

# Contemporary trade policy of greece economics essay



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This essay attempts to show that the contemporary trade policy of Greece has not been simply imposed by the European Union but that, in fact, it reflects the dependent development that the country has undertaken since 1949. Its development and trade policy have been influenced by both structural aspects of the global capitalist economy and the outcome of class struggle at the domestic level. Since the post-war era, Greek trade policy , consisted of letting market forces determine the pattern and composition of imports and exports while no state-led attempt to enhance the country's competitiveness and diversify exports was ever undertaken. This policy resulted in a negative trade performance characterised by an heteronomously determined trade pattern, an import dependence which is not accompanied by an export performance based on the country's comparative advantage and an increasing competitiveness gap regarding core European countries and developing countries from East Asia and the Balkans. Overall, the negative trade performance of Greece is the result of its integration in the global capitalist economy through its European geographical dimension.

### **ABBREVIATIONS:**

EU: European Union

EEC: European Economic Community

ACC: Advance Capitalist Countries

TNCs: Transnational Corporations

## **INTRODUCTION**

In the light of Greece's current debt crisis an analysis of its trade policy and performance can reveal the deeper structural causes that lie behind the massive expansion of its debt. While the analysis of the causes behind the Greek crisis transcend the aims of this essay, we will show that Greece's negative trade performance, and the constant trade balance deficit that accompany it, reflect the post-war adoption of a dependent development, which cannot be excluded from any serious analysis of the contemporary crisis.

One could start the analysis of Greek trade policy at the European level since the harmonisation of Greek tariffs with the EU's external tariffs, the regulation of agricultural production by the Common Agricultural Policy and the representation of European countries in the WTO as a single body imply that any member country's trade policy is shaped at the supranational (European) level. However, an analysis of Greek trade policy as a top-down process imposed by the EU overlooks, firstly, the trends and the dynamics of the Greek economy prior to accession which lead to the current EU-shaped trade policy and, secondly, it omits the fact that each member country's trade performance is affected differently by EU policies due to the divergences in their agricultural and manufacturing sectors. The aim of this essay is to show that in the post-World War 2 era Greece adopted a depended kind of development which was epitomised and deepened by its accession to the EU. The trade policy and performance of the country is a mere reflection of this developmental strategy.

We will, thus, approach the contemporary trade policy of Greece as a result of processes at, both, the national and supranational level. At the supranational level, we will focus on the structural aspects of the global capitalist economy and the situation of Greece in the European periphery, which prevented it from adopting an autonomous capitalist development based on its own productive sector. At the national level, we will stress how some key political events and the outcome of class struggle affected Greek trade.

For the analytical purposes of this essay we will divide the post-war history of Greece in four key periods: the 1949-1967 period which we will call “ The right wing rule”, the 1967-1974 period or “ the military/Junta rule”, the 1981-1985 period, which not only coincides with the full membership of Greece in the EEC but also with the first term of office of the social democratic party of PASOK, and, therefore, this period will be called the “ social democratic experience” and finally the last political phase will be the 1985-present period which will be called the “ Europeanisation phase” and which signals the institutionalisation of Greece’s dependency to the EU through its deeper integration. We will attempt to show how each of these key periods in the political history of post-war Greece influenced and shaped contemporary Greek Trade policy.

This essay is divided in 3 main parts which reflect the three major issues of the Greek trade policy and performance: its heteronomously determined nature, the increasing import dependence and its competitiveness gap. In each of these parts we aim at analysing the historical development of these issues and the influence of the structural and political factors (of the four <https://assignbuster.com/contemporary-trade-policy-of-greece-economics-essay/>

periods mentioned above) upon them. The first part will examine how the global division of labour and Greece's dependency on foreign capital determined the trade conduct of the country. In the second part we will show Greece's failure to base its trade activities around a potential comparative advantage, which led to the dismantlement of its productive sector and the "servicisation" of its economy. The third part will analyse the inability of Greek exports to compete with those from core European countries as well as from Asian and Balkan developing countries along with the State's passive acceptance of this competitiveness gap.

## **PART 1**

The victory of the Hellenic Army (the official army of the kingdom of Greece) over the Democratic Army of Greece (founded by the Greek Communist Party) in 1949 signalled the end of the Greek civil war and secured for at least 15 years the defeat of the Greek social and leftist movement, which emerged during the Nazi occupation when the National Liberation Front was created. Most importantly, for the purpose of this essay, since the possibility of a socialist or sovereign development was excluded by the defeat of the movement, the end of the civil war signalled the onset of a capitalist development which would, ultimately, adopt a dependent character. Indeed, the Hellenic Army was supported not only by domestic right-wing movements but also by the UK and the US since the Greek civil war was interpreted as the first conflict of the Cold War. Therefore, the political (and military) dependency of Greece, along with the political unwillingness of the Greek elites, excluded the adoption of an autonomous economic development and, instead, set the basis for a development based on the

economic dependency to Western European capitalism, which, in turn, shaped accordingly Greece's trade structure.

This means that, besides the existence of protectionist measures, which were permitted by the institutional framework of the immediate post-war international economy, the process of Greece's development was left to market forces. This implies that there was no state-led attempt to diversify exports through a planned and complete (instead of sectoral) industrialisation of the country. In other words, the developmental strategy of Greece was determined externally by the structures of global capitalism and the global division of labour. Indeed, Greece entered the global capitalist market without having first developed, internally, a competitive productive base, unlike most developed countries which first achieved the process of industrialisation at the domestic level through direct state intervention.

This argument is best illustrated by Neo-Listian Political Economy and especially by Chang's historical account of the early developmental process of the US and the UK in which he shows that the state, through public investment in infrastructure and manufacturing, subsidies to exports and import duties on foreign manufactured goods, promoted industrialisation and intervened directly in order to enhance the competitiveness of the country's exports before its liberalisation[1]. Thus, the lack of active state interventionism and infant industry policies (i. e. capitalist development at the national level) prior to Greece's integration to the global economy meant, not only, that the Greek economy would develop as a complement of global capitalism (rather than an integral and necessary part of it) but also implied, de facto, a competitive disadvantage compared to core countries.

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A characteristic of this dependent pattern of development is the foreign-led industrialisation that took place in the country. The characteristic of this dependent industrialisation, which is undertaken by transnational capital, is that manufacturing products are produced for the global market rather than for domestic consumption[2] and thus they do not attempt to diminish the import dependence of the country. Furthermore, Greek capital never undertook a proper process of industrialisation mainly because of the small size of the domestic market (in terms of GDP per Capita) and the very low levels of existing technology (and thus productivity). As a consequence, as in other peripheral countries of the EU (e. g. Spain, Ireland), private investment was greatly absorbed by low-productivity investments such as investment in housing (40% of total private investment)[3].

If we look closely at the dynamic sector of the Greek economy in 1992 (petroleum products, pharmaceuticals, electric-electronic materials, rubber and plastics) we can observe that 15.8% of all industrial firms operating in the sector and with sales over one billion dollars a year were controlled by foreign interests[4]. More remarkably, foreign controlled industries in these sectors (except for electronics) recorded profits which were significantly higher than the ones recorded by Greek firms[5]. This raises the issue of the repatriation of profits and their limited use to the domestic economy. The exportation of domestically created surplus and its negative effect on the current account balance of the country is, for Dos Santos, a chief characteristic of dependent development since it implies a lack of command over domestic production[6].

The most important phase of Greece's dependent industrialisation is the 1965-1973 period which coincides with the Junta rule and which Fotopoulos calls the "Industrial Spring"[7]. During this period the military dictatorship managed to repress the brief radicalisation and mobilisation of the social movement of 1965 (which emerged during the politically turbulent period of "Apostasia") and to suppress unionist activities through violent or legal means. Overall, during the Junta rule the dictatorship offered conditions of political and economic stability which led to an increase in foreign investment from MNCs in the metallurgical, chemical and metal construction industries[8].

These investments, in turn, led to a qualitative change in the composition of Greek exports since the share of Greek manufactured exports to total exports went up from 5.6% in 1964 to 46.4% in 1973[9]. However, not only this industrialisation process was incomplete in character, due to the fact that only some specific sectors benefitted from FDI, it also had a temporary character since, from the early 1980's and on, FDI to Greece has contracted significantly leading to the country's deindustrialisation[10]. The reorganisation of TNCs' productive activities in the 1980's, thus, contributed to the decreasing contribution of industry to Greek GDP from 19.3% in 1971 to 14.8% in 1991 (which corresponds to its 1951 contribution!)[11] and to the decline of the country's share of world trade in manufactured products which decreased from 0.18% in 1990 to 0.12% in 1999[12].

From a liberal point of view, adhering to ideas of cosmopolitanism, the nationality of the capital invested is unimportant, what is important is the performance of the economy as a whole[13]. However, our concern over the <https://assignbuster.com/contemporary-trade-policy-of-greece-economics-essay/>



dependency of Greece to foreign capital does not raise an issue of national identity but, rather, reveals deeper structural issues. Indeed, the brief “ industrial spring” was a result of the restructuring of the productive activities of Western European Capital and the beginning of the deindustrialisation of core European countries rather than the onset of a sustainable industrialisation in Greece. The Junta rule offered the conditions of political and economic stability that were lacking during that time (1968-1973) in Western Europe due to the expansion of wildcat strikes and “ militant wage bargaining”[14].

As Nikolinakos argues, Greece has been bound by the transnationalisation of the productive activities of Western European Capital which ascribed it a particular role in the division of labour within Europe[15]. This means that by undertaking foreign-led industrialisation, Greece depends on the restructuring of TNC activities which occurs either because of subjective (e. g. proliferation of class struggle) or objective (liberalisation of other low-labour cost peripheral countries) reasons. Therefore, foreign-led industrialisation does not set the basis for a sustainable industrialisation and consequently cannot guarantee a competitive export performance in the long term.

## **PART 2**

The very limited industrialisation of Greece and the policy of letting market forces and TNCs’ activities shape the developmental trajectory of Greece had the effect of creating a resource imbalance or what Fotopoulos describes as a “ consumer society without a production base”[16]. This means that

domestic production failed to satisfy domestic demand adequately and thus <https://assignbuster.com/contemporary-trade-policy-of-greece-economics-essay/>

a dependence on imports (especially EU ones) in order to satisfy domestic demand, inevitably, occurred.

For Liberals and free trade supporters, the partial satisfaction of domestic demand by foreign goods is not a bad in itself since its negative aspects (i. e. import penetration, balance of trade deficit) can be offset through a competitive export performance which can be achieved when a country shifts its productive activities around the commodities it produces most efficiently. Thus, both classical Ricardian and Neo-Classical trade theory claim that the reallocation of national productive patterns so as to enhance the country's comparative advantage will have, overall, welfare maximising effects in all countries participating in free trade. For instance, the neo-classical Heckscher-Olin theorem argues that a country opening up to trade will exports the commodities that utilise its most abundant factors of production, which, in fact, constitute its comparative advantage. Similarly, that country would import the commodities that use the most scarce domestic resources. As a result, there will be positive effects both on the consumption and production side since (relative to an autarkic situation) the prices of the exported and imported commodities will increase and decrease accordingly.

In the case of Greece this means that, after the official onset of the trade liberalisation process when Greece signed an Association Agreement with the EEC in 1961, its exports should consist of labour-intensive and agricultural products. Indeed, on the one hand, Greece had an abundant labour force in a sense that it was cheap relative to core European countries (rather than in absolute numbers) due to the labour discipline imposed

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during the right-wing and the Junta rule. On the other hand, it had the largest agricultural sector by European standards since still in 1991 it employed 17.3% of the active population[17]. The import composition, according to the model, should be dominated by capital-intensive goods since Greece was lacking the necessary capital to produce them.

In practice, however, the theory did not apply so smoothly to the case of Greece. In the long term, the country was subject to import penetration in both capital and labour intensive products while its land abundance did not lead to a strategical export promotion of agricultural products to EU countries. Instead, during the 1980's and after the failed attempt to industrialise the country during the Junta rule, Greece expanded its tertiary sector, which has been since then the most important sector of its economy. In other words, Greece has failed to concentrate its trade activities around a potential comparative advantage of its productive sector.

Historically, developing countries have exploited their comparative advantage by enhancing their traditional manufacturing sector since it is unskilled labour-intensive and is characterised by low technology levels[18]. Greek exports of traditional consumer good (textiles, clothing, furniture, processed food and drinks) to the EU did increase by 65.2% between 1967-1973 as a percentage of total exports increase[19]and, thus, were used as an area of comparative advantage. However, this advantage was only temporal since after the accession to the EEC in 1981, this sector faced increasing import penetration. Indeed, between 1981-1987 import penetration in traditional/light consumer goods quadrupled[20]as they were outweighed by similar and cheaper products from East Asia[21].  
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However, besides the structural aspect of the new international division of labour which ascribed the production of these commodities (especially clothing and textiles) to the countries of East Asia, political factors, and, especially, the welfare policies of PASOK during the Social Democratic Experience, influenced greatly the fate of Greek traditional exports. Indeed, in its first term in office, concessions were made to the growing dynamic of the labor movement, which expanded after the fall of the military dictatorship, and wages increased by 7.8% [22]. Therefore, the comparative advantage of labour abundance was lost and resulted in the unwillingness of TNCs to continue investment in Greece's manufacturing sector.

As far as the agricultural sector is concerned, no strategy to enhance agricultural production for export was undertaken and, instead, it was treated as a "residual factor" [23]. This is not only because the Common Agricultural Policy of the EU is the central decision-making organ for agricultural production within the EU and forced the abandonment of various traditional Greek agricultural activities, but also because EU (and world) agricultural products have gained a great penetration within the Greek market. Indeed, already within one year of its accession to the EEC agricultural imports increased by 91% [24]. As a consequence, not only the agricultural trade balance has remained in deficit since accession to the EU, but this deficit has been growing constantly. For instance, from 1994 to 2008 the agricultural trade deficit has increased from 8.6 billion to 43 billion or in other words an increase of 403% while its trade deficit only with the EU has increased by 256% (from 6.2 billion euros in 1994 to 22.2 in 2008) [25].

Therefore, it can be said that in terms of agricultural trade the accession to the EU has increased Greece's food dependency.

Overall, the failure to concentrate in an area of comparative advantage has resulted in an import dependence. This dependence on foreign products can be exemplified through the fact that import penetration (i. e. the proportion of imports to the GDP) increased constantly in the post-war period. from 18.5% in 1950-1959 to 25.9% in 1970-79[26] and went up to 35% in 2002-2008[27]. In addition, in 1950-59 Greek exports covered only 43% of imports and 39% in 1970-1979[28], while this percentage stood at around 30% in 2002-2008[29]. The latter means that the increasing penetration of imports to satisfy domestic demand was not matched by a corresponding increase in the value of Greek exports[30]. These numbers become even more revealing of the Greek dependency on foreign imports and the decreasing importance of exports especially when we compare them to the average percentage of imports covered by exports in the EEC which stood at around 90% in 1990[31] (today these numbers stand at 86% for France and 120% for Germany)[32]33.

Furthermore, the other aspect of the import dependence and the resource imbalance of Greece lies in the incomplete character of its foreign-led industrialisation since, as mentioned above, Greek manufacturing was concentrated in low-value added products which made it increasingly dependent on the import of foreign technology and capital intensive products which have higher value added. In addition, manufacturing in Greece was also concentrated in assembling parts for export and processing raw materials which increased the country's dependency on the import of

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materials and inputs for processing and assembling[34]. For instance, in the dynamic segment of Greek manufacturing (electric, chemicals etc.) the import of raw materials and inputs from other (developing) countries was, significantly, more important than the use of domestic inputs or raw materials[35].

The loss of both land and labour abundance advantages excluded any potential for the enhancement of trade performance based on productive capabilities and lead to the paradox of an agricultural economy transiting to a services economy without any significant industrial transition, as in most core ACCs. Indeed, after the onset of trade liberalisation in Greece, the country's manufacturing sector could not compete with foreign products and, thus, no attempt to reinforce the productive capacities of the country was undertaken. Thus, PASOK during the social democratic experience could not undertake its pro-employment policies by absorbing the surplus labor force (which was until then absorbed by immigration) through an enlargement of the productive sector. Instead, it created new jobs by expanding the public service sector, which lead to the creation of, what (neo-)liberals would characterise as a inefficient/parasitic public sector. Since then, the service sector of the economy has had an expanding tendency and Greek trade has been relying excessively (by EU standards) on the export of services. Indeed, while no other EU member country's export of services account for more than 35% of their total exports, Greek commercial services account for more than 50% of its total exports[36].

### **PART 3**

The loss of the land and labour comparative advantages of Greece due to the structural and political factors mentioned above, resulted in a negative trade performance which is reflected in its constantly increasing trade deficit and the inability to keep up the rate of export growth with the rate of import growth. At the heart of this performance lies a competitiveness gap between Greece and the rest of the world (especially the core EU countries and developing countries).

For Liberals, it is not the conscious political decision to leave the development of the productive capacities of the country to market forces through trade liberalisation policies that led to this increasing competitiveness gap but rather they argue that the problem lies within the state apparatus and its irrational policies. In other words, the negative trade performance is due to extra-economic factors. For example, Pirounakis blames, among others, Greek bureaucracy, the unmeritocratic Greek educational system which prevents entrepreneurialism, the irresponsible welfare policies of PASOK during its first term in office and its consequent inability to maintain a framework for high productivity levels (through labour discipline)[37]. Tsaveas, in a similar vein excludes economic/structural factors as the cause of the widening trade deficit of Greece and argues that, in fact, the country since the 1980's had failed to fully liberalise its market, partly because of its geographical position which did not include any common borders with the EEC members[38].

Alternative approaches might deduct radically different reasons behind the un-competitiveness of Greek trade. As mentioned earlier, for Neo-Listian <https://assignbuster.com/contemporary-trade-policy-of-greece-economics-essay/>

theory the latter can be attributed to the absence of a national development - in the form of active state intervention and protectionism- prior to liberalisation. Similarly, Marxist theory of dependency stresses the inability of developing countries to retain control over their productive resources and to undertake a development based on technological advances, instead of increasing labour exploitation, because of the monopolistic control of technology by imperial countries[39]. For these theories it is, thus, the full integration of developing countries within the international economy that gives them a trade disadvantage rather than their incomplete/partial integration, as Tsaveas argues.

All the theories mentioned above, stress the crucial role of the state either in terms of mismanagement or in terms of its inability to control the developmental trajectory of the country. Thus, it is crucial to conceptualise the function undertaken by the Greek state and its role in promoting (or not) a competitive export performance. For this we will use the “ open Marxist” definition of states as “ political ‘ nodes’ or ‘ moments’ in the global flow of capital”[40]whose aim is to remove barriers to global capital accumulation[41]. The Greek state in the different forms it took in its post-war trajectory has, indeed, undertaken this role. During the right-wing and Junta rule, through its policy of dependent industrialisation and the labour disciplined it imposed, the state facilitated the restructuring productive activities of global capital. Whereas, during the social democratic experience and the Europeanisation phase, due to the abandonment of any attempt to industrialise the country and diversify exports, the Greek state accepted its import dependence and contributed to the facilitation of the flow of imported



commodities through investment in infrastructure (energy, telecommunications, transportation) and the creation of external economies of scale[42].

However, the state, being simultaneously a form of capitalist social relations[43], in the post-Junta Rule period, it reflected the growing force of the union and labour movement by, as mentioned above, increasing wages and employment in the service sector. Therefore, the mainstream liberal critique, while is partially correct in pointing out the increasing labour unit cost, which increased by an impressive 16.6% in 1982 and, overall, by 3.5% in 1974-1989, as a cause of uncompetitiveness, it omits the fact that wages in Greece have been traditionally and significantly lower than in core countries[44]45. This means that the critique can be reversed by arguing that it is the inability of Greek firms to raise their productivity levels to those of core European firms rather than the excessive wage increases that is at the heart of Greece's lack of competitiveness[46].

In turn, this translates into a technological development issue which is the result of, as mentioned above, the monopolistic possession of technology by core countries and is reflected by the higher Research & Development investment in core countries compared to Greece[Share this: Facebook Twitter Reddit LinkedIn WhatsApp