

CHAPTER I

INTRODUCTION

A. Background of Study

This undergraduate thesis will analyze Greece decision to reject Troika bailout policy in 2015. Greece officially joined European Union and applied single monetary system since 2002. In the late 2009, Greece faced serious severe economic condition (Greece Profile-Timeline, 2016). It is also called as Greek depression. Greece became the first of five sovereign debt crisis countries in the euro-zone, later it referred to the European debt crisis since it gives the domino effect. Greece gives influence to the economic stability to the other European Union members such as Spain, Portugal, Ireland, Cyprus. It triggers the turmoil of the Great recession, structural weaknesses in the Greece economy, bank closure and sudden crisis in confidence among lenders. By this economic crisis, Greece suffered from the worst GDP, the increasing unemployment, and the bankrupt of the companies.

Greece crisis actually began before the Greece integration toward European Union. The Greece integration within the European Union actually went through complex way. At the beginning, European Union did not accept Greece as the member because Greece could not fulfill the requirement to be a member based on Maastricht treaty. Before joining the European Union, Greece have had serious economic problem but it was still minor. After that, Greece had risen their

economic growth and Greece successfully joined the European Union on 2002 (Larsen & Olsen, 2010).

The economic condition of Greece was getting worse especially after the European crisis happened in 2009. Greek depression formerly was marked with the downgraded of credit rating by the big rating agency namely Fitch (Larsen & Olsen, 2010). Greece budget deficit and trade deficit rose sharply. The debt which Greece had, reached €323 billion (\$356 billion) to the International Monetary Fund (IMF), European Central Bank (ECB), and other creditors. The other countries could make up their countries condition while Greece could not, and it affected global financial system as well.

Dealing with the situation, European Union initiated to relieve the Greece debt crisis by the Troika's establishment. Troika consists of the European Central Bank (ECB), International Monetary Fund (IMF), and European Commission. The role of Troika toward Greece is giving bailout to the Greece to get a better economic condition ("Greek Crisis: Who is the Troika Bailing Out Greece?", 2015). Greece which was led by George Papandreou as the prime minister reached agreement with Troika for stabilizing the economic condition and restoring market confidence avoiding country from collapse by receiving financial aids or bailout for three-year aid programme. According to IMF Greece received bailout the first time on 2010 for about €110 billion (\$145 billion) after Greece could not afford the wide range of debt. The first bailout was for calming the market condition. First bailout which Greece received successfully saved Greece from worst economic crisis in 2011. Greece had to implement the policies as

requirement for receiving the first bailout in form of tax increasing and budget cutting. Later the policies gave significant impact to the social stability of Greece. From that moment, the chaos began to start. In 2012, Greece received the second bailout for €130 billion (\$172 billion). The second bailout was merely used to remove the debt from the private sector lenders (Inman, 2015).

The bailout which was received by Greece government from Troika was an effort of the government to pay back the debt for healing the economic condition. Greece received the bailout with the requirement which had to be applied to the state called as austerity measures. Greece could survive from the austerity program for five years from 2010-2015. After receiving bailout twice, Greece remained debt yet higher debt.

In 2015, after Alexis Tsipras was elected as the new prime minister, and became the first prime minister from the radical left wing party with platform for rejecting the bailout and promising for wiping out the austerity measures. The turmoil of rejection of offering the requirement which was proposed by the international creditors became stronger yet Greece could not afford to repay the debt based on the due date which was on June 30th, 2015. The chaos was getting worse. However, in the third bailout which should be received on 2015, the Troika did not give the third bailout because on July 2015, Alexis Tsipras as the prime minister of Greece announced that Greece rejected to receive the third Troika bailout.

B. Research Question

Based on the background of study above, the researcher formulated a research question as the following:

Why did Greece reject the third Troika's bailout policy in 2015?

C. Theoretical Framework

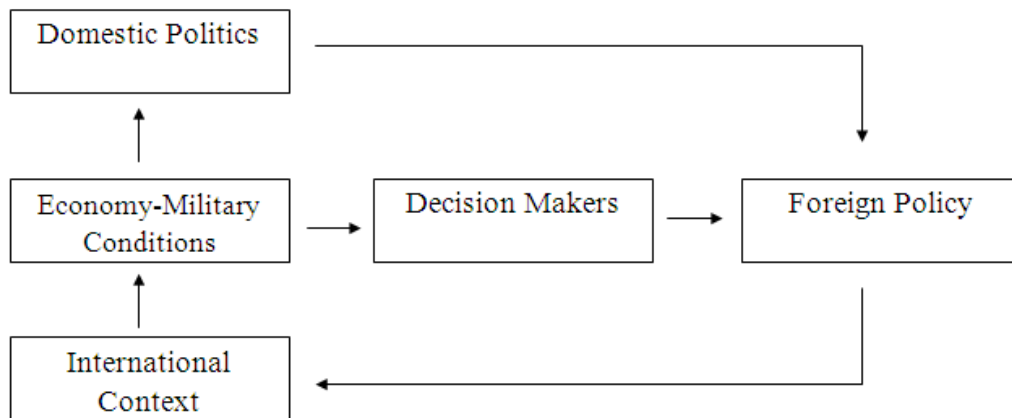
To answer the question about why Greece rejected third Troika bailout in 2015, the researcher uses Decision Making Process Theory by William D. Coplin and Concept of Structural Adjustment Programs (SAPs):

1. Decision Making Process

The choice toward the rejection of the third Troika bailout package was influenced by the decision making process. Decision making and foreign policy are related each other where decision making process will influence the foreign policy result. Foreign policy itself is an activity which is developed by the society to change state behavior and to make the activity harmonize within international scope. It is also a basic strategy to gain the national interest beyond border. A foreign policy stated as a successful foreign policy if a country be able to assert and promote the interests within international system consistency. There are two factors which influence the foreign policy: internal and external factors. Internal factors can be define as influenced from internal level or inside the state for example economic development, military capability, government system, etc.

External means the activity is beyond border and influenced from the outside of the country for example geopolitics, other countries character.

Scheme 1. 1. Decision Making Process Theory by William D. Coplin



Source: William D. Coplin: *Introduction to International Politics: A Theoretical Review* quoted by Mercedes Marbun (Bandung: Sinar Baru, 1992, p. 30)

The scheme clearly describes the three considerations affect to foreign policy makers. First is domestic politics of the country, including cultural factors that become the basis of human behavior. Domestic politics can be defined as internal politics dynamic of state or adoption of political system. Domestic politics is a set of political determinant of working in a country. Domestic politics is an important aspect which explains how the interaction of domestic politics can push or influence a state actor within decision making process. Likewise, in its own domestic politics, the actor also has the potential to affect the decision making process. Those actors are well known as policy influencer. The actor

included in domestic politics is government agencies such as executive, legislative, judicial, political parties, media, individuals, community, interest groups, etc (Hudson, 2014).

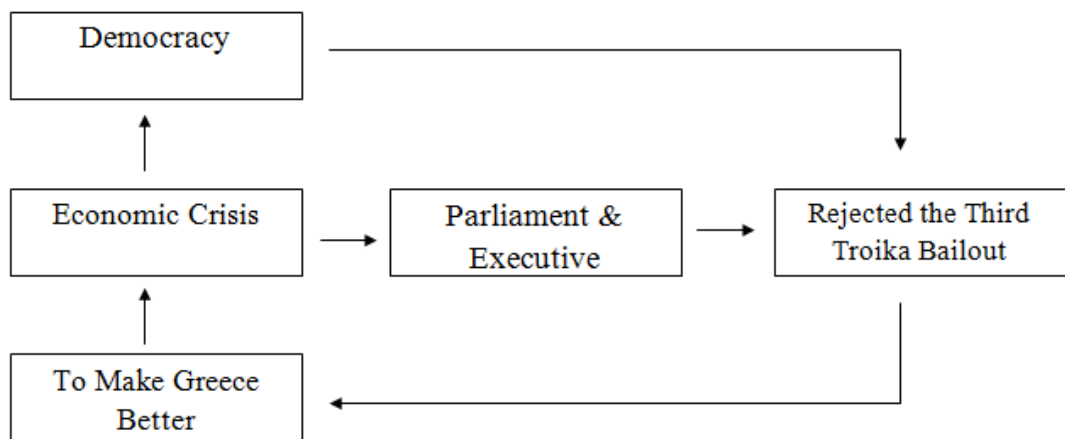
Second is economy and military conditions, geographic factors is also become the consideration toward the security. Economic and military capabilities influence the foreign policy decision making. It can be representation of the state domestic condition. International. The domestic political and economic condition influence the international position of the country as well. Regardless which one more important between economy and military capabilities, however economic and military capabilities are influential in the foreign policy decision making process.

Third is international context. A country's situation is being the purpose foreign politics as well as influencing. The aspect who make the foreign policy do not always view the international context as the analyst view it. International context on international condition is as one set of factors influencing the foreign policy of the countries. International context become the action considerations would be taken by a country responding the emerging issues. International context is includes the relations position with other country in international system. The issue content of international context is surely international issue(Marbun, 2003).

Regarding to the Greece case toward the third Troika bailout rejection decision making, it can implement the decision making theory by William D. Coplin. The three consideration which are domestic politics, economy-military

conditions, and international context surely influenced the decision making process.

Scheme 1. 2. The implementation of Decision Making Process Theory to Greece rejection toward the third Troika bailout 2015



The decision making process toward the rejection of the third Troika bailout was influenced by three considerations. Democracy was as the domestic politics of Greece. In Greece crisis, the anti austerity movement and the radical left wing party which was SYRIZA took a role in influencing the parliament and executive to formulate the decision. The economy-military condition was getting weaker especially in economic condition, Greece was in crisis. The international context which as the consideration on decision making was to make Greece to be better and to be able to pay the debt and to stabilize the Greece condition since it

influenced to the great recession, European Union stability, and global financial system as well.

2. Structural Adjustment Programs (SAPs)

Structural Adjustment was introduced by IMF and World Bank. The term of Structural Adjustment according to World Bank is a lending policy giving quick financial aids to help countries which has problem with the balance of payments. *“There are two stages of Structural Adjustment process. The first, when there is sudden increase in the cost of imports related to export earnings, countries squeeze imports and so growth slows sharply. Second is to reduce current account deficits and finance them from borrowing aids”*(World Development Report, 1980). Structural Adjustment Programs are policies which have to be applied within the state in the order of IMF and/or World Bank to get the financial aid and be able to repay the old debts to the particular institutions (Zawalinska, 2004).

This Structural adjustment involved such kind of liberalizing trade, aligning the prices of the international market, and lowering protective tariffs, devaluating the currency, stimulating the attraction of external investment and the free circulation of capital, stimulating productive specialization and expanding exports, especially agricultural ones. In the sphere of social policies and state administration, the central target of the adjustment was the reduction of the public deficit, especially through measures such as: a) the cutting of expenditure on personnel and the administrative machine; b) the drastic reduction, or even the

removal, of consumption subsidies; c) the reduction of the per capita cost of programs, in order to expand the amount of coverage; d) the reorientation of social policy to primary education and health, through the focusing of expenditure on that part of the population in conditions of absolute poverty(Pereira, 2013). Those measures are well known as austerity measures. The policy that is applied by Greece is well known as austerity measure while the lending aid is well known as bailout.

According to IMF, “*austerity is fiscal adjustment deficit-reduction measure of a certain scale even when they do not lead to reductions in the deficit of the size intended*” (Weichenrieder, 2015). Austerity policy is applied with the purpose for reducing government budget deficit. Austerity policy is usually applied by government which faces crisis by cutting subsidy, increasing tax, and spending cut. Austerity measures generally open higher opportunity for unemployment as well as reducing government spending and job in the public and or private sector. Increasing the tax reduces household disposable income and the spending on consumption. Reducing the government spending could affect the higher debt to GDP ratio which functions as key measure of a country’s debt burden. Higher short-term deficit spending can cause interest rates to rise, resulting in a reduction in private investment which reduces the economic growth when the operating economy is near capacity. While when the capacity exceeds, the deficit spending could increase the employment and output (D'Andrea, 2012).

Bailout has meaning as an act of giving financial assistance to a failing business or economy to save it from collapse. Bailout is a response toward the

difficulties of funds flow which have enough assets, the government or institutions from investors will give funds to tide over until the financial problem can be solved. An institution, business, organization, or government offers money to a failing business to prevent the consequences that arise from the business's downfall in form of loans, bonds, cash, etc. and usually the failing business or government has to repay the bailout by applying policy which is given by the donor.

Greece as a country which was facing crisis needed bailout to decrease the crisis. By receiving the bailout from the Troika, Greece had to apply the policy which was made by the Troika to solve payment imbalanced problem. Greece used to receive bailout from Troika twice. They were in 2010 and 2012. Greece applied austerity program as a feedback of receiving Troika bailout in form of budget cutting and the tax increasing. The austerity program affect to the Greece condition. There were unemployment, the closure of banks, and the dropping of consumers purchasing power.

D. Hypothesis

Greece has implemeted bailout for five years, however Greece rejected the third Troika's bailout in 2015 because of domesic politics on two main influence reasons on decision making. First is societal pressure in form of anti austerity movement as the effect of policy implementation from Troika. Second is the rise of socialist left wing party (SYRIZA) as the ruling party.

E. Significance of the Study

The main significance of this research is to answer the research question and give proves by the hypothesis about the reason of Greece accepting the first and second Troika bailout and the reason Greece rejecting third Troika bailout policy in 2015. Analyzing the austerity program applied by Greece such as erasing subsidy, privatization, increasing the tax, did not give significant development toward the crisis yet triggers the new problem in the political stability and informing the factors of Greece crisis.

This research also intends for fulfilling requirement to graduate from the International Relations Department, Universitas Muhammadiyah Yogyakarta.

F. Scope and Limitations

The research will limit the analyzation of the Greece crisis since the Greece process for joining the European Union and the condition after joining the European Union, until the government's decision to reject the bailout in 2015.

G. Methodology

Research methodology is a way to do research to reach the research goal in which it gives explanation and evidence about the Greece crisis and the implications of Troika's aid toward Greece. In the making of the undergraduate thesis, the author uses the method of:

1. Data collecting
2. Data analysing

This research is a qualitative explanative research, it is a research aiming at explaining a problem or phenomena that happens in a country. The data are obtained from literature review through books, journals, articles, electronic media related to the problem studied.

H. Writing System

The writing system that is used by the author within the undergraduate thesis is chapter one will analyze the background of study, research question, theoretical framework, hypothesis, significance of study, scope and limitation, methodology, writing system. Chapter two will analyze the economic condition of Greece, Greece within European Union, the causes and effects of Greece debt crisis. Chapter three will analyze the Troika consisting of IMF, ECB, and European Union as the donor reducing the crisis and the policy by Troika, the economic growth of Greece and the rejection in the third bailout 2015. Chapter four will analyze the strong societal pressures, the rise of left wing party within the government as decision maker and the decision to reject Troika's bailout toward Greece crisis. Chapter five is conclusion.