



GREEK CRISIS IMPLICATIONS FOR ASIA AND EUROPE

Event Report

13 July 2015

Centre for
Multilateralism Studies

Event Report

GREEK CRISIS

IMPLICATIONS FOR ASIA AND EUROPE

Report of a conference organised by:
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S. Rajaratnam School of International Studies,
Nanyang Technological University,
Singapore

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EXECUTIVE SUMMARY

This report covers the S. Rajaratnam School of International Studies (RSIS) conference on the Greek economic crisis, and its potential wider effects on the rest of Europe and Asia. The Greek crisis first hit the headlines in 2009. Five years on and after two bailouts, amounting to billions of dollars, the Greek crisis is once again back in the news. On 1 July 2015, Greece became the first developed country to default on a loan from the International Monetary Fund (IMF). The aims of this seminar were to discuss what the causes of the crisis were, as well as the possible implications for Europe and Asia. Four distinguished speakers provided their views on the situation on top of offering recommendations on how Singapore could prepare for potential damaging effects reaching its shores.

Dr Joergen Moeller, Singapore Management University and Copenhagen Business School, explained how Greece's current woes stem from its political system which has been established over time. This has led to a sheltered and non-competitive economy that is heavily indebted, resulting in negative effects on the rest of Europe.

Associate Professor Pradumna B. Rana, RSIS,

noted that the implications for Asia could be contained partly because of the lessons learned from the Asian experience during the Asian financial crisis. Asia is not overly dependent on the eurozone and hence, the effects should be manageable. However, if the crisis led to the collapse of the eurozone, the damage would be far more significant.

The Government of Singapore also has a vested interest in Greece as the sovereign wealth fund (GIC) has its portfolio invested across the globe. Dr Ong Li Lian, Vice President of Economics and Investment Strategy at GIC, noted that the portfolio is not heavily exposed to Greece but has 14 per cent of the portfolio invested in the eurozone, so the damage would be dependent on how much the contagion effect spreads. However, the risks should still be mitigated and planned for.

Greece has been involved in a strategy of brinkmanship in their negotiations with the Troika to gain more leverage to achieve better bail-out packages according to Professor Pascal Vennesson, RSIS. This has created an atmosphere of mistrust among many of the eurozone members, making a future relationship of trust between Greece and the markets unlikely.

WELCOME REMARKS



Ambassador Barry Desker (middle)

Ambassador Barry Desker, Distinguished Fellow and Bakrie Professor in Southeast Asia Policy, RSIS, presented a background of the Greek crisis that began in 2009 and contributed to the eurozone crisis. At that time, Greece had a fiscal deficit of 15. per cent, far more than the 3 per cent allowed under the Maastricht Treaty and a public debt-to-GDP ratio of 60 per cent, double the permissible amount.

Amb Desker noted that joining the eurozone in 2001 had partially contributed to the problem in Greece. With the euro as its currency, Greece's exchange rate was higher than it would have been if it had its own currency. The overvalued currency made its exports more expensive and imports cheaper, and contributed to the country's large external deficit and debt. Being a eurozone member also meant

that the Greek government was able to take loans at a lower rate. The government borrowed heavily to gain political favours. Much of the borrowed funds went to the bloated public sector where jobs with very generous remunerations were given to boost support for the government. The retirement age set at 50 for a majority of the workforce also contributed to the public debt problem.

The Troika (the ECB, IMF and the European Commission) had attempted to resolve the Greek crisis through two bailout packages and austerity measures. However, Amb Desker explains that the results of these measures were a sharp increase in unemployment, particularly among the youth of the country (over 50 per cent), as well as an overall reduction in the country's GDP. Even after several years, Greece remains in a crisis.

IMPLICATIONS FOR EUROZONE AND EUROPE



Dr Joergen Moeller

Dr Joergen Moeller elaborated how Greece's current predicament could be analysed through a historical lens to explain how the country has landed up where it is today. Greece had been at war with much of its neighbours for a majority of the past 200 years, the country having few friends and allies. Drawing from Francis Fukuyama's work, one could see how Greece's political system has "modernised without developing". This had led to a society lacking in trust, with the current state structure being seen as alien by the public, and the public being uncooperative towards the government. This has further contributed to high tax evasion rates and has also affected the development of the economic structure in Greece, with little industry or jobs in the manufacturing sector. The system in Greece was geared towards political clientelism, with public sector jobs being used as a way to garner votes. The outcome is that the Greek economy has become a non-market,

non-competitive and sheltered economy.

The weaknesses in the Greek economy have caused the country to be vulnerable to a crisis. Greece's membership in the EU and eurozone has compounded the problem after the country had made false claims to be a part of the powerful economic bloc. The loose adherence to the agreed conditions, which were established during the formation of the eurozone, allowed Greece to join regardless of its economic vulnerability.

Dr Moeller noted that Greece has not dealt with the crisis properly both economic and politically. Greece has been reluctant to implement any significant reforms to its economy which is in dire need of changes at a structural level to enhance productivity. Greece's diplomacy is also poor. The country's leaders have continuously released conflicting and inconsistent statements.

IMPLICATIONS FOR ASIA



Associate Professor Pradumna B. Rana

Associate Professor Pradumna B. Rana

compared the impacts of the Asian Financial Crisis (AFC) which hit the region in 1997 and 1998 with the possible impacts of the Greek crisis. He mentioned that while the contagion effects of the AFC were strong and the crisis had spread very quickly all over Asia and the world, similar contagion effects are not expected from the Greek crisis. This is because most of the Greek debt is held by the public sector (IMF and European governments) and not by the private sector. Additionally, the eurozone banks are relatively well capitalised compared to their Asian counterparts. Assoc Prof Rana mentioned that in Asia, some of the conditions imposed by the IMF were not appropriate and this had led to a stigma against the IMF. This is not the case in Greece where the IMF is a member of the Troika.

Assoc Prof Rana explained that the Greek crisis could affect Asia through three channels – (i) the psychological; (ii) the trade; and (iii) the financial flows channels. He then highlighted three possible scenarios:

Scenario 1 – only Greece being affected by the crisis;
 Scenario 2 – Greece exiting from the euro (or the GREXIT); and
 Scenario 3 – collapse of the entire eurozone, an unlikely scenario.

He mentioned that under Scenario 1, the impact on Asia would be small because the direct exposure of

Asian countries in terms of trade flows and financial flows to Greece is low. For example, the direct exposure of the Singaporean economy and the banking system to Greece is negligible, accounting for just under 2 per cent of total trade and 0.1 per cent of total banking assets. The only impact would be short-term psychological impact or nervousness and uncertain investor sentiment in the Asian stock and currency markets.

The impact of the GREXIT (Scenario 2) would be more serious (mainly through the trade channel), but it would still be moderate. The probability of the eurozone collapsing (Scenario 3) is low but not impossible. If this scenario occurs, then the impact on Asia would be very serious, possibly even worse than the impact of the Global Financial Crisis of 2007-2008.

Assoc Prof Rana concluded that Asia needs to be more concerned about the economic slowdown and the deflationary trends in China, and the U.S. Fed's interest rate policy than the Greek crisis. In terms of lessons for Asia from the Greek experience, he noted that Asia should be cautious about adopting a single currency as this system requires the convergence of Asian economies, which is not yet instituted. Asian countries should instead focus on strengthening their regional financial safety nets, namely the Chiang Mai Initiative Multilateralisation (CMIM) and ASEAN +3 Macroeconomic Research Office (AMRO), and gradually enhancing economic policy coordination.

AN INVESTOR'S PERSPECTIVE



Dr Ong Li Lian

Dr Ong Li Lian described how the performance of Greece and respective Greek stocks affects various benchmark indices across Europe and its portfolio implications for international investors. The poor performance of Greek denominated risk assets will have spill-over effects on the rest of Europe, which is an indirect systemic risk for Asia. With respect to Singapore, the Government of Singapore Investment Corporation (GIC), Singapore's sovereign wealth fund, has 14 per cent of its portfolio invested in the eurozone and hence could come under pressure. Other Asian countries would similarly be affected.

Dr Ong mentioned that the economic recovery

in Greece would be a long drawn out process and the investors are pessimistic. But she felt that the "GREXIT" scenario was unlikely. Greek banks have been experiencing deposit runs and deterioration in their asset quality since the end of 2014. Fortunately, private foreign banks held very little of Greece's debt with official institutions being the main lenders.

Dr Ong concluded that Greece was not systemically important to the rest of the world. Nevertheless, portfolio managers should be vigilant and monitor risks carefully and manage their portfolios in case the situation deteriorates further in Greece.

POLITICAL IMPLICATIONS



Professor Pascal Vennesson

Professor Pascal Vennesson explained that the eurozone has continued its strategy of diplomacy to try and prove that the European project can still work. However, the negotiation process has been long and largely fruitless. One could say that the Greek government has embarked on a strategy of brinkmanship to achieve better conditions on the bailout, as the collapse of the Greek economy would have negative effects across Europe. This is a necessary stance from the perspective of the current Greek government and the mandate that got them elected. This leaves them with only a few options, which are further complicated by the fact that the Greek government is made up of a coalition, making them even more unpredictable. Therefore, the brinkmanship strategy is seen as a way of getting as much concessions as possible.

Greece's strategy of brinkmanship has been met with an assertive stance from the head of the EU Executive Commission, Jean-Claude Juncker, who said that Greece should never leave the eurozone as it would cause too much damage to the region. The Greek prime minister, Alexis Tsipras, labelled this comment provocative and as an attempt to

blackmail Greece to meet the Troika's demands. Prof Vennesson argued that these exchanges illustrated the deep mistrust among the EU countries. The mistrust in the EU is resulting in the growth of far right parties throughout the continent and the youth are increasingly challenging the neoliberal philosophy of the EU. The EU and the eurozone are largely undemocratic institutions, and global financial institutions such as the IMF and the ECB are seen as faceless technocratic institutions lacking in humanity, unable to understand or represent the public. The downside of the brinkmanship strategy is that it also erodes creditors' trust in the Greek economy, making negotiations more difficult and possibly leading to a downward spiral, if one does not already exist.

According to Prof Vennesson, if the eurozone intends to continue to exist as an entity in the future, then reforms must be made to avoid further crises of a similar nature. There must be more monetary and fiscal cooperation to ensure that debt limits are not broken. One argument for the EU's seemingly tough stance on Greece was that if they were not strong, moral hazard would grow in the eurozone.

BIOGRAPHIES

Ambassador Barry Desker is a Distinguished Fellow at the S. Rajaratnam School of International Studies, Nanyang Technological University. He formerly headed RSIS and the Institute of Defence and Strategic Studies from October 2000 to November 2014. He continues to hold the inaugural Bakrie Professorship in Southeast Asia Policy, which was established in November 2010. He is a Member of the Presidential Council for Minority Rights, Singapore, and a Member of the Board of Directors of the Lee Kuan Yew Exchange Fellowship.

He was the Chief Executive Officer of the Singapore Trade Development Board from 1994 to 2000 and was Singapore's Ambassador to Indonesia from 1986 to 1993. He was awarded the Public Administration Medal (Gold) in 1992 and the Long Service Award in 1995. Amb Desker is currently also the Non-Resident Ambassador of Singapore to the Holy See and Spain, and Chairman of Singapore Technologies Marine. A President's Scholar, he was educated at the University of Singapore, University of London and Cornell University. He was awarded an honorary doctorate by Warwick University in 2012 and by the University of Exeter in 2013.

Mr Joergen Oerstroem Moeller was born in 1944 and graduated from the University of Copenhagen in 1968 with a Master of Science, Economics. He joined the Danish diplomatic service 1 February 1968 and worked on European integration 26 years (1971 to 1997); from 1989 to 1997 as State-Secretary. From 1997 to 2005 he was the Ambassador to Singapore and Brunei Darussalam and from 2002 also to Australia and New Zealand, whilst residing in Singapore.

When he retired from the Danish Diplomatic Service in 2005, Mr Moeller joined the Institute of Southeast Asian Studies (ISEAS), Singapore as Visiting Senior Research Fellow and the Diplomatic Academy as Senior Fellow. He is Adjunct Professor, Copenhagen Business School and Singapore Management University (SMU), Chairman of the Advisory Board, Asia Research Centre, Copenhagen Business School (CBS) and member of Forum International Competitiveness, CBS, Council of The World Future Society, Board of Governors ASEF (Asia Europe Foundation), Advisory Board of Asia Europe Journal, International Advisory Council, Centre for Comparative Integration Studies, Aalborg University, ASEM Vision Group working from 1998 to 1999. He has published a number of books and articles on geopolitics and international economics relating to Asia as well as Europe.

Dr Pradumna B. Rana is an Associate Professor at the S. Rajaratnam School of International Studies (RSIS) of the Nanyang Technological University (NTU). He is also the Coordinator of the Master of Science in International Political Economy programme and the Coordinator of the Economic Multilateralism and Regionalism Studies at RSIS' Centre for Multilateralism Studies. Prior to this, he worked for 25 years at the Asian Development Bank. His last appointment at the ADB was Senior Director of the Office of Regional Economic Integration which spearheads ADB's support for Asian economic integration. He obtained his PhD from Vanderbilt University where he was a Fulbright Scholar and a Masters in Economics from Michigan State University and Tribhuvan University. He has authored/edited 15 books, and published over 50 articles in peer-reviewed international academic journals.

Dr Ong Li Lian is the Senior Vice President of Economics and Investment Strategy at GIC, Private Limited (The Government of Singapore Investment Corporation). Prior to that she was a Deputy Division Chief at the International Monetary Fund (IMF), working at the organisation for more than 10 years in Washington, DC. Before working for the IMF, she was an Associate Director and Senior Economist for Asia Region of the Macquarie Group, a global investment banking and financial services group. She gained her PhD from the University of Western Australia in International Finance, where she briefly lectured after obtaining her doctorate. She has authored many articles and papers, covering a wide range of issues in international economics and finances, focusing on stress testing and international markets.

Professor Pascal Vennesson is Professor of Political Science at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University. His research and teaching lie at the intersection of the fields of international relations and strategic studies. Before joining RSIS, he held the Chair “Security in Europe”, at the European University Institute, Robert Schuman Center for Advanced Studies. He also taught “Strategy and Policy” for ten years at The Paul H. Nitze School of Advanced International Studies (SAIS)-Bologna Center and at the College of Europe. He is the author, co-author and editor of five books and his refereed articles have been notably published in *Armed Forces and Society*, *International Relations*, *Journal of Strategic Studies*, *Review of International Studies*, *Revue Française de Science Politique* (French Political Science Review) and *Security Studies* (forthcoming). He is a member of the editorial boards of *Revue Française de Science Politique* (French Political Science Review), *Security Studies* and *Armed Forces and Society*. Professor Vennesson was a fellow at Stanford University’s Center for International Security and Arms Control, at Ohio State University’s Mershon Center and a Centre National de la Recherche Scientifique (National Center for Scientific Research) fellow at Harvard University’s Belfer Center for Science and International Affairs, John F. Kennedy School of Government. He received his MA from the University Paris I Panthéon-Sorbonne and his Ph.D. from Sciences-Po Paris.

ABOUT THE CENTRE FOR MULTILATERALISM STUDIES

The Centre for Multilateralism Studies (CMS) is a research entity within the S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University, Singapore. The CMS team conducts cutting-edge research, teaching/training, and networking on cooperative multilateralism in the Asia Pacific region. The Centre aims to contribute to international academic and public discourses on regional architecture and order in Asia Pacific. It aspires to be an international knowledge hub for multilateral and regional cooperation.

The Centre's research agenda includes international and global forms, as well as expressions of cooperative multilateralism:

- **Economic Multilateralism**
Research areas include trade, monetary, and financial integration in ASEAN, ASEAN+3, South Asia, and Central Asia; evolving linkages between various Asian sub-regions and with countries/sub-regions outside the region; and developments in the global economic architecture to ensure complementarity between global and regional initiatives.
- **Diplomatic and Security Multilateralism**
Research areas include inter-governmental and non-official arrangements such as the ASEAN Regional Forum, ASEAN+3, East Asia Summit, Shanghai Cooperation Organisation, Six-Party Talks, the Council for Security Cooperation in the Asia Pacific, and the like. Initiatives in defence diplomacy include the ASEAN Defence Ministers' Meeting (ADMM) and ADMM Plus, the Shangri-La Dialogue, and alliances.
- **International Political Economy**
The programme examines the interactions between politics and economics of particular countries, regions and the world. Drawn from both the fields of economics and politics, an international political economy perspective enhances our understanding of issues in regional and global economy.
- **Temasek Foundation Series on Trade & Negotiations**
With a generous donation from Temasek Foundation, CMS organises two capacity-building programmes; an annual three-day training course for regional members of parliament and In-Country training courses for government officials. These workshops are carefully designed to help develop the human capital necessary to take full advantage of the opportunities unleashed by globalisation and international trade.

For more information about CMS, please visit www.rsis.edu.sg/research/cms.

ABOUT THE S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES

The **S. Rajaratnam School of International Studies (RSIS)** is a professional graduate school of international affairs at the Nanyang Technological University, Singapore. RSIS' mission is to develop a community of scholars and policy analysts at the forefront of security studies and international affairs. Its core functions are research, graduate education and networking. It produces cutting-edge research on Asia Pacific Security, Multilateralism and Regionalism, Conflict Studies, Non-Traditional Security, International Political Economy, and Country and Region Studies. RSIS' activities are aimed at assisting policymakers to develop comprehensive approaches to strategic thinking on issues related to security and stability in the Asia Pacific.

For more information about RSIS, please visit www.rsis.edu.sg.

