

A DESCRIPTIVE REVIEW OF STRUCTURAL AND QUALITATIVE CHARACTERISTICS IN GREEK INDUSTRY

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Abstract

According to the majority of the Greek economic researchers, the big recession in Greece as well as other Southern European countries came as a result of the former choice of policies. Following this opinion, governing strategies adopted within the last decades and the historical context led to the deindustrialization of the Greek economy. As a consequence, an unsustainable social development in the future was created. Moreover, factors such as the quantity and the size of businesses, the technology used, and investments are described in correlation to the country's current inferior state. Furthermore, the basic argument that comes from the findings of this review is that new policies and institutional strategies need to be adopted in the Greek industrial sector. Undoubtedly, the demand for the change of these policies in accordance with new planning on productivity will enhance the developing role of the Greek industrial sector.

Keywords: *development of industry; structural and qualitative characteristics; size of business; branch structure; investment*

JEL Codes: *O15; O25; L60*

Introduction

The internal devaluation that was created in Greece and other Eurozone member states brought serious financial and social consequences such as a huge recession (-25%) and unemployment as official data by Elstat, 1st quarter of 2014 demonstrated. Evaluating the results of the search carried out by Elstat, leaves no doubt that the residues of the financial crisis in our country might be incidental. On the contrary, these are the first points that result in the implications of the policies that have the economy's resources regarding the deficit and debt, the depriving investment, and also the development and utilization of the resources (Linardos & Robolis, 2015). Moreover, it clearly emerges that internal devaluation is the major driving force behind contradictions and contraction of the powers of the economy and society (Institute of GSEE, 2014). Simultaneously, the debt crisis of

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2009 (Kovras & Loizides, 2014) occurred in Greece and other Mediterranean countries, representing the outcome of the establishment of an unequal and debt-based model of development in the south over the last decades. The Greek Economy as well as the economy in the other Mediterranean countries was gradually transformed into a tertiary sector economy focused on tourism and service industries (Sotiriadis & Varvaressos, 2015). At the same time, the primary sector such as the sectors of agriculture and manufacturing possess an important but still not remarkable portion of the Greek economy (Linardos & Robolis, 2015).

The conditions developed within the framework of this model that has been organized on behalf of the Greek and Mediterranean economies, fostered the transmission of significant resources from Southern to Northern Europe while handling the elimination of resources which was created through a succession of loans to an extent that their magnitude and also the conditions for serving them led Greece in 2010 to one of worst economic recession in its history (Linardos & Robolis, 2015). According to OECD (OECD, 2015), the financial and political dependence of the countries in crisis was supported further due to loans received by their creditors. Basing the governor's thoughts on these facts, a crucial question that emerged which has to be treated and resolved is how the contraction of the Greek economy and the state industry is to be halted, and by using the best alternative strategy and policy. The answer to this question is that the economic structure, the industrial sector, the welfare state, and social cohesion in Greece need to be reconstituted (Linardos & Robolis, 2015).

Analysis and Discussion of structural and qualitative characteristics of the Greek industry

Undoubtedly, the development of the industrial sector is an issue of major significance in the achievement of social and economic welfare. Its developing role can be concluded from its significant contribution to all the vital economic indicators of a state such as Gross Domestic Product, state income, employment, exports, cross-sectoral relations (Subasat, 2002) developed with other sectors of the economy but also the achievement of long-term fiscal balance (Subasat, 2002). In the post-war years and up to the 1970s, economic development of the secondary sector was observed in Greece (Babanasis, 1976). Before the period of transition to democracy, the Greek Industry was a sector in which the state protectionist framework promoted client relations between itself and the businesses (Linardos & Robolis, 2015). Since the 1980s, the key aspect of the changes that appeared in the global economy was technological advances and the absence of restrictions on international transactions. Furthermore, these changes along with those

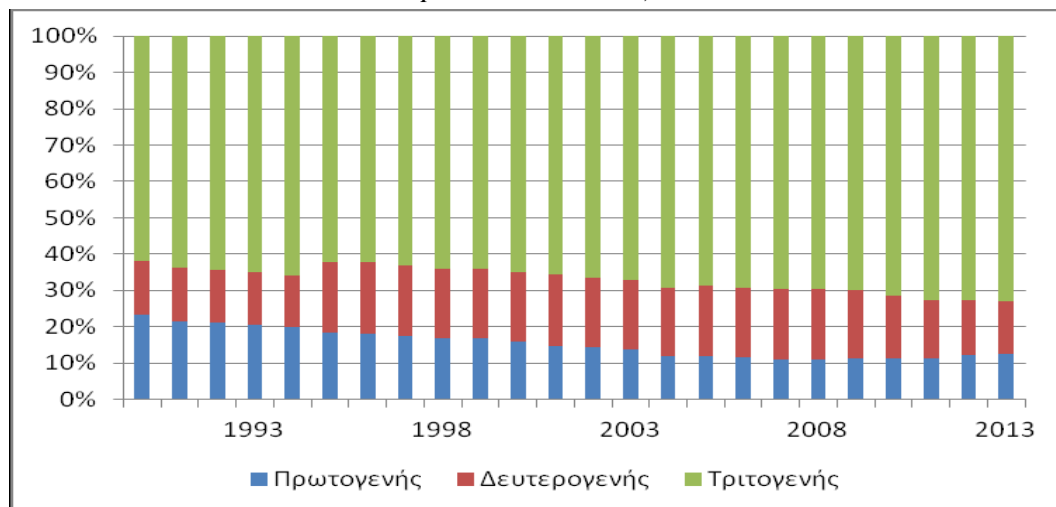
that came from the entry of Greece into the European Union Community resulted in structural transformations in production. This significant development of the tertiary sector led to the restriction of the growth of both the primary and secondary sectors and, consequently, to the contribution share reduction of both sectors in the overall added value of the economy. Nevertheless, simultaneously, the coverage which evolved into pursued over the following many years did not make any actual influence at consumer dating among the country and enterprise leaders; on the other hand, this type of relationship was preserved through the pursuit of an industrial policy. The gradual deindustrialization of the Greek economy that has been taking place over the last three decades rapidly, worsened more abruptly after the deep recession over the last six years (Linardos and Robolis, 2015). Consequently, this deindustrialization deteriorated the structural weaknesses of the Greek economy.

In Figure 1 below, the author illustrates the structure of employment in all the financial sectors of the Greek economy for the period between the 1990s till 2013s. This analysis comes from empirical data from the Ameco Database which is the annual macroeconomic Database of the European Commission and is used by the author as a globally approved evaluative measure of the trend of employment for a period of two decades in correlation with all the financial sectors of the Greek economy. The most remarkable clue that the reader of this figure should notice is that the employment rate decreased in the primary sector contrary to the growth of the employment in the tertiary sector which is concerned with the trades and service industry. This subsequently implies the turn of the Greek Economy in the sector of tourism and trade due to the emergence of increased investor interest. Moreover, another significant clue that can be concluded from the above figure is that overall employment in the secondary sector fluctuates at around 20% of the total overall employment for the greater part of the period between 1990 and 2008 (Ameco Database). Other remarkable clues that come from the analysis of Figure 1 are that employment as a percentage of the secondary sector fell from 62% in 1990 to 55.5% in 2009 regarding the manufacturing sector while over the same period, employment in the construction industry rose from 31% in 1990 to 40% in 2009 (Ameco Database). From this figure, the reader deduces that the reduction in employment in manufacturing has been compensated for by the increase in employment in construction. In this respect, it is concluded that overall employment in the secondary sector remains approximately the same as a percentage of the whole.

Undoubtedly, the contribution of the industry significantly influenced both the overall added value and the overall employment during the period of the financial crisis. In conclusion, the consequences of deindustrialization in Greece must be explored and evaluated in combination with the structural problems and features of the manufacturing

sector of economic activity. These structural features, which prevent the development of the Greek manufacturing sector are going to be analyzed in the following sub-sections.

Figure 1: Employment rate for the overall Greek Economic sectors- (Reference period: 1990-2013)

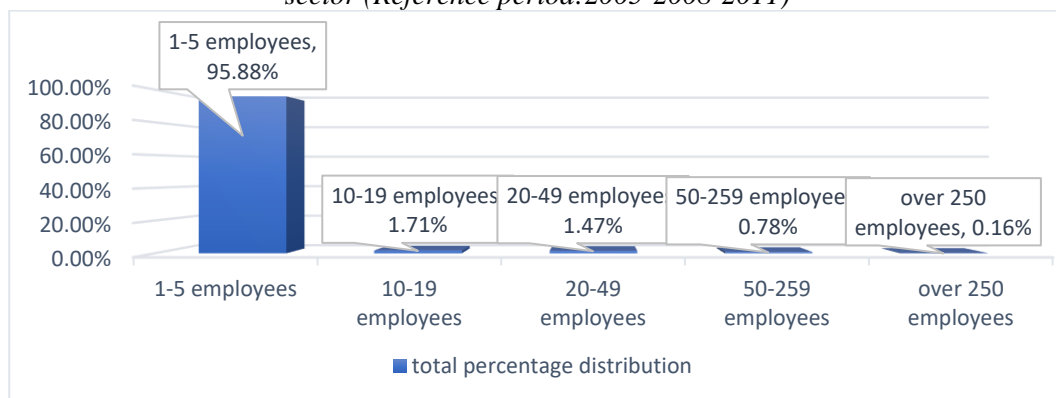


Source: Ameco Database: πρωτογενής = primary sector, δευτερογενής =secondary sector, τριτογενής = tertiary sector)

Size of businesses

The first structural characteristic of the Greek firms that are active in the Greek industrial sector is characterized by their small size compared to the businesses of the same sector in other European countries.

Figure 2. Total percentage distribution of employment status in the Greek industrial sector (Reference period:2005-2008-2011)



Source: empirical data from Eurostat

In Figure 2, there are presented empirical data about the employment status in the Greek industrial sector during the time span of three different periods which are not successive and have different characteristics. The year 2005, is a period right after the organization of the Olympic games and before the financial crisis, and for this reason, it is characterized by an increased money supply, large volume of trade, export exchanges, and financial welfare. Secondly, there are presented the corresponding data for the year 2008 which is a year at the beginning of the financial crisis for Greece and other European zone countries but the consequences of the financial crisis haven't appeared in their real value (Eurostat). Finally, there are also presented data about the Greek industrial sector in the year 2011 which is a year that for the Greek economy and especially the industrial sector was devastating. The common characteristic as it is pointed out in Figure 2 is that the majority of the Greek industrialized enterprises (95%) employed fewer than 9 employees throughout this period. Moreover, these firms are classified as very small firms according to European directives. The size of these businesses is considered to act as a deterrent to their economic development because it doesn't promote their technological and product upgrading. In this respect, these firms are faced with a series of handicaps for their development prospects. The businesses face a) the difficulty to gather funding sources, b) the inability to develop, but also import new technologies, c) the inability to attract specialist staff, and d) the inability to get easy access to extensive distribution networks, and markets abroad. Due to these obstacles, these small businesses are considered to be inadequate to follow the modern international competitive environment and additionally they fail to increase their turnover in the overall economy so that they would be able to contribute significantly to an increase in employment. Furthermore, a measure of financial success such as economies of scale is misused by these firms so that they manage to reduce the cost of production without affecting the quality of the produced goods and are unable to evolve their production procedures.

Branch structure in the manufacturing sector

Another significant characteristic is the branch structure in the manufacturing sector. The manufacturing firms are segmented into sectors relative to the criterion of the intensity of technological usage. These sectors are divided into two groups a) those using low technology and those using high. This characteristic is distinctly based on the Research and Development expenditure that is used by manufacturing firms. Concerning the Greek manufacturing sector, the main volume of production and employment derives from low technology products (Argeitis and Nicolaidis, 2014).

The effect of low investment expenditure on Research and Development, especially compared to the significantly higher percentage that is invested in countries that compete

at an equivalent level with the Greek economy, is the production of higher quality goods relative to the rest (OECD Database). Simultaneously, the upgrade of product quality entails importing foreign technology, so that the positive effect which is created by the intersectoral nature of the Greek manufacturing industry has a positive effect on sectors in other countries. Due to the size of Greek industrialized businesses which is considered small, it is not reasonable to have any expectation of expenditure on research and development by the businesses themselves and for the role of the state funding in this field to be correspondingly important. It is a common belief that in instances of clusters where networks, in general, can be observed between relatively small firms and research foundations and universities, research is not conducted by the firms themselves.

Investment

Until the rising of the financial crisis, the gross investment of fixed capital in the manufacturing sector is more or less at the same level as the corresponding investment in the other European countries (Eurostat 2015). The reason that the Greek industrial sector is considered inferior to the other European zone countries is due to the qualitative features of their composition

The most remarkable fact is that the overall investment in manufacturing in the Greek economy appears to be the lowest of the European-zone countries while in the meantime the investment is constantly decreasing, (Institute of Employment General Federation of Greek Workers- Annual Report 2014)

Simultaneously, investors within the manufacturing sector are not always directed toward the fields of high technology (Institute of Employment General Federation of Greek Workers-Annual Report 2014). This unavoidably leads to the fact that sectors that could offer added gross added value and stimulate employment and boost exports are not developed.

Across the Greek industry, its significantly marked inferiority is being observed through the years as the relationship between investment and added value has been higher proportionally. This fact indicates that there has been a waste of resources which comes from a less effective way of organizing the production activity.

A framework for industrial policy

Industrial policy is the set of institutional initiatives and political decisions that affect industrial production at the level of regional or national economies of a country and has in one or another way as its objective a combination of expansion and certain sustainability of the activities (Linardos, Robolis, 2015). This objective is pursued through modifications, through the adoption of innovations that concern not only the operation of the production

units themselves but also the functions of the institutions and the modalities of the pursued policies. The industrial policy comes inside a totality of monetary and social techniques which have an effect on the tendencies and ought to be updated in consideration of the extent of institutional and coverage decisions (Linardos, Robolis, 2015). In this respect, the industrial policy is focused on a series of issues as the following a) the market towards which production is directed b) the characteristics of the products c) the management style that is used by the upper level of the company d) the technology used and e) the workforce that will use the raw material and will bring it to its final form in order to be used by the consumer.

Furthermore, the industrial policy is concerned with the sustainability and expansion of certain activities which definitely means that it supports change at all these levels. In this respect, it creates the necessity for the introduction of new knowledge and new practices related to the above issues. The finding of this research creates the basis for the central role that the concept of innovation possesses in the concept of the firm. Unlike the prevailing aspect that only the necessary innovation can be introduced to the production line which restricts the effective character of the practiced policy, the modern theory is focusing on a new business-centered approach to innovation which is called smart specialization. In these models, the emphasis on corporate profitability coexisted with autonomous policies concerning the market, infrastructure, research, or labor, but also with institutional operations that allowed their combination with objectives beyond the sustainability of individual businesses.

By following the international rules of the global industrial market, the Greek governors permitted the construction of clusters amongst businesses. Although this measure is still in Greece in its initial stage, since it was recently instituted, it was established by the Greek governors to protect the sustainability and the financial needs of the Greek industrialized firms. The international experience of this measure shows that the construction of clusters will enhance the aspirations and the international perspectives of the Greek industrialized firms to be more competitive in the global industrial market. The main advantage of the adoption of this policy on behalf of the firms is that they will get experience and know-how in specific sectors through the co-operation with other more experienced firms with the appropriate equipment and potential. Another advantage that comes from the establishment of the clusters is that new workforce places will be created for employees with particular skills. For this reason, the promotion and the strengthening of clusters are considered extremely significant and the governors should establish a more favorable institutional framework for their development.

Conclusion and Recommendations

The author of the article tried to analyze the significant role of the Greek industrial sector in the Greek economy. For this reason, he used data from the period before and during the economic crisis and recession in order to depict its impact on the economic state. The basic points that came from this analysis were first that the model of the unequal and debt-based development in the framework of the European division of labor was responsible for creating the conditions for the de-industrialization of the Greek economy.

A. Furthermore, the scientific research concluded that there is a need for a transition from the neo-liberal business-centered model to the sustainable model of restructuring the economy and society. From this point, it comes as a consequence that a new framework for the industrial policy should be instituted by means of the tools of restructuring technology and production.

B. Moreover, this review reveals the following basic points about the economic development not only for the Greek industries but also for several big firms in other business sectors in the Greek capital market

C. The contraction of the Greek economy, its one-sided orientation towards tourism and services, and the process of its de-industrialization have not been halted by implementing the policies of interior devaluation, imposed from 2010 onwards (Salazar J, 2014).

D. As far as productivity is concerned, the answer for the Greek economy is not its transformation from an economy of supply (the neoclassical concept) to an economy of demand (the Keynesian concept).

E. The Greek Economy will not be able to escape in the coming years either productively, technologically, or socially from the current recession, the high level of unemployment, and the impoverishment of its population.

These basic points must be taken into great consideration by the firms that they should try to invest more resources in the research and development sector following the reform of a new institutional framework for the Greek industries.

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