CHAPTER I
INTRODUCTION

A. Background

The Greek War of Independence, also known as the Greek Revolution, was a war of independence outbreak between 1821 and 1832 against the Ottoman Empire. As a country with a strong and interesting history, Greece has attracted many tourists to visit the country. Thus, it made tourismand industrial sector as the main income for Greeceeconomy,industry in Greece such asshipping, food and tobacco processing, textiles, chemicals, metal products, mining and petroleum also became the important financial funding of its state.

Having been left out when the single European currency began at the beginning of 1999, Greece becomes the 12th, and the last member two years later, in Januari 2001 after dramatically cutting inflation and interest rates. As other member of the European Union, Greece joined the membership of European Union with great expectations for better nation. There was a speculation that under the “single market system”, it would foster Greece’s national economy, gain access to the big European markets, and would make Greece to be considered as an interesting sphere of investment by well-funded financiers. It counted on more being made out of its own economic inventory — state enterprises, shipping companies, agriculture — and especially that the country would be supplied with the capital it badly needed for the intended “modernization” once the political barriers to competition between business locations had fallen away.(The Case of Greece, 2016)

In the beginning, the process of implementation of the new multinational currency went well in Greece. The predicted problems with banks and vending machines never materialized. Moreover, following the superiority of Euro against Dollar currency, Greece had a high confidence level to its economy condition. The implementation gained a big success, and the economy of Greece became one of the fastest growing economies in Europe between 2001 and 2007. During this period, Greece successfully maintained an annual growth nearly 4.2%, which was mainly because of the influx of foreign capital. At the same time, the budget deficit was minimum, which was about 1.5%. (GreeceBankruptcy, n.d.)

However, following the global economic recession in 2008, Greece economic condition substantially changed. However, the actual situation reveals the deficit was very high, which was about 5.5 times higher. (Melvin, 2015)

On October 4th, 2009, George Papandreou became the Greece’s prime minister. Papandreou's Panhellenic Socialist Movement (PASOK) party won the power after New Democracy calls a snap general election, asking the Greek people for a new mandate to tackle the looming financial crisis. The Greek economy has contracted by 0.3%, and the national debt has risen to €262bn, from €168bn in 2004. At this stage, the government expects the 2009 deficit to reach 6% of GDP.Papandreou admits that the Greek economy is in "intensive care", as European finance ministers express concern about the size of the country's debt, and Papandreou unveils a radical reforms on its financial structure in order to cut the deficit by four percentage points, as a proportion of GDP in the following year of 2010-2011. Yet, at the same year following the reforms, the two country’s chief industries, shipping and tourism fell dramatically, recording 15% lower revenues in the year 2009. (Wearden, 2010)

In the late 2009, many international investors, worried due to the actual number of debt and deficit figures were inaccurate to the country's ability to pay its debts. The rate of Greece's credit was downgraded, and it was also be impacted by Fitch and then by Moody's.The country's debt spiked, and the situation fragile and uncontrollable. Consequently, the international institutions such as -- the European Commission, European Central Bank and International Monetary Fund –suddenly warned to stop the aids. (Smith, 2010).

On early 2010, Greek has demographic bonuses and taxes bankruptcy at the same time As a result, Papandreou requires Obama’s financial assistance. He asked Obama to impose stricter regulations on hedge funds and currency traders, who have been blamed for aggravating problems and made it harder for Greece to get the money aids (Wearden, Greek PM to urge Barack Obama, 2010). In the same year finally Greece officialy proposed for assistance from International Monetary Fund, and S&P to downgrade Greek credit rating.

The situation of Greece is important to be exampled since it will gives a domino effect considering that Greece owes huge loans from European banks including more than €7.2bn from British banks. The financial sector is in such a fragile as banks might be collapsed if Greece does not pay the loans. The "contagion" effect could then to be seen other countries' finances suffer, for example French banks were owed €42bn. This domino effect could lead to another credit crunch, as banks across the Europe lose of confidence and refuse to lend with each other. A worst-case scenario could be seen, the financial system went into meltdown with the banks across Europe, possibly the world, being bailed out by governments, with taxpayers footing the bill is the rational policy.

Thus, to scrutinize on what went wrong in Greece, this research seeks to analyze on to what extent to which leads Greece into bankruptcy since Greece obviously has a potential economy with rich of national resources as well as tourist attractions.

B. Research Question

What are the factors behind the Greece bankruptcy (2010-2015)?

C. Theoretical Framework

In order to analyze this case and answer the research questions, the author uses the basic framework of dependency theory and the concept of national power. This theory and concept is important as a guidance to analyze this study, especially concerning the factors that contribute to the bankruptcy in Greece (2010-2015).

1. The Conventional Theory of development

According to the conventional theory, the process of economic growth and development in the LDCs has been arrested because of low rates of productivity combined with hight levels of social waste and inefficiently.The problem, according to the conventional theorist, is that economies reach this point of “takeoff” to self-sustaining growth only under conditions of rapid capital accumulation. But most of the LDCs have been able to achieve only modest rates of saving and indvestment because off poverty itself and various forms of waste and inefficiently. Even when surpluses might be generated,they tend to be squandered on unnecessary forms of consumption rether than on growth-oriented investment. Five kind of waste significantly retard development : (1) runaway population growth, (2) excessive ubanization, (3) excessive military expenditures,(4) needles luxury consumtion, (5) official corruption, and management in efficiently.

2. **Dependency Theory by Theotonio Dos Santos**

Based on Theotonio Dos Santos, dependency is the condition where the economic life of certain states is influenced by the development and expansion of another states, while these certain states are only acting as the impact-receiver only. These pra-capitalist periphery countries are states that are not dynamic. After being touched by the developed capitalists, there periphery countries are expected to be growing and developed, following the foot steps of the developed capitalist countries. However, this dependency theory criticized this modernization theory, saying that these developed capitalist countries will only detain the development of the periphery states.

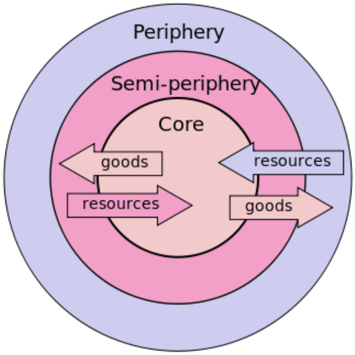
Even though this dependency theory was drawn from the classical Marxist analysis, this theory is quite different in one basic respect. Different from Marx's idea, this dependency theory do not expect the capitalist countries to take root of the development in developing and underdeveloped countries. The main purpose of dependency theory is to criticize the dependence conditions that the capitalists made to the developing worlds. Shortly, this dependency theory tries to criticize and attack the capitalism's effort and tries to defend developing countries from the globalizing capitalism attack.

This theory argues that the poverty and underdevelopment of a periphery state is not only caused by the internal factors of the country, instead, it is much more influenced and determined by the external factors. The most influential factor is that because these developed capitalist countries, or also well known as the "core" countries, are having too much intervention and domination within the development of the periphery states. Due to the intervention, the development of the periphery states becomes so much slowed down and resulted in the underdevelopment.

According to dependency theory, underdevelopment states more suffer and get a bit advantage from economic International Relations (Carlsnaes, Risse & Simmons. 2013, p.968). The dependency theory tries to describe the nature of dependency reality that has been happening along the development history of capitalism since the 16th century until today. Dependence is seen as a factor that comes from"outside", the most important factor that exhibits the development of the periphery country is not because of the lack of capitals, instead, the abundance of intervention from external parties.

The most prominent issue of dependency is in the financial or economic sector. The economic surplus and the resources of the periphery country flows from the country to the developed countries. Furthermore, what makes it really unfortunate is that too many of theeconomic flow goes to the core countries instead of to its own country.

In the case of Greece's bankruptcy, Greece is well-known as a country with high frequency of loans and financial aids from external donors. The dependence condition of Greece towards the other countries and international organizations is relevant withthe dependency theory. It is expected that this theory could guide the researcher to find out out the factors that led Greece into bankruptcy in 2010-2015.(Santos, 2009)



D. Hypothesis

Based on the background, research question and theoretical framework, the author attempts to propose hypothesis as follows:

1. There are internal factors affecting its economic sustainability such as : *National budget management inefficiency, excessive military expenditures, corruption.*
2. There are external factors impacting the economic of Greece such as: *Eurozone and global financial crisis, high interest rate of foreign loans, the lack of investment.*

E. Scope of Research

This research is focusing on Greece financial crisis under the era of KarolosPapolias as president and its latest bankruptcy declaration on 2010. This research will examine the economic regulation as well as internal and external factors affecting its regulation and the implications on economy which lead the country into bankruptcy.

F. Aims of Research

This paper aims to:

1. To examine the internal factors affecting the country's financial sustainability
2. To examine the external factors that leadinto Greece's high debt

G. Data Collecting Method

This research uses qualitative methods whereas there are three sources that will be used to collect the data such as books, internet, and also discussion with the experts. The book references that will be used is related to this issues and provides some background theories of democracy while the writer use the internet to obtain and keep up to date to the latest news on the particular issue. The last source is discussion with the experts on this phenomenon to verify the argument and the data.

H. Structure of the Thesis

There are four chapters in this thesis. The first chapter is outline that consists of background, research question, research purpose, theoretical framework, hypothesis, research method, scope of research, and structure of thesis. The dynamic of Greece economy, especially the economic development. The third chapter explains the causal factors of Greece bankruptcy, internal and external factor, according to the theories written in the theoretical framework. The fourth chapteris the conclusion of the research.

In order to help readers in understanding the study, this research is systematically divided into four chapters. Chapter I is the introduction of the research which consists of background of the research, research question, theoretical framework, hypothesis, scope of discussion, research methodology, and the structure of the research.

Chapter II elaborates the dynamic of Greek economy. In order to make readers understand about the further analysis of the research, readers must understand about the economic condition of Greece first. This chapter helps readers to understand how the economy of Greece is, how the economic growth is, how the international trade is, history of Greece and the European Union in term of economic relation, as well as the fact of greece bankruptcy.

Since the main subject of this paper is Greek's bankcruptcy, chapter III will be an analysis for the casual factor, it is important to understand the condition of Greek's economy system and policy. This, this chapter is provided to explain the Internal factor and also external factor that lead greek to their bankruptcy.

In chapter IV, the writer will collecting all the data and analyze the data using the theoretical framework to answer the research questions and proven the hypothesis.