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Be afraid of the Chinese bearing gifts

International Economics professor of George Mason, Hilton Root, talks about political influence games, Thessaloniki perspectives and Greek economic problems.

Interview to Fotis Lolos

The view that a potential loan to Greece from China will be catastrophic, since on the one hand it involves secret counters and on the other hand it would virtually put our country out of the European framework, is supported at his interview at Voria.gr by the School of Public Policy Professor of the US George Mason University, specialized in the sectors of international economics, economic development and political reformation, Hilton Root, who is visiting Thessaloniki these days. At the same time, Mr. Root concludes there is an important problem as much at Greece's production structure as at the promotion of quality Greek products, while he expresses the belief that Thessaloniki can become an intersection of innovation and technology within the wider area.

In the framework of his visit in our town, Ms. Root met yesterday with representatives of the organization "Young Entrepreneurs of Thessaloniki", whereas today he will be speaking at an event of the MBA department of the Anatolia American College.

**It was just last week that the Greek government announced measures of austerity and reactions by the citizens were intense. Are those measures towards the right direction?**

There is no bloodless way out. Theoretically there would be two choices, the one would be currency devaluation and the other a plan of restrictive policy, something that the international community wishes to see, because it wants the problem to stop here. Consequently there is no alternative besides austerity, since Greece given that it is a member of the euro zone, cannot devalue its currency.

Nevertheless the rest of the EU states are not convinced that Greece will remain faithful to the austerity measures, because they think there will be reactions, people will be on the streets while the possibility of the government collapsing is open. On the other hand, I believe the Americans would like the IMF to take action, a scenario the Europeans oppose, as they consider that such a thing would damage their profile. They want a European solution, but they don't have one. There is no such mechanism in Europe designed to face this kind of problems.

**The very next day of the new measures announcement, Greece floated government bonds, but the rate interest rose up to 6,3%. Do you share the opinion that this is about speculative games against Greece and euro?**

There can be no speculative attacks, unless there are specific circumstances that favor them. Speculators are looking for opportunities. If there are no opportunities, they cannot take advantage of them. And I think that in such environments, where the financial base is falling apart, speculators stake at a series of scenarios, some of which are of very high risk, such as the government falling. Thus, I think

the chances were 1 to 30 and now they are 1 to 14, which means that with less money you can have respectable profit, if the government falls...

As for the cost of the new loan, it is very high and this send negative messages to the market, resulting in Greece being vulnerable to European markets, but of the world as well. Everyone is thinking that Greece has certain problems and Spain or Portugal may follow. Therefore, no one is investing in these countries and everybody is waiting to see what happens and all this is increasing the possibility of negative effect.

However, even if 6,3% is a high percentage, there is some confidence that the European Union is not going to allow the euro zone to collapse. Anyhow the reason Europeans are angry is because they believe Greece is acting as a "deadhead".

**Towards this direction have moved many of the foreign press articles, and especially German.**

I have read some sources. I did not of course cover all the articles. In any case, I think the pieces of the international Press are rather balanced and I don't think there is a tendency against Greece in world Media.

About the Germans, I believe this is the way they work, because they have stricter standards and more homogeneity, while they also have more benefits from the EU. At the same time, they are afraid that Greece is not reliable concerning its fiscal obligations, and those who are claiming your country entered the EU with false data and with the help of some specialized financial methods are not few.

**On the other hand, there are many Greek articles blaming Goldman Sachs for having helped Greece borrow billion euros in secrecy and advised Athens to resort to clever books and money artifice, which resulted in our debt being inflated.**

It is always possible to have a mediator in money market tools provision, such as swaps, so even if it wasn't Goldman Sachs, there would be another one such as Lehman Brothers. They are just the mediator, they facilitate the capital movement.

Greeks are not the first to use such methods; other governments did it as well, for example Spain, Portugal and Italy. But Germans and French, who feel they carry the burden, and British, who have a really transparent logistics system and high role models of public accountability, don't like this for sure.

**Speculatively, if Greece wasn't a euro zone member, would the country handle this difficult situation differently?**

Greece had the weakest currency in Europe before the EMU and the central bank has a very bad reputation. There was however the conviction that after it became an EMU member it could come closer to the European standards. But this proves to be much harder, because some of the assumptions of the European community were not verified because of world recession.

Traditionally in a similar case, if Greece kept its currency it would have been able to devalue it and keep the pay balance through this mechanism, producing more and importing new products to the balance. However this is no longer possible, so Greece is trapped in a sense.

This was known at the time euro was under negotiation, but everyone looked mainly at the bright side and they now have to face the global recession and some of their predictions are turning out to be very inaccurate. Unavoidably the euro zone will have to do very important compromises and some big changes, so as to help countries that face such situations.

**In Greece it is widely discussed that the country should now unavoidably reinforce its productivity. How easy is this?**

A balance point needs to be found. On the one side the economy should not be left to collapse, but on the other we don't want to support businesses that are no longer competitive.

There are many products in Greece of high quality and they are not promoted well enough. Agricultural products are some that can be promoted much more effectively. For example Greek wines, that the same variety cannot be found in two shops. The market and the promotion are very weak. Businesses are mostly familial and get busy locally there is not enough collaboration; it is hard to get good quality products because the delivery channels are underdeveloped.

Few are also being done in the sector of technology; new businesses are not encouraged, while the infrastructure is not good either. Of course, there are many that can be done on the part of politics, to improve the business environment and competitiveness. Furthermore many innovating ideas have come from the need to face a challenge.

**Having travelled around the globe, do you believe that Thessaloniki in specific could play a metropolitan role in the Balkan area?**

Thessaloniki has the big chance to play a geostrategic role in the wider area, as presently the Balkans are getting stronger and reconstructed. All the producers have to pick up their special needs at the promotion and delivery. At the same time the education of local population is necessary to have the needed adjustments and to operate the new technological systems.

You have to find the special characteristics only you and no one else has. It is clear that its position in the Balkans is an advantage by itself. This will offer further opportunities at the market and it depends from the policies that will be followed to promote the innovation in the region. Meaning if the Balkan governments want to acquire high technology products they will have to do it in Thessaloniki. Maybe the language will be an obstacle, however Thessaloniki could easily work as an intersection for innovative technology plans.

**Some time ago you participated at the reconstruction of Sri Lanka public services. Given your experience, how could Greece reconstruct its own public sector?**

The situation in Sri Lanka and Greece are comparable in the sense that both countries have a very wide public sector compared to the private one, and the public sector is particularly inefficient. Many of the positions are redundant and things worsen as there are no support means.

However China has interfered in a very useful way in Sri Lanka. China gave a lot of money to the government and demanded the construction of a port and an airport that would serve China's interests. This policy was quite interesting, because this way China could exercise great influence on Sri Lanka's foreign policy. Iran also was involved. What we observe is that poor, vulnerable countries that are not reluctant to "clean their mess", can take money from China without terms, with compensation the exercise of influence. By this way China gains strategic advantages in the area of the Ocean. This is a really new method which is followed by China and Iran; they support weak, third-world governments in order to serve their own interests.

**A few months ago, there was a rumor which said that Greece is willing to take a loan from China with very small rate.**

If China was involved in the Greek issue, Greece would be turned to a very different direction from the rest of the Europe and that could decrease Europe's cohesion when it comes to political issues.

It would be a disaster for Greece because it would come out of the European Union forever. No one would be able to trust this country any more. The Chinese are not going to help your country because they love it or they admire your antiquities, they expect for sure a pay-back. But of course the Chinese do not negotiate openly; many issues will be discussed secretly. For example the Chinese are building their navy force and reconstructing their military mechanism. They buy submarines, they buy aircrafts, so if they have the opportunity to extent their influence in Greece, then probably they will do it. What they want is a weaker Europe and consequently a weaker USA, and this is very important.

So that is what they try to gain. They try to have Greek people's support on issues like nuclear energy – weapons, for which the biggest part of Europe and USA are against.

**Do you think that this probability no longer exists?**

The probability of China's involvement still exists. Europe cannot come up with a solution and if Greece turns to IMF, this means more austerity. So it would be a very attracting scenario the income of money from China with no terms. Of course there would be some informal requirements (military bases, common policy about nuclear weapons ect). China's sees every weakness of another country as its benefit and Greece is vulnerable right, so it's a perfect chance for China.

**How does the global economic environment affects the rapid growth of China ?**

There are stories about companies that they were destroyed because as soon as they invest in China their property assets become vulnerable. However these stories are never published.

The solution is the much more strict guidelines for China's behavior in the international field. If they do not have an easily convertible currency, if they do not follow the same protection policy for the

property, if they do not play with the same rules of competition, as all the other countries do, they will never become equal stakeholders in the market.

As it seems their will is to gain as biggest part of the market as possible, in a zero-sum game. That's why they copy other ideas. So, the rise of China is especially threatening for the global innovation and international competition. The result of this is the incapability of the private business to invest.

It's very easy for the Chinese to copy and produce products with low cost and low quality. Europe and USA cannot protect the rights of property when they invest on new technology, because China can copy the new products and this fact changes the incentives for investment in new technology. This is a very serious change in the global environment.

### **Which is USA's position in this continuously changing environment?**

There is a strong worry whether Europe will lose its interest about other international issues, such as the rise of China and global terrorism. And there is also fear that this situation will give the chance to Russia and China to increase their influence in Europe.

I think that USA wants the problems of euro zone to be solved, so that Europe will remain stable. In a different case, Europe will not be able to be a partner in other international issues which matter to the USA, and this is something that nobody wants.

The other important thing is that Europe is, even more than the USA, the main guard of human rights and global democracy, and that's why China wants to decrease European influence on international affairs.

Today is already obvious that France's policy against Russia is changing. Europe keeps a distance from USA, and this makes even weaker the voice of Western world and the effectiveness of western model of policy.

### **Which are the similarities between the Mediterranean countries, concerning their foreign policy?**

Spain, Portugal and Greece had all dictatorships during the decades of '60 and '70. During the Cold War, these countries received help from the USA and especially their governments. So the people of these countries are still suspicious about USA, because they saw USA helping the dictators. In these countries there is strong anti-Americanism that can easily reappear from the memories of those times.

However Spain works closer with USA during the last years and eventually started to have benefit. And of course we do not want the economic crisis to bring us back to the times of mistrust and suspiciousness.

The Chinese of course and the Russians see that as a great chance to weaken the west world. It's all about the fall of the "West" and the rise of China.

### **But Obama cancelled the meeting with Thapatero...**

That Obama canceled the meeting with Thapatero was a mistake and will be corrected. Basically, Obama wanted to believe that the bonds between USA and Europe are strong and stable, so he decided to go to Asia where the real problem lies. The rise of China in Asia is the weak point and his real problem. He tries to deter weak countries like Venezuela or Zimbabwe to get into China's influence circle. I don't think that he realized that he was sending a message to Europe.