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Are Greek companies that invest in the Balkans in the '90s Transnational Companies?

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I. Introduction¹

The conditions created in the Central and Eastern European Countries (CEECs) after the collapse of the communist regimes led many Greek companies to invest in these countries. The article attempts to interpret this novel phenomenon, where in a very short time a large number of investment projects were initiated abroad. Indeed, until the opening of the CEECs there were extremely few Greek companies with investments abroad (such as Petzetakis, Metaxas and Titan), while in the 60's and mainly the 70's a number of construction companies (such as Edok-Eter, Archirodon, Odon kai Odostromaton, Skapaneas, Elliniki Techniki and Meton) showed some activity in the Middle Eastern countries. Since then the situation has changed drastically and now we are dealing with a very large number of Greek companies with activities abroad. So, while in 1989 there were only 3 Greek companies with investments abroad, within less than a decade (in 1998) the number of these companies had increased to well over 500 with more than 1,200 projects in the CEECs.

The main goal of this article is to initiate a theoretical debate regarding whether the investment plans developed by Greek companies in the CEECs resemble conventional types of Transnational Companies ("true transnationals") or Transnational Companies (TNCs) from Underdeveloped Countries (UDCs)² ("new transnationals") or something else. This theoretical debate is not simply concerned with the classification of

¹ I would like to thank my friend Dr. Chrysafis Iordanoglou for his comments on an earlier draft of this paper.

² The term "Developing country" according to the UNCTC refers to the countries with market economies in Latin America, Africa (except South Africa), Oceania (except New Zealand and Australia), and Asia (except Japan). In a similar way one might use the term Third World Country or Newly Industrialised Economies. All the above terms imply that the process of development is linear and that it simply happens that some firms are at the moment lagging behind. The use of the term UDCs is based on the conception that there are structural differences between developed and UDCs and it is not necessary that UDCs ultimately will become developed.

With this term we are not referred to low-income European countries such as Portugal, Spain and Greece; Israel or the centrally planned economies of the USSR, of Eastern Europe and the People's Republic of China

Greek investment projects into one or the other category, but with the understanding of the mechanisms causing this internationalisation. Most important of all, the article attempts to reveal the comparative advantages of Greek investments in the CEECs that render their realisation feasible and whether they can be sustained in the long-run.

It does not refer to the possible consequences of this phenomenon with respect to the Greek economy, as this subject has been thoroughly analysed in previous articles³. In these articles it was asserted that the recent opening of the markets of the CEECs was, and to a great extent still is, a significant opportunity for the Greek economy. The current 'strong' position of Greek firms in the Balkans is mainly due to the fact that investors from advanced industrialised countries are maintaining a 'wait and see' stance. The opening of the Balkan markets, where there is demand for products of not so high quality is allowing the Greek economy more time to modernise its productive base. There are also significant negative effects from the flow of Greek investment in the Balkans. In the short term there is a reduction of employment in certain industrial sectors and areas of the country. In the long term, the most important threat is the undermining of the effort to restructure Greek industry towards the production of high quality, internationally competitive products. Moreover, as soon as the economies of these countries will be restored there might be a move, of goods and capital, in the opposite direction.

II. Internationalisation and TNCs

II.1. The internationalisation of markets and the creation of TNCs

During the Post - War period the degree of interdependence of national economies started to increase and took the form of peripheral zones of free trade, as well as global production systems (Vernon, 1966). These tendencies - and particularly the second- have accelerated during the last 25 years leading to the acclaimed internationalisation or globalisation of the world system. The term internationalisation, which is adopted here, suggests that despite the increasing interdependence of economies, their 'focal point' remains the various 'national' economies, and considers an independent economic policy acceptable and efficient, even though in some cases national policy may be opposed by international trends and choices. On the other hand, the term globalisation implies that the economic system has been unified into a global economy, which renders independent economic policies impossible⁴. There is undoubtedly an exaggeration about the term "globalisation" since, as Krugman (1995), estimated for the USA the main market remains the domestic for 90% of the products and 97% of the companies.

The last 15 years have been characterised by two significant qualitative changes in the deeper forms of

3 That is, Labrianidis (1996 a, 1996b, 1996c and 1997).

4 Globalisation has a long history both in Orthodox Economics and Political Economy. Older versions of the theory in Political Economy were the theories of International Systems (Wallerstein 1979) and the New International Division of Labour (Froebel et al., 1980). The more modern versions are numerous such as in Economics by Ohmae (1995), Dicken (1992), Dunning (1993) while in Political Economy by Lash-Urry (1994). The opposing theory has been developed, inter alia, by Hirst-Thompson (1992) and Jenkins (1987).

internationalisation of production. Firstly, while in the previous periods Foreign Direct Investment (FDI)⁵ was aiming at exploiting the natural resources and the traditional industrial branches of the developing countries, since 1980 it has mainly turned to technologically advanced industries, and particularly services (Ozawa, 1992; UN, 1995). Secondly, there have been significant changes in the countries of origin of the FDI. During the 30's and the early Post - War period the USA replaced Great Britain as the most important source of FDI. Since 1960 Japan has emerged as a rapidly developing source of FDI, while during the last decade UDCs such as Korea, Malaysia etc. have become increasingly important. However, despite the changes which have been occurring in the relative importance of FDI from various source countries and the very fast growth of the share of FDI from UDCs (4,3% in 1985 - 9,7% in 1997. (UNCTAD *World Investment Report 1998*), the fact remains that a small number of Developed Countries (DCs) generates almost all the FDI in the world economy.

Even though there is a long standing discord regarding the use of the terms Multinational (MNC) and Transnational (TNC) corporations, the term TNC is applied here in a broad sense, following Dicken (1992, 47), Lall (1983, 1-2), UNCTC (1978, 158), Wells (1983, 7-9) and others, to mean any firm:

- that invests abroad. This is at variance to the Harvard Business School's Transnational Enterprise Project definition, according to which a US based firm was not counted as a TNC unless it had manufacturing subsidiaries in six or more foreign countries.

- that involves active participation of the investor in the management and operation of the enterprise, hence a TNC is distinguished from portfolio investment.

- that enjoys geographical flexibility, in the sense that it has the ability to shift its resources and operations between locations on a global scale hence taking advantage of differences in factor endowments, government policies etc. between countries.

- that is characterised by technological intensity, advanced marketing, concentrated market structures, high levels of skill, economies of scale, the prevalence of multiplant operations and, of course, it is large in size.

- that its overseas operations have some kind of ownership tie to the parent firm in the home country. This requisite is the differentiating factor of TNCs and MNCs, with the latter not being tied to any national entity.

- that invested abroad with management and know-how to do something similar to what it was doing at home.

- that invested in any sector (primary, secondary and tertiary) and not just in manufacturing activities as some authors suggest (e.g. Hood-Young 1979, 3).

An enterprise to be considered as a parent firm, must be owned by nationals of that country and its management must reflect the domestic culture. The emigrant entrepreneur who decides to try his fortune abroad -such as the Indian, Lebanese, Syrian and overseas Chinese businessmen who have for decades migrated to a number of UDCs and carried with them their skills and sometimes, capital- is not considered as

⁵ FDI may be defined as the transfer by a firm of resources -including capital, technology and personnel- into a foreign business venture with the objective of acquiring control of the venture (EBRD 1994, 122).

a TNC.

The TNC originating from a DC is the “ideal type”, which is termed as “true transnational”. The firms from UDCs that are creating FDI can be called the “new transnationals” (see among others Wells 1983, 9).

II.2 Why firms choose to exploit their skills through direct investment abroad

In the world of neo-classical economics, there is little place for FDI since trade will equalise factor prices. With no barriers to trade, and with costless information, international trade is the only form of international involvement. However, FDI does exist and firms that are involved must have some sort of special assets that give them a competitive edge abroad over other firms.

The product life-cycle theory proposes a model to explain the creation of TNCs. Firms innovate for their home market, generating skills and knowledge that, in some cases, are then exploitable abroad. Since managers are responsive to their home markets, the nature of a particular firm’s advantage is influenced by the characteristics of that firm’s national market.

Hymer’s (1976) theory of the «monopolistic advantages» traces the existence of TNCs to market failures in the generation, diffusion and exploitation of intangible assets such as technology, brand names and marketing or organisational skills (which Caves, 1982 terms «ownership advantages»). The “monopolistic advantages” possessed by firms are very similar to the barriers to entry of new competition.

When a firm intends to profit from the use of its “monopolistic advantage” overseas, it might choose either to export its product and services or to subcontract it, or sell its skills to an enterprise located in a foreign market which might involve sale of machinery, license, turnkey plants, management contracts, technical service agreement, etc. Finally, a firm might choose to establish a foreign branch or subsidiary, i.e. to “internalise” its advantage within the firm, which is the issue of this paper. The «internalisation» strategy can contribute, as Dicken (1992, 145) suggests, to both parts of the firm’s profit equation (i.e. it can increase revenues, and minimise costs).

However, the “monopolistic”/ “owner - specific” advantage (such as certain types of knowledge, organisation and human skills), according to Dunning (1993), is one of the three closely related conditions that have to be satisfied for a firm to become engaged in international production. The second is that such advantages are most suitably exploited by the firm itself rather than by selling them or leasing them to others; and the third that it is more profitable for the firm to exploit its assets overseas, rather than domestically.

The choice of form for the exploitation of a “monopolistic advantage” depends, as Lall (1983, 16-20, 253) argues, firstly on location costs for serving given foreign markets which include transport, labour, overheads, tariff and non-tariff barriers (e.g. protectionist policies to foster import substitution). Second, it depends on the profitability of internalising an advantage by FDI vis-a-vis that of selling it to an unrelated firm. In fact, the newer and more profitable the technology, the more FDI is preferred over licensing. The larger the firm, the more it is able to profit from a "package" of technology, marketing, managerial and other advantages and the less vulnerable it is to risks from particular mistakes, so the more it would prefer FDI. If the advantages are intangible (i.e. contained in the skills and experience of people) rather than embodied in a brand name, blueprint or patent, are better exploited by FDI, since selling them is difficult, costly and not

particularly rewarding.

II.3 What are the comparative advantages of TNCs from UDCs

Two schools of thought, not necessarily contradictory, have emerged. The first, based on the «product-cycle approach», treats TNCs from UDCs as relatively passive recipients of mature technologies and traces their ownership advantages to labour intensity, small-scale operations, lack of differentiation and low overheads. The main proponent of this school is Wells (e.g. see Wells, 1983).

The internationalisation of UDC firms may be seen as a stage in the product-life-cycle or a “technological gap” model to explain trade and investment flows. The countries currently manufacturing the product export it down to those that do not yet have plants. Not only may the source of exports in world trade move down that order as the product matures, but the source of FDI might follow a similar pattern. The source of exports might move down the order because of the availability of technology plus the differences in production costs. The source of investments moves down the order because many products have been adapted to the needs of a somewhat lower-income consumer as they have been produced abroad (smaller cars, refrigerators etc. in Europe than in US).

The second school of thought, derived from the analysis of technological development, looks directly at the process by which enterprises acquire competitive competence, the main proponent of this school is Lall (e.g. see Lall et al, 1983).

TNCs from UDCs cannot possess competitive advantages in frontier technologies and sophisticated marketing. However, even the possibility that proprietary advantages can arise at lower levels of technology, size, or skill may at first sight seem surprising. How can firms without an innovative edge or a powerful brand name out-compete firms from a high technology DC. How can firms from UDCs which are not technologically active even in narrowly specialised branches of industry, discover an internationally exploitable advantage in technologies which are well - diffused and products which are relatively unsophisticated?

Their advantage lies in some special edge they have built up in widely diffused technologies, special knowledge of marketing relatively undifferentiated products, or special managerial or other skills. This edge may arise from some adaptation or improvement in the process or product technology («minor» innovation) which would be costly for other firms to reproduce, or from a simple cost advantage in providing a standard technology.

But if a technology is well-diffused how can a firm from an UDC «innovate» for itself a unique proprietary asset? The answer must be to the «localisation» of technical change at the micro level and the «irreversibility» of such change. That is, while in abstract neo-classical theory technological knowledge is not localised, in practice it is. Firms, as Lall (1983, 4-5) argues, only know and understand a very limited range of techniques, and to shift to a different one requires considerable cost and effort. Their technical progress is localised around this point and proceeds in a direction governed by given market conditions and scientific advance. Moreover, since technological advance encompasses not just the innovator but a whole range of linked actors (component and material suppliers, distributors, users etc.), it «moves» all the related activities

with it, each enterprise innovating in the «locality» of its own known techniques. The process is irreversible. Older technologies, while they may be «known» in some abstract sense, cannot be efficiently reproduced or transferred once the entire industrial system has moved on to new technologies.

Many of the UDCs investors appeared to have gained their initial advantage when they adapted large scale technologies of the industrialised countries for manufacture at small scale in their home countries which gives them a skill that is exportable to other countries with small markets.

Moreover there are push factors too that led firms from UDCs to invest outside their home country such as, as Wells (1977, 136) argues, strict foreign-exchange controls, requirement to earn their own foreign currency in order to make some imports, legal constraints imposed on the growth of firms at home (e.g. antitrust action) and the small size of home market.

II.4 TNCs from UDCs vs. TNCs from DCs

TNCs from DCs enjoy advantages closest to barriers to entry that lead to concentration and large firm size, i.e. very advanced technology and marketing, large size, high levels of skill, and a propensity to seek out very concentrated markets. Hence, they are able to avoid tough price competition, since production costs are not generally critical to their success. This lack of attention to cost minimisation, leaves a market niche for the firms of UDCs.

TNCs from UDCs tend to thrive in industries or segments of the market where cost competition is severe and the advantages of economies of large scale do not overwhelm small scale manufacturers. They usually operate in industries with mature technologies. They derive their competitive advantages from the technologies that enable them to manufacture at low cost. The “descaling” of technology is generally more labour-intensive than the large scale technology employed by “true transnationals”, hence capital-labour ratios for subsidiaries of “new TNCs” are much lower than those of “true TNCs”. Moreover, they have small expenditures on managers and engineering personnel as well as on buildings. Finally, they can reduce costs through the ability that they acquired at their home country to substitute locally available materials and components for specialised inputs.

The ability of new TNCs to reduce costs, enhances their advantages over the “true transnationals” in market segments where price competition is a viable strategy. It is only few of them that have developed strong trade names for their products even at home. Hence, TNCs from UDCs are quite unlike the «true TNCs» that have been so skilled in creating the image of differentiated products, in controlling distribution channels, in providing service, or even in building a strong reputation.

Subsidiaries of UDC parent companies are almost all in other UDCs, usually in countries with a lower level of development than the home country, while those from the DCs are spread all over the world though they tend to concentrate more on other DCs. Moreover most subsidiaries of UDC firms are located within the region of the home firm⁶ and they reveal a very strong “neighbourhood” character, (this was particularly acute

6 The Asian firms invest in Asia Hong Kong firms in southern China. Indian firms rarely venture beyond the Indian Ocean. (Sri Lanka, Malaysia and Kenya), L. American firms within South or Central America (Argentine in Brazil, Chile and Uruguay) (Dicken 1992, 81-87; Wells 1977, 133 and 1981, 4, 24). Between 1965 and 1978, as Whitmore et al (1989, 5, 18) estimates, 99% of Argentine and 95% of Chilean investment

during the first wave of TNCs from UDCs).

Usually it is important for the true TNC to maintain a close relationship with its subsidiary. Because the subsidiary has a role to play in the global strategy of the parent company (e.g. provide raw materials, parts for manufacture elsewhere, a market for components), its prices and its image may affect the prices or image of products sold by the firm elsewhere. A TNC from a DC has some preference for importing from its affiliates so as on the one hand to gain the option of manipulating transfer prices and on the other hand to secure the inputs that it wants. Local inputs, with their varying standards, are likely to pose particular problems for firms that emphasise brand name and are, thus, concerned with having a product of very standardised quality. On the contrary the subsidiary of the UDC is often “on its own”, after a brief period of assistance from the parent.

The vast majority of UDC investors enter foreign markets through the use of joint ventures with partners of the host country. Aware of the feelings raised by wholly foreign ownership in their own countries, investors from UDCs are more sensitive to this issue when they invest elsewhere than are their counterparts from the advanced countries.

“New” TNCs are, in general, small and have a very limited number of overseas affiliates compared with true TNCs. They are basically in resource-based sectors and in distribution. Within manufacturing industry itself, the emphasis is on relatively unsophisticated, low-technology products with high labour-intensity.

Since TNCs from UDCs are often more independent of their parent firms, they tend to remit a smaller proportion of their profits to their home countries. In this sense, they offer alternatives to excessive dependence from the TNCs from DCs. However they have also some drawbacks compared to TNCs from the DCs such as their greater proneness to bribing officials, keeping more expatriates in managerial and skilled professional jobs and competing more intensely with local enterprises.

The differences between TNCs from UDCs and those from DCs, though existent, have been overstated. Some of them are due to the weak early state of evolution of TNCs from UDCs, which gives them fewer monopolistic advantages.

II.5 Advantages and disadvantages of TNCs compared to local firms

When a firm from one country operates in another country, it incurs a set of costs that are not faced by local firms. It has the extra burdens caused mainly by the language barrier, by geographical and cultural distance, by unfamiliarity with local conditions, by the need to communicate between the subsidiary and the home office and by the fact that the remuneration of managers and technicians brought from home is more costly. Finally, policies of many host governments discriminate against the foreign investor in subtle or even in overt ways. TNCs have encountered hostility and resentment in all countries that host substantial FDI, but nowhere more than in UDCs, where they were blamed for the national economy’s manifest shortcomings (things have changed in the ‘80s). In order for a TNC to be able to offset all the above mentioned

was in other L. American countries. Yugoslav TNCs invest mainly in Germany, Austria, Italy and Switzerland (Artisien et al. 1992, 38-40)

disadvantages, it must have an asset or skill that is not possessed by a local firm.

The magnitude of the disadvantage towards host country firms is smaller for the TNC from UDCs compared with those from DCs because the former are often familiar with a somewhat similar political and socio-economic environment. However, TNCs from UDCs, are found in industries where price competition is typical, they lack the technological and managerial advantages of DC firms and they operate in industries where competition makes it difficult to retain any advantage that does exist. It is thus logical to assume that in this sense they are most likely to engage in direct competition with local enterprises.

III. Investment activity of Greek companies in the CEECs⁷

III.1 Geographical proximity constitutes an important component in the development of Greek investments in the CEECs.

There are 1,269 investment projects⁸ of Greek companies in 20 of the 27 CEECs. Their great majority (81.7%) is concentrated in just 3 countries (i.e. Bulgaria 41.1%, Albania 20.3% and Romania 20.3%). Furthermore there is a significant concentration in Russia (6.9%), while Poland (2.9%), FYROM (2.6%), Ukraine (1.5%) and Yugoslavia (1.2%) account for smaller proportions. In the remaining 12 countries the presence of Greek companies is negligible. Investment activity of Greek companies in CEECs started in Bulgaria (1989), followed by Albania and Russia (1992) and Romania (1993) while in the remaining countries it represents a post - 94 phenomenon (Labrianidis et. al 1998, 146, 171).

From a total of 521 Greek companies that have invested in CEECs, 35 companies, (6.7% of the total) had activities in more than one country. Seventeen of those companies invested in 2 countries, 12 in 3 and the remaining 6 companies in more than 3 countries. The country which is present in almost all combinations is Bulgaria, while Romania, Russia, Albania and Yugoslavia are also involved in a variety of combinations (Labrianidis et. al. 1998, 162).

Within CEECs Greek companies tend to concentrate in the capital city of each country (Bucharest 91.2%, Moscow 83.3%, Skopje 80%, Warsaw 71.4%, Sofia 48.5%, Tirana 41.4 -Labrianidis et al. 1998, 172-8). The relatively low concentration of Greek investment projects in Sofia and Tirana as a percentage of the total in Bulgaria and Albania can be attributed to geographic proximity with Greece. This leads to considerable concentration of investment in the Southern parts of the two countries which border with Greece. These are mainly investments originating from companies located in Northern Greece.

7 This section is based on two research projects which the writer was coordinating (see Labrianidis et al., 1997 and 1998).

8 This figure is not exhaustive of the Greek activity in the area. In fact this was one of the most significant problems we were faced with, i.e. the lack of any systematic data collected by official sources regarding the activity of Greek companies in the CEECs. In order to overcome this obstacle a new database was created, using a large number of diverse sources i.e. Reports of the commercial attaches of the Greek Embassies, Law 1892 concerning the realisation of investments in CEECs, Catalogue published by the Association of Industries of Northern Greece, of firms exporting to at least one CEEC, Catalogue published by ICAP, of 5,000 firms exporting to at least one CEEC, Economic Chamber of Greece (1993), index of daily and periodical press (Imerisia, Express, Kerdos, Ikonimos Tachydromos, Ependytis etc.), interviews (snow ball sampling). Even though this database is rather comprehensive it remains problematic in two senses: The number of Greek companies is underestimated, since there are many (mainly small) investments, impossible to trace and the data is not always comparable, due to the different sources used. However, despite the insufficiencies, the data allows the formulation of some basic arguments regarding the Greek entrepreneurial activity in the CEECs

III.2 Sectoral distribution of investments in the CEECs

The majority of Greek investment projects in the CEECs are in trade (47.2%) and industry (36%) while there is a significant percentage of service related companies (13.2%). Industrial companies are mainly in clothing (47.9%) and food-beverages (25.5%), while trading companies are concentrated in food (27.2%), general trading (22.1%), clothing (5.8%), oil products (5.1%), beverages (4.1%) and furniture (3.4% -Labrianidis et. al 1998, 167-8).

Most (71.8%) of the Greek companies do not change sector when they invest in the CEECs. The great majority of Greek companies with activities in the CEECs have parent companies in Greece which are mainly industrial firms (67.9%), a smaller part (15%) of them is involved in trade industries while the contribution of service related (9.1%), technical (5.4%) and mining (2.7%) companies is significantly lower. Most of the industrial companies are in clothing (44.1%), followed by food (20.5%), metal products (4.3%), beverages (3.5%) and footwear (3.5%). Regarding the trading companies, the largest number of firms is in food (26.3%), electronics (12.3%), general trade (10.5%) and oil products (8.8%) (Labrianidis et. al 1998, 165-6).

III.3. Structure of ownership and type of equipment used by the Greek ventures in the CEECs

A small part of the productive companies in the CEECs is wholly owned by the Greek company (31.3%), whereas in most cases there is participation of local businesspeople (43.8%) or even the state (21.9% -Labrianidis et. al 1988, 188). This is partly due to the fact that Greek businesspeople face significant problems when they decide to operate independently in an extremely 'difficult' environment (language, bureaucracy, frequent changes of the legal framework, corruption etc.). Another reason behind the decision to build partnerships is that the 'new' company ceases to look 'foreign' to the local population, thus creating a more positive 'climate'.

A significant part of the companies in the CEECs either use old equipment of the parent companies in Greece (57.4%), or equipment purchased new in Greece (35.3%). In both cases the consequences for the Greek economy are positive. In the first case it leads (in 58.1% of the cases) to the renewal of equipment in production facilities within Greece. In the second case it may lead to the strengthening of some machinery industries (e.g. packaging and sorting machinery, tobacco and wine processing machinery) in which there is a tradition in Greece.

III.4. A considerable proportion of the Greek companies in the CEECs are directly related to TNCs

One could distinguish four basic types of Greek companies operating in the CEECs: 1. Large (further subdivided into 1.a. subsidiaries of TNCs, 1.b. with participation of foreign capital, 1.c. agents of TNCs, 1.d. Greek companies), 2. Medium size, 3. Subcontracting and 4. Small.

1.a. Some TNCs assign to their subsidiaries in Greece the task of operating in the CEECs in the context of the global location strategy of the TNC. This decision can be attributed to the fact that these

countries constitute small, difficult and dangerous markets, and are near Greece. Such a strategy offers significant prospects for the Greek subsidiaries of TNCs. There are numerous such examples⁹.

1.b. A significant proportion (11.1%) of the productive companies in the CEECs belongs to companies in Greece which have foreign capital in their structure. The above figure is rather high in relation to the average in Greece, and indicates an increasing dynamism by this type of company.

1.c. Many Greek companies entered the CEECs as agents of foreign firms. They are assigned by TNCs the task of 'entering' the Balkans, since this is a rather small market and therefore not interesting to a TNC, whereas the Greek agent can benefit from economies of scale in distribution. Furthermore, the Balkans is a difficult market in which 'informal' relations and practices are predominant and the Greek businessman is used to operating in such an environment. Working within such markets is also facilitated by the Greek tax legislation¹⁰. Finally, geographic proximity is of great importance. The entrance of Greek companies as agents, apart from the increase in their profits has no significant benefits for the Greek economy and has certainly no long term prospects, since in a later stage the agency is likely to be assigned to a local company, before the establishment of a subsidiary.

1.d. The majority of large companies investing in the CEEC's are Greek (among them some state owned banks and communication companies). A significant number of large companies operating in the Balkans had previously strengthened their positions through a process of mergers and acquisitions¹¹. There was a remarkable 'wave' of mergers and acquisitions in the Greek market after 1987. This was due to a number of reasons such as: the process towards the unification of the European market; the gradual relaxation of import tariffs (1985-92); the Greek market started to look appealing to the TNCs; the gradual departure from the traditional Mediterranean diet; the strengthening of the role of super-markets; the significant investments in the food industry during the previous years which led to the development of attractive target companies; finally the opening of the Balkan markets which gave a serious advantage to Greek companies. A significant part of mergers and acquisitions (46.8%) took place in the food and beverage industry in the 1987-93 period (90.6%), mainly between already existing Greek companies in the sector (61.9% -Labrianidis et. al 1998, 123).

From a total of 521 Greek companies operating in the CEECs, 140 (26.8%) are large by Greek standards, in terms of employment as well as turnover. An exception here is the clothing industry, in which companies have many employees but a relatively small turnover (Labrianidis et al. 1998 Appendix Table 7.21). The large size of these companies in Greece can also be supported by a number of other indices, such as their legal status (most of them are limited liability companies), and their relatively 'long' history, as 63.5% have been operating for more than 18 years, while according to Giannitsis (1996), only 54% of the companies in Greece are more than 12 years old.

9 Some of these companies are: Elliniki Yfantourgia, Athinaiki Zithopyia, 3ε, ALICO, Olympic DDB Needham Advertising, Molinger, Henkel, Knorr, Laoreal, Ciba Geigy Hellas, Zeneca Hellas, Rhone Poulenc Hellas, Dow-Flanco Hellas, Yamaha Hellas.

10 Greek tax legislation allows companies to treat a part of their total export revenue as 'export promotion expenses without receipts'. This allows them to use informal instruments to promote their interests

11 Such as: food industries (Delta, Papadopoulos, Fage, Pavlidis, Goody's, Chipita, Best Foods, Ion), Beverages (Boutaris, 3E), Tobacco (Michailidis), Electric appliances (Foullis), Packaging (Mailis), Textile mills (Magrizos), Software (Intracom, Singular), Construction (Michaniki, Sarantopoulos), Advertising (Olympic).

These companies in Greece are mainly in the food industry (18.6%), construction (12.1%), clothing (10%), computers - communications (5.7%), tobacco (5%), oil products (5%), metal products (3.6%) and beverages (3.6% -Labrianidis et. al 1998, 189).

2. The medium size Greek companies exhibited the smallest dynamism regarding the penetration of the CEEC markets.

3. A significant proportion of the industrial companies in the CEECs (43.8%) belongs to industrial companies in Greece which operate exclusively as subcontractors on behalf of large foreign firms, mainly in the garment industry. These companies in Greece are very diverse ranging from very large (more than 300 employees) to very small ones (less than 20 employees) and from financially healthy to bankrupt.

The companies in the garment industry were developed in Greece mainly in the 70's on the basis of subcontracting ordered by EU companies, taking advantage of the relatively cheap labour, the high export subsidies provided by the Greek governments, as well as the existence of the Multi-Fibre Agreement. The relocation to the CEECs is part of a continuous, however meaningless, effort to minimise labour costs, whose effects are mainly negative to the Greek economy. Very soon more parts of the production process will be transferred to the CEECs, (today, only the sewing stage takes place there). Moreover, the foreign firms which subcontract to Greek producers are likely to demand further adjustment of the costs to the conditions of the CEECs markets, or assign the subcontracting to local producers themselves. However, if this relocation is based on the reduction of the average cost of the Greek firm (parent and subsidiary) and an effort to move towards producing brand-named, high quality products, with just in time methods etc., it will be positive to the Greek economy (Labrianidis, 1996c).

4. There is a great number of small companies with activities in the CEECs, most of which are mainly trading or subcontracting companies. In many cases these companies were not created as subsidiaries (there are no parent companies), or their parent companies were rather small and ceased operations due to the existence of better prospects in the CEECs. Moreover, the number of small commercial companies which was significant in the first period of the opening of the CEECs markets is constantly declining, as local entrepreneurs are starting to take over.

III.6. The small size of Greek firms that invested in the CEECs is a handicap

Greek firms that invested in the CEECs are small compared with TNCs, which means that they have two crucial disadvantages, i.e. shortage of capital and management skills (Buckley et al, 1988). Furthermore, Greek firms have no history in FDI and hence risks are perceived to be greater since they have no international experience on which to draw. Finally, most investment projects by Greek firms in the CEECs occurred through the 'direct' route (i.e. by establishing directly an overseas production subsidiary). They did not follow more long term strategies before establishing a subsidiary (Buckley et al, 1988, 44-68). That is: a) exporting to a country; b) first exporting to a country, then appointing a foreign agent there; c) first exporting to a country, then setting up an overseas sales subsidiary there and d) first exporting to a country, then appointing a foreign agent there, then setting up an overseas sales subsidiary there (the 'full' route). Needless to say that the 'direct' route is the less successful one, since each step gives information to the firm, offers an opportunity for

reassessing the overall strategy and forms a base from which the next step can be taken.

IV. Character and categorisation of Greek FDI

IV.1. Why do Greek companies invest in the CEECs

The basic factors pushing (push factors) Greek companies away from the domestic market, leading them to initiate projects in the CEECs are the saturation of the Greek market and the intensification of competition, which is mainly caused by the intense import penetration, particularly in some specific sectors, as well as the high costs in labour intensive industries (such as clothing and footwear).

The basic reasons attracting (pull factors) Greek companies to undertake FDIs in the CEECs are first, the opportunity to reduce production costs, mainly through the reduction of labour costs, which is of primary importance to labour intensive industries (e.g. clothing, fur, footwear). Second, the opportunity to exploit the natural resources (minerals, agricultural and animal products). Third, many companies have entered these markets, knowing that they will operate under loss for a certain period of time, since the markets are still unshaped, hoping that these losses will be compensated for by the strong positions they will have gained when the markets will start improving. Fourth, the avoidance of tariff or non-tariff (custom delays) impediments. Fifth, The exploitation of existing relations within CEECs, in the sense that an investment in one CEEC can be used as a base for the expansion to other CEECs, due to reduced tariffs, existing traditional trade channels etc. Sixth, the fact that they are relatively unshaped markets, in the sense that competition is still based on prices and not on quality/differentiation of the product. Finally, the existence of Greek companies, as well as the existence of Greek communities in these countries brought about the establishment of other Greek companies ('following the customer' -banks, insurance companies, labelling products, dyeing, packaging products etc.). As Dicken (1992, 87) points out, a most important by-product of TNCs in manufacturing industry in the last few decades has been the closely related development of TNCs in business services (banks, advertising agencies, hotel chains, car rental firms, insurance, legal corporations etc.), that have followed the lead of their corporate clients in establishing a global network.

The lack of strategy from Greek firms and the priority of labour cost reduction as a pulling factor is easily depicted in the choice of the recipient countries of Greek FDI.

One of the most significant aspects of Greek FDI is its extreme concentration in CEE. Developed countries directed only an insignificant proportion of the volume of their FDI to CEECs (e.g. Spain 0.5%, UK 1.2%, Denmark 1.4%, France 2.3% and Belgium & Luxembourg 2.5%). The only exception being Austria with an important share (42.5%) of its FDI addressed to CEECs (OECD, 1998). Hence Greece, having more than 95% of the volume of its FDI in CEECs, constitutes a significant exception in the above pattern.

Another aspect of Greek FDI which differentiates it from almost every developed European country is its geographical spread within this specified area. That is, Greek affiliates are concentrated in their neighbouring countries (i.e. Bulgaria 41.1%, Albania 20.3%, FYROM 2.6%) or in their vicinity (i.e. Romania 20.3%). This is actually one of the most significant characteristics of the 'new multinationals' which tend to

invest to neighbouring countries. Nevertheless, historical and cultural ties are not irrelevant to even more developed economies. In this context Spanish FDI is mainly directed towards Latin America, while France and the UK have significant interests in most parts of the world, most possibly because of their colonial past. The only other European country with a relatively high concentration in CEE is Austria, another country with very close historical ties with the countries of the region.

On the other hand Greek investment is relatively important only in these countries, whilst in the more 'mature' markets (viz. The Czech Republic, Hungary and Poland) (Table 1), as well as in the CEECs which are not as mature as those three but are further away from Greece than the Balkan countries, the Greek presence is relatively insignificant. There is, nevertheless, some evidence that whatever investment in those countries, which are not the main recipients of Greek investment in terms of either the number of projects, or their value, generally tends to exclude immigrant capital and concern larger investments by the largest and most dynamic Greek companies.

Overall it can fairly easily be concluded that Greek FDI is of primary importance and significant in absolute figures only for Bulgaria, a country which only very recently accomplished a certain stability and advancement of transition. This implies that for a rather long period Bulgaria (as in fact the remaining of the Balkan countries) had largely been excluded from the plans of the large MNCs. The remaining two neighbouring countries (Albania and FYROM) are still perceived as extremely immature and risky and in any case are very small. Regarding Romania, the overall data provided by the authorities is very problematic and could not lead us to safe conclusions¹².

12 See footnote 13

Table 1. Origin of FDI in Romania, Bulgaria, Hungary, Poland and the Czech Republic

Romania ¹ (1997)			Bulgaria ² (1997)			Hungary ³ (9/1995)			Poland ³ (9/1995)			Czech Republic ³ (9/1995)		
FDI origin	FDI inflows (\$US m.)	(%)	FDI origin	FDI inflows (\$US m.)	(%)	FDI origin	FDI inflows (\$US m.)	(%)	FDI origin	FDI inflows (\$US m.)	(%)	FDI origin	FDI inflows (\$US m.)	(%)
Netherlands	514,4	15,3	Belgium	251,6	21,1	Germany	1.872,9	28,5	USA	1.815,0	30,6	Germany	1.423,3	27,0
Germany	355,5	10,6	Germany	233,4	19,6	USA	1.384,3	21,0	International	912,0	15,4	Switzerland	828,6	15,7
Italy	285,0	8,5	Netherlands	92,6	7,8	Austria	1.042,7	15,8	Germany	614,0	10,3	Netherlands	771,9	14,6
France	264,2	7,8	USA	73,4	6,2	Netherlands	371,4	5,6	Italy	390,0	6,6	USA	745,2	14,1
USA	235,4	7,0	UK	71,1	6,0	France	312,8	4,8	France	335,0	5,6	France	534,4	10,1
Korea	234,1	6,9	Austria	53,8	4,5	UK	258,2	3,9	Netherlands	362,0	6,1	Austria	277,9	5,3
Turkey	171,6	5,1	Cyprus	51,7	4,3	Italy	258,2	3,9	Austria	248,0	4,2	Belgium	221,5	4,2
Austria	161,1	4,8	Greece	51,1	4,3	Belgium	212,5	3,2	UK	350,0	5,9	Others	472,3	9,0
UK	156,7	4,6	Korea	45,7	3,8	Japan	168,8	2,6	Switzerland	196,0	3,3	TOTAL	5.275,1	100,0
Luxembourg	136,2	4,0	Spain	44,7	3,7	Switzerland	128,1	1,9	Others	711,0	12,0			
Hungary	85,9	2,5	Luxembourg	42,0	3,5	Others	573,0	8,7	TOTAL	5.933,0	100,0			
Greece	82,1	2,4	Switzerland	35,5	3,0	TOTAL	6.582,9	100,0						
Cyprus	76,9	2,3	Russia	30,9	2,6									
Switzerland	72,1	2,1	Ireland	17,6	1,5									
Syria	57,7	1,7	EBRD	17,5	1,5									
Others	480,8	14,3	Others	80,2	6,7									
TOTAL	3.369,5	100,0	TOTAL	1.192,8	100,0									

Sources:

1: Romanian State Ownership Fund

2: Bulgarian Foreign Investment Agency

3: OECD, Migration, Free Trade and Regional Integration in Central and Eastern Europe, 1997

IV.2. The monopolistic advantages of Greek companies that permit the establishment of investment projects in the CEECs

In order to realise all these investment projects, Greek companies in CEECs must enjoy certain monopolistic advantages towards both the host country firms and the TNCs ('true' and 'new'). The main monopolistic advantages of Greek investment projects in the Balkans towards the host country firms are that they have substantial capital, (though very small if compared with FDI from DCs); established relations with the Western market; parent firms originating from an EU member state and management with experience in operation in a market economy. Greek investment projects will retain the above mentioned «monopolistic advantages» only for a short period of time. It will only be a matter of a few years until local firms develop similar skills themselves.

As for the main monopolistic advantages of Greek investment projects in the CEECs towards TNCs ("true" and "new") these are first, knowledge of working in an unstable environment. In fact, TNCs from both DCs and UDCs, due to the economic and social instability in the countries where Greek investment projects have been established, have maintained a "wait and see" attitude. Second, the geographic proximity. Third, they have access to, compared to the other European countries, cheap skilled labour in their home country. In a sense Greek engineering companies, are involved in the export of factors of production: technical and manual work force while firms from DCs have to face much more expensive labour costs and, for typical projects, no longer have a technological edge. Finally, the traditional Greek firm owned by a business family has the advantage of being able to risk more and hence grab all the opportunities.

IV.3.2. The size of Greek companies

Since we do not have overall data concerning the countries of origin of FDI in CEECs we worked on some partial data that we have deriving some provisional conclusions. That is, first *Greek FDI projects in CEECs are large in number but quite small in volume of investment*. Regarding Romania¹³, according to the Romanian State Ownership Fund, in November 1998, there were 1569 Greek projects with a capital invested amounting to 82 US\$ million, while for Bulgaria according to the Bulgarian Foreign Investment Agency, these figures were in September 1997, 1274 and 51 US\$ million respectively. The resulting average size of the Greek companies was US\$ 52,304 in Romania and US\$ 40,064 in Bulgaria. Both figures seem to be compatible with the Greek level of development and the size of Greek companies.

In a sense the Greek presence in Bulgaria¹⁴ seems to have two significantly different faces. On the one hand it appears similar to that of some less developed countries (Turkey, Lebanon, Syria, etc.), since the average investment in commerce, where about 90% of all Greek firms are operating, is not much higher than that of the countries mentioned above (Table 2). On the other hand the average investment in industry is not

13 It should rather emphatically be stressed that the Romanian registration system is still uncoordinated and problematic rendering the resulting data extremely overestimated (at least with regards to Greek FDI) and significantly less reliable than the Bulgarian. The actual figures could be less than half of those reported by the RSOF. Unfortunately, this data is the only available.

14 Unfortunately the same conclusions cannot be safely drawn for the other CEECs due to insufficient data.

much lower than that of the most developed economies, despite the fact that Greece has the largest number of industrial affiliates. Moreover, this figure would be significantly higher, had the Greek offshore companies been included.

However, even this remark should be viewed with extreme caution. During various visits in Bulgaria, as well as to a number of other CEECs, a significant number of informal Greek affiliates were detected, which were literally non-existent for the Bulgarian authorities. With the inclusion of such companies in the database the average investment of Greek manufacturing would be significantly smaller, possibly even reaching the levels of the less developed countries mentioned above.

Perhaps, to follow Kobrin (1997, 158-159) when he speaks for investments abroad from UDCs, the phenomenon of investment in CEECs by most Greek firms could more accurately be described as immigration rather than as FDI. Many Greek investment projects in the CEECs are of the emigrant entrepreneur type who decides to try his fortune abroad. That is, businessmen who migrate carrying with them their skills and sometimes, capital.

Table: 2 Average level of FDI by country of origin and economic sector (\$ U.S.)

	Industry	Construction	Agriculture	Transport	Communications	Commerce	Tourism	Services	Others	Total
Belgium	35.759.710	50.000	364	48.230	1	7.373	0	0	13.545	2.287.516
Netherlands	6.539.005	330	0	87.016	0	619.615	0	120.922	20.009	881.440
Germany	1.483.486	347.885	137.020	4.265.083	2.675	270.129	7.592.604	537.543	5.437	625.838
UK	2.000.351	1.145	7.150	22.310	2.496.996	89.481	1.042	1.234.010	8.898	430.933
USA	838.520	20.000	13	365	25.908	241.136	880.117	562.241	90.481	346.325
Switzerland	2.159.641	305	241.223	363.825	1.821	105.465	391.500	44.221	12.163	341.651
Cyprus	21.224	178.715	0	0	0	103.843	297.522	899.594	222.338	277.924
Austria	586.962	832.651	0	108.134	427	107.740	1.554	899.894	10.999	222.224
France	881.165	36.892	36.965	833	53.960	27.561	212	4.641.796	9.565	152.996
Czech Rep.	427.213	600	3.200.300	0	0	9.587	2.174	44.043	213.511	119.056
Russia	66.482	147.113	382	20.182	0	14.255	97.109	2.011.970	6.673	51.524
Greece	526.854	93.049	4.596	1.624	353.166	3.744	31.674	710.482	20.654	40.064
Israel	358.875	3.500	8.905	0	0	18.562	20.860	63.043	5.817	38.131
Italy	129.850	125	69.387	103.036	0	5.372	0	485.000	5.600	17.244
Ukraine	39.048	177	0	331	0	2.236	0	0	14.530	5.906
Lebanon	1.041	10.000	0	426	0	3.228	0	67.991	227	3.526
Syria	179.955	0	0	0	0	2.179	0	0	0	2.935
Armenia	133.819	0	0	0	0	1.417	0	0	2.830	2.342
Turkey	4.998	27.057	1.795	224	0	1.264	34.229	0	1.076	1.479
Total	2.744.116	102.914	309.008	264.296	366.869	86.010	779.216	880.196	36.908	307.845

Source: Bulgarian Foreign Investment Agency

V. Concluding remarks

From the analysis that preceded it could be argued that Greek investment projects in the CEECs, with a few exceptions, cannot be classified either as 'true' or 'new' transnationals. They are labour intensive, small scale operations, they are in industries with mature technologies, they pay low overheads, they compete on price rather than product differentiation, they don't have an established brand name, they don't invest heavily in advertising, they are established in UDCs, they are established in neighbouring countries, their subsidiaries are left on their own, they form joint ventures with local entrepreneurs. Needless to say that only a handful of them have a chance of becoming «new TNCs» and even less so «true TNCs».

However, the large companies (type 1 - that constitute the 27% of firms with investment projects in the CEECs) do resemble, more to «new transnationals». In fact, a handful of those companies (e.g. Titan, Petzetakis, Chipita, Thrace Paper Mills etc.) and this too is a rather novel phenomenon, seem to resemble more to "true" TNCs rather than "new" ones. These four and a few more companies have invested in countries which are more developed than Greece, often in other continents, with highly competitive markets. Furthermore, their affiliates are under strict control from the parent company. Finally, it seems that the choice of location is not random or opportunistic as in the majority of Greek firms, forming an essential part of the strategy of the companies and their global positioning.

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