

IS GREECE AN ATTRACTIVE INVESTMENT OPPORTUNITY?

Q & A

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Ever since his electoral victory last July PM Mitsotakis misses no opportunity to extend invitations to foreign investors to bring their money to Greece. In view of the country's severe complications after the 2010 default, and the lingering impact of EU-imposed austerity, what should be of concern to foreign investors who might be "thinking Greek?"

Investors in general seek environments with at least three key qualities: (a) A free market with minimum interference from governments (b) legal and tax stability, and (c) a reasonably trained and educated workforce. If these three variables can be reasonably guaranteed, plans for investment may go ahead. It is the juggling and risk-inclined type who would ignore misgivings about any of these three factors in making investment decisions; the rest of less risk-prone investors will stay away.

Presently, Greece lags significantly behind in (a) and (b) and is reasonably safe regarding (c) although the country has lost at least 250,000 to 300,000 highly educated younger individuals because of the crisis, a brain drain that needs to be reversed. Greek officials won't be obviously inclined to discuss these areas candidly since they have only shaky ground to stand on. The only alternative, therefore, is cultivating a "positive climate" borne out of "optimism" through constant public reassurances. Mitsotakis and his ministers focus exclusively on this "optimism" and are endeared of the term *kanonikota*, which may be loosely translated into "regularity."

The immediate question, therefore, is what defines "regularity" for the Greek economy (always according to the Greeks) after years of instability and damage, and what a foreign investor believes it is "regular," i.e. a well-ordered and reasonably safe environment for doing business.

This is where the first difficult fork, en route to potential investment in Greece, emerges.

To the Greeks, "regularity" is the *continuing heavy government involvement in everything*, from power generation and transportation to mining and chemicals, and from shipyards to fertilizers and producing sugar from beets.

To a serious investor, this is unacceptable. By and large, the Greek idea of outside investment (always with government involvement everywhere) is foreigners coming in *to buy a stake* in a government-run corporation, which will continue to operate with a major Government of Greece (GoG) presence on the board of directors. The Greek approach sees this model as necessary to “modernize” and “rationalize” public enterprises that almost always operate at a loss and are burdened with excess labor. It would be an unthinking and risk-prone outside investor who would accept this formula as “regularity.”

To boot, the Greek legal and tax system is among the worst in the EU. A future investor faces a tax system that resembles quick sand and is dominated by labyrinthine administrative demands and dead ends; mind-boggling laws; a plethora of “ministerial decisions” that change on the fly; and a convoluted, expensive, and ultimately self-defeating system of licensing new enterprises.

It is also a given that anyone who decides to contend with the Greek tax authorities must be prepared for an interminable contest in courts that deliver verdicts after *years* of convoluted deliberations—with all the concomitant legal expenses and the high possibility of an adverse ruling.

These facts are public knowledge, aren't they? Isn't the GoG concerned about bad publicity, especially since any serious investor would be expected to do his homework about Greek conditions? How do Greek officials propose to circumvent questions and reservations foreign investors would bring to the table about all this?

Greek officials apparently believe their mysterious “investment logic” will stand the test if presented “appropriately.” The interpretation of “appropriately” is anybody’s guess, however. But, if past history is any guide, the formula of joint enterprise, with the GoG keeping the majority stake, hasn’t been popular with major investors, at least those who came prepared not to entertain compromises.

For example, China arrived with a plan to modernize the seaport of Piraeus and imposed upon the hosts a purely Chinese project that provided no room for *GoG interference*. The size and technical complexity of the Chinese plan was such that the parochial Greek maneuvering had no legs to stand on. The net result is a 100 percent Chinese enterprise functioning at Piraeus with the Greeks in the role of polite spectators disallowed from interfering with decision-making and operations (the Chinese plan has all but stopped strikes as well.) The result is a highly successful, smoothly functional, and profitable enterprise for both sides.

The case of China is of course unique in that a giant outsider arrived with little appetite to negotiate with the Greek statist. Other investors, however, without China’s size and clout, may be lured into the “appropriate” Greek presentations and the kind of haggling that tries to safeguard the *Cosa Nostra* of the public sector union bosses and the local oligarchs used to aggressively milking the public sector cow.

This *Cosa Nostra* commands fiefdoms all over the state-run economy populated by unproductive and, often, damaging “employee” majorities, who enjoy unjustifiably high wages, perks, and social security protections unknown to those who struggle in the private economy. The *Cosa Nostra* is used to launching strikes at the drop of a hat in order to blackmail the government against any rationalization, however modest, of public corporations and, of course, the inevitable culling of non-performing public “workers.” Any outside investor, who chooses to participate in such a corrupt GoG-*Cosa Nostra* dominated play, should expect to pay a price for his lack of foresight.

Going back to the “regularity” concept, it is undeniable the Greek economy must correct the disruption triggered by the 2010 default. How could this be achieved? Can the Greek private economy lift itself up by the bootstraps? For example, Greek banks are on shaky ground and substantial money, belonging to private Greek hands, is still deposited in foreign accounts. Can (or would) these funds return to Greece to provide much-needed fuel for an economic rebound?

A sad fact about Greece, which constitutes a severe obstacle to any rebound, is that the private economy is dwarfed by the publicly funded sector. In 2018, for example, the approximate number of workers in the private economy stood at 1.907 million. In contrast, government workers plus pensioners (the latter receiving pensions directly from the government) stood at approximately 3.2 million. These simple numbers alone describe the Greek economy’s imbalance—an exhausted minority must provide, through its labor and social security contributions, sustenance to a majority that, to put it bluntly, produces very little. The net result is empty state coffers that are filled with borrowed money at great expense.

Furthermore, one of the open secrets of the Greek economy, going back decades, is the interconnection between the government and the handful of big-time oligarchs. These oligarchs enjoy a pipeline directly into the central government budget via convoluted “joint enterprises” and public works projects. This unholy relationship produces hefty profits *without* the oligarchs spending any of *their own* money, which is safely salted away in foreign accounts instead of being recycled into the frail local economy. The much desired “regularity” is therefore undermined by the very GoG that seeks to make it true and which cannot touch the oligarchs and simply continues to protect the ossified money-losing public sector under its control.

When, in August 2018, Greece exited the immediate supervision of the so-called EU/IMF “memoranda,” i.e. the agreements between the GoG and the creditors on what must be done to right the economy, it was understood reform would not be abandoned because the memoranda had run their course.

Yet, barely thirteen months later, there’s a sense that “other priorities,” associated with trying to sell “regularity” ala Greca, form Mitsotakis’s immediate concerns. Nobody in the market, whether Greek or foreign, has an idea of how the government plans to manage *attracting* outside investment. Greece is still under EU monitoring and evaluation regarding her bailout obligations;

and “regularity,” from now on, won’t be defined by the GoG but, rather, by the pace of reforms ***defined by the creditors***—reforms consistently sabotaged by Greece’s political parties staunchly defending the *Cosa Nostra* for fear of a voter backlash if the public sector bosses are touched and, heaven forbid, tossed out for good. Mitsotakis’s ministers have already delivered the unmistakable message: “There will be no layoffs in the public sector.”

Potential investors should pay *close attention* to how Mitsotakis handles “regularity” that must follow the reforms long demanded by the creditors and reject “regularity” according to GoG definitions. Trying to jump start the economy via half measures, “back doors,” and empty promises won’t work.

In conclusion, who will, or might, be coming in to invest and why?

In its current economic newsletter, the Greek Industrialists Association (SEV) reports that Greece caught the sad record of being the [very last country in the world](#) (source in Greek) in investment as percent of GDP. And according to this year’s competitiveness report by the [World Economic Forum](#), Greece [has slipped](#) two places to 59th out of 140 countries. The same report places Greece at the 115th place for its credit system because of the high rate of bad loans and low financing of small and medium-sized enterprises; and at the 111th place for its weak labor market. These are hardly encouraging figures suggesting the Greek economy suffers from permanent dislocation and persistent negative trends. Another indicator for would-be outside investors should be the history of serious delays plaguing foreign investments already developing in Greece, like the [scandalous saga](#) of the Canadian gold mining company Eldorado Gold and the long-delayed [Hellenikon project](#), with its plan of creating an ostentatious super expensive “tourist complex,” of zero value to the country’s industrial base, in the space of [a fully functional airport](#) that should have never been closed because the Germans, Greece’s “partners,” demanded it.

Talk from officials and GoG self-appointed advertisers, however optimistic, won’t bridge the gap between thin air and harsh reality. What is needed for Greece in order to attract quality substantial outside investment is a ***true revolution in reshaping hearts and minds from the top all the way to the very bottom***. But, judging from a long history going back not years or decades but centuries, that revolution cannot be launched in Greece’s present socio-political environment. Oligarchs, the *Cosa Nostra*, corrupt political parties, party bosses, and snail-paced GoG shenanigans are as immovable as the pyramids of Egypt.

Against this backdrop, it appears unlikely that serious investors, who look for honest and trustworthy partners, will be lining up before the gates to enter and begin business in Greece—unless another Alexander the Great appears out of nowhere to cut the Greek Gordian Knot with one swift stroke of his sword.