities. Greek public sector unions have been based on clientelistic practices. They are in close contact with the state and party bureaucracy and in a privileged position in the system: "They [have] special status relating to service, low tax rate, extended subsidisation of a wide range of staff activities and indirect payments" (Liargovas, 2000: 215). Accordingly, they do not want their privileges abolished by reform programs (see also Pagoulatos, 2000: 232). A third major group of losers are the large traditional political class whose survival depends on the continuation of the patron-client relationship with the interest groups and with the society at large.

The financial system in Greece is still largely a credit-based and state-led system that gives the political authority important power in determining the direction and form of industrial adjustment (see Lavdas, 1997: 76). The traditional financial interests in the banking sector and state-owned/controlled banks have resisted privatisation and financial

liberalisation since the early 1990s partly because of competition with the private and foreign banks in the domestic financial market. Industrial interests or the big business, mainly operating in the cement, chemicals, electrical equipment, and textile industries, are highly fragmented and dependent on state favours in credit allocation or public procurement contracts. This makes industrialists, financial elite, state, and party relations very important and highly politicise the economy (see Lavdas, 1997: 80-85). The shipping interests, on the other hand, seem to have a considerable degree of autonomy vis-à-vis the state compared to the others. However, the legacy of sectoral state corporatism, that favours reliable and necessary cooperation between the Greek state and shipowners, remains strong and still determines the shipping policy in Greece (see Lavdas, 1997: 72-79).

State-economic elite relations have entered into a new phase in the 1990s, although the Greek state remained the dominant actor in the economy. The 1989-1990 coalition governments followed the PASOK government's post-1985 policy line of increased consultation with business circles, and in turn, the Federation of Greek Industries (SEV) cooperated with the government. The advent of the New Democracy (ND) government in April 1990 however brought some changes to government-business relations in that the ND now considerably detached itself from traditionally friendly (periphery-like) business and commercial interests (Lavdas, 1997: 177-178). Accordingly, links with business interests were weakened and state support to ailing firms became indirect and less significant. The semiperipheral Greek state took a developmentalist role in the economy once again. The motive behind this policy was probably to accelerate economic modernisation (upward mobilisation in the world-economy) and restructure the uneasy integration process of Greece into the EC/EU. There was indeed a shift in the party platform of the ND from paternalism to neo-liberalism (Lavdas, 1997: 204), and the PASOK governments too increasingly followed this line after 1993.

One of the basic issues between the government and the business elite in the 1990s was the participation of the business interests in the administration and the allocation of the EU's (CSF) structural funds (see Lavdas, 1997: 232-239). The business world demanded more shares for industry related programs from the EU transfers, but the ND government paid more attention on infrastructural projects. It was only in the CSF II that more funds were allocated to industrial projects with the approval of the EU Commission. The business interests however were incorporated in the administration of the structural programs through ELANET, a development consultancy company established in May 1991 and controlled by the state, Federation of Greek

Industries (SEV), the Greek Shipowners Union (EEE), The Association of Greek Banks (EET) and the Federation of Hoteliers (POX). However, the established view among the business circles is that the main beneficiary of the EU structural funds has been the public sector and that this practice must be changed in favour of the private domain (Lavdas, 1997: 239).

The business elite in general supported the privatisation policy of the ND and PASOK governments because they have always demanded the abandonment of the state's role in business. However, in the privatisation process of some of the large state owned companies, e.g. Olympic Airways and Hellenic Telecommunication Organisation (OTE), the role of the business elite and organisations (e.g. SEV) have remained limited because of significant intra-business interest divisions (Lavdas, 1997: 248). In other words, in semiperipheral Greece privatisations come about against the interests of private capital in areas such as "public procurement", "the removal of constraints on competition and market entry", and "incentives for the restructuring other firms" (Lavdas, 1997: 202). Accordingly, in 1993 the PASOK government came up with a privatisation policy package that took in to account the interests of a number of policy-opposing groups (Lavdas, 1997: 209). For instance, the decision to keep OTE (State Telecommunication Group) in the hands of the state satisfied both the procurement beneficiaries in the private sector and the trade unions.

In fact, the underlying motivations of all the Greek governments behind the privatisations have been to improve public finances and reduce deficits, to receive EC funds and loans, to meet the convergence criteria with the EU economic and monetary union, and to attract international investors in the country (Lavdas, 1997: 204). However, in the face of both clashing intra-private sector interests and the priorities in state's agenda, not surprisingly, the (semiperipheral) Greek state has become the central actor in structuring the privatisation process (as is apparent in the OTE's privatisation) and in determining the use of privatisation receipts (in improving public finances and in infrastructural investments), which in turn considerably politicised the issue of privatisation in Greece (see Lavdas, 1997: 212). For instance, the state-privatising agency (OAE), under the influence of the governmental PASOK elements, local MPs, and the Greek Association for Textile Industries, obstructed the privatisation of a major Peloponnesian bankrupt textile manufacturing company, *Piraiiki Patraiki*, for a long time (see Lavdas, 1997: 289).

On the other hand, PASOK governments have carefully avoided a clash with the trade unions in the process of privatisation, and accordingly followed a *sui generis* privatisation policy, called the "Greek model",

whereby the state-owned companies are sold gradually and the government retains its control over the employment policy and appointments (EIU Country Report, July 2000: 23). It is argued that the PASOK government's policy of privatisation has been not to sell more than 49 percent of state companies in order not to provoke the trade unions (EIU Country Profile, 2000: 22).¹²

In fact, it is clear that there are major domestic obstacles to privatisation and economic liberalisation in Greece that make governments move slowly and cautiously. These obstacles have been the traditional entrenched political and economic interests in the system, labour unions, the ruling (PASOK) party members and the electorate (EIU Country Report, January 2001: 21-22 and April 200: 22). It is interesting that in the face of the significant domestic opposition for structural economic reform, the National Economy and Finance Minister of the reformist Simitis government, reminding one of the 1976 statement by the ex-governor of the Bank of Greece, X. Zolatas (see above), warning that "structural reforms would upset many individuals because they demanded a change in ingrained habits and practices" (EIU April, 2001: 19). In sum, in the second half of the 1990s and early 2000s, Greece attempted yet again to upgrade its position in the world-system hierarchy of states. However, in the face of effective resistance from the traditional economic and political elite and keeping in mind the previous unsuccessful post junta economic mobilisation, the success of these reformist policies still remains to be seen.

The Political Environment and Foreign Policy: Early 1990s-2000s

The Political Environment

The political environment, which was considerably instable in the late 1980s and early 1990, witnessed further consolidation of the democratic political system. During three successive electoral periods in less than a year, the old arc enemies the Conservatives and Communists, and later the Conservatives, Communists (Left Alliance) and Socialist parties, established coalition governments for the first time in Greek political history. Accordingly, the traditional divisions between the Greek right and the left were redefined and the political-ideological environment was normalised and further Europeanised. Thus, in the new domestic political environment of the early 1990s-2000s the political struggle has gradually moved to a new platform reflecting the ebb and flow in the economic

environment towards a structural transformation. Freed from its traditional "leftist-rightist" division, the Greek political environment now shifted gradually towards the centre of the political spectrum and formulated its political question directly on the nature and degree of the state-market relationship. In general, the central political question directly and increasingly focused on the redefinition of the power positions of the state and market vis-à-vis each other, that is to say on the role, size, scope, function and morphology of the Greek state (Iokamidis, 1996: 40). The political concerns of the Greek political elite, regardless of their respective political identities in the right or left wing of the political spectrum, has now been primarily concentrated on the issue of either to what degree they should support the belated structural transformation policy (upward mobilisation), or to resist it. That is why it is not surprising to see that the major political conflict in Greece has for some time been dominated by less inter-party, but more of intra-party, conflicts (see Iokamidis, 1996: 34 and 44, and Keridis, 2001: 7-8). The Greek political elite thus clearly divided into "modernist" and "traditionalist" factions, whereby the former aims to reduce the controlling power of the state over the market and the latter aims to maintain traditional state control over the economy.

At another level, this division is illustrated as the division between the modernist pro-EU forces who want to achieve a real convergence with the EU in economic and monetary spheres, and the traditionalists who are resisting change and happy with the Greece's (and their own) peripheral, "free-rider" status in the EU since 1981. In this regard, the central political question of the 1990s and early 2000s in Greece can be reformulated as either integration or marginalisation in the ever changing and deepening EU. In short, a politically dynamic sphere composed of a complex mix of pressure between continuity and change has dominated domestic politics in Greece since the early 1990s in which the forces of modernisation are trying to implant contemporary European values and ways of action into Greek political, economic and social structures while powerful traditional forces (political and economic elites and other actors) resist and reject this change (Featherstone, 1996: 15 and Iokamidis, 1996: 34). In the world-system analysis, this can be defined as the fight between the periphery-like and core-like producers of a semiperipheral state either to maintain or alter the ever-precarious balance of power in the political sphere so as to promote their respective interests. In this process, the state becomes the most important actor, since their interests are promoted most effectively by influencing state policies in the semiperiphery.

The Conservative New Democracy Party (ND) came to power in April 1990 with its liberal ideology redefined in the framework of European liberalism. Since the mid-1980s, the conservatives gradually began to shift from traditional state paternalism to European neo-liberal centre-right ideology, promoting less market regulation (Featherstone, 1996: 11 and Keridis, 2001: 6). Accordingly, Prime Minister Mitsotakis began privatisation and labour market liberalisation as soon as the ND came in to power, but his efforts for a structural reform ended with a little success. The Mitsotakis government was willing, but unable, to realise structural modernisation (Pagoulatos, 2000: 230). Mitsotakis' weak parliamentary majority and the resistance, mainly coming both from within the party and the state bureaucracy, were the main obstacles to the ND's modernisation policy (see Legg and Roberts, 1997: 185 and Pagoulatos, 2000: 228). The statist old guard faction in the ND, headed by Evert who later succeeded Mitsotakis as the head of the party after the 1993 electoral defeat, was in favour of the continuation of the traditional patronage and clientelistic practices and the expansion of public spending and investments. Since the 1993 electoral defeat, the ND has been suffering from internal divisions between euro-liberals (associated with Mitsotakis) and cautious and Gaullist reluctant reformers (associated with the new leader Kostas Karamanlis, Kostantine Karamanlis' nephew) and a traditional populist nationalist faction (Keridis, 2001: 15).

Although PASOK's political platform became less rhetorical and less radical after the mid-1980s, PASOK's political shift in the early 1990s was limited and confined to the policy of "less statism" (Featherstone, 1996: 12). After the PASOK's electoral victory in 1993, the Papandreou government reversed some privatisations initiated by the previous ND government such as the renationalisation of the Athens Bus Company and privatisation of the 49 percent of the management of OTE (Pagoulatos, 2000: 231). It was only after 1996, with the advent of Simitis' reformist PASOK governments to the power, that the socialists began to follow a relatively determined policy of structural reforms and market liberalisation. However, despite his remarkable economic success through economic reform programs especially in fiscal policy, bringing down inflation and making Greece a part of the European economic and monetary union, Prime Minister Simitis and his structural reform policies have not been immune to criticisms from within and outside the party. Prime Minister Simitis' reformist faction in the government and party has been resisted by the strong PASOK old guard (EIU Country Report, July 2000: 7). The divisions in PASOK along these lines deepened and

prominent members of the party and even the government have openly criticised Simitis' reformist policies on the ground that his policies are against the PASOK's socialist ideas, the electorate, and against the trade union movement, a traditional voter base of PASOK (EIU Country Report, July, 2000: 7; January, 2001: 7-8 and 12-13; and April, 2001: 13). Faced with the criticisms of the party members, deputies and even the members of the cabinet such as the Minister of Defence Tsochatzopoulos and Minister of Culture Pangalos (later sacked), (see EIU Country Report, January 2001: 13 and April 2001: 13-14) and the resistance coming from the trade unions and the electorate against the reform policies (EIU, July, 2000: 15 and January, 2001: 7-8), the Simitis government has had difficulties in carrying out its policies of privatisation of the state enterprises, labour market reforms and the liberalisation of the utility markets, and it has begun to show signs of reform fatigue; and Simitis' willingness to shoulder the reform policies has weakened (EIU January, 2001: 7 and April, 2001: 7 and 13).

Indeed, both PASOK and ND have been experiencing political restructuring towards the European centre-left and centre-right parties respectively, both in party ideology and form. Charismatic leadership came to an end, and a younger pragmatic generation with pro-EU credentials (Simitis and his reformist team in PASOK and Kostas Karamanlis in ND) has been gradually replacing the old political class (EU Country Report, July 2000: 13). Yet, the above mentioned effective internal party opposition coming from the old political class in both PASOK and ND still seems to be an important obstacle in front of political renewal in Greece and explains the slow structural transformation process and incorporation of Greece in the EU.

In this environment, not surprisingly, the semiperipheral Greek state, once again, has become the central actor at the stage through which all the other actors have been trying to promote their respective interests. In Greek politics, the resolution of economic and social issues has taken place in a complex social environment whereby political parties, professions, unions, business interests and public sector officials compete with each other for state favours (Mossialos and Mitsos, 2000: 3-4). In this regard, in Greece the state has always been seen as the central mechanism for allocating favours and distributing state resources (Iokamidis, 1996: 45 and Legg and Roberts, 1997: 7). Accordingly, the state provides investment opportunities and distorts economic competition and entrepreneurship. The state favouritism of particular capitalists through subsidies, incentives and public procurement contracts etc., have made control of the state

mechanism a very important issue for all the major actors in the Greek society (Legg and Roberts, 1997: 178). Hence, not surprisingly, in (semiperipheral) Greece, the competition for controlling the state has been strong because whoever controls the state has the power to promote the interests of certain groups and punish others. In this way politics has become a struggle for controlling the state apparatus in Greece (Legg and Roberts, 1997: 199). The political parties representing various interests, and the powerful trade unions, all have directed their activities towards affecting the Greek state and its policies (see Iokamidis, 1996 and Liargovas, 2000: 215). This is because for the Greek political parties the state has been the central mechanism to exercise control over everything from hospitals to universities and to sports (Tsoukalis, 2000: 41). The political have been reluctant to support reform policies, that is, to surrender the state's control over the society and economy (Pagoulatos, 2000: 233).

At first glance, it seems that this division in Greek politics and economics corresponds to the world-system division of core-like producers (representing the modernists) and periphery-like producers (representing the traditionalists), and their struggle to control the semiperipheral Greek state. In this struggle, the impressive fiscal and economic indicators registered since Simitis came to power in 1996, and furthermore his second electoral victory in April 2000, give the impression that core-like producers and social forces have gained an upper hand over their periphery-like counterparts, and thus that Greece has now become an upwardly mobile semiperipheral state moving gradually towards the core region of the world-economy. On the other hand, it is also argued that the recent remarkable economic performance of Greece is due to the Greek state's last minute mobilisation not to be marginalized in the ever-deepening EU (Tsoukalis, 2000: 40), rather than on the success of the core-like producers over the periphery-like producers and forces. In fact, the successful economic policies of the Simitis governments have come, not because of their inherent desirability, but because of their pragmatic necessity in the competitive EU environment (Pagoulatos, 2000: 239). Indeed, both the OECD surveys and EIU country reports show that in Greece the shift towards high-technology, high profit production structures remains low, something which is not expected from an upwardly mobile semiperipheral state. Accordingly, in the words of a senior Greek political economist,

Within the large European market, Greece has the advantage of cheap labour, which reinforces specialisation in labour-intensive sectors and the

deindustrialisation of the rest. The industries reverting to labour-intensive sectors are certainly retrograde, but it is still a kind of specialisation within the context of European division of labour (Vergopoulos, 1995: 128).

It seems clear that the core-like producers and forces are not yet in true ascendance in the Greek political economy in the 1990-2000s period. On the other hand, the process of structural transformation, which was started in the early 1990s, and accelerated and successfully implemented after the advent of pro-European reformist Simitis governments to power, reveals that the Greek state, in the absence of powerful core-like producers but with the decisive assistance of the EU, has once again taken the leading role in the development and integration of the Greek economy in the EU environment. Although the state leadership in the economy of the upwardly mobile semiperipheral states is an alternative strategy for mobilisation towards the core region of the world-economy, in the absence of strong and powerful core-like interests in Greece in the 1990-2000s period, it remains to be seen whether recent successful policies and economic indicators will lead to a shift in the semiperipheral position of Greece towards the core region of the world-economy.

Foreign Policy

All these semiperipheral oscillations in the economic and political spheres are reflected in the foreign policy domain, and accordingly Greece has continued to follow the semiperipheral foreign policy line by going backwards and forwards through the thresholds of upwardly mobile semiperipheral state status of the world-system in the 1990-2000s period. Thus, from time to time Greek foreign policy has revealed the characteristics of an upwardly mobile semiperipheral state in foreign policy, but at other times not, depending on who is the winner in the game of musical chairs between the reformists and traditionalists in the domestic economic and political environments between 1990s and 2000s. Broadly speaking, again, it is only after the Simitis' PASOK governments came power in 1996 that the Greek state, gradually became willing to follow an upwardly mobile semiperipheral foreign policy.

In the latter stages of the contraction period of the world economy (between 1990-2000s), as a semiperipheral state Greece clearly continued to increase its margin of independence from the core states in pursuing its own "national interest" (e.g., Macedonian problem), continuing to assert itself as a bridge to Europe in its region (especially after 1996), aiming to

create privileged and stable markets for (secondary) commercial and economic benefits (Balkans), and engaging in an intensive semiperipheral rivalry with Turkey over the broader region as a whole and on Cyprus in particular. However, it is only in the second half of the 1990s (with Simitis) that Greece began to follow an upwardly mobile semiperipheral foreign policy line based on relatively harmonious relations with its partners in the EU and NATO (to an extent, including Turkey). The new policy line, in turn, has increased Greece's weight and influence in the Western alliance as a whole and in its immediate region, which precipitated the formation of a Greek sphere of influence in the Balkans. Finally in the mid-1990s, Greece has been involved in the management of international/regional problems and issues as a junior partner.

In the first half of the 1990s, Greek foreign policy, in parallel to Greece's unsuccessful performance at upgrading its production structures and its economy, could not follow an upwardly mobile semiperipheral foreign policy line, contrary to the expectations from the "reformist" Mitsotakis's Conservative ND government.

In the sphere of foreign policy, Greece's failure to upgrade its position in the hierarchy of states was demonstrated in its policy vis-à-vis the Yugoslav crises in the 1990s. For instance, Greece openly supported Serbia in the Yugoslavian wars and split with its partners in the European Union over the name and recognition of Macedonia. The EU took Greece to the European Court of Justice during Greek presidency because of the unilateral Greek trade embargo on FYR of Macedonia. Thus, Greece became a part of the problem in the Balkans rather than an intermediary between the region and the EU, or an actor in the management of the Balkan crises.

In the Balkans, Greek foreign-policy sharply diverged from the policies of the EU and US and caused further disharmony in the Western alliance in the early 1990s. First, despite its long established Western credentials, Greek foreign policy preferred to align with the policy lines of the "renewed" but outmoded communist (now socialist) parties in the former Yugoslavia and Bulgaria instead of the newly emerged non-communist contenders (Stearns, 1995: 59 and 62-63). In Bulgaria, Greece declared its preference for the ex-Communist Socialist Party over the Union of Democratic Forces, and in Yugoslavia, Greek governments approached the ethnic nationalism of the Milosevic regime in Bosnia with tolerance despite the fact that its EU partners viewed Milosevic as the most responsible actor in the dramatic ethnic conflicts and wars in the Balkans. In the first half of the 1990s, both the Mitsotakis (ND) and Andreas

Papandreou (PASOK) governments kept the lines open with Milosevic's regime (Glenny, 1997: 75) and Greece became an outspoken partisan for the Serbs. Thus Greece lost its chances of both playing a stabilising regional leadership role during the Balkan crises, and of strengthening its influence and prestige in NATO and the EU (Nicolaidis, 1997: 10). Second, after the disintegration of the Yugoslav Federation, the Greeks developed an argument on "Macedonian irredentism" built upon Greece's historical experiences during the Greek Civil War. They passionately insisted that the Yugoslav Republic of Macedonia must not be recognised internationally under the name of "Republic of Macedonia", and that Skopje must change its constitution because it contained "territorial designs" on Greek Macedonia and also must change its flag for it used the Vergina Star on it, the symbol of the ancient "Greek Kingdom of Macedonia" (see, Legg and Roberts, 1997: 67). However, Greece's messages and arguments over Macedonia were not understood and recognised by Greece's EU partners, and Greece in turn threatened to veto any move by the EU for the recognition of the new republic under this name, and even tried to isolate Skopje both politically and economically by imposing an unilateral economic and trade embargo on this country in 1994. However, both the support given to Serbia and the embargo imposed on FYR of Macedonia isolated Greece diplomatically and politically in the Western alliances; Greece was marginalized and became the odd man out in the EU. Third, Greece was involved in serious bilateral disputes with Albania on the "treatment" of the orthodox Greek minority in Southern Albania in the first half of the 1990s (see Legg and Roberts, 1997: 68 and Stephanopoulos, 1997: 136) claiming that these people were discriminated against and that the Greek Orthodoxy was persecuted in Albania. Moreover, Greece demanded the return of the property rights of the Greek citizens who were expelled from Albania in 1944, and also strongly raised the issue of some 300,000 Albanian illegal immigrants working and living in Greece. The relations between Greece and Albania were further strained in 1993 and 1994 by the deportation of a Greek orthodox clergyman, and the refusal of participation of an ethnic-religious Greek party in the elections by the Albanian government. The Greeks responded by expelling 22,000 illegal immigrant Albanians, and in turn the Albanians responded by reducing the number of diplomats in the Greek embassy in Tirana. Moreover, Greece vetoed EU financial assistance to Albania (Ioakimidis, 2000: 371, endnote 8). Consequently, Greece became a part of the Balkan problem and was isolated by its Western partners.

In the first half of the 1990s, the rivalry with Turkey in the Eastern Mediterranean and the Balkan region became another semiperipheral feature of Greek foreign policy. In fact, Turkey has always been the major rival of the Greeks, and Greek foreign policy has not taken any major initiative without intending to create a more favourable balance of power in the region with Turkey (Stearns, 1995: 60). Hence, Turkey has always provided a prism through which Greek foreign policy measures and evaluates the external environment (Constas, 1995: 72). However, the semiperipheral rivalry with Turkey has become more visible in the post-Cold War transformation period in Greek foreign policy with the dissolution of the Soviet Union and Yugoslavia, and with the emergence of new opportunities for both Greece and Turkey to exploit in the Eastern Mediterranean and Balkan region. Thus the Greeks evaluated the potential of the post-Cold War systemic opportunities through the prism of Greece's rivalry with Turkey, the state "with a superior displacement... that posed insurmountable obstacles to Greece's external balancing pursuits" (Constas, 1995: 79). In this context, Greece has often played the EU card against Turkey through either vetoing the EU decisions favouring Turkey or blocking EU financial assistance to Turkey, or mobilising the EU for condemning Turkey at every opportunity. (Constas, 1995: 78). In this regard, another semiperipheral foreign policy priority of the Greek Government in the post-Cold War period was to promote and realise the accession of Cyprus into the EU - a Turk-free western organisation in which Greece is a full member - and thus to change the strategic balance in favour of Greece in the Eastern Mediterranean. In this manner, the accession of Cyprus to the EU has become a vitally important issue for Greece's strategic calculations (Coulombis, 1998: 16). In the context of this semiperipheral rivalry in the region, in order to strengthen its position vis-à-vis Turkey over Cyprus, Greece developed the idea that there was no difference between the Iraqi invasion of Kuwait and Turkish intervention on Cyprus in 1974 after a Greek sponsored coup for unification (*enosis*). Greece accused the US and the Western Alliance of applying double standards in Cyprus and Iraq - that is, not applying the same principles and same processes that were implemented in Iraq against the Turks in Cyprus (Constas, 1995: 82 and Coufudakis, 1996: 26). Furthermore, the Greeks signed a common defence agreement with the Greek Cypriots that extended Greece's defence perimeter over five hundred miles to the southeast from the mainland - from the Ionian Sea and Albania to Cyprus. The agreement with Greek Cypriots involved bilateral commitments over training, purchasing and production of military hardware, sharing of

defence assets and coordination of military planning (Coufudakis, 1996: 36).

On the other hand, in the Balkans, post-Cold War Turkish-Bulgarian rapprochement worried Greece because it terminated the cordial Athens-Sofia Axis. Greeks developed the idea that Bulgaria should be careful not to alienate Greece because of the high potential for ethnic strife and the threat of Turkish intervention to protect Turkish minority in Bulgaria (Constas, 1995: 90). According to a senior former US ambassador to Greece, Greece's Bulgarian policy in the first half of the 1990s had probably less to do with Bulgaria than with Turkey (see Stearns, 1995: 62). Bulgaria's Turkish minority living in the region adjacent to Greece's Turkish minority was part of the answer why Greece supported the ex-communists in Bulgaria over the non-communist Union of Democratic Forces, the party that committed to granting all rights to the Turkish minority in Bulgaria. The Greeks believed that Turkish and Muslim minorities in the Balkans provided a pretext for Turkish expansionism in the region, and declared that in the post-Cold War period, Greece was encircled by an Islamic arc in the north (Constas, 1995: 91 and Coufudakis, 1996: 31).

In the context of the increasing importance of Turkey in the Eastern Mediterranean and broader Eurasian region, and in the American foreign policy considerations during the Gulf War and later with the emergence of new Turkic states in the Caucasus and Central Asia, the semiperipheral rivalry between Greece and Turkey intensified in the first half of the 1990s. The Greek response came often in the form of emphasising the negative aspects and the shortcomings of Turkey's international role in the region, and cultivated good relations with Armenia, Iran and Syria with which Turkey had problematic relations. According to the Greeks, for instance, Turkey could become involved in the Azerbaijani-Armenian hostility against Christian Armenia, the conditions in Iraq and Iran could lead to religious (Islamic) and/or ethnic (Kurdish) uprisings in Turkey, and so forth (see Constas, 1995: 85). Moreover, perhaps, again, because of this semiperipheral rivalry, Greece initially remained indifferent and/or reluctant towards the Turkish initiative to establish the Black Sea Economic Cooperation Region (BSEC), although Greece was invited to participate and became a member in the organisation from the very start (see Coufudakis, 1996: 38).

In general, in the first half of the 1990s, Greece's relations with the EU and the Western Alliance as a whole deteriorated further due to Greece's disharmonising foreign policy line, especially in the Balkans. Greece, in

parallel with its unsuccessful economic and political performance, did not follow an upwardly mobile semiperipheral foreign policy line and was isolated from the West in this period. In fact, Greece presented itself as the representative of the EU in the Balkan Cooperation meetings in Belgrade (1988) and Tirana (1990) and later attempted to portray itself as the "godfather" of the Balkan diplomacy, while at the same time largely excluding its EU partners from playing a role in the region, a policy that developed into a serious problem between Greece and the EU (Glenny, 1997: 74). Furthermore, Greece's counterproductive policies during the Bosnian crisis and in the Macedonian issue increased the Greece's alienation in Europe and in NATO. It became a common view in EU corridors that Greece did not share European values and goals, and that it was a mistake to have admitted Greece in the EU (Larrabee, 1997: 109). In the eyes of the West, Greek nationalist hysteria in the Balkans (especially in Macedonia), and obsessive and constant preoccupation with Turkey as a "hostile threat", created an image of Greece as a Balkan country that was not fully European (Woodward, 1997: 117-118 and Prodromou, 1997: 130). The inefficient use of the EU structural funds and the long-lasting, unsuccessful adjustment of the Greek economy in the EU environment added further to this negative image of Greece in the West. Thus, in the first half of the 1990s, Greece appeared either unwilling or unable to follow an upwardly mobile semiperipheral foreign policy line, and it became an economic drain and a political nuisance in the EU. Greece was also the only EU member state with unsettled territorial and ethnic disputes with its neighbours, namely FYR of Macedonia, Albania and Turkey (Legg and Roberts, 1997: 64).

However, the second half of the 1990s and the early 2000s have witnessed remarkable improvements in the external relations of Greece. This, combined with the spectacular achievements in the economic (especially in the fiscal policy) and political spheres in the same period, has given the impression that Greece has now indeed entered the upwardly mobile semiperipheral threshold towards the core region of the world-economy. The Simitis governments, in other words, has brought significant changes in the foreign policy sphere too, and thus Greece has repaired its negative image both in the region and in the eyes of its EU and Western partners by quickly following a more accommodating and cooperative foreign policy line, improving its relations with all the neighbours, taking initiatives to solve its bilateral and multilateral problems and disputes, and making substantial efforts to play a stabilising role in the region.

First of all, in the Balkans, Greece has decided to become part of the solution. The solution of the problems with Macedonia began when Greece lifted the unilateral economic and trade embargo against this country, and also, with the American initiative and brokerage, signed an interim agreement with Skopje on the name of "Former Yugoslav Republic of Macedonia" in late 1995. In the second half of the 1990s, relations with Albania were also normalised. Albanian refugees were given work permits in Greece, and moreover political, economic and commercial relations with Albania, FYR Macedonia, Bulgaria and Romania and other new Balkan states improved remarkably (Couloumbis, 2000: 381). Simitis governments have promoted the policy of stabilisation and cooperation in the Balkans through interregional cooperation schemes, such as Inter-Balkan Co-operation and ultimately supported the idea of the incorporation of all Balkan countries into the EU (Ioakimidis, 2000: 364). Greece's Balkan policy has now been built upon the policy of strong interplay between the political and economic pillars and has promoted the idea that economic cooperation facilitates political cooperation and thus peace and stability in the region (Triantaphyllou, 2001: 61). Towards this end, Greece hosted a Balkan summit in Crete in 1997.

Secondly, since the second half of the 1990s, perhaps because of the pro-European Simitis government's advent to power, and in fear of being marginalisation in the Union, the EU has become more and more the foundation of the Greek foreign policy. Greece has increasingly become a compatible member and has defined its regional and international role and foreign policy through and in relation to the EU framework. The strategic aim of Greece is to find a place in the inner circle of the ever changing, enlarging and deepening European Union in the 21st century (see Kranidiotis, 2000). Thus becoming a part of the European Economic and Monetary Union and the Single Currency (EMU) was considered more of a political issue than it was an economic one. It is believed that participating in the EMU and single currency strengthens Greece's role in the wider European architecture, its institutional position in the EU decision making mechanisms and processes, and enhances its position as a stabiliser in the Balkans, Eastern Mediterranean and in the international system as a whole (Triantaphyllou, 2001: 60). It has been acknowledged that the Union is central in the Greek foreign and economic policy through which Greece has strengthened its diplomatic and bargaining power vis-à-vis its neighbours, and it is a vital source of finance whereby Greece draws € 4 billion annually (Kranidiotis, 2000: 33). Thus Greece has increasingly begun to take accommodating lines with the EU in foreign policy sphere,

compared to its negative records in the first half of the 1990s, and has gradually begun to internalise EU's interests and values into Greek foreign policy. Greece has begun to move from the politics of veto to the politics of interest in the EU (Nicolaidis, 2001: 253). The strong willingness and determination of Simitis governments for full integration with the EU in all spheres (which is the strategic objective identified with and illustrated in the slogan of "Strong Greece" in his last electoral campaign), Greece's changing role in the Balkans, and rapprochement with Turkey after 1999 have all indicated that Greece is no longer a divergent and discordant member in the Western alliances and in the EU in particular, and is following a upwardly mobile semiperipheral foreign policy.

Perhaps, improving relations with Turkey especially after 1999 is the most significant indicator of Greece's upwardly mobile semiperipheral foreign policy line. This new policy line vis-à-vis Turkey that has promoted dialogue and cooperation for the first time since the 1950s, was a decisive step forward in upgrading Greece's position in the world-system hierarchy of states. It has been a widely admitted fact that one of the major impediments in front of the modernisation of the Greek political system, democratic culture, and Greece's full integration into the EU, has always been the uneasy nature of the Turkish-Greek relations (see Lavdas, 1997: 253, Mitsos, 2000: 71, 76 and 77 and Keridis, 2001: 18), namely the unsettled major problems with Turkey over the Aegean Sea and Cyprus. It means that without settling those highly sensitive problems, which may easily lead to armed conflict between the two countries, Greece's full integration into the EU will always remain incomplete. In this context, realising the fact that the previous adversarial policy lines followed in relations with Turkey were harmful for Greece's interests in the EU, the Simitis Governments began a policy of dialogue and cooperation with Turkey. As a result of this rapprochement with Turkey that was started in the second half of the 1999, Greece lifted its veto over Turkey's bid for the official candidate status in the EU in December 1999, and bilateral agreements were signed with Turkey in the fields of tourism, trade, illicit drug trafficking, organised crime, environment, culture, education etc. Furthermore, a dialogue was begun between Turkey and Greece on the Aegean problems early in 2002.

Yet, the policy of improving relations with Turkey in late 1999 came, not only for making semiperipheral Greece a concordant member in the Western Alliance and in the EU in particular and thus for consolidating the upwardly mobile semiperipheral state standing, but also as a result of the intensified semiperipheral rivalry over the region between the two

countries in the post-Cold War period (see Tayfur, 2002). The problem for Greece has been Turkey's "attractive and favoured ally status" among most of Greece's own allies (Triantaphyllou, 2001: 61). The increasing strategic importance of Turkey especially in the eyes of the Americans due to the vital US global interests in the Balkans, Middle East, Caucasus and Central Asia (see Larrabee, 2001: 226-231), and the possibility of the Turkish Mediterranean town of Ceyhan becoming the energy terminal for the Caspian oil, and furthermore the Turkish-Israeli rapprochement have all alerted the Greeks to the necessity of balancing Turkey in the region (see Triantaphyllou, 2001: 63-67 and Theophanous, 2001: 184). In this context, Greece has been considering the "special" relations between Turkey and the US problematic for its vital national interests, and views the US with suspicion as a biased interlocutor between Greece and Turkey (Triantaphyllou, 2001: 73 and Theophanous, 2001: 196). Accordingly, contrary to the swift and positive changes in other problematic foreign policy fronts after the mid-1990, relations with Turkey have gone through a series of ups and downs during most of the 1990s, some of which were highly ominous. Despite the Greek approval of Turkish-EU Customs Union agreement in 1995 in return for the EU's commitment to the Greeks for starting the membership negotiations with Cyprus, relations with Turkey were increasingly soured until the second half of 1999. The conflict over the sovereignty of Kardak/Imia islets in the Aegean Sea in which the two countries came close to an armed conflict; the decision of the Greek Cypriot government to deploy Russian S-300 missiles on the island and the strong Turkish reaction; hampering the further development of Turkish-EU relations by vetoing Turkey's candidacy in the EU's next round of negotiations and making Turkey's candidacy conditional on the solution of Turkish-Greek differences in the EU's 1997 Luxembourg summit; retaining the Greek veto over the EU's financial commitments to Turkey emanating from the 1995 Customs Union Agreement (Mitsos, 2000: 76); and not to mention the acute "hegemonic rivalry" over the control of Cyprus (see Theophanous, 2000) were just some of the indications of the characteristic Turkish-Greek semiperipheral rivalry in the Eastern Mediterranean region after the mid-1990s and early 2000s. However, this semiperipheral rivalry with Turkey reached its zenith when Turkey's number one enemy separatist PKK leader Öcalan was given shelter in the Greek embassy in Kenya and captured by the Turks early in 1999. It was only after this fateful moment that the reformist Simitis government launched a policy of rapprochement with Turkey and had the opportunity to curb the power of the old style nationalist group in the state,

government and the party (PASOK) and restrain their influence on the external relations, and moreover sack three members of the cabinet including the Minister of Foreign Affairs.

Another upwardly mobile semiperipheral foreign policy characteristic revealed by Greek foreign policy in the second half of the 1990s and the early 2000s has been Greece's bid to play a bridge role in the historically, geographically and culturally contiguous areas of the Balkans and Eastern Mediterranean (Keridis, 2001: 15). Emphasising Greece's comparative advantages as the more developed country in the region, and as a member of the EU, NATO and the other major Western institutions, the Greeks seek to become the region's link to Europe (Triantaphyllou, 2001: 59) and have declared their intention to play the leadership role in promoting the European values of stability and democracy in the Balkans and Eastern Mediterranean and for the progressive integration of Balkan countries into the European system (Kranidiotis, 2000: 35 and Tsoukalis, 2000: 45). Furthermore, Greek policy makers have extended Greece's bridging role into the economic sphere declaring their strategic aim of making Greece a business and transport centre linking southeast Europe with EU markets in the 21st century (Mamatzakis, 2000: 255). Moreover, like in the Balkans, Greece has declared its active bridging role between the Black Sea Economic Cooperation Region and the EU (Triantaphyllou, 2001: 62).

The economic opening in the Balkans (see the previous section on economy), in turn, has revealed another upwardly mobile semiperipheral state characteristic in Greece, because in this context a zone of major Greek economic sphere of influence has emerged in the neighbouring Bulgaria, FYR of Macedonia, Albania and Serbia, and Romania based on the factors basically of geographical proximity, historical and cultural affinities (Wallden, 2000: 439 and Labrianidis, 2000: 473). As a result, Greece, now freed from historical animosities, has asserted itself as the emerging economic powerhouse of the Southeastern Europe (Keridis, 2001: 11).

A final indicator of Greece's upwardly mobile semiperipheral foreign policy is Greece's increasing role in the management of regional/international conflicts after the mid-1990s. In this period, Greek foreign policy assumed a leading role in promoting peace, stability and good neighbourly relations and aimed at solving the problems in its immediate neighbourhood and beyond, namely in the Balkans and Eastern Mediterranean (Triantaphyllou, 2001: 59). Greece has contributed to the multinational peace keeping operations in Somalia in 1995 and in IFOR/SFOR in Bosnia since 1995; the Greek navy participated in the

NATO and WEU operations in the Adriatic Sea; and the Greek army participated in the international ALBA operation with a full regiment during and after the 1997 Albanian crisis (Corantis, 2001: 4). During the Kosovo crisis, though unenthusiastically, the Greeks opened their ports and roads to the Allied Forces and made its 34th Mechanised Brigade available to the Allied Armies. Greek forces have been serving in the KFOR since then. Furthermore, Greece has started to work with Turkey in the Balkan Co-operation initiative for enhancing the political stability in the region. Greece became one of the donor countries in Bosnia-Herzegovina in 1997 (\$25 million) and extended \$80 million to the civilian population at the start of the crisis in Albania in 1997 (Corantis, 2001: 3). According to the Greek sources, as of mid-2001, in order to promote peace and stability in the region, Greece extended \$1.1 billion in direct outlays to its Balkan neighbours over the last five years and \$589 million is earmarked for the next three years to the region. Finally, Greeks also claim that the scope of Greek foreign policy has broadened, and now it is preoccupied with the problems of countries in Latin America, Asia and Africa as a result of Greece's participation in the European Political Cooperation and EU's Common Foreign and Defence Policy (Ioakimidis, 2000: 364).

Since the second half of the 1990s it seems that Greek foreign policy has considerably shifted towards the European track and is following an upwardly mobile semiperipheral foreign policy line which is overlapping with, and thus not independent from, Greece's successful performance in the economic sphere. It is a fact that the advent of the pro-European, reformist Simitis government to power in 1996 has opened a new era in Greece's semiperipheral development process and foreign policy, but it is still not clear that whether this is a true upward semiperipheral mobilisation or not in the world system hierarchy of states. Viewed from a pessimistic perspective, it seems that Greece's successful economic performance was realised basically in the fiscal sphere but not in the production sphere yet. In other words, Greece has not yet upgraded its technological level to core-like production patterns, and thus the core-like producers have not become dominant over the state policies. Also, the periphery-like producers and the traditional political class still seem to be powerful and still resist change. Accordingly, it is the policies of the Simitis's reformist governments, but not the changing power positions of the economic elite and the majority of the political class, that have brought the fiscal success and entry in the EMU. Similarly, although Greece has developed and is following a policy of accommodation with the EU and the West in the sphere of foreign policy, again, it is not clear whether the

Greeks will be able to continue this policy of "harmony" in the face of increasing Turkish-Greek semiperipheral rivalry over the Aegean and Cyprus, and in relation to the EU enlargement, in the years to come.

However, looking from the optimistic point of view it would also not be unrealistic to say that the successful economic performance might be a positive sign of a true upward semiperipheral mobilisation initiated and supported by the Greek state since 1996. Furthermore, the foreign policy shift towards accommodation with the EU, Balkan neighbours and Turkey; the initiatives to make Greece a bridge between EU and the region, creating a Greek sphere of influence in the Balkans; and taking part in the management of international problems can well be considered the building blocks of the upwardly mobile semiperipheral Greek foreign policy.

Taking into account all the negative and positive aspects in the economic, political and foreign policy spheres, and the ongoing power struggle between the "core-like" and "periphery like" producers and forces, and the central role of the state in Greek semiperipheral development and foreign policy, it still remains to be seen whether Greece will be successful in its struggle to move into the core region of the world-economy in the years to come.

Notes

- 1 The Federation changed its name from the "Federation of Greek Industrialist" to the "Federation of Greek Industries" in 1979 as a result of its changed basis of membership, and also to emphasise its institutional aspect (*Deltion*, 15 May, 1979, No.405, quoted in Lavdas, 1997: 274, endnote 45).
- 2 For instance while Greece's exports to the EC increased from 32.8 percent in 1960 to 47.7 percent in 1977, its imports from the Community increased from 33.6 percent to 42.5 percent in the same period, see Tsoukalis, 1981, p.37 and Mitsos, 1980, p.129.
- 3 This point has recently been proved on the issue of the recognition of Macedonia under this name.
- 4 For information on the EC's considerations in the relations between Turkey, Greece and the Community see Siotis, 1981, pp.100-102; de la Serre, 1979, p.41; and Opinion, 1979, pp.50-51.
- 5 For an account of Greek arguments see Zolotas, 1978, pp.9-14 and Verney, 1987, p.262.
- 6 The stabilisation plan aimed at modification of the wage-price indexation, devaluation of drachma by 15 percent, the tightening of monetary policy and the reduction of public sector borrowing requirement.
- 7 For a detailed analysis of the Greek financial system see OECD, 1986, pp.52-64.

- 8 For detailed information on the ailing and problematic firms see OECD, 1987, pp. 34-36; OECD, 1992, pp.65-68, and various other OECD Country Reports on Greece from 1986 onwards.
- 9 For the rentier, anti-developmental character of Greek industrialists in the 1980s see also Petras, 1987 and Petras et al., 1993.
- 10 For Papandreou's tough foreign policy see Loulis, 1985; Pranger, 1988; and Christodoulides, 1988.
- 11 Greek government's share in the total GDP expenditure on R&D is 46.9 percent compared to the OECD average of 63.1 percent see OECD 2001, p.70, Table 11.
- 12 For major privatisations between 1990-1998, see Pagoulatos, 2000, p.223-234.

Chapter 4

Spain: 1945-1976

Similar to the chapters on Greece, in this chapter and the following one I shall analyse Spain's semiperipheral foreign policy in two main periods within the framework of world-system analysis. Chapter four will address the period between the end of the Second World War and the end of the Franco period in 1976. Chapter five will address the post-Franco period, 1976 to the early 2000s. As noted elsewhere, these two periods roughly overlap with the expansion and contraction periods of the world-economy. I shall begin by demonstrating various semiperipheral characteristics of Spain in the economic and political spheres in the period between 1945-1976.

The Economic Environment

A cursory glance at Spain's political economy in the period between the end of the Second World War and the late 1950s shows that the state intervened extensively in the economy. This intervention was realised in two ways: first, the state favoured the interests of finance capital, and indirectly the interests of the industrial capital, because of the intimate relationship between these two factions of the Spanish economic elite. Second, while creating opportunities for entrepreneurs, the state also took on an entrepreneurial role itself.

In this period, the Spanish state (or the Franco regime) relied on five main instruments of intervention in the economy (see Baklanoff, 1978: 13-37) all of which were adopted after the end of the Spanish Civil War in 1939. These policy instruments were a system of Syndical Organisation; the licensing of industrial investment; the establishment of a large public holding company called *Instituto Nacional de Industria* (INI); exchange controls and other means of direct supervision of external economic transactions; and limited foreign investment opportunity.

The Syndical Organisation, a vertical organisation in which employers and employees were obliged to co-operate, served mainly to regulate wages (Anderson, 1970: 48). It aimed to eliminate class conflict and