Greece 2020: Designing a Road Map for Development

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RÉSUMÉ

La Grèce pourrait devenir une plaque tournante au niveau du tertiaire dans la région environnante d'ici quelques années. L'élaboration d'une 'carte routière' du développement dans ce sens serait un moteur dans la recherche d'un consensus puisqu'un programme de reforme nationale semble peu réalisable. Une telle entreprise nécessite une bonne analyse des changements probables aux niveaux mondial, européen et régional ainsi qu' une évaluation des options, capacités et préférences domestiques. De plus, il faut un leadership politique capable d'assurer une certaine cohérence dans les politiques de développement et une mobilisation efficace de tous les acteurs.

ABSTRACT

Greece could become a major European hub for services in the wider region in the years to come. Signalling a road map for development in such a direction could become a major driver for consensus-building around a national reform agenda that does not appear feasible under present conditions. Such undertaking requires both solid analysis of likely changes in the global, European and regional environment as well as evaluation of domestic preferences, capabilities and options. More importantly, it requires political leadership that would ensure policy coherence for development and effective mobilization of all relevant stakeholders.

Introduction: The Need for a Road Map for Development

The international environment is changing rapidly: new actors, most notably China and India, are becoming global powers; competition is on the rise; multinational companies relocate to access new markets or lower their cost of production; technological change accelerates the pace of obsolescence of production processes; and migration is on the rise as workers seek better job opportunities and standards of living outside their countries of origin.

To manage these economic and structural changes, governments are under pressure to introduce policy reforms; if they fail to do so, their political legitimacy is gradually eroded as growth prospects are lowered, competitiveness deteriorates, unemployment increases and important social

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groups, most notably the young, the unskilled and the aged, become more vulnerable. Policy reforms, however, are becoming increasingly more difficult to implement as governments are deprived of important policy instruments, including interest rates and exchange rates, which are today heavily influenced by open global markets rather than by government so they are often forced to harmonize tax rates and incentives to businesses to meet competition from other countries in attracting foreign investment. More importantly, as uncertainty rises, they face increasing opposition to reforms as social groups become more risk-averse and more reticent to change. Under such circumstances, leadership is required to rally support behind a long-term vision for development and a credible agenda to realize it. A vision for development is conducive to mobilization for reform, because the plurality of issues addressed by a development agenda – for which different social groups will probably have different interests – provides fertile ground for possible trade-offs, compromises and possibilities for consensus. The challenge for policy-makers is to communicate effectively the desired outcomes, evaluate the options available to attain them and signal a credible road map for development. Opportunities and gains from collective action need to be spelled out, and the risks associated with inertia must be clearly explained. More importantly, each group must at the end of the policy-dialogue process be convinced that both gains and risks will be equally shared.

Credible signalling of such a road map can become a powerful driver for consensus-building around a set of needed policy reforms: public expectations concerning future outcomes converge around a shared agenda, uncertainty as to future policy stance is reduced and risk *premia* are lowered. As a consequence, the business and investment climate is improved, consumer confidence grows and political participation and engagement are enhanced. For these reasons, credible signalling for development is a strategic management tool towards effective governance.

The most difficult challenge for governments in this process remains ensuring credibility. This is probably the most difficult requirement for leadership. Often, it is provided through binding institutional commitments supposed "to tie the government's hands". Examples include accession to the EU, adoption of the Maastricht Treaty, among others, which have historically facilitated European governments' efforts to initiate reforms with varying degrees of success.

A more difficult but probably more sustainable road is to generate and build a broad public-support base that would bind national stakeholders, including parties, in a long-term development agenda. *Greece 2020* – a major program of work of the Athens Development and Governance Institute (ADGI-INERPOST; www.inerpost.org) – is an initiative in this direction and the ideas presented below, are a small contribution towards this collective endeavour.

Proposing a road map for national development must take into account likely changes in the international economic environment and their impact on the policy options available to policy-makers in the years to come as they strive to maintain growth, enhance competitiveness and improve employment plus the standard of living. The ideas contained in the following sections focus, therefore, on anticipated changes in the international environment (section *Global Developments: A Likely Scenario*), their implications for Greece in the years to come (section *Global Developments: Their Impact on the Greek Development Strategy*) and requirements for policy-making (Section *Greece 2020: A Regional Hub for Services*). Needless to say these ideas need to be elaborated further at both the technical and political levels and enriched by recommendations within the context of the public dialogue initiated by ADGI-INERPOST.

Global Developments: A Likely Scenario

Forecasting trends is a precarious business, especially in a rapidly changing economic environment. There is, however, a growing consensus that recent economic trends, partly driven by the emergence of new actors on the global scene, are likely to continue.

According to World Bank projections (Table 1), the real growth rate of per capita income is expected to remain significantly higher in Asia, the Middle East and North Africa (MENA), as well as the countries of the Black Sea Economic Cooperation Area (BSEC)[1], than in the developed countries members of the Organisation for Economic Co-operation and Development (OECD) or the European Union (EU).

Table 1: Real GDP *per capita,* Annual Average Change in Percentages

			Forecast
	1980s	**1990s**	**Long Term 2006-15**
World Total	1.3	1.2	2.1
High-Income Countries	2.5	1.8	2.4
OECD	2.5	1.8	2.4
United States	2.3	2.0	2.5
Japan	3.4	1.1	1.9
European Union	2.1	1.8	2.3
Non-OECD	3.5	4.0	3.5
Developing Economies	0.7	1.5	3.5
East Asia & Pacific	5.8	6.3	5.3
Europe & Central Asia	0.9	-1.8	3.5
Latin America & Caribbean	-0.9	1.6	2.3
Middle East & North Africa	-1.1	1.0	2.6
South Asia	3.3	3.2	4.2
Sub-Saharan Africa	-1.1	-0.5	1.6

Source: World Bank, World Development Indicators 1980-2004

China and India in the course of the past five years (2000-5) contributed approximately 30% of the annual growth rate of global GDP and will continue to play a leading role in international developments (IMF, *World Economic Outlook 2005*). Their contribution to the growth of international trade, which in 2004 grew by 10%, is expected to continue unabated, with certain sectors being particularly strong. Over the past few years, China and India have accounted for about 50% of the annual growth of total oil imports, 32% of the annual growth of metal products' imports, and 95% of the annual growth of cotton and timber imports (Table 2).

Table 2: China and India's Contribution to Growth of World Imports of Selected Commodities, (Percentages) 1998-2006

	China			India		
	Average annual growth for the world excluding China	*Average annual growth for China*	*Overall contribution to global growth by China*	*Average annual growth for the world excluding India*	*Average annual growth for India*	*Overall contribution to global growth by India*
Oil	1.1	31.6	29.9	1.3	18.8	17.9
Metals	3.9	27.9	30.4	5.5	6.1	1.3
Woods	1.6	34.4	94.1	2.8	18.9	12.8
Cotton	-2.3	105.0	91.3	0.1	52.9	4.0
Precious Stones	7.9	32.2	9.1	7.5	15.1	17.5

Sources: IEA database and UN Comtrade

Their heavy reliance on imported raw materials, as well as agricultural and intermediate products will continue to exert upward pressure on raw material prices, most notably oil, thus shifting the terms of trade in favour of raw material exporters. Increased capacity in manufacturing production on the other hand, will continue to depress global prices of manufacturing.

The rise of China and India in international global markets has also brought about a major redirection of capital flows. Between 1990 and 2004, countries in East and South-East Asia, most notably the two Asian drivers, experienced a rapid increase in total foreign direct investment. The share of foreign capital invested in these countries thus increased from 13.4 per cent in 1990 to 22 per cent in 2004, exceeding the share of capital invested in North America (Table 3). At the same time, companies from these countries have expanded their activities not only in Asia but in many other parts of the world. In fact, by 2004, East and South-East Asian countries had increased their share of the total stock of capital invested abroad to 13.1 per cent from 6.1 per cent in 1990 (Table 3).

Table 3: Direction of Foreign Direct Investment

	FDI inward stock		FDI outward stock	
Share (%)	1990	2004	1990	2004
World	100.0	100.0	100.0	100.0
Europe	45.3	47.9	49.5	58.1
Greece	0.3	0.3	0.2	0.1
Other Europe	2.7	2.6	4.3	4.8
North America	28.7	20.0	28.9	24.5
Africa	3.4	2.5	1.1	0.5
South, East & South-East Asia	8.6	13.2	3.4	7.2
East Asia	4.8	9.0	2.7	5.9

Source: *UNCTAD: World Investment Report 2005*

The aging populations in most OECD countries and the persistent gap between the standard of living in developed and developing countries are likely to remain important drivers for international migration. Inflows of unskilled workers from sub-Saharan Africa and Asia into Europe will therefore continue to rise, even if rapid economic growth in the EU-Neighbourhood area might stall emigration flows to some extent.

South-Eastern European and North African countries are entering international markets dynamically. Income growth rates in Bulgaria, Romania and Turkey are expected to remain high, as a consequence of their expected integration in the European Union by 2007 (Bulgaria, Romania) or their gradual accession process (Turkey). Similarly, the creation of a free-trade zone between the EU and the Mediterranean countries, as well as the liberalization of trade in services and investments agreed in Barcelona in November 2005, are expected to spur growth in North Africa (Egypt, Tunisia, Morocco and probably Libya) and redirect foreign investment and trade towards these emerging markets.

Already by 2004, North Africa and South-Eastern Europe accounted for 0. 8% and 0.5% of total foreign invested capital, as compared with 0.3% for Greece (the same level as in 1990); the share of their exports to industrial countries has also risen considerably over the last decade. These positive trends, underpinned by internal reforms and improved governance, have slowly but steadily enhanced competitive advantage of these countries in global markets (see Table 4).

Table 4: Export Share 1993-2003 to Selected Countries

	Greece		**Bulgaria**		**Romania**		**Turkey**	
Share (%)	**1993**	**2003**	**1993**	**2003**	**1993**	**2003**	**1993**	**2003**
DOTS World Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrial Countries	69.5	57.1	56.2	63.0	47.2	73.1	59.1	62.0
Other Europe	17.1	31.6	17.4	29.6	21.9	17.1	13.0	14.4
Developing Countries	29.5	41.9	43.8	36.5	52.3	26.7	39.8	33.5

Source: IMF, Direction of Trade Statistics, November 2005

The international economic environment is thus likely to continue to change in a number of important ways that would affect Greece profoundly in the near future:

- global demand for raw materials, agricultural products and intermediate goods will continue to grow due to the expected high growth rates of China, India and other emerging economies;
- the entry of Bulgaria and Romania in the EU by 2007 and possible accession of Turkey will reduce Greece's advantage as the only European member-state in the region;
- competition between emerging economies, including BSEC and MENA countries to attract foreign direct investment is likely to become more intense;
- the expansion and deepening of the regional market of South-Eastern Europe and the Mediterranean will result in increased competition in both industrial and agricultural production;
- increased opportunities could emerge from the creation of an integrated regional market in South-Eastern Europe and MENA only if inter-regional trade – the volume of which is still limited (15% of total trade volume of these countries) – were to be strengthened and trade-investment and migration interlinkages exploited to develop synergies and complementarities across the economies involved.

Global Developments: Their Impact on the Greek Development Strategy

The likely global and regional developments sketched above should be carefully considered when designing Greece's road map for development in the years to come. The *National Reform Programme for Growth and Jobs* (2005-2008)[2], which was discussed by the economic and finance ministers in the ECOFIN Council (26-12-2005), has already formulated four basic policy priorities for development: 1) restoring fiscal balance and long-term sustainability of public finances; 2) increasing productivity; 3) improving the business environment and 4) increasing employment levels. In pursuing these goals, there is a stated intention to "capitalize on the country's geopolitical attributes to become an attractive destination for entrepreneurial and investment activities in the Balkans and the wider area of South-Eastern Europe" (ibid., p. 2).

Achieving these goals is a major challenge for the government which requires not only systematic pursuit of coherent policies but also development of an appropriate strategy to manage and mitigate risks, including probable opposition to the reform agenda. More importantly, the 2005-2008 *Reform Programme* needs to be made consistent with a longer term strategic vision about what is feasible and what is desirable for Greece in view of the changes anticipated in the global environment. This strategic vision, which we have chosen to call *Greece 2020* [3], needs to be worked out in consultation with all major public and private stakeholders. What is offered below are some preliminary ideas as to the possible implications of the global and regional trends outlined above for designing such a road map for Greece:

a) The rising international demand for agricultural products, raw materials and intermediate products, especially cotton, timber and metal products, would continue, at least for a transition period, to create opportunities for greater specialization towards these products and reorientation of exports towards Eastern and South-Eastern Asia.

It is important to note that Greek crude material exports to China (other than fuels) increased from approximately $3 million in 1999 to $40 million in 2004 while metalliferous ores and metal scrap rose from $513 thousand to $9 million (OECD, International Trade by Commodity Statistics 1999/2004, Volume 2005/2). Profiting from rapid growth rates in Asia would permit Greece to increase its export share of commodities relative to other European countries and relative to services (Table 5).

Table 5: Composition of Trade:
Contribution of commodities relative to services

	EU (15)		**Greece**	
Contribution of	Export Share	Import Share	Export Share	Import Share
Commodities	78.4	78.0	35.4	72.6
Contribution of services	21.6	22.0	64.6	27.4
Total Trade	100.0	100.0	100.0	100.0

Source: World Trade Organisation, International Trade Statistics, 2001, 2002

b) In view of the fact that the countries of Eastern and South-Eastern Asia have shown interest in expanding their access to European and Mediterranean markets, the conclusion of bilateral trade agreements could be coupled with the provision of appropriate incentives to attract companies based in China or other Asian countries to invest in ports, transport services or even in selected manufacturing sectors of mutual interest.

c) The specialization of the Greek economy in services is demonstrated in Table 5. In 2003, the export of services in dollars – payments from tourism ($11 billion), transport ($11 billion), business services ($1.3 billion), cultural services ($329 million), insurance ($198 million) and construction ($196 million) – exceeded $24 billion, as compared with only $14 billion for commodity exports. The geopolitical position of Greece at the crossroads of three continents, its rich heritage and cultural industry plus unique geophysical environment should be considered major assets that could become, through appropriate policies and investments, major drivers of a sustainable development process based on the provision of modern services.

d) The expected deepening of the regional market comprising South-Eastern Europe, the Black Sea area and MENA through increased trade-investment and migration interlinkages is of strategic importance to the Greek economy. Greek companies are already trading and investing heavily in this area. According to the most recent estimates, 3,500 Greek companies are active in the Balkans while Greek banks provide financial services through 800 local branch offices. Greece's export share to the region has expanded rapidly (Table 6). By 2003, the share of Greek exports to Bulgaria, Romania and Turkey had exceeded 12 per cent of total.

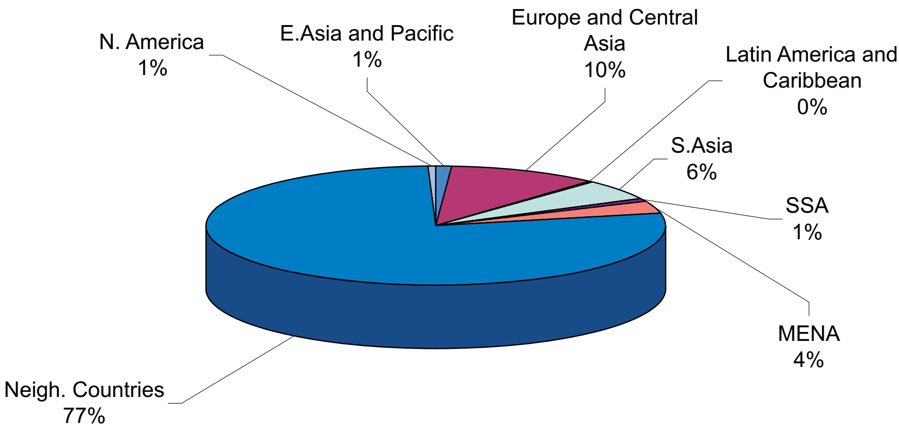
Table 6: Share of Greek Exports

	1993	2003
Other Europe	17.1	31.6
Bulgaria	3.3	6.2
Romania	1.0	2.6
Turkey	1.6	4.0

Source: IMF, Direction of Trade Statistics, November 2005

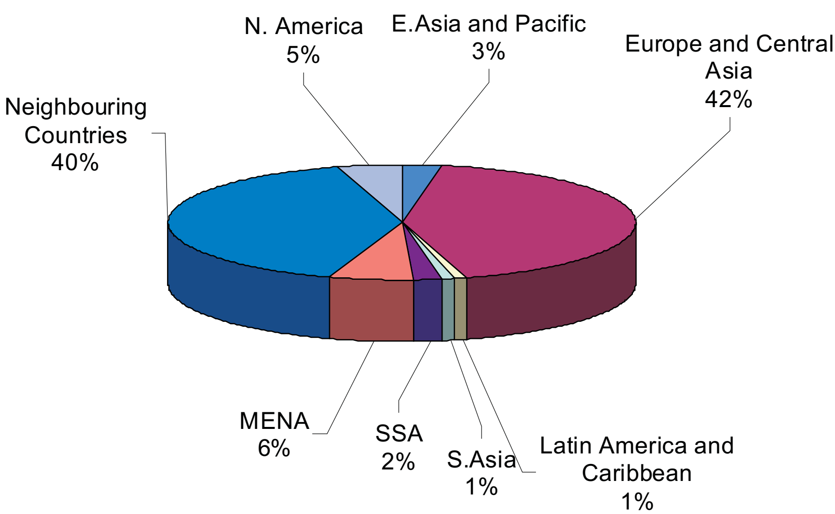
e) Labour mobility in the wider area, including Greece may be turned into a positive driver for development if incorporated successfully in the long-term development agenda. Many citizens of these countries already seek better employment opportunities and living standards in Greece. According to OECD data, neighbouring countries[4] accounted for 77% of the total stock of unskilled and 40% of skilled immigrants in Greece in 2001 (Diagrams 1 and 2).

Diagram 1: Composition of Unskilled Foreign-Born Residents in Greece by Country of Birth



Source: OECD database on Expatriates and Immigrants, 2004 (census data 1999-2003)

Diagram 2: Composition of Skilled Foreign-Born Residents in Greece by Country of Birth



Source: OECD database on Expatriates and Immigrants, 2004 (census data 1999-2003)

Greece 2020: A Regional Hub for Services

The likely impacts from global and regional developments outlined above highlight the potential comparative advantage of *Greece as a regional hub for services for the wider region.* The rapid growth and progressive integration of Greece both into the European and into a regional market could continue to provide and expand profitable opportunities for both Greek and foreign companies. Such a strategic vision for long-term development however, needs to be supported by appropriate policies and can be implemented only if major reforms are undertaken. Under present conditions, the cost of doing business in Greece remains high relative to competitors, and the country's comparative advantages are rapidly eroding.

Regulatory reform is the first priority. Without a major simplification of regulatory practices, significant lowering of transactions and business costs and administrative reforms, Greece cannot attract new business investment and can probably not sustain its present growth performance. Policies also need to upgrade road and rail infrastructure, secure energy supplies and energy routes, expand telecommunications, and enhance trade capacity building. Community funding under the IV *Support Framework* could be used strategically to support such initiatives as well as the effective integration of the wider regional market which would enhance Greece's attractiveness both as an export base for foreign companies and a hub for business, financial, administrative and social-services.

Increased competition from new emerging actors in traditional manufacturing activities would require a restructuring of Greece's productive base towards high quality services and clusters of supporting complementary activities. Transport, business and logistics, tourism, education and health services provide opportunities for new investment to upgrade quality, improve access to new markets and enhance openness and ensure complementarities. High quality tourism development, for example, could be reinforced through appropriate organic food production, transport and health services, appropriate education, cultural and training activities, and effective financial and business service provision. Greater policy coherence, in other words, the systematic pursuit of mutually reinforcing policy actions to attain specific development outcomes, is a prerequisite for such an agenda. Development requires a 'whole-of-government' approach as well as improved governance and institutions.

Greater coherence is needed both throughout policy instruments and across policy domains including infrastructure development, economic diplomacy, migration, regulatory and development cooperation policies. The integration of the regional market, driven by increased relocation of firms, capital and people, needs to be supported by simplification of administrative and regulatory procedures, facilitation of circulation for both unskilled and skilled workers and professionals, transferability of pensions and social services, improved infrastructure, improved services. Development assistance may act as a catalyst for reinforcing private sector initiatives while regulatory reform could safeguard better transparency, accountability and effectiveness. New financial instruments, e.g., tapping Diaspora savings for regional development, could complement Community funds for upgrading infrastructure, while public-private partnerships could stimulate investment and upgrade quality in tourism, energy, environmental management, telecommunications, education.

Such a forward-looking agenda would require a major overhaul of the institutional framework and the consolidation of existing organisations with overlapping competences. For example, in the area of foreign economic relations, and in light of the many interlinkages between trade and investment in Greece and the wider region, the competencies and overlapping roles of the Hellenic Foreign Trade Board, the Hellenic Centre for Investment, the Export Credit Insurance Organisation or the Thessaloniki International Fair (organised by HELEXPO) deserve careful review.

These organisations could, for example, be merged into a new development and finance institution providing integrated services, following the model of European development finance institutions that have been established in fourteen European member states[5].

In summary, mapping a strategic road map for development based on services would require the pursuit of coherent policies that span a number of policy areas as well as the mobilisation of all relevant stakeholders. To ensure policy coherence, policy options and complementarities across policy domains and instruments need to be carefully and systematically analysed. Mobilization, on the other hand, requires broad policy dialogue, effective networking, appropriate monitoring and evaluation of intermediary outcomes as well as the promotion of participatory processes in the political and institutional system. These are the challenges of effective leadership.

NOTES

1. The 12 BSEC member states are: Greece, Albania, Serbia-Montenegro, Bulgaria, Romania, Ukraine, Moldova, Russia, Georgia, Armenia, Azerbaijan, and Turkey.

2. For more information, see www.ypetho.gr

3. The name has been proposed by the Athens Development and Governance Institute (ADGI-INTERPOST) as part of their program of activities (www.interpost.org).

4. Under «Neighbouring countries» the following countries are included: Bulgaria, Romania, FYROM, Bosnia-Herzegovina, Serbia and Montenegro as well as Turkey.

5. Austria, Belgium, Denmark, France, Germany, Hungary, Italy, Norway, Switzerland, Holland, the U.K., Spain, Sweden, Portugal (see www.edfi.be).