

POLITICS OF INTERDEPENDENCE: AN ANALYSIS OF TURKISH-GREEK  
ECONOMIC RELATIONS

A Master's Thesis

by

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Ankara

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POLITICS OF INTERDEPENDENCE: AN ANALYSIS OF TURKISH-GREEK  
ECONOMIC RELATIONS

The Graduate School of Economics and Social Sciences

of

İhsan Doğramacı Bilkent University

by

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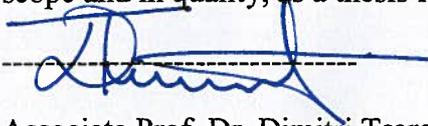
THE DEPARTMENT OF INTERNATIONAL RELATIONS

İHSAN DOĞRAMACI BİLKENT UNIVERSITY

ANKARA

May 2016

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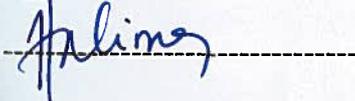
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## **ABSTRACT**

### **POLITICS OF INTERDEPENDENCE: AN ANALYSIS OF TURKISH-GREEK ECONOMIC RELATIONS**

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Over the last two decades, there has been a dramatic increase in bilateral relations between Greece and Turkey in many areas from trade to tourism. This increase has taken through both state and non-state level initiatives. It has become difficult to ignore the existence of the economic interactions between the two countries. Previous studies in the literature have mostly ignored the political economy of relations. The purpose of this thesis is to examine the current state of economic relations between Greece and Turkey, and how these affect the two states' political relations. Therefore it asks the question "to what extent do economic ties reflect on the evolution of political relations between Greece and Turkey?" This research studies bilateral economic relations by focusing on the fields of trade, foreign direct investment, energy and tourism interactions between the two countries and revisits liberal/neoliberal approaches of economic interdependence to explore their relevance in the Turkish-Greek case. It aims: 1. To examine the scope of economic interdependence between two countries, 2. To ascertain the limitations and opportunities in fields of economic interaction, 3. To determine the extent to which economic interactions between the two countries can be helpful in transforming

relations and whether increasing economic interdependence provide opportunities for the resolution of their bilateral political problems.

**Keywords:** Greece, Interdependence, Political Economy, Turkey

## ÖZET

### KARŞILIKLI BAĞIMLILIK POLİTİKALARI: TÜRK-YUNAN EKONOMİK İLİŞKİLERİ'NİN ANALİZİ

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Geçtiğimiz yirmi yılda, Yunanistan ve Türkiye arasındaki ilişkilerde, ticaretten turizme farklı alanlarda, belirgin değişiklikler yaşandı. Bu değişiklikler hem devlet aktörleri hem de devlet dışı aktörler düzeyinde meydana geldi. Böylelikle iki ülke ilişkilerinde ekonomik etkileşimin varlığını göz ardı etmek zorlaştı. Literatürdeki çalışmalar çoğunlukla Türk-Yunan ilişkilerinin politik ekonomiğini incelemeyi ihmal etmişlerdir. Bu tezin amacı Yunanistan ve Türkiye arasındaki ekonomik ilişkilerin şu anki durumunu analiz etmek ve bunun politik ilişkilere nasıl yansıdığını incelemektir. Bu nedenle bu tez; ekonomik bağlar Yunanistan ve Türkiye arasındaki politik ilişkilere ne derecede yansımaktadır sorusunu soruyor. Bu araştırma ikili ekonomik ilişkileri ticaret, yabancı direkt yatırım, enerji ve turizm başlıkları altında ve liberal/neoliberal karşılıklı bağımlılık anlayışını temel alarak incelemektedir. Tezin öncelikli amaçları: 1. Ekonomik karşılıklı bağımlılığın derecesini araştırmak, 2. Ekonomik etkileşim alanlarındaki limitler ve fırsatların incelenmesi 3. İki ülke arasındaki ekonomik etkileşimin ilişkilerin dönüşümünde ne derece faydalı

olacađının ve artan ekonomik karřılıklı bađımlılıđın politik sorunların özölmesi için fırsatlar yaratıp yaratmayacađının belirlenmesidir.

**Anahtar sözcükler:**Karřılıklı bađımlılık, Politik Ekonomi, Türkiye, Yunanistan

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## **LIST OF ABBREVIATIONS**

AKEL	Progressive Party of Working People
AKP	Justice and Development Party
ANAP	Motherland Party
ANEL	Independent Greeks Party
BDDK	Turkish Banking Regulation and Supervision Agency
CFSP	Common Foreign and Security Policy
CTP	Republican Turkish Party
DPT	State Planning Organization
DYP	True Path Party
EC	European Community
EEC	European Economic Community
EFSF	European Financial Stability Facility
ELSTAT	Hellenic Statistical Authority
EMU	European Economic and Monetary Union
FIR	Flight Information Region
HATTA	Hellenic Association of Travel and Tourist Agencies
ISI	Import Substitution Industrialization
İZTO	İzmir Chamber of Commerce
KKE	Greek Communist Party
ND	New Democracy Party

NGB	National Bank of Greece
PASOK	Panhellenic Socialist Movement
RP	Islamist Welfare Party
SEV	Hellenic Federation of Enterprises
SYRIZA	Coalition of Radical Left
TAP	Trans Atlantic Pipeline
TANAP	Trans Anatolian Pipeline
TESK	Turkish Confederation of Employers' Union
TOBB	Turkish Union of Chambers and Commodity Exchanges
TÜİK	Turkish Statistical Institute
TURSAB	Association of Turkish Travel Agencies
TÜSİAD	Turkish Industrialists' and Businessmen's Association
UBP	National Unity Party

# **CHAPTER 1:**

## **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 and their peoples' which have contributed in better bilateral relations. The likelihood of military conflict has decreased since it would have massive consequences for the interactions between the two countries. 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 provide a detailed analysis of increasing economic interactions between the two countries at state and societal level. That is, the majority of studies has adopted a state-centric understanding of international relations and has prioritized bilateral conflicting relations over the Aegean Sea, and the Cyprus dispute, rather than bringing into focus improving channels of economic interactions. This is not to say that security focused 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, changing dynamics that are giving shape to contemporary Turkish-Greek relations.

The main purpose of this thesis 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 thesis will examine bilateral economic relations by evaluating the fields of trade, FDI, tourism and energy interactions between the two countries, which have gained momentum since the 1999 rapprochement. Regarding these, this research attempts to revisit the liberal and neoliberal understanding of economic interdependence and cooperation to explore their relevance on the Turkish-Greek case.

Regarding scope of the this thesis, it seeks to account for the improvement in economic relations between Greece and Turkey, and ascertain the limitations and opportunities in various fields of economic interactions namely Bilateral Trade, Foreign Direct Investment, Tourism and Energy Issues. These four fields are not only indicative for the scope of economic relations but also useful to examine similarities and differences between them. The bilateral trade offers the most apparent field to examine the level of economic interaction. The Foreign Direct Investment flows provide ways to understand the economic and political dynamics between two countries since investments relate to the deeper pattern of relations. The tourism field is more open to societal cooperation between two countries and they are significant by directly including two societies' daily experiences. The energy field has been improving recently compared to others due to regional developments in the energy sector and it needs to be examined within a broader framework since it directly touches upon security matters. Moreover, this thesis strives to determine the extent to which economic interactions and cooperation between the two countries at both state

and societal level can prove helpful in transforming relations and whether increasing channels of contact provides opportunities for the resolution of outstanding political issues and is likely to decrease possibility of military tensions caused by long standing bilateral political problems.

This dissertation adopts a qualitative methodology approach. Data for this study were collected in various ways. The empirical data was collected by gathering statistical information from the Hellenic Statistical Authority (ELSTAT), Turkish Statistical Institute (TUIK), OECD, World Bank Data and Eurostat, and by conducting interviews with diplomats and people from various business organizations from two countries<sup>1</sup>. The secondary literature on Turkish-Greek relations, economic interdependence theories, Greek and Turkish Political Economies was utilized as well. Eleven semi-structured or/and structured interviews were conducted. Those interviews were either conducted face to face in Greece or conducted through e-mail in Turkey. Seven of the interviews were conducted in Greece in July/August 2015. Those face to face interviews were conducted in semi-structured way since semi-structured technique gives flexibility to ask follow up questions. Interviewees did not prefer voice recording. Therefore I used note-taking technique. Four e-mail interviews were conducted in a structured way by sending prepared questions to the interviewees. Interviewees were asked at least 5-6 questions. Moreover, they were asked not the same but similar questions varying based on their backgrounds and sectors.

The present study makes a 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

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<sup>1</sup> See Appendix section for the information on interviews.

two countries, as well as their implications on the political sphere. The thesis is composed of 7 chapters. The following chapter will present the theoretical framework of this thesis, discussing liberal and neoliberal theories by focusing on economic interdependence and cooperation. In chapter 3, I provide a historical overview of Turkish-Greek relations. This includes a literature review of Turkish-Greek relations and gives an account over recent dynamics in relations by focusing on changes and continuities. Chapter 4 gives an insight in the historical evolution of Greek and Turkish political economies with a comparative part as well. Chapter 5 accounts for findings of the research. It focuses particularly on economic relations, containing the main determinants of improving economic relations and providing a detailed analysis of the designated economic areas under study. In chapter 6, I demonstrate a synthesis between economic relations and my theoretical focus. I discuss the key findings in relation to economic interdependence and the current political conundrum. Finally, the conclusion chapter reflects on the main arguments of the thesis.

## **CHAPTER 2:**

### **THEORETICAL FRAMEWORK**

As presented in the introduction chapter, I will discuss liberal/neoliberal theories with a focus on the dialogue between economic interdependence and foreign policy making in terms of establishing the theoretical settings of the thesis. Before getting into the chapters related to the historical background of Turkish-Greek relations, it is fundamental first to deal with the vast theoretical literature to apply in the case of Turkish-Greek economic relations. Following on from that, this chapter will give an account of the literature that has emphasized the role of interdependence in world affairs. Regarding this, I will mainly look into Interdependence theory developed by Keohane and Nye to consider its implications, if any, on the Turkish-Greek case. While interdependence theory will be the main focus of this chapter, other liberal/neoliberal approaches that have examined the relationship between economic issues and conflict (or war), will also be discussed. Therefore, Democratic Peace Theory, Trade versus Conflict theory and Interdependence theory will all be presented since all these approaches share common epistemological features and are particularly appropriate to analyze a thesis focused on political economy.

#### **2.1. Commercial Liberalism and Democratic Peace Theory**

Realist and Liberal approaches have long been the two dominant traditions of International Relations. While realism had overshadowed liberal IR in the first half of the 20th century, Liberal IR had arrived forefront by the end of the Cold War with

increasingly intense debates over globalization, non-state actors and interdependence. The evolution of Liberal IR had been influenced by the thinkers of 17th, 18th and 19th centuries (Zacher & Matthew 1995: 110). All these thinkers, Locke, Rousseau, and Kant among others had discussed the themes that later became core to the Liberal IR tradition. Therefore, their reflections on “the relationship between democracy and peace, the possibility of achieving security through international organization, the salience of international moral and ethical principles, and the diminishing but ineradicable relevance of power relations and self-interest among both democratic and non-democratic states” have a long history (Zacher & Matthew 1995: 112). Before reviewing Democratic Peace Theory and Commercial liberalism, it is useful to present the main theses of Liberal theory.

Liberal International Relations theory takes state actors and units into account as the core level of analysis (Oğuzlu 2014 in Ali and Kardaş). It questions the traditional depiction of the state as a unitary and monolithic entity and asserts that the domestic components of the state are key in state policy formulation (Oğuzlu 2014). Therefore liberalism is a pluralist theory in a way that states’ interests and policies are defined by various interest groups who bargain over various issues (Zacher and Matthew 1995: 118). As mentioned by Dunne, many described Liberalism as the “tradition of optimism” (Dunne 2001: 163). This is because liberals have believed in gradual, yet inevitable, human progress. That is, self-interest can be synthesized to lead to a harmony of interests (Doyle, 1986; Russett, 2013: 95) in a way that security, welfare and human rights can be promoted (Zacher and Matthew 1995: 117). Liberalism, like Realism, accepts that the international system is anarchic and there is a security dilemma in the system (Russett 1993). Realism argues that states always aim at maximizing their security. In conditions of anarchy, the security dilemma

therefore is inescapable since the likelihood of arms race become increasingly possible when states become threatening towards each other (Herz 1950; Glaser 1997). However for liberals, it is possible to overcome the negative impacts of this anarchic system. Liberalism maintains that enduring war and conflict in the international system can be avoided by the cooperative and integrative disposition of states. Democratic governments, economic interdependence, and international law and organizations are crucial in mitigating conflicts in International Relations (Doyle 1986; Russett 2013: p.95). As cooperation and interdependence between states increase, it becomes progressively more difficult for states to withdraw from their commitments. Military confrontation can thus be prevented (Pevehouse, 2004). Liberals also assume that national interests are not constant and can be redefined (Deutsch 1957; Haas 1958) since relations between domestic interest groups can evolve and they can be formed by domestic and international factors (Zacher & Matthew 1995: 118-119). Accordingly, a state's foreign policy is conducted rather different from the prototype held through the Realist anticipation. States might have common interests to cooperate and in which they may be likely to focus on absolute instead of relative gains, and they mostly follow international rules and norms (Oğuzlu 2014). Further, liberal theory does not prioritize over issues as high politics (security, military) vs. low politics (trade, environment). On the contrary, realism sees that states are dominant actors and force is a useful instrument of policymaking. Thus they prioritize military security related questions (Keohane & Nye 1977: 19). The liberal understanding assumes that this hierarchy does not exist because of the inherent complexity of world politics which allows for complex interaction between actors and makes domestic and foreign policies blurred

(Keohane and Nye 1977: 27). Therefore, economic issues, such as trade relations, can play a vital role same as others in states' foreign policy agenda.

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 & Matthew 1995: 122). As coined by Doyle (1983-1: 206), "Liberalism is not inherently peace-loving; nor is it consistently restrained or peaceful in intent". Therefore, Democratic Peace Theory does not make idealist assumptions, and its axiomatic assumptions need some further exploration.

Democratic Peace Theory has been much influenced by Kant's Perpetual Peace, written in 1795. In his work, Kant assumes the widening and pacification of a liberal pacific union and explains the reasons as to why liberal states may not be peaceful in their relations with non-liberal states (Doyle, 1983-1: 225). Kant describes three definitive articles for perpetual peace to be developed and maintained: "The Civil Constitution of Every State Shall be Republican", "The Right of Nations shall be based on a Federation of Free States", and the "Cosmopolitan Right shall be limited to Conditions of Universal Hospitality" (Kant 1795: 98-99, p.105). While Kant had assumed the ultimate form of universal peace which will produce "a harmony from the very disharmony of men against their will" (Doyle 1983-1: 207), Doyle (1983-1: 232) suggests a "separate peace among liberal states" and states:

“Liberal states have not escaped from the Realists' security dilemma, the insecurity caused by anarchy in the world political system considered as a whole. But the effects of international anarchy have been tamed in the relations among states of a similarly liberal character. Alliances of purely mutual strategic interest among liberal and nonliberal states have been broken, economic ties between liberal and nonliberal states have proven fragile, but the political bond of liberal rights and interests have proven a remarkably firm foundation for mutual non-aggression. A separate peace exists among liberal states”.

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: a normative explanation and a structural explanation. The first explanation argues that shared values and norms are best to explain peace between liberal democracies (Doyle 1983-1,1986: 1160; Maoz and Russett 1992: 5; Rummel 1979). Liberal democracies are likely to resolve conflicts by resorting to 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 governments. Citizens are unlikely to support governments who choose to launch wars due to the high costs associated with conflict (Zacher & Matthew 1995: 123; Russett 1993: 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 Russett 1992: 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).

In the same vein, highlighted by commercial liberalism, trade is a more effortless way for collecting wealth than making wars. As commercial ties between states increase, it is likely that the use of coercive means in foreign and economic policy making will decrease (Moravcsik 1997: 528-530). Turning now to commercial liberalism, for the liberal approach the consequences of trade i.e. interdependence, are considered as positive (Zacher and Matthew 1995, p.124). Trade can foster the development of more positive interactions between states (Hirschman 1977). To date, a number of studies have contributed to the commercial peace literature by analyzing the “peace through trade” approach (McDonald 2004). For commercial liberalism, state’s acts are shaped by domestic and transnational economic actors within the dynamics of the market (Moravcsik 1997: p.528). As stated by Moravcsik (1997: 528),

“Changes in the structure of the domestic and global economy alter the costs and benefits of transnational economic exchange, creating pressure on domestic governments to facilitate or block such exchanges through appropriate foreign economic and security policies”.

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). Scholars have long given the example of Japan here, which transformed its interests in post-WW2 period by aiming at economic growth through trade, rather than through military objectives (Rosecrance 1986 in Nye 2009: 46). Trade can thus have a significant transforming role in redefining states’ national interests and the reformulation of state policy (Nye 2009: 46). Furthermore, increasing economic interdependence among nations in the international system opens a way towards international cooperation. The European Union is regarded as the most pronounced and successful example of this notion of interdependencies that deters conflict (Zacher & Matthew 1995: 124-125). As Richardson (1995: 285) points out,

“Among European leaders, a principal impetus to undertake this experiment was to create very close economic interdependencies that, in turn, would generate both objective interests in, and favorable attitudes toward, maintaining peace among the continental powers twice devastated by recent wars”.

The coal and steel industry in Europe paved the way for the formation of rules of competitive industry through spillover into other economic and political sectors (Haas 1958). This step by step economic integration became a step forward to political integration by giving rise to interdependencies between states. The European Union countries have continued their cooperative economic and political relations without falling into armed conflict ever since, despite their often intense political disagreements on key issues affecting foreign policy.

## **2.2. Trade vs. Conflict Theories**

A variety of standpoints exist in the literature regarding the impact of trade on peace, war and international conflict. Thus a quantitative approach was employed by many scholars to analyze whether trade fosters peace (Polachek 1978, 1980, 1992) and/or whether economic interdependence decreases the likelihood of political conflict/war (Barbieri 1996; Copeland 1996; Gelphi and Grieco 2008; Mansfield and Pollins 2003; Morrow 1999; Oneal et al 1996; Oneal and Ray 1997; Pevehouse 2004). While most of the empirical studies revolved around a dyadic level of analysis (Maoz 2009: 224), they produced challenging outcomes. The primary disposition in the literature may be divided into two categories. 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 Russett 1997; Russett, Oneal and Davis 1998; McDonald 2004). The common point between all these studies is that they focus on a variety of domestic and international factors which determine whether economic interdependence fosters or reduces conflict (Mansfield and Pollins 2003: 9). Before proceeding to explain the main premises of the literature, it is necessary to explain the key terms. As pointed out by Maoz (2009: 224), most studies regard interdependence as synonymous with trade relations. Whereas the sources (air, sea and land; trade and finance; transnational movements of students, teachers and scientists) of interdependence might differ (Deutsch 1988: 286), economic interdependence is the main concern of the studies presented in this chapter. While many studies limit interdependence to trade relations (Maoz 2009: 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).

Mansfield and Pollins (2003: 11) suggest that economic interdependence has two attributions. Countries can be considered interdependent 1-if economic conditions in one country have influence on other/s, 2- if it is costly for countries to give up their relationship (p.11). Interdependence is not necessarily symmetrical which means “if a change in country B has as big an effect in country A as the change in A had on B (Deutsch 1988: 285). Therefore-in a dyadic case-one country A might be dependent on country B than country B dependent on country A (Deutsch 1988: 293). Keohane and Nye made a distinction between “sensitivity interdependence” and “vulnerability interdependence” (Keohane & Nye, 1975) (Baldwin 1980: 486–97). While sensitivity concerns the amount and pace of the impacts of dependence, vulnerability is about the relative costs of change in a system of interdependence (Nye 2009: 212).

As mentioned above, one standpoint in the literature suggests that economic interdependence inhibits the likelihood of conflict (Oneal & Russett 1997). Through economic interactions such as trade, economic interests becomes prominent in a way that peaceful means of resolving conflicts come more desirable. Also economic interactions are likely to foster communication between actors-private and government- that may increase cooperative relations (Mansfield & Pollins 2003: 3). Rosecrance states, “as wars become more costly, alternative paths to pursuing political objectives become more appealing, but the mechanism by which trade alters

state goals such that conflict becomes an outmoded and inefficient political tool remains unclear” (Rosecrance 1986).

The literature had emphasized the dyadic trade’s role in improving political relations between states (Polachek, 1980, 1992) and had suggested economic interdependence inhibits military conflict (Maoz and Russett 1993; Oneal et al. 1996; Oneal & Ray, 1997). In his analysis, Polachek (1992) suggested that when there is a reciprocal impact to be calculated, trade has a substantial impact on the level of conflict. Mansfield (1994) also concluded that there is a negative relationship between trade and war. Oneal and Russett (1997) explored both the effect of economic interdependence and democracy on interstate conflict by examining dyads for the Cold War era by using logistic regression analysis. This study confirmed that democracy and trade have significant pacific benefits. Recently, Maoz (2009: 234) supported the expectations of the liberal paradigm. He concluded that “economic interdependence consistently reduces the probability of dyadic conflict regardless of the dependent variable used”. The study by Reuveny and Kang (1998) offers a more comprehensive empirical analysis by adding disaggregated trade into the research agenda by arguing that trade gains may not be similar for every state. They concluded that “in some goods and dyads, neither pure economic models of trade nor pure political models of conflict are able to fully explain the trade and conflict relationship between countries. Trade and conflict appear to be truly interdependent” (Reuveny & Kang 1998: 599).

However several other researches indicated results challenging such findings. Copeland (1996: 24) highlights the need to bridge liberal and realist approaches on economic interdependence and conflict. With regard to this he proposes a “trade expectations theory”, which takes expectations of future trade into account.

Therefore a state may choose to go to war if there is a “high dependence and pessimistic expectations for future trade, creating a low or negative expected value for trade”. Barbieri’s study (1996) in which she analyzed data from 1870 to 1938, demonstrates that economic interdependence increases the likelihood of military conflict. Barbieri (1996: 29) states, “extreme interdependence, whether symmetrical or asymmetrical, has the greatest potential for increasing the likelihood of conflict. Similarly, Gasiorowski (1986: 36) argued interdependence with its “real or potential” costs can increase conflict. Furthermore by using both Barbieri and Russett data sets, Gelpi and Grieco (2008: 31) indicated that “trade dependence is not in general a constraint on the conflict behavior of autocratic leaders. Moreover, we can state that the likelihood of democratic leaders initiating military conflict is in general relatively low and that the additional impact of trade does not appear to be as large as the impact of being democratic”. Another research found that the impact of trade is conditional in a way that without trading institutions, trade has not much influence on hostilities (Mansfield & Pevehouse 2000). Therefore an institutionalized cooperation would work. Mansfield and Pevehouse (2000: 801) criticized the studies which failed to incorporate the institutional context within which trade is practiced. They stated “preferential trading arrangements dampen military disputes and have a strong bearing on the relationship between trade flows and conflict. A significant analysis and discussion was also presented by Pevehouse (2004: 263-264) on competing claims of realists and liberals. He suggests that trade’s impact on the possibility of conflict is much more complex than often assumed. Trade may increase or decrease the probability of conflict depending on the context stating that “it (trade) is not a panacea for the vagaries of nor is it a blight on interstate relations”.

### **2.3. Interdependence Theory and Institutionalist IR**

So far this chapter has focused on commercial liberalism and economic interdependence by demonstrating key concerns and debates in the literature. As presented throughout the chapter, a large volume of the “peace through trade” approaches and the trade vs. conflict debate has focused on bilateral trade and the regime type. Therefore those studies have based their analysis on data like democracy score and trade-to-GDP ratio. This thesis attempts to make a comprehensive analysis of Turkish-Greek economic relations, taking not only bilateral trade into account as possible source of interdependence and/or area of cooperation, but also finance, tourism and energy interactions under the title of economic relations. With respect to this, the theory of interdependence and Neoliberal Institutional International Relations as outlined by Keohane and Nye (1973, 1977, 2001, 2011) is vital in providing the backbone of the thesis’ theoretical framework.

“Contemporary world politics is not a seamless web; it is a tapestry of diverse relationships. In such a world, one model cannot explain all situations. The secret of understanding lies in knowing which approach or combination of approaches to use in analyzing a situation” (Keohane and Nye 1977: 4).

The Liberal tradition emphasizes that interdependence makes states more reactive towards each other and this relationship makes conflicts less attractive (Jorgensen 2010: 62). Before proceeding to discuss interdependence theory in detail, it is necessary to lay out the basic premises of Neoliberal Institutional IR. Neoliberal Institutionalism is considered a liberal tradition since it saves some basic liberal assumptions such as the possibility of progress (Jorgensen 2010: 64-65). 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: 7) 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”.

Neoliberal IR shares some common assumptions with Realism that states are the main actors in world politics (Keohane 1984). However neoliberalism acknowledges that other significant actors exist (Milner 2009: 5 in Milner and Moravcsik). The international system is anarchic (Keohane 1984). Moreover states are rational actors that may define their interests (Axelrod & Keohane 1985). Both approaches tend to adopt a rationalist and positivist research agenda (Milner 2009: 5). However Neoliberal IR has developed so as to “cure deficiencies” in traditional thinking and has focused on the possibility of international cooperation in world politics. As stated, “realism is a useful first cut at understanding world politics, but its vision of the field is too limited to make it a good comprehensive doctrine” (Keohane 2002: 6). By contrast with Neorealism, Neoliberalism assumes that cooperation among states is possible (Keohane & Nye: 1977). Also, neoliberals focus on absolute gains from cooperation rather than relative gains (Keohane 1984; Axelrod and Keohane 1985). Moreover through institutionalized cooperation and through the existence of international organizations, regimes can mitigate the possible negative impacts of cooperation and/or unequal distribution of gains (Oğuzlu 2014; Keohane and Martin 1995: 42). As presented, “international institutions can reduce verification costs, create iterativeness, and make it easier to punish cheaters” (cited in Grieco 1988:

158). Therefore, international institutions can be regarded as actors important as states. This is very different from neorealism asserting that “institutions have no independent effect on state behavior” (Mearsheimer 1994/9: 7). Those discussions between neorealist (Waltz 1986; Grieco 1988, 1993; Snidal 1991; Mearsheimer 1994; Jervis 1999) and neoliberal studies (Ruggie 1983; Keohane 1984, 1993; Lipson 1984; Axelrod and Keohane 1985), the so-called Neo-Neo debate, is considered as one of the most significant inter paradigm debates in IR.

In their book *Transnational Relations and World Politics*, Keohane and Nye (1973: 4) scrutinized the effects of “transnational interactions” on the international system and they illustrated “multidimensional economic, social and ecological interdependence”. 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 2002: 360). Therefore transnational interactions and processes involve not only state actors but also nongovernmental actors (Keohane and Nye 1972: xii). Furthermore these roles are rather blurred as an actor can act as a state or non-state actor depending on the situation. Businessmen/women and students can be an example for this (Ari 2002: 361). In another major study, *Power and interdependence: World politics in Transition*, Keohane and Nye (1997: 15) examined the patterns of international cooperation by focusing on case studies from International Political Economy. 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: 15).

Transnational interactions have an impact on world politics through increasing dependence and interdependence (Keohane and Nye 1973: xvii-xxii). Keohane & Nye (1977: 7) define Interdependence as “situations characterized by reciprocal effects among countries or among actors in different countries”. International transactions which may take the form of flow of money, goods and people among nations, are causes for these reciprocal effects (Keohane & Nye 1977: 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 hesitate 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: 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 & Nye 1977: 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 2002: 371).

As illustrated above, Keohane and Nye (1977: 10) make a distinction between “sensitivity” and “vulnerability” interdependence. Sensitivity interdependence is determined by the degree of responsiveness 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 influenced 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 does not have this alternative, the second state is more vulnerable than the first (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 2002: 376).

***Complex Interdependence:***

Having defined what is meant by interdependence in world politics, I will now move on to discuss “complex interdependence”. Keohane and Nye emphasized that “complex interdependence” is very different from “interdependence” (1987: 730). As often mentioned in their studies, they aimed to integrate realist and liberal approaches by proposing the theory of interdependence (Keohane & 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 & Nye 1987: 737).

With respect to this, they define complex interdependence as “a situation among a 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&Nye 1987: 731). Keohane &Nye(1977: 20-21) present three key characteristics to complex interdependence.

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: 21) can serve as a bridge between states through acting as “transmission belts, making government policies in various countries more sensitive to one another”.

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). In traditionally IR thinking, 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). “It is not impossible to imagine dramatic conflict or revolutionary change in which the use or threat of military force over an economic issue or among advanced industrial countries might become plausible” (p.23).

Keohane and Nye (1977: 24) suggest that there are political processes of complex interdependence. The three characteristics of complex interdependence outlined above pave the way for a transformation of realist conditions to a different. For instance issue linkage strategies would be transformed. Traditional analysis suggests, that militarily and economically powerful states are likely to shape various organizations and issues through connecting their policy on an issue with another state’s policy on a different issue (p.25). Nonetheless, such issue linkages are less likely to happen when there is complex interdependence (p.25). This is because while military force loses its importance, powerful states will realize that linkage is not effective (p.25). Moreover, powerful states may try to use their economic power too. This time their linkage attempt will be constrained by domestic, transnational,

and transgovernmental actors who are likely to be persistent about their interests (p.26). Therefore under complex interdependence where there is a differentiation among issue areas, issue linkage will be more complex and likely to diminish international hierarchy (p.26).

The second characteristic of complex interdependence is the absence of hierarchy among this variety of issues. This according to Keohane and Nye (2011: 26) “leads us to expect that the politics of agenda formation and control will become more important”. The traditional approach assumes that political-military issues are on the top of a state’s agenda and agenda setting will be done accordingly (p.27). Therefore there is a sharp distinction between high politics (military, security) and low politics (economic). However under complex interdependence, agenda setting will be determined by domestic and international problems (p.27). Various unsatisfied domestic groups might put pressure on government to put some issues on to the interstate agenda (p.27).

Another characteristic of complex interdependence is the multiple communication (interaction) channels which add into the notion of bridging between domestic and international politics (p.28). Political bargaining will be more open to be affected by transnational relations under complex interdependence since “the availability of partners in political coalitions is not necessarily limited by national boundaries” (p.28). Therefore, multiple communication channels limit decision making in domestic politics which were previously free from the manipulation of interdependence (p.28). Keohane and Nye (2011: 30) also suggest that the role of international institutions in world politics is widened in a way that they can play a notable role in international agenda setting, coalition formation and allow small states to engage in issue linkage strategies. As they note, “complex interdependence

therefore yields different political patterns than does the realist conception of the world” (p.30).

In their fourth edition to *Power and Interdependence*, Keohane and Nye (2011: 225) engage with the globalization debate and relate it to interdependence. While doing this they adopt the term “globalism” instead of globalization. They suggest that globalization refers to something increasing but “globalism” implies something that may be increasing or decreasing (p.225). Globalism is defined as “a state of the world involving networks of interdependence at multi-continental distances, linked through flows and influences of capital and goods, information and ideas, people and force, as well as environmentally and biologically relevant substances” (p.225). Therefore they consider globalism as a certain type of interdependence (p.225). For instance, interdependence between the United States and Japan is part of globalism but not globalism itself (p.225). Keohane and Nye (2011: 229-230) further argue that globalism is not a new phenomenon; however we should think about “globalization” as a process through which globalism becomes increasingly thick. Similar to interdependence, globalism can produce costs and constraints (p.231), thus sensitivity and vulnerability interdependence are also parts of globalism (p.233). Contemporary globalism is becoming increasingly thicker as we have an increasing “density of networks”, “institutional velocity” and “transnational participation” (p.236). In addition Keohane and Nye (2001: 240) highlight that the relevance of complex interdependence has increased owing to globalism. They note:

“Translated into the language of globalism, the politics of complex interdependence would be one in which economic, environmental, and social globalism are high, and military globalism low” (p.241). So with the end of

the Cold War, there has been an expansion of social and economic globalism with a decline in military globalism (p.241). One example might be the former Soviet republics becoming NATO members (p.241). Furthermore, multiple communication channels have expanded tremendously as a result of thickening globalism (p.241). As stated, “it is no longer necessary to be a rich organization to be able to communicate on a real-time basis with people around the globe” (p.241). Those changes still are not enough to make complex interdependence a universal phenomenon but “correspond more closely than obsolete images of world politics as simply those relations among states that revolve around force and security” (p.242).

As demonstrated throughout the chapter, Keohane and Nye (2001: 267) have frequently mentioned that they had no interest in offering a liberal theory, rather, they have aimed at integrating liberal and realist approaches to provide a more developed analysis of world politics. They note that “Our goal was not to discard the insights of realist theory, but to construct a broader theoretical framework that could encompass realist concerns about the structure of power while also explaining changes in the processes of the international system” (p.264). Considering all of the evidence, I argue that what Keohane and Nye had suggested on the theory of interdependence and complex interdependence is closer to liberal approaches than to realism. The short paragraph below can be illuminating on this:

“We did argue that the use of force has become increasingly costly for major states as a result of four conditions: risks of nuclear escalation; resistance by people in poor or weak countries; uncertain and possibly negative effects on the achievement of economic goals; and domestic opinion opposed to the human costs of the use of force. But we also noted that the fourth condition

had little impact on the policies of totalitarian or authoritarian governments, and we warned that lesser states involved in regional rivalries and non-state terrorist groups may find it easier to use force than before. The net effect of these contrary trends in the role of force is to erode hierarchy based on military power” (Keohane & Nye 1987: 727).

This paragraph clearly presents similar points as with commercial liberalism and democratic peace theory by emphasizing issues like economic objectives and the regime type, without claiming that the use of force has many ways become obsolete in IR. Moreover, Keohane and Nye (2001: 275) acknowledge the limitations of structural explanations which fail to keep the role of domestic politics into focus. They hold the view that it is essential to know how domestic politics impact on forms of interdependence (2001: 277). For instance, it is necessary to understand the reciprocal relation between economic interdependence and domestic politics, and hence the ability of states to communicate and cooperate depends on that (2001: 277). As mentioned,

“We have paid too little attention to how a combination of domestic and international processes shapes preference. The need for more attention to domestic politics, and its links to international politics, leads us to believe that research at the systemic level alone may have reached a point of diminishing returns” (2001: 281).

#### **2.4. Bridging Between Theories**

Taken together, all approaches that have been presented in this chapter have a crucial role for this thesis since they have provided new angles to catch embrace changes in world politics. As mentioned in the introduction chapter, in general terms

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 economic relations between Greece and Turkey. Although they may provide important insights in examining continuities, they do not engage with current dynamics of cooperation. For example, the level of interdependence between Greece and Turkey today is certainly higher than what it was in the 1980's. Moreover, globalization which Keohane and Nye called "globalism" is today much thicker than it was in the 1990's. Without addressing the possible impacts of changing dynamics, any analysis is bound to be limited. Therefore I use liberal approaches of interdependence. It is not wrong to say that when there is a blurring of the divide between domestic and foreign policies under interdependencies, political and economic relations will end up ever more entangled with one another. As suggested by the 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 have thoroughly focused on explaining 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 can be achieved since interstate relations are more "pluralistic, complex and fragmented" (Moravcsik 2009: 245, in Milner and Moravcsik 2009). All of the studies reviewed here are applicable to the Turkish-Greek case since they acknowledge the importance of economic interactions. Not only have they been touched by similar approaches, but they also have displaced a core insight of realism:

“the autonomy of the political” (Moravcsik 2009: 246). For the sake of being in line with the purpose of my thesis, I adopted an eclectic approach when reviewing the literature on theory. While interdependence theory is my main focus, I find it useful to add other mentioned theories into focus since they all examine the impact of economic interactions on the political level. These areas of study therefore were chosen to see different theories’ analysis on economic interactions.

## **CHAPTER 3:**

### **OVERVIEW OF TURKISH-GREEK RELATIONS**

#### **3.1. Evolution 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 and post-2000. Before 2000, 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 (Aristotelous 1983; Aydın 1997; Bahcheli, Couloumbis & Carley 1997; Clogg 1983; Couloumbis 1983; Kourvetaris 1988; Sander 1985-1986; Sonyel 1977; Tozun 1990; Veremis 1991). In the post-2000's, the literature has become more diversified in terms 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 a rivalry with a focus of 'high politics' issues and providing a state-centered analysis (Aydın & Ifantis 2004; Couloumbis & Ifantis 2002; Dokos & Tsakonas 2003; Ifantis 2005; Larrabee & Lesser 2003). 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 (Birden & Rumelili, 2009; Çelik & Rumelili, 2006; Öniş & Yılmaz, 2008; Rumelili, 2005, 2007). Some examined the role of civil society initiatives to create bonds of Turkish-Greek friendship by showing cases from universities, think tanks, business

communities and local municipalities (Belge, 2004; Çuhadar et al 2015; Karakatsanis 2014; Ker Lindsay, 2007; Özel, 2004a), whereas others focused on media discourse in bilateral relations (Lazarou, 2009; Özgüneş & Terzis, 2000). Thus, a good number of scholars examined the 1999 rapprochement and its aftermath (Anastasakis, 2004; Aydın & Ifantis, 2004; Çarkoğlu & Kirişçi 2004; Economides, 2005; Evin, 2005; Ganapati, Kelman & Koukis, 2010; Gündoğdu, 2001; Grigoriadis, 2012; Heraclides, 2002, 2006; Ifantis, 2005; Karakatsanis, 2014; Ker-Lindsay, 2000, 2007; Koukoudakis, 2013; Kuşku, 2008; Öniş & Yılmaz, 2008; Rumelili, 2003). Recent developments in bilateral economic interactions have heightened the need for the study of the political economy of relations. Several scholars examined the political economy of Turkish-Greek relations (Liargovas 2002; Kollias, Günlük-Şenesen & Ayman 2003; Kutlay, 2009; Pantsios 2007; Papadopoulos 2008; Tsarouhas 2009) and looked into economic cooperation between the two business communities (Özel 2004a, 2004b). Before examining into economic relations, this chapter will provide an overview of Turkish-Greek relations.

### **3.2. The Historical Roots and Pre-1990's Period**

The roots of bilateral Turkish-Greek problems can be traced back to the late 18th and early 19th centuries (Heraclides 2010: 31). As Millas (2009: 96) illustrates, before the 19th century “the Greek” and “the Turk” as an identity did not exist. Thus the ‘hatred’ between the two is a consequence of their national constructions (Millas 2009: 96). The past experiences of the two countries characterized continuously conflicting relations (Millas 2004, 2005, 2006 2008). As stated “the burden of history prevented a fresh start in building a constructive relationship” (Evin 2011). Resulting from the ideas propelled by the French Revolution, the Greek Independence War and the dissolution of the Ottoman Empire took place. Nationalist ideals developed

among the Turkish elites as well (The Young Turks Movement) opposed to Ottomanism (Heraclides 2010: 44). The dislocation of the Ottoman Empire eventually led to the Greek-Turkish war of 1919-1922 which was the most traumatic event between the two countries and societies. Therefore the Greek and the Turkish historical narratives were developed by presenting a national struggle and fight against each other (The Greek War of Independence/The Greek Revolt, War of National Liberation/Asia Minor Catastrophe) (Heraclides 2010: 62; Onar 2009: 62). The establishment of Greece in 1830 and Turkey in 1923 allowed for the construction of national identity by demonizing the 'other' (Millas 2009: 96). Following the nation building process of the two, Turkish-Greek relations have never been subject to long periods of cooperation. The 1923 Lausanne Treaty determined the borders between the two countries. It included an 'exchange of populations' which required all Orthodox Christian people living in Asia Minor to move to Greece and Muslims living in Greece to move to Turkey with the exception of Orthodox Christians living in Istanbul (Κωνσταντινούπολη), the islands of Gökçeada (Ιμβρος) and Bozcaada (Τένεδοç) and Muslims living in Western Thrace (Sofos & Özkırmılı 2009: 27). A short time after the war, Greece under Prime Minister Venizelos and Turkey under President Atatürk experienced harmonious relations and signed a Friendship and Cooperation Treaty in 1930. The Venizelos-Atatürk initiative was significant in the sense that only after eight years of Greco-Turkish war, the two countries could find mutual grounds for cooperation. This first rapprochement attempt had continued until the early 1950's (Öniş & Yılmaz 2008: 124).

Competition between the USA and the Soviet Union during the Cold War era influenced bilateral relations. The two countries became NATO members together in 1952 and aligned with the West. During the Cold War period, relations had been

tense between the two countries (Dokos 2002: 123). While bilateral relations started to deteriorate from 1955 onwards due to developments in Cyprus, relations became even worse following the Turkish intervention in Cyprus in 1974. Antagonism between Greece and Turkey was a threat for security in NATO's southern flank (Larrabee 2012: 471). The western world (US and EU) has always been a point of reference for the two states to which they would complain about each other and try to strengthen their position within the Western alliance (Aydın 2003: 227-228). For Greece, Turkey traditionally constituted a "threat from the East" due to its "revisionist" policies (Tsakonas 2010: 32). The burden of the past was considered as an important cause of mistrust between the two countries (Dokos 2002: 127). Turkish perceptions, on the other hand remained obsessed with the "Megali Idea"<sup>2</sup> and remained suspicious due to the traumatic experience of Greek occupation of Western Anatolia (Asia Minor). For Greece, experiences with the Ottoman rule (Τουρκοκρατία), the 1922 Izmir liberation by Turkey<sup>3</sup> and the 1955 pogrom against the Greek minority reinforced the negative image of Turkey. Since the 1960's, Turkey had been Greece's main security concern (Ifantis 2009: 121). Differences over Cyprus in 1963 and 1964 led to increasing tensions (Larrabee 2012: 472). The Cyprus conflict was already spread out on the island that Turkey was demanding a military intervention to the island which was prevented at that time (Ker Lindsay 2004: 26). Regarding this, Greek governments followed a containment policy by maintaining military capabilities against a possible Turkish attack and sought to

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<sup>2</sup> Megali Idea is a Greek political vision that aims to expand the borders of the Greek state by including Greek living territories of the Ottoman Empire. It was a dominant vision between 1844 and 1922 (Stouraiti & Kazamias 2010: 11). Although the vision officially abandoned in 1922, the idea remained until the fall of dictatorship in 1974 (Stouraiti & Kazamias 2010: 12).

<sup>3</sup> Izmir (Smyrna) has been one of the most important cities for Greeks along with the İstanbul (Constantinople) and occupies a special place in the memories of the Greek people. Due to its geographical position the city has been a significant economic and cultural center of the Hellenic world. The city has been able to protect its Greekness until the Turkish control of the city in 1922 and the great fire of İzmir (Smyrna Catastrophe). Moreover, the most of the Greek population of the city lost their lives due to war atrocities and the fire.

consolidate international support to obtain diplomatic leverage (Couloumbis & Ifantis 2002; Heraclides 2010).

During the 1970's, bilateral relations were seriously hampered by two main conflicts: the Aegean and Cyprus issues. After Turkey's Cyprus intervention in 1974, Greece shifted towards a new security policy towards Turkey. Greek policy makers realized that NATO and the US were limited as security assets. Greece became an EU member in 1981. Therefore using the EU's assets, primarily by means of diplomatic pressure, became a primary objective and was realized with Greek veto over policies prepared "to establish a more institutionalized EU-Turkish relationship" (Ifantis 2009: 122). In 1981 PASOK came to power with a momentous victory. Prime Minister Andreas Papandreou and his government argued in favour of "retrieving national sovereignty and independence" (Heraclides 2010: 116). This meant the necessity to deal with the "Turkish threat". Thus Greek politics took an anti-Atlanticist stance. Papandreou adopted an anti-Western and anti-American rhetoric (Economides 2005: 477).

In 1988, a rapprochement initiative (called the "Davos spirit") was undertaken by Prime Ministers Papandreou and Özal. They met informally at Davos and agreed on several issues (Heraclides 2010: 124). The two leaders agreed to establish committees for economic cooperation and political issues. Thus they agreed to support contacts between businessmen, military officials and journalists. The one tangible result of their initiative was the signing of a Memorandum of Understanding on Confidence- Building Measures (CBMs) on 27 May 1988 by their then foreign ministers (Heraclides 2010: 125). On the other side, Turkey applied for EC membership in 1987 which was rejected due to Turkey's poor economic and political conditions, as well as its bad relations with Greece and Cyprus. Davos failed to

achieve further tangible results by 1989 due to several factors including Papandreu's lack of willingness and his electoral defeat, Özal's problems in the domestic context following the electoral setback of the municipal elections and the rejection of Turkey's EC membership (Öniş & Yılmaz 2008: 124).

### **3.3. Issues of Dispute<sup>4</sup>**

#### **3.3.1. The Aegean Conflict**

Disputes in the Aegean are directly related with the sovereignty and security of the two countries, which make them intractable. They are interrelated in a way that the resolution of one will likely affect the resolution of others. The conflict in the Aegean had risen due to several factors like the 1973 oil crisis, and an uncertain international regulatory and jurisdictional framework of the 1982 Law of the Sea Convention. While Greece signed the 1982 Convention, Turkey did not since the convention does not support Turkey's arguments on the Aegean dispute.

According to Aydın (2004: 27), the Aegean conflict includes four main areas of problem. These are “(1) the delimitation of the maritime boundaries and continental shelf; (2) the breadth of territorial waters; (3) the control of air space beyond the territorial waters; and (4) the Greek militarization of eastern Aegean islands”.

The general view of the Greek policy makers is that, Turkey pursues a revisionist policy in the Aegean (Triantaphyllou 2001: 75-76). Some examples of this policy are said to be: the unilateral declaration of half of the northern Aegean sea bed as Turkish territory, the declaration of a ‘casus belli’ in 1995, and the declaration of ‘grey zones’ in 1996 (Triantaphyllou 2001: 57-58).

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<sup>4</sup> Please note that problems related with Greek and Turkish minorities in two countries will not be discussed in this thesis due to space limitations.

According to the Turkish official position,

“The fundamental source of tension between Turkey and Greece is the Greek perception to regard the entire Aegean as a Greek sea in total disregard of Turkey's rights and interests as one of the coastal states<sup>5</sup>”.

According to the Greek official position,

“In the early 1970s, Turkey initiated a systematic policy of contentions and claims against the sovereignty, sovereign rights and international responsibilities of Greece in maritime, island and air space. The goal of this newly formed policy against Greece was and is the changing of the territorial status quo provided for in international treaties – the Treaty of Lausanne being pivotal among these – and the legal status of maritime zones and airspace as they legally derive from international law and from the law of the sea”<sup>6</sup>.

Overall, the Greek position argues that the Aegean islands maintain their own continental shelf, while Turkey maintains that Aegean islands should have their own special traits. According to the 1982 Law of the Sea convention that Turkey has not signed, Greece can increase its territorial waters to 12 miles (Larrabee & Lesser 2003: 74). The Turkish government has continuously stated that Greece's unilateral adoption of 12 miles territorial waters in the Aegean would present a casus belli (Aydın 2002: 28). For Greece, this is not acceptable since it is a contention of its legal right<sup>7</sup>.

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<sup>5</sup> See <http://www.mfa.gov.tr/background-note-on-aegean-disputes.en.mfa> Date accessed: 10/11/2015

<sup>6</sup> See <http://www.mfa.gr/en/issues-of-greek-turkish-relations/> Date accessed: 27/11/2015.

<sup>7</sup> See <http://www.mfa.gr/en/issues-of-greek-turkish-relations/> Date accessed: 27/11/2015.

The continental shelf issue first came to the forefront in 1974 when the Greek government claimed most of the continental shelf and declared its intention to explore oil and natural gas reserves there (Aydın 2002: 28). In return, Turkey sent a survey vessel with warships to disputed areas. Greece argues that most of the continental shelf in the Aegean belongs to Greece due to the Greek islands. Turkey argues that the Aegean continental shelf is an expansion of the mainland geologically or it can be delimited on an equity manner (Aydın 2002: 29). Coupled with the conflict over Cyprus, this became another important sovereignty and security issue.

With the 1982 United Nations Convention on the Law of the Sea, littoral countries were given the right to extend their territorial waters up to 12 miles (Grigoriadis 2012: 129). For Turkey, an extension of territorial waters to 12 miles is not acceptable since it disregards the country's security and interests. As stated,

“Extension of territorial waters to 12 nautical miles will disproportionately alter the balance of interests in the Aegean Sea to the detriment of Turkey. At present, due to its many islands, Greek territorial waters make up about 40% of the Aegean Sea. In the case of 12 nautical miles wide territorial waters, the ratio rises to over 70%. In the case of extension of territorial waters to 12 nautical miles, Turkey's territorial waters remain less than 10% of the Aegean Sea while the size of the high seas falls from 51% to 19%<sup>8</sup>”.

Therefore through such an extension, Turkey would lose its rights to use in the Aegean Sea for purposes such as fishing, navigation, military maneuvers, over flight, scientific research and cable laying (Gündüz 2001: 117).

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<sup>8</sup> See <http://www.mfa.gov.tr/maritime-issues---aegean-sea---the-outstanding-aegean-issues.en.mfa> Date accessed: 27/11/2015.

Regarding the air space problems, Greece claims a 10 mile national air space. However Turkey rejects this practice by flying over the Aegean up to a distance of 6 miles. From a Greek point of view,

“The exercising of sovereignty over airspace up to 10 nautical miles is implicitly legal, as it does not exceed the 12 nautical miles stipulated by the law of the sea as the greatest boundary of the breadth of territorial waters and national airspace<sup>9</sup>”.

Another issue is the Flight Information Region (FIR). The FIR responsibilities in the Aegean were delegated to Greece by the International Civil Aviation Organization (ICAO) in 1952. Although Turkey accepted it during that time, it later became problematic for Turkey’s interests (Bahçeli 2000: 184-185). Turkey demands the modification FIR responsibilities on the basis of national security and equity, since it argues that Greece abuses FIR responsibilities (Aydın 2004: 30). In 1974, during the Cyprus operation, Turkey formally disputed the Aegean airspace area of the ‘Athens FIR’ by issuing a ‘Notice to Airmen’ (NOTAM 714) to enhance the control of ‘Istanbul FIR’ over half of the Aegean (Heraclides 2010: 81). Greece reacted with NOTAM 1157 and called for keeping the existing International Civil Aviation Organization (ICAO) regime. Since then Turkey on a regular basis sends aircraft up to 6 miles from the Greek coast and Greece counters with sending aircraft to block the Turkish aircraft (Larrabee & Lesser 2003: 75).

The Greek militarization of the Aegean islands has been another disputed issue for the two countries. Turkey argues that the militarization of the Eastern Aegean and Dodecanese islands by Greece is a violation of the Treaty of Paris (1947) (Larrabee & Lesser 2003: 73). Furthermore Greece’s militarization of the

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<sup>9</sup> See <http://www.mfa.gr/en/issues-of-greek-turkish-relations/relevant-documents/national-airspace.html> Date accessed: 28/11/2015.

islands since the 1960's is threatening Turkey's security<sup>10</sup>. Greece however claims that the militarization of the islands is a defensive response to Turkey's threatening acts by pointing to Turkey's intervention in Cyprus of 1974, the violation of Greek air space and the maintenance of a high number of military forces in the Aegean coast<sup>11</sup>.

These disputes over the Aegean have brought the two countries to the brink of war several times in 1976, 1987, and 1996. They have thus contributed to the two countries' high defense spending (Aydın 2002: 31). Defense expenditures have been a heavy burden for both the Greek and Turkish economies. In 1996, one of the most serious crisis emerged over the Imia/Kardak islets (Tsakonias 2010: 52). With this crisis, the Aegean disputes widened to include the 'grey zones' dispute. According to Turkey, the ownership of some of the small islets and the rocks in the Aegean Sea is undetermined by international treaties<sup>12</sup>. For Greece, those islets and the rocks are indisputably Greek and Turkey's claims disregard Greek sovereignty<sup>13</sup>.

At present, the two countries have not agreed on a definition of the Aegean problems (Ayman 2004: 213). Greece argues that the delimitation of the continental shelf is the only problem in the Aegean and it should be resolved by referring it to the International Court of Justice. Turkey, however, advocates that the Greek view disregards the problem. Thus all problems should be solved through mutually agreed ways (Ayman 2004: 225).

According to Tzimitras (2009: 258), the Aegean disputes became less relevant in the post-Cold War international setting: "during the Cold War, the need

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<sup>10</sup> See <http://www.mfa.gov.tr/background-note-on-aegean-disputes.en.mfa>Date accessed: 28/11/2015.

<sup>11</sup> See <http://www.mfa.gr/en/issues-of-greek-turkish-relations/relevant-documents/turkish-claims-regarding-the-demilitarization-of-islands-in-the-aegean-sea.html>Date accessed: 28/11/2015.

<sup>12</sup> See <http://www.mfa.gov.tr/background-note-on-aegean-disputes.en.mfa>Date accessed: 28/11/2015.

<sup>13</sup> See <http://www.mfa.gr/en/issues-of-greek-turkish-relations/relevant-documents/grey-zones.html>Date accessed: 28/11/2015.

for survival far outweighed the need for compliance with international legal norms, whereas today the challenges of globalization far outweigh bilateral concerns”. Discussions on the Aegean issues between the two sides have been taking place since 2002 at the under-secretary and political director level (Larrabee 2012: 474). However, other than limited tangible progress on confidence building measures, the two countries could not resolve the core problems on the Aegean.

According to Aydın (2003: 224), “the majority of long-standing disagreements between them could have been overcome years ago had the leadership in both countries acted responsibly by abandoning the policy of making use of those disagreements in domestic power struggles, and had they, with a nationalistic myopia, not turned a blind eye to the other’s needs and fears”.

This is also relevant regarding the Aegean conflict where the two parties’ constant battle over legal documents puts forwards the importance of political will to solve the problems. As Ifantis (2009: 130) points out,

“What makes the Greek –Turkish conflict appear intractable is, above all, its subjective dimension, namely the incredible psychological barrier resulting from years of antagonism and enmity. Like most ethno political conflicts, the Greek –Turkish conflict is characterized by a total lack of mutual confidence, suspicion bordering on paranoia and demonisation of the ‘other’.

Prior to a resolution of those issues, the mutual fear and mistrust needs to be addressed first.

### **3.3.2. The Cyprus Conflict**

#### ***Cypriots, Greece and Turkey***

The Cyprus conflict is the most important problem that prevents a resolution of problems affecting Turkish-Greek relations, although it is not a bilateral dispute. It

is an ethno-political and social conflict which has influenced the lives of Greek Cypriots and Turkish Cypriots for decades. The Cyprus problem has evolved around the complexity of internal and external elements. In 1960, Cyprus gained its independence from Britain. The people living on the island were approximately composed of 77% Greek Cypriots, 18% Turkish Cypriots and 5% Armenians/Maronites (Morelli 2015). While the primary parties in this conflict have been Greek and Turkish Cypriots, one cannot map the conflict without examining the secondary and third parties' involvement. The United Kingdom, Greece and Turkey (secondary parties) have been the three guarantor powers on the island which have had various and clashing interests over the island. The international community, the United Nations and the European Union (third parties) have also been playing a crucial role affecting the dynamics of the divided island.

Against British colonial rule, Greek Cypriot nationalism expanded into a mass movement through the objective of union (Enosis) with Greece. Turkish Cypriot nationalism, encouraged by Britain in the pre-1960 period, developed as an opposing force which demanded the partition (Taksim) of Cyprus (Mavratsas 1999: 91). In the 1950's, intercommunal conflict started to escalate between the two communities (Bahcheli & Noel 2010: 140). With the London-Zurich agreements of 1959, a deal was signed on the future of the island. However, the negotiations were held between Britain, Greece and Turkey without the direct involvement of the Cypriot people (Constantinou 2008: 150). Three Treaties were signed. These were the Treaty of Establishment which established the Republic of Cyprus, the Treaty of Guarantee that made Turkey, Britain and Greece the guarantors of the Republic and the Constitution, and the Treaty of Alliance which made the stationing of Greek and Turkish troops on the island possible (Müftüler Baç 1999: 561). The fact that Britain

and the so called 'motherlands' became guarantor powers, automatically increased the influence of secondary parties and their interests. Within three years, conflicts occurred over the power sharing arrangements of the Republic (Mirbagheri 2010: 150). The London-Zurich agreements were considered as "forced partnership" by two communities and could not prevent the ethnic mobilization of the two Cypriots. Moreover the agreement failed to address the fears and insecurities felt by the two communities. Both Greek and Turkish Cypriot armed organizations (EOKA and TMT) had already formed networks on the island to find support for ethnic mobilization (Loizides 2014: 76). Those two clashing nationalisms had fueled intercommunal fighting.

The new republic lasted in its old form only three years, until 1963. When Cypriot President (Greek Orthodox Archbishop) Makarios put forward constitutional changes likely to favor the Greek Cypriots in 1963, clashes between two communities intensified. In 1964, Turkish Cypriots departed from national institutions and started to live in their enclaves (Morelli 2015: 1). Intercommunal violence continued between 1963 and 1967. With the Athens-supported military coup in 1974, Makarios was replaced with Nikos Sampson who was a member of EOKA (B). EOKA was founded in 1955 as an organization for anti-colonial armed struggle. In 1960's it capitalized the enosis ideals and became a grassroots movement. In 1971 EOKA B was established as a paramilitary organization by Georgias Grivas (Anastasiou 2006: 108). The military coup paved the way for the Turkish military invasion of 1974, with Turkey citing the Treaty of Guarantee as giving it the legal right to intervene (Morelli 2015). Following the intervention, a massive dislocation occurred, which caused disastrous effects on people's lives and clashes resulted with further death and missing peoples. In 1983, the Turkish Cypriot leader Rauf Denktaş

announced the establishment of the “Turkish Republic of Northern Cyprus (TRNC)” with the support of Turkey, which was considered an illegal move and has not been recognized by the international community. From 1974 until the ease of restrictions on the Green line in 2003, the two communities were strictly divided from each other, preventing any form of communication.

Since 1974 various UN sponsored negotiations have taken place to reach a resolution (Morelli 2015: p.2). However none proved successful which brought Cyprus to a stalemate condition. Thus the situation was further complicated with admission of Republic of Cyprus as an EU member. In 2004 the role of the EU on the island and Cyprus conflict has been heavily criticized due to its failure to bring about Europeanization as a tool to resolve problems (Kyris 2014). It has been argued that the EU’s influence on the Cyprus conflict is rather problematic (Ulusoy 2009: 395). While the EU has been unable to link the integration process with the resolution (Kyris 2014) when the Republic of Cyprus gained membership as a divided island in 2004, the dimensions of the Cyprus conflict expanded (Ulusoy 2009: 395). This was due to a lack of EU consistency since the condition of resolution before membership was removed and this made the EU unable to enforce Europeanization in relation to the conflict (Tocci & Diez 2010: 179). Richmond (2006: 163) argues that “the EU had effectively become a party to the conflict”, by giving Cyprus a membership before reaching a peace deal.

At the 1994 Corfu Summit, the conclusions of the summit did not mention the necessity of a settlement as a condition before Cyprus’s accession to the EU (Eralp & Beriker 2005: 181). In the 2002 Copenhagen Summit, it was stated that Cyprus will

become a member state from 1 May 2004 whether united or not<sup>14</sup>. Moreover, Greek Cypriot attitudes towards Turkey and Northern Cyprus have not changed with Cyprus's EU membership, so that the Republic of Cyprus has until recently supported the international isolation of Northern Cyprus (Tocci & Diez 2010: 181). After Cyprus's membership and the withering of Turkey's membership aspirations to the EU, disappointment among Turkish Cypriots grew high and the EU started to be seen as the main cause for the persistence of the conflict (Tocci & Diez 2010: 183). With small exceptions, there has been no violence between the two communities since 1974 and the impact of the conflict on the daily lives of Cypriots is limited. This makes the status-quo a rather comfortable one, hampering a resolution (Adamides 2014: 7). That is, significant parts of the communities have been reluctant to move towards a bicomunal, bizonal federation.

### ***Motherlands and Conflicting Interests***

Historically Cyprus has always been a security matter for Turkey. Therefore the Cyprus conflict has been one of the most significant issues on the Turkish foreign policy agenda. Successive Turkish governments had been strong supporters of Rauf Denктаş and his UBP (National Unity Party). On the contrary, the left wing CTP (Republican Turkish Party) had been seen as distrustful and their policies were disliked by Turkish governments (Bahcheli & Noel 2010: 146). The relationship between Turkish Cypriots and Turkey has been close but asymmetrical in the sense that Turkey's interests have generally been highly influential on Turkish Cypriots. Turkey's continuous economic support has made Turkish Cypriots dependent on Turkish aid, which mitigates their sovereignty claims and aspirations.

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<sup>14</sup> See the Presidency conclusions of Copenhagen European Council of 12-13 December 2002. <http://www.consilium.europa.eu/en/search/?q=copenhagen+summit+2002&search=search>

Since the escalation of the conflict in the 1950's, Turkey has directly interfered in the affairs of Turkish Cypriots. For instance, the Turkish Cypriot paramilitary organization TMT (Turkish Defense Organization) was formed with Turkish aid (Bahcheli & Noel 2010: 140). The creation of the TRNC was envisaged to strengthen the Turkish identity of Cypriots and create closer relations with Turkey (Bahcheli & Noel 2010: 145). The founding President and then leader of the right wing UBP, Rauf Denктаş had been a supporter of Turkish nationalism and the Turkish presence on Cyprus. He had emphasized "Turks in Cyprus" as an identity formation process (Bahcheli & Noel 2010: 146). Turkey does not recognize the Republic of Cyprus, referring to it as the "Greek Cypriot Administration" (Gürel, Mullen & Tzimitras 2012: 35). Due to the TRNC's international status, economically Turkish Cypriots have been heavily dependent on Turkey. This makes Turkey's hand powerful in terms of influencing the Turkish Cypriots and their leadership. However, with the election of AKP government in Turkey in 2002, crucial changes appeared with regard to Turkey's policies towards the Cyprus issue. The linkage between Turkey's full membership to EU, the resolution of the Cyprus problem and the future of Northern Cyprus accelerated (Ulusoy 2009: 401). An erstwhile enthusiast of EU membership and in an attempt to get rid of the Cyprus obstacle towards membership, the AKP government made some changes in traditional Turkish policies regarding Cyprus. Different to past governments, the AKP supported the center left CTP's position and its leader Mehmet Ali Talat who was supportive of the Annan plan. Also, the AKP gave its consent to Annan plan and supported the pro-peace plan camp to win referendum in 2004 (Bahcheli & Noel, 2009: 244-247). However, in the second half of the 2000's, the AKP could not play an influential role in Turkish Cypriot politics any longer. As highlighted, "beset by problems closer to home, and

with its EU aspirations fading, the AKP government continues to support the TRNC financially but shows little interest in its domestic affairs” (Bahceli & Noel 2010: 147). On the other hand, Turkey’s traditional position of a military presence in Northern Cyprus has continued with the AKP government as well. The recent water and natural gas related issues added to the complexity of the problems and “rendered Turkey ambivalent in its dealings with Cyprus as well as with the EU” (p.189).

Greece had been the sole supporter of Greek Cypriot objectives. For Greece, Turkey’s withdrawal of its troops from the island has been the main political and military objective (Anastasiou 2006: 187). This was interpreted by Turkey as Greece aiming primarily to restore the sovereignty of the Republic but not to solve the conflict in line with a model of a federal, bicomunal state partnership (Anastasiou 2006: 187). Greece has always supported the withdrawal of the Turkish troops as necessary for progress towards a resolution. Under the influence of Europeanization and during the modernization of Greek foreign policy under the Simitis government in the 1990’s, the references to a bicomunal and federal Cyprus became more explicit (Anastasiou 2006: 187). Greek foreign policy on Cyprus has followed the dogma “Cyprus decides, Greece supports”. Greece has never been heavy handed on Greek Cypriots as in the case of Turkey, but has been rather supportive but not deterministic over Greek Cypriots in the post-1974 period. Greece has continued to use its veto power against Turkey’s accession process within the EU (Tsakonas 2009: 110). However, Cyprus has been the main “veto threatener” of Turkey since 2004.

### ***Post 2000’s developments***

Several attempts have been made to settle the Cyprus conflict for decades. The Annan plan<sup>15</sup> is the most recent one that failed in 2004. It had created positive sentiments on the possibility of a resolution. However evidence suggests that, the fact that local actors were not really incorporated into the Annan peace process was a prime cause behind its failure. Although the UN was able to get the support of all international actors including Turkey, the final solutions to the conflict depended on the two communities (Mirbagheri 2010: 153). It should be noted that the Annan Plan aimed to unite the island before the membership of the Republic of Cyprus to the EU in 2004 (Ulusoy 2009: 400). Nevertheless, the EU and Cyprus signed an accession treaty in April 2003 for Cyprus to become a member in 2004 regardless of whether a resolution would be reached by that time (Morelli 2015: 3).

The Annan plan proposed to establish “a common state government with a single international legal personality that would participate in foreign and European Union relations. Two politically equal component states would address much of the daily responsibilities of government in their respective communities” (Morelli 2015: 3). The Annan Plan also mandated the transfer of some territory to the Greek Cypriot part of the island that had been under Turkish Cypriot administration, the rehabilitation of property losses, the return of most of the displaced persons, a discharge of armed forces and the establishment of a reconciliation commission (Georgiades 2007: 575). Moreover the plan mandated the reduction of Turkish troops on the island while leaving 650 Turkish and 950 Greek troops and return of the two British military bases to the Cypriots (Georgiades 2007: 575). After a series of negotiations, the Annan plan was voted in referenda on April 2004 in which 76% of Greek Cypriot voters rejected and 65% of Turkish Cypriot voters accepted the plan.

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<sup>15</sup> The Annan plan was an UN initiative put forward by Secretary General Kofi Annan to reunify the island. During the negotiations five revisions were made to finalize the plan.

Between 2008 and 2010 another cycle of negotiations was held. With the left wing Mehmet Ali Talat as TRNC president at that time, the election of Demetris Christofias from left wing AKEL (Progressive Party of Working People) in the RoC in 2008 offered new hope for a settlement. Although the negotiations between the two leaders had started quickly, significant discrepancies appeared and endangered the resolution. With apparent unresolvable differences and frustration within the two communities, they failed to find a settlement (Morelli 2015: 4). Another phase in negotiations started in 2010 with the election of Derviş Eroğlu of the right wing UBP as president. Eroğlu was considered as having hardliner views, similar with Denktaş's. The Greek Cypriot side had not welcomed Derviş's election and asserted its skepticism (Morelli 2015: 5). No progress could be made and the talks ended in stalemate in 2012. In 2013, Nicos Anastasiades from the center-right DISY party was elected as RoC President. By this time the financial and economic crises of the Eurozone had caused serious challenges to the Republic and Anastasiades committed his efforts first to dealing with the banking and economic crisis (Morelli 2015: 10). Moreover disagreements were apparent between the two Cypriot leaders. After a series of unfruitful talks, both parties decided that the negotiations would not continue until after the April 2015 elections in the north.

### ***Current Peace Negotiations***

The election of Mustafa Akıncı who was supported by the Communal Democratic Party (TDA) and United Cyprus Party (BKP) in Northern Cyprus in April 2015 brought renewed optimism. As mentioned briefly all previous efforts for resolution had suffered from some serious limitations. Akıncı, who had served three times as a mayor of the Turkish Cypriot half of the Nicosia manifested his will to resume negotiations as soon as possible (Morelli 2015: 13). Akıncı's election was

very much welcomed by the Greek Cypriots and Anastasiades agreed to restart negotiations immediately. Akıncı's election is remarkable not only in that he certainly favours change as opposed to past leaders like Denktaş who had asserted that "no solution in Cyprus is the solution"<sup>16</sup>(Sözen 2015) but also in that he had supported bicomunal cooperation during his term as Mayor of Nicosia. Akıncı, with his counterpart Mayor Demetriades realized a very successful bicomunal project known as the Nicosia Master Plan and Nicosia Sewerage Project that contributed to the development of the city (Papadakis 2005: 89).

The election of Mustafa Akıncı as a Turkish Cypriot president, made the two parties ready for resolution talks. Firstly, after the election of Akıncı the two conflicting parties showed their initial interests to resume negotiations. In May Akıncı and Greek Cypriot leader Anastasiades met at a dinner hosted by UN's Secretary General's Special Adviser Espen Eide at the Ledra Hotel Palace<sup>17</sup>. Afterwards both leaders confirmed the positive environment. For instance Akıncı declared "it has been a positive meeting and we have made a good start"<sup>18</sup>. Both leaders showed their motivation to end the conflict. The two leaders on May 23, walked together down to Ledra Street which is a symbolic dividing line of the island (Morelli 2015: 13). They drank coffee in both the Turkish and Cypriot sides of the Ledra Street. This social meeting was highly important to show solidarity and hope to the two communities. Furthermore, it was the first time in history that the two leaders met for such an event (Morelli 2015: 13). President Anastasiades stated, "I want to send a powerful message which is we will work relentlessly towards a peaceful solution as soon as possible. We are obliged, actually condemned by

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<sup>16</sup> See <https://tr.boell.org/de/node/2685>

<sup>17</sup> "100 Days as President", Office of the President of TRNC. Retrieved from [http://www.kktcb.org/cb100gun-4c\(eng\).pdf](http://www.kktcb.org/cb100gun-4c(eng).pdf)

<sup>18</sup> "100 Days as President".

history, to achieve a solution. This is a debt that we owe”<sup>19</sup>. In February 2016, Cyprus made a request to the EU to recognize Turkish as one of the official languages of the EU. This was a significant move by Anastasiades to further contribute positively to the reunification process<sup>20</sup>.

The UN, being a traditional mediator, actively supports the Akıncı-Anastasides talks. The UN adviser on Cyprus Eide has taken initiatives to bring the leaders together on many occasions. Other than the UN, EU, US, UK, Greece and Turkey have also been supportive of a resolution of the conflict. Thus high level officials visited both leaders to push for change. For instance, during his visit US secretary of state John Kerry stated, “I am more convinced than ever that a settlement is within reach. This will not happen automatically, but it can be done. A united Cyprus can stand as a beacon for peace in a troubled region of the world”<sup>21</sup>. Moreover United Nations Secretary-General’s Special Adviser on Cyprus Espen Barth Eide stated that peace has never been that close in Cyprus<sup>22</sup>. Other than that, the Turkish government has shown its optimism and support towards resolution since a solution in Cyprus would likely have a positive impact on Turkish-Greek relations as well as Turkish-EU relations<sup>23</sup>. Former Turkish Prime Minister Davutoğlu stated, “Our aim is to open more chapters, including the 23rd and 24th chapters that are of great importance, in the coming months; close the opened chapters with the

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<sup>19</sup> See <http://www.thecypriotpuzzle.org/leaders-enjoy-ledra-street-stroll/>.

<sup>20</sup> See <http://cyprus-mail.com/2016/02/29/anastasiades-files-request-to-make-turkish-an-official-eu-language/>

<sup>21</sup> See [http://www.theguardian.com/world/2015/dec/04/cyprus-reunification-within-reach-claims-john-kerry?CMP=share\\_btn\\_tw](http://www.theguardian.com/world/2015/dec/04/cyprus-reunification-within-reach-claims-john-kerry?CMP=share_btn_tw)

<sup>22</sup> See <http://mfa.gov.ct.tr/eide-peace-has-never-been-so-close-in-cyprus-before/>

<sup>23</sup> See <http://www.hurriyetdailynews.com/second-reunification-referendum-in-cyprus-on-horizon.aspx?PageID=238&NID=84898&NewsCatID=351>

developments to be reached on the Cyprus issue, and thus complete Turkey-EU integration and the accession process”<sup>24</sup>.

According to Sözen, compared to the 2002-2004 Annan Process, this time the political agents of the two communities seem more ready and supportive towards a resolution. Sözen adds that especially Greek Cypriot political elites seem to be communicating with each other towards a resolution<sup>25</sup>. To overcome the barriers of the two societies which prevent leaders from making compromises towards peace, broader parts of the communities should be reached. Although it is very hard to analyze the ongoing negotiations, the present situation offers that in the most problematic issues (properties, freedoms, and guarantees) there has not been much progress yet. As stated by Anastasiades, “there is a possibility of finding solutions but there are still many details... there are obstacles regarding territorial adjustments, the property issue, the withdrawal of Turkish troops”<sup>26</sup>. According to a recent quantitative survey (Score Cyprus 2015), trends towards saying yes in a referendum have been increasing among Greek Cypriots. However “saying no” has been increasing among Turkish Cypriots. As many scholars note, a resolution to the Cyprus conflict lies in the hands of the two societies since official level agreement need societal acceptance. So when official agreement will be signed, it should be “sold” to both communities so as to make an inclusive peace process real (Sözen 2014: 246).

#### **3.4. Changes and Continuities in Greek and Turkish Foreign Policies/Post-90s developments**

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<sup>24</sup> See <http://www.thecypriotpuzzle.org/davutoglu-slowness-of-turkey-eu-relations-stems-from-the-cyprus-problem/>

<sup>25</sup> See <https://www.youtube.com/watch?v=cwwH2EcjPKg&sns=fb>

<sup>26</sup> See <http://www.thecypriotpuzzle.org/12135-2/>

The historical experiences of the two countries have played an important role in their foreign policy orientation. Thus Greece's 'underdog culture' and Turkey's 'Sevres syndrome' had been influential in their security oriented foreign policy approaches<sup>27</sup>. In the post-Cold War period, Greece and Turkey saw the necessity of adopting a new strategic orientation in their international positioning due to changes in the international system (Ifantis 2002: 247). Whereas the change in Greek foreign policy orientation was realized in the second half of the 1990's, Turkish foreign policy has undergone significant change in the 2000's.

The dissolution of Yugoslavia presented potential threats for Greece's territorial integrity and security (Ifantis 2002: 248). Thus stability in the Balkans became a priority of Greek foreign policy. Turkey made contacts with (Former Yugoslav Republic of Macedonia) FYROM to benefit from Greece's name dispute with the country and maintained closer relations with Albania, which Greece has had disputes with (Bahçeli 2000: 187). Moreover Turkey after the end of the Cold War, followed a policy to increase its contacts with Muslim and Turkish communities in the Balkans. These policies were perceived by Greece negatively due to the possibility of an increase in Turkish influence on those communities (Bahçeli 2000: 188-189). In the early 1990's, the two countries developed competitive and divergent policies in the Balkans rather than cooperating for peace and stability in the region (Oğuzlu 2003: 53).

Keridis (2001: 13) pointed out that,

“..policy makers in Athens have realized that time is not on Greece's side; that Turkey is growing by the day; that post-Cold War fluidity has led to a

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<sup>27</sup> See Tsakonas 2010 for detailed explanation of underdog culture and Martin & Keridis 2004 for Sevres syndrome.

proliferation of hot spots that might spark a Greek-Turkish crisis, even accidentally; that in the unstable post-Yugoslavia Balkans, the region can ill afford the antagonism between its two strongest nations; that opportunities for a mutually beneficial cooperation have multiplied; and that Greek obstructionism vis-à-vis Euro-Turkish relations was turning Turkey into a dispute between an isolated Greece on the one side and Europe and the United States on the other”.

Therefore it was assumed that maintaining old policies was no longer feasible and safe for Greece given changing regional realities. Keridis and Triantaphyllou (2001: 117-118) argue that, the EU paved the way for change in Greek policies towards Turkey by allowing for a modernization of Greek political culture. With the Simitis government of 1996, Greek foreign policy had started a period of modernization and Europeanization. As stated,

“since the mid-1990s the ‘defensive,’ ‘static,’ ‘reactionary,’ ‘inward-looking’ foreign policy –arguing for the isolation of Turkey by all means and at all costs – has been followed by a ‘post nationalist,’ ‘outward-looking,’ ‘proactive,’ ‘flexible,’ and much more confident foreign policy based on long-term planning, a willingness to take calculated risks, and the faith that Greece’s national interests are better served via multilateral efforts” (Tsakonas 2010: 55).

This sort of Europeanization became visible through Greece’s participation in peacekeeping missions in the Balkans in the 1997–8 and in the Kosovo crisis of 1999 (Tsakonas 2010: 56). Regarding Turkey, Simitis and the modernizers supported that stable relations with Turkey are feasible and realistic within the context of European integration (Tsakonas 2010: 60). To get rid of the Turkish “threat”, Turkey’s

Europeanization was considered necessary (Rumelili 2007: 119). At that time, joining the European Monetary Union (EMU) was Greece's primary goal. As stated "Greece was in need of a strategy which would go hand in hand with Greece's strategic priority for membership in the European Monetary Union (EMU); ... [a] strategy which would eventually lead Greek-Turkish relations into a peaceful and cooperative context based on international law and agreements" (Simitis, 2005: 75-6 cited in Tsakonas 2010: 62).

Similar to the Cyprus conflict, the EU has been unable to deal with disputes between Greece and Turkey (Tzimitras 2009: 241). According to Rumelili (2007: 113-114), the EU's problematic relations with Turkey prevented the EU from affecting Turkish-Greek relations positively. That is, it helped skeptics in Greece to use the EU as a diplomatic leverage against Turkey. For Turkey, it fed into a negative perception of the EU as influenced by Greek interests (Rumelili 2007: 113-115). However for both Greece and Turkey, Europeanization led to a degree of transformation regarding their foreign policies (Tzimitras 2009: 241).

Europeanization has been studied through various conceptualizations since 1990's. Ladrech (1994: 69) defined Europeanization as "an incremental process of re-orienting the direction and shape of politics to the extent that EC political and economic dynamics become part of the organizational logic of national politics and policy making". Europeanization of foreign policy however defined as

"transformation in the way in which national foreign policies are constructed, in the way in which professional roles are defined and pursued and in the consequent internalisation of norms and expectations arising from a complex system of collective European policy making" (Tonra 2000: 245).

Europeanization cannot be equally powerful for member and non-EU members. Therefore Europeanization can take place through conditionality of the EU for candidate countries (Aydın & Açıkmeşe 2007: 267). In the Turkish case, Aydın and Açıkmeşe (2007: 268-273) argue that Turkish foreign policy had evolved since the 1999 Helsinki summit with conditionality through the CFSP (Common Foreign Security Policy) acquis, political criteria, and a peaceful settlement of disputes. In the Greek case, Economides (2005: 481-482) argues that the Europeanization of Greek foreign policy has included periods of Westernization and Modernization. Greece had followed a bottom up Europeanization by mirroring Greek interests to the EU's foreign agenda. This was manifested through Greece's lifting of its veto over Turkey's membership in 1999 in which "the burden of Turkey's relationship with Europe was partially lifted from the shoulders of Greek policy makers and dropped squarely in the lap of the EU as a whole" (Economides 2005: 484). Thus with the Helsinki Summit of 1999, Greece became able to link Turkish-Greek conflicts over the Aegean and Cyprus with Turkey's accession to EU. The European Council called for Turkey "to resolve any outstanding border disputes and other related issues" (Triantaphyllou 2006: 334). Therefore Turkey's integration became closely linked with the resolution of the Aegean and Cyprus conflicts (Ifantis 2009: 123). Until the late 1990's, Greece supported the exclusion of Turkey from the European Union by blocking or threatening to block. This changed by 1999 that Greece has treated Turkey as a prospective EU member (Tzimitras 2009: 243-244). The EU accession process would require economic and political reforms. Thus the adoption of EU norms and values was meant to lead Turkey to break away from its 'revisionist' behavior (Agnantopoulos 2013: 75). As many argued, Turkey's accession process offered opportunities for Greece to transform Greek-Turkish

conflicts into EU–Turkish ones (Agnantopoulos 2013: 78; Couloumbis and Kentikelenis 2007; Tsakonas 2010).

As mentioned, Turkish foreign policy had also experienced a period of Europeanization. In 1999 the EU granted Turkey as candidate status. European conditionality paved the way for significant changes due to EU conditionality. As the Helsinki conclusions affirmed, candidates should solve their disputes with member states and with their neighbors<sup>28</sup>. For instance without the conditionality of the Europeanization process, it would have not been possible to have an improvement in relations with Armenia and towards Cyprus. Furthermore, EU pressure on reforms to change the traditionally heavy power of the military over civilians on foreign and security policies opened the way to limit the military's involvement in domestic and foreign political affairs (Duman & Tsarouhas 2006; Akgül-Açıkmeşe & Aydın 2007, pp.269-270). Especially between 1999 and 2005, Turkey experienced a significant reform process. The reform process contributed to a positive change in Turkey's overall international image (Grigoriadis 2013: 165). Since the 1990s the EU had also given financial assistance to Turkish-Greek civil society initiatives and encouraged new partnerships (Rumelili 2007: 121). For instance, in 2002 the Civil Society Development Programme was put forward to promote civil society dialogue at the grassroots and local level (Rumelili 2005: 49).

#### **3.4.1. The 1999 Rapprochement and Afterwards**

Although Turkish-Greek relations were highly tense in the 1990's as a consequence of the 1996 Imia/Kardak episode, 1997 S-300 missiles and 1999 Öcalan crises, 1999 became a turning point for positive change in Turkish-Greek relations.

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<sup>28</sup>For the Helsinki Presidency Conclusions 1999, see [http://www.europarl.europa.eu/summits/hell\\_en.htm](http://www.europarl.europa.eu/summits/hell_en.htm)

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 that it intend to install the Russian S-300 missiles system on the island. Turkey perceived this negatively and stated that such an installation would be reciprocated (Oğuzlu 2003: 53). Tensions continued until Greek Cypriot president Clerides's decision to install the missiles to Crete instead (Kotelis 2013: 207). Furthermore in 1999, the PKK leader Öcalan was arrested holding a 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 the two countries and proved that it was necessary to stabilize relations.

The symbolic faces of the 1999 rapprochement: George Papandreou and İsmail Cem, had played a significant role in the realization of the process. The earthquakes that hit İzmit on August 17 and Athens on September 7 paved the way for people and civil society organizations in two countries to generate positive societal perceptions that have contributed to the realization of the already ongoing rapprochement process (Yazgan 2015). Over the years, the 1999 rapprochement process did not lead to resolution of the political problems between the two countries. However, relations between two countries have improved through increasing channels of interaction. Several agreements were signed on tourism to investment (Kılıç 2000: 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: 123).

In the 2000's dialogue between the two countries 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 yet officially in office due to domestic legal obstacles<sup>29</sup>. 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 a 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 (Öniş & Yılmaz 2008: 146) and remained lukewarm towards a resolution of the Aegean disputes (Grigoriadis 2012: 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: 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 had ever visited Turkey (Kotelis 2013: 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 the start of a Greek-Turkish High Level Cooperation Council to meet every year with the participation of the two Prime Ministers and other ministers from both governments (Kotelis 2013: 248).

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<sup>29</sup> 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.

As mentioned by Tzimitras (2009: 239), 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. Both countries have been far away from making compromises for the resolution of their problems. This is one of the reasons that prevent developing institutionalized cooperation between two countries, as in the case of Franco-German relationship.

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”<sup>30</sup>.

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.

#### **3.4.2. Turkey, the EU and the Middle East**

On the one hand, the future of the bilateral relations is uncertain due to several domestic and international factors. On the Greek side, years of economic and

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<sup>30</sup> E. Clis, interview, February 2, 2016.

political crisis have weakened the country's focus on foreign policy issues and diminished the country's capacity to pursue a regional role in Southeast Europe (Onar & Watson 2013: 7). For Turkey, the main issues to deal with have been the failed Kurdish peace process and the Syrian war coupled with instability and insecurity which absorbs the country's capacity to deal with other issues. On the other hand, regional and international dynamic, seg. the refugee crisis, may provide for potential cooperation areas between the two countries. Furthermore they may also bring the EU and Turkey closer<sup>31</sup>.

EU-Turkey relations have been frozen in the post-2008 period. This can be explained by both EU level and domestic level factors. On the European side, the EU enlargements of 2004 and 2007 revealed the problem of integrating new members which is often called 'enlargement fatigue' (Nas 2015: 175). The European financial and economic crisis changed the priorities of the Union. It rightfully cultivated existential questions about the monetary union and the future of European integration. In addition, the refugee crisis resulted from an ongoing Syrian war, which has intensified over the last two years, and added into the existing difficulties faced by the European Union. On the Turkish side, various developments had affected the EU accession process negatively. The uprisings in the Middle East and the Syrian civil war became priority issues for the government (Nas 2015: 176). Moreover, the Gezi events displayed Turkey's democratic deficit and showed that Turkey is hardly complying with the Copenhagen Political Criteria (Nas 2015: 176).

Since the second half of the 2000's, Turkey has pursued active and multilateral foreign policy to increase its regional power status. In fact, the origins of the dramatic change in Turkish foreign policy lie in the foreign policy visions of

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<sup>31</sup> Bechev 2016, <http://www.turkishweekly.net/2016/01/14/op-ed/eu-and-turkey-the-way-forward/>

Turgut Özal and İsmail Cem (Tür & Han 2015: 31-41). Former Prime Minister Ahmet Davutoğlu (2007: 79-80) had emphasized 5 principles to transform Turkish foreign policy. These were: preserving a “balance between security and democracy in a country”, “zero problem policy toward Turkey’s neighbors” (pp.80-81), “to develop relations with the neighboring regions and beyond”(pp.81-82), “adherence to a multi-dimensional foreign policy”(p.82) and a “strategy of rhythmic diplomacy” (pp.82-84). The principles set out by Davutoğlu, constituted a shift from Turkey’s traditional “lone wolf” approach (Ozel 1995). Ankara improved its relations with Middle Eastern countries and took part in conflict resolution activities in Lebanon, Iraq, Sudan and the Balkans. Turkey’s dependence on the US decreased and it looked for opportunities in the Middle East, Caucasus and Central Asia (Larrabee 2012: 471). Turkey’s economic relations with the oil rich Middle East region also improved in the 2000’s. Turkey’s frozen relations with the EU as accession negotiations were not going anywhere, led to the necessity to find alternative partners (Tür 2011: 594). This was coupled with the global financial crisis affecting Western economies (Tür 2011: 594).

The EU accession process and democratization reforms helped the AKP to strengthen its political position through domestic transformation. It also provided a power base for policies towards the Middle East (Yorulmazlar & Turhan 2015: 339).By 2011, Turkey was considered a role model for Middle East and Northern African countries (Bechev 2014). However with the loss of democratization dynamic and EU perspective, Turkey’s outlook in the region changed. In the last couple of

years, Turkey seems to be in democratic deadlock that several scholars characterize as Turkey's illiberal turn (Bechev 2014; Zakaria 2015)<sup>32</sup>.

Turkey's regional leadership aspirations had been effected dramatically by the uprisings in Arab countries after 2011 and the war in Syria. Furthermore Turkey's relations with Armenia, Iraq, Iran, Israel, Russia and Syria got worse (Aras 2014: 405). The criticism towards the new Turkish foreign policy has increased in the last couple of years, arguing that Davutoğlu's vision became obsolete and unreasonable (Aras 2014: 404-406). While Turkey has been facing a turbulent Middle East, its Western links have been weakening (Yorulmazlar and Turhan 2015: 345). Yet increasing regional threats have revealed the need for a change in Turkey's policies. As pointed out by Bechev (2014: 6), 'vulnerability' is the right word to define Turkish foreign policy: "instead of changing countries and regions around its borders in its own image, Turkey is now on the defensive as instability spreads around its borders. The deadlock in Syria not only pushed Ankara into the Sunni camp but also raised the spectre of violence spilling over into its territory".

The refugee crisis may provide an opportunity for an improvement in Turkey-EU relations. The EU decided to cooperate with Turkey to deal with the Syrian refugee crisis. In late 2015, important developments occurred which may reenergize relations. On 29 November 2015, Turkish and EU leaders met in a Brussels Summit to find a solution to the refugee crisis. The deal includes 3 billion euros assistance to Turkey to host over 2 million Syrian refugees and a visa liberalization prospect for Turkish citizens by October-2016 and the opening of a negotiation chapter<sup>33</sup>. In

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<sup>32</sup> For Dimitar Bechev's analysis, see <http://ipc.sabanciuniv.edu/publication/reverting-structural-reforms-in-turkey-towards-an-illiberal-economic-governance/> and for Fareed Zakaria's [http://www.todayszaman.com/anasayfa\\_fareed-zakaria-turkey-headed-for-illiberal-democracy\\_378504.html](http://www.todayszaman.com/anasayfa_fareed-zakaria-turkey-headed-for-illiberal-democracy_378504.html)

<sup>33</sup> See more on <http://carnegieeurope.eu/strategieurope/?fa=62155>

March 2016, EU-Turkey summit was held and reconfirmed their commitment to implement the refugee deal<sup>34</sup>. Thus chapter 17 (Economic & Monetary Policy) was opened on December 15. Moreover chapter 33 (Financial and Budgetary Provisions) was decided to be open under Dutch Presidency of the Council<sup>35</sup>. These can be considered as positive developments which may recover the trust between the EU and Turkey (Arısan Eralp 2015: 2). However there are some uncertainties and difficulties regarding the reached deal.

As mentioned, the refugee crisis presents potential cooperation areas for Greek and Turkish authorities. However these may also create difficulties due to the Aegean dispute. Greece and Turkey are critical countries for the EU to deal with the refugee flows. With the increasing number of refugees crossing into Europe in 2015, the EU became alarmed and attempted to stop the flow of people. Within a few months, various multilateral meetings between European countries and Turkey, as well as Greece and Turkey were held. Since 2011, Turkey has been hosting an increasing number of Syrian refugees and the number has already reached more than 2,700,000<sup>36</sup>. While Turkey has already spent more than 8 billion US dollars to deal with the needs of the displaced people, the international community's contribution remained as low as 455 million US dollars<sup>37</sup>. In 2015, Greece also faced an increasing number of refugees who have tried to cross the Aegean Sea. According to UNHCR, 932,519 refugees crossed over to Greece between January 2015 and 10 February 2016<sup>38</sup>. This intensified EU pressure on Greece to control the flows.

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<sup>34</sup> See <http://www.consilium.europa.eu/en/press/press-releases/2016/03/18-eu-turkey-statement/>

<sup>35</sup> See <http://www.ab.gov.tr/index.php?p=98>

<sup>36</sup> According to latest in March 3, 2016 data, See <http://data.unhcr.org/syrianrefugees/country.php?id=224>

<sup>37</sup> AFAD <https://www.afad.gov.tr/TR/IcerikDetay1.aspx?ID=16&IcerikID=747>

<sup>38</sup> UNHCR Data Portal Greece

In early February 2016, Greek authorities recognized Turkey as a “safe third country”<sup>39</sup>. Greece started to establish hotspots in Chios, Kos, Leros, Lesvos, and Samos islands to deal with the relocation process effectively<sup>40</sup>. By February 11, 2016 NATO entered the picture to assist Greece, Turkey and the EU to deal with illegal trafficking in the Aegean Sea. It was announced that the NATO fleet would be deployed in the Aegean Sea. Also it is stated that migrants who would be rescued would be returned to Turkey and coast guards (Greek and Turkish) would operate within their own air spaces and territorial waters<sup>41</sup>. The deal was highly criticized and received with suspicion in Greece since it resulted from a Turkish-German initiative. Moreover the NATO patrols are seen as another way in which Turkish claims over the Aegean could be legitimized. The Greek government has criticized that, Turkish overflights in the Aegean have increased since the NATO patrols started<sup>42</sup>. Yet the EU-Turkey deal would not have been realized without Greek consent. The Greek Parliament approved a bill that was necessary for the implementation of the agreement for returning refugees<sup>43</sup>. As the EU-Turkey deal prescribes, on April 4, Greece started returning the first group of refugees and migrants from Lesbos island to the Turkish coastal town of Dikili<sup>44</sup>. However the

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<sup>39</sup> See <http://www.ekathimerini.com/205708/article/ekathimerini/news/hot-spot-work-intensifies-as-greece-agrees-to-recognize-turkey-as-safe-country>

<sup>40</sup> See <http://www.economist.com/news/europe/21690142-economist-visits-only-operational-hotspot-country-what-happens-after-refugees>

<sup>41</sup> See <http://www.hurriyetdailynews.com/nato-the-savior-of-turkey-greece-eu-and-schengen-agreement.aspx?pageID=449&nID=95132&NewsCatID=429> and <http://www.independent.co.uk/news/world/europe/nato-orders-fleet-to-deploy-in-aegean-sea-to-help-end-europes-refugee-crisis-a6867076.html>

<sup>42</sup> See <http://www.ekathimerini.com/208299/article/ekathimerini/news/turkish-overflights-in-aegean-continue>

<sup>43</sup> See <http://www.ekathimerini.com/207556/article/ekathimerini/news/greece-moves-closer-to-enforcing-eu-turkey-deal-as-situation-on-islands-worsens>

<sup>44</sup> See <http://www.nrc.no/?did=9216708#.VwoI0vmLTIX> and see [http://www.nytimes.com/2016/04/05/world/europe/greece-turkey-refugees.html?\\_r=0](http://www.nytimes.com/2016/04/05/world/europe/greece-turkey-refugees.html?_r=0)

deportation of refugees has not been problem free<sup>45</sup>. The presence of the Aegean disputes complicates the regulations.

### **3.4.3. Bilateral Relations in Post-2010**

After the rapprochement process, security issues between the two countries were swept under the carpet. Given the good level of 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.

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<sup>46</sup>. In 2013, a second meeting was held in Istanbul and a third one in December 2014 in Athens. The fourth meeting was held in March 2016 in İzmir<sup>47</sup>. The fourth council took place with the participation of various Greek and Turkish ministers along with the Business forum<sup>48</sup>. Those council meetings are important to provide an environment of discussion for both political circles and business elites from the two countries<sup>49</sup>.

However the lack of a 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 an unresolved Cyprus conflict.

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<sup>45</sup> See <http://www.theguardian.com/world/2016/apr/07/refugees-in-greece-warn-of-suicides-over-eu-turkey-deal> see also <http://www.theguardian.com/commentisfree/2016/apr/04/greece-deportations-eu-turkey-refugees>

<sup>46</sup> See <http://www.mfa.gov.tr/relations-between-turkey-and-greece.en.mfa>

<sup>47</sup> See <http://www.mfa.gov.tr/high-level-cooperation-council-meeting-between-turkey-and-greece.en.mfa>

<sup>48</sup> See <http://www.izmir.gov.tr/t-rk-yunan-is-forumu-izmir-de-ger-eklestirildi>

<sup>49</sup> Will be discussed in detail in Chapter 5.

Energy issues have certainly the potential of creating both cooperation opportunities and competition. The Greek Cypriot hydrocarbon explorations begun in early 2000s and the RoC signed delimitation agreements with Egypt, Lebanon and Israel to search on their “exclusive economic zone”. In 2011, it was announced that 5 to 8 trillion cubic feet of natural gas were discovered (Gürel & Tzimitras 2014: 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 & Tzimitras 2014: 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: 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: 79). Yet the Greek Cypriot hydrocarbons exploration has antagonized the Turkish Cypriots as well as Turkey (Gürel & Tzimitras 2014: 85). Turkey reacted by dispatching an exploration vessel to the Greek Cypriot-claimed waters. Therefore, in the absence of political consensus and cooperation, gas issues are likely to cause further conflict, if cooperation areas cannot be established between Greece, Turkey and Cyprus.

**CHAPTER 4:**

**OVERVIEW OF GREEK AND TURKISH POLITICAL  
ECONOMIES**

The previous chapter presented a historical overview of Turkish-Greek relations with a focus on past and current dynamics. What follows is an account of development of Greek and Turkish political economies. This includes fundamental aspects and dominant features of the two countries' economies in a broad political context. Without examining the two countries' economic development, it is impossible to have accurate account of economic interactions. In addition, political relations or foreign policy making cannot be analyzed without touching upon economic issues and neglecting the interplay between international relations and economics. Therefore, this chapter is useful to combine the two issues before making a transition to the chapter on Turkish-Greek economic relations.

**4.1. The Historical Development of Turkish Political Economy**

From its beginning, the Republic of Turkey has got through crucial economic and political challenges which have been characterized by both domestic and structural dynamics. Various economic crises and instabilities have long shaped Turkish political economy. With the establishment of the Republic of Turkey, steps were taken to nationalize the economy. This was based on Kemal Atatürk's "etatism", aimed to piece together the country which was torn apart by successive wars.

National economic independence was the core objective. Therefore, the state carried out a central role by starting off the industrialization of the Turkish economy (Öniş 2003, p.65; Grigoriadis & Kamaras 2008: 55). While the state had the central role in economic development, the Turkish economy was close to foreign capital and foreign influence. The negative blow associated with the Great Depression of 1928-1932 also fed into the inward looking economic orientation of Turkey (Grigoriadis & Kamaras 2008: 55). As part of the country's modernization plan and nationalization of the economy, a new Turkish business class aspired to be created. The state provided investment funds and access to safe market outlets to the new republican business class (Buğra & Savaşkan 2014: 31). These made the newly initiated Turkish business class heavily dependent on the state (Grigoriadis & Kamaras 2008: 56).

During the post-World War 2 period, Turkey followed a pattern of “agriculture led growth in the context of an open and outward-oriented development strategy” (Öniş 2003: 65). During the 1950's, Turkey's political and economic relations were reoriented by being a beneficiary of the Marshall Plan (Buğra & Savaşkan 2014: 33). The state's role complemented that of the private sector, which was developed by the state itself (Öniş 2003: 67; Buğra 1994). Import substitution industrialization (ISI) policies had been followed in the 1960's and early 1970's to protect the domestic market from foreign competition (Öniş 2003: 65). However during the ISI years, the business community became dependent on the bureaucracy and the state rather than the market (Demir 2004: 852). This dependence on politics caused an increase of rent-seeking behavior among the business community (Demir 2004: 852; Balkan and Yeldan 1998).

Turkey was ruled by coalition governments in 1960's and 1970's which fostered economic and political instability. Owing to the liberal constitution of

1961 that extended civil rights and liberties, the labor movement started to emerge. Labor organizations and business associations were established. For instance, the Turkish Confederation of Employers' Union (TİSK) and the Turkish Industrialists' and Businessmen's Association (TÜSİAD) were established in 1962 and in 1971 (Buğra & Savaşkan 2014: 35). Economic growth and the level of industrialization were successful between the 1960's and early 1970's. However, import substitution policies proved problematic (Buğra & Savaşkan 2014: 36). The international economic system got paralyzed by the oil crisis of 1973, which also pressured the Turkish economy. Thus the political climate in the country got worse with violent clashes between left wing factions and ultranationalist groups. The 1978-1979 debt and balance of payment crisis broke out (Akyüz & Boratav 2003). This political and economic chaos environment resulted in the 1980 military coup. The economic regime of the country got through profound changes in the post-1980 period (Buğra & Savaşkan 2014: 37).

#### **4.1.1. Post 1980's and Turkish Neoliberalism**

In retrospect, the 1980's can be considered the first phase of Turkey's neoliberal economic transformation which is associated with Turgut Özal's policies. As Öniş (2003: 65) argues, the post-1980 neoliberal era consists of a plan for economic liberalization and outward oriented economic development. Öniş (2003: 68) states,

“The program implemented in 1980 was one of the first of its kind involving both short-term stabilization and longer-term structural adjustment based on close collaboration between the IMF and the World Bank”.

That is, Turkey's liberalization and integration into the world economy was achieved through step by step approach. The process was designed to liberalize the foreign trade regime, abandon exchange rate controls, attract foreign direct investment (FDI) and privatize state enterprises (Demir 2004: 853).

After the military regime introduced the 1982 constitution, a more authoritative charter in terms of democratic rights, the liberal center right party, Motherland Party (ANAP) came into power (Buğra & Savaşkan 2014: 49). The party leader, Turgut Özal played a significant leadership role during Turkey's neoliberal transition. Between 1967 and 1971, Özal worked as the Under-Secretary of the State Planning Organization (DPT) which was an important institution of the import-substitution period. Later he spent his time at the World Bank before returning back to Turkey to work in the private sector (Öniş 2004: 115). Having experienced a variety of jobs both in bureaucracy and in the private sector provided an advantageous position to Özal (Öniş 2004). More importantly, Özal had an Islamist political leaning which made him attractive to the conservative majority of Turkey's society. At the same time, he also managed to appeal to secular segments through his political and economic agenda (Öniş 2004). Between 1983 and 1989, Özal served as Prime Minister. During that time he showed active leadership in transforming the Turkish economy.

“At a broader level, Özal's vision and influence was important in helping to transform a self-enclosed society, with a mediocre image of itself, to an outward and forward-looking society that aimed to participate and play an active role in the key regions surrounding Turkey” (Öniş 2004).

In this regard, Özal also aimed to have close relations with the European Economic Community (EEC), which would foster the economic reform process of the country (Özal 1991). Thus a central feature of the 1980's is that considerable new business elite grew through the expansion of business groups like TÜSİAD (Turkish Industrialists and Businessmen's Association) and TOBB (Turkish Union of Chambers and Commodity Exchanges) and Turkey's trade relations with various regions started to expand (Kirişçi 2009: 38). For instance, Turkey's trade with the EU reached more from 17 billion US dollars in 1990 from around 4 billion in 1980 (See table 3). Privatization was also on the agenda of the neoliberal program, as various state-owned enterprises were privatized. However it should be noted that, privatization could not gain real momentum until after the AKP (Justice and Development Party) took office in 2002 (Buğra & Savaşkan 2014: 51; see also Öniş 2011).

Since the 1980's, Turkey's neoliberal agenda has included de-ruralization policies. The agricultural subsidies and barriers against agricultural imports have been abolished. Turkey has seen an impressive increase in exports, with manufacturing becoming the leading export sector<sup>50</sup>. Moreover, new centers of the Turkish private sector have started to develop since the 1980's. The "Anatolian Tigers"<sup>51</sup> started to appear and diversify the market (Öniş 2003: 63). However government intervention remained (Buğra & Savaşkan 2014: 51). For instance, public investments like transportation, communication and electricity projects were implemented. The government provided subsidies to exporters and preferential credits to investors in tourism and real estate (Buğra & Savaşkan 2014: 51).

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<sup>50</sup>TÜİK, Foreign Trade Statistics.

<sup>51</sup> Anatolian Tigers refer to the central Anatolian cities like Gaziantep and Konya where an economic boom was observed in production and capital accumulation by companies mainly consisted of conservative circles with many shareholders in those cities (Demir et al 2004, p.168).

Moreover, as stated by Buğra & Savaşkan (2014: 51), “by the end of the 1980’s, 90 percent of transactions in the newly established İstanbul Stock Exchange involved government securities”. Economic reorientation led to some positive results. For instance, between 1979 and 1985, exports to GDP ratio increased from 4.9% to 20.9%. The inflation rate fell to 29.6% in 1986, down from 108% in 1980. Also, the value of exports grew to US\$13.0 billion from US\$2.9 billion and the share of manufactured goods in export total reached 79% between 1980 and 1990 (Heper & Keyman 1998: 266).

In 1989, the Motherland Party lost power, which led to a fragmentation of the political system (Öniş 2004: 122). Özal became President in 1989, as the country faced both domestic political problems and foreign policy challenges. Also in 1989, the decision to liberalize the capital account was taken, a decision that strongly affected the Turkish economy in the 1990’s (Öniş 2004: 123; Balkan & Yeldan 1998). Capital account liberalization worsened the maladies of the Turkish economy and put it into a vicious cycle (Gemici 2012), with the economy heavily relying on short-term capital inflows (Tukel, 1997: 27). As Öniş (2009: 5) suggests,

“The fact that Turkey was exposed to financial globalization in the presence of severe macroeconomic instability and weakly regulated financial system helped to create a fragile and lop-sided pattern of development, whereby growth became dependent on inflows of highly speculative and reversible flows of short-term capital”.

Turkey became “exposed to the instabilities, the accompanying problems, and, the risks of financial liberalization and deregulation” (Demir 2004: 853). Thus fiscal problems were accumulated in that “forcing the Government to pay interest rates

incorporating a higher spread compared to the safer dollar assets which became easily accessible even for small savers” (Akyüz & Boratav 2003: 4). Without a proper regulatory framework and having a large budget deficit, the Turkish economy became vulnerable to crisis which eventually erupted in 1994, 1998-99 and 2000-01 (Buğra & Savaşkan 2014: 52).

Therefore, it was almost certain that the 1990’s would be tumultuous both politically and economically. High inflation rates and large public deficits became endemic (Öniş 2014: 73). These also had negative impacts on foreign and domestic direct investment (Öniş 2014: 73). The serious weaknesses of Turkey’s neoliberal experience came to the surface. Clientelistic relations and patronage politics had been prevalent since the early republican years. However, patronage increased in the post-1991 period (Heper& Keyman 1998: 268). Corruption turned out to be a widespread component of the Turkish economy fueled by short lived and unstable coalition governments (Öniş 2004: 124). On the political sphere, the country went through troubling years due to the intensification of the conflict between Turkish state security forces and the Kurdistan People’s Party (PKK). Moreover, the rise of political Islam caused rising grievances on the secular military elite, which also fed into a secular-Islamist division within the society.

As Cizre-Sakallıoğlu & Yeldan (2000: 482-483) argue, Turkey’s post-1980 liberalization process had been problematic in the sense that it had increased inequalities among society and Turkey’s weak democracy had a vital role in that. A rapidly liberalizing Turkish economy had made socio-economic inequalities highly visible (Buğra & Savaşkan 2014: 53). Moreover, the state and the society became disconnected due to the 1980 coup since the labour was politically marginalized and lost power (Cizre-Sakallıoğlu & Yeldan 2000: 494). In the 1990’s,

Turkey experienced high levels of immigration from rural cities to industrial centers due rapid changes in the character of the country's economy. Furthermore, the political elite in Turkey were unreceptive to civil society's demands and concerns (Heper & Keyman 1998: 261). As Sarigil noted (2009), identity politics (rise of political Islam and Kurdish nationalism/separatism) had risen in Turkey during the 1990's, which challenged the "secular, centralized, and unitary Turkish nation-state" (p.712) and turned to be "the major source of instability in Turkey" (p.721). A number of studies indicate that, the Turkish military had been a critical political actor together with being a security institution (Cizre-Sakallioğlu 1997; Duman & Tsarouhas 2005; Hale 1994; Sarigil 2012).

In the 1995 elections, the Islamist Welfare Party (RP) formed a coalition government with the center right True Path Party (DYP). However, the coalition government dissolved in less than a year as a consequence of military intervention, a "soft coup" (Cizre-Sakallioğlu & Yeldan 1999: 501). The military delivered a 20 point ultimatum on 28 February 1997. In contrast with 1960 and 1980 coups, the military did not take over the government but issued a memorandum which forced the Islamist Prime Minister Erbakan to resign. Consequently the secular-Islamist cleavage widened within society (Cizre-Sakallioğlu & Yeldan 1999: 502).

#### **4.1.2. The AKP Era**

In 2000 and 2001, Turkey faced with serious economic crises which were handled by an IMF backed reform process. The reform program including the institutional reforms was launched following the crisis (Atiyas 2012: 65). The reforms were designed by Kemal Derviş who was a Vice President at the World Bank and called in by the then coalition government as Treasury Minister to

implement the reforms (Atiyas 2012: 65). The reform process included establishing regulatory institutions for banking and finance sectors and improving the power and autonomy of the Central Bank (Öniş & Şenses 2007: 20). The AKP (Justice and Development Party) government had adopted these reforms and continued their implementation. Following these, the Republic of Turkey has gone through momentous political and economic changes. Under a cohesive single party government since 2002, the Turkish economy has lived through successful years of high economic growth with low inflation rates. Turkey's good economic performance between 2002 and 2014 has been recognized by many (Kutlay 2015: 3). However Turkey's economic performance has been neither equal nor uniform. Therefore it would be useful to divide the AKP era into two periods as pre-2008 and post 2008 periods. The crisis of 2000-2001 provided an opportunity for the AKP government to continue the implementation of a sustainable reform program to cure the deficiencies of the economic structure (Kutlay 2015: 3). The Turkish economy had displaced high growth rates until the 2008 global economic crisis. That is, Turkey became one of the high growing countries with 6.8 %t real annual growth between 2002 and 2007 (Kutlay 2015: 4). In the post-2001 period, Turkey experienced a privatization boom that was parallel with the European Union accession process (Öniş 2011: 6). Hence Turkey has increasingly attracted foreign direct investment. Big privatization arrangements included foreign presence as well with domestic-foreign partnerships (Öniş 2011: 8). Some examples can be the privatization of TÜPRAŞ (Petroleum), PETKİM (Petrochemical) and TEKEL (Alcohol and Tobacco Products) (Öniş 2011: 713).

As a final stage of the Ankara agreement (Association agreement) signed in 1963, Turkey and the European Union (EU) signed an agreement to form a Customs

Union (CU). By signing the CU agreement, Turkey imposed the common external tariff to third countries. Also CU required Turkey to adopt EU competition rules to harmonize those with EU policies. In turn, the EU eliminated quotas on Turkish textile and clothing exporters (Yılmaz 2011: 236). The Customs Union played a critical role in the trade liberalization process of Turkey. It increased domestic competition through which domestic producers were focused enhancing productivity (Yılmaz 2011: 237) and contributed to the transnationalization of Turkish corporations, especially in the post-2001 crisis era (Öniş 2011: 11).

As Öniş (2011: 12) highlights, the 2001 crisis strengthened the role of external actors, mainly the IMF, World Bank and the EU on the Turkish economy. Whereas the IMF and World Bank pushed for regulatory reforms in return for financial assistance, this had gone hand in hand with the EU accession of Turkey that had obtained the candidacy status in 1999. The AKP leadership followed Kemal Derviş's policies especially in the first two terms (Kutlay 2013: 3). During the pre-2008 period, the AKP remained committed to the process of Turkey's EU membership (Öniş 2011: 12). The Europeanization process had magnified between 2002 and 2006, which considered the golden years for Turkey-EU relations (Kutlay 2013: 3). Political stability combined with institutional and regulatory changes consolidated the Turkish economy. Between 2002 and 2012 for instance, annual growth reached about 5% and GDP per capita increased more than threefold (Kutlay 2013: 2). Furthermore, Turkish firms became actively involved in European, Middle Eastern and Asian markets. For example outward Foreign Direct Investment reached noteworthy levels. Therefore, Turkey had reached greater regional diversity than at any time in the past in terms of both exports and foreign investment (Buğra & Savaşkan 2014: 65).

Turning now to the post-2008 period, the Turkish economy has been facing serious challenges and downturns stemming from both domestic and external factors. On the one hand, Turkey did not experience the severe consequences of the global economic crisis which started to burst in 2007-8, in old-styled ways (Öniş 2012: 4). The inflation rate stayed at single digit levels and Turkey did not face any bank failure in contrast with many European banks (Öniş 2012: 11). On the other hand, the Turkish economy has suffered several difficulties. The global crisis impacted on Turkey more than other emerging economies, which illustrates how dependent the Turkish economy still is on global downturns (Tekin & Tekin: 30). One main difficulty is the current account deficit problem (Kutlay 2015: 4). As Kutlay (2013: 5) argues, the “root causes of Turkey’s current account problem are deep-seated”. Kutlay (2015: 8) suggests that, high current account deficits are a structural problem of the economy which is rooted in chronic trade deficits. Thus among emerging economies, Turkey’s current account deficit is the highest (Tekin & Tekin 2015: 35).

The AKP government consolidated its political power by relying on a rising Turkish economy, especially in the pre-2008 period. A more assertive, active and multidimensional foreign policy was adopted. That is, this new foreign policy approach was a reflection of Turkey’s growing economy that pursued trade and investment opportunities (Öniş 2012: 16). Since 2002, the transformation of Turkish foreign policy has been heavily debated by many scholars (Altunışık & Martin 2011; Müftüler-Baç 2011; Sözen 2010). In his seminal study, Kemal Kirişçi (2009) suggested that, Turkey could now be characterized as a “trading state” with a foreign policy shaped by increasing economic interdependence with its surroundings. As argued,

“Turkey’s national interest cannot be solely determined in terms of a narrowly defined national security, and that economic considerations such as the need to trade, expand export markets, and attract and export foreign direct investment are just as important” (Kirişçi 2009: 33-34).

Kirişçi (2009: 43) also argues that two important developments have made interdependence a central characteristic of Turkish foreign policy of Turkey. The first is the liberalization of the Turkish economy in the post-1980 period which led to the emergence of “Anatolian Tigers” that search for external markets. The second development is the shift from military-political and territorial system driven policies to the foreign policies of a trading state (pp.44-45). This shift had become evident during the Özal era and continued to be evident under then Foreign Minister İsmail Cem’s leadership and was maintained during the AKP era (p.44-50). Kirişçi (2009 53) also acknowledges that the “Turkish trading state is far from being consolidated and faces a set of challenges”. With increasing internal, regional and international instabilities apparent, Turkish foreign policy turned to be more complex. The Syrian crisis, the current stalemate with the EU and growing domestic grievances can lead to more instability for Turkey.

As many scholars note, there are big challenges ahead for the Turkish economy. The “middle income trap” (MIT) is mostly mentioned. It has been argued that Turkey comes closer to the middle income trap (Kutlay 2013: 6). This is defined as “the slowdown tendency in rapidly growing economies after their per capita income has reached a certain threshold” (Kutlay 2015: 10). To overcome the MIT threat, certain policies need to be developed. For instance it is necessary for Turkey to bring out more inclusive institutions on economic, technological, educational, legal and R&D areas (Kutlay 2013: 7). In addition, Pamuk (2014: 353) asserts that

economic developments and reforms should be supported by necessary institutional changes for development. There has been a democratization challenge that Turkey has been facing in the last couple of years. While Turkey has gone through a democratic transformation since early 2000's through reshaping civil-military relations and enhancing human rights standards in line with the EU anchor, there are still major problems within the political system that feed into societal clashes. As scholars (Kutlay 2013, Pamuk 2014) argue, Turkey needs to address the problems of its political and economic institutional framework through democratization in all realms to overcome the middle income trap.

#### **4.2. The Historical Development of Greek Political Economy**

After its independence from the Ottoman Empire in 1830, Greece began a painful process of political and economic evolution. While Greece remained a weak agricultural country with limited export capabilities in the 19<sup>th</sup> century, during the early 20<sup>th</sup> century production and exports especially of grain, cotton and tobacco showed an important increase owing to acquisition of new lands like Ionian Islands, Aegean Islands and Western Thrace (Gianaris 1988: 26-27). With the Lausanne Treaty of 1923, a compulsory exchange of population was decided between Greece and Turkey which involved about 1.5 billion people (Hirschon 2003: 3). Therefore the exchange included "Turkish nationals of the Greek Orthodox religion established in Turkish territory and Greek nationals of the Muslim religion established in Greek territory" with the exception of Istanbul, Western Thrace and Gökçeada (Imvros), Bozcaada (Tenedos) (Hirschon 2003: 8). Apart from its traumatizing impact on both Greek and Turkish societies, the exchange of populations had significant socio-economic consequences. In the case of Greece, this caused a massive influx of people that resulted in an increase of 25% of its population within two years

(Hirschon 2003: 14-15). This created huge settlement and unemployment problems that fed into societal-cultural tensions (Hirschon 2003: 17). However in the long term, refugees made a valuable contribution to economic life in the country since they had commercial and industry knowledge in textiles, pottery, copperware, shipping and rug industry (Gianaris, 1988: 27).

Differently from Turkey's experience, Greece had lived through military occupation during World War 2 by the axis powers of Italy and Germany. Whereas Greece was in a process of political polarization and societal conflict, the fascist occupation damaged the resources of the country from industry to infrastructure, which had a devastating impact for the economy. After the end of WW2, a civil war (1946-1949) between the pro-Communist Democratic Army and the government's National Army took place. During the civil war years the country suffered from political instability (Pakos & Paleologou 2003: 50). In the post-1949 period, the Greek economy was able to recover through a series of political measures (Pakos & Paleologou 2003: 50). The country showed rapid growth by averaging 6.5% growth in the 1950's (Tsarouhas 2009: 42). By 1955, the Greek economy had reached its pre-war levels. The Marshall Aid (1948-52) provided by the US was decisive in that it provided the basis of post-1949 economic development and stability of Greece (Pakos & Paleologou 2003: 50). In 1967, the Greek military took over and led to seven years of an anti-communist dictatorship (Regime of the Colonels). Overall, the years between 1953 and 1973 were considered as successful years of economic growth (Pakos & Paleologou 2003: 52). In that period, state intervention had been the dominant factor for the functioning of the economy. The ratio of public expenditures to GDP had followed an upward move with the exception of the Dictatorship period (1967-1974) (Pakos & Paleologou 2003: 52). Given that the

world economic conditions under the Cold War and the Greek private sector's conditions, state intervention in economy was inescapable in that period (Pakos & Paleologou 2003: 52-53). The years of 1973 and 1974 can be marked as years of landmark events for Greece's political and economic environment. These events were the world economic crisis, Polytechno student uprisings<sup>52</sup>, the Cypriot coup d'état and Turkish military invasion in Cyprus, and the fall of the Colonels Regime (Pakos & Paleologou 2003: 51).

#### **4.2.1. Post-1974 Period**

In 1974, the Turkish military intervention in Cyprus, led to the collapse of the Greek dictatorship. Constantine Karamanlis, a prominent politician and former Prime Minister, was asked to return to Greece to lead the transition to democracy (Pappas 2014: 14). After Karamanlis formed a civilian National Unity government, democratization steps were taken rapidly. For instance, the Greek Communist Party (KKE) was legalized and martial law was lifted. Within a short time elections were held which Karamanlis's New Democracy (ND) won comfortably. Moreover, the Greek people voted in a referendum to abolish the monarchy and consolidate a republican regime (Pappas 2014: 14).

On the economic realm, the state continued to play a central role (Tayfur 2003: 74). While during the 1945-1960 period state intervention was a prevalent but limited factor in the Greek economy through providing subsidies, licenses and protectionist policies, in the post-1974 period state control increased significantly

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<sup>52</sup>1973 Polytechno uprising was an occupation of the buildings of Law School of the Polytechnic University of Athens by Greek students who demand democracy against the military regime (Regime of the Colonels). Students went on strike and set up a radio station to spreading uprising throughout Athens. The resistance was repressed brutally by the military dictatorship. The Polytechno considered as an important youth movement and has been commemorated. "Bread-Education-Freedom" is a famous slogan of the uprising (Kornetis 2010: 178).

(Tayfur 2003: 74). As Pappas (2014: 16) illustrates, “prioritizing state-led growth within an expansive market economy; and achieving Greece’s fast social and economic integration into the EU” were among Karamanlis’s objectives. A state-led capitalism similar to the French model was adopted (p.17). The state became responsible for creating a favorable business environment. Thus, through heavy state investment in chosen areas of the economy, the state sought to improve productivity, enhance external trade and competitiveness (p.18). In this way, the state would take over private enterprises through a wave of nationalization in the 1970’s and 1980’s. As pointed out by Tayfur (2003: 74), the level of state control was over 60% in 1979. Therefore, the Karamanlis government took steps to reduce the power of private economic elites and various nationalizations took place. For example, Olympic airways of Greek oligarch Onassis, or the Aspropyrgos refinery of major business patron Niarchos were nationalized (Tayfur 2003: 74). With regard to Greece’s accession into European Economic Community (EEC), it was politically desirable for Karamanlis due to various reasons. Integration with the EEC would provide national security and protect fragile democratic institutions (p.19). The EEC offered a secure and wide trading area for a small country like Greece and full membership to EEC would decrease Greek dependence to the USA (p.19). Furthermore, membership would provide Greece with the benefit of EEC grants to modernize its economy (Tayfur 2003: 80).

In the 1981 elections, the socialist party of Andreas Papandreou, the Panhellenic Socialist Movement (PASOK) won a majority for the first time. Papandreou adopted a political discourse of “change” (Αλλαγή). Papandreou offered rather radical change in contrast with Karamanlis’s more cautious program (Pappas 2014: 22). This included a new foreign policy orientation advocating a withdrawal

from NATO and only special relations with the EEC (Pappas 2014: 22). As cited by Pappas (2014: 24), Papandreou stated that “Greece is a dependent country, we are a colony. Our metropolis is the US and its branches in western Europe”. Having ties with external constituencies, namely with NATO and the EEC, was interpreted as limiting the national sovereignty of Greece. Moreover Papandreou states “the bourgeoisie, the big industrialists and entrepreneurs become increasingly subjected to foreign monopoly capital, which thus dictates their entire business activities” (Pappas 2014: 25). Therefore for Papandreou, the public sector would be the promoter of economic development and he heavily criticized the Greek private sector (Tayfur 2003: 93). The economic policies of PASOK government aimed to reform the public sector. This included “supporting cooperatives, local authority enterprises and small/medium size enterprises; engaging in public investment” (Tayfur 2003: 94). Consequently in the 1980’s, government employment grew four times as fast as private sector employment and the new appointees were mostly party associates (Pappas 2014: 28). However, it is important to note that clientelism was not unique to the PASOK government. As Mavrogordatos (1997: 1) highlights, clientelism had been a common feature of Greek politics before and after the PASOK governments. Trade unions in Greece became guardians of clientelist politics (Mavrogordatos, 1997: 21). They became impediments to any kind of reform “from serious to hasty, from sensible to unjust” (Tsarouhas, 2012: 88) and rejected “undertaking responsibility for employees outside their core clientele” (Tsarouhas 2012: 89). During the 1980’s there was an increase in public expenditure and decreasing productivity (Pappas 2014: 30). The country had lived through a period of high inflation and low growth rates. The deindustrialization of Greece has decreased the manufacturing capacities and led country to have a service sector dominated

economy. Greek industry has been composed of handicrafts and small/medium sized enterprises (SMEs). By 1985, the newly reelected PASOK government found itself in a growing debt crisis (Pappas: 30-31). Deficits were at record levels, clearly unsustainable (Pagoulatos 2003: 113). To deal with the problem, Kostas Simitis was appointed as the new minister of finance by A. Papandreou to undertake a fiscal consolidation program (Pappas 2014: 31). However the program continued only for two years (Tsarouhas, 2012: 87) due to pressure on the government from the striking unions (Pappas 2014: 31). As Pagoulatos (2003: 113) asserts,

“The surrender of government control over finance also implied a loss of power for political actors who had been able to offer cheap credit to specific groups for clientelistic purposes. So a familiar question inevitably arises: how did reformers overcome resistance from status quo actors with a vested interest in the continuation of credit interventionism”.

By 1990, the inflation rate had reached 20.4% and the public deficit 15.9% (Tsarouhas 2012: 87). Further, Greece had the burden of poor state infrastructure and an inefficient public administration (Tayfur 2003: 1004). The prospects for the Greek economy did not seem promising. New Democracy (ND) returned to power in 1990 under the leadership of Mitsotakis with an offer to reform policies to cure the deep problems of the economy as well as prepare Greece's participation to the planned European Economic and Monetary Union (EMU) (Tayfur 2003: 106). ND managed to decrease inflation rate from 23% to 12% in 1993. However, structural problems were not addressed. For instance, the ND government failed to reform the pension system which was a huge burden on the economy by absorbing 15% of the country's GDP to avoid the associated political costs (Tsarouhas 2002: 89). Once again in 1993, A. Papandreou and PASOK returned to power. However Papandreou resigned

due to his terminally ill condition in 1996, which opened the way for Kostas Simitis to become the new leader and Prime Minister. As a modernizer and moderate technocrat, Simitis followed a modernization program concentrating on excess public investment in infrastructure and on economic, and labor reforms to harmonize Greece with the EU economies (Featherstone and Papadimitriou 2008). In the meantime European pressure was apparent on Greece's economic reforms. For instance, the Bank of Greece gained complete institutional independence in 1997 through adjustment with the EMU program which established the European System of Central Banks (Pagoulatos 2003: 118). Pagoulatos (2003: 128) points out that

“If the 1980s was the decade of policy experimentation, erratic and inefficient economic management, and discontinued measures, the 1990s was a decade of stability, consistency and continuity in policy direction, and a gradual build-up of economic policy success”.

After PASOK was reelected under Simitis leadership in 1996, Greece made last preparations for EMU that the country entered in 2001. Although during the second term of PASOK term economic progress was achieved, structural reform attempts failed to succeed again due to resistance to change from privileged groups (Tsarouhas 2012: 90-91). For a weak-currency country like Greece, EMU meant monetary stability (Pagoulatos 2003: 168) and Greece was able to enter the Eurozone in 2001.

#### **4.2.2. The Greek Crisis**

As was mentioned in the previous sections, the Greek political sphere in post-1974 has been dominated by the two mass parties of the center left (PASOK) and right (ND). This bi-partisan party system in Greece paved the way for political

competition highly open to patronage and clientelism. As several scholars point out, clientelistic connections had prevented Greek governments to embrace reforms to have a more competitive economy and a more just society (Verney 2015: 282; Kalyvas et al., 2012; Sotiropoulos, 2012). For instance both parties have been accused of corruption scandals and Greece ranked high in corruption levels (Featherstone 2001: 196). Clearly presented by Mitsopoulos and Pelagidis (2011: 6),

“Reform-minded politicians, who threaten the status quo, are easily removed from the political scene. Those politicians who cooperate with the interest groups are rewarded with not only long-lasting political careers, but also with immunity from prosecution against almost any unlawful acts they may engage in”.

Despite deficiencies in its political system, since 2001 and until the crisis Greece had average growth rate of 4.2% of GDP and the decline in interest rates in post-EMU membership led the country to borrow capital from financial markets (Pappas 2014: 72). Nevertheless, Greece produced little of competitive value for the world market and entrepreneurship was restricted by “a large bureaucratic monster” which sustained the bi-party system. Moreover it had artificially preserved healthy growth rates with the help of a construction boom when hosting the 2004 Olympic Games (Tsarouhas 2012: 87-88). The collapse of Lehman Brothers in 2008 revealed the lightly regulated financial sector. The subprime mortgage failure and the pressure of the market sector brought neoliberal orthodoxy under fire (Tsarouhas 2012: 83). The global financial collapse spread throughout the world. By 2009, a recession was already apparent for Greek economy when then Prime Minister Kostas Karamanlis called for snap elections (Pappas 2014: 72). Consequently a new PASOK government under the leadership of George Papandreou was elected. Soon after, the

government reported that the earlier announced fiscal data about the government's deficit and sovereign debt was inaccurate (Karyotis & Gerodimos 2015: 2). The public sector debt was calculated as 115.1% of GDP in 2009, and the Greek public deficit level was more than three times as high as previously announced data (Hall 2012: 361-362). This caused stress across Europe in that the Eurozone debt crisis spread soon among countries with similar debt levels such as Ireland, Portugal and Spain (Tsarouhas 2012: 92).

Although the Greek government introduced austerity measures in March 2010 and a tax reform in April, these could not reassure markets. In May 2010, the troika (IMF, ECB, and EC) issued a €110 billion loan to the Greek government on condition that extreme austerity measures to be implemented (Karyotis & Gerodimos 2015: 3). A second loan agreement of €130 billion was subsequently agreed by Greek government and the troika in 2011. This added to austerity measures which further increased cuts in salaries and public spending (Karyotis & Gerodimos 2015: 3). These two bailout packages with harsh fiscal and economic adjustment measures caused a massive deterioration in Greek living standards. A series of pension and benefit cuts, salary reductions, redundancies and tax increases has affected most citizens (Vasilopoulou et al 2014: 388). Greece was affected by the crisis harsher than Portugal, Spain or any other EU country. The Greek economy has shrunk by 26% since 2010 (Kutlay 2015). By 2012, the unemployment rate had reached 26% with a youth unemployment rate of a record 58%.

As suggested above, some of the reasons behind the Greek crisis have been embedded in failed policy reforms of the country since 1980's. However it might be wrong not to consider the wider EU aspect as well. Regarding this, Tsarouhas (2012) suggests that three EU driven factors had worsened the Greek crisis. These are 1) the

EU's inability to react to the crisis earlier (timing problem), 2) the EU's inability to diagnose the disease correctly (policy choice problem), 3) the wrong policy mix of budgetary consolidation and policy reform (policy content problem) (pp.92-94). As highlighted, at the EU level no action was put forward in more than half a year, all the while ignoring the possible contagion impact to other "weak links" of the Eurozone choir. It took more than year to establish the European Financial Stability Facility (EFSF) in 2010 (p.92). Moreover, policy choice was problematic. Early debt restructuring or debt mutualization would have calmed down the markets (p.93). The policy content was also problematic (p.94). The politics of harsh austerity to cure the crisis proved ineffective since belt-tightening in the form of sharp tax rises and deep cuts in public expenditure ignored the need for growth to get out of the crisis (p.94). Moreover, the politics of austerity has further fueled social discord against democratic institutions and fueled scapegoating in the political system (p.95).

The two mainstream parties (PASOK and ND) failed to adopt policies to resolve the crisis and were not able to meet society's demands. They lost their credibility in the eyes of most citizens. Since 2008, Greece has experienced five legislative elections (2009, 2012 May, 2012 June, 2015 January, 2015 September). In 2011, Prime Minister George Papandreou resigned and a technocratic government led by former ECB vice-governor Lucas Papademos took over for a short period. By the May 2012 elections, the traditional Greek bi-party system officially collapsed as both PASOK and ND gained less than 20% of the vote. While the center right ND got around 27-28% in 2015 elections, PASOK has lost crucial amount of votes by gaining a mere 4-6% in the two 2015 elections. Society's dissatisfaction with the traditional parties had paved the way for new political actors to come to the fore.

Since 2012, the Greek political system has fragmented between a pro- and anti-austerity rhetoric. For example, SYRIZA's coalition partner, the right wing populist party Independent Greeks (ANEL) was established in 2012 as a Eurosceptic and anti-austerity party. Another example is the liberal, pro-European The River (To Potami) party, founded in 2014 by a journalist. In addition, some old/transformed actors like the Neo Nazi Golden Dawn party also became more visible on the political scene entering Parliament since 2012. SYRIZA (Coalition of Radical Left) which has adopted a populist discourse, became successful in appealing to the hopes and concerns of the middle and low income people by embracing protest movements. In the January 2015 legislative elections SYRIZA was able to get 36% of the vote, SYRIZA's most important element of the election campaign was renegotiating the 315 billion euros of Greek debt which then brought Greece to the brink of Grexit (Greek exit from the Eurozone). By adopting a discourse of scapegoating entities like 'corrupted' governments and foreign collaborators as being responsible for the harsh crisis, SYRIZA represented the "new" Greek populism which seems similar to early populism represented by ND and PASOK governments (Pappas 2014: 110). Albeit consistent with its anti-austerity discourse, SYRIZA has not been able to offer a reliable economic program to cure the crisis. After months of negotiations with the Troika, Prime Minister Alexis Tsipras finally agreed with lenders for a third economic adjustment program on July 2015, and the new SYRIZA-ANEL government elected in September 2015 is now in need to introduce the sort of measures it had so vociferously opposed in the past.

#### **4.3. A Brief Comparative Analysis of Greek and Turkish Political Economies**

Having discussed the evolution of Greek and Turkish Political economies, this section provides a short comparative analysis of the two economies by focusing

on similarities between them. Despite a variety of significant differences, the two countries have similarities in the development of their economies. Greece is a more developed country but with a smaller economy and Turkey has been less developed with a larger economy. Both countries historically have had high dependence on the primary sector (Kotios & Petrakos 2003: 112). During the 1950's, Greece's economic development in post-WW2 and post-Civil war period had been far more visible than Turkey's in agriculture, industry and service sectors (Şen 1987: 10). Between 1963 and 1975, Turkey had a higher industrialization level than Greece (Şen 1987: 42). On the one hand, annual GDP growth in the two countries was 5% to 6% on average in the 1960's and 1970's (Gianaris 1988: 53). On the other hand, public enterprises and government intervention to prices, interest rates and wages had been prevalent in both countries which hurt private investment (Gianaris 1988: 55). In the post-WW2 period, although both countries had adopted growth policies, Turkey's emphasis was on the industrial sector, whereas the Greek economy moved from agriculture to services based economy (Gianaris 1988: 63). Greece has lived through a deindustrialization process before reaching good level of industrialization. Greek deindustrialization has started in 1980's that production and manufacturing capacities of the country have decreased markedly. The services sector in both countries has increasingly become important by constituting a rising share in their composition of GDP. Similarly the services sector (tertiary sector) has been the most significant sector of employment for the two countries. While in 1985 employment in the services sector in Greece was 45%, it reached 61% by 2000 and 72% in 2014. For Turkey, the employment share in the services sector was only 35% in 1985. However it reached 40% by 2000 and 52% in 2014 (see table 1). These data clearly indicate the importance of services sector for two economies. Greece is clearly a

service dominated economy. Turkey is also a service dominated economy with visible shares of primary and secondary sectors as well. Furthermore, the tourism sector has been a major source of revenue for the two countries, especially for Greece, in that the tourism industry has kept growing despite the crisis<sup>53</sup>.

Historically the two countries had faced inflationary problems and high unemployment rates. However Turkey was far more troubled. The inflation rate in Turkey had showed dramatic increase, like 80% in 1979 and 108% in 1980, which led to the devaluation of the Turkish currency (Şen 1987: 42). In the 1980's and 1990's, the share of services sector in GDP had increased in both countries (Kotios & Petrakos 2003: 105). The share of the industry sector, however, had gradually decreased for Greece. To the contrary, Turkish economy has undergone an important increase in industrial share (Kotios & Petrakos 2003: 105). By 2000, a breakdown of employment among economic sectors showed similar levels for industry in the two countries (Greece having 22.5%, Turkey having 24.6%) (Ege 2003: 118). Although Greece and Turkey had followed promising economic modernization policies, both have had chronic economic problems which remained unresolved for decades.

It is important to mention that Turkey embraced a neoliberal market-led development pattern very early (in 1980's) compared to Greece. Turkey's neoliberal transformation has set out in 1980 which over time became embedded in its political economy (Tsarouhas 2015: 197). Finally, after the 2001 crisis, Turkey became able to adopt necessary reforms to reach a sustained period of growth. On the contrary, Greece, after the restoration of democracy in 1974, has followed a state-dependent economic paradigm (Tsarouhas 2015: 183). During the 1990's and 2000's, some

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<sup>53</sup> See <http://www.ekathimerini.com/207444/article/ekathimerini/business/after-refugees-greece-now-awaits-the-tourists-turkey-is-losing>

economic modernization and liberalization attempts were made. However these remained limited. Greece has moved towards the reform direction as a result of successive bailouts since 2010, yet the country has not managed to implement the reforms fully (Tsarouhas 2015: 197).

**Table 1: Employment by Sectors in Greece and Turkey (in %)**

	Greece			Turkey		
	Primary(Agriculture)	Secondary(Industry)	Tertiary(Services)	Primary(Agriculture)	Secondary(Manufactures)	Tertiary(Services)
1985	29%	27%	44%	45%	20%	35%
1990	24%	28%	48%	47%	21%	32%
1995	20%	23%	56%	43%	22%	34%
2000	16%	23%	61%	36%	24%	40%
2005	12%	23%	66%	30%	25%	46%
2010	12%	20%	69%	22%	27%	51%
2014	13%	15%	72%	20%	28%	52%

Source: World Bank

## **CHAPTER 5:**

### **TURKISH-GREEK ECONOMIC RELATIONS**

This chapter first examines the main determinants of improving economic relations between Greece and Turkey in the post-1999 period to obtain a comprehensive understanding of their economic relations. Then it demonstrates the scope of economic interactions to determine whether economic interdependence characterises their relations. With this regard, it examines the fields of bilateral trade, foreign direct investment, tourism interactions and energy.

#### **5.1. Determinants of Economic Relations**

As mentioned in the previous chapters, the year 1999 was a breakthrough for change in Turkish-Greek relations. In the post-1999 period, economic interactions between the two countries have developed tremendously compared to previous decades. This can be explained basically by two main determinants: a) the political and economic developments in the two countries and in the world economy, and b) the 1999 rapprochement process.

##### **5.1.1. Economic Developments**

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. As examined in chapter 4, Greek and Turkish economies have faced significant challenges and opportunities in the last two decades. These have been also indicative of the direction of economic interactions

between the two countries. Moreover, the wider picture related to the world economy is also important to understand the dynamics of their 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 9.2% in 2009 (see table 2). Turkey's total trade volume increased to 243 071 million dollars in 2009<sup>54</sup>. Turkish exports to the EU increased to 41 364 962 dollars in 2005 from 15 664 421 dollars in 2000 (see table 3). Likewise, the trade to GDP ratio has shown a gradual increase over the last two decades (see table 4). FDI inflow to Turkey has also improved in noticeable values (see table 5). Yet Turkey needs to improve education, income and infrastructure country-wide to be in a more advantageous position and attract more FDI (Deichmann, Karidis & Sayek 2003: 1777). Moreover Turkey's difficulties to generate long term FDI make the country vulnerable since it depends on volatile short term capital flows<sup>55</sup>.

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 outflow was directed towards Albania, Bulgaria, FYR Macedonia and Romania (Kalogeresis & 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

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<sup>54</sup> <http://www.invest.gov.tr/en-US/investmentguide/investorsguide/Pages/InternationalTrade.aspx>

<sup>55</sup> 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>

Greek investments. Moreover, the Hellenic Plan for the Economic Reconstruction of the Balkans (HiPERB) was initiated in 2002 to promote and support the development of the region<sup>56</sup>. As stated,

“This plan is aimed at political, economic and social stability in Southeast Europe, whereas its ultimate goal is to modernize infrastructure, promote production investments, support democratic institutions and the rule of law, modernize public administration and local government, strengthen the welfare state, redress economic inequalities and offer professional training to workers and scientists in the recipient countries”.

Greece’s growth rates between 2000 and 2005 were averaging 4%<sup>57</sup>. FDI inflows to Greece had increased similar to Turkey<sup>58</sup>. The desirable conditions of the world economy, like high 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: 112).

**Table 2: Annual Growth rate % of Greece and Turkey, selected years**

	Greece	Turkey
1985	2.5%	4.2%
1990	0.0%	9.3
1995	2.1%	7.9%
2000	4.2%	6.8%
2005	0.6%	8.4%
2010	-5.5%	9.2%

<sup>56</sup><http://agora.mfa.gr/frontoffice/portal.asp?cpage=NODE&cnode=86&clang=1>

<sup>57</sup> See World Bank Data <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

<sup>58</sup> See World Bank Data <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>

**Table 2** (continues)

2011	-9.1%	8.8%
2012	-7.3%	2.1%
2013	-3.2%	4.2%
2014	0.7%	2.9%
Source: World Bank		

**Table 3: Turkey's Trade with the EU, in US dollars**

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

**Table 4: Trade in Greece and Turkey (% of GDP)**

	1990	1995	2000	2005	2008	2012	2013	2014
Greece	40	37	58	51	59	62	64	68
Turkey	31	44	43	47	52	58	58	60

Source: World Bank

**Table 5: FDI flows to Turkey 1996-2014, in million dollars**

	1996-2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Million dollars \$	23.184	20.185	22.047	19.851	8.585	9.099	16.176	13.282	12.457	12.530

Source: Turkish Ministry of Economy

For expanding tourism interactions between two countries, the opportunities provided by the wider international system and globalization are one of the key features. Not only have we witnessed closer integration of national economies through trade and other means but also an increasing flow of people across countries. This is evident when we consider the advantages of globalization pace. As will be examined closely in the next sections, the number of Greek and Turkish tourists visiting each country has grown enormously. At one point this could be realized thanks to advances in transportation facilities like flights and ferries and increasing investment on those means. It is not possible to think of improvements without taking the wider, global environment into consideration. Air traffic has grown enormously. Total flights per year have been increasing through technological advancements and opportunities. For instance, in Turkey in 1990 only 4,337,100 air passengers were carried (including both domestic and international aircraft passengers of air carriers registered in the country)<sup>59</sup>. In 2010 this reached 45,665,249 and in 2015 92,624,865. This trend is similar for Greece. The flights between Greece and Turkey got their share from the pie as well. Another example

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<sup>59</sup> See World Bank Data <http://data.worldbank.org/indicator/IS.AIR.PSGR>

can be maritime passengers. The number of passengers embarked and disembarked in Greek ports reached 92 423 in 2007 from 32 259 in 1997<sup>60</sup>.

Other than these positive trends, some challenges have been important in determining the pace of economic relations between the two countries. With this regard, the global financial crisis of 2008 and the ongoing Greek crisis are critical. Although the global financial crisis did not affect Turkish economy severely, as mentioned in chapter 4, Turkey has also been facing economic problems. Therefore, economic developments in both countries are crucial for the future prospects of economic relations.

The ongoing Greek crisis presents the most significant challenge for future economic relations. For instance, total Greek imports of goods and services decreased from 69.452 million euros in 2010 to 60.236 million euros in 2013 (see table 6). Furthermore, the volume of trade between Greece and Turkey dropped from 5 583 497 thousand dollars in 2014 to 2 993 069 thousand dollars in 2015, primarily due to Greek capital controls initiated in the summer of 2015 (see table 7). This clearly indicates the negative impact of the crisis on the expansion of economic ties. The Greek crisis also had a negative impact on potential Turkish investment flows to the country. Thus some Turkish companies (like İpekyol, Mavi and İnci) withdrew from Greece or postponed their investments (Grigoriadis 2012: 131).

As the current President of Turkish-Greek Business Council Tevfik Bilgen states, “Turkish-Greek relations are not likely to reverse back from today’s reached standards but will continue to progress further in near future. However, economic

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<sup>60</sup> See Eurostat [http://ec.europa.eu/eurostat/statistics-explained/index.php/Maritime\\_ports\\_freight\\_and\\_passenger\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Maritime_ports_freight_and_passenger_statistics)

relations will be shaped in accordance with the crisis in Greece. As the economy gets better in the country, economic cooperation opportunities will be increased”<sup>61</sup>.

Tevfik Bilgen further argued that “the obstacles that had limited further economic cooperations were eliminated by the two governments and there is a positive environment for common action from two countries. However the crisis in Greece can be considered as the only obstacle to limit economic relations”<sup>62</sup>.

**Table 6: Overall Greek Imports and Exports of goods and services between 2009-2014, in million Euros**

<b>Current Prices</b>	2009	2010	2011	2012	2013	2014	2015
<b>Imports</b>	68.319	69.452	66.889	63.353	60.236	62.579	53.309
Goods	56.091	55.988	54.826	52.566	50.777	52.668	44.947
Services	12.228	13.465	12.064	10.787	9.458	9.891	8.362
Expenditures of residents in the rest of the world	2.425	2.156	2.267	1.844	1.835	2.076	2.025
<b>Exports</b>	45.089	49.958	52.866	54.845	55.179	58.038	53.009
Goods	20.227	23.433	26.833	29.932	30.104	30.193	28.495
Services	24.862	26.525	26.033	24.913	25.074	27.045	24.515
Expenditures of residents in the rest of the world	10.400	9.611	10.505	10.442	12.152	13.393	14.194
<b>Exports-Imports balance</b>	-23.230	-19.415	-14.024	-8.508	-5.057	-4.540	-300
Source: Hellenic Statistical Services							

**Table 7: Turkish Bilateral Trade with Greece, in selected years, in US dollars**

Year	Import from Greece	Export to Greece	Balance of Trade	Volume of Trade
1997	430 780	298 237	-132 543	729 017
1998	319 751	370 039	50 288	680 790
1999	287 556	406 794	119 238	694 350
2000	430 813	437 725	6 912	868 538
2001	266 254	476 095	209 841	742 349

<sup>61</sup>Interview with Bilgen.

<sup>62</sup> Interview with Bilgen

**Table 7** (continues)

2002	312 462	590 382	277 920	902 844
2003	427 743	920 401	492 658	1 348 144
2004	594 351	1 171 203	576 852	765 554
2005	727 830	1 126 678	398 848	1 854 508
2006	1 045 328	1 602 590	557 262	2 647 918
2007	950 117	2 262 655	1 312 538	3 212 772
2008	1 150 715	2 429 968	1 279 253	3 413 370
2009	1 131 065	1 629 637	498 572	2 760 702
2010	1 541 600	1 455 678	-85 922	2 997 278
2011	2 568 826	1 553 312	-1 015 514	4 102 138
2012	3 539 869	1 401 401	-2 138 468	4 941 270
2013	4 206 020	1 437 443	-2 768 577	5 643 463
2014	4 043 839	1 539 658	-2 504 181	5 583 497
2015	1 731 340	1 261 729	-469 611	2 993 069

Source: TUIK

### 5.1.2. The Rapprochement Process:

With the 1999 rapprochement, a new page was opened for relations between the two countries. Developments in the post-1999 process paved the way for the expansion of economic interaction between the 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.

Some of the most important bilateral agreements signed were:

- Agreement on mutual promotion and protection of investments (2001)
- Agreement of cooperation in the sector of tourism (2000)
- Agreement on the Avoidance of Double Taxation with respect to Income (2003)

- Agreement on cooperation and mutual assistance in the customs sector (2000)
- Agreement on sea transports (2000)
- Agreement on scientific and technological cooperation (2000)
- Agreement regarding the connection between Greece and Turkey for the transportation of gas and supply of natural gas from Turkey to Greece. (2003)
- Protocol on technological, scientific and economic cooperation in the agricultural sector (2000)

In retrospect, the origins of the economic relations can be traced back to the 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 Epthimiades, Şarık Tara, Rahmi Koç and Osman Kavala had played an active role in bringing the two sides together (Özel 2004: 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. Therefore until the 1999 rapprochement, bilateral tensions had restricted the economic cooperation to that 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 example can be the resignation of Rahmi Koç from his President position to the council after the Öcalan crisis<sup>63</sup>. In 1996, the Customs Union (CU) agreement was signed between Turkey and the EU, which facilitated Turkey's trade with the EU and

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<sup>63</sup> See more on <http://www.hurriyet.com.tr/rahmi-kocun-anlamli-istifasi-39065452>

helped modernize its industry. However, political tensions were limiting the favorable environment and prevented cooperation.

Whereas Turkish-Greek cooperation had been improving, Turkey's Europeanization pace was continuing. As discussed in the previous chapters, the Europeanization of Greek foreign policy in the 1990's and Turkey's Europeanization after 1999 went hand in hand with the rapprochement process. Turkey's EU accession process in the 2000's had been influential in enhancing government-business consensus to preserve macroeconomic stability and attract foreign investment (Tsarouhas 2009: 43). The rapid growth of Turkish economy after the 2001 crisis combined with the reform process proved to be a fruitful market for Greek businessmen.

## **5.2. Fields of Economic Interaction**

### **5.2.1. 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 the two countries (Papadopoulos 2008: 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 4 illustrates, in 2000 trade constituted 58% of GDP in Greece and 43% in Turkey. In 2014, it reached 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: 6-21).

According to a World Trade Organization (WTO)'s report, Greece ranked 62th country in exports and 48th in imports over 200 countries in merchandise trade. Turkey ranked 31<sup>st</sup> in exports and 21<sup>st</sup> in imports in 2014<sup>64</sup>. While the share of Greek exports in Turkey's foreign trade was 0.9% in the 1954-1974 period and imports was a mere 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 for Greece's GDP was calculated at 2.1% and imports at 0.9% (Ege 2003: 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 from 36.039,5 million dollars in 1974, which was the lowest since 1923 (Şen 1987: 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 the 1990's. The higher degree of openness of the two economies and intensified autonomy by economic actors over the political class during 1990's can be reasons behind that.

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<sup>64</sup> "World Trade Profiles 2015", World Trade Organization  
[https://www.wto.org/english/res\\_e/booksp\\_e/trade\\_profiles15\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/trade_profiles15_e.pdf)

Although Turkey's overall trade with EU countries had improved significantly in the 1990's compared to previous years<sup>65</sup>, 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 7). In retrospect Greek and Turkish political elites 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:

“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 the two parties to overcome obstacles (Tsarouhas 2009: 46).

In 2006, Prime Ministers Karamanlis and Erdoğan indicated their desire to see an increase in trade volume (Kutlay 2009: 99). In 2008, Erdoğan stated, “We

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<sup>65</sup> See Table 3.

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".<sup>66</sup> Similarly during his visit to Athens in 2012 to meet Prime Minister Samaras, the Turkish foreign minister Davutoğlu demonstrated his political will to see an increase in the trade volume to 10 billion dollars<sup>67</sup>.

As illustrated on table 7, the volume of bilateral trade has expanded momentarily. 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 increased again, 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 ever 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)<sup>68</sup>. 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<sup>69</sup>. With the 1996 Customs Union agreement, Turkey eliminated tariffs on manufactured products that are imported 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 the level of importance and the sectors of

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<sup>66</sup> 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)

<sup>67</sup> See on <http://www.milliyet.com.tr/komsu-yla-ticaret-hedefi-10-milyar-ekonomi/ekonomidetay/11.10.2012/1609896/default.htm>

<sup>68</sup> 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)

<sup>69</sup> See [https://www.wto.org/english/res\\_e/booksp\\_e/trade\\_profiles15\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/trade_profiles15_e.pdf)

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. Petroleum products and raw cotton constitute a majority of all exports. Turkey has been Greece's first exports partner since 2012<sup>70</sup>. EU members Italy, Germany, Bulgaria and Cyprus follow Turkey. This indicates the importance of Turkey as a trade partner despite being a non-EU country. 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.

**Table 8: Greece's exports partners, 2014 (Millions US Dollars)**

1	Turkey	4,294.09
2	Italy	3,305.89
3	Germany	2,385.54
4	Bulgaria	1,873.72
5	Cyprus	1,775.37

Source IMF Data

**Table 9: Greek exports to Turkey, by products in 2013-2014**

Product	2014 (January-August)			2013 (January-August)		
	Thous. Euros	Tons	(%)	Thous. Euros	Tons	(%)
Oil and asphalt minerals	1.562.220	2.293.237	74,85	1.591.927	2.236.285	74,93
Other plastics in basic form	72.584	57.537	3,48	76.192	61.798	3,59
Aluminum	41.920	17.261	2,01	43.598	18.401	2,05
Cotton	34.749	24.038	1,66	23.797	17.195	1,12
Copper	30.755	5.175	1,47	31.314	4.807	1,47
Oil residual products	29.233	74.444	1,40	56.447	136.011	2,66
Automatic	27.486	304	1,32	52	1	0,00

<sup>70</sup> Source: IMF Data

**Table 9** (continues)

machinery for recording and processing data						
Electricity	14.168	0	0,68	24.519	0	1,15
Plastics in various forms	13.879	6.410	0,66	8.269	3.133	0,39
Industrial fertilizers	13.879	6.410	0,66	8.269	3.133	0,39
Industrial Products from various metals	10.631	3.534	0,51	11.152	3.547	0,52
Leathers not processed	10.576	2.659	0,51	22.471	4.047	1,06
Styrax in basic form	9.954	5.579	0,48	10.769	6.263	0,51
Paper and paperboard	9.861	19.092	0,47	6.639	11.707	0,31
Tobacco products(industrial)	9.741	491	0,47	8.288	618	0,39
Sport and child equipment	9.182	1.007	0,44	8.691	784	0,41
Building materials	7.384	109.735	0,35	3.929	30.154	0,18
Telecom equipment	7.319	81	0,35	7.660	49	0,36
Grain	7.144	26.269	0,34	6.385	23.413	0,30
Fruits fresh or dried	6.564	12.663	0,31	1.846	2.459	0,09
Iron small parts	6.300	24.616	0,30	5.306	19.009	0,25
Metal tanks	6.039	1.401	0,29	4.626	766	0,22
Painting materials Organic	5.902	2.821	0,28	6.885	3.224	0,32
Medicines	5.729	269	0,27	7.347	276	0,35
Gold	5.432	0	0,26	6.569	0	0,31
Mechanical equipment machine operated	5.404	1.174	0,26	6.371	1.542	0,32
Nutrition products several	5.241	5.343	0,25	3.236	3.604	0,15
Specialized mechanical tools	4.857	450	0,23	2.488	519	0,12
Chemical products several	3.941	23.341	0,19	2.449	15.676	0,12
Mineral products not processed	3.845	121.363	0,18	2.485	90.372	0,12
Sulphur and iron pyrites	3.801	39.400	0,18	4.215	51.991	0,20
Paper Pulp	3.690	33.195	0,18	61	422	0,00

**Table 9**(continues)

Large iron sheet products	3.293	6.711	0,16	226	85	0,01
Boats and other boat products	3.284	988	0,16	2.985	102	0,14
Fabrics	3.250	998	0,16	2.126	492	0,10
Subtotal	1.998.746	2.975.923	95,76	2.019.278	2.818.337	95,04
Subtotal of other products	88.528	154.194	4,24	105.353	304.849	4,96
Total	2.087.274	3.130.117	100,00	2.124.631	3.123.186	100,00

Source: Invest in Greece, 2015

Turkey's exports to Greece have 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 the years of 2005 and 2014, Greece ranked as the 14th importing country for Turkey. The top countries were Russia, China, Germany, USA and Italy (between 2005 and 2014)<sup>71</sup>. Therefore, Greece is a less important market for Turkey than Turkey is 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 9 can also be problematic. As Papadopoulos (2008: 14-15) states, Greek exports to Turkey have vulnerabilities since they can be heavily affected by external economic factors, such as global price fluctuations. 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.

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<sup>71</sup> TÜİK.

## *Coastal Trade*

The table below illustrates Turkish exports from some important customs in the Aegean region. Those customs are important since they mostly demonstrate Turkish exports to the Aegean islands. It can be argued that coastal trade relations cannot benefit from the advantages provided by geographical proximity. There have been some limitations which prevent an increase in trade relations between the Aegean islands and the Turkish coastal areas.

Firstly there is a testing laboratory issue. Agricultural products (fruits and vegetables) cannot be exported directly to the Aegean islands<sup>72</sup>. Products should be first controlled and get necessary certificates from Athens or Thessaloniki, since there are no testing laboratories on the Aegean islands to certify that these products meet EU health and safety criteria<sup>73</sup>. This creates challenges for Turkish exporters since it takes much more time and money to transport products to the mainland and then sell them back to the islands. This is one of the biggest challenges that Turkish exporters have been faced with<sup>74</sup>. There have been efforts from the Turkish side to pressure Greece to open a suitable laboratory in Rhodes. However these have not been realized yet<sup>75</sup>. Similarly in 2006 permission was received to open a laboratory in Mytilini but it has been postponed due to concerns regarding the economic well being of the Greek islands (Lazaris 2012: 84). On the Greek side, there are economic

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<sup>72</sup>See [http://www.ekonomi.gov.tr/portal/faces/home/disIliskiler/ulkeler/ulke-detay/Yunanistan/html-viewer-ulkeler?contentId=UCM%23dDocName%3AEK-161043&contentTitle=D%C4%B1%C5%9F%20Ticaret%20Politikas%C4%B1%20ve%20Vergiler&afrLoop=2237751478990469&afrWindowMode=0&afrWindowId=l3z5mfykh\\_213#!%40%40%3F%20afrWindowId%3Dl3z5mfykh\\_213%26afrLoop%3D2237751478990469%26contentId%3DUCM%2523dDocName%253AEK-161043%26contentTitle%3DD%25C4%25B1%25C5%259F%2BTicaret%2BPolitikas%25C4%25B1%2Bve%2BVergiler%26afrWindowMode%3D0%26adf.ctrl-state%3Dl3z5mfykh\\_271](http://www.ekonomi.gov.tr/portal/faces/home/disIliskiler/ulkeler/ulke-detay/Yunanistan/html-viewer-ulkeler?contentId=UCM%23dDocName%3AEK-161043&contentTitle=D%C4%B1%C5%9F%20Ticaret%20Politikas%C4%B1%20ve%20Vergiler&afrLoop=2237751478990469&afrWindowMode=0&afrWindowId=l3z5mfykh_213#!%40%40%3F%20afrWindowId%3Dl3z5mfykh_213%26afrLoop%3D2237751478990469%26contentId%3DUCM%2523dDocName%253AEK-161043%26contentTitle%3DD%25C4%25B1%25C5%259F%2BTicaret%2BPolitikas%25C4%25B1%2Bve%2BVergiler%26afrWindowMode%3D0%26adf.ctrl-state%3Dl3z5mfykh_271) Date accessed: 10/01/2016.

<sup>73</sup> Canned goods and dry fruits can be controlled in Crete and Rhodes.

<sup>74</sup> B. Kalkavan, interview, July 28, 2015.

<sup>75</sup> Turkish Trade Office in Athens.

concerns that prevent the establishment of the testing laboratories. This is related to an argument that Greek islands could become more dependent on Turkey economically<sup>76</sup>. For instance, the existence of a laboratory on the island would enable a boost of trade in products like vegetables and fruits between the islands and coastal Turkey. This, however, might hurt mainland agriculture earnings. Moreover, the Aegean disputes between the two countries are also problematic since this directly relates to the mistrust issue. Clis points out that the islanders have often experienced the overflights by the Turkish air force<sup>77</sup>. Therefore the dependence issue also has a psychological background related with political disputes. Deeper economic interaction of the Aegean islands with Turkey requires progress in resolving political problems (in this case the Aegean disputes).

**Table 10: Exports from some Aegean Customs, selected years (in US dollars)**

	2000	2005	2010	2011	2012	2013	2014	2015
İzmir Customs	4 083 619	8 998 920	9 194 267	9 327 023	9 441 910	9 848 069	9 883 317	7 539 434
İzmir Yolcu salonu customs.	-	150 613	2 430	6 405	11 093	7 131	6 743	4 254
Adnan Menderes Customs	145 843	186 914	232 246	243 996	247 428	278 748	296 810	269 451
Aliğa Customs	631 407	2 871 337	6 775 689	9 580 862	10 632 984	10 118 973	10 313 715	8 144 617
Manisa Customs	53 018	513 664	497 953	734 485	744 925	868 306	844 108	657 636
Bodrum Customs	28 319	125 245	274 772	363 017	162 551	24 626	24 076	19 924
Denizli Customs	295 305	451 220	564 128	662 351	617 350	717 455	709 036	562 612

Source: TUIK

### *Limitations*

<sup>76</sup> Interview with Kalkavan

<sup>77</sup> Interview with Clis.

There have been problems faced by exporters in both countries. Trade practices between the two countries have long experienced difficulties related to technical problems. One common challenge is logistical problems. The organizational problems of customs operations can be problematic. Both Greek and Turkish traders have pointed out the inefficacy of the customs and border check points. Operations in customs can be slow, which causes delays and significant time losses<sup>78</sup>. Storage warehouses are limited or non-existent on the Aegean islands. This limits the maritime trade between two countries<sup>79</sup>. Moreover, a transportation quota for the transit passes that EU countries implement to Turkish commercial transportation has also been a problem for bilateral trade between Greece and Turkey. Tracks with Turkish origin face transportation quotas that might increase costs and create difficulties<sup>80</sup>. According to the Turkish view, transit pass quota is not enough to meet and needs to be abolished to increase trade interactions<sup>81</sup>. To ease those limitations on trade, governmental efforts are necessary. Furthermore, Greek trade practices also have faced limitations. The high duty fees for some Greek products have been an important limitation. Namely, duty fees for products like

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<sup>78</sup>V. Makgriyianni, interview, July 29, 2015.

<sup>79</sup>See [https://www.ekonomi.gov.tr/portal/faces/home/disiliskiler/ulkeler/ulke-detay/Yunanistan/html-viewer-ulkeler?contentId=UCM%23dDocName%3AEK-161044&contentTitle=T%C3%BCrkiye%20ile%20Ticaret&\\_afLoop=531303481791831&\\_afWindowMode=0&\\_afWindowId=1a2zuvlrp\\_181#!%40%40%3F\\_afWindowId%3D1a2zuvlrp\\_181%26\\_afLoop%3D531303481791831%26contentId%3DUCM%2523dDocName%253AEK-161044%26contentTitle%3DT%25C3%25BCrkiye%2Bile%2BTicaret%26\\_afWindowMode%3D0%26\\_adf.ctrl-state%3D1a2zuvlrp\\_211](https://www.ekonomi.gov.tr/portal/faces/home/disiliskiler/ulkeler/ulke-detay/Yunanistan/html-viewer-ulkeler?contentId=UCM%23dDocName%3AEK-161044&contentTitle=T%C3%BCrkiye%20ile%20Ticaret&_afLoop=531303481791831&_afWindowMode=0&_afWindowId=1a2zuvlrp_181#!%40%40%3F_afWindowId%3D1a2zuvlrp_181%26_afLoop%3D531303481791831%26contentId%3DUCM%2523dDocName%253AEK-161044%26contentTitle%3DT%25C3%25BCrkiye%2Bile%2BTicaret%26_afWindowMode%3D0%26_adf.ctrl-state%3D1a2zuvlrp_211)

<sup>80</sup> See “Pazara Giriş Engelleri”, Turkish Ministry of Economy.

<http://www.ekonomi.gov.tr/portal/content/conn/UCM/path/Contribution%20Folders/web/%C4%B0hracat/Pazara%20Giri%C5%9F/ekler/Pazara%20Giri%C5%9F%20Engelleri%202015%20Raporu.pdf?lve>

<sup>81</sup> See [https://www.ekonomi.gov.tr/portal/faces/home/disiliskiler/ulkeler/ulke-detay/Yunanistan/html-viewer-ulkeler?contentId=UCM%23dDocName%3AEK-161044&contentTitle=T%C3%BCrkiye%20ile%20Ticaret&\\_afLoop=533768649149812&\\_afWindowMode=0&\\_afWindowId=1a2zuvlrp\\_229#!%40%40%3F\\_afWindowId%3D1a2zuvlrp\\_229%26\\_afLoop%3D533768649149812%26contentId%3DUCM%2523dDocName%253AEK-161044%26contentTitle%3DT%25C3%25BCrkiye%2Bile%2BTicaret%26\\_afWindowMode%3D0%26\\_adf.ctrl-state%3D1a2zuvlrp\\_259](https://www.ekonomi.gov.tr/portal/faces/home/disiliskiler/ulkeler/ulke-detay/Yunanistan/html-viewer-ulkeler?contentId=UCM%23dDocName%3AEK-161044&contentTitle=T%C3%BCrkiye%20ile%20Ticaret&_afLoop=533768649149812&_afWindowMode=0&_afWindowId=1a2zuvlrp_229#!%40%40%3F_afWindowId%3D1a2zuvlrp_229%26_afLoop%3D533768649149812%26contentId%3DUCM%2523dDocName%253AEK-161044%26contentTitle%3DT%25C3%25BCrkiye%2Bile%2BTicaret%26_afWindowMode%3D0%26_adf.ctrl-state%3D1a2zuvlrp_259)

cheese, alcohol and olive oil are high. This prevents Greek products' exports to Turkey<sup>82</sup>. As Clis points out,

“In the sector of bilateral exchanges, Greek exports cannot compete on a level ground in the Turkish market; indeed, derogations provided at the time of the Customs Union in order to help the adjustment of sensitive sectors of Turkish economy from the effects of the open access of European products into the market – derogations that have lost their *raison d'être* since quite some time ago – are still in place after eighteen years, and are used systematically to exclude Greek agricultural and other products from the market. The practice does not contravene any rule, but builds a sentiment of unfairness and certainly dampens the interest of exporters and producers on the Greek side who cannot capitalize on the qualitative advantages of their products in Turkey”<sup>83</sup>.

As stated, this control over trade practices has prevented Greek agriculture products' presence in the Turkish market since exporters do not prefer costly business arrangements. For instance, it is not possible to see Greek feta cheese in the Turkish markets, whereas one can buy Italian or French cheeses.

### **5.2.2. Foreign Direct Investment**

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: 28). The connections founded due to FDI are likely to be long lasting and more persistent (Kutlay 2009: 102). Foreign direct investment flows and stocks between Greece and

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<sup>82</sup> Interview with Makgriyianni.

<sup>83</sup> Interview with Clis.

Turkey had traditionally remained low despite the two countries' 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: 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 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: 103). However this changed in the 2000's as Turkey attracted more than 20 billion dollars FDI in 2006 and 2007 alone (see table 5).

FDI inflows to Greece mainly stem from EU countries like Germany and France, as well as the USA. Germany remained the country's biggest source of FDI between 2003 and 2014. FDI inflows to Greece focused on the services sector, which includes telecommunications, financial services, trade and tourism. For instance approximately 70% of inflow between 2003 and 2014 was directed to services<sup>84</sup>. In 2014, FDI inflow to Turkey was mainly directed to the manufacturing, finance and energy sectors<sup>85</sup>. Thus in 2014 the Netherlands, the United Kingdom and Russia were the first three countries that FDI inflows originated from<sup>86</sup> (p.15). After the Customs Union agreement, FDI inflow to Turkey from EU countries has increased significantly. For example, the Netherlands, Austria, the UK, Luxembourg, Germany and Spain have been leading foreign investors in Turkey throughout the 2000's<sup>87</sup>.

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<sup>84</sup> See more <http://www.enterprisegreece.gov.gr/default.asp?pid=21>

<sup>85</sup> Uluslararası Doğrudan Yatırımlar 2014 Raporu, TC Ekonomi Bakanlığı, p.12.

<sup>86</sup> Uluslararası Doğrudan Yatırımlar 2014 Raporu, TC Ekonomi Bakanlığı, p.15

<sup>87</sup> World Bank Report 2014, "Evaluation of the EU-TURKEY Customs Union", Report No. 85830-TR. <http://www.worldbank.org/content/dam/Worldbank/document/eca/turkey/tr-eu-customs-union-eng.pdf>

Other than European countries, Turkey has been attracting FDI from the USA, Azerbaijan and Arab countries as well. It can be argued that FDI flows between the two countries had been limited and is a more recent trend compared to trade and tourism interactions. Moreover no regular increase in flows can be observed.

**Table 11: FDI flows to Turkey by country, between 2005-2014 (million dollars)**

	Country	Capital Stock	Percentage%
1	Netherlands	19.181	16,2
2	Austria	9.310	7,9
3	USA	9.092	7,7
4	Germany	7.850	6,6
5	United Kingdom	7.726	6,5
6	Luxembourg	7.414	6,3
7	Belgium	7.338	6,2
8	Greece	6.770	5,7
9	France	6.414	5,4
10	Spain	4.916	4,2
	Others	32.040	27,1
	TOTAL	118.051	100

Source: Turkish Ministry of Economy

### ***Greek Investments to Turkey***

Parallel to an increase in FDI inflow to Turkey, Turkey has attracted a considerable amount of Greek investment especially in the post-2006 period. Thus Greek FDI to Turkey reached 2 273.9 billion euros in 2006 and 1 874.8 billion euros in 2007. These were historical levels between the two countries. However as seen on the relevant table, Greek FDI to Turkey does not present a trend of gradual increase. Moreover, it does not surpass the level reached in 2006 and 2007. Greece ranked 8th in total FDI flow to Turkey in the years between 2005 and 2014 with a capital stock of 6.770 dollars.

**Table 12: Greek FDI flows to Turkey, (US Dollar millions)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Greek FDI to Turkey	3.2	4.7	14.7	2 854.1	2 566.4	42.9	4.4	635.6	524.8	860.4	

Source: OECD Statistics

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 by paying 2.77 billion dollars<sup>88</sup>. In 2007, NBG 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: 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: 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: 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<sup>89</sup>. For instance, the financial stake of the Greek Church in the

<sup>88</sup> See on <http://www.milliyet.com.tr/finansbank-in-satisi--yunanlilar-turkiye-ye-guveniyor/hursit-gunes/ekonomi/yazardetayarsiv/06.04.2006/152424/default.htm>

<sup>89</sup>

NBG attracted attention by the Turkish media<sup>90</sup>. However, the NBG-Finansbank deal paved the way for other Greek companies who would like to benefit from similar deals (Tsarouhas 2009: 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<sup>91</sup>. Tekfen Bank was a rather small 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.<sup>92</sup> 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 the sale. The official explanation of the veto was that Alpha Bank cannot fulfill article 8 of the Turkish Banking Legislation<sup>93</sup>, 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 issued such as "national integrity and security concerns"<sup>94</sup>. 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<sup>95</sup>. This example demonstrates the importance of distrust between the two countries, persisting after the 1999 rapprochement. In 2012 Eurobank EFG left the Turkish market by selling Eurobank Tekfen to Burgan Bank

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<sup>90</sup> See <http://www.hurriyetdailynews.com/greek-church-holds-shares-in-nbg.aspx?pageID=438&n=greek-church-holds-shares-in-nbg-2006-04-06>

<sup>91</sup> [http://www.zaman.com.tr/ekonomi\\_tekfenbank-yunanli-eurobank-efgye-satildi\\_283321.html](http://www.zaman.com.tr/ekonomi_tekfenbank-yunanli-eurobank-efgye-satildi_283321.html)

<sup>92</sup> <http://www.hurriyet.com.tr/ucuncu-yunanli-banka-242-3-milyon-dolar-odeyecek-5495209>

<sup>93</sup> See Banking Law, Article 8 for details, [www.tbb.org.tr/english/5411.doc](http://www.tbb.org.tr/english/5411.doc)

<sup>94</sup> See more on <http://www.hurriyetdailynews.com/national-integrity-primary-reason-of-alternatifbank-sale-veto.aspx?pageID=438&n=8216national-integrity8217-primary-reason-of-alternatifbank-sale-veto-2007-08-11>

<sup>95</sup> See <http://www.radikal.com.tr/haber.php?haberno=229469>

of Kuwait due to the deepening economic crisis in the country<sup>96</sup>. Similarly in 2016, NGB agreed with the Qatar National Bank to sell Finansbank with a price of 2.75 billion euros<sup>97</sup>. By the end of 2010, there were 439 companies with capital originating from Greece (Kontakos 2011: 4). According to latest 2015 data, this number had reached 686 companies<sup>98</sup>.

Overall, banking acquisitions displayed a trust in Turkey's adjustments in its financial sector in post-2001 period. The new regulatory environment has led to more confidence and fed into investment flows in the banking sector.

**Table 13: Greek companies investing in Turkey between 2003-2014**

Date	Investing Company	Industry Sector	Industry Activity
October 2003	Ridenco	Textiles	Retail
January 2004	Intramex	Metals	Manufacturing
April 2004	Fine Foods	Food and Tobacco	Manufacturing
December 2004	Kleeman Asansor	Industrial Machinery and Equipment Tools	Sales, Marketing and Support
October 2006	Sato Group	Consumer Products	Manufacturing
November 2006	Nireus	Food and Tobacco	Commerce
May 2008	Mellon Group of Companies	Business Services	Business Services
September 2008	Kalimbassieris Maritime	Business Services	Business Services
September 2008	Lamda Development	Real Estate	Construction
October 2008	Marfin Investment Group (MIG)	Healthcare	Construction
July 2010	Crete Plastics (Plastika Kritis)	Chemicals	Manufacturing
October 2013	Folli Follie	Consumer Products	Retail

Source: provided by Enterprise Greece

### *Turkish Investment to Greece*

<sup>96</sup> See [http://www.tekfen.com.tr/haber\\_arsivi.asp?p=2013&h=2](http://www.tekfen.com.tr/haber_arsivi.asp?p=2013&h=2)

<sup>97</sup> <http://www.ekathimerini.com/205182/article/ekathimerini/business/nbg-approves-finansbank-sale>

<sup>98</sup> TÜİK

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 the complicated tax regime as well (Papadopoulos 2008: 29).

In 2005, the Turkish clothing and footwear companies: İpekyol, Mavi, İnci and Gizia entered the Greek market by opening up retail outlets in Athens<sup>99</sup>. Within seven years, İpekyol, Mavi, İnci, Koton and Gizia had exited from the Greek market<sup>100</sup>. The reasons behind those companies's departure are mostly related with Greece's economic downturn rather than being about political problems. For instance, İpekyol's Chairman mentioned stagnation of business in the country and his pessimistic expectations for the future of the Greek economy<sup>101</sup>. 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"<sup>102</sup>.

In 2007, the Turkish Ziraat Bank acquired approval to open two branches in Athens and Komotini which were opened in 2008 and 2009 respectively<sup>103</sup>. 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

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<sup>99</sup> See more on <http://www.ekathimerini.com/145422/article/ekathimerini/business/turkish-clothing-firms-forced-to-return-home> See also <http://www.hurriyet.com.tr/yunanistan-dev-bankayla-geldi-4-turk-markasi-atina-ya-yerlesti-4207980>

<sup>100</sup> [http://www.zaman.com.tr/ekonomi\\_komsudaki-kriz-turk-markalarini-da-vurdu\\_2303024.html](http://www.zaman.com.tr/ekonomi_komsudaki-kriz-turk-markalarini-da-vurdu_2303024.html)

<sup>101</sup> See <http://www.haberturk.com/ekonomi/makro-ekonomi/haber/502805-yunanistan-bitmis-terk-edecegim>

<sup>102</sup> See <http://www.radikal.com.tr/ekonomi/turkler-yunanistandan-kaciyor-1053660/>

<sup>103</sup> See <http://www.radikal.com.tr/ekonomi/ziraatin-ikinci-ussu-gumulcinede-acildi-922389/>

in 2005<sup>104</sup>. 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<sup>105</sup>. However it could not be realized and the reasons behind the failure are ambiguous. According to Bilgen, the Aegean Investment Bank initiative failed because of the limitations and unrealistic aims of the project. He states that,

“The aim of the bank was stated as it aspires to be an intermediary institution to enable bilateral trade between Greece and Turkey. However nowhere in the world can bilateral trade be performed through a single bank. Only on special conditions, money transfers can be performed through a single bank but this is not much profitable for the bank itself. All conditions for the free market economy are present between Greece and Turkey. Therefore, to aim towards bilateral trade through single bank would not be a sustainable initiative. Moreover, this was foreseen by the businessmen in two countries. So the businessmen did not want to invest their money in such an initiative and necessary capital could not be invested. The project would have been successful if it was objected to be a normal, usual bank and if capital was invested by the people who put forward the idea at first hand”<sup>106</sup>.

This example shows the feasibility of the projects is also important to be supported by business communities from the two countries. 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% compared to the previous 6

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<sup>104</sup> See <http://arsiv.ntv.com.tr/news/343743.asp>

<sup>105</sup> Report on Banking, Athens Trade Office, See also <http://www.hurriyetdailynews.com/greeks-turks-set-up-first-joint-bank.aspx?pageID=438&n=greeks-turks-set-up-first-joint-bank-2005-12-06>

<sup>106</sup> Interview with Bilgen.

years<sup>107</sup>. Total FDI capital inflow decreased 35.3% in 2014 compared to 2013. Similarly, the net inflow decreased by 40.7%<sup>108</sup>.

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<sup>109</sup>. D-Marin first bought 50% of Flisvos Marina in Paleo Faliro, Athens<sup>110</sup>. 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<sup>111</sup>. 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<sup>112</sup>.

**Table 14: Turkish FDI inflow to Greece (in million euros)**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Turkish FDI to Greece	-0,1	-0,5	-0,3	0,0	-0,9	1,2	-0,2	-0,5	-0,7	2,5	12,5	6,3

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

Source: Bank of Greece

### *Joint Ventures*

<sup>107</sup> See [http://www.economy.gov.tr/portal/faces/home/disIliskiler/ulkeler/ulke-detay/Yunanistan/html-viewer-ulkeler?contentId=UCM%23dDocName%3AEK-161041&contentTitle=Do%20C4%9Frudan%20Yabanc%20C4%B1%20Yat%20C4%B1r%20C4%B1mlar&\\_af rLoop=855750616407065&\\_af rWindowMode=0&\\_af rWindowId=15j39e4t5m\\_1#!%40%40%3F\\_af rWindowId%3D15j39e4t5m\\_1%26\\_af rLoop%3D855750616407065%26contentId%3DUCM%2523dDocName%253AEK-161041%26contentTitle%3DDo%25C4%259Frudan%2BYabanc%25C4%25B1%2BYat%25C4%25B1r%25C4%25B1mlar%26\\_af rWindowMode%3D0%26\\_adf.ctrl-state%3D15j39e4t5m\\_31](http://www.economy.gov.tr/portal/faces/home/disIliskiler/ulkeler/ulke-detay/Yunanistan/html-viewer-ulkeler?contentId=UCM%23dDocName%3AEK-161041&contentTitle=Do%20C4%9Frudan%20Yabanc%20C4%B1%20Yat%20C4%B1r%20C4%B1mlar&_af rLoop=855750616407065&_af rWindowMode=0&_af rWindowId=15j39e4t5m_1#!%40%40%3F_af rWindowId%3D15j39e4t5m_1%26_af rLoop%3D855750616407065%26contentId%3DUCM%2523dDocName%253AEK-161041%26contentTitle%3DDo%25C4%259Frudan%2BYabanc%25C4%25B1%2BYat%25C4%25B1r%25C4%25B1mlar%26_af rWindowMode%3D0%26_adf.ctrl-state%3D15j39e4t5m_31)

<sup>108</sup> See <http://www.enterprisegreece.gov.gr/default.asp?pid=21>

<sup>109</sup> D-Marin Group Brochure, retrieved from Mehmet Numanogü (personal communication, October 7, 2015).

<sup>110</sup> See <http://www.hurriyet.com.tr/yunanistan-da-gunun-adami-ferit-sahenk-22112031>

<sup>111</sup> See <http://www.sabah.com.tr/ekonomi/2013/01/09/dogustan-dev-marina-hamlesi>

<sup>112</sup> See <http://www.ekathimerini.com/141324/article/ekathimerini/business/mytilene-marina-auction-won-by-turkish-group>

Greek and Turkish companies have cooperated to invest in third countries and carried out joint projects. The Blue city Project in Oman is the most significant of such schemes. In 2006, the Greek construction firm AKTOR and Turkish ENKA agreed to cooperate. They signed a 1.9 billion dollar memorandum to deliver the construction of the first phase of the project. The Blue City Project was estimated worth 20 billion euros and includes:

“Three 5-star hotels of a total of 670 keys, 5.200 apartment units, 400 villas, 1 shopping center, Public Amenity buildings; A City Hall, Nursery, a Primary School, a Mosque, a Police Station, a Fire Station and a Post Office. An 18-hole PGA golf course, associated Infrastructure including a road network of approximately 8km”<sup>113</sup>.

In 2003, the Greek firm INTRALOT teamed up with its Turkish subsidiary Turkcell and established a joint company named INTELTEK to provide sports betting services (lottery)<sup>114</sup>. Moreover Greek companies like S&B Minerals and Crete Plastics established affiliates with Turkish companies<sup>115</sup>. Joint ventures have numerous benefits for the firms since the system allows firms to unite their forces. While some firms might have financial strengths, some others can be more developed in know-how. Moreover, some firms may have special experiences in a certain country<sup>116</sup>. Therefore joint ventures allow firms to use their strengths in a given business sector. In the Turkish-Greek context, joint ventures are important

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<sup>113</sup> See <http://www.aktor.gr/article.asp?catid=37486&subid=2&pubid=11858981>

<sup>114</sup> See <http://www.intralot.com/content/370/inteltek-consortium-has-successfully-launched-operations-turkey> and <http://www.inteltek.com.tr/hakkimizda>

<sup>115</sup> See <http://www.euro2day.gr/news/enterprises/article/610672/sb-idrysh-toyrkikhs-etairias-gia-perlith.html> and

[http://www.plastikakritis.com/index.php?option=com\\_content&task=view&id=22&Itemid=280&Itemid=280](http://www.plastikakritis.com/index.php?option=com_content&task=view&id=22&Itemid=280&Itemid=280)

<sup>116</sup> Interview with Bilgen.

since they not only generate joint earnings but also create synergy for further cooperation<sup>117</sup>.

### ***Investing in Greece***

In order to comprehend the possible challenges and limitations that investors have faced in investing Greece and Turkey, it is necessary to examine investment indicators in the two countries. According to a report prepared by the World Bank on FDI indicators in world economies, restrictions on foreign equity ownership are higher in Greece than in another 11 EU member states<sup>118</sup>. Greece, for instance, implements restrictions on the electricity industry. The Hellenic Transmission System Operator S.A. (ΔΕΣΜΗΕ Α.Ε.) is responsible for the transmission and distribution of electricity in the country, through which any private (domestic or foreign) participation is prevented. Greece also imposes restrictions on air transportation similar to other EU countries. Foreign ownership is limited to 49% and foreign capital in airport operation is limited to less than 50% for investors from outside of the European Economic Area.

According to the report, starting a foreign business in Greece takes 22 days and requires 18 separate procedures. While the number of required days is in line with the EU average, the required procedures are greater than the average to establish a foreign-owned limited liability company (LLC). It is required that at least one of the directors of the company must be a resident in the country. Foreign companies are allowed to lease or buy land in Greece from private and public owners. Leasing public land is more complicated and has more specific regulations than leasing private land. There is no restriction on the amount of land to be leased.

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<sup>117</sup> Interview with Bilgen.

<sup>118</sup> Those states are Austria, Bulgaria, Croatia, Czech Republic, France, Ireland, Poland, Romania, Slovakia, Spain, United Kingdom.

## *Investing in Turkey*

According to the Turkish Law on Foreign Direct Investment, there is equal treatment for foreign and domestic investors. However this principle can be restricted due to “public order, public health, or public security” concerns<sup>119</sup>. In the air transportation sectors, foreign capital is limited to 49%. Also foreign ownership of private radio or TV channel cannot go beyond 25% of the paid-in capital. Moreover, a foreign shareholder in a private radio or TV channel cannot become a shareholder of another one. The electricity transmission sector prevents foreign capital participation and both foreign and domestic investors are not permitted to establish new electricity distribution companies. However, they can get shares from existing companies through privatization.

It can be said that establishing a foreign business in Turkey is much easier and quicker than in Greece. According to the report, it takes 8 days and 8 procedures to establish a foreign-owned limited liability company (LLC) in Turkey. This is faster than both the EU and global average. Similarly in Greece, foreign companies are allowed to lease or buy public or private land. Thus there is no restriction on the amount of land that may be leased. Greece and Turkey are among the fastest economies for leasing private land with 15 days. Total time required to lease public land can take up to 72 days in Turkey. In Greece, it takes only 20 days.

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 macro-economic conditions. Turkey also has a large youth population cohort and it bridges Europe with Eastern and Asian economies. Those provide

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<sup>119</sup> World Bank “Investing Across Borders” 2010, p.160.

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 problems and bureaucracy. Makgrianni mentions that high taxes for agricultural products and alcohol prevent Greek entry to Turkish market<sup>120</sup>.

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<sup>121</sup>. 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<sup>122</sup> in 2005 to make arrangements easier for non-EU citizens. In this way Turkish businessmen/women who want to invest in Greece can be able to get residence permits up to ten years. 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: 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<sup>123</sup>.

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<sup>120</sup> Interview with Makgrianni

<sup>121</sup> İ. Tulukçu, interview, July 31, 2015.

<sup>122</sup> [http://www.mfa.gr/switzerland/images/docs/ethnikes\\_theoriseis/codification\\_of\\_legislation\\_en.pdf](http://www.mfa.gr/switzerland/images/docs/ethnikes_theoriseis/codification_of_legislation_en.pdf)

<sup>123</sup> Interview with Bilgen

### **5.2.3. 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 with 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 the 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. Accordingly in the 1999 dated letter of Papandreou to Cem, the Greek Foreign Minister stated:

“Tourism should become an area of cooperation. Closer cooperation between Greece and Turkey will enhance our competitiveness and strengthen the attraction of our two countries as tourist destinations. Important exchanges already exist between the local authorities, tourist organizations and chamber of commerce of the Greek Islands of the Aegean and those on the western coast of Turkey. It is important we strengthen these contacts and examine into specific issues that will facilitate their cooperation therefore accrue multiple benefits for both our countries”.

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. Moreover both countries offer similar

tourism products with their coastal and cultural richness. 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 Turkey<sup>124</sup>.

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 a 23% increase compared to 2013. Arrivals to Turkey increased by 5% compared to 2013, so that 39 million tourists visited the country<sup>125</sup>. 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 Turkey<sup>126</sup>.

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 830.841 in 2014. This number is notable if we consider that only 218.092 Greek citizens visited Turkey in 2000 (see table 17). 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

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<sup>124</sup> See <http://www.hurriyetdailynews.com/former-rivals-greece-and-turkey-talk-business-now.aspx?pageID=238&nID=59861&NewsCatID=349>

<sup>125</sup> UNWTO Tourism Highlights 2015 Edition.

<sup>126</sup> World Travel and Tourism Council data <http://www.wttc.org/datagateway/>

destinations for Greek tourists visiting Turkey<sup>127</sup>, Athens, the Greek islands, Thessaloniki and Kavala are the preferred destinations for Turkish visitors<sup>128</sup>.

**Table 15: Total contribution of Tourism to GDP in %**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Greece	17.6	17.8	17.5	16.8	15.9	16.0	15.8	16.4	16.9	17.5	17.9
Turkey	12.0	10.7	10.1	10.3	11.6	10.0	11.0	10.9	10.8	10.7	10.6

Source: World Travel and Tourism Council

**Table 16: Number of Turkish citizens visiting Greece**

Year	Number of citizens
2003	170 019
2004	185 422
2005	141 380
2006	241 987
2007	305 666
2008	263 048
2009	277 540
2010	428 721
2011	345 653
2012	447 908
2013	598 936
2014	741 037
2015	898 919
TOTAL	5 046 236

Source: TUIK

**Table 17: Number of Greek citizens visiting Turkey by Year**

Year	Number of citizens
2000	218.092
2001	189.028
2002	279.751
2003	393.399
2004	491.300
2005	584.784
2006	412.819

<sup>127</sup>TURSAB Thessaloniki Fair Report. Retrieved from [http://www.tursab.org.tr/dosya/12197/selanik-fuari-2014-arge-ile-hazirlanan-sonuc-raporu117836007832\\_12197\\_3996743.pdf](http://www.tursab.org.tr/dosya/12197/selanik-fuari-2014-arge-ile-hazirlanan-sonuc-raporu117836007832_12197_3996743.pdf)

<sup>128</sup>See <http://www.trthaber.com/haber/ekonomi/yunanistandaki-kriz-turk-turiste-yaradi-192706.html>

**Table 17** (continues)

2007	447.950
2008	572.212
2009	616.489
2010	670.297
2011	702.017
2012	619.823
2013	703.168
2014	830.841
2015	755 414
TOTAL	8 537 384

Source: TUIK

### *The Limits of Tourism*

Although tourism provides significant economic benefits, it also has limitations. As pointed out by Papadopoulos (2009: 296), tourism is a typical “buyer’s market”. Therefore it allows people to easily shift to other destinations in the world with no cost. 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 the 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 Spain<sup>129</sup>. Similarly, recent terrorist attacks in Turkey direct tourists to alternative destinations like Greece<sup>130</sup>. Turkey’s tourism revenues are likely to face further

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<sup>129</sup> See <http://www.ekathimerini.com/197300/article/ekathimerini/business/political-economic-instability-turns-german-tourists-away>

<sup>130</sup> See <http://www.ekathimerini.com/202303/article/ekathimerini/business/developments-in-turkey-benefit-greek-cruise-tourism>

negative consequences due to current tensions with Russia, which may benefit Greek tourism<sup>131</sup>.

### *State Level Initiatives*

In 2001, an agreement on tourism cooperation 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: 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 TURSAB and HATTA<sup>132</sup>. 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<sup>133</sup>.

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: 152). This was a result of the Özal-Papandreou period's rapprochement initiative.

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<sup>131</sup> See <http://www.ft.com/intl/cms/s/0/6146d0e6-9f5b-11e5-beba-5e33e2b79e46.html#axzz3z5DN48pU>

<sup>132</sup> See [http://www.tursab.org.tr/tr/tursabdan-haberler/8-yunan-turk-turizm-forumu\\_6484.html](http://www.tursab.org.tr/tr/tursabdan-haberler/8-yunan-turk-turizm-forumu_6484.html)

<sup>133</sup> See <http://greece.greekreporter.com/2011/10/14/greece-and-turkey-sign-tourism-cooperation-protocol/>

However, the Greek government did not reciprocate such a move due to concerns regarding illegal migration<sup>134</sup>. Moreover Greece's participation in the Schengen agreement transferred visa regulations to the Schengen regime<sup>135</sup>.

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<sup>136</sup>. The Turkish government actively pushed for changes in visa regulations<sup>137</sup>. However skeptical views had come from the Greek side on the visa issue<sup>138</sup>. 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<sup>139</sup>. However some criticism came from the Turkish side regarding visa easiness and its limitations<sup>140</sup>. In 2013, this visa easiness continued from April 30 to October 30 by including Midilli (Lesvos), Sakız (Chios), Sisam (Samos), Rhodos, İstanköy (Kos), Meis (Kastellorizo) and then the Simi islands<sup>141</sup>. Those initiatives had a profound impact on flow of Turkish visitors to Greece. With this regard, former Tourism Minister Olga Kefalogianni stated,

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<sup>134</sup> See <http://arsiv.taraf.com.tr/yazilar/ioannis-n-grigoriadis/turk-yunan-iliskileri-ve-vize-politikalari/22367/>

<sup>135</sup> See <http://arsiv.taraf.com.tr/yazilar/ioannis-n-grigoriadis/turk-yunan-iliskileri-ve-vize-politikalari/22367/>

<sup>136</sup> Green passports are given to public officials, state employees, former ministers and parliamentarians etc.

<sup>137</sup> See <http://www.hurriyetdailynews.com/default.aspx?pageid=438&n=visa-free-greece-for-turkes-back-on-the-agenda-under-discussion-2010-05-07>

<sup>138</sup> See <http://www.hurriyetdailynews.com/default.aspx?pageid=438&n=visa-free-greece-for-turkes-back-on-the-agenda-under-discussion-2010-05-07>

<sup>139</sup> See <http://www.sabah.com.tr/turizm/2012/06/09/yunanistana-gitmek-artik-cok-kolay>

<sup>140</sup> See more on [http://www.todayszaman.com/national-visa-free-regime-with-greek-islands-no-picnic-for-travelers\\_282938.html](http://www.todayszaman.com/national-visa-free-regime-with-greek-islands-no-picnic-for-travelers_282938.html)

<sup>141</sup> See <http://www.mfa.gov.tr/yunanistan-adalarina-vize-kolayligina-iliskin-vatandaslarimizaya-duyuru--26-nisan-2013.tr.mfa> Date accessed: 03/01/2016.

“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”<sup>142</sup>.

### *Non-State Level Initiatives*

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 long been practiced (Karakatsanis 2014: 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: 319). Another example can be the Association of the Municipalities of the Aegean Coast, which brings Greek and Turkish municipalities together to discuss environmental problems in the Aegean Sea (Toksöz 2003: 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 & Birden 2009: 323). Local municipalities in the two sides of the Aegean have organized

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<sup>142</sup> See more [http://www.todayszaman.com/interviews\\_greece-seeks-further-cooperation-in-tourism-with-neighbor-turkey\\_301254.html](http://www.todayszaman.com/interviews_greece-seeks-further-cooperation-in-tourism-with-neighbor-turkey_301254.html)

Turkish-Greek friendship festivals in their towns both to boost tourism and to showcase their respective cultural similarities<sup>143</sup>. 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: 104-105). Some examples are: Alexandroupolis and Edirne, Chios and Çeşme, Nea Fokaia and Foça, Karşiyaka 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 (Papadopulos 2008: 297). Moreover in Antalya in 2006 the two signed another protocol on cooperation, this time during the Greek-Turkish Tourism Forum<sup>144</sup>.

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 the two peoples. Moreover, tourism fairs are beneficial to advertise and present tourism destinations and tourism firms that may foster cooperation opportunities.

### ***Thessaloniki-İzmir Example***

Cooperation between municipalities and business organizations between İzmir and Thessaloniki deserves a slightly more detailed discussion. Those two cities have a historically important place in the memories of the two peoples. In recent years, the two cities have become a significant example of Turkish-Greek cooperation owing to their local actors. Thessaloniki Mayor Yiannis Boutaris and the president of

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<sup>143</sup> See as an example <http://www.hurriyet.com.tr/12-defne-turk-yunan-festivali-basliyor-24690752>

<sup>144</sup> [http://www.tursab.org.tr/tr/tursabdan-haberler/7-turk-yunan-turizm-forumu\\_2290.html](http://www.tursab.org.tr/tr/tursabdan-haberler/7-turk-yunan-turizm-forumu_2290.html)

İzmir Chamber of Commerce Ekrem Demirtaş have been crucial actors to challenge conventional thinking in two countries.

The president of İzmir Chamber of Commerce (İZTO), Ekrem Demirtaş has been actively taken part in Turkish-Greek cooperation efforts since the 1990's. He has supported and given voice to projects like the Thessaloniki-İzmir ferry connection and visa facilitation for many years. Demirtaş and İZTO have first started to improve relations with the Greek islands in the Aegean. While their efforts faced difficulties reaching the mainland at the beginning, they established good relations with all parts of Greece<sup>145</sup>. In 1998 İzmir and Mytilini Chamber of Commerces held a summit in Mytilini for the first time to foster economic cooperation between Greek islands and the Turkish Aegean coast<sup>146</sup>. This summit was held in later years in different places like Bodrum, Kalamata, Kos, Marmaris and Rhodes. Those meetings have provided opportunities to demolish psychological barriers between two countries by creating a communication field for businessmen/women. They have provided a platform of interaction not only between the two countries but also between state and business circles. In this way business circles can inform politicians and bureaucrats. In one of those meetings, Demirtaş initiated a petition to “stop flight of war aircrafts over the Aegean” (Usta 2011: 106). Thus Demirtaş has continuously voiced over the need of resolution in the Aegean to foster peace<sup>147</sup>. This shows that business circles find ways to pressure the political class. The İzmir Chamber of Commerce has also played a role in tourism and cultural organizations between the two sides of the Aegean. For example, Izmir Economy University which was

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<sup>145</sup> E. Demirtaş, interview, May 3, 2016.

<sup>146</sup> See İZTO Midilli İş ve İnceleme Gezisi, retrieved from <http://www.izto.org.tr/portals/0/pusuladergisi/2013/haziran/midilliisgezi.pdf>

<sup>147</sup> See <http://www.milliyet.com.tr/ito-ege-de-savas-ucaklari-ucmasin/ekonomi/ekonomidetay/10.03.2010/1209457/default.htm>

established by İZTO and Ekrem Demirtaş, offers Greek language courses. Thus the university has conferred the title of honorary PhD to Ecumenical Patriarch Bartholomaios<sup>148</sup> and Prime Minister Alexis Tsipras<sup>149</sup>. Those kinds of activities have symbolic importance for the two countries. In 2007, Ekrem Demirtaş was awarded by the Greek Ministry of Foreign Affairs for his contribution to the improvement of Greek-Turkish relations<sup>150</sup>.

The Thessaloniki municipality with Mayor Boutaris since 2011 has been promoting Thessaloniki's multicultural past to make the city a tourism hub and to revive the local economy<sup>151</sup>. The municipality has promoted Kemal Atatürk's house and monuments from the Ottoman period for Turkish visitors. This increased the number of Turkish tourists visiting Thessaloniki. Spiros Pengas points out that, attracting more Turkish visitors has been an objective of the municipality since 2011. This has realized in crucial numbers but there is more potential to be reached. Moreover Pengas states that citizens approach increasing Turkish visitors positively since they contribute to the daily economy<sup>152</sup>. The number of Turkish visitors is likely to increase when Turkey finalizes its agreement with the EU. In this way, especially short term vacations from Turkey would develop further. Mayor Boutaris and the municipality have been frontrunners in opening up the city for tourism. Furthermore, Mayor Boutaris was very-well received by the political and economic elite in Turkey owing to his positive statements on Turks and the relations between the two

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<sup>148</sup> See <http://www.ieu.edu.tr/tr/news/type/read/id/3546>

<sup>149</sup> See <http://www.trthaber.com/haber/turkiye/izmir-ekonomi-universitesinden-ciprasa-fahri-doktora-238572.html>

<sup>150</sup> See

<http://www.milliyet.com.tr/Ege/HaberDetay.aspx?aType=HaberDetay&ArticleID=1020751&Date=25.02.2011&Kategori=ege&b=Yunan%20Bakandan%20Demirtasa%20odul>

<sup>151</sup> See <http://www.ekathimerini.com/163038/article/ekathimerini/community/mayors-efforts-pay-off-as-turkish-and-israeli-visitors-flock-to-discover-their-own-thessaloniki>

<sup>152</sup> Interview with Pengas.



Airlines and Pegasus Airlines, Aegean Airlines and Olympic Air on a daily basis. In 2009 another Turkish Airlines flight started to operate between Athens and İzmir<sup>158</sup>. Since 2011 Turkish Airlines has operated charter flights between Thessaloniki and Istanbul. Moreover in 2014 Aegean Airlines also added an Athens-Izmir destination<sup>159</sup>. Further Bora Jet operates a Mykonos-Istanbul flight in the summer season since 2011 and Mykonos-Bodrum flights since 2014<sup>160</sup>. Atlas Global also operates a Mykonos-Istanbul flight for summer season since 2005<sup>161</sup>. Those flight opportunities as presented have been another motivation for the flow of visitors between two countries. Thus they have played a big role in the increase of tourist numbers in recent years. In October 2015 the Greek Ellin Air launched İzmir-Thessaloniki flights with a ceremony held in İzmir<sup>162</sup>. In May 2016, Turkish Airlines has announced the launch of direct Ankara-Athens flights starting 1 July 2016<sup>163</sup>. Other than air transport, sea transport constitutes another important part of tourism flows. Athens-Chios-Çeşme, Athens-Kos-Bodrum, Athens-Samos-Kuşadası, Athens-Lesvos-Ayvalık and Rhodes-Marmaris are examples of such ferry routes. Since 2000's various circles from the two countries have worked to launch a direct ferry connection between İzmir and Thessaloniki which would likely increase the tourist flows between the two countries and serves as a profound example of cooperation.

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<sup>158</sup>See <http://www.skylife.com/tr/2009-09/izmir-atina-seferleri-basladi>

<sup>159</sup>See <http://www.thetoc.gr/eng/economy/article/aegean-airlines-adds-new-destinations-to-its-flight-schedule>

<sup>160</sup>See <http://www.turizmaktuel.com/haber/borajet-bodrum-dan-mykonos-a-ucuyor>

<sup>161</sup>See "Yunan turizminin incisi

Mykonos" 18/06/2005 <http://arsiv.sabah.com.tr/2005/06/18/gny/gny124-20050618-200.html>

<sup>162</sup>The flights for the winter season are postponed due to insufficient number of passengers. However I learned from Ellinair customer service that the flights will not operate in 2016 summer season. See also <http://www.hurriyetdailynews.com/ellinair-launches-direct-flights-from-izmir-to-thessaloniki.aspx?pageID=238&nID=89533&NewsCatID=349>

<sup>163</sup>See [http://www.turkishgreeknews.org/tr/thy-ankara-atina-seferlerine-basliyor/12510.html?utm\\_source=dlvr.it&utm\\_medium=facebook](http://www.turkishgreeknews.org/tr/thy-ankara-atina-seferlerine-basliyor/12510.html?utm_source=dlvr.it&utm_medium=facebook)

After years of failure, the İzmir-Thessaloniki ferry is expected to be launched in 2016<sup>164</sup>.

**Table 18: Top 3 most visited countries by Turkish citizens**

	1	2	3
2015	Georgia	Greece	Bulgaria
2014	Georgia	Greece	Bulgaria
2013	Georgia	Bulgaria	Greece
2012	Bulgaria	Georgia	Syria
2011	Syria	Bulgaria	Georgia
2010	Bulgaria	Syria	Georgia
2009	Bulgaria	Syria	Germany
2008	Bulgaria	Syria	Germany
2007	Bulgaria	Syria	Germany
2006	Bulgaria	Germany	Syria

Source: TUIK

#### 5.2.4. 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 a 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: 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 oil<sup>165</sup>.

Pipelines can be important means for cooperation between countries. A pipeline does not only connect countries physically but can also create interdependent relations due to the fact that business interactions would need to be established to operate it. Turkey is becoming an energy hub due to various projects on the construction of pipelines (İşeri & Almaz 2013: 89-90). Russia supplies its gas

<sup>164</sup> See [http://www.turkishgreeknews.org/thessaloniki-smyrni-me-feri-mpot/12446.html?utm\\_source=dlvr.it&utm\\_medium=facebook](http://www.turkishgreeknews.org/thessaloniki-smyrni-me-feri-mpot/12446.html?utm_source=dlvr.it&utm_medium=facebook)

<sup>165</sup> Energy Supply Security Report 2014

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: 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<sup>166</sup>. Ankara's tensions with Russia since 2015 have increased concerns on high dependence on the Russian gas and revealed the need for diversification (Tunçalp 2015: 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%)<sup>167</sup>.

**Table 19: Consumption of Commercial Energy in Greece and Turkey (thousand metric tons of oil equivalent and kilograms per capita)**

	Consumption						
	Year	Per capita	Total	Solids	Liquids	Gas	Electricity
Turkey	2008	1 290	91 457	29 579	25 411	33 547	2 919
	2009	1 254	90 075	30 066	24 685	32 129	3 195
	2010	1 304	94 895	32 122	23 194	34883	4 695
Greece	2008	2 919	32 960	8 309	19 772	3 896	1 033
	2009	2 852	32 301	8 431	19 485	3 301	1 084
	2010	2 537	28 816	7 863	15 978	3 594	1 381

Source: UN Statistics

<sup>166</sup> 2014 Natural Gas Market Report, " Republic of Turkey Energy Market Regulatory Authority (EMRA),

[http://www.epdk.org.tr/documents/dogalgaz/rapor\\_yayin/DPD\\_RaporYayin2014.pdf](http://www.epdk.org.tr/documents/dogalgaz/rapor_yayin/DPD_RaporYayin2014.pdf)

<sup>167</sup> OECD Energy Supply Security Report 2014. Retrieved from

[https://www.iea.org/media/freepublications/security/EnergySupplySecurity2014\\_Greece.pdf](https://www.iea.org/media/freepublications/security/EnergySupplySecurity2014_Greece.pdf)

**Table 20: Distrubition of Natural Gas Import by Sources in Turkey, 2014**

Russia	43,5 %	17,1 billion Sm3
Iran	22,8%	8,9 billion
Azerbaijan	15,5%	6 billion
Algeria	10,6%	4,2 billion
Nigeria	3,6%	1,4 billion
Spot LNG	4%	1,6 billion

Source: BOTAŞ

**Table 21: Natural gas imports by source in Greece, 2013**

Russia (Gazprom)	% 67
Turkey (BOTAŞ)	% 17
Algeria (Sonatrach)	% 16

Source: DEPA

**Table 22: Natural Gas Purchase Contracts of Greece and Turkey**

	Agreements	Date of Contract	Expiration Date
Greece	Algeria (LNG)	1988	2021
	Russia	1987	2021
	Turkey	2003	2026
Turkey	Algeria (LNG)	1988	2024
	Iran	1996	2026
	Nigeria (LNG)	1995	2021
	Russia(Black Sea)	1997	2025
	Russia(Western)	1998	2021
	Azerbaijan(Phase 1)	2001	2021
	Azerbaijan(BIL)	2011	2046

Source: BOTAŞ and DEPA

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: 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"<sup>168</sup>. Within the context of the Southern Gas Corridor (SGC), the EU has developed strategies to diversify energy supply and connect the European continent with Caspian gas<sup>169</sup>.

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) – Azerbaijan, Georgia
- Trans Anatolian Pipeline (TANAP) – Turkey
- Trans Adriatic Pipeline (TAP) – Greece, Albania, Italy

TANAP will be connected with TAP at the Greek-Turkish border. While the construction of TANAP started in 2015<sup>170</sup>, TAP project's implementation phase finished and it was launched in May, 2016<sup>171</sup>. 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 TAP, then Greek PM Antonis Samaras characterized it as "the most significant positive economic development regarding our country in the past 10 years"<sup>172</sup>. 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.

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<sup>168</sup> See <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV:l27062>

<sup>169</sup> See <http://www.tap-ag.com/the-pipeline/the-big-picture/southern-gas-corridor>

<sup>170</sup> See <http://www.hurriyet.com.tr/cumhurbaskanlari-erdogan-aliyev-margvelasvili-kars-ta-tanap-in-temelini-atti-28479226>

<sup>171</sup> See <https://www.neweurope.eu/article/thessaloniki-tsipras-launches-tap-caspian-link-europe/>

<sup>172</sup> See <http://www.ekathimerini.com/133706/article/ekathimerini/business/pm-hails-choice-of-tap-as-putting-greece-on-pipeline-map-update>

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”<sup>173</sup>.

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 BOTAS) signed a Memorandum of Understanding to build a 285 km long pipeline connecting Karacabey with Komotini (Couloumbis & Kentikelis 2007: 526). In 2003, an intergovernmental agreement between the two countries was signed regarding the pipeline. The construction was finished and inaugurated in 2007<sup>174</sup>. 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”<sup>175</sup>. Similarly, Erdoğan said, “pipelines are not subject to one’s superiority over another, they are subject to interdependence”<sup>176</sup>. 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 for the first time (Grigoriadis 2011: 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: 25). This agreement provided 264 km long electric power line with 400kv capacity across the Thracian border of the two states (Papadopoulos 2008: 25). The interconnection

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<sup>173</sup> See [http://www.todayszaman.com/anasayfa\\_turkey-launches-tanap-to-pipe-azeri-gas-to-europe\\_375552.html](http://www.todayszaman.com/anasayfa_turkey-launches-tanap-to-pipe-azeri-gas-to-europe_375552.html)

<sup>174</sup> See <http://www.ogj.com/articles/2007/11/greece-turkey-gas-pipeline-link-inaugurated.html>

<sup>175</sup> See [http://www.nytimes.com/2007/11/19/world/europe/19greece.html?\\_r=0](http://www.nytimes.com/2007/11/19/world/europe/19greece.html?_r=0)

<sup>176</sup> See <http://www.radikal.com.tr/haber.php?haberno=239228>

across the Hevros-Maritza river was activated in 2007 (Papadopoulos 2008: 25)<sup>177</sup>. Turkey was the only South Eastern European country that was until then not connected to the Greece-Balkan grid system (Papadopoulos 2008: 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<sup>178</sup>. This progress has been important to integrate the country with the EU's Trans-European network for energy<sup>179</sup>.

### *The Cyprus Gas*

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 the Cyprus conflict (M. E. Yılmaz 2011: 45). Therefore initiatives related to hydrocarbons should wait until after a resolution has been achieved (M. E. Yılmaz 2011: 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

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<sup>177</sup> See <http://www.hurriyet.com.tr/turkiye-yunanistan-a-elektrik-vermeye-basladi-7037294>

<sup>178</sup> See <http://enerjienstitusu.com/2016/01/20/teias-entso-e-gozlemci-uyesi-oldu/> and see <http://www.ab.gov.tr/index.php?p=49931&l=2>

<sup>179</sup> See 2015 EU Progress Report on Turkey. Retrieved from [http://ec.europa.eu/enlargement/pdf/key\\_documents/2015/20151110\\_report\\_turkey.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2015/20151110_report_turkey.pdf)

federal competence in a future united Cyprus state. However, hydrocarbons are not a negotiation issue and no discussion should be made prior to a resolution of the Cyprus conflict (M. E. Yılmaz 2011: 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 Cyprus's Exclusive Economic Zone (EEZ) (Gürel et al 2013: 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: 53).

In 2011, a bilateral delimitation agreement was signed between Turkey's TPAO (Türkiye Petrolleri Anonim Ortaklığı) and "TRNC" to launch explorations (Grigoriadis 2014: 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 April 2015 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: 12). In April 2015, Turkey did not renew the NAVTEX and took off the seismic vessel from Cyprus (Morelli 2015: 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 accept that the construction of a pipeline to Turkey would be a good opportunity if RoC and Turkey establish normal relations (Gürel et al 2013: 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: 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: 19).

Turkish-Israeli relations provide another dynamic in the energy field. In the 1990's, Israel and Turkey signed various agreements to improve their relations, like the 1996 Military Education and Cooperation agreement, and 1996 Free Trade Agreement (Özcan 2015: 234-245). The economic relations between the two countries improved in the 2000's. However, Turkey's efforts to act as mediator between Israel and Syria, and its efforts to contribute to the Israeli-Palestinian peace process have not been successful (Özcan 2015: 242-246). Turkish-Israeli relations have faced serious crises. Yet the relations have started to worsen in 2008 and this was symbolically clear with then Prime Minister Erdoğan's "one minute" discussion in the Davos Summit<sup>180</sup>. However the crisis between the two countries was precipitated by confrontation in the Mediterranean in 2010. The confrontation between the Turkish flotilla which was allegedly carrying humanitarian aid and were planning to break Israeli blockade of Gaza Strip, and the Israeli Navy caused the

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<sup>180</sup> See more on <http://news.bbc.co.uk/2/hi/business/davos/7859417.stm>

death of nine activists. Relations remain turbulent despite recent reconciliation attempts between the two countries.

Thus the deterioration of relations has prevented any possible cooperation on the energy field between Israel and Turkey. This has effected regional alignments on the energy field. Greek-Israeli relations have been 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<sup>181</sup>. Yet the deterioration of Turkish-Israeli relations was the main reason that has pushed these countries towards establishing closer relations. Other than that, Turkey’s relation with Egypt has also deteriorated with the fall of the Muslim Brotherhood’s leader Mohammad Morsi in 2013. This has contributed to Cyprus, Egypt and Greece forming a triangle as well. While regional dynamics can evolve, it is certain that Turkish-Greek relations cannot benefit from developments on Mediterranean gas unless Cyprus reunifies and its relationship with Turkey normalizes<sup>182</sup>. The development of the hydrocarbons issue is dependent on the state of affairs between Cyprus and Turkey as well as the relations between Greece-Turkey and Israel-Turkey.

### ***The Turkish Stream***

The Turkish Stream project had been one of the most debated issues on energy in 2015. The Project was put forward by Russia, which aiming to increase gas supply to Turkey and Europe as well (Tunçalp 2015: 77). It initially planned to transport Russian gas via the Turkish-Greek border to Europe. Russia signed a

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<sup>181</sup> See more on <http://www.haaretz.com/israel-news/.premium-1.700464>

<sup>182</sup> See <http://www.politico.eu/article/cyprus-reunification-peace-nicos-anastasiades-mustafa-akinci/>

Memorandum of Understanding on the construction of the Turkish stream pipeline with Turkey in 2014 and Greece in 2015<sup>183</sup>. However the Project was called off as a result of the Turkish-Russian tension in late 2015. Current geopolitical circumstances further increase the importance of the resolution of the Cyprus conflict and Turkish-Israel reconciliation following the exploration attempts of Cyprus and Israel gas.

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<sup>183</sup>See <http://www.gazpromexport.ru/en/projects/6/>

## **CHAPTER 6:**

### **THE LINKAGE BETWEEN THEORY AND ECONOMIC RELATIONS**

#### **6.1. Limited Interdependence**

This chapter provides the linkage between the theoretical framework and the bilateral economic relations. The state-centric glasses of world politics which had often dominated the literature on Turkish-Greek relations have been limited to provide detailed analysis to examine dynamics of economic interactions between the two countries which have been taken place through multiple ways and have fallen short to follow changing patterns in the relations. The findings of my research suggest that interdependence theory is, at least to an extent, relevant explaining the current scope of economic interactions between Greece and Turkey. However the level of economic interdependence is still limited by the burden of political disputes of the two countries, suggesting that politics-economics hierarchy in bilateral relations remains intact. Yet, gains of the bilateral economic interactions have been acknowledged by both countries that prove their desire of favoring further increase in scope of relations.

Traditional understanding of IR has considered states as the only meaningful actors in the international system. 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 Turkish-Greek relations. With the 1999 rapprochement process, combined with the efforts of business elites, economic relations have improved markedly. The improving communication and transportation channels have

reduced the impacts of distance (physical and psychological). Business actors, local actors and other civil society actors have become increasingly significant to foster cooperation between the two countries. Moreover Turkish-Greek non-state actors have been able to find more avenues to influence relations positively. These have challenged the boundaries 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 state level initiatives. At the same time, those non-state initiatives have been becoming more active and visible to enhance bilateral interactions. However, this leaves a question measured as to whether or not the current scope of economic relations allows non-state actors to shape the course of Turkish-Greek political relations. 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 for an acceptable resolution for real outstanding questions. Systemic political dynamics are stronger”<sup>184</sup>. While important level of expansion in economic relations is achieved, the political problems can only be resolved by policy makers. This makes politics-economics hierarchy intact. Nevertheless, this does not diminish the significance of the economic interactions owing to its potential for reshaping the relations in the long run. Bilgen states that,

“As the economic relations develop, diversify and gain depth, the political environment undergoes change automatically and favorable environment flourishes as a result. We can observe this by looking relations between the world powers (US-Russia and US-China). The volume of bilateral trade

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<sup>184</sup>Interview with Clis.

between Greece and Turkey was only around 200 million dollars when 30 years ago. Today it is above 5 billion dollars, so that both Greek and Turkish politicians call for peace and friendship instead of creating troubles. Most 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-”<sup>185</sup>.

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 of the smoothness of the economic relations between Greece and Turkey. Keohane and Nye (1977: 4) maintain that, “contemporary world politics is not a seamless web; it is a tapestry of diverse relationships”. It is not possible to separate economic interactions from the political process that goes on between countries. That is, they are complementary to each other and can create a dialogue between business and the politics. Bilateral political meetings have often been accompanied by bilateral business meetings in recent years. Actors like the Hellenic Federation of Enterprises (SEV), the Turkish Industrialists and Businessmen’s Association (TUSİAD) and the Chambers 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 line with their objectives (Kirişçi 2009: 46-47). One example might be TUSİAD’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”<sup>186</sup>. The problem is

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<sup>185</sup> Interview with Bilgen.

<sup>186</sup> Interview with Tulukçu.

that, although Turkish-Greek economic relations can develop in the presence of political disputes, limitations come to the fore at some point. Furthermore, relations are not stable given high complexity in world affairs. That is, as time passes without touching on political problems, new issues can come up and are then likely to create further challenges for the bilateral relationship<sup>187</sup>. For instance, the refugee crisis and the current Aegean NATO patrols can be an example. Without solving the Aegean disputes, cooperation on the refugee crisis becomes complicated. The two countries remain locked up with security concerns rather than cooperating genuinely. With this regard, Elias Clis states,

“Economic interactions, however helpful, are not, in the current scheme of things, a decisive factor nor seem 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 through International Law alone, and cooperation on an equal footing in our larger region must acquire real substance”<sup>188</sup>.

Furthermore, Clis indicates,

“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”.

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<sup>187</sup> See <http://www.hurriyetdailynews.com/greece-and-turkey-on-the-road-to-nowhere-or-a-chance-for-redemption.aspx?PageID=238&NID=96117&NewsCatID=396>

<sup>188</sup> Interview with Clis.

As presented in the previous chapter, concerns that stem from political problems can mitigate further cooperation in the Aegean. The threat perception from both sides can still play a role in creating skepticism against each other, especially in the investment field. This then might multiply the problems related with bureaucracy and 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 economic, and objections might be raised related to political or security considerations”<sup>189</sup>.

The causes for delays and long waiting projects can be encountered frequently in the Greek-Turkish context. Even this hardship is a result of fulfilling the administrative duties required from the two countries; both sides might perceive it as a psychological barrier caused by negative perceptions even when this is not the case. The administrative hardship faced in both countries can be addressed only by policy makers with the support of the business elites. The Double Taxation Agreement is a one crucial example of such an initiative which had gave a push for developing economic interactions. Similarly, recent visa facilitation initiatives were only finalized by governments despite the long time support by the tourism sector

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<sup>189</sup> Interview with Clis.

throughout the years. On the one hand, growth in trade, investment, tourism and energy relations is both the product of the efforts by the two states and business circles. On the other hand, the impact of business circles on political elites had been limited to giving opinions, suggestions, feedback and organizing business meetings. Yet the support of business elites is crucial for them to be visible among policy makers.

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

#### **6.1.1. Bilateral Trade**

Bilateral trade between Greece and Turkey has only reached substantial levels in the post-1999 period. While political tensions have been persistent since the 1960's, bilateral trade was only affected negatively due to Turkey's Cyprus intervention in 1974 when the volume of trade dropped to 986,8 thousand dollars in 1975 dollars from 36.039,5 million dollars in 1974 (Şen 1987: 19-21). During the 1990's however, bilateral trade had continued to increase despite the fact that Turkish-Greek tensions peaked during 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 start with. One might argue that, ceasing trade had been non-significant because of already marginal levels of trade interaction. There was no

mutual dependence on transactions. 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 6 billion dollars. Bilgen states, “Greece became an increasingly important partner of Turkey compared to the 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”<sup>190</sup>.

According to Mansfield and Pollins (2003: 11), countries are interdependent when economic conditions in one country have influence on other and when it is costly for countries to give up their relationship. Furthermore, Keohane and Nye (1977: 8) assert 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”.

The current scope of the bilateral trade between Greece and Turkey presents a complex picture. For Greece, Turkey has been the first important export partner in which Turkey’s share was 12.16% in total exports in 2014. For Turkey, however, Greece has been the 14<sup>th</sup> importing country. One might argue that this creates an asymmetry between two countries. As Keohane and Nye (2011: 9) states, interdependence is “evenly balanced mutual dependence”. While the level of interdependence in Turkish-Greek bilateral trade is not high, its impact on the two countries is different. For instance, it would be more costly for Greece to give up this relationship. Moreover since Turkey is less dependent party of this relationship, it can have more bargaining power over another issue. “A less dependent actor in a

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<sup>190</sup> Interview with Bilgen.

relationship often has a significant political resource, because changes in the relationship (which the actor may be able to initiate or threaten) will be less costly to that actor than to its partners” (Keohane & Nye 2011: 10). However, we have not seen such pattern in relations between the two countries yet.

As demonstrated in a 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 the 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 the forefront here, since one’s market is more significant than other’s. For liberal and neoliberal approaches that are dealt with in this thesis, however, the consequences of this trade pattern are rather positive. Furthermore Keohane and Nye (2011:8) point out that interdependence is not a condition limited with mutual benefits. With regard to Turkish-Greek trade relations however mutual benefits have been apparent. The trade pattern between two countries has not been characterized as high interdependence in a way that associated costs of the relation remain low. Turkish-Greek bilateral trade has surely benefited both sides and 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 the two countries which will be beneficial for both countries<sup>191</sup>. Similarly, Investment Portfolio Department Manager from Enterprise Greece Constantinos Angelopoulos points out the benefits of 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”<sup>192</sup>. Negative competition on trade has not been an apparent practice between the two countries. With regard to this, Bilgen notes

“Some might think that improving economic relations can lead to 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”<sup>193</sup>.

### **6.1.2. Foreign Direct Investment**

Investment wise, economic interdependence has also not reached to crucial levels crucial in making a 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 the investment flow between the two countries. Investment flows are deeper forms of interaction which are likely to create bounds between economies in

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<sup>191</sup> Interview with Makgriyianni.

<sup>192</sup> C. Angelopoulos, interview, February 1, 2016.

<sup>193</sup> Interview with Bilgen.

the long term. Therefore, interdependence in investment can surely have constraining impact on conflicts.

Investment flows had been very low between Greece and Turkey until very recently. Apart from several big investment deals, FDI between the two countries is composed of small and medium sized investments ranging from manufacturing and retail to tourism. A large number of companies have invested in 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 that investment was the largest that had ever appeared between the two countries. Moreover, the deal had a symbolic importance that fostered 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. As argued, "economic intercourse increases contact and promotes communication between private actors in different countries, as well as between governments" (Mansfield & Pollins 2003: 3). Investment flows are significant on this. 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, the crisis might provide for new business opportunities that Turkish investors have been searching for, as well as favorable investment fields<sup>194</sup>. The persistent desire to improve the investment flow across the two countries, however, is not enough on its own. Both the structural problems and administrative limitations that are faced by investors in the two countries have prevented a substantial increase in the flow of investments. This limits the positive impact of the investment ties on political relations. Without addressing those issues, it would be hard to have a substantial increase and reach true interdependent relation. This brings 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 willingness to increase the volume of interaction in every field between Greece and Turkey. These, however, have to be realized and not remain as part of "wishful thinking"<sup>195</sup>.

Apart from the two countries' problems with attracting foreign investment, the administrative and bureaucratic burdens faced have been frequently mentioned by investors from both countries<sup>196</sup>. Thus those difficulties might discourage investors. For instance Selcan Türk who is the owner of a Greece based tourism

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<sup>194</sup> Interview with Bilgen.

<sup>195</sup> Interview with Pengas.

<sup>196</sup> Interview with Kalkavan, Interview with Makgriyani.

company points out the difficulties of opening a company in Greece due to the slowness of bureaucracy<sup>197</sup>. Those kinds of restrictions in investment relations limit the value of such ties for the two countries. Copeland (1996: 5-6) points “as long as high levels of interdependence can be maintained, liberals assert, we have reason for optimism”. In the Turkish-Greek case, high interdependence has never reached but increasing ties still allows for optimism.

Law 3386/2005 on residence permits was a good state level initiative to address difficulties faced by non-EU nationals wanting to start a business in Greece. Such kinds of 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. Overall, those patterns have 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<sup>198</sup>.

### **6.1.3 Tourism**

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<sup>197</sup> S. Türk, interview, July 30, 2015.

<sup>198</sup> Interview with Bilgen.

The 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 the other three fields. This can be explained by tourism's high benefit for the two economies and everyday economy in the tourist sites as well. Tourism sector has had significant value for both countries' international outlook. Tourism interactions between two countries are significant since they are also multidimensional by having impact on various sectors. They provide investment opportunities in addition to daily tourism practices. 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 the two societies, especially in the tourism field<sup>199</sup>. Tourism enables creating personal contacts between societies through bridging borders between everyday Greek and Turkish people.

Non-state interactions and local level interactions are also higher compared to other fields. Those are important to challenge the traditional approach to Turkish-Greek relations. 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 more potential to be realized both in terms of the number of Turkish people visiting Thessaloniki and in terms of the investment flow in the Thessaloniki's tourism sector<sup>200</sup>. Pengas further notes that Thessaloniki has been a good minor example that created initiatives to bring the two societies closer in recent years both in investment and tourism-wise. He, however, points out the need of political will from two

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<sup>199</sup> Interview with Pengas.

<sup>200</sup> Interview with Pengas.

countries as stating, “At the end of the day we are not the state”<sup>201</sup>. This brings again the necessity of will from central governments.

Despite the advantages in the tourism field, certain limitations for further development are apparent as well. As in the case of bilateral trade and FDI, the tourism field also suffers from limitations which need to be dealt with policy makers in the two countries. Examples include 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 both states need to become apparent. As discussed in the previous chapter, transportation opportunities across the two countries have significantly developed in recent years. However, some long desired projects have not been realized despite the fact that they had been discussed in official Turkish-Greek meetings. Some of those projects have been a train connection between the two countries, a ferry connection between Athens-Izmir and Thessaloniki-Izmir<sup>202</sup>. Furthermore channels of transportation have been still very limited when we consider the geographical proximity between the two countries. For instance there is no direct railway connection between Northern Greece and Thrace. When transportation channels increase, borders between the two countries seem to disappear. Selcan Turk states that transportation initiatives such as train connection between two states need to be dealt with the level of the two countries’ ministry of transport<sup>203</sup>. 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<sup>204</sup>. Regarding the two countries’ potential in the tourism sector, the two countries are like-minded that further interaction in the tourism field will create a

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<sup>201</sup> Interview with Pengas.

<sup>202</sup> Interview with Türk.

<sup>203</sup> Interview with Türk.

<sup>204</sup> Interview with Türk.

win-win situation for both countries<sup>205</sup>. Benefits of the tourism interactions have been fruitful since 2000's. The absolute gains logic prevails in this field since two sides get large benefits free from other's gain.

Tourism can be significant source of interdependence. As mentioned tourism is the most visible field that is open to cooperation opportunities between Greece and Turkey. The joint tour packages project for third countries has been one such opportunity. Joint tour packages have long been on the agenda of the two countries both at state and non-state level since the early 2000's<sup>206</sup>. The Former 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”<sup>207</sup>.

In a similar manner, then Minister of Tourism Ömer Çelik states, “in the tourism field, we see Greece as a partner country, not as a competitor. We have a joint tourism package project that includes Greece and Anatolia together to make tourists visit both countries”<sup>208</sup>.

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<sup>205</sup> See <http://www.izto.org.tr/tr/ehaber/type/read/id/1491>

<sup>206</sup> See <http://www.milliyet.com.tr/2004/06/14/ege/yazyoruk.html>, see <http://www.hurriyet.com.tr/turk-yunan-kiyilarini-ortak-pazarlama-arayisi-39143325> and <http://www.yeniasir.com.tr/ekonomi/2009/12/06/turizm-sektorunde-turk-yunan-ortak-calismasi>

<sup>207</sup> See more on <http://www.nationalturk.com/en/greece-tourism-minister-calls-out-turkey-is-our-partner-in-tourism-20816/>

<sup>208</sup> See <http://basin.kulturturizm.gov.tr/TR,121990/yunanistani-rakip-degil-ortak-olarak-goruyoruz.html>

The joint tours project, however, has failed to be realized. In his speech during the latest High Level Council between the two countries that held in March 8, Former Prime Minister Davutoğlu made remarks about initiating the joint tours as soon as possible<sup>209</sup>. However, the failure of those initiatives since the 2000's certainly demonstrates the lack of determination. 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<sup>210</sup>. The realization of the joint tours project would increase the level of interdependence between two countries markedly since mutual gains from tourism would be more apparent. In this way relations would become more intertwined.

The vulnerability of the tourism sector however, may lead to competition between the two countries. For visitors, Greece and Turkey offer similar vacation offers with a mix of leisure, gastronomy and cultural tourism routes. Therefore, during instability or uncertainty caused by an economic or security crisis, visitors are likely to see one country as an alternative to other. Yet possible competition cases do not necessarily prevent cooperation chances on tourism in the Turkish-Greek case.

At a bilateral level, when new transportation routes like a train connection are built, the effects of the psychological distance between two societies will decline. Thus, connection and communication between the 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 towards growing economic interdependence.

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<sup>209</sup> See <http://www.hurriyet.com.tr/basbakan-ahmet-davutoglu-selanik-ile-istanbul-arasina-hizli-tren-planliyoruz-40065686>

<sup>210</sup> Interview with Türk.

#### 6.1.4. Energy

As a relatively newly developing area compared to trade, FDI and tourism interactions, the level of interdependence has been very low. Yet the energy field offers an important realm of potential cooperation owing to its significance for economic development and due to its strategic character<sup>211</sup>. Future prospects for the development of interactions in the energy field are encouraging. The 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<sup>212</sup>. This provides for a cooperation potential between the two countries. The Karacabey-Komotini pipeline has been a 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 will be understood and will influence the approach of bilateral relations, adding a willingness to build strategic depth with an eye for the future”<sup>213</sup>.

Due to its strategic and security related importance, a relative gains logic might shape the relations in the energy field with the presence of political problems

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<sup>211</sup> Interview with Clis.

<sup>212</sup> Interview with Clis.

<sup>213</sup> Interview with Clis.

between the two countries. Moreover energy is sensitive issue for both countries since they are mostly energy importing countries that need to consider their energy securities. Both countries are in vulnerable position to energy exporter countries. This becomes more relevant when we consider the aspirations of the two countries to become an energy hub/transit country. This means that two countries have conflicting interests in the energy field. Competition becomes stronger as the new alliance formation in recent years demonstrates. The Aegean disputes and the Cyprus conflict combined have been strong hurdles in not materializing the energy potential in the Southeastern Mediterranean. Rather than focusing common grounds like diversification of the energy sources or opportunities provided by geographical proximity, two countries have focused more on their discrepancies. 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”<sup>214</sup>.

As stated, the possible resolution of the Cyprus conflict will likely open channels of cooperation which can give rise to significant regional and international developments. The energy is certainly requires mutual and state-level initiative compared to other fields since its strategically important role for the energy security

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<sup>214</sup> Interview with Clis.

of the countries. Moreover, energy adds regional and global actors and energy security to the picture where Turkish-Greek cooperation would be affected.

“Energy projects are a complex proposition: at once very demanding on the economic side, in terms of capital, financing, technical expertise, long-term viability and profitability, assured markets, guaranteed supplies etc., they constitute at the same time an important part of world politics, and a major element in the international power game”<sup>215</sup>.

Pipelines are like the roads to connect countries. Energy projects are highly costly to be built that need careful research and investment. The realization of an energy project will have a very long term impact to connect countries and create interdependence. Both Greece and Turkey has high dependence on the Russian natural gas. Therefore, diversification of the energy sources provides joint interests for both countries. However, as presented in previous chapter bilateral political problems are most evident in the energy field to limit interdependence between the two countries.

## **6.2. 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 does not directly lead to cooperation (Nye & Welch 2014: 275). In the Turkish-Greek case, there has been a growing level of interconnectedness “where interactions do not have significant costly effects” (Keohane & Nye 1977: 9). On the one hand, the level of economic interdependence has been low where we do not see significant reciprocal costs. In this case, incentives that might generate political

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<sup>215</sup> Interview with Clis.

cooperation are weak between the two countries. On the other hand, a decrease and deterioration in economic relations between the two countries from the current level would be costly for both.

In their analysis on interdependence, Rosecrance et al (1977: 428-429) identifying 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 the other's. There is a higher horizontal interdependence between Greece and Turkey and yet low vertical interdependence.

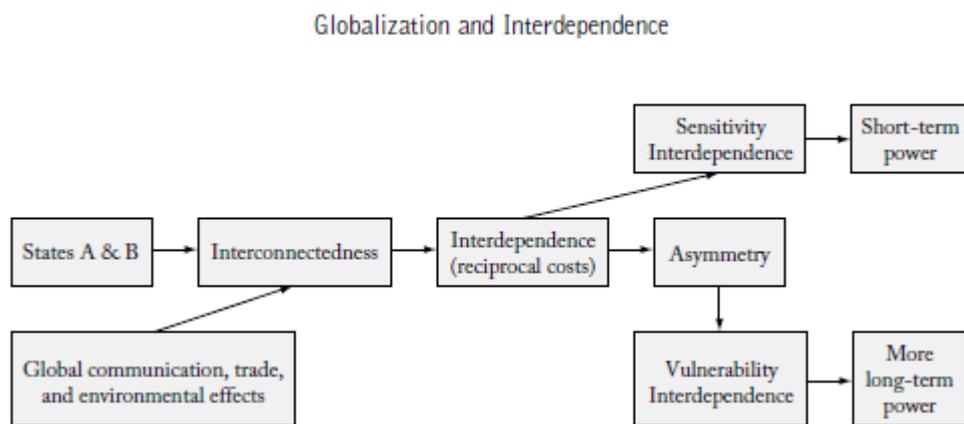


Figure 1: Asymmetric nature of Interdependence (Nye and Welch 2014, p.279)

Cooperation possibilities between Greece and Turkey have been increasingly possible at both state and non-state level. However with the current scope of economic relations, political cooperation cannot evolve automatically with presence of long-standing problems. Historically in both countries, business communities have had a limited role to influence foreign policy. Non-state level initiatives need to be backed by political leadership that the two processes should go hand in hand. In this

way, both economic and political relations can reach the desired level. Political leadership in the two countries appears to be waiting for closer economic interactions to be developed before touching upon troubled political problems. Therefore they may believe that, taking action towards a resolution of political problems would be difficult and may damage the already developing economic relations. This might sound sensible in the short term course of relations that in this case, “you should improve economic relations, and then we can follow you” approach can have strength.

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: 53). This “focusing on economic relations and ignoring the real problems” approach can only save the day in the short run. This thus makes political relations more exposed to changing domestic/international dynamics and pressures. As my analysis demonstrates, developments like the natural gas discoveries and the refugee crisis, which directly relates to security interests of the two countries, create new challenges and pressures for 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 non-state actors on resolution of problems remains limited. Non-state actors have already strived for the improvement of economic and political relations since the 1980’s. In the last 16 years, their efforts have been intensified. Unconventional figures from two societies like Yannis Boutaris, Ekrem Demirtaş and Selim Egeli eagerly supported the further integration of the two societies. Such non-state actors have been in more communication with

the political actors in the two countries compare to past. However their sincere efforts need to be supported by the political will towards resolution of the problems.

### **6.3. Likelihood of Armed Conflict**

For realist IR, interdependence cannot be a source of peace and deterrence to conflict (Pevehouse 2004: 249). Commercial liberalism highlights economic interactions are likely to decrease using the coercive means between two states (Moravcsik, 1997: 528-530). Similarly trade vs. conflict theories examine whether trade interdependence lowers the likelihood of wars and conflict. A group of scholars have found that increasing economic interdependence is a disincentive for the use of military force (Mansfield 1994; Oneal et al 1996; Oneal and Russett 1997; Russett, 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: 5-6).

The problem is that those liberal approaches heavily focus on trade interactions. My research, however, includes FDI, tourism and energy fields with the bilateral trade which all fields have different dynamics as presented throughout the thesis. 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. As Gartzke, Li & Boehmer (2001: 391) point out “interdependence offers nonmilitarized avenues for communicating resolve through costly signaling”. The possibility of an armed conflict between Greece and Turkey has decreased markedly. In retrospect, tensions had mostly arisen between the two countries in the Aegean Sea due to contentious differences. The 1976, 1987 and 1996 crises led to serious confrontations between Greece and Turkey. The

Imia/Kardak crisis of 1996 was the most serious of those tensions which was almost leading to an armed conflict. In those decades, economic relations were at marginal levels between the two countries which had given the two countries no aversive factors. The two countries had not been had anything to lose economically in the past. Moreover, personal connections owing to economic relations were not existent between two countries. Today, we have more and more Greek and Turkish people who settled each other's country, opened banks, offices, shops and interacting with each other.

Given the current scope of multiple economic relations, it is less likely that such disagreements would lead to serious military confrontations. The emergence of any armed conflict would have serious consequences for their relations in all terms. Moreover such consequences would not be preferred by both Greek and Turkish political actors. According to Barış Kalkavan, the Imia/Kardak crisis would not have occurred if economic interactions at that time were close to today's level<sup>216</sup>. He states that, "it is not possible for soldiers to cross borders in where the money flows"<sup>217</sup>. For instance in 2005, an Imia/Kardak-like incident was avoided. While then Greek Foreign Minister Molvyatis's was visiting Turkey, a mini-crisis over the islets emerged. The standoff ended with negotiation of the two parties and with both countries withdrawing their patrol boats<sup>218</sup>. On the other hand, the violations of air spaces and dogfights over the Aegean Sea have continued since two parties have not reached an agreement. Yet the consequence of a possible crisis has become much more costly for the two countries, which may damage built bonds.

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<sup>216</sup> Interview with Kalkavan.

<sup>217</sup> "para geçen sınırdan, asker geçemez", Interview with Kalkavan.

<sup>218</sup> See <http://www.turkishweekly.net/2005/04/18/news/fog-descends-again-over-ankara-and-athens/>

Those changing patterns of Turkish-Greek relations have been usually overlooked by state-centric approaches. They have been restricted to focus on political relations between the two countries. In light of the recent developments, it is becoming difficult to ignore the existence of economic interaction channels which were nonexistent in the past decades. Those economic interactions have paved the way for economic and social course of communication between Greece and Turkey which are diminishing the use of military means.

**Table 23: The Scope of Turkish-Greek Economic Relations**

	<b>Trade</b>	<b>FDI</b>	<b>Tourism</b>	<b>Energy</b>
<b>1-Multiple Level of Interaction</b>	High	Low	High	Lowest
<b>2-Relationship</b>	Asymmetric	Asymmetric	Relatively Symmetric	Slightly Asymmetric
<b>3-Competition</b>	Low	High	Low	Highest
<b>4-State Level Interaction</b>	High	High	High	Low
<b>5-Non-State Level Interaction</b>	High	High	High	Low
<b>6-Negative Impact of the Political Problems</b>	High	High	Low	Highest

## **CHAPTER 7:**

### **CONCLUSION**

*“History, like a tree, is a dynamic entity, developing its branches and ramifying into all aspects of a society: its size changes as does its shape, and its impact is not constant but varies by the season. History casts a shadow over the present, though we might not be aware of its enveloping ambience” (Hirshon 2009, p.74).*

In retrospect, Turkish-Greek relations have long been dominated by security issues coupled with state centric approaches in the literature. Painful events of the past and the old nurtured antagonism have long become a part of people’s minds. The relations between the two countries have evolved with experience of several conflicts which have shaped the course of the Aegean disputes and the Cyprus conflict. In the beginning of late 1980’s, the two countries have aimed at redefining their relations and they finally reached a rapprochement period after 1999 owing to both domestic and international dynamics. The two countries opened their doors to each other which cannot easily be closed anymore. In this way the level of interaction 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. The Turkish-Greek relations cannot be reduced to interactions between the two states since businessmen/women, civil associations, students and tourists have become active actors of this relationship.

These changes in relations have revealed the need for an updated theoretical approach to Turkish-Greek relations. With this regard, interdependence theory provides us with a number of important insights to comprehend the current dynamics

of relations between Greece and Turkey. By challenging the traditional understanding of world politics, Keohane and Nye (2011: 21) 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”. The main goal of this thesis was to examine the 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 thesis has shown that economic interdependence between the two countries has not reached a point 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 that possibility of military tension between two countries has markedly decreased. However, the economic relations have not been able to overcome current stalemate in the political problems and the latter continue to set the overall framework within which this bilateral relationship should be understood. Yet, today economic and social actors of Turkish-Greek relations are likely to have more saying on the course of political relations compare to pre-1999 period. There is a multiple web of connections between two countries established that makes conditions radically different from the past.

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 in terms of improvement in relations. However their state of affair depends both on non-state and state level efforts.

This thesis has found that the political problems between two countries do not have a serious negative impact on the course of economic interactions especially in

terms of daily practices. The current level of economic interdependence implies that economic relations have been able to develop independent from politics. However, this is not to say that they have developed smoothly, or free from the political problems between two countries. Political problems have interfused economic interactions by limiting the scope of further economic connections. Although these can slow down the development of economic relations, increasing interaction between the two countries is not likely to be frozen. The two countries have come closer and have promoted cooperation in various fields for more than 15 years. The burden of political problems has not disappeared yet and they seem to remain present in the near future as well. Yet the connected ties between societies in the shape of business or social means throughout years are promising.

A political resolution remains distant in the minds of policy makers. As is shown throughout the thesis, non-state actors like local governments and business elites from the two sides of the Aegean have been active in advancing economic relations. Civil society efforts have made a significant contribution to economic cooperation through regular meetings, projects, fairs etc. Those kinds of initiatives have increased communication channels between business elites and the political agency. Further improvement in economic relations has been a shared desire of both civic and political actors. Yet this desire has been limited as state level initiatives to make necessary readjustments to deal with technical problems that are obstacle to relations have been limited, though existent.

On the one hand, there will always be people from the two countries who make business with each other and want to bring to countries closer regardless of political tensions. This cannot be prevented and the interactions cannot be inactivated. Unconventional actors from the two countries would continue their

efforts to bring their countries closer. The relations cannot go back from already built bonds. On the other hand, economic relations are likely to be limited and far from desired level if state actors continue avoiding resolution efforts. That is, certain adjustments that are need for the desired level of economic interdependence require state level initiatives to be taken. In this way, economic interactions between Greece and Turkey would reach a point to pressure for the resolution of political problems. As pointed out throughout the thesis, political problems come to light when addressing administrative and technical deficiencies. In other words, postponing the resolution of political problems challenges the further development of economic relations.

Wider structural and domestic challenges facing the two countries, like the on-going Greek economic crisis and Turkey's deadlocked EU membership prospect, will likely affect economic relations between the two countries. Despite the presence of such obstacles, the on-going Cyprus peace negotiations give a degree of hope that resolution there would create an impetus to both political and economic relations. The resolution of the long standing Cyprus conflict is likely to provide for a new momentum and thus escape from the stalemate in relations.

Economic interactions do not have a significant and costly impact on Greece and Turkey since the level of economic interdependence is still low. This limits the spillover effect to a political cooperation, as interdependence approach suggests. The results suggest that political problems can be overcome through a process in which economic and political relations develop hand in hand. The current scope of economic relations alone will not likely influence foreign policy decisions between the two countries. Yet administrative and bureaucratic limitations that are 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 the two societies. Yet political problems are waiting to be resolved by central-level politicians. This brings the issue of political determination to the forefront. Unless two countries take steps to see themselves as real partners in cooperation fields, relations are likely to be affected by ongoing political problems. Waiting for political resolution to emerge from the current level of economic relations is hardly realistic.

After decades of antagonism, relations between Greece and Turkey have improved markedly since 1999 in a way that the two countries have become able to communicate through various cultural, economic and social channels. In almost 20 years, the two countries have abstained from solving their political problems. Although a stalemate in political relations between the two countries might seem tolerable in the current phase of the relations since interaction in all levels between two people has increased, the stalemate is not sustainable in the future. Considering the wider international environment with regional security challenges and economic instabilities, prospects for economic relations are likely to stagnate or even deteriorate as long as political issues remain unresolved.

## **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 Ceylanoğlu-First Secretary to Turkish Embassy in Athens-  
28/07/2015

Interview 4: Vicky Makgrianni-Advisor-Hellenic Federation of Enterprises (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

Interview 11: Ekrem Demirtaş- Chair of İzmir Chamber of Commerce-03/05/2016

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