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Greece as a bridge to the most vibrant region of the next decades

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Abstract

In the years following the financial crisis, Greece experienced a severe loss in real per capita income and accumulated a public debt much higher than GDP and that of any other EU country. The article briefly analyses the causes of this development, including the policy failures of Greece and the EU. It develops a game-changing strategy, which could return the country to a growth path. This starts with the vision that Greece can make use of its unique location between Europe, Asia and Africa to build a bridge connecting these regions with fascinating and productive complementarities. Given this new strategy, including regional leadership in decarbonisation, youth reform boards, and the Greek diaspora as a manager of reforming and financing new activities, Europe should cut a substantial part of the debt. This would be in the interest of Greece, the EU and Europe´s neighbours.

Keywords: European strategy, a vision for Greece in the globalized world, new actors for reforms

JEL: A13, D22, E02, E61, F13, F42, L52

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1) Policy Crossover Centre Vienna Europe (www.querdenkereuropa.at), Vienna University of Economics. This article partly follows a paper presented at the Conference of the International Jean Monnet Centre of Excellence at the University of Thessaloniki. They are based on Aiginger (2016) and their extension by the analyses provided by the European Policy Crossover Centre, an Austrian based think tank on the future of Europe (www.querdenkereuropa.at).

1. Introduction

Greece has recovered from its largest economic crisis and new confidence is setting in. But development will not be smooth if the high debt burden is not reduced. This can be done if Greece presents a vision for its position in the globalizing world as of 2030. Any path chosen by Greece will be easier if the peace and integration process in the Western Balkans continues and Europe commits to a strategy of reconnecting with its citizens after the elections in May 2019.

Greece has the historic chance to become the bridge between Europe, Asia and Africa. Countries east of Europe, in the Middle East and in North Africa, are potentially vibrant, with a predicted growth rate of more than 5% p.a. as compared to at best 2% in Europe. But the neighbourhood is politically instable today, and potential new "hegemons" like Russia, Turkey or Iran are eager to dominate the region.

To take advantage of the opportunities, Greece must make use of the existing qualifications of young Greeks, but also those of migrants. It must switch from an inward-looking policy to better relations with its close neighbours. Greece should furthermore try to attract new foreign capital, not the least with the assistance of its large and successful diaspora; and it should incentivize the return of untaxed capital hidden in tax shelters. Finally, Greece could become a hotspot for renewable energy, the regional technology leader. This would save such a large amount of imports for oil and gas for Greece that the balance of payment of Greece would turn deeply into the positive, without an overly restrictive fiscal policy in the future.

Europe as a success model lacking a strategy

The EU is, seen in the long term, a success model (Sachs, 2008). It now has 28 members and has developed from a free trade agreement (starting with coal and steel) to a common market. The majority of the EU members has a common currency, which – despite short-term crises – is now stronger than at its start and challenging the dominance of the US dollar. Europe is an area in which no military conflict has taken place over the last seventy years and it is spreading rule of law and conflict management to countries applying for membership. The former socialist countries were integrated in a shorter period than any other transformation in history – for this, the EU has been called an integration machine by the World Bank (Gill and Raiser, 2012).

But Europe is now stuck in a midlife crisis. Economic dynamics are low, inequality is rising, youth unemployment is high. Development is not even across countries and over time, and if progress is reached it is not interpreted as a European achievement. Reforms in southern Europe were not fast enough, as a part of production was transferred to low-wage countries without clusters of new firms or more sophisticated industries substituting the loss. Smaller crises were always met with higher public expenditures, without a focus on innovation and training – activities that would foster future competitiveness. Now East-West as well as North-South splits are endangering the consensus among countries. Europe lacks a new narrative, since peace is taken – erroneously – as a given and support of citizens for "ever deeper integration" no longer exists, even if global challenges are on the rise. As outside challenges, the US administration wants to weaken Europe and Wladimir Putin seeks to regain political dominance in Central and Eastern Europe and the Western Balkans.

2. The crossroads for Europe

2.1 Connecting with neighbours vs. losing global leverage

Europe is currently the largest economic region in the world and enjoys the highest standard of living (defined by economic, social and ecological goals), and life expectancy is increasing in contrast to the USA. But to remain an important international player, Europe must start ambitious internal reforms and engage in a new partnership with its dynamic neighbourhood. The alternative would be to become an isolated region of less than 10% of world output and 5% of population up to the end of this century, lower than the shares of India and South Africa. A small, ageing and shrinking Europe would be surrounded by a "ring of fire" and countries longing for "past glory" – which never existed or requires border changes – and new hegemonial powers supported by autocratic regimes (from Russia to Turkey or Iran).

Table 1.1: Development of real GDP and population

	Real GDP		Population	
	2000/2017	2017/2022	2000/2017	2017/2050
	Average percentage change p.a.			
World	3.8	3.7	1.2	0.8
Advanced economies	1.7	1.8	0.5	0.2
Emerging and developing countries	5.7	5.0	1.3	0.9
China	9.3	6.1	0.6	-0.1
EU 28	1.5	1.8	0.3	0.0
Central and Eastern Europe	3.3	2.9	-0.3	-0.5
Black Sea Region	4.7	3.5	-0.2	0.3
CIS	3.9	2.2	0.2	0.0
Middle East and North Africa	4.4	3.3	2.0	1.3
Sub-Saharan Africa	5.1	3.6	2.8	2.4
European Neigbourhood (ENB)	4.5	3.1	2.0	1.8
ENB + EU 28	2.3	2.2	1.5	1.4

Notes: European Neighbourhood: CIS, Turkey, Middle East and North Africa, Sub-Saharan Africa.
Source: IMF, World Bank, UNO. GDP: 2017 until 2022 IMF forecast; population: 2017 until 2050 UNO forecast.

2.2 Populist calls for protection vs. future-oriented reforms

Populist movements, such as that which led to Brexit, would like their countries to exit from the European project (see France or Hungary). They favour illiberal democracies without the checks and balances needed for a balanced governance, and they recall past glory. They are fuelled by rising inequality within countries, as well as regions with high brain drain and a consequently decreasing workforce. The catching up lagging regions is being achieved, but often not as fast as expected by low-income countries and new members. Inward migration is needed in general due to ageing, but it is not managed and coordinated, and is therefore often rejected by electorates or governments

High vs. low road

On a low road, path wages are cut, and social and ecological standards are neglected. A high-road strategy focusses on innovation and skills, raising productivity and fostering new firms and technologies.

2.3 Looking inward vs. connecting with neighbours

An inward-looking strategy calls for protection and military border control. An outward strategy invests into a new partnership with Europe´s dynamic however unstable neighbourhood. The European neighbourhood (the former Soviet Union, Black Sea, Arab countries, Africa) could be a turbine for European exports. A new partnership policy could fight the root causes of migration (poverty and increasing desertification; Aiginger and Handler, 2018).

2.4 More vs. less Europe

Global challenges call for common European solutions, but most members and citizens tend to reject intervention by "Brussels". The solution is that the EU set common goals and empower member countries to choose better solutions. Europe should try to define targets it wants to achieve but not intervene in detail (Aiginger, 2017). If climate goals are set, each country can decide which instruments to use, and which innovations to accelerate. If there is tax transparency and a common tax base, each member can fix its individual rates. If the financial system is stable and short-run speculation is taxed, each country and firm will invest more. More Europe on the goal-level combined with less micro-management is the best solution.

2.5 Summary

If Europe can solve its internal problems, it will be able to shape globalization according to its values and priorities (for limits of globalization as it happens today see Rodrik, 2016). Europe could remain – together with its neighbours and on par with China – the largest economic power. A sound financial sector has to serve the real economy. Europe is becoming a region with high and increasing well-being, as well as the largest choices, and is enjoying the diversity and skills provided by migration and openness. In short, it is becoming a role model for a high-income region with social and ecological responsibility (Aiginger, 2016, 2018).

Table 1.2: Distribution of GDP and population

	Real GDP/capita 2017		Nominal GDP			Population		
	USD	World=100	2000	2017	2022	2000	2017	2050
			Percentage shares					
World	11,167	100	100.0	100.0	100.0	100.0	100.0	100.0
Advanced economies	46,320	415	79.2	60.5	56.1	15.7	14.0	11.5
Emerging and developing countries	4,955	44	20.8	39.5	43.9	83.6	85.3	87.8
China	7,163	64	3.6	15.1	17.8	20.9	18.7	14.0
EU 28	36,946	331	26.4	21.6	20.3	7.9	6.7	5.1
Central and Eastern Europe	16,359	146	1.2	1.7	1.8	1.6	1.2	0.8
Black Sea Region	16,801	150	0.9	1.3	1.3	1.4	1.1	0.9
CIS	8,354	75	1.1	2.5	2.5	4.6	3.8	3.0
Middle East and North Africa	6,765	61	3.2	3.7	3.8	5.6	6.4	7.7
Sub-Saharan Africa	1,727	15	0.7	1.5	1.7	9.8	12.8	21.4
European Neigbourhood (ENB)	4,805	43	6.4	9.4	9.7	20.6	23.4	32.3
ENB + EU 28	11,822	106	32.8	31.0	30.0	28.5	30.1	37.5

Notes: European Neighbourhood: CIS, Turkey, Middle East and North Africa, Sub-Saharan Africa.
Source: IMF, World Bank, UNO. GDP: 2017 until 2022 IMF forecast; population: 2017 until 2050 UNO forecast.

3. The need for a vision for Greece

Greece has made some striking policy changes and achieved remarkable progress, e.g. in cutting public expenditures as well as external deficits. However, public debt and youth unemployment are still high, and the improvements depend on tourist seasons and a favourable business climate in Europe. The recovery is not built on new strengths, innovation and clusters of new firms so far. A vison is needed for a dynamic Greece in the globalizing world with new power structures and future technologies.

This vision could be based on unique location. Greece has a specific geographical position compared to all other European countries. It is closest to the Black Sea region, the Middle East and North Africa. Its distance to Kairo is 1.2 km, to Kiev 1.5 km. This is much less than the distance to Berlin, Paris or Brussels (all more than 3,000 flight kilometres away). Historically, this location between Asia, Europe and Africa was the reason why civilization took hold early in this region; Greek merchants took the lead in trade and Greek ideas enriched philosophy and science.

But today Greece is not on good terms with any of its neighbours. It is at odds with Turkey with respect to Cyprus and other islands. Greece is preventing Macedonia (the Former Yugoslav Republic of Macedonia; FYROM) from becoming a member of the EU, because Macedonia claims Alexander the Great as Macedonian. It does not consider Bulgaria and Albany as countries on equal terms, but mainly as source countries for construction workers and service personal. Consequently, trade with its neighbours amounts to less for Greece than for any other European country. Greece does not trade intensively or invest in North Africa, nor with all the countries on the other side of "mare nostrum". It is accustomed to a large and privileged military sector, which requires more tax receipts than universities and childcare institutions together.

The central idea of the vison is that Greece can become a hub for production, exports and trade in a dynamic geographical region. The Greek neighbour countries are growing fast, whenever there is peace. This holds for Turkey, the Arab countries, North Africa and even more for Sub-Saharan Africa (to a lesser degree for former Soviet Union countries and the Western Balkans, see table 1.1). Greece has a well-educated population, knowledge in ICT, and entrepreneurial spirit demonstrated by entrepreneurs all over the world, and it could use this potential to take the lead in technological development in Southern Europe. Deindustrialisation that took place in the past two decades should be stopped by new firms, start-ups, and economic zones along the highways and around ports.

4. Game-changers on the new road

Reform zones could attract international firms, which do not currently invest in Greece because of burdensome procedures and the length of legal disputes. Start-up centres could supply computer facilities, office space, meeting rooms, and joint secretarial services for business start-ups. Rent, electricity costs and taxes could be waived for young firms in such centres for one year.

4.1 Youth reform boards

A competition for the best ideas on how to increase opportunities for young people. It can be organized via social networks, and the best proposals could be presented in a televised event. Young people, including the winners of the contest, could then build an advisory reform board to government (e.g. providing a "youth test" for all reforms).

Greece is still dominated by 'old boy' networks, large government, an expensive military sector and tax-free ship owners. Young people have excellent command of ICT technology, but do not find work today, and if they do it is not adequately paid. They are underrepresented in the political process, and especially young women.

4.2 Private funds managed by the diaspora

Government money for reforms will be limited for a considerable time, but private funding is in principle abundant, given the uneven distribution of incomes and property, the success of expatriates in the world and the money sequestered abroad tax-free in other European countries or tax havens. This foreign capital should be incentivized to be returned; a lump sum payment of 25% could be combined with tax amnesty. On the other hand, if foreign accounts are not reported within a year, the full penalties by law should be applied. Funds from expatriates or wealthy Greeks at home, as well as the money returned, should together be invested in a Greek Future Fund managed by expatriates and the ECB.

Making use of the qualifications of migrants

Quasi-governmental institutions could be set up to foster the integration of migrants into the Greek economy and their children into schools and preschool care. Greece needs migration and migration helps to connect with neighbours. Practical skills and the entrepreneurial spirit of migrants are definitely needed in Greece.

4.3 Regional leader in decarbonisation

Greece is a relatively energy- and resource-intensive society with high input of coal, oil, gas and nuclear energy. Imports of fossil energy are large and have negatively shifted the trade balance. Large subsidies for fossil energy are maintained and prevent energy-saving technologies and the inroads of alternative energy. They also present a heavy burden for public budgets.

Greece should try to become the first decarbonized society in Europe. Energy saving and renewable energy using the wind and the sun should be the top priority. Cars using combustion technology should be forbidden step-by-step up to 2025. Efficient loading infrastructure has to be provided in all homes and offices – traditionally gasoline stations and public buildings. As a first decarbonized society, Greek could improve technologies and then export them to neighbour countries in the black Sea, the Western Balkans and North Africa.

Cutting debt in three stages

Greek debt can be cut if Greece develops a vision and sticks to it. This could be done in three stages: one third should be cut directly through decisions made by the EU and its members, the second third should be paid back but at a very low interest rate, subsidized by institutions connected with the EIB, and the third part can be paid back through repatriation of Greek capital currently stored in foreign banks and tax shelters.

To summarize, we have provided a menu of game changers for Greece, which could shift attention away from problems and failures to future possibilities; away from measures demanded by the troika to issues improving the chances of Greece being able to gain an adequate and excellent position in the globalized world of 2030. Greek citizens, Greek youth, and a Greek diaspora committed to its home base should all be in the driver's seat of the reforms.

Conclusions

Greece could use its unique geographical position to become the bridge between Europe and Asia, as well as the Middle East and North Africa. This region is growing by more than 5% per year but is also replete with dormant or actual conflicts. Russia, Turkey and Iran want to dominate this region. China builds Silk Roads to and establish logistic centres in this region as to regain its position as leading world economy, and it invests in Africa as to get access to raw materials and a market for cheap products. The US is retreating form multilateralism und will lose importance in this region.

Greece will recover if Europe performs better. This depends on a coherent European strategy, which needs to be developed after the parliamentary elections in May 2019. Europe should strive to become the region with the highest and fastest growing standard of living, with lower inequality and more ambitious environmental standards than any other region in the world. Together with its neighbours, Europe may still be the largest region in 2050, on par with China and larger than the US combined with Canada and Mexico. As the EU and most of its current member countries have a shrinking population, and in the European Neighbourhood the population is increasing, migration could become a win-win situation for both. But this process has to be managed, and migration should be circular, with migrants returning and disseminating knowledge and technologies at home, creating new firms and reforming the administration.

Europe has to invest in the ENB, with a focus on practical qualifications and vocational training, and migrants at least to some extent should return to their country of origin to prevent brain drain and foster cultural dialog and understanding. At the same time, the EU needs to negotiate with China, with a view to making the Silk Road and China's investment in European firms and infrastructure a win-win situation respecting the goals and values of the partners. Both Putin's and Trump's ambitions to destroy the EU by destabilizing the Western Balkans will be preempted if Europe cooperates with China as well as its vibrant neighbourhood in partnerships on equal terms.

But Greece has also to develop an own vision about its position in the globalizing world. A Greek strategy could follow the vision of bridging Europe, Asia and Africa. This will help Greece to grasp the chances of its vibrant neighbourhoods. Greece could become the regional technology leader in renewable energy and invite its successful diaspora to invest in new firms and technologies. The Greek society must give young people and females a greater role in reshaping the society, and to limit the current influence of old boys' networks, lobbies and the large and inefficient bureaucracy, which dominates Greece today. Following the vision of a bridge to the dynamic neighbourhood should enable also to cut a large part of Greek´s current debt.

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