

CRS Report for Congress

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Greece Update

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Summary

The conservative New Democracy party took office in March 2004 for the first time in more than 20 years. Its economic policies call for cutting the large public sector, while sustaining strong growth that had been stimulated by investments for the summer 2004 Olympics. Its foreign policy will continue to focus on the European Union, the rapprochement with Turkey, efforts to reunify Cyprus, and good relations with the United States. Greece has assisted with the war on terrorism, but is not a member of the coalition in Iraq, where it supports a strong U.N. role. This report will be updated if developments warrant. See also CRS Issue Brief IB89140, *Cyprus: Status of U.N. Negotiations*, and CRS Report RS21833, *Greece: Threat of Terrorism and Security at the Olympics*, both updated regularly.

Government and Politics

The conservative New Democracy party (ND) won the March 7, 2004 parliamentary elections in Greece with 45.37% of the vote to 40.55% for its rival Pan-Hellenic Socialist Movement (PASOK), thereby gaining a majority of 165 out of 300 seats in parliament to 117 for PASOK. The Communist Party (KKE) garnered 5.89% of the vote and 12 seats, while the Coalition of the Left and Progress (Synaspismos) took 3.26% and 6 seats. The rightist Popular Orthodox Rally (LAOS) and the leftist Democratic Social Movement (DIKKI) failed to win 3% of the vote required to enter parliament.

Constantine (Costas) Karamanlis, the 47-year-old nephew and namesake of the founder of ND who had served as prime minister (1955-1963, 1974-1980) and president (1980-1985, 1990-1995), became Prime Minister. The younger Karamanlis entered parliament in 1989 and has been the leader of ND for seven years. He has never held a ministerial portfolio. As part of his education, he earned graduate degrees from the Fletcher School of Law and Diplomacy of Tufts University in Massachusetts.¹

¹ Costas Stephanopoulos holds the largely ceremonial post of President. Stephanopoulos, whose term expires in 2005, is a former ND official who split from the party to form his own center-
(continued...)

ND previously held power for fewer than three of the last 23 years. In the past few years, however, voter sentiment had shifted against the ruling PASOK due to political “fatigue” and discontent with perceived corruption, despite the personal popularity of former Foreign Minister George Papandreou who became PASOK leader in February 2004. During the campaign, Karamanlis adopted moderate views, emphasizing the need to reinvigorate the economy to address high unemployment by lifting obstacles to investment, cutting taxes and bureaucracy, and strengthening small- and medium-sized businesses and farmers. He also called for reforms in education and health care. In addition, he highlighted the need to combat corruption. In foreign policy, Karamanlis promised to continue PASOK’s rapprochement with Turkey and to work for a just solution to the Cyprus problem.

Karamanlis appointed a relatively large cabinet of 47, including a few party stalwarts from his uncle’s era and a number of ministers from Karamanlis’s own generation. He offset the appointment of 75-year-old Petros Molyviatis as Foreign Minister with the choice of the younger, academic Yiannis Valinakis as Alternate (or Deputy) Foreign Minister responsible for European affairs. Valinakis is seen as a possible successor for Molyviatis. The seasoned Defense Minister is Spilios Spiliotopoulos, while the Public Order Minister, in charge of security for the Olympics, is the younger George Voulgarakis. There is only one woman minister, although Karamanlis named Anna Pasroudha-Benaki to be Greece’s first woman Speaker of Parliament.

The parties are now campaigning for the June 13 European Parliament election in which ND is expected to increase its lead over PASOK.² Karamanlis named former Defense Minister Yiannis Varvitsiotis to head the ND ticket, with maverick former Foreign Minister Antonis Samaras restored to the party in second place. Papandreou’s determination to transform PASOK is evident in his candidates who average 39 years of age, 50% of whom are female, and are led by a 33-year-old woman labor union official.

Economy

Greece has a mixed capitalist economy, with the public sector accounting for half of the gross domestic product (GDP). Greece remains among the poorest of pre-May 1, 2004 enlargement European Union (EU) states, with 20% of the population living below the poverty level as compared to an EU average of 15%. The GDP growth rate for 2003 was 4.2%. Per capita GDP is estimated at \$19,100 (2002) or about 70% of the leading euro-zone economies.³ Greece has experienced steady economic growth of an annual average of 4% since 1997, exceeding the overall EU growth rate by more than 1 percent due to reforms, EU aid, and the August 2004 summer Olympics, which has stimulated investment. Prime Minister Karamanlis hopes to stem an expected post-Olympics slowdown with tax cuts and other measures to attract foreign investment.

¹ (...continued)

right party, but retired from politics after failing to win any seats in the 1994 European Parliament election. He won the presidency in 1995 with PASOK support.

² The European Parliament is the legislative institution of the European Union.

³ CIA, *The World Factbook 2003*.

The new ND government faces multiple challenges in reducing a large public debt from 102.5% of GDP, a budget deficit of 2.7% of GDP, and unemployment of 9.5%.⁴ It intends to accelerate privatization of state enterprises and institute reforms in the pension and tax systems and the bureaucracy. Karamanlis's stated policy goals for the "Greece of 2010" have financial and economic implications. They are: investing in culture and education, an overhaul and diminishment of the public sector, and the implementation of an economic policy guaranteeing the acceleration of growth and a fair distribution of wealth to all citizens.⁵

Olympics⁶

Karamanlis assumed personal responsibility for the 2004 summer Olympics by donning the mantle of Minister of Culture as well as Prime Minister. Faced with a deluge of bad publicity about slowness in completing venues for sporting events and concern about security preparations to deal with possible terrorist threats, Greek officials compare their preparations to a Greek folk dance that energizes near the end, and repeatedly give assurances that venues will be completed and that the Olympics will be the safest ever. The government has cancelled several projects (such as the roof on the swimming pool) and curtailed some transportation infrastructure programs. The International Olympic Committee (IOC) now believes that all venues will be ready on time.

Greek authorities have directed their security plans for the Olympics at possible external terrorist threats. They contend that, since 2002, they have effectively dismantled two domestic terrorist groups, the Revolutionary Organization 17 November (17N) and Revolutionary Popular Struggle (ELA). Neither group has been active in recent years. U.S. officials, however, have not endorsed the Greeks' conclusion regarding 17N and ELA, citing Greek officials' own references to continuing investigations. There also are many small anarchist groups operating mainly in the Athens area. The State Department cites anarchist attacks as evidence of "the lingering nature of left-wing terrorism in Greece."⁷ Although the main worry for the Olympics is Al Qaeda, its offshoots, and its emulators, local anarchists have the potential to disrupt events, as they showed with three bombings at an Athens police station on May 5.

The Greek government plans to field a security force of 70,000 for the Olympics. It formed an international advisory group of seven countries, including the United States, and requested assistance from NATO. It also contracted with the private U.S.-based Science Applications International Corporation (SAIC) to head an international consortium providing security infrastructure.

⁴ Figures presented by new Minister of National Economy and Finance George Alogoskoufis, Z. Tsolis, "Economic Census Diverges from Previous Data," *To Vima*, March 24, 2004, FBIS Document 20030325000018.

⁵ "PM Karamanlis Sets His Government's Priorities," *Greece: A News Review from the Embassy of Greece, Press and Information Office*, March 2004.

⁶ For more, see CRS Report RS21833, *Greece: Threat of Terrorism and Security at the Olympics*, by Carol Migdalovitz.

⁷ U.S. State Department, *Patterns of Global Terrorism 2003*, released April 29, 2004.

Foreign Policy

Prime Minister Karamanlis maintains that Greece has a bipartisan foreign policy and that he will make no strategic changes from the policies of PASOK, only tactical ones. As an EU member, Greece will remain oriented toward Brussels and take many of its foreign policy cues from the main EU players, notably France and Germany. Greece also is a member of NATO.

Cyprus.⁸ In November 2002, U.N. Secretary General Kofi Annan offered a draft settlement plan to unite Greek Cypriots and Turkish Cypriots in a loosely federated United Republic of Cyprus. U.N. Special Envoy Alvaro de Soto then oversaw negotiations between the parties and revised the plan several times. Annan had hoped that the process would culminate in four-party talks among Greece, Turkey, Greek Cypriots, and Turkish Cypriots in Switzerland at the end of March 2004. Although Karamanlis traveled to Switzerland to show his “cooperation,” he did not participate in four-party talks. Instead, Annan and his team consulted all four leaders before finalizing the plan on March 31. Karamanlis then appeared to hesitate about taking a position before the April 24 referenda on the Annan plan on Cyprus. Reportedly under pressure from the U.N., EU, and the United States, all of which favored the plan, Karamanlis made a cautious statement on April 15, concluding that the plan had more positive points than “difficulties.” He said that it was up to the Cypriot people to decide and that Greece would support their decision. In contrast, PASOK leader Papandreou gave early and unambiguous support to the plan and urged the Greek Cypriots to accept it. Aside from his stated concerns about the substance of the plan, Karamanlis may have felt constrained by (Greek) Cypriot President Tassos Papadopoulos’s vociferous opposition to the plan, by polls showing that Greek Cypriots overwhelmingly agreed with their president, by opposition from Greek nationalists within and outside of ND, and by political calculations regarding the June European Parliament elections. In the referenda, Greek Cypriots overwhelmingly rejected the Annan plan, while Turkish Cypriots accepted it. Karamanlis has since said that reunification of Cyprus remains Greece’s objective and has consulted Annan about the next steps to take.

Turkey. Prime Minister Karamanlis has vowed to continue the rapprochement with Turkey begun in 1999. Before taking office, Karamanlis had forged a personal relationship with Turkish Prime Minister Recep Tayyip Erdogan as fellow members of the European People’s Party (EPP), a grouping of European conservative political parties. Karamanlis has characterized the relationship as one of “mutual trust.”⁹ Greece believes that a European Turkey will not be a threat, so Karamanlis has said that he will promote Turkey’s accession to the EU. Karamanlis’s commitment to sustaining good relations with Turkey despite developments on Cyprus transforms traditional Greek policy toward Turkey, which had posited a Cyprus settlement as a precondition for rapprochement. Erdogan made an official visit to Greece from May 6-8, 2004, the first by a Turkish prime minister in 16 years. Karamanlis has allowed exploratory talks on Aegean issues and bilateral committees on ‘low-level’ issues, initiated under PASOK, to continue. The two sides have openly recognized that rapprochement has diminished their mutual threat

⁸ For more, see CRS Issue Brief IB89140, *Cyprus: Status of U.N. Negotiations*, updated regularly.

⁹ Anthee Carassava, “10 Questions for Kostas Karamanlis,” *Time Europe*, March 22, 2004.

perceptions and have discussed reciprocal cuts in defense spending. They also share an interest in boosting bilateral trade, which stands at \$1.2 billion annually.

“Macedonia” Dispute.¹⁰ The former Yugoslav republic of Macedonia declared its independence in 1991, following other former Yugoslav republics. Its territory covers 39% of the historic region of Macedonia. The remaining 51% is in Greece and 9% is in Bulgaria. “Macedonia” asserts its right to use and be recognized by its constitutional name, the Republic of Macedonia. Greece objects, claiming that the name “Macedonia” usurps Greece’s heritage and conveys irredentist ambitions against the region of northern Greece bordering the former Yugoslav republic, which is also called “Macedonia.” In the early 1990’s, the name issue inflamed Greek nationalism and public opinion. The Republic of Macedonia entered the U.N. in 1992 under the provisional name of The Former Yugoslav Republic of Macedonia (FYROM). Perceived compromises on the name issue weakened the last ND Prime Minister, Costas Mitsotakis, who was defeated in the parliamentary elections of 1993.

In 1995, Athens and Skopje signed a bilateral agreement that normalized relations, and settled all outstanding disputes except for the name. Greece also ended its trade blockade. Since then, diplomats from both governments have met under U.N. auspices to discuss the name issue, but no mutually acceptable solution has been reached. U.S. diplomat Matthew Nimetz acts as the U.N. Secretary General’s personal envoy in these talks. Karamanlis has called on Skopje to show “greater flexibility” to achieve progress in resolving the name dispute. Despite the lack of a resolution, Greek companies have made considerable investments in the FYROM and Greece supports the FYROM’s ambitions to join the EU and NATO.

The Karamanlis government may not be prepared to make concessions needed for a resolution until it consolidates its position. An expelled ND member leads a small, extreme nationalist party, the Popular Orthodox Rally (LAOS), and may exploit the issue. Other ardent nationalists remain in ND ranks, and Karamanlis probably would not want to risk alienating them over an issue that is not pressing. For its part, the Skopje government also has to contend with nationalist forces at home and may not be able to compromise. At the same time, observers believe that a resolution of the dispute is long overdue. The trend in international usage favors the FYROM, with international actors commonly and officially using the shorthand “Macedonia” in lieu of the more cumbersome FYROM. For example, on the occasion of the death of President Trajkovski in a plane crash, the U.S. House of Representatives passed H.Res. 540, on March 11, 2004, by a vote of 411-0, expressing solidarity with the people of Macedonia and the government of Macedonia (neither with quotes).

Relations with the United States. U.S.-Greek bilateral relations are good, based on historical, political, cultural, military, economic, and personal ties. Prime Minister Karamanlis visited President Bush at the White House on May 20, and reaffirmed the strength of the bond. There are about 1.1 million Americans of Greek

¹⁰ For more background, see CRS Report RL32172, *The Former Yugoslav Republic of Macedonia (FYROM): Post-Conflict Situation and U.S. Policy*, by Julie Kim.

origin; they and their offspring total almost 3 million and form a well-organized community which advocates pro-Greek positions and close U.S.-Greek relations. The United States has a trade surplus with Greece, but accounts for only a very small share of Greece's imports. The Greek government has closely consulted with U.S. agencies regarding security for the Olympics, including the National Security Council, and the Departments of State, Justice (FBI), Homeland Security, and Energy, and the CIA.

The Greek government responded to the September 11, 2001 terrorist attacks on the United States with strong political support, unimpeded U.S. and coalition use of Greek airspace, and military assets for counterterrorism. As of March 2004, there were 167 Greek troops participating in the International Security Assistance Force (ISAF) in Afghanistan as part of the NATO mission there. This figure is down from more than 1,300 troops and support elements from the Greek Corps of Engineers and two Greek C-130 aircraft deployed during Operation Enduring Freedom, the war to oust the Taliban and Al Qaeda from Afghanistan. Until July 2003, Greece also stationed a navy frigate in the Arabian Sea. Due to the need for security forces for the Olympics, Greece has told NATO that it cannot increase its military presence in Afghanistan. Like many other EU countries, Greece does not view the war in Iraq as part of the global war against terror, and it has no troops among coalition forces there. It supports a greater U.N. role to legitimize the international presence in Iraq and to help determine its future.

Greece and the United States share interests in stability in southeastern Europe. The United States has welcomed and encouraged the rapprochement between Greece and Turkey. Both Greece and Turkey participate in the U.S.-initiated Southeast Europe Brigade (SEEBRIG), a rapid reaction force consisting of contingents from seven regional countries. Greece contributed a transport company to the NATO Stabilization Force in Bosnia-Herzegovina (SFOR), although its participation ended in 2003. Greece sent 400 troops to participate in NATO's Operation Essential Harvest to demilitarize rebel forces in the Former Yugoslav Republic of Macedonia (FYROM), and then contributed forces to NATO's Task Force Fox to provide security for civilian personnel overseeing implementation of the peace plan in the FYROM. NATO concluded this operation in 2003. Greek troops continue to serve in NATO's peacekeeping force in Kosovo (KFOR).

At the same time, there is a strong strain of anti-Americanism in Greece, stemming from U.S. support for the Greek military junta that ruled from 1967-1974. Unsupported allegations of U.S. involvement in Greek internal political affairs surface regularly. Anti-American sentiment was strong during the wars in the Balkans in the 1990s, when Greeks sympathized with their traditional allies and co-religionists, the Serbs, and has surfaced again since the war in Iraq. Anti-American feelings are evident in periodic mass demonstrations mobilized by Communists, anarchists, unions, antiwar activists, and anti-globalization forces, whose influence is disproportionate to their numbers in society. Greek commentators carefully note that anti-Americanism in Greece is targeted against U.S. government policies and not the American people, partly because there is some concern that perceptions of anti-Americanism might affect Greece's vital tourism industry.