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ASIA

Hope for Reconciliation On Korean Peninsula Sinks to New Lows

Ten years ago, when we profiled Seoul's ambassador in Washington, it was a time of great optimism on the Korean Peninsula, so it was only fitting that our cover read "Melting 50 Years of Ice." A decade later, not only has the ice not melted, but North-South relations appear to have gone into a deep freeze. **PAGE 6**

DIPLOMACY

At Nuclear Talks, Progress and Plenty Of Finger-Pointing

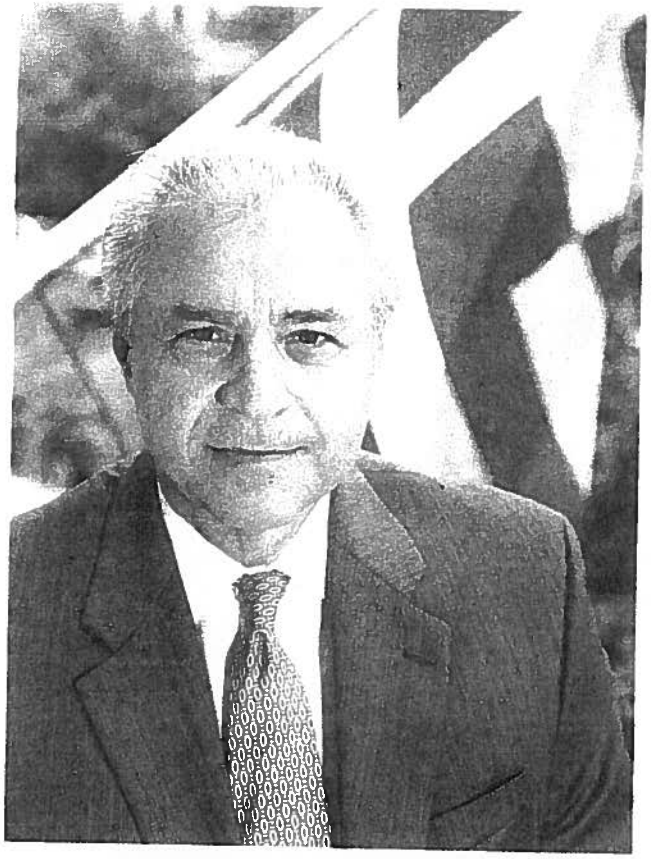
At the Nuclear Non-Proliferation Treaty review conference in 2005, failure was evident almost from the outset. This year the picture looks less bleak, although many familiar gripes have once again exposed fundamental rifts between the world's nuclear haves and have-nots. **PAGE 9**

culture

VSA Proves What's Possible With Art

Ability — not disability — is the theme of a massive showcase of artistic achievement and what it can overcome. **PAGE 30**

EUROPE



GREEK ODYSSEY

"Most Greeks understand that we have reached a point of no return," says Greece's candid ambassador, Vassilis Kaskarelis, in an exclusive interview, as he urges his countrymen to confront Greece's dysfunctional economy head-on to transform their society and stabilize the continent. **PAGE 13**

PEOPLE OF WORLD INFLUENCE

Sister's Love Goes Global To Wipe Out Breast Cancer

Nancy G. Brinker, former U.S. chief of protocol, has returned to lead Susan G. Komen for the Cure — the organization she founded in 1982 to stamp out breast cancer — taking her revolutionary cancer campaign on a global scale as she continues to honor the promise she made to her big sister Suzy three decades ago. **PAGE 4**

DIPLOMATIC SPOUSES

Argentine Wife Splits Her Time But Not Devotion

Anabelle Sielecki, wife of Argentine Ambassador Héctor Timerman, splits her time between Buenos Aires and Washington to stay close to her daughters and keep a close eye on her architecture and wine ventures back home. **PAGE 31**

Greece Confronts Modern-Day Epic of Economic Survival

by Larry Luxner

PHOTO: LARRY LUXNER

In August 2004, the last time a Greek ambassador graced the cover of The Washington Diplomat, Athens was euphoric over its imminent hosting of the XXVIII Summer Olympics in the ancient land of their birth. "The Games will be an excellent opportunity for Greece to project an image of a modern country."

"Greece is determined and capable of doing the job," George Savvaides had declared proudly, as he rattled off $7 billion worth of mammoth infrastructure projects associated with the long-sought Olympiad — everything from a sparkling new international airport for Athens to a 50-kilometer-long ring road around the capital city.

Today, sadly, Greece seems incapable of doing anything right.

Bloody street protests have marred its once-glowing image as the world's cradle of democracy. Unemployment soars while tourism plummets in the wake of continuing unrest. And the Greeks certainly won't be winning a gold medal in fiscal responsibility, given the country's bloated public sector and the fact that Greece's budget deficit stands at 13.6 percent of its gross domestic product — more than four times higher than euro zone rules allow.

Greece's economic woes have thrown the euro into its most serious crisis ever, sparking fears of a currency collapse, fueling rumors of whether Athens will have to leave the exclusive 16-member club (and criticism as to why it was ever accepted), and exposing just how precarious the situation is in Spain, Portugal, Italy and other ailing economies.

In an attempt to stem the worldwide panic over its currency, the European Union mustered an unprecedented $1 trillion financial commitment to safeguard the euro and stabilize the continent, as well as a $136 billion rescue package, in conjunction with the International Monetary Fund, for cash-strapped Greece — which began tapping the first installment of those emergency funds to stave off bankruptcy in late May.

None of this has exactly been a picnic for 61-year-old Vassilis Kaskarelis, the current Greek ambassador to the United States.

"I've been with the Ministry of Foreign Affairs for 36 years, and I've gone through many difficult periods," Kaskarelis told us last month. "But now, for the first time in my career, I feel strange because Greece is on the front page of the news every single day. Consequently, wherever I go, there are questions about the Greek economy and a possible default. It's not the best situation an ambassador can face."

Kaskarelis spoke to The Washington Diplomat in an exclusive one-hour interview on May 3 — the morning after euro zone members and the International Monetary Fund approved the 110 billion euro, three-year bailout package aimed at keeping the Greek government from defaulting on its debts. The country — whose debt rating was downgraded by Standard & Poor's to junk status in late April — currently owes 162 billion euro to foreign banks and private industry worldwide, with public debt expected to reach 133.3 percent of economic output in 2010.

> **"** Most Greeks understand that we have reached a point of no return. This will be extremely painful.... And even if you do have popular unrest and violence in the streets, there is no option. If we default, it would be even worse. **"**
>
> — **VASSILIS KASKARELIS,** ambassador of Greece to the United States

But the EU-IMF bailout comes at a painful price for Greece — and will mean sacrifices of epic proportions for a society accustomed to state handouts, corruption and tax evasion.

The center-left coalition led by Prime Minister George Papandreou has had little choice but to pass a deeply unpopular package of austerity measures that, among other things, will raise the average retirement age to 65, slashes government wages by 20 percent and cuts pensions by 10 percent. It also hikes the Greek value-added tax — already one of the highest in Europe — to 23 percent, while pushing up the excise tax on gasoline, alcohol and tobacco by 30 percent.

Longer term, the number of municipalities will shrink from 1,000 to 400 and publicly owned companies from 6,000 to 2,000 to save money. Yet tens of thousands of people are likely to lose their jobs in the short term. Indeed, the IMF predicts falling wages and living standards for the foreseeable future, with unemployment projected to rise sharply from around 10 percent this year to near 15 percent in 2011 — and maybe 18 or even 19 percent by 2012 — none of which sits well with Greece's 11 million people.

Two days after our interview, massive anti-government street protests turned violent, with three bank employees, including a pregnant woman, killed during riots that left scores of people injured, with dozens of stores, banks and offices damaged. Sporadic clashes have since erupted, more general strikes are scheduled, and the wave of public fury isn't likely to die down anytime soon.

The ambassador agrees that the scenario is likely to get much worse before it gets better. This year, he says, the Greek economy will shrink by 4 percent; that compares to a 0.9 percent contraction in 2009. More than 100,000 people might find themselves out of a job over the next 12 months.

"It will be devastating," Kaskarelis told The Diplomat when asked about the likely impact of the austerity measures. "I don't know what the people's reaction in the streets will be, or how strong. On the other hand, everybody in Greece understands that something was very wrong, and that we must change the situation.

"Most Greeks understand that we have reached a point of no return. This

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Greece

will be extremely painful," he continues. "And even if you do have popular unrest and violence in the streets, there is no option. If we default, it would be even worse."

To that end, Kaskarelis blasted extreme leftists who demand that Greece do just that — default on its loans to avoid any painful cuts. "What the opposition is suggesting is to find another way out of this problem," said the ambassador, referring to Antonis Samaras, leader of the center-right New Democracy party, which voted against the IMF-EU package. "It's easy to criticize the government, but they don't put any ideas on the table."

And defaulting is not a viable idea. "We don't have that option," Kaskarelis warned. "We have arrived at a point where we don't have any options except one: to receive a loan from our partners."

On the day Greek legislators voted 172-121 to approve the austerity measures, Papandreou gave Parliament a similar warning: "Today, things are simple," the prime minister said. "Either we vote and implement the deal, or we condemn Greece to bankruptcy. Some people are speculating and hope that it will happen. We, I, will not allow that. We will not allow speculation against our country, and bankruptcy to happen."

Even so, the euro seems to be shrinking in value every day, fed by fears of a financial contagion spreading to Spain, Portugal and possibly Italy. So far this year, the euro has fallen about 11 percent against the dollar.

Yet as for abandoning the euro altogether, Kaskarelis says that course of action would only lead to disaster. "There are people in Greece suggesting we go back to drachmas. You'd have to default, change currencies out of the blue, and block bank accounts. This would be instant death for Greece."

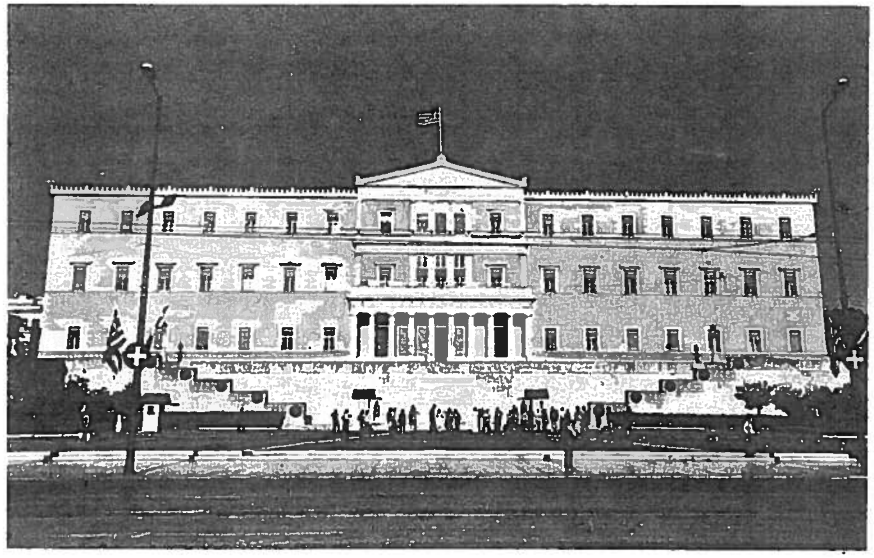

PHOTO: FOTOLIA

Last month, legislators in the Greek Parliament voted 172-121 to approve a deeply unpopular package of austerity measures that, among other things, will raise the average retirement age to 65, slash government wages by 20 percent, cut pensions by 10 percent, and hike the Greek value-added tax to 23 percent.

Besides, the euro is hardly to blame for Greece's current problems. Before it joined the euro zone, the Washington Post pointed out in a May opinion piece on the European debt crisis that Greece's household debt was only 6 percent of the nation's GDP. By 2009, it was nearly 50 percent of GDP. And by the end of 2008, government debt had ballooned to about 115 percent of GDP.

"In that sense, the euro did pave the way to this crisis," said the article's authors, Carmen and Vincent Reinhart, referring to the low-interest borrowing that was available to Greece after it adopted the European currency. "However, Greece was not the only country on a borrowing bender. Iceland and the United Kingdom, not to mention the United States, dramatically increased domestic and international borrowing, even as they retained their national currencies. The question is not why politicians were willing to spend freely and tax insufficiently — that may be part of their DNA. Rather, why did lenders facilitate such overborrowing? Across continents, good economic times bred complacency among investors, who believed that past performance promised a bright future."

Taking the long-term view, Kaskarelis, in his impeccable English, blamed three factors for the current meltdown: the lingering impact of the global financial crisis, the consequences of "bad management of the situation by the previous government," and the general disarray of state finances for the past 30 years.

"You can mismanage for decades," he said, "but at a certain point, when the other factors are also negative, the bubble bursts. We are facing too many problems at the same time: structural problems, economic problems due to the financial crisis, and other systemic problems like tax evasion and corruption. All this together has created what meteorologists call the perfect storm. It happens once every hundred years, and the dynamics of this storm are so powerful that they change the entire picture."

Yet on the surface, Kaskarelis argues, Greece's situation is no worse than that of other countries in the 27-member European Union, or even that of some U.S. states.

"We're actually in a better position than California. The problem is that we are members of the euro zone, and the markets are using the Greek case in order to test the stability of that zone — and of course in the long run to make profits, and if possible, huge profits," he said. "It's nothing new. The only new parameter in this equation is the fact that the markets sense a weakness in the euro, and they're using Greece as a kind of a guinea pig to test the limits."

Even more frustrating, he adds, is that because Greece no longer has its own currency, the drachma, it has fewer financial instruments in its arsenal — unlike for instance, the Federal Reserve Bank, which has greater leeway to help the American economy recover. "Since we are part of the euro zone, we have to play by the rules. We're limited by the regulations of the euro system. We don't control our currency and we don't control all the weapons that we could have at our disposal."

On the flip side, EU countries such as Germany — the wealthiest member state — aren't exactly thrilled about tapping their own taxpayers' money to bail out indebted Greeks. But Kaskarelis insists the EU family simply can't afford to aban-

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don one of its own.

"Everything in the EU is linked, and German banks own 70 billion euro in Greek bonds, so they cannot allow the Greek economy to default," he pointed out. "By offering this loan to Greece, in a matter of three years, the German economy will profit just from the 600 to 700 million euro in interest."

Yet national interests have long hampered the effectiveness of the 27-member bloc and the swiftness with which it can respond to individual crises. Kaskarelis for instance lamented that Greece adopted the euro on Jan. 1, 2001, but nine years later, "you still have 16 ministers of finance taking decisions on their nations' economies. It doesn't make sense, but the same goes for other issues. We've already adopted the Lisbon Treaty, which discusses, among other things, the formation of the [EU] Foreign Service. Five months later, we're still discussing how this Foreign Service will be structured."

Kaskarelis understands the lumbering complexity and strange intricacies of the EU bureaucracy quite well. Before his appointment to Washington in June 2009, Kaskarelis spent five years as Greece's permanent representative to the EU in Brussels. Prior to that, he was the Greek permanent representative to NATO in Brussels (2000-04), while also serving as negotiator for the confidence-building measures between Greece and Turkey (2000-03), as well as deputy permanent representative of Greece to the United Nations in New York (1995-2000).

Between 1976 and 1995, Kaskarelis served in various capacities at Greek missions in Turkey, Cyprus, Italy and Germany. In 1989, as head of the Greek military mission in Berlin, he witnessed the collapse of the Berlin Wall. Now, as

PHOTO ISTOCK

Missing the boat? Beautiful Greek isles like Santorini have made Greece a prime tourist destination, but the country has also been criticized for squandering its competitive edge by continually raising prices for travelers without investing in infrastructure.

Greek ambassador in Washington, he's watching the possible collapse of the Greek economy from afar.

"Everyday life in Greece showed we had a system that was not viable in the long run. Look, you have tax evasion. You have corruption. The civil service sector does not work properly. It's a vicious circle, not only because new technologies are not adopted by the government. It's that we have a huge civil service."

Bloated is more like it. In fact, government wages and social benefits account for three-fourths of all public spending in Greece. Kaskarelis said 1.3 million Greeks are employed by the state, even though their work can be done by only 600,000.

"The reason is that, in order for governments to secure votes before every election, they were offering jobs in the civil sector. This has been the case for the last 30 years, regardless of who was in charge."

As a result, today Greece has more than five times as many civil servants per capita than the United Kingdom. European media are filled with horror stories about government agencies that do absolutely nothing, yet eat up millions of dollars in revenues.

For example, the German newspaper Der Spiegel reported that a state entity created to manage a bid to make the city of Thessaloniki a European cultural capital back in 1997 is "still humming away." Another government office called Kopais — named after a lake near Thebes — was set up in 1957 to prepare for the draining of the lake so that roads could be built in the lakebed. But more than half a century after the lake disappeared, Der Spiegel notes that the agency still employs 30 workers who receive monthly salaries of up to 2,500 euro ($3,175).

"It's not normal to have 12 percent of the population working for the civil sector," admits Kaskarelis. "And it doesn't make sense that last year 25 billion euro in taxes went unpaid. This is almost equal to the loan we're going to get this year from the EU and IMF."

He bluntly added: "We have a weak tax system. You have people making huge amounts of money, and governments were never willing to adopt tough measures because they didn't want to create problems with the vast majority of the population. The status quo was fine for most people — regardless of their income level — and fine with the government. They exploited the system for electoral purposes, and that was OK with the people, because our people were wealthy but not the state. The problem was — and still is — the black market, tax evasion and corruption."

But he says the government's new tax system — part of the reforms now being implemented — "will make tax evasion impossible," allowing fiscal authorities to collect billions of euro in new revenues.

Kaskarelis said the austerity measures extend to his Washington mission as well. Salaries have been slashed by 20 percent, while taxes have jumped by 40 percent. Some 40 people work at the embassy, and another 40 at the Greek military annex. Nobody's been laid off yet, but diplomats who leave aren't being replaced. In addition, a planned $12 million renovation of a building adjacent to the Greek Embassy fronting Massachusetts Avenue has been put on the back burner. As the ambassador puts it, "You cannot spend this amount of money at a time when you're asking so many sacrifices from people back home."

Meanwhile, Kaskarelis, who under normal circumstances might spend much of his time promoting the beauty of the Greek isles or encouraging Americans to visit Greece's world-famous ruins, has harsh words for his own country's tourism sector.

"For many years, because we had very good infrastructure, beautiful places and excellent weather, our prices kept going up. The industry didn't realize that, slowly but surely, other countries around Greece are investing in infrastructure," he said. "We are not so competitive anymore."

Reform is particularly crucial, he argues, because tourism is one of the country's two main sources of income. The other is shipping; Greek ship owners control more than 25 percent of the global shipping trade, and many of them have become quite wealthy.

But for many years, politics consumed the nation, not so much economics. Part of Kaskarelis's job is to change that mentality. "Since my arrival here in Washington, I've spent a lot of time establishing contacts with the Obama administration," he said. "Unfortunately, the previous Greek government was totally absorbed with domestic politics — specifically whether to call for early elections. We lost precious time positioning ourselves as far as the new administration here was concerned."

Kaskarelis noted that his years in Brussels, where he worked with many American diplomats at NATO headquarters, are paying off for him now in Washington.

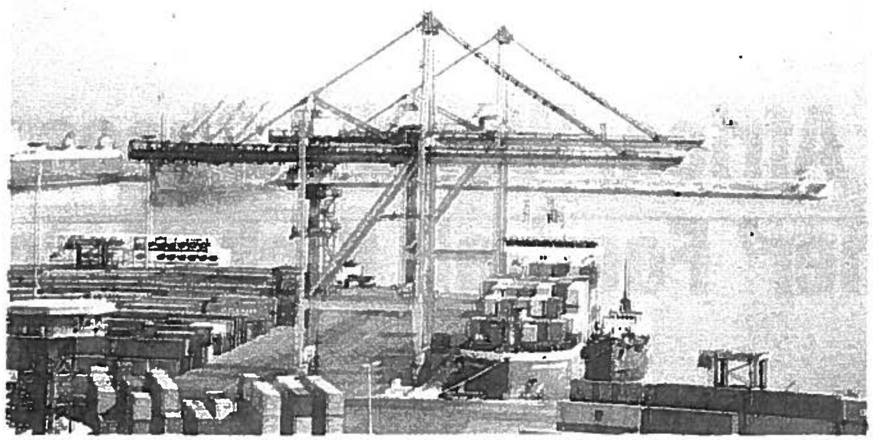

PHOTO VANGELIS THOMAIDIS / FOTOLIA

In addition to tourism, the other major source of income for Greece is shipping, with Greek ship owners controlling more than 25 percent of the global shipping trade — making many of them quite wealthy, although those riches haven't always trickled down to the government thanks to Greece's endemic tax evasion.

"The American side was quite nervous about the overall situation in Europe, because the weakness of the euro will have a direct impact — probably a negative one — on the American economy," he said. "President Obama made clear from day one that through the IMF, the United States is willing to support these measures."

Of course, Greek-Americans are a natural source of investment, and the Greek Embassy enjoys excellent relations with this segment of the U.S. population.

"But a businessman always put business before sentiments, so regardless of his Greek origins, Greece must offer a stable environment," said the ambassador. "With the austerity measures Brussels is imposing on the Greek government, foreign investors will face a new environment. Before, you had to wait three or four months to open a business. You had to pay money under the table. It was a mess. But these changes are not because Brussels is imposing new measures on us. It's because our government has decided to adopt and implement them."

It may seem like a bizarre moment in history to push foreign investment in Greece, but now is the time to do exactly that, argues the seasoned envoy.

"The Greek economy has hit rock bottom. When the stock market crashes, you see investors immediately acting to take advantage of the situation because prices are low," Kaskarelis explained. "In Greece — regardless of the government's promises — you have Brussels and the IMF monitoring the situation on a daily basis and imposing specific actions on the Greek government. In the long run, this package will have a positive effect. Consequently, if you want to profit, I believe now is the time. Things are moving in the right direction."

He added: "It's not that I'm trying to beautify the situation. The situation is terrible. But there are plenty of opportunities to make money out of this. Maybe not today, but it might be different, say, in a matter of three or four months."

Interestingly, the ambassador's father was a professor of gynecology at the University of Athens who for years tried to convince his son to become a doctor too.

"Under this pressure, I studied medicine for two years, just to prove to him that I could do it. But one day I made an announcement that even though I could do it, I don't want to do it, and here I am today," said Kaskarelis, who has chosen to confront the current Greek crisis with resolve and perhaps a touch of humor. "Thinking back, maybe it would have been better to become a doctor."

Larry Luxner is news editor of The Washington Diplomat.