The Politics of Economic Interdependence: An Analysis of Turkish-Greek Economic Relations

ABSTRACT

The last two decades have seen a rapid development of bilateral relations between Greece and Turkey in many areas from tourism to trade owing to the 1999 rapprochement. Despite increasing level of interactions among the two countries and the peoples’, these have not paved the way for the resolution of the bilateral “high politics” issues. The purpose of this research is to account for the current state of economic relations between Greece and Turkey, and how these affect two states’ political relations. Therefore it asks the question of “To what extent do economic ties reflect on the evolution of political relations between Greece and Turkey?” This research will examine bilateral economic relations by evaluating fields of trade, foreign direct investment, energy and tourism interactions between two countries by revisiting liberal and neoliberal approaches of economic interdependence to explore their relevance in the Turkish-Greek case. This study aims: 1. To investigate the reasons behind improving economic interactions, 2. To ascertain the limitations and opportunities in fields of economic interaction, 3. To determine the extent which economic interactions between two countries that can be helpful to transform the relations and whether increasing economic interdependence provide opportunities for the resolution of the political problems.

Introduction:

In the last two decades, relations between Greece and Turkey have improved rapidly in many issue areas from tourism to bilateral trade. This improvement in relations stems both from domestic dynamics in the two countries, and from structural changes in world politics and international political economy. There has been a sharp increase in interactions and exchange between the two countries both at state and non-state level. Despite these, bilateral political problems remain unresolved. A considerable amount of literature has been published on the improvement in Turkish-Greek relations. However, most studies in the field have only focused on high politics issues, failing to explain and focus on increasing economic interactions between two countries at state and societal level. That is, the majority of studies has adopted a realist and/or neorealist understanding of international relations and has scrutinized bilateral conflicting relations over the Aegean Sea, and the Cyprus dispute, rather than bringing into focus improving areas of interaction. This is not to say that security based analyses of Turkish-Greek relations have been proven wrong, or that they are obsolete. Rather they have neglected to take into account more recent, yet important, dynamics giving shape to contemporary Turkish-Greek relations.

The main purpose of this article is to account for the political economy of Turkish-Greek relations by use of a liberal/neoliberal approach of economic interdependence. The main question is the extent to which economic ties reflect on the evolution of political
relations between Greece and Turkey. This article examines bilateral economic relations by evaluating the fields of bilateral trade, Foreign Direct Investment, energy, and tourism between the two countries, which have gained momentum since the 1999 rapprochement. Regarding these, it attempts to revisit the liberal and neoliberal understanding of economic interdependence to explore their relevance on the Turkish-Greek case.

The present study makes contribution to the literature by exploring the deeper features of the political economy of Turkish-Greek relations and offers important and up to date insights into the level of economic cooperation between the two countries, as well as their implications on the political sphere. The thesis is composed of six further chapters. The following part will present the theoretical framework, discussing the liberal and neoliberal theories by focusing on economic interdependence. It continues with review of Turkish-Greek relations and gives an account over recent dynamics in relations by focusing on changes and continuities. Third part accounts for findings of the research, providing a detailed analysis of the designated economic areas under study and demonstrating a synthesis between economic relations and my theoretical focus. Lastly I discuss the key findings in relation to economic interdependence and the current political conundrum.

Theoretical Background:

Research into dynamics between economic and political relations (military conflict in particular) has a long history in International Relations. As mentioned above, according to liberals, states’ domestic characteristics determine the nature of inter-state relations. A great deal of liberal research has focused on the impact of democratic regimes on the international system. With respect to this, the Democratic Peace Theory coined by Micheal Doyle (1983; 1986) has assumed that democracies do not go to war with each other (cited in Zacher and Matthew 1995, p. 122).

Whereas there has been no consensus on the content of Democratic Peace Theory and on the definition of democracies, scholars have provided two types of explanations for Democratic Peace Theory: normative explanation and structural explanation. The first explanation argues that shared values and norms are best to explain peace between liberal democracies (Doyle 1983-1, 1986, p.1160; Maoz and Russett 1992, p.5; Rummel 1979). Liberal democracies are likely to resolve conflicts by resorting peaceful means in the international realm since liberal democratic regimes favor transparency, negotiation and reconciliation in their domestic operations too (Owen 1994, 89-90). Different than the normative explanation, the second type of explanation argues that wars seem unattractive for both citizens and the government. Citizens are unlikely to support governments who choose to launch wars due to the high costs associated with conflict (Zacher and Matthew, p.123; Russet 1993, pp.38.40). Moreover, structurally and institutionally, it is very hard to get support for a decision to go to war when there is a fragmentation of domestic interest groups (Maoz and Russet 1992, p.7). Thus liberal democracies capitalize on economic welfare and international trade rather than military means. This makes the foreign policy of democracies inclined to focus on commercial gains (Doyle 1986; Morse 1976, Rosecrance 1986). Similarly, highlighted by commercial liberalism, trade is a more effortless way for collecting wealth
than making wars. As commercial ties between the states increase, it is likely that use of coercive means in foreign and economic policy making decrease (Moravcsik, 1997, pp.528-530). Thus state’s acts are shaped by domestic and transnational economic actors within the dynamics of the market (Moravcsik 1997, p.528). Commercial liberalism argues that, economic relations, mainly trade interactions, contribute to the stability and order of the international system. This thought has roots in the classical writings on trade theory by Cobden and Schumpeter. When states become profitable in continuing economic relations, it is not desirable to break ties. Therefore the possibility of conflict and war will decrease (Oğuzlu 2014). “The more diversified and complex the existing transnational commercial ties and production structures, the less cost-effective coercion is likely to be” (Van Evera 1990).

Various studies in the literature have examined the impact of trade on peace, war and international conflict. A quantitative approach was employed by many scholars to analyze whether trade fosters peace (Polachek 1978, 1980, 1992) and/or economic interdependence decreases likelihood of political conflict/war (Barbieri 1996; Gelphi and Grieco 2008; Copeland 1996; Mansfield and Pollins 2003; Oneal et al 1996; Morrow 1999; Pevehouse 2004; Oneal and Ray 1997). On the one hand, some scholars found that economic interdependence generates rivalries and political conflict (cited in Mansfield and Pollins 2003, p.1; Barbieri 1996; Barbieri and Levy 1999). On the other hand, many scholars have concluded that increasing economic interdependence discourages conflict and the use of military force (Mansfield 1994; Oneal et al 1996; Oneal and Russet 1997; Russet, Oneal and Davis 1998; McDonald 2004). The common point between all these studies is that, they had focused on a variety of domestic and international factors which determine whether economic interdependence fosters or reduces conflict (Mansfield and Pollins 2003, p.9). While many studies limit interdependence to trade relations (Maoz 2009, p.224), Keohane and Nye (1977) offered a general definition of interdependence:

“Dependence means a state of being determined or significantly affected by external forces. Interdependence, most simply defined, means mutual dependence. Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries” (p.7).

Robert Keohane and Joseph Nye have formed Neoliberal IR in the 1970’s by their seminal studies of Transnational Relations and World Politics (1973) and Power and Interdependence: World Politics in Transition (1977). Keohane and Nye (1973, 1977) criticized traditional realist assumptions in IR which provides narrow explanations of world politics. They state,

“We are not suggesting that international conflict disappears when interdependence prevails. On the contrary, conflict will take new forms, and may even increase. But the traditional approaches to understanding conflict in world politics will not explain interdependence conflict particularly well” (p.7).

In their book Transnational Relations and World Politics, Keohane and Nye (1973) scrutinized the effects of “transnational interactions” on the international system and they illustrated “multidimensional economic, social and ecological interdependence” (p.4). These
Transnational interactions can be classified into 4 groups which are: 1-communication, 2-transportation, 3- finance, 4- travel. It is possible that an interaction may include all these groups at once (Ari, p.360). Therefore transnational interactions and processes involve not only state actors but also involve nongovernmental actors (Keohane and Nye 1972, p.xii). Furthermore these roles are rather blurred that an actor can act as a state or non-state actor depending on the condition. Businessmen/women and students can be example for this (Ari, p.361). In another major study, Power and interdependence: World politics in Transition, Keohane and Nye (1997) examined the patterns of international cooperation by focusing on case studies from International Political Economy (p.15). They state that,

“We sought to construct a way of looking at world politics that helps to understand the relationships between economics and politics, and patterns of institutionalized cooperation, while retaining key realist insights about the roles that power and interests play in world politics” (Keohane and Nye 2001, p.15).

Transnational interactions have an impact on world politics through increasing dependence and interdependence (Keohane and Nye 1973, pp. xvii-xxii). Keohane and Nye (1977) define Interdependence as “situations characterized by reciprocal effects among countries or among actors in different countries” (p.7). International transactions which may be in the form of flow of money, goods and people among nations, are causes for these reciprocal effects (Keohane and Nye 1977, pp.7-8). An interdependent relation in world politics is likely to be effected by constraints, or costs (p.8). In this way interdependence is different than interconnectedness (p.8). Keohane and Nye contest to characterize interdependence as “mutually beneficial” (p.8). They point out that “an interdependent relationship may have such negative consequences that both parties would be quite happy to cease contact with one another entirely, forgoing any benefits that such contact may bring” (cited in Baldwin 1980, p.482). Moreover, an interdependent relationship is not necessarily symmetrical in that asymmetries in dependence might have an impact of power relations in the bargaining process (Keohane and Nye 1977, p.9). For instance, powerful states are likely to adjust quota and tariff rates in terms of shaping international trade relations parallel with their interests (Ari, p.371). As illustrated above, Keohane and Nye (1977) make a distinction between “sensitivity” and “vulnerability” interdependence (p.10). Sensitivity interdependence is determined by the degree of responsivess within a framework of policies. It involves “how quickly do changes in one country bring costly changes in another, and how great are the costly effects?” (p.10). An example of a relationship which is sensitivity interdependent is the way US and Europe were influencded by increased oil prices in 1970’s (p.10). Vulnerability interdependence involves the situation when the framework of policies can be changed if new and alternative policies are available. This change however involves costs of adjusting (p.11). For instance, there are two states who are equally sensitive to oil price changes. If one state can shift to domestic sources at a moderate cost but the other do not have this alternative, the second state is more vulnerable than the other (p.11). This separation is key to understand power sources created by interdependence (p.15). Therefore, state A’s bargaining power over state B depends on state B’s sensitivity interdependence and vulnerability interdependence in this relationship (Ari, p.376).
As often mentioned in their studies, they aimed to integrate realist and liberal approaches by proposing the theory of interdependence (Keohane and Nye 1977, 1987; Keohane 2002). However, they point out that the “complex interdependence” concept can be considered rather liberal. They state,

“We made no attempt to integrate complex interdependence with realist conceptions of power and structure. On the contrary, we set up complex interdependence in opposition to a realist ideal-typical view of world politics. Yet precisely because we insisted that complex interdependence is an ideal type rather than an accurate description of world politics or a forecast of trends, its relevance to contemporary world politics is ambiguous” (Keohane and Nye 1987, p.737).

With respect to this, they define complex interdependence as “a situation among number of countries in which multiple channels of contact connect societies (that is, states do not monopolize these contacts); there is no hierarchy of issues; and military force is not used by governments towards one another “(cited in Keohane and Nye 1987, p.731). Keohane and Nye (1977) present three key characteristics to complex interdependence (pp.20-21).

Firstly, communication (interaction) channels are multiple. There are informal interactions between state elites, among non-state elites and among transnational organizations. That is, there are interstate, transgovernmental, and transnational relations (p.20). As stated “A visit to any major airport is a dramatic way to confirm the existence of multiple channels of contact among advanced industrial countries” (p.21). Many actors from different countries i.e. banks, multinational firms, bureaucrats, businessmen/women have been in interaction with one another through multiple ways and those elites have an influence on both domestic and interstate relations (p.21). Furthermore, these non-state actors, according to Keohane and Nye (1977) can serve as a bridge between states through acting as “transmission belts, making government policies in various countries more sensitive to one another” (p.21).

Secondly, there is an absence of hierarchy among issues in a state’s foreign policy agenda. It is not possible for military and security issues to dominate the agenda due to the excess of multiple issues. The division between domestic and foreign policy issues is blurred. Thus these multiple issues need to be dealt by several government departments and at different levels (p.20). As presented “when there are multiple issues on the agenda, many of which threaten the interests of domestic groups but do not clearly threaten the nation as a whole, the problems of formulating a coherent and consistent foreign policy increase” (p.22).

Thirdly, military power loses its higher importance (relevance). As stated, “military force is not used by governments toward other governments within the region, or on the issues, when complex interdependence prevails” (p.21). Traditionally survival is the major objective of all states and military force is the ultimate guarantee for survival (p.22). However military force would not be relevant to solve economic problems when there is a complex interdependent relation (p.21) and it cannot be relevant for reaching economic welfare (p.23).
Taken together, all approaches that have been presented provide new angles to catch up with changes in world politics. Most studies on Turkish-Greek relations have proposed a structural analysis based on realist/neorealist assumptions. The main weakness of these traditional analyses is that they fail to explain the changing global political and economic environment or relations between Greece and Turkey. Although they may provide important insights in examining continuities, they do not engage with current dynamics of relations. For example, the level of interdependence between Greece and Turkey today is certainly higher than as was in the 1980’s. Therefore I use liberal approaches of interdependence. It is not wrong to say that when there is blurring divide between domestic and foreign policies under interdependencies, political and economic relations will set ever more entangled with one another. As suggested by Democratic Peace Theory literature mutual commercial gains between two liberal democracies decrease the possibility of use of military force towards each other. Similarly, commercial liberalism highlights economic interactions’ role in the redefinition of state interests that may pave the way for more cooperative relations. Further, trade vs. conflict theories focus on under what conditions and whether economic interdependence fosters or reduces the likelihood of conflict. By adding interdependence theory into the picture, a more comprehensive analysis will be achieved since interstate relations are more “pluralistic, complex and fragmented” (Moravcsik 2009, p.245, in Milner and Moravcsik). All of the studies reviewed here are applicable to the Turkish-Greek case since they acknowledge importance of the economic interactions. Not only they have been touched by similar approaches but they also have displaced a core insight of realism: “the autonomy of the political” (Moravcsik, p.246). While the interdependence theory is my main focus, I find it useful to add other mentioned theories into focus since they all somehow examine impact of economic interactions on the political.

Overview of Turkish Greek Relations:

A considerable amount of literature has emerged around the themes of Turkish-Greek relations for several decades. The literature can be basically divided into two time periods: Pre-2000’s and post-2000. Before 2000’s, research into relations between Greece and Turkey was mainly concerned with security issues. Thus the focus of these studies had been the Aegean and Cyprus conflicts combined with NATO and US elements (Sonyel 1977; Aristotelous 1983; Couloumbis 1983; Clogg 1983; Sander 1985-1986; Kourvetaris 1988; Bahcheli 1990; Veremis 1991; Aydin 1997; Bahcheli et al 1997). In the post-2000’s, the literature has become more diversified in terms of variety of topics and approaches. Similar with past studies, the dominant theoretical approach in the literature has been realism. With regard to this, realist approaches have characterized Turkish-Greek relations as rivalry with a focus of ‘high politics’ issues and providing a state-centered analysis (Couloumbis & Ifantis 2002; Dokos & Tsakonas 2003; Larrabee & Lesser 2003; Aydin & Ifantis 2004; Ifantis 2005). However, there has been an increasing amount of non-state centered literature on Turkish-Greek relations due to opportunities provided by Europeanization, globalization and the rapprochement processes. A number of researchers explored the EU’s role in bilateral relations (Rumelili, 2005, 2007; Çelik & Rumelili, 2006; Öniş & Yılmaz, 2008; Birden & Rumelili, 2009). Some examined the role of the civil society initiatives to create bonds of
Turkish-Greek friendship by showing cases from universities, think thanks, business communities to local municipalities (Belge, 2004; Özel, 2004a; Ker Lindsay, 2007; Karakatsanis 2014, Çuhadar et al 2015), whereas others focused on media discourse in bilateral relations (Özgüneş & Terzis, 2000; Lazarou, 2009). Thus, a good number of scholars examined the 1999 rapprochement and it’s aftermath (Gündoğdu, 2001; Heraclides, 2002; Rumelili, 2003; Anastasakis, 2004; Aydın & Ifantis, 2004; Economides, 2005; Evin, 2005; Ifantis, 2005; Ker-Lindsay, 2000, 2007; Küşku, 2008; Önış & Yılmaz, 2008; Ganapati et al, 2010; Grigoriadis, 2012; Koukoudakis, 2013; Karakatsanis, 2014). Recent developments in bilateral economic interactions have heightened the need for the study of the political economy of relations. Several scholars adopted a political economy approach to Turkish-Greek relations (Liargovas 2002; Kollias et al 2003; Pantsios 2007; Papadopoulos 2008; Tsarouhas 2009; Kutlay, 2009) and looked into economic cooperation between business communities (Özel 2004a, 2004b).

The 1999 Rapprochement and Afterwards

Although Turkish-Greek relations were highly tense in the 1990’s as a consequence of 1996 Imia/Kardak episode, 1997 S-300 missiles and 1999 Öcalan crises, 1999 became a turning point for positive change in Turkish-Greek relations. In 1996, tension escalated between two countries over a small islet in the Aegean Sea which brought them to the brink of war. In 1997, another crisis emerged when the Republic of Cyprus announced it intended to install Russian S-300 missiles system. Turkey perceived this negatively and stated that such an installation would be reciprocated (Oğuzlu 2003, p.53). Tensions continued until Greek Cypriot president Clerides’s decision to install the missiles to Crete instead (Kotelis 2013, p.207). Furthermore in 1999, PKK leader Öcalan was arrested with Greek Cypriot passport after he took shelter at the Greek Embassy in Kenya. The Öcalan crisis caused huge frustration in Turkey towards Greece. Those highly distressed years became a wake up call for two countries and proved that it was necessary to stabilize relations.

The 1999 Turkish-Greek rapprochement was realized through the decisive role played by the influential Foreign Ministers of the two countries, the symbolic faces of this rapprochement: George Papandreou and İsmail Cem. Thus the twin earthquakes that hit İzmit on August 17 and Athens on September 7 provided an opportunity for people and civil society organizations in both countries to create new societal perceptions that fostered the realization of the already started rapprochement process. Although the rapprochement process did not spill over into resolution of the Cyprus and the Aegean problems, significant developments have been realized especially in the field of ‘low politics’. Nine bilateral agreements were signed on tourism, culture, finance, technology and science, sea transport, protection of investment, fight against international organized crime and illegal immigration (Kılıç 2000, pp.385-444). Moreover, a set of Confidence Building Measures was introduced right after the 1999 Helsinki Summit. Those measures aimed to improve relations between military and government leaderships to decrease the likelihood of armed tension (Grigoriadis 2012, p.123).

In the 2000’s dialogue between the two countries has improved significantly. After the Justice and Development Party’s (AKP) election in 2002, Prime Minister Simitis
communicated to meet with his counterpart (Simitis 2005). Erdoğan paid a visit to Athens in 2002 when he was not in office officially due to domestic legal obstacles. In 2004, Erdoğan made an official visit to Athens to meet newly elected Prime Minister Karamanlis. During his time in Greece, Erdoğan visited Western Thrace to meet with Turkish minority representatives, which had symbolic significance. During the Prime Ministry term of Tayyip Erdoğan and Kostas Karamanlis, the friendship environment was reflected at popular level. However Karamanlis remained more passive due to his domestic constituents (Oniş and Yılmaz 2008, p.146) and remained lukewarm towards a resolution of the Aegean disputes (Grigoriadis 2012, p.130). In 2006, then foreign ministers Dora Bakoyannis and Abdullah Gül agreed to strengthen relations further. They thus agreed that cooperation on the economy should accelerate (Kuşku 2008, p.164). A breakthrough event happened in 2008 when Prime Minister Karamanlis visited Turkey. This can be regarded as a positive development in relations since Karamanlis became only the third Greek PM who visited Turkey (Kotelis 2013, p.225). With PASOK’s victory in 2009, Papandreou became PM and visited Turkey to attend informal meetings. Then in 2010, Erdoğan paid an official visit to Greece during which the two countries signed 21 agreements. Those agreements included start of Greek-Turkish High Level Cooperation Council to meet every year with the participation of the two Prime Ministers and other ministers from governments (Kotelis 2013, p.248).

As mentioned by Tzimitras (2009), while there is always agreement among the two countries that bilateral relations should be reorganized within the new international context, political elites have continued to be obsessed with old positions and concerns (p.239). Both countries have been far away from making compromises for the resolution of the problems. This is one of the reasons that prevent building institutionalized cooperation between two countries as in the case of Franco-German rapprochement. In this regard Elias Clis argues,

“The Franco-German model is often mentioned; however, it seems hardly relevant in our situation. Both countries named had digested the consequences of the long strife and the needs of the new era, while post-war Germany, in particular, totally abandoned any revisionist element when addressing the future. A genuine Franco-German paradigm cannot apply as long as one side perceives the other- not without justification, I might add – as trying to change the status-quo defined by treaties and International Law, when the traumatic period of conflict had ended”.

Both Greece and Turkey have not abandoned their positions on the issues of conflict. This prevents any improvement in high level talks and to accomplish a result out of those meetings. The post-1999 rapprochement period therefore remains limited with the positive climate on surface. After the rapprochement process, security issues between the two countries were swept under the carpet. Given the good level improvement of relations compared to the past, Greece and Turkey did not see an instant need to touch on high politics issues which require certain concessions.

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1 This visit was among Erdoğan’s visits to EU countries to get support for Turkey’s membership and to set a date for accession negotiations.
2 Interview with Elias Clis
The High Level Cooperation Council meetings held since 2010 can be considered as an important development in bilateral relations. The first meeting of the council was held in Athens in 2010 with the participation of Prime Ministers, Foreign Ministers with more than 300 people, including approximately 200 businessmen from the two countries\textsuperscript{3}. In 2013, a second meeting was held in Istanbul and the third one in December 2014 in Athens. The fourth meeting is expected to be held in 2016\textsuperscript{4}. Those council meetings are important to provide environment of discussion for both political circles and business elites from the two countries.

However the lack of resolution to political conflicts has been limiting further improvement of relations. For instance, the discovery of gas reserves on Cyprus shores becomes more problematic with unresolved Cyprus conflict. Energy issues have certainly a potential of creating both cooperation opportunities and competition. The Greek Cypriot hydrocarbon explorations have begun in early 2000s and the RoC signed delimation agreements with Egypt, Lebanon and Israel to make search on their “exclusive economic zone”. In 2011, it was announced that 5 to 8 trillion cubic feet of natural gas were discovered (Gürel and Tzimitras 2014, p.84). While hydrocarbon findings can act as a game changer in the Cyprus conflict and Turkish-Greek relations, they may also be another missed opportunity due to conflicting issues on the ownership of the gas. On the one hand, hydrocarbons can be instrumental for the socio-economic transformation in the island (Gürel and Tzimitras 2014, p.83). Solving the Cyprus problem can open the way for exporting gas via pipeline to Turkey so that Cypriots can export their gas (Faustmann 2014, p.80). Therefore Cypriots, Greece and Turkey can cooperate on providing gas to Europe. The supply of cheap natural gas from Cyprus can be an incentive for Turkey to support a resolution (Faustmann 2014, p.79). Yet the Greek Cypriot hydrocarbons exploration has antagonized the Turkish Cypriots as well as Turkey (Gürel and Tzimitras 2014, p.85). Turkey reacted by dispatching an exploration vessel to the Greek Cypriot-claimed waters. Therefore, absent of political consensus and cooperation, gas issues are likely to cause further conflict, if cooperation areas cannot be established between Greece, Turkey and Cyprus.

**Turkish Greek Economic Relations:**

The political and economic developments over the last 16 years in the two countries and in the world economy are important to capture the trajectory of bilateral economic relations. Firstly, after the 2001 economic crisis, the Turkish economy has shown considerable resilience and strength. This is evident when we look at growth rates, trade or FDI figures. For instance, the annual growth rate of Turkey reached to 9.2% in 2009 (see table 1). Turkey’s total trade volume increased 243 071 million dollars in 2009\textsuperscript{5}. Turkish exports to the EU increased to 41 364 962 dollars in 2005 from 15 664 421 dollars in 2000 (see table 2). Likewise, the trade to GDP ratio has shown a gradual increase over the last two decades (see table 3). FDI inflow to Turkey has also improved in noticeable values (see table 4). Yet

\textsuperscript{3} See \url{http://www.mfa.gov.tr/relations-between-turkey-and-greece.en.mfa}


\textsuperscript{5} \url{http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/InternationalTrade.aspx}
Turkey needs to improve education, income and infrastructure in country-wide to be in more advantageous position to attract FDI (Deichmann et al 2003, p.1777). Moreover Turkey’s difficulties to generate long term FDI make the country vulnerable since it depends on volatile short term capital flows6.

Until the crisis, Greece had maintained high GDP growth rates and living standards. Yet the country joined the Economic and Monetary Union (EMU) in 2001. In light of the Europeanization of its foreign policy in the 1990’s, Greece has aimed to expand its economic ties with the Balkan countries. For instance in the 1990-1998 period, approximately 95% of the Greek FDI out-flow was directed towards Albania, Bulgaria, FYR Macedonia and Romania (Kalogeresis and Labrianidis 2010). This became possible with a change in the economic system of eastern and southern European countries combined with their geographic proximity to Greece. Banking and manufacturing were among the most significant Greek investments. Greece’s growth rates between 2000 and 2005 were averaging at 4%7. FDI inflows to Greece had increased similar to Turkey8. The desirable conditions of the world economy, like liquidity in the post-9/11 and low interest rates, provided opportunities for both Greece and Turkey to enhance their economic activism. Turkish-Greek economic relations have also benefited from this positive trend (Kutlay 2009, p.112).

With the 1999 rapprochement, a new page was opened for relations between two countries. The developments in the post-1999 process, paved the way for the expansion of economic interaction between two countries. Firstly, a series of agreements were signed on related issues on the economy and trade, tourism, culture, and civil society. For instance 16 agreements were signed in 2001 and 2002. Exploratory talks on resolution of the Aegean disputes started in 2002. In this sense, the agreement signed to prevent Double Taxation in 2003 was very important for a turn in economic relations. This agreement allowed for the elimination of serious administrative problems that hinder business between the two countries. In this way the boost of trade became easier.

In retrospect, the origins of the economic relations can be traced back to 1980’s where we see both state level and civil society level initiatives to enhance economic relations. Greek and Turkish businessmen like Theodore Papalexopoulos, Costa Carras, Nikos Ephthimiades, Şarık Tara, Rahmi Koç and Osman Kavala had played an active role in bringing the two sides together (Özel 2004, p.152). The Greek-Turkish Business Council/Turkish-Greek Business Council was established in 1988 as an outcome of the Davos process. At that time, 91 businessmen/women met to cooperate on a number of sectors. This opened the way for a short-term cooperation between business elites among the two countries which had been damaged by political conflicts between two countries. Therefore until the 1999 rapprochement, bilateral tensions had restricted the economic cooperation between business circles. For example, during the Greek-Turkish Business Council’s meeting in Thessaloniki 1997, a group of extremist Greeks protested and attacked the Turkish businessmen. Another

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6 See David Edgerly, “Comment: Foreign capital could be the answer to Turkey’s debt woes” http://www.ft.com/intl/cms/s/0/a0987938-4efe-11e4-a1ef-00144feab7de.html#axzz44GgXVMvT
7 See World Bank Data http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG
8 See World Bank Data http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD
example can be the resignation of Rahmi Koç from his President position to the council after the Öcalan crisis. In 1996, the Customs Union (CU) agreement was signed between Turkey and the EU which facilitated Turkey’s trade with the EU and helped modernize its industry. Thus it revealed expectations for economic cooperation and presented opportunities to increase economic relations between Greece and Turkey. However, political tensions were limiting the favorable environment and they prevented cooperation process to be improved.

Table 1: Annual Growth rate % of Greece and Turkey, selected years

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<tr>
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<th>Greece</th>
<th>Turkey</th>
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<tr>
<td>1985</td>
<td>2.5%</td>
<td>4.2%</td>
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<tr>
<td>1990</td>
<td>0.0%</td>
<td>9.3</td>
</tr>
<tr>
<td>1995</td>
<td>2.1%</td>
<td>7.9%</td>
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<tr>
<td>2000</td>
<td>4.2%</td>
<td>6.8%</td>
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<tr>
<td>2005</td>
<td>0.6%</td>
<td>8.4%</td>
</tr>
<tr>
<td>2010</td>
<td>-5.5%</td>
<td>9.2%</td>
</tr>
<tr>
<td>2011</td>
<td>-9.1%</td>
<td>8.8%</td>
</tr>
<tr>
<td>2012</td>
<td>-7.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2013</td>
<td>-3.2%</td>
<td>4.2%</td>
</tr>
<tr>
<td>2014</td>
<td>0.7%</td>
<td>2.9%</td>
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</tbody>
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Source: World Bank

Table 2: Turkey’s Trade with EU, in US dollars

<table>
<thead>
<tr>
<th>TURKEY</th>
<th>Export to EU</th>
<th>Import from EU</th>
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<tbody>
<tr>
<td>1980</td>
<td>1 668 007</td>
<td>3 145 970</td>
</tr>
<tr>
<td>1985</td>
<td>3 509 054</td>
<td>4 535 215</td>
</tr>
<tr>
<td>1990</td>
<td>7 485 235</td>
<td>10 597 223</td>
</tr>
<tr>
<td>1995</td>
<td>12 206 750</td>
<td>18 024 576</td>
</tr>
<tr>
<td>2000</td>
<td>15 664 421</td>
<td>28 526 902</td>
</tr>
<tr>
<td>2001</td>
<td>17 545 567</td>
<td>19 823 457</td>
</tr>
<tr>
<td>2005</td>
<td>41 364 962</td>
<td>52 695 793</td>
</tr>
<tr>
<td>2008</td>
<td>63 390 419</td>
<td>74 407 779</td>
</tr>
<tr>
<td>2009</td>
<td>47 013 415</td>
<td>56 508 918</td>
</tr>
<tr>
<td>2010</td>
<td>52 934 452</td>
<td>72 391 053</td>
</tr>
<tr>
<td>2011</td>
<td>62 589 257</td>
<td>91 439 406</td>
</tr>
<tr>
<td>2012</td>
<td>59 398 377</td>
<td>87 657 462</td>
</tr>
<tr>
<td>2013</td>
<td>63 039 810</td>
<td>92 457 992</td>
</tr>
<tr>
<td>2014</td>
<td>68 514 370</td>
<td>88 783 651</td>
</tr>
<tr>
<td>2015</td>
<td>64 008 890</td>
<td>78 668 832</td>
</tr>
</tbody>
</table>

Source: TUIK

**Table 3:** Trade in Greece and Turkey (% of GDP)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>40</td>
<td>37</td>
<td>58</td>
<td>51</td>
<td>59</td>
<td>62</td>
<td>64</td>
<td>68</td>
</tr>
<tr>
<td>Turkey</td>
<td>31</td>
<td>44</td>
<td>43</td>
<td>47</td>
<td>52</td>
<td>58</td>
<td>58</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: World Bank

**Table 4:** FDI flows to Turkey 1996-2014, in million dollars

|--------|-----------|------|------|------|------|------|------|------|------|------|

Source: Turkish Ministry of Economy

1-Bilateral Trade:

Trade is the most manifest and simple area of economic interaction between countries. Trade statistics are beneficial to reveal the degree of commercial relations and the characteristics of interdependence, if any. Trade emerged as the first economic activity to respond to the improvement in political relations between two countries (Papadopoulos 2008, p.12). Turkish-Greek trade integration has become apparent with growing import and export
rates since the 2000’s. Trade has become increasingly important for both economies since the 1990’s. For instance as table 3 illustrates, in 2000 trade constituted 58% of GDP in Greece and 43% in Turkey. In 2014, it reached to 68% in Greece and 60% in Turkey. Bilateral trade remained on the margins until the post 1999 period. This was rather peculiar if we consider the geographic proximity of the two countries. The volume of trade between the two countries was 9,789,0 million dollars in 1950, 1,934,7 dollars in 1960, 4,220,7 dollars in 1970 and 73,545,5 in 1980 (Şen 1987, pp.6-21).

According to a World Trade Organization (WTO)’s report, in merchandise trade Greece ranked 62th country in exports and 48th in imports over 200 countries. Turkey ranked 31 in exports and 21 in imports in 2014\(^\text{10}\). While the share of Greek exports in Turkey’s foreign trade was 0.9% in 1954-1974 period and imports was 0.2 %, the share of Turkish exports in Greece’s foreign trade was 0.4% and imports was 0.4%. In that period therefore we can state that there was a symmetric, non-consequential trade relation between the two. Between the 1980 and 2000 period, there was not much of an improvement compared to the previous period. The share of Greek exports in Turkey’s foreign trade were calculated at 1.1% and imports at 0.6%, while the share of Turkish exports in Greece’s GDP was calculated at 2.1% and imports at 0.9% (Ege 2003, p.116). Between 1974 and 1980, political tensions, especially Turkey’s Cyprus intervention, had an adverse impact on trade relations. For instance, the volume of trade dropped to 986,8 thousand dollars in 1975 dollars from 36.039,5 million dollars in 1974, which was the lowest of all time since 1923 (Şen 1987, pp.19-21). However we did not see such a dramatic decrease in trade in 1990’s tensions between two countries despite the negative political and economic environment. On the contrary the volume of trade had increased during 1990’s.

Table 5: Greece’s exports partners, 2014 (Millions US Dollars)

<table>
<thead>
<tr>
<th></th>
<th>Country</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Turkey</td>
<td>4,294.09</td>
</tr>
<tr>
<td>2</td>
<td>Italy</td>
<td>3,305.89</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>2,385.54</td>
</tr>
<tr>
<td>4</td>
<td>Bulgaria</td>
<td>1,873.72</td>
</tr>
<tr>
<td>5</td>
<td>Cyprus</td>
<td>1,775.37</td>
</tr>
</tbody>
</table>

Source IMF Data

Although Turkey’s trade with EU had improved significantly in 1990’s compared to previous years\(^\text{11}\), this could not be possible for Greek-Turkish trade due to political problems. With improving relations, the volume of trade between the two countries for the first time reached more than 1 million dollars in 2003 with a total of 1,348,144 dollars (see table 6). In retrospect Greek and Turkish political elite had actively supported the increase in trade volume between the two countries. For instance it is written in the letter sent by foreign minister George Papandreou to foreign minister Ismail Cem in 1999:


\(^{11}\) See Table 2.
“Trade between our countries has greatly increased over the past years. Let us therefore see how we can enhance this momentum to our mutual benefit. Among other things we could examine the possibility of concluding bilateral economic agreements for instance an agreement on preventing double taxation. Our business communities, who have shown leadership in Greek-Turkish relations, could also contribute positively to our discussions on economic cooperation”.

Indeed the double taxation issue mentioned in the letter was very crucial, as it had prevented the boost of trade between the two countries. Political intention by itself was not enough to expand economic relations. Administrative and bureaucratic adjustments were necessary too. The agreement on preventing Double Taxation of 2003 which came into force in 2005 clearly showed the willingness of two the parties to overcome obstacles (Tsarouhas 2009, p.46).

In 2006, Prime Ministers Karamanlis and Erdoğan indicated their desire to see an increase in trade volume (Kutlay 2009, p.99). In 2008, Erdoğan stated, “We want to consider the upcoming era as window of opportunities. Either in political, military, economic, commercial or cultural fields, I believe that this process will be realized”. Similarly during his visit to Athens in 2012 to meet Prime Minister Samaras, foreign minister Davutoğlu demonstrated his political will to see an increase in the trade volume to 10 billion dollars.

As illustrated on table 6, the volume of bilateral trade has expanded momentously. By 2008 it had reached 3 413 370 billion dollars. However it decreased and remained below 3 billion dollars in 2009 and 2010 as a result of the impacts of the global economic downturn. In the years between 2011 and 2013, the volume of trade had increased, despite the fact that Greece was in the midst of a serious financial crisis. In 2013, it reached 5 643 463 billion dollars, which was the highest number over recorded.

In terms of products, Greek exports mainly consist of, manufactured products (32.9% in 2014) and fuels and mining products (45.6% in 2014). Similarly Greek imports consist of manufactured products (49.2% in 2014) and fuels and mining products (36.7% in 2014). Turkish exports mainly consist of manufactured products (78% in 2014). The fuels and mining products and manufactured products are important commodity groups of Turkish imports. With 1996 Customs Union agreement with the EU, Turkey eliminated tariffs on manufactured products that importing from the EU which paved the way for a significant increase.

When we closely look into the import-export ratio of the two countries, a differentiated picture emerges in terms of level of importance and the sectors of trade. Firstly in terms of sectors, Greek exports to Turkey in the post-1999 period have focused mainly on petroleum, plastic and raw cotton products. The petroleum products and raw cotton constitute

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12 See on [http://www.bbc.co.uk/turkish/europe/story/2008/01/080124_karamanlisupdate.shtml](http://www.bbc.co.uk/turkish/europe/story/2008/01/080124_karamanlisupdate.shtml)
14 See [https://www.wto.org/english/res_e/statis_e/statis_e.htm](https://www.wto.org/english/res_e/statis_e/statis_e.htm)
15 See [https://www.wto.org/english/res_e/books_e/trade_profiles15_e.pdf](https://www.wto.org/english/res_e/books_e/trade_profiles15_e.pdf)
a majority of all exports. Turkey has been Greece’s first exports partner since 2012\textsuperscript{16}. EU members Italy, Germany, Bulgaria and Cyprus follow Turkey. In 2000, Turkey ranked 5th, in 2005 6th, in 2010 4th and in 2011 3th. According to 2014 data, Turkey’s share was 12.16\% in total exports. Turkey certainly presents a significant export market for Greece and Greek products, which creates an asymmetric relationship between the two countries. Turkey’s import from Greece quadrupled between 2008 and 2014. Turkey’s export to Greece, however, did not go much above the 2008 value of 2 429 968 million dollars.

Turkey’s export to Greece has been more diverse. Various industrial products ranging from fuels, chemicals, plastic or rubber, textiles and clothing, stone and glass, metals, machineries have been exported. Between years of 2005 and 2014, Greece ranked 14th importing country for Turkey. The top countries were Russia, China, Germany, USA and Italy (between 2005-2014)\textsuperscript{17}. Therefore, Greece is a less important market for Turkey than Turkey for Greece. This asymmetry can create vulnerabilities in terms of economic interdependence between the two countries. The lack of diversity in Greek exports to Turkey as illustrated on the table 8 can also be problematic. As Papadopoulos (2008) states, Greek exports to Turkey have vulnerabilities since they can be heavily affected by external economic factors, such as global price fluctuations (pp.14-15). The lack of diversity prevents flexibility when there is an external pressure that might damage transactions.

In 2015, the volume of trade between the two countries dropped to 2 993 069 billion dollars. This large fall emerged as a result of the imposition of Greek capital controls as well as a decrease in world oil prices. While Turkish imports from Greece were heavily affected by dropping to 1 731 340 from 4 043 839 million dollars, Turkish exports to Greece remained almost the same compared to 2014. This clearly indicates the importance of economic stability for the evolution of trade relations.

Table 6: Turkish Bilateral Trade with Greece, in selected years, in US dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>Import from Greece</th>
<th>Export to Greece</th>
<th>Balance of Trade</th>
<th>Volume of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>430 780</td>
<td>298 237</td>
<td>-132 543</td>
<td>729 017</td>
</tr>
<tr>
<td>1998</td>
<td>319 751</td>
<td>370 039</td>
<td>50 288</td>
<td>680 790</td>
</tr>
<tr>
<td>1999</td>
<td>287 556</td>
<td>406 794</td>
<td>119 238</td>
<td>694 350</td>
</tr>
<tr>
<td>2000</td>
<td>430 813</td>
<td>437 725</td>
<td>6 912</td>
<td>868 538</td>
</tr>
<tr>
<td>2001</td>
<td>266 254</td>
<td>476 095</td>
<td>209 841</td>
<td>742 349</td>
</tr>
<tr>
<td>2002</td>
<td>312 462</td>
<td>590 382</td>
<td>277 920</td>
<td>902 844</td>
</tr>
<tr>
<td>2003</td>
<td>427 743</td>
<td>920 401</td>
<td>492 658</td>
<td>1 348 144</td>
</tr>
<tr>
<td>2004</td>
<td>594 351</td>
<td>1 171 203</td>
<td>576 852</td>
<td>765 554</td>
</tr>
<tr>
<td>2005</td>
<td>727 830</td>
<td>1 126 678</td>
<td>398 848</td>
<td>1 854 508</td>
</tr>
<tr>
<td>2006</td>
<td>1 045 328</td>
<td>1 602 590</td>
<td>557 262</td>
<td>2 647 918</td>
</tr>
<tr>
<td>2007</td>
<td>950 117</td>
<td>2 262 655</td>
<td>1 312 538</td>
<td>3 212 772</td>
</tr>
<tr>
<td>2008</td>
<td>1 150 715</td>
<td>2 429 968</td>
<td>1 279 253</td>
<td>3 413 370</td>
</tr>
<tr>
<td>2009</td>
<td>1 131 065</td>
<td>1 629 637</td>
<td>498 572</td>
<td>2 760 702</td>
</tr>
</tbody>
</table>

\textsuperscript{16} Source: IMF Data

\textsuperscript{17} See TÜİK.
Foreign direct investment is another field of economic interaction which gives an account of the depth of economic relations between the two countries. It is the deepest form of inter-state economic cooperation (Papadopoulos 2008, p.28). The connections founded due to FDI are likely to be long lasting and more persistent (Kutlay 2009, p.102). Foreign direct investment flows and stocks between Greece and Turkey had traditionally remained low despite their geographical proximity. To foster cross border investment between the two countries, agreements on Mutual Protection and the Promotion of Investment were signed in 2001 (Tsarouhas 2009, p.46). On the one hand and until 2006, there were not much investment flows between Greek and Turkish markets. On the other hand, in retrospect both Greece and Turkey had faced the problem of attracting limited FDI from third countries. For instance, between 1980 and 2000 the total volume of FDI Turkey could attract was not more than 10.3 billion dollars (Kutlay 2009, p.103). However this changed in the 2000’s as Turkey attracted more than 20 billion dollars FDI in 2006 and 2007 alone (see table 4).

The acquisition of Finansbank by the National Bank of Greece (NBG) was the main reason for the dramatic increase in 2006 and 2007. The NBG investment was highly important for Greek-Turkish FDI flows due to several reasons. The Greek banking sector had established a significant presence in Balkan countries in the 1990’s. NBG acquired 46% of Finansbank with an amount of 2.77 billion dollars\(^\text{18}\). In 2007, NGB raised its stake to 89.44% by paying 2.25 billion dollars (Papadopoulos 2008, p.30). The acquisition proved NGB’s confidence in the Turkish market (Tsarouhas 2009, p.47). The acquisition was generally welcomed with positive reactions in both sides of the Aegean. According to an opinion poll conducted by Kappa Research of Greece with households in Athens and Istanbul (April, 9 2006), 64.1% of Turks and 73.4% of Greeks viewed NGB’s acquisition of Finansbank positively (Papadopoulos 2008, p.47). The acquisition was generally welcomed with positive reactions in both sides of the Aegean. According to an opinion poll conducted by Kappa Research of Greece with households in Athens and Istanbul (April, 9 2006), 64.1% of Turks and 73.4% of Greeks viewed NGB’s acquisition of Finansbank positively (Papadopoulos 2008, p.31). Moreover, 80.9% of Turks and 73.1% of Greeks answered positively when they were asked if they would like to see more Turkish-Greek investments as such (Papadopoulos 2008, p.31).

On the other hand, reactions of economic chauvinism were also present among both Greek and Turkish commentators which saw such deals as a threat to their national interests. For instance, the financial stake of the Greek Church in the NBG attracted attention by the

Turkish media. However, the NBG-Finansbank deal paved the way for other Greek companies who would like to benefit from similar deal (Tsarouhas 2009, p.47). Such big investments can be significant in encouraging investors to push for further investment opportunities. With respect to this, the Greek Eurobank EFG agreed to acquire 70% of Tekfen Bank in 2006 with 182 million dollars. Tekfen Bank was a rather smaller bank compared to Finansbank. However, the deal demonstrated the Greek interest in the Turkish banking sector. Furthermore, Greek Alpha Bank and Turkish Anadolu group agreed to establish a joint holding company. The two partners agreed to have a 50% stake each and the deal included Alpha Bank’s ownership of Alternatifbank. However, the Turkish Banking Regulation and Supervision Agency (BDDK) blocked sale. The official explanation of the veto was that Alpha Bank cannot fulfill article 8 of the Turkish Banking Legislation, which stipulated qualifications for the founders of the Bank. National concerns were revealed as the real reason behind the blocking of the deal when unidentified sources in the BDDK mentioned issues such as “national integrity and security concerns”. It was revealed later that, the fact that a member of the Alpha Bank’s board had previously served as head of the Greek Intelligence Services became problematic. This example demonstrates the importance of distrust between the two countries, persisting after the rapprochement. In 2012 Eurobank EFG left the Turkish market by selling Eurobank Tekfen to Burgan Bank of Kuwait due to the deepening economic crisis in the country. Similarly in 2016, NGB agreed with the Qatar National Bank to sell Finansbank with a price of 2.75 billion euros. By the end of 2010, there were 439 companies with capital originating from Greece. According to latest 2015 data, this number had reached 868 companies.

Turkish investment to Greece could not reach high levels when compared to Greek investment to Turkey. One reason for that might be Greece’s wider problem of attracting FDI. This stems from the small size of the Greek market and tax regime being problematic as well (Papadopoulos 2008, p.29). In 2005, the Turkish clothing and footwear companies: İpekyl, Mavi, İnci and Gizia entered the Greek market by opening up retail outlets in Athens. Within seven years, İpekyl, Mavi, İnci, Koton and Gizia had exited from the Greek market. The reasons behind those companies’s leave are mostly related with Greece’s economic downturn rather than being about political problems. For instance, İpekyl’s Chairman mentioned stagnation of business in the country and his pessimistic expactations for the future.


See Banking Law, Article 8 for details, [www.itb.org.tr/english/5411.doc](http://www.itb.org.tr/english/5411.doc)


of the Greek economy\textsuperscript{30}. Similarly, Gizia Chairman stated that, “We had made a great effort for 4 years. The economic crisis erupted when we were in a good condition. However we think that the economy cannot get better for 10 years”\textsuperscript{31}.

In 2007, the Turkish Ziraat Bank acquired approval to open two branches in Athens and Komotini which were opened in 2008 and 2009 respectively\textsuperscript{32}. In 2010 Ziraat Bank opened a new branch in Xanthi and another in Rhodes in 2011. Other than these, there was a failed joint venture initiative to establish an “Aegean Investment Bank” to support further economic cooperation between two countries. This initiative came from the Greek-Turkish Chamber of Commerce chaired by Panagiotis Koutsikos and the chair of İzmir Chamber of Commerce Ekrem Demirtaş in 2005\textsuperscript{33}. It was aimed to establish the bank starting with 100 000 000 Euros capital stock. Also the bank aimed to first open branches in Athens and İzmir and then to spread to cities like Ankara, İstanbul, Patras and Thessaloniki\textsuperscript{34}. However it could not be realized and the reasons behind the failure are ambiguous.

The Greek crisis is another factor that has restricted FDI inflow into the country. In the post-2008 period, FDI inflows to Greece decreased by 38% compare to the previous 6 years\textsuperscript{35}. Total FDI capital inflow decreased 35.3% in 2014 compared to 2013. Similarly, the net inflow decreased by 40.7%\textsuperscript{36}. Other than the banking sector, Greek marinas attracted considerable Turkish investment in recent years. In 2012, Doğuş Group’s D-Marin company entered the Greek market by establishing partnerships with Lamda Development and Kiriacoulis Mediterranean Cruises Shipping\textsuperscript{37}. D-Marin first bought 50% of Flisvos Marina in Paleo Faliro, Athens\textsuperscript{38}. In 2013 D-Marin added Gouvia (Corfu), Lefkas (Lefkas) and Zea (Pireaus) marinas to its portfolio by acquiring a 51% share through its partnership with MedMarinas S.A of Kiriacoulis group\textsuperscript{39}. Similarly, in 2012 Koç Group’s travel unit Setur won a state auction to operate the Mytilini marina for 40 years along with the Hellenic Duty Free of Folli Follie Group\textsuperscript{40}.

For Greek investors, investing in Turkey has been attractive due to some characteristics of the Turkish economy. The Turkish market is large and has seen improving

\textsuperscript{30} See http://www.haberturk.com/ekonomi/makro-ekonomi/haber/502805-yunanistan-bitmis-terk-edecegim
\textsuperscript{31} See http://www.radikal.com.tr/ekonomi/turkler-yunanistanandan-kaciyor-1053660/
\textsuperscript{33} See http://arsiv.ntv.com.tr/news/343743.asp
\textsuperscript{35} See http://www.economy.gov.tr/portal/faces/home/disliiskiler/ulkeler/ulkedetay/Yunanistan/html-viewer-ulkeler?contentId=UCM%23dDocName%3AEK-161041&contentTitle=Do%C4%9Frudan%20Yabanc%C4%B1%20Yat%C4%B1r%C4%B1m%C4%B1lar&_afrLoop=85575061407065&_afrWindowMode=0&_afrWindowId=15139e4f5m_1%140%3F_afrWindowId%3D15139e4f5m_1%26_afrLoop%3D85575061407065%26contentId%3DUCM%2523dDocName%253A%0A%0A
\textsuperscript{36} See http://www.enterprisegreece.gov.gr/default.asp?pid=21
\textsuperscript{37} D-Marin Group Brochure, retrieved from Mehmet Numanoğlu
\textsuperscript{38} See http://www.hurriyetdailynews.com/yunanistan-da-gumun-adami-ferit-sahenk-22112031
\textsuperscript{39} See http://www.sabah.com.tr/ekonomi/2013/01/09/dogustan-dev-marina-hamlesi
\textsuperscript{40} See http://www.ekathimerini.com/141324/article/ekathimerini/business/mytilene-marina-auction-won-by-turkish-group
macro-economic conditions. Thus is has huge youth population and it bridges Europe with East and Asian economies. Those provide incentives for Greek investment to Turkey. There are also negative characteristics that might be discouraging. These are the possibility of political and economic instability, high taxation problem and bureaucracy. Makgrianni mentions that high taxes for the agriculture products and alcohols prevent Greek entry to Turkish market.\(^{41}\)

For Turkish investors, Greece mainly offers a transition route to European markets. Various characteristics have led Turkish investors to invest in other neighbor countries like Bulgaria and Romania. Bulgaria and Romania seem much more attractive for Turkish investments, as more than 2 thousand Turkish firms are operating there.\(^{42}\) There are some general problems for investing in Greece faced by Turkish investors. The small size of the market, difficulties with Greek public administration, a lack of investment incentives and economic instability caused by the crisis are among them. The fact that Turkish businessmen are non-EU citizens, have caused difficulties regarding visa and work permits. To address this problem the Greek government adopted law 3386\(^{43}\) in 2005 to make arrangements easier for non-EU citizens. However, the new law could not remove all obstacles. For instance to benefit from the new law, it is necessary for non-EU citizens to invest more than 300 000 euros in year (Kutlay 2009, p.105). Moreover Turkish investors prefer countries in the region like Bulgaria and Romania which have low production and labor costs. According to Bilgen, Turkish investors might face administrative problems when they invest in Greece; however the unresolved political problems have no impact on them.\(^{44}\)

**Table 7:** Greek FDI flows to Turkey, (US Dollar millions)

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</tr>
</thead>
<tbody>
<tr>
<td>Greek FDI to Turkey</td>
<td>3.2</td>
<td>4.7</td>
<td>14.7</td>
<td>2 854.1</td>
<td>2 566.4</td>
<td>42.9</td>
<td>4.4</td>
<td>635.6</td>
<td>524.8</td>
<td>860.4</td>
</tr>
</tbody>
</table>

Source: OECD Statistics

**Table 8:** Greek companies investing in Turkey between 2003-2014

<table>
<thead>
<tr>
<th>Date</th>
<th>Investing Company</th>
<th>Industry Sector</th>
<th>Industry Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2003</td>
<td>Ridenco</td>
<td>Textiles</td>
<td>Retail</td>
</tr>
<tr>
<td>January 2004</td>
<td>Intramex</td>
<td>Metals</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>April 2004</td>
<td>Fine Foods</td>
<td>Food and Tobacco</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>December 2004</td>
<td>Kleeman Asansor</td>
<td>Industrial Machinery</td>
<td>Sales, Marketing and Support</td>
</tr>
<tr>
<td>October 2006</td>
<td>Sato Group</td>
<td>Consumer Products</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>November 2006</td>
<td>Nireus</td>
<td>Food and Tobacco</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>May 2008</td>
<td>Mellon Group of Companies</td>
<td>Business Services</td>
<td>Business Services</td>
</tr>
</tbody>
</table>

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\(^{41}\) Interview with Vicky Makgrianni  
\(^{42}\) Interview with İsmail Tulukçu  
\(^{44}\) Interview with Tevfik Bilgen
Table 9: Turkish FDI inflow to Greece (in million euros)

<table>
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<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkish FDI to Greece</td>
<td>-0,1</td>
<td>-0,5</td>
<td>-0,3</td>
<td>0,0</td>
<td>-0,9</td>
<td>1,2</td>
<td>-0,2</td>
<td>-0,5</td>
<td>-0,7</td>
<td>2,5</td>
<td>12,5</td>
<td>6,3</td>
</tr>
</tbody>
</table>

A negative (-) sign means a decrease in net direct investment.

Source: Bank of Greece

3-Tourism:

Tourism interactions are as important as bilateral trade and FDI flows between the two countries and can be indicative for the level of economic relations. Firstly, tourism interactions involve wider circles of society, not only business and government elites as is the case of trade and investment. Tourism paves the way for wider societal interaction which enables daily communication between the two societies. In this way societies become more familiar with each other. Therefore tourism is not only beneficial for economic reasons but can also be utilized as a source of interaction among people and cultures. Given the geographical proximity of two countries, cooperation in the tourism sector creates opportunities for both countries. Cooperation in the tourism sector has been supported by two countries since the rapprochement process.

As stated, Turkish-Greek economic cooperation in the tourism sector has exhibited advantage for both countries and can create a win-win situation. Tourism is highly important for the two countries’ economies. Therefore first increasing tourist flows between two countries and secondly promoting joint tours for tourists from China, Japan, India, South Korea and Brazil would be beneficial for both Greece and Turkey45.

According to a World Tourism Organization (UNWTO) report, Greece and Turkey are among the world’s top destinations for tourists. While Turkey ranked 6th in terms of international tourist arrivals in 2014, Greece is the 16th most visited country. In 2014, 22 million tourists visited Greece which constitutes 23% increase compare to 2013. Arrivals to Turkey increased by 5% compared to 2013 that 39 million tourists visited the country46.


Tourism makes a significant contribution to total GDP in the two countries. In 2015, tourism constituted 17.9% of GDP in Greece and 10.6% of GDP in Turkey47.

The number of Greek and Turkish visitors who visit each other’s country has increased enormously since the 2000’s. For instance, Greek visitors arriving to Turkey reached to 830,841 in 2014. This number is notable if we consider that only 218,092 Greek citizens visited Turkey in 2000 (see table 1). 741,037 Turkish citizens visited Greece in 2014 and 898,919 in 2015 compared to 170,019 in 2003. This increasing trend between the two countries can be explained both by inter-state initiatives and business level cooperation. Moreover, for Turkish visitors Greece became the second most visited country after Georgia in 2014 and 2015. While İstanbul, Bodrum, Çeşme, Marmaris and Black Sea region have been the main destinations for Greek tourists visiting to Turkey48, Athens, the Greek islands, Thessaloniki and Kavala are the preferred destinations for Turkish visitors49.

Although tourism provides significant economic benefits, it also has limitations. As pointed out by Papadopoulos (2009), tourism is a typical “buyer’s market”. Therefore it allows people to easily shift to other destinations in the world with no cost (p.296). Therefore tourism is open to influence by political instability in the host country concerned. For instance tourism revenues are likely to decrease when an incidence like a terrorist attack happens. Likewise, violent protests can affect the tourist flow negatively. These political uncertainties can create competition between two countries in tourism field. When political instabilities emerge, the two countries offer alternative destinations for each other. For instance, Greece’s political and economic climate caused a decline in tourism bookings from Germany in the first quarter of 2015 which benefited countries like Turkey and Spain50. Similarly, terrorist attacks in Turkey directed tourists to alternative destinations like Greece51. Turkey’s tourism revenues are likely to be faced negative consequences due to current tension with Russia which may benefit Greek tourism52.

In 2001, an agreement on tourism cooperation on tourism was signed between Greece and Turkey among other agreements. The agreement aimed to promote tourism interactions between the two states. It also called for tourism associations in two countries to cooperate on relevant matters such as the Hellenic Association of Travel and Tourist Agencies (HATTA) and the Association of Turkish Travel Agencies (TURSAB). In 2006, the two tourism Ministers signed a memorandum to establish new ferry routes and air routes, to encourage private tourism initiatives and to cooperate in sea tourism (Papadopoulos 2008, p.298). Also the Greek-Turkish Forum on Tourism has been held several times in the two countries to foster interaction. In 2011 the Tourism Forum was held through the initiative of the Hellenic Ministry of Culture and Tourism, the Turkish Ministry of Culture and Tourism as well as

47 World Travel and Tourism Council data http://www.wttc.org/datagateway/
48 Thessaloniki Fair Report
50 See http://www.ekathimerini.com/197300/article/ekathimerini/business/political-economic-instability-turns-german-tourists-away
52 See http://www.ft.com/intl/cms/s/0/6146d0e6-9f5b-11e5-beba-5e33e2b79e46.html#axzz3z5DN48pU
TURSAB and HATTA\textsuperscript{53}. For instance during the sideline meeting of the forum in 2011, the two Ministers Pavlos Geroulanos and Ertugrul Gunay signed a protocol on promoting cooperation on tourism\textsuperscript{54}.

As can be seen from the table, the number of Turkish citizens visiting Greece has been relatively smaller than the number of Greek citizens visiting Turkey. The reason for this can be explained through the Schengen visa regime. Greek citizens are allowed to visit Turkey without visa requirements since 1985 (Özel 2004b, p. 152). This was a result of Özal-Papandreou period’s rapprochement initiative. However, the Greek government did not reciprocate such a move due to concerns regarding illegal migration\textsuperscript{55}. Moreover Greece’s participation in the Schengen agreement transferred visa regulations to the Schengen regime\textsuperscript{56}.

Steps toward regulating the visa regime have been taken by both governments. In 2010, Greece removed the visa requirement for citizens with a Green passport\textsuperscript{57}. The Turkish government actively pushed for changes in visa regulations\textsuperscript{58}. However skeptical views had come from the Greek side on the visa issue\textsuperscript{59}. With the negative impacts of the Greek crisis, Turkish visitors became more attractive. In 2012, the Greek government initiated “visa easiness” for the summer period in several Greek islands. This allowed Turkish citizens to get a short term visa (15 days) right in the ports by paying 60 euros. This started on Rhodes island and continued with Kos, Mytilini, Samos and Chios islands\textsuperscript{60}. However some criticism came from the Turkish side regarding visa easiness and its limitations\textsuperscript{61}. In 2013, this visa easiness continued from April 30 to October 30 by also including Midilli (Lesvos), Sakiz (Chios), Sisam (Samos), Rhodos, Istantköy (Kos), Meis and then Simi islands\textsuperscript{62}. Those initiatives had a profound impact on flow of Turkish visitors to Greece. With this regard, former Tourism Minister Olga Kefalogianni stated,

“It is definitely true that ease of travel brings people from neighboring countries closer. And this is what we want to see. We are all for the easing of travel conditions for Turks. For this reason we are working to find ways to make visa requirements within the framework presented by the Schengen Agreement easier when it comes to tourist movement between countries”\textsuperscript{63}.

\begin{thebibliography}{99}
\bibitem{TURSAB} http://www.tursab.org.tr/tr/tursabdadan-haberler/8-yunan-turk-turizm-forumu_6484.html
\bibitem{HATTA} http://greece.greekreporter.com/2011/10/14/greece-and-turkey-sign-tourism-cooperation-protocol/
\bibitem{GreenPassport} Green passports are given to public officials, state employees, former ministers and parliamentarians etc. http://www.hurriyetdailynews.com/default.aspx?pageid=438&n=visa-free-greece-for-turkesc-back-on-the-agendaunder-discussion-2010-05-07
\bibitem{GreekVisa} See more on http://www.sabah.com.tr/turizm/2012/06/09/yunanistan-gitmek-artik-cok-kolay
\bibitem{GreekVisa2} See more on http://www.todayszaman.com/national_visa-free-regime-with-greek-islands-no-picnic-for-travelers_282938.html
\bibitem{GreekVisa3} http://www.mfa.gov.tr/yunanistan-adalarina-vize-kolayligina-iliskin-vatandaslarimiza-duyuru---26-nisan-2013.tr.mfa
\bibitem{GreekVisa4} See more http://www.todayszaman.com/interviews_greece-seeks-further-cooperation-in-tourism-with-neighbor-turkey_301254.html
\end{thebibliography}
Cooperation on tourism has long been supported by tourism associations and local administrations in both Greece and Turkey. The activities of HATTA and TURSAB and the cooperation between Greek islands and Turkey’s Aegean coast are significant in this sense. Local cooperation steps to promote the two countries’ tourism capacities were present even in the 1980’s and 1990’s. Greek-Turkish friendship festivals, town twinning between municipalities had been practiced (Karakatsanis 2014, p.242). In 1985, the mayor of Dikili (small coastal town in Turkey) Osman Özgüven and the mayor of Greek island Lesvos Stratis Pallis organized an Art and Culture Festival in Dikili (Rumelili and Birden 2009, p.319). Another example can be the Association of the Municipalities of Aegean Coast which brings Greek and Turkish municipalities together to discuss environmental problems in the Aegean Sea (Toksöz 2003, p.103). Cooperation in the tourism field had benefited from the Greek Turkish Civic Dialogue Programme which was launched in 2003 and 2004 through EU funding. For instance, two organizations from Lesvos Island and the Municipality of Altınoluk initiated a project to promote alternative tourism, traditional products and the local cuisines (Rumelili and Birden 2009, p.323). Local municipalities in the two sides of the Aegean have organized Turkish-Greek friendship festivals in their towns both to boost tourism and to showcase their respective cultural similarities. Also town twinning has become widespread between Aegean municipalities to promote Greek-Turkish cooperation, especially after 1999. By 2004, more than 20 towns had signed twinning agreements (Toksöz 2004, pp.104-105). Some examples are: Alexandroupolis and Edirne, Chios and Çeşme, Nea Fokaia and Foça, Karşıyaka and Kordelio, Komotini and Yalova. In Kuşadası in 2005, HATTA and TURSAB signed a protocol to establish a joint council to develop joint tours for tourists, especially from China and the USA (Papadopoulos 2008, p.297). Moreover in Antalya 2006 they signed another protocol on cooperation, this time during the Greek-Turkish Tourism Forum. Tourism fairs which have been held in Athens, İstanbul, İzmir and Thessaloniki have become increasingly fruitful places for potential cooperation between the Greek and Turkish tourism sectors. Owing to fairs, new business connections can be established between two the peoples. Moreover, tourism fairs are beneficial to make advertisements and presentations about tourism destinations and tourism firms that may foster cooperation opportunities.

**Table 10:** Total contribution of Tourism to GDP in %

<table>
<thead>
<tr>
<th>Year</th>
<th>Greece</th>
<th>Turkey</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>17.6</td>
<td>12.0</td>
</tr>
<tr>
<td>2006</td>
<td>17.8</td>
<td>10.7</td>
</tr>
<tr>
<td>2007</td>
<td>17.5</td>
<td>10.1</td>
</tr>
<tr>
<td>2008</td>
<td>16.8</td>
<td>10.3</td>
</tr>
<tr>
<td>2009</td>
<td>15.9</td>
<td>11.6</td>
</tr>
<tr>
<td>2010</td>
<td>16.0</td>
<td>10.0</td>
</tr>
<tr>
<td>2011</td>
<td>15.8</td>
<td>11.0</td>
</tr>
<tr>
<td>2012</td>
<td>16.4</td>
<td>10.9</td>
</tr>
<tr>
<td>2013</td>
<td>16.9</td>
<td>10.8</td>
</tr>
<tr>
<td>2014</td>
<td>17.5</td>
<td>10.7</td>
</tr>
<tr>
<td>2015</td>
<td>17.9</td>
<td>10.6</td>
</tr>
</tbody>
</table>

Source: World Travel and Tourism Council

**Table 11:** Number of Turkish citizens visiting Greece

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of citizens</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>170 019</td>
</tr>
</tbody>
</table>

---


<table>
<thead>
<tr>
<th>Year</th>
<th>Number of citizens</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>185 422</td>
</tr>
<tr>
<td>2005</td>
<td>141 380</td>
</tr>
<tr>
<td>2006</td>
<td>241 987</td>
</tr>
<tr>
<td>2007</td>
<td>305 666</td>
</tr>
<tr>
<td>2008</td>
<td>263 048</td>
</tr>
<tr>
<td>2009</td>
<td>277 540</td>
</tr>
<tr>
<td>2010</td>
<td>428 721</td>
</tr>
<tr>
<td>2011</td>
<td>345 653</td>
</tr>
<tr>
<td>2012</td>
<td>447 908</td>
</tr>
<tr>
<td>2013</td>
<td>598 936</td>
</tr>
<tr>
<td>2014</td>
<td>741 037</td>
</tr>
<tr>
<td>2015</td>
<td>898 919</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5 046 236</td>
</tr>
</tbody>
</table>

Source: TUIK

**Table 12: Number of Greek citizens visiting Turkey by Year**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of citizens</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>218.092</td>
</tr>
<tr>
<td>2001</td>
<td>189.028</td>
</tr>
<tr>
<td>2002</td>
<td>279.751</td>
</tr>
<tr>
<td>2003</td>
<td>393.399</td>
</tr>
<tr>
<td>2004</td>
<td>491.300</td>
</tr>
<tr>
<td>2005</td>
<td>584.784</td>
</tr>
<tr>
<td>2006</td>
<td>412.819</td>
</tr>
<tr>
<td>2007</td>
<td>447.950</td>
</tr>
<tr>
<td>2008</td>
<td>572.212</td>
</tr>
<tr>
<td>2009</td>
<td>616.489</td>
</tr>
<tr>
<td>2010</td>
<td>670.297</td>
</tr>
<tr>
<td>2011</td>
<td>702.017</td>
</tr>
<tr>
<td>2012</td>
<td>619.823</td>
</tr>
<tr>
<td>2013</td>
<td>703.168</td>
</tr>
<tr>
<td>2014</td>
<td>830.841</td>
</tr>
<tr>
<td>2015</td>
<td>755 414</td>
</tr>
<tr>
<td>TOTAL</td>
<td>8 537 384</td>
</tr>
</tbody>
</table>

Source: TUIK

4- Energy:

The energy field can be considered as a recently developing area due to the changing international and regional dynamics of the energy market. Greece and Turkey are located in geographically strategic position close to oil and gas reserves. Turkey has a very high energy import dependency rate of 98% in natural gas and 92% in oil (Tunçalp 2015, p.68). This makes energy security a key factor to its energy related policies. Similarly Greece has a very high import dependency rate of 99.9% in natural gas and 99.5% in oil66.

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Pipelines can be important means for cooperation between countries. A pipeline does not only connect countries physically but also create interdependent relations due to the fact that business interactions would need to be established. Turkey is becoming an energy hub due to various projects on the construction of pipelines (İşeri and Almaz 2013, p.89-90). Russia supplies its gas to Turkey via the Blue Stream pipeline. Also through the Baku-Tbilisi-Erzurum pipeline, Turkey imports gas from Azerbaijan which exports it to European countries and the Tabriz-Erzurum pipeline links gas market with Iran (Triantaphyllou and Fotiou 2009, p.56-57).

Turkey relies heavily on Russian gas. In 2014, Turkish gas imports from Russia were recorded at 26.9bcm, which presents 54.76% of Turkey’s total gas imports. Iran (18.13%) and Azerbaijan (12.33%) followed Russia. Ankara’s tensions with Russian in last year have increased concerns on high dependence on the Russian gas and revealed the need for diversification (Tunçalp 2015, p.69). Russia has also been the main gas supplier of Greece, which started to import gas in 1996. The share of Russian gas imports decreased from 85% in 2005 to 60% in 2012 due to increasing imports from Algeria (16%) and Turkey (15%).

On the one hand, Turkey’s desire to diversify its energy import routes goes hand in hand with its aim to become a more powerful regional actor in the energy market (Tunçalp 2015, p.74). On the other hand, Greece has also been following a diversification policy. As a transit country, Greece can further increase its strategic role in the context of wider European energy security. Those suggest that the two countries have potentially converging interests and can cooperate to benefit from economic gains and energy security.

The EU Energy Security Framework

Greece’s and Turkey’s role in the wider European energy security context is highly crucial. In 2006, the EU called for a “European Strategy for Sustainable, Competitive and Secure Energy.” Within the context of the Southern Gas Corridor (SGC), the EU has developed strategies to diversify energy supply and connect the European continent with the Caspian gas. To decrease its dependency on Russian gas, the EU launched the Southern Gas Corridor (SGC) Project in 2008, which included 3 pipeline projects: South Caucasus Pipeline (SCPX), Trans Anatolian Pipeline (TANAP), Trans Adriatic Pipeline (TAP).

TANAP will be connected with TAP at the Greek-Turkish border. While the construction of TANAP started in 2015, TAP is in the implementation phase and was planned to start in 2016. Those projects aim to decrease Russian Gazprom’s dominance over the energy market. Both Greece and Turkey see those pipelines as a significant opportunity for their economic development and their aspirations to become an energy center. Regarding

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70 See http://www.tap-ag.com/the-pipeline/the-big-picture/southern-gas-corridor
72 http://www.tap-ag.com/the-pipeline/project-timeline#20
TAP, then Greek PM Antonis Samaras characterized it, “the most significant positive economic development regarding our country in the past 10 years”\(^73\). Thus both countries have acknowledged the strategic importance of those projects. President Erdoğan declared that “we plan to establish Turkey as the energy distribution hub of the region. TANAP has a special importance because of its route and its goal and is not an alternative project to others and there is not an alternative to it”\(^74\).

The significance of bilateral cooperation in the energy field was noticed by both countries. In 2002, the Greek and Turkish state energy companies (DEPA and BOTAŞ) signed a Memorandum of Understanding to build a 285 km long pipeline connecting Karacabey with Komotini (Coulombis and Kentikelis 2007, p.526). In 2003, an intergovernmental agreement between the two countries was signed regarding the pipeline. The construction was finished and inaugurated in 2007\(^75\). This cooperation in the energy field was an important manifestation of improving relations between the two countries. Regarding this, then Prime Minister Karamanlis stated that “This project will bring significant benefits both for Greece and Turkey. It shows we can live in harmony and both gain from it”\(^76\). Similarly, Erdoğan said, “Pipelines are not subject to one’s superiority over another, they are subject to interdependence”\(^77\). The fact that the Karacabey-Komotini pipeline is the first joint infrastructure project between the two countries is remarkable. This project enabled Greece to access Caspian natural gas first time (Grigoriadis 2011, p.125). Thus it has provided potential for economic multipliers.

Another joint initiative was realized on electricity grids. In 2002, the Greek Public Power Cooperation DEH and the Turkish Transmission System Operator TEİAŞ signed a memorandum of understanding (Papadopoulos 2008, p.25). This agreement provided 264 km long electric power line with 400kv capacity across the Thracian border of the two states (Papadopoulos 2008, p.25). The interconnection across the Hevros-Maritza river was activated in 2007 (Papadopoulos 2008, p.25)\(^78\). Turkey was the only South Eastern European country that was until then not connected to the Greece-Balkan grid system (Papadopoulos 2008, p.25). In 2010 Turkey joined the ENTSO-E, the European Network of Transmission System Operators with a condition of a trial period. In 2015 Turkey met the conditions and became an observer member to ENTSO-E\(^79\). This progress has been important to integrate with EU’s Trans-European network for energy\(^80\).

_The Cyprus Gas_

\(^{80}\) See EU Progress Report on Turkey 2015.
The discovery of natural gas reserves in the shores of Cyprus in 2011 added new dimensions to the Cyprus conflict and Turkish-Greek relations as well. The discovery has been discussed as it may act as a game changer both for the Cyprus conflict and the regional energy market. This new dynamic has highlighted both cooperation opportunities and competition for Cyprus, Greece, Turkey and the neighborhood. The Greek Cypriot hydrocarbons explorations have antagonized both Turkish Cypriots and Turkey. Turkish Cypriots argue that any Greek Cypriot unilateral action regarding hydrocarbons (such as signing delimitation agreements with third countries) is problematic and ignores the rights of the Turkish Cypriots before a resolution to Cyprus conflict (Yılmaz 2011, p.45). Therefore initiatives related to hydrocarbons should wait until after a resolution has been achieved (Yılmaz 2011, p.46). Greek Cypriots assert that the sovereign Republic of Cyprus has all say over Cypriot natural sources. Turkish Cypriots can have a share of profits in hydrocarbons. Moreover, exploration and natural resources will be a federal competence in a future united Cyprus state. However, hydrocarbons are not a negotiation issue and no discussion should be made prior to resolution of the Cyprus conflict (Yılmaz p.44). According to the Turkish position, acting unilaterally about hydrocarbons (such as establishing maritime jurisdiction areas) is problematic due to issues related to the Cyprus conflict. Turkey argues that unilateral actions disregard Turkish Cypriots’ equal rights. Secondly, Turkey’s claims regarding its continental shelf in the Eastern Mediterranean are conflicting with the Cyprus’s Exclusive Economic Zone (EEZ) (Gürel et al 2013, p.51). Turkey insists that the RoC-Egypt EEZ delimitation agreement which was signed in 2003, ignores Turkey’s continental shelf rights (Gürel et al 2013, p.53).

In 2011, a bilateral delimitation agreement was signed between Turkey’s TPAO (Türkiye Petrolleri Anonim Ortaklığı) and “TRNC” to make explorations (Grigoriadis 2014, p.128). In 2014 Turkey decided to move its exploration vessel into the RoC’s EEZ to the southern coast of the island and issued a NAVTEX (Navigational Telex). Turkey stated that NAVTEX could last until 2015 April unless more of a role was given to Turkish Cypriots regarding hydrocarbons. This was considered a provocative move by the RoC and Greek Cypriot President Anastasiades withdrew from THE Cyprus negotiations (Morelli 2015, p.12). In April 2015, Turkey did not renew the NAVTEX and took off the seismic vessel from Cyprus (Morelli 2015, p.12).

As presented, so far developments on hydrocarbons are not encouraging for opening new channels of cooperation between Greece and Turkey. The hydrocarbons issue is directly linked with the core of the Cyprus conflict and the Turkish-Greek Aegean disputes as well. Without the resolution of the Cyprus conflict major drawbacks exist to export Cypriot gas and make it an area of policy cooperation. Many accepted that the construction of a pipeline to Turkey would be a good opportunity if RoC and Turkey establish normal relations (Gürel et al 2013, p.84).

Owing to the geographical proximity of Cyprus and Turkey, selling Cyprus gas via a pipeline to Turkey would be realized with lower development costs than other options. Moreover given that Turkey’s demand for energy has continued to increase, makes Turkey a more attractive market for Cyprus (Giamouridis 2013, p.16). Another option might be selling
the gas via a sub-sea pipeline to Greece, which has commercial disadvantages compared to first option. It requires higher development costs and the Greek natural gas market is less attractable since it is ten times smaller than the Turkish market (Giamouridis 2013, p.19).

Turkish-Israeli relations provide another dynamic for the energy field. The relations have started to worsen in 2008 and were stressed with then Prime Minister Erdoğan’s “one minute” discussion in the Davos Summit. However the crisis between the two countries was precipitated by confrontation in the Mediterranean in 2010. The confrontation between the Turkish flotilla which were carrying humanitarian aid and were planning to break Israeli blockade of Gaza Strip, and the Israeli Navy caused the death of nine activists. The relations have been still turbulent despite the recent reconciliation attempts between two countries. Thus the deterioration of relations has prevented any possible cooperation on the energy field between Israel and Turkey. Furthermore, this has affected regional alignments on the energy field. Greek-Israeli relations have upgraded since 2010. Cyprus, Greece and Israel have made attempts to form a geopolitical bloc for energy cooperation. In January 2016, the leaders of the three countries met in Cyprus and declared that “their cooperation was not exclusive, making it clear that Turkey could join the group”. Yet the deterioration of the Turkish-Israeli relations was the main reason that has pushed for countries towards closer relations. Other than that, Turkey’s relation with Egypt has also got cold with the fall of the Muslim Brotherhood’s leader Mohammad Morsi in 2013. This has contributed to Cyprus, Egypt and Greece triangle to be formed as well. While regional dynamics can evolve, it is certain that Turkish-Greek relations cannot benefit from the developments on Mediterranean gas unless Cyprus reunifies and the its relationship normalizes with Turkey.

Table 13: Consumption of Commercial Energy in Greece and Turkey (thousand metric tons of oil equivalent and kilograms per capita)

<table>
<thead>
<tr>
<th>Consumption</th>
<th>Year</th>
<th>Per capita</th>
<th>Total</th>
<th>Solids</th>
<th>Liquids</th>
<th>Gas</th>
<th>Electricity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Turkey</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>1 290</td>
<td>91 457</td>
<td>29 579</td>
<td>25 411</td>
<td>33 547</td>
<td>2 919</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>1 254</td>
<td>90 075</td>
<td>30 066</td>
<td>24 685</td>
<td>32 129</td>
<td>3 195</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>1 304</td>
<td>94 895</td>
<td>32 122</td>
<td>23 194</td>
<td>34 883</td>
<td>4 695</td>
<td></td>
</tr>
<tr>
<td><strong>Greece</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>2 919</td>
<td>32 960</td>
<td>8 309</td>
<td>19 772</td>
<td>3 896</td>
<td>1 033</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>2 852</td>
<td>32 301</td>
<td>8 431</td>
<td>19 485</td>
<td>3 301</td>
<td>1 084</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>2 537</td>
<td>28 816</td>
<td>7 863</td>
<td>15 978</td>
<td>3 594</td>
<td>1 381</td>
<td></td>
</tr>
</tbody>
</table>

Source: UN Statistics

Table 14: Distribution of Natural Gas Import by Sources in Turkey 2014

<table>
<thead>
<tr>
<th>Source</th>
<th>%</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>43.5%</td>
<td>17.1 billion Sm3</td>
</tr>
<tr>
<td>Iran</td>
<td>22.8%</td>
<td>8.9 billion</td>
</tr>
</tbody>
</table>

81 See more on http://news.bbc.co.uk/2/hi/business/davos/7859417.stm
82 See more on http://www.haaretz.com/israel-news/premium-1.700464
<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>15.5%</td>
<td>6 billion</td>
</tr>
<tr>
<td>Algeria</td>
<td>10.6%</td>
<td>4.2 billion</td>
</tr>
<tr>
<td>Nigeria</td>
<td>3.6%</td>
<td>1.4 billion</td>
</tr>
<tr>
<td>Spot LNG</td>
<td>4%</td>
<td>1.6 billion</td>
</tr>
</tbody>
</table>

Source: BOTAŞ

Table 15: Natural gas imports by source in Greece 2013

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia (Gazprom)</td>
<td>67%</td>
</tr>
<tr>
<td>Turkey (BOTAŞ)</td>
<td>17%</td>
</tr>
<tr>
<td>Algeria (Sonatrach)</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: DEPA

Does economic Interdependence exists?

Keohane and Nye (1973) argued that “states are by no means the only actors in world politics”. As demonstrated, this is certainly relevant for the Turkish-Greek relations. With the 1999 rapprochement process combined with the efforts of business elites, economic relations have enhanced. Business actors, local actors and other civil society actors have become increasingly significant to foster cooperation between the two countries. These have challenged the bounds of the state centered analysis of the relations. The Greek-Turkish Business Council meetings, tourism fairs and local meetings have been important venues for economic cooperation outside of the state level initiatives. At the same time, those non-state initiatives have been becoming more active and visible to enhance bilateral interactions. However it leaves a question whether or not the current scope of economic relations allows non-state actors to effect the course of Turkish-Greek political relations. Yet there has been no spillover effect caused by economic interactions to resolve the political disputes between the two countries. According to Elias Clis, “economic, societal and cultural ties do not seem to have brought about enough influence on government policies towards a framework that might provide acceptable resolution for real outstanding questions. Systemic political dynamics are stronger”84. While important level of expansion in economic relations is achieved, the political problems can only be resolved by the policy makers. Nevertheless, this does not diminish the significance of the economic interactions owing to its potential for reshaping the relations. Bilgen states that,

“Politicians are aware of the benefits of improving economic relations. Politicians who attend the business councils often state that –you should improve economic relations, and then we can follow you-”85.

In the post-1999 period, economic relations have found space to develop separately from the political problems of the two countries. This is not necessarily indicative for the smoothness of the economic relations between Greece and Turkey. Keohane and Nye (1977) maintains that, “contemporary world politics is not a seamless web; it is a tapestry of diverse relationships” (p.4). It is not possible to separate economic interactions with the political

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84 Interview with Elias Clis.
85 Interview with Bilgen.
process that goes on between countries. That is, they are complementary with each other that create a dialogue between business and the politics. Bilateral political meetings have often been accompanied with bilateral business meetings in recent years. Actors like Hellenic Federation of Enterprises (SEV), Turkish Industrialists and Businessmen’s Association (TÜSİAD), Chamber of Commerce are in interaction with government officials and policy makers. Such economic interest groups can ally with government agencies and their counterparts from foreign countries in light with their objectives (Kirişçi 2009, pp.46-47). One example might be TÜSİAD’s active support and push for the 2004 Annan plan (Gürpınar 2006).

Ismail Tulukçu suggests that, “economic relations can develop independent from political problems as in the case of Turkish-Israeli relations”\(^{86}\). The problem is that, although Turkish-Greek economic relations can develop in presence of political disputes, limitations would come to the fore at some point. Furthermore, relations are not stable in such complexity of world affairs. That is, as the time passes without touching on the political problems, new issues would come up and they are likely to create further challenges for the relationship\(^{87}\). For instance, the refugee crisis and the Aegean NATO patrols can be an example. Without solving the Aegean disputes, cooperation on the refugee crisis becomes complicated. With this regard, Elias Clis states,

“The basic underlying factor hampering further expansion of economic relations lies in the existence of problems on the political level. Issues that remain unresolved or gradually expand into new aspects, tensions specifically cultivated by military activity and other such items that constitute a regular presence in the agenda of current events are not conducive to the long-term feeling of trust that business communities need in order to bring economic cooperation to the next level”.

As presented in the previous chapter, concerns that stem from the political problems can mitigate further cooperation in the Aegean. The threat perception from both sides can still play a role to create skepticism against each other especially in the investment field. This then might multiply the problems related with administration issues faced by investors in both countries. With this regard, Clis point outs that,

“The necessity of “political” confidence and the need for a clear political perspective can also be detected in the everyday conduct of business affairs by companies in either country: the heavy burden of bureaucracy previously mentioned as a general impediment, becomes even heavier in the context of Greek-Turkish economic relations as the system might treat their demands and administrative needs antagonistically and in a negative manner, because of perceptions long cultivated; investment projects might be viewed with mistrust and put in question for reasons other than financial or

\(^{86}\) Interview with İsmail Tulukçu.

economic, and objections might be raised related to political or security considerations”.

The causes for delays and long waiting projects can be encountered frequently in Greek-Turkish context. Even this hardship is a result of fulfilling the administrative duties; both sides might perceive it as a psychological barrier caused by negative perceptions. The administrative hardship faced in both countries can be addressed only by policy makers with support of the business elites. The Double Taxation Agreement is a one crucial example of such initiative which had given push for the developing economic interactions. Similarly, recent visa facilitation initiatives were only finalized by governments despite the long time support by the tourism sector throughout years. One the one hand, growth in trade, investment, tourism and energy relations is both product of the efforts by the two states and business circles. On the other hand, impact of business circles on political elites have been limited to giving opinions, suggestions, feedback and organizing business meetings. Yet the support of the business elites is crucial for them to be visible among policy makers.

The future prospects for two countries economic relations will likely to effect by the course of political and economic environment in the two countries. Overall picture assumes that, the improving economic relations between Greece and Turkey have not reached to a desired economic interdependence level yet. However significant differences are found in the four fields of economic interaction. Therefore those fields need to be discussed separately.

**Bilateral Trade:**

Bilateral trade between Greece and Turkey had only reached to substantial levels in the post-1999 period. While political tensions have been persistent since 1960’s, bilateral trade has only affected negatively due to Turkey’s Cyprus intervention in 1974 which the volume of trade dropped to 986.8 thousand dollars in 1975 dollars from 36.039.5 million dollars in 1974 (Şen 1987, pp.19-21). During the 1990’s however, bilateral trade had continued to increase despite that the Turkish-Greek tensions peaked at that period. This information can be misleading because the volume of trade during 1990’s was below 1 billion dollars which was not that high to be important for the two countries. One might argue that, ceasing trade had been non-significant because of already marginal levels of trade interaction. That is, trade was not a leverage tool between Greece and Turkey for them to use against each other.

In recent years bilateral trade has increased tremendously by reaching almost the volume of 6 billion dollars. Bilgen states, “Greece became an increasingly important partner of Turkey compared to past. Also Turkey became an important economic partner for Greece. These indicate that politicians who come together towards resolution of the political problems have more driving force”.

According to Mansfield and Pollins (2003), countries are interdependent when economic conditions in one country have influence on other and when it is costly for countries to give

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88 Interview with Elias Clis.
89 Interview with Bilgen.
up their relationship (p.11). Furthermore, Keohane and Nye (1977) imply that “interdependent relationships will always involve costs, since interdependence restricts autonomy; but it is impossible to specify a priori whether the benefits of a relationship will exceed the costs” (p.8).

Current scope of the bilateral trade between Greece and Turkey presents a complex picture. For Greece, Turkey has been first important export partner in which Turkey’s share was 12.16% in total exports in 2014. For Turkey however Greece has been 14th importing country. One might argue that this creates asymmetry between two countries. While the level of interdependence in bilateral trade is not high, its impact on two countries is different. For instance, it would be more costly for Greece to give up this relationship. As demonstrated in previous chapter, Greek exports to Turkey focus on mainly on petroleum, plastic and raw cotton products. Therefore replacing those with another would be more costly. This makes Greece more vulnerable compared to Turkey. Turkish exports to Greece are more diverse ranging from fuels, chemicals, textiles and clothing to metals which makes Turkey less vulnerable in its trade with Greece. For instance Turkish exports to Greece remained at similar numbers in 2015 compared to 2014. Nevertheless, Greek exports to Turkey dropped dramatically due to imposition of Greek capital controls as well as a decrease in world oil prices. This indicates the vulnerability to global fluctuations and economic conditions. Neorealism’s relative gains logic may come to forefront since one’s market is more significant than other’s. For liberal and neoliberal approaches that dealt with in this thesis however consider consequences of the trade rather positive. Turkish-Greek bilateral trade has surely benefited both sides. Yet the absolute gains from commerce are prevalent. SEV official Vick Makgriyianni points out the need for further development of trade relations as well as investments between two countries which will be beneficial for both countries. Similarly, Investment Portfolio Department Manager from Enterprise Greece Constantinos Angelopoulos points out the benefits of the further economic interactions by stating that “the cooperation of Greek and Turkish companies is inevitable; we think that nothing could stop this path in the next years, because it will prove to be a win-win situation for both countries”. Negative competition on trade has not been apparent practice between the two countries. With regard to this, Bilgen notes

“Some might think that improving economic relations can lead competition and conflict. However this is not possible as trade between EU countries illustrates. For instance Germany and France have similar technological advancement level and produce various products. There is a competition between them but they are the important trade and partner investor of each other. There is a competition between Greece and Turkey too but not in wider grounds. Moreover there is a high margin for developing economic relations.”

Foreign Direct Investment:

90 Interview with Vick Makgriyianni.
91 Interview with Angelopoulos
92 Interview with Tevfik Bilgen.
Investment wise, economic interdependence has also not reached to crucial levels to make direct impact towards the evolution of political cooperation between Greece and Turkey. Interactions remained very low until recently. Government and business elites from both sides have long declared their wish to increase investment flow between the two countries. Investment flows are deeper forms of interaction which are likely to create bounds between economies in the long term.

The investment flows had been very low between Greece and Turkey until very recently. Apart from several big investment deals, FDI between two countries is composed of small and medium sized investments ranging from manufacturing, retail to tourism. A large number of companies have invested to Turkey in recent years. Yet the National Bank of Greece and the Finansbank deal in 2005 can be considered as the most crucial investment flow between the two countries. First of all the volume of the investment was the largest that appeared between the two countries. Moreover the deal has a symbolic importance that foster trust among business elites to encourage them to invest each other’s countries. As discussed in the previous chapter, Turkish investment to Greece has been very limited due to various reasons. Therefore there is a significant difference between Greek originated and Turkish originated investment stocks in the two countries.

Further integration of the two economies in the FDI field has long been desired by both Greek and Turkish elites. Despite certain limitations, optimistic expectation towards the future exists among two countries. Angelopoulos suggests,

“It is true that there are many Greek companies that invested in Turkey during the past years, with the biggest one being National Bank of Greece. Turkish companies though have concluded many investments in the last 3 years in many sectors: i.e. Tourism and Real estate, Manufacturing, e-shops, retail. We believe that this is the right time for Turkish companies to explore investment opportunities in Greece. Many Turkish companies have become larger during the last years of Turkish economy’s growth, while at the same time many Greek companies are looking for partners and investors to cooperate. Thus, we believe that in the next years we will see a really positive trend in FDI flows from Turkey to Greece”

Furthermore, the Greek economic crisis has not demolished the Turkish interest in investing Greece. On the contrary, crisis might provide new business opportunities that Turkish investors have been searching favorable investment fields. The persistent desire to improve investment flow across the two countries however is not enough alone. Both the structural problems and administrative limitations that faced by investors investing in the two countries have prevented to have substantial increase of the low of investments. Without addressing those issues, it would be hard to have substantial increase to reach an interdependent relation. This brings the political leadership into the picture. Efforts from business need to be coupled with political support to make relevant adjustments. Spiros Pengas highlights that there is a

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93 Interview with Constantinos Angelopoulos
94 Interview with Bilgen.
willingness to increase the volume of interaction in every field between Greece and Turkey. These however have to be realized not to remain as “wishful thinking”

Apart from two countries’ problems with attracting foreign investment, the administrative and bureaucratic burdens faced have been frequently mentioned by the investors from both countries. Thus those difficulties might discourage investors. For instance Selcan Türk who is the owner of a Greece based tourism company points out the difficulties of opening a company in Greece due to slowness of bureaucracy.

The law 3386/2005 on residence permits was a good state level initiative to address difficulties faced by non-EU nationals wants to start a business in Greece. Such kind adjustments are beneficial to enhance relations. Clis points out,

“Administrative and bureaucratic limitations are a perennial adverse factor in both countries, irrespective of the current state of affairs. Investors and Entrepreneurs value a steady fiscal and tax environment, transparency, and an efficient public sector unburdened by bureaucratic procedures and arbitrary administrative interventions; both countries have weaknesses in this chapter.”

Therefore administrative and bureaucratic limitations hinder more interaction which requires adjustments by the two countries. It has commonly been assumed that, psychological limitations and skepticism towards investors due to rooted problems also cause drawbacks. in overall terms, this has not been much evident in recent years. Bilgen for instance argues that, Turkish investors in Greece do not face any problems of trust and skepticism related with political problems between the two countries.

Tourism:

Tourism field is another important pillar of economic interdependence. The level of interaction has become increasingly higher and promising. Cooperation among Greek and Turkish elites in the tourism sector has been higher compared to other three fields. This can be explained by tourism’s high benefit for two economies and everyday economy in the tourist sites as well. Moreover, tourism is more open to societal interaction since it is not only practiced by business elites and politicians but also by everyday people. Spiros Pengas notes that stereotypes are not apparent anymore among business interactions between two societies especially in the tourism field.

Non-state interactions and local level interactions are also higher compared to other fields. Cooperation between Thessaloniki and İzmir is a strong example that proves the benefit of bilateral initiatives to promote both economic gains and reconciliation between the two countries. Spiros Pengas points out that, there is a more potential to be realized both in

95 Interview with Spiros Pengas.
96 Interview with Barış Kalkavan, Interview with Vicky Magriyianni.
97 Interview with Selcan Türk.
98 Interview with Clis.
99 Interview with Bilgen.
100 Interview with Pengas.
terms of number of Turkish people visiting Thessaloniki and in terms of investment flow in the Thessaloniki’s tourism sector. Pengas further notes that Thessaloniki has been a good minor example that created initiatives to bring two societies closer in recent years both on investment and tourism-vise. He however points out the need of political will from two countries as stating, “we are not the state at the end.”

Albeit the advantages in the tourism field, certain limitations for further development are apparent as well. As in the case of bilateral trade and FDI, tourism field also suffers from limitations which need to be dealt by policy makers in the two countries. For example the transportation projects and visa easiness issue. Those issues are likely to increase the volume of tourism interaction between the two societies if overcome. Yet mutual interests by the two states need to be shown. As discussed in the previous chapter, transportation opportunities across two countries have significantly developed in recent years. However, some long desired projects have not been realized despite they had been discussed in official Turkish-Greek meetings. Some of those projects have been train connection between two countries, ferry connection between Athens-Izmir and Thessaloniki-Izmir. Selcan Turk states that transportation initiatives such as train connection between two states need to be dealt with a level of two countries’ ministry of transport. Selcan Turk also points out the opportunities that emerged for potential investors due to the Greek crisis, mentioning the closed hotels in Athens and the need to reopen them. Regarding the two countries’ potential in the tourism sector, two countries are like-minded that further interaction of tourism field will create a win-win situation for both countries.

As mentioned tourism is the most visible field that is open to cooperation opportunities between the two countries. Joint tour packages project for third countries has been one of such opportunity. Joint tour packages have long been agenda of the two countries both at state and non-state level since early 2000’s. Then Greek Minister of Tourism Olga Kefalogianni stated that,

“It’s also very important to work on joint projects with Turkey. When we are talking about overseas markets, like China for example, people who would come from the other side of the world to visit our countries, it is self-evident that if we could provide a joint package this would mean joint benefits. This is definitely something we are aiming to work on and this will help the economies of both Turkey and Greece.”
In a similar manner, then Minister of Tourism Ömer Çelik states, “In tourism field, we see Greece as a partner country not as a competitor. We have joint tourism package project includes Greece and Anatolia together to make tourists visit both countries”\(^{109}\). Joint tours project however failed to be realized. In his speech during the latest High Level Council between the two countries that held in March 8, remarks were made about initiating the joint tours as soon as possible\(^{110}\). However, the failure of those initiatives since 2000’s certainly demonstrates the existence of incompetence. Regarding this, Selcan Türk claims that there is a great potential of buyers and it would be very advantageous for both countries. However there have always been organizational problems for this long desired project\(^{111}\).

The vulnerability of the tourism sector however, may lead to competition between two countries. For visitors Greece and Turkey offer similar vacation offers with a mix of leisure, gastronomy and cultural tourism routes. Therefore, in an instability or an uncertainty caused by economic or security crisis, visitors likely to see one country as an alternative to other.

At bilateral level, as long as new transportation routes like train connection will be built; the effects of psychological distance between two societies will be declined. Thus, connection and communication between two peoples, stemming from new channels of transportation are likely to grow. Tourism will offer more and more cooperation areas between the two countries to contribute growing interdependence.

Energy:

As a relatively newly developing area compared to trade, FDI and tourism interactions, the level of interdependence has been low. Yet the energy field offers an important realm of potential cooperation owing to its significance for economic development and of its strategic character\(^{112}\). Future prospects for development of interactions in the energy field are encouraging. Geographical position of Greece and Turkey sets them at a crossroads of energy transition since they are close to Russia, Azerbaijan, Iran, Iraq, the Gulf as well as Israel, Egypt, Cyprus\(^{113}\). This provides cooperation potentials for the two countries. The Karacabey-Komotini pipeline has been the successful example of cooperation despite its small capacity.

As in the case of other fields of economic relation, political problems between Greece and Turkey mitigate further interactions and trim cooperation opportunities. Clis notes that,

“Core improvement of bilateral relations and resolution of the outstanding problems are a prerequisite in order to exploit any potential the energy sector offers for cooperation through energy projects of wider regional interest. Hopefully this element


\(^{111}\) Interview with Selcan Türk.

\(^{112}\) Interview with Elias Clis.

\(^{113}\) Interview with Elias Clis.
will be understood and will influence the approach of bilateral relations, adding a willingness to build strategic depth with an eye for the future.\footnote{Interview with Elias Clis.}

Due to its strategical and security related importance, relative gains logic might shape the relations in the energy field with the presence of political problems between two countries. This becomes more relevant when we consider the aspirations of two countries to become an energy hub/transit country. Competition becomes stronger as the new alliance formation in recent years demonstrates. The Aegean disputes and the Cyprus conflict combined have been strong hurdles not to materialize the energy potential in the Southeastern Mediterranean. Clis points out,

“As a matter of fact, this energy-motivated factor goes beyond the bilateral; the most interesting element in energy developments in our area is the emergence of the Southeastern Mediterranean energy reserves, most probably as a reliable source of supply to nearby markets. However, no real advantage of practical value and size can be drawn from this development for Turkey, unless the Cyprus issue is resolved in a way fully acceptable to all sides, and confirmed by both communities. This would be a welcome development, and the best opportunity energy could offer not only to bilateral relations, but to relations throughout the region and with Europe.\footnote{Interview with Elias Clis.}

As stated, the possible resolution of the Cyprus conflict will likely to open channels of cooperation in which it can give rise to significant regional and international developments. The energy is certainly needs bilateral, state-level initiative compared to other fields since its strategically important role for the energy security of the countries. Moreover energy adds regional and global actors and energy security in to the picture where Turkish-Greek cooperation would be affected.

Resolution of the Political Problems

While liberalism asserts that interdependence will replace competition with cooperation, interdependence theory claims that economic interdependence creates joint benefits but not directly leads to cooperation (Nye and Welch 2014, p.275). In the Turkish-Greek case, there has been a growing level of interconnectedness “where interactions do not have significant costly effects” (Keohane and Nye 1977, p.9). However the level economic interdependence has been low where we do not see significant reciprocal costs. In this case, incentives that might generate political cooperation are weak between the two countries.

In their analysis on interdependence, Rosecrance et al (1977) identifies two concepts of interdependence. Whereas the size of the interactions (the flow of money, people, and goods) between two countries is horizontal interdependence, vertical interdependence manifests economic returns of one country’s economy to other’s (pp.428-429). There is a higher horizontal interdependence between Greece and Turkey and yet low vertical interdependence.
Cooperation possibilities between Greece and Turkey have been increasingly possible at both state and non-state level. However with current scope of economic relations, political cooperation cannot be evolved automatically. In both countries, business communities have had limited role to influence foreign policy historically. Thus non-state level initiatives need to be backed by political leadership. In this way, both economic and political relations can reach to the desired level. Political leadership in the two countries seems waiting for the closer economic interactions to be developed before touching upon troubled political problems. Therefore they may believe that, taking action towards resolution of the political problems would be difficult and it may damage the already developing economic relations. In this case, “you should improve economic relations, and then we can follow you” approach makes sense. For the sake of Turkish-Greek relations however, overlooking the political problems has not been a rational position. As is argued, “the current stalemate in bilateral political relations may be a tolerable but, in the long run, hardly sustainable arrangement” (Tsarouhas 2009, p.53). This focusing on economic relations and ignoring the real problems approach can save the day in the short run. This thus makes political relations more exposed to changing domestic and international dynamics and pressures. As my analysis demonstrates, developments like natural gas discoveries and the refugee crisis create new challenges and pressures for the relations between the two countries. Furthermore, political limitations coupled with administrative and technical problems have restricted the scope and the pace of the expansion of economic relations. Consequently, the impact of the non-state actors on resolution of problems remains limited. Non-state actors have already strived for improvement of economic and political relations since 1980’s. Figures from two societies like Yannis Boutaris, Ekrem Demirtaş and Selim Egeli eagerly supported further integration of two societies. However their sincere efforts need to be supported by the political will from two countries political elites’.

Likelihood of Armed Conflict

For realist IR, interdependence cannot be a source of peace and deterrence to conflict (Pevehouse 2004, p.249). Commercial liberalism highlights economic interactions are likely to decrease using the coercive means between two states (Moravcsik, 1997, pp.528-530). Similarly trade vs. conflict theories examined whether trade interdependence lowers the likelihood of wars and conflict. A group of scholars have found out that increasing economic interdependence is disincentive for the use of military force (Mansfield 1994; Oneal et al 1996; Oneal and Russet 1997; Russet, Oneal and Davis 1998; McDonald 2004). Liberal IR claims that “as long as high levels of interdependence can be maintained, we have reason for optimism” (Copeland 1996, pp.5-6).

The problem is that those theories heavily focused on trade interactions. My research however includes FDI, tourism and energy fields with the bilateral trade which all fields have different dynamics. Those fields provide different cooperation opportunities on the basis of their scope and nature. In general, the Turkish-Greek case suggests that benefits and gains from economic interactions are apparent. Yet the possibility of an armed conflict has decreased. In retrospect, tensions had mostly aroused between the two countries in the Aegean Sea due to contentious differences. The 1976, 1987 and 1996 crises led serious confrontation
between Greece and Turkey. The Imia/Kardak crisis of 1996 was the most serious which the war was eventually prevented. In those decades, the economic relations were at marginal levels between the two countries. With current scope of economic relations, it is less likely that such disagreements would lead serious confrontations. The emergence of any armed conflict would have serious consequences for the economic relations. According to Barış Kalkavan, the Imia/Kardak crisis would not have been occurred if the economic interactions at that time were close to today’s level. He states that, “it is not possible for soldiers to cross borders in where the money flows”. For instance in 2005, an Imia/Kardak-like incident was avoided. While then Greek Foreign Minister Molvyatis’s were visiting Turkey, mini-crisis over the islets emerged. The standoff ended with negotiation of two parties and both countries withdrew their patrol boats. On the other hand, violation of air spaces and dogfight over the Aegean Sea has continued. Yet the consequence of a possible crisis has become much more costly for the two countries, which damage built bonds.

Keohane and Nye (1973) argued that “states are by no means the only actors in world politics”. As demonstrated throughout the thesis, this is certainly relevant for the Turkish-Greek relations. With the 1999 rapprochement process combined with the efforts of business elites, economic relations have enhanced. Business actors, local actors and other civil society actors have become increasingly significant to foster cooperation between the two countries. These have challenged the bounds of the state centered analysis of the relations. The Greek-Turkish Business Council meetings, tourism fairs and local meetings have been important venues for economic cooperation outside of the state level initiatives. At the same time, those non-state initiatives have been becoming more active and visible to enhance bilateral interactions. However it leaves a question whether or not the current scope of economic relations allows non-state actors to effect the course of Turkish-Greek political relations. Yet there has been no spillover effect caused by economic interactions to resolve the political disputes between the two countries. According to Elias Clis, “economic, societal and cultural ties do not seem to have brought about enough influence on government policies towards a framework that might provide acceptable resolution for real outstanding questions. Systemic political dynamics are stronger”. While important level of expansion in economic relations is achieved, the political problems can only be resolved by the policy makers. Nevertheless, this does not diminish the significance of the economic interactions owing to its potential for reshaping the relations.

Bilgen states that,

“As the economic relations develop, diversify and gain depth, political environment undergo change automatically and favorable environment flourishes consequently. The volume of bilateral trade between Greece and Turkey was only around 200 million dollars when 30 years ago. Today it is above 5 billion dollars that both Greek and Turkish politicians call for peace and friendship instead of creating troubles. Most

116 Interview with Barış Kalkavan.
117 “para geçen sınırдан, asker geçemez”, Interview with Barış Kalkavan.
119 Interview with Elias Clis.
importantly, politicians are aware of the benefits of improving economic relations. Politicians who attend the business councils often state that “you should improve economic relations, and then we can follow you.”

In the post-1999 period, economic relations have found space to develop separately from the political problems of the two countries. This is not necessarily indicative for the smoothness of the economic relations between Greece and Turkey. Keohane and Nye (1977) maintains that, “contemporary world politics is not a seamless web; it is a tapestry of diverse relationships” (p.4). It is not possible to separate economic interactions with the political process that goes on between countries. That is, they are complementary with each other that create a dialogue between business and the politics. Bilateral political meetings have often been accompanied with bilateral business meetings in recent years. Actors like Hellenic Federation of Enterprises (SEV), Turkish Industrialists and Businessmen’s Association (TÜSİAD), Chamber of Commerce are in interaction with government officials and policy makers. Such economic interest groups can ally with government agencies and their counterparts from foreign countries in light with their objectives (Kirişçi 2009, pp.46-47). One example might be TÜSİAD’s active support and push for the 2004 Annan plan (Gürpınar 2006).

Ismail Tulukçu suggests that, “economic relations can develop independent from political problems as in the case of Turkish-Israeli relations”121. The problem is that, although Turkish-Greek economic relations can develop in presence of political disputes, limitations would come to the fore at some point. Furthermore, relations are not stable in such complexity of world affairs. That is, as the time passes without touching on the political problems, new issues would come up and they are likely to create further challenges for the relationship122. For instance, the refugee crisis and the Aegean NATO patrols can be an example. Without solving the Aegean disputes, cooperation on the refugee crisis becomes complicated. With this regard, Elias Clis states,

“Economic interactions, however helpful, are not, in the current scheme of things, a decisive factor nor seems yet ready to become one. First and foremost: relations must be normalized on the political level, complex issues that have been progressively raised since the late sixties must be addressed though International Law alone, and cooperation on an equal footing in our larger region must acquire real substance”123.

Furthermore, Clis indicates,

“The basic underlying factor hampering further expansion of economic relations lies in the existence of problems on the political level. Issues that remain unresolved or gradually expand into new aspects, tensions specifically cultivated by military activity and other such items that constitute a regular presence in the agenda of current events

120 Interview with Bilgen.
121 Interview with İsmail Tulukçu.
123 Interview with Elias Clis.
are not conducive to the long-term feeling of trust that business communities need in order to bring economic cooperation to the next level”.

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The future prospects for two countries economic relations will likely to effect by the course of political and economic environment in the two countries. Overall picture assumes that, the improving economic relations between Greece and Turkey have not reached to a desired economic interdependence level yet. However significant differences are found in the four fields of economic interaction. Therefore those fields need to be discussed separately.

Conclusion:

In retrospect, Turkish-Greek relations have much dominated with security issues with realist approaches. Painful events of the past and the old nurtured antagonism have long become a part of people’s minds. The relations between two countries have evolved with several conflicts which have shaped the course of the Aegean disputes and the Cyprus

124 Interview with Elias Clis.
conflict. With the beginning of late 1980’s, two countries have aimed to redefine their relations that they finally reached a rapprochement period in 1999 owing to domestic and international dynamics of the era. In this way the interactions between two countries have increased dramatically from fields of tourism to trade, and the communication channels have diversified with the more involvement of non-state actors. These changes in relations have revealed the need for updated theoretical approach to relations. With this regard, interdependence theory provides us with a number of important insights to comprehend current dynamics of the relations between Greece and Turkey. By challenging traditional understanding of world politics, Keohane and Nye (2011) suggested that “foreign economic policies touch more domestic economic activity than in the past, blurring the lines between domestic and foreign policy and increasing the number of issues relevant to foreign policy” (p.21). The main goal of this thesis was to examine current scope of economic relations to determine the extent to which economic ties reflect on the evolution of political relations between Greece and Turkey. This study has shown that economic interdependence between to countries have not been reached a point where to foster political cooperation and resolution of the problems. The current scheme of the relations indicates that economic interdependence has increased in the post-1999 period in all of the fields of interaction. Yet the political tension between two countries have decreased. However, the economic relations have not been able to overcome current stalemate in the political problems. This thesis has examined four fields of economic interactions namely Bilateral Trade, Foreign Direct Investment, Energy Issues and Tourism. There are both restrictions and opportunities present in all of those fields towards improvement in relations. Their state of affair depends both non-state and state level support.

This study has found that, the political problems between two countries have not serious negative impact on the course of economic interactions. The current level of economic interdependence implies economic relations have been able to develop independent from politics. However this is not to say they have developed smoothly free from the political process. The political problems have interfused economic interactions by limiting the level of further economic connections. The burden of the political problems have not dissappeared although two countries has come closer and promote cooperation in various fields since 1999. As it is shown throughout the thesis, non-state actors like local governments, business elites from the two sides of the Aegean have been more active to advance economic relations. Civil society efforts have made significant contribution to the economic cooperation through meetings, projects, fairs etc. Those kind of initiatives have increased communication channels between business elites and the political agency. Further improvement in economic relations have been a shared desire of both civic and political actors. Yet this desire have been limited unless state level initiatives have been taken to make necessary readjustments to deal with technical problems that are obstacle to relations. On the one hand, there will always be people from two countries who make business with each other and want to bring to countries closer regardless of the political tensions. These cannot be prevented. On the other hand, economic relations deemed to be remain limited and far from desired level if state actors remain distant to the process. That is, certain adjustments that are need for desired level of economic interdependence require state level initiaves. In this way, economic interactions
between Greece and Turkey would reach a point to pressure for the resolution to political problems. As pointed out throughout the thesis, political problems come to light when to address administrative and technical deficiencies. In other words, postponing the resolution of political problems challenges further development of economic relations to be reached its’ potential. Wider structural and domestic challenges of two countries like the on-going Greek economic crisis and Turkey’s poor deadlocked EU membership prospect will likely to affect economic relations between two countries. Despite the presence of such obstacles, on-going Cyprus peace negotiations give a degree of hope that the resolution would create impetus to both political and economic relations.

The economic interactions do not have significant costly impact between Greece and Turkey since the level of economic interdependence has been low. This limits to spill over to a political cooperation as interdependence approach suggests. The results suggest that political problems can be overcomed through a process which economic and political relations should be developed hand in hand. Current degree of economic relations alone will not likely to influence foreign policy decisions between the two countries. Yet administrative and bureaucratic limitations that mentioned throughout the thesis, need political will to be addressed. In other words, shared hope and desire from two countries’ elites should be realized with real political efforts. Non-state actors and characters like Yannis Boutaris and Ekrem Demirtaş have become more active agents to pressure further interaction between two countries. Their vision and efforts cannot be underestimated since they directly influence two societies. Yet political problems are waiting to only be resolved by the politicians.

Although stalemate in political relations between the two countries might seem tolerable in current pace of the relations since interaction in all levels between two people has increased, the stalemate is not sustainable for the future. Considering wider international environment with regional security challenges and economic instabilities, prospects for economic relations will likely to be open pressures if continue unsolved.

Appendix

Interview 1: High Level Turkish Diplomat (Consul General of Athens)-28/07/2015
Interview 2: Barış Kalkavan-Counsellor to Turkish Embassy in Athens-28/07/2015
Interview 3: Altay Ceylanoglu-First Secretary to Turkish Embassy in Athens-28/07/2015
Interview 4: Vicky Makgrianni-Advisor-SEV-29/07/2015
Interview 5: Selcan Türk-General Manager of Visit Aegean-30/07/2015
Interview 6: İsmail Tulukçu-Trade Councillor to Turkish Embassy in Athens-31/07/2015
Interview 7: Spiros Pengas-Deputy Mayor for Tourism and International Relations to Thessaloniki-18/08/2015
Interview 8: Tevfik Bilgen-President of Turkish-Greek Business Council-13/10/2015
Interview 9: Constantinos Angelopoulos-Investment Portfolio Department Manager, Enterprise Greece GOV-01/02/2016

Interview 10: Elias Clis-Former Ambassador and former head of the Department of Greek-Turkish Relations at Greek Ministry of Foreign Affairs- 16/02/2016

Bibliography


