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ГРЪЦКИТЕ ПРЕКИ ЧУЖДЕСТРАННИ ИНВЕСТИЦИИ В ЮГОИЗТОЧНА ЕВРОПА

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GREEK FOREIGN DIRECT INVESTMENTS IN SOUTH-EASTERN EUROPE

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Abstract

This paper tries to make an approach to the Foreign Direct Investments in South-Eastern Europe. The aim of the paper is to evaluate the variable impacts on the economies on businesses and employment relations in South-Eastern Europe. Evidence was reported from the national banks and it is referred to the last decade. Analysing the findings, it is more than certain to declare that FDIs have been and therefore will be a competitive option to investments in the domestic economy in the future. This is the key, each economy should present its own distinct opportunities and advantages and moreover large investors tend to seize the opportunities discerned in both.

Keywords: *FDI, South-Eastern Europe, domestic economy, invest.*
JEL Codes: *F21*

1. An approach to the notion of an FDI

In this paper, we will refer to investments carried out by Greece and received by countries of the South-Eastern Europe, that is, the Balkans: Albania, Serbia, Bulgaria, FYROM and Romania. We will focus more on the Foreign Direct Investments, and their magnitude each time; furthermore, on the causality of these investments. The reason, for example, why the Balkan countries would in some respect seem to be an attractive space for foreign investments and, particularly, foreign direct investments. First, we will clarify the notion of this kind of

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investments and, after that, we will study each aforementioned country in particular.

Foreign direct investments (FDI) is nowadays a frequently used term of economics. One could attribute this frequency due to the globalization of the economy, the economic integration, and, of course, the fairly large broadness of the term. FDIs are often considered to be a very important and even a crucial factor in the framework of achieving economic development and is therefore an imperative objective in the political programs of a lot of countries. Same applies to Greece, especially ever since the first MoU was implemented from 2010 onwards, and the South-Eastern Europe and Balkans' countries as well. Let us proceed to an approach of FDI term, as it is officially defined.

According to UNCTAD (1999), FDIs are not merely what their name signifies; that is, an investment performed by a company, or a parent company, to a foreign company or a subsidiary company. FDIs have more specific characteristics. The investor has got the purpose of a more long-term intervention and control over the company on the receiving end. He even may claim power over its management. Moreover, OECD, within the corpus of its so-called benchmark definitions (BD3), provides a specific percent of ownership that has to be in the investing entity's disposal. This aforementioned percentage is 10%. OECD study claims that, if the investor of a FDI has not reached this level, he must have a bulky voting power and at least partial control over the management of the company.

International Monetary Fund, on the other hand, seems to provide a very similar definition to the ones referred to above. As is quoted in (Zervantaridou, 2015), the IMF perceives the FDIs to have two distinct characteristics: the investing company has its headquarters in another country from the one that is receiving the investment; this is the primary element.

Moreover, the investor has to prove that there is a lasting and genuine long-term interest in his foreign investments in order for the investment to be called a Foreign Direct Investment. One might deduce the same as (OECD, 2008) does, that it not always easy to discern an FDI from another type of investment and, as Mpitzenis (2014) would argue, it seems that every country has its own typology, when it comes to investments in general and, of course, foreign direct investments in particular.

2. General review of FDI in South-Eastern Europe

There are some reasons, which are recurring in the literature and relevant scientific discourses, for the undeniable fact that the South-Eastern Europe countries pose such an attractive receiver for a lot of investors from several countries, but especially Greece, which the one country we will examine in this chapter.

Of course, especially with regard to Greece, it undeniably is the close proximity of this country to the rest of the Balkan countries, which tends to play an important role in the investor decisions to a certain degree. Secondly and more importantly, it is the very low tax rates which are imposed in terms of entrepreneurial activity in these countries. (Karpouza, 2010) We shall see a table below, which summarizes all these capital tax rates.

Thirdly, for some investors, a major factor seems to be the very low labor cost in these countries, by virtue of which many different entrepreneurs are able to exploit or even over-exploit the labor in these countries, and maintain high levels of profitability. Furthermore, a different type of factor which cannot be ignored is the common cultural, spiritual, historical ground among the countries of South-Eastern Europe and Greece.

All the aforementioned facts need to be factored in, if we are to fully comprehend the major or even dominant role the Greek Foreign Direct Investments play in these countries over the years. Another element which was not mentioned until now was the low or very low level of infrastructure existent in the Balkans. This fact could function twofold. Firstly, one could argue that inadequate -and cheap- public infrastructure is important for an investor with a long-term interest in a specific country.

However, an investor can be the one who will build this infrastructure, usually in coordination with the government and the respective public sector entities. An example of this is real estate infrastructure, which, as we will see in the coming pages, is an important type of Foreign Direct Investments carried out in South-Eastern Europe. Before we proceed to presenting the tax rates data, let us point out that the Balkans is part of the European countries which displays some of the larger Real GDP growth rates.

In the respective data, we will find countries such as Bulgaria, Romania, Kosovo or Albania taking over the first places in this respect. An interpretation of this, besides other factors such as monetary policy for example, is the facts presented earlier and, of course, such strong GDP Growth rates tend to encourage long-term investors and thus preserve high FDI activity for these countries. With all that being said, let us present the contemporary tax rates for the Southeast Europe countries in Table 1.1 below:

Table 1: Current corporate tax rate of SE Europe countries

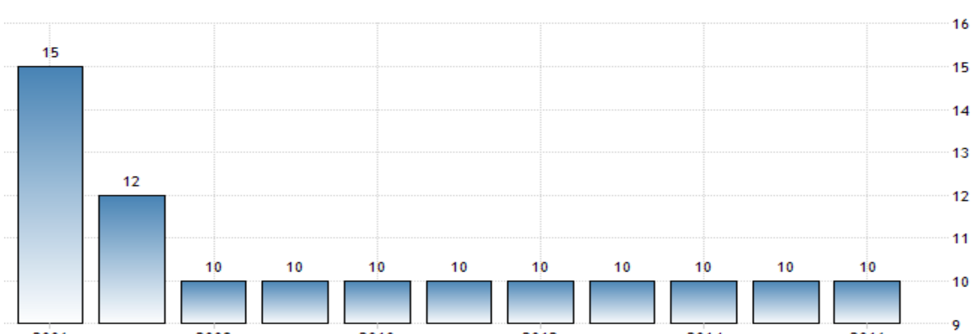
Country	Corporate tax rate (2016)
Albania	15%
FYROM	10%
Romania	16%
Serbia	15%
Bulgaria	10%

Furthermore, a more meticulous presentation of the tax rates of enterprises' revenues is provided below. We firstly present the table containing Serbia's corporate tax rates. As we see, the respective rates range from 10-15 percent and the mean taxation rate for the interval 2003-2016 was 11.88%.

Image 1: Serbia Corporate Tax Rate

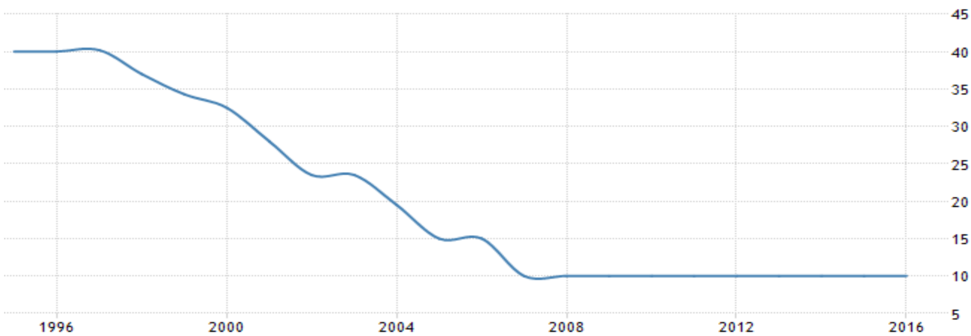
The FYROM Corporate Tax Rate during the last ten years seems to have dropped from 15% to 10%, and the mean rate during the years 2006 to 2016 is 10.64%, as we see in Image 2.

Image 2: FYROM Corporate Tax Rate



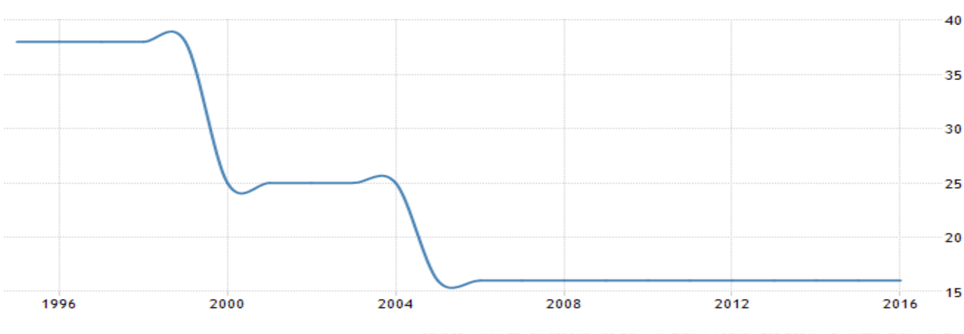
The following image displays the developments regarding Capital Tax Rate of Bulgaria within the interval 1995-2016. It is obvious that, while the initial rate was relatively very high (40,20%) , it gradually diminished to 10%.

Image 3: Bulgaria Corporate Tax Rate



Romania is a country similar to Bulgaria as to its Corporate Tax Rate developments. It has a mean rate of 23.05% pertaining to the last twenty years, but, at the same time, its tax rate from 2006 onwards has lingered at 16%.

Image 4: Romania Corporate Tax Rate

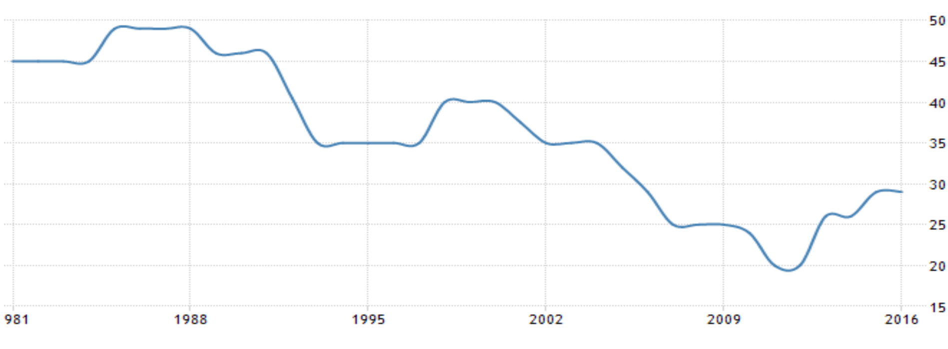


Lastly, in Albania, the mean tax rate from 2005 to 2016 has been one of the lowest in South-Eastern Europe, as it is calculated equal to 14%. In recent years –from 2014 onwards- it has been slightly raised to 15%, and formerly it had been 10%.

Image 5: Albania Corporate Tax Rate

From what has been cited above, it is logically obvious that especially neighbor countries should have a great share of long-term interest FDIs in these South-Eastern Europe countries. This is apparent, due to the fact that all these countries seem to at least incorporate a very fundamental element of so-called tax havens. It has even been argued that FYROM –as is implicit in ("Macedonia – A Tax Haven in the Balkans", 2015) - shares more elements of this category. Moreover, if one compares Greece's own Corporate Tax Rate, the mean of which from 1981 onwards is 36.17% and the current value of which is 29%, he will see that FDIs appear as a very reasonable option for a major part of Greek investors. The respective graph is provided below, as a measure of comparison.

Image 6: Greece Corporate Tax Rate (1981-2016)



In the paragraphs below, we will examine if this logical assumption is actually consistent to and validated by the facts and the raw data that is available.

3. Study of FDIs from Greece to each SE Europe country

a. FYROM

There are certain pieces of information which are available and can formulate a quite concise or even detailed depiction of the Greece-FYROM FDI status through the years. It is, for example, well known that within the interval 1997-2011, Greece has invested a total of € 390,48 million in FYROM. This bulk of investments implies a ranking for Greece in the fourth place of the respective list, as Holland has got an accumulated magnitude of FDIs of € 744,99 million for the same interval, ranking it in the first place. Holland is followed by Austria, which has invested € 416,76 in the area and Slovenia, which has invested € 405,66 million. For an easier reference, the following table has been created depicting FYROM's accumulated FDIs.

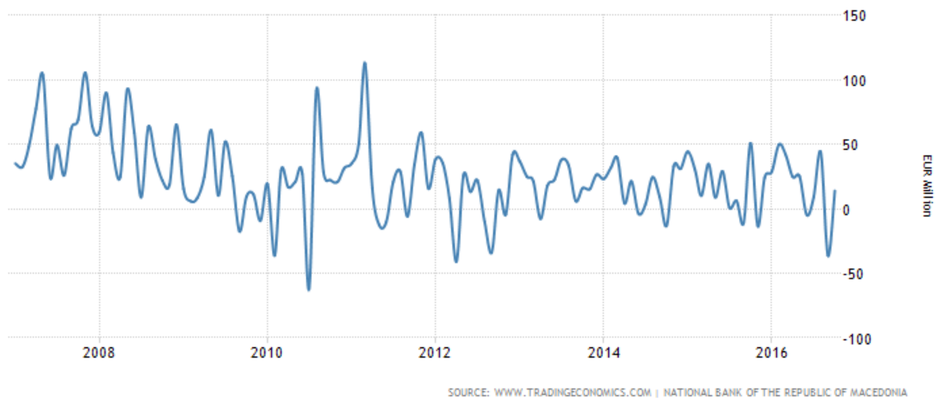
Table 2: FYROM's accumulated Foreign Direct Investments (1997-2011) *[Data source: FYROM's Central Bank]*

Ranking	**Country**	**FDIs' magnitude**
1	Holland	€ 744,99 millions
2	Austria	€ 416,76 millions
3	Slovenia	€ 405,66 millions
4	Greece	€ 390,48 millions

According to other, non-official accounts, the accumulated Foreign Direct Investments of Greece to FYROM could be enumerated as equal to as much as € 1 billion, but in either case Greece remains one of FYROM's top investors. From 2012 onwards, the status seems to divert to a certain degree from its former state. In 2012, for example, available data indicate that a repatriation of profits towards Greek parent companies had taken place, thus lessening FDIs level so it reaches € 50,6 million.

It is noted here that the FDI inflow for the same year reached € 147 million, while capital outflow was counted equal to € 96,7 million. If one takes into consideration the fact that FDIs for years 2010 and 2011 had been higher, € 160 million and € 336 million respectively, a major loss in that respect is undoubtedly recorded. In order to obtain a better understanding of the total of Foreign Direct Investments, we will present the respective graph, which expands to the last ten years of FDI inflows to FYROM.

Image 7: FYROM's FDI inflows (2007-2017)



b. Bulgaria

Bulgaria is another interesting instance of South-Eastern Europe countries. However, with regard to Greece and Greek FDIs in particular, it appears similar, but, still, different in a few respects from FYROM. The Greek Foreign Direct Investments coming from Greece seem to play a major and continually augmenting role in the Nineties; yet, in 2012, according to the available data, there were observed some capital outflows, from certain countries, such as Greece (€ -62,6 million) perhaps, partly, as a result of the ongoing crisis in the country and European economies in general. In the image seen below, taken from (Petranov, 2003), this fact is apparent.

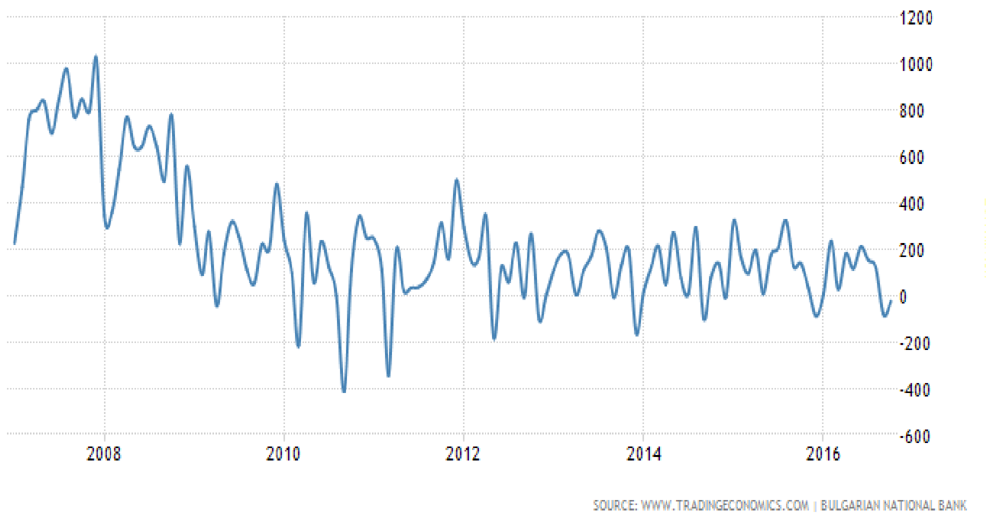
Image 8: Table of distribution of FDI by Country of Origin, as percentage of total FDI inflows

1992		1993		1994		1995		1996	
AUSTRIA	37.8	GERMANY	55.3	GERMANY	52.6	GREECE	18.3	GERMANY	20.7
HUNGARY	35.8	USA	15.8	NETHERL.	17.9	IRELAND	10.7	NETHERL.	18.1
UK	18	TURKEY	9.6	USA	16.2	GERMANY	10.0	SWITZERL	9.0
LUXEM.	1.1	SWITZERL.	6.5	AUSTRIA	7.7	USA	9.9	KOREA	8.7
SWITZERL.	11.1	UK	55.5	ITALY	2.5	RUSSIA	9.3	USA	8.1
CYPRUS	10.9	GREECE	55	FRANCE	1.9	TURKEY	8.4	GREECE	5.7
RUSSIA	10.9	RUSSIA	11.3	GREECE	1.4	UK	8.4	RUSSIA	5.6

Source: Foreign Investment Agency.

In general, it would seem that the Bulgarian economy had been heavily relying on FDIs for a long time, at least until the very recent years (Danova, 2011). This fact is meticulously portrayed in the table given below, which depicts the total FDI inflows towards the Bulgarian domestic economy, as carried out in the last ten years, that is, from 2007 onwards. One can observe the spikes occurring in 2008, which imply this heavy reliance, one of the greater in this part of Europe.

Image 9: Bulgaria's FDI inflows (2007-2017)



As Danova (2011) points out, the Greek FDI inflows had been playing through the years a very important role, concerning investment flows and this was due to both countries participating in the same region and thus having markets closely dependent and collaborating with each other. According to the data Danova (2011) refers to, by the end of 2008, Bulgaria was able to attract 6.7 billion Euros in FDIs.

Perhaps this state should be seen in conjunction with the extensive privatization programs which were realized in the majority of the Balkan countries: Bulgaria, Romania, FYROM and Albania. Those programs implied further capital inflows from foreign investors. It is stressed that even state property remaining after the crash of the infamous banking pyramid schemes collapsed was sold (Tsolis, 1999). One of the most important business deals in this respect was Eurobank taking over Postbank. Other influential events were Bulgaria's acceptance within European Union, which may have triggered major increase from €2,7 billion in 2004 to €6,2 billion in 2006.

Finally, when it comes to the current state of Greek FDIs to Bulgaria, it is fairly evident that they have returned to the level witnessed in the Nineties (naftemporiki.gr, 2015). According to data stemming from the Greek Embassy in Sofia, Bulgaria, at the end of 2014, Greece was ranking in the third place, a follow-up to Holland and Austria. Some of the sectors FDIs were taking place were garments production units, nutritional products and beverages, products of paper, telecommunications material, packaging and more. (Tsolis, 1999).

c. Albania

Let us proceed now to the third country of SE Europe to be examined, Albania. In the graph below (Image 10), we observe the total FDIs taking place in Albania for the time interval of the last ten years gone by, 2007-2017. After this, we observe a graph of the bilateral FDIs from Greece to Albania, for a ten years interval, beginning in 2002 and ending in 2012. If we compare the two graphs, it is easily deducible that the Greeks are some of the most important investors in Albania.

Image 10: Albania's FDI inflows (2007-2017)

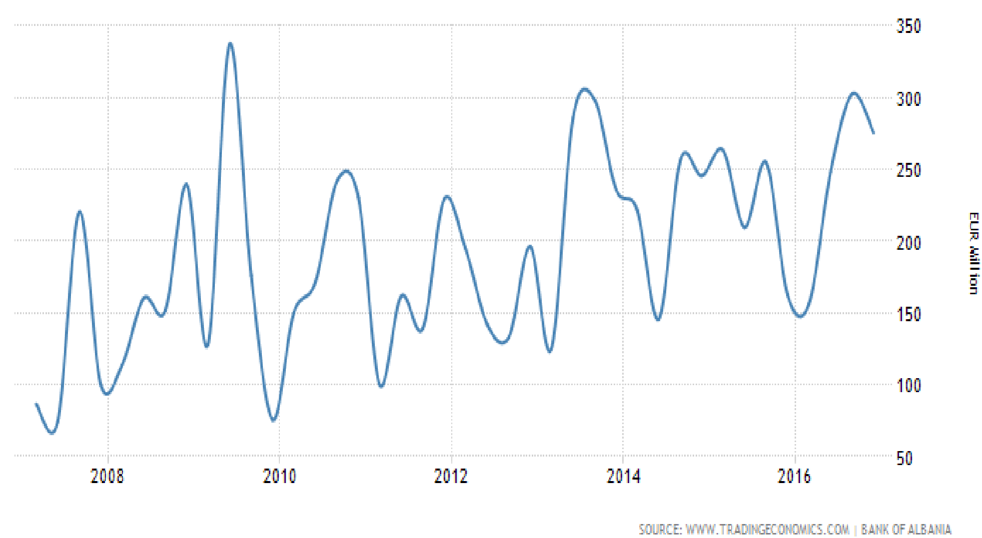
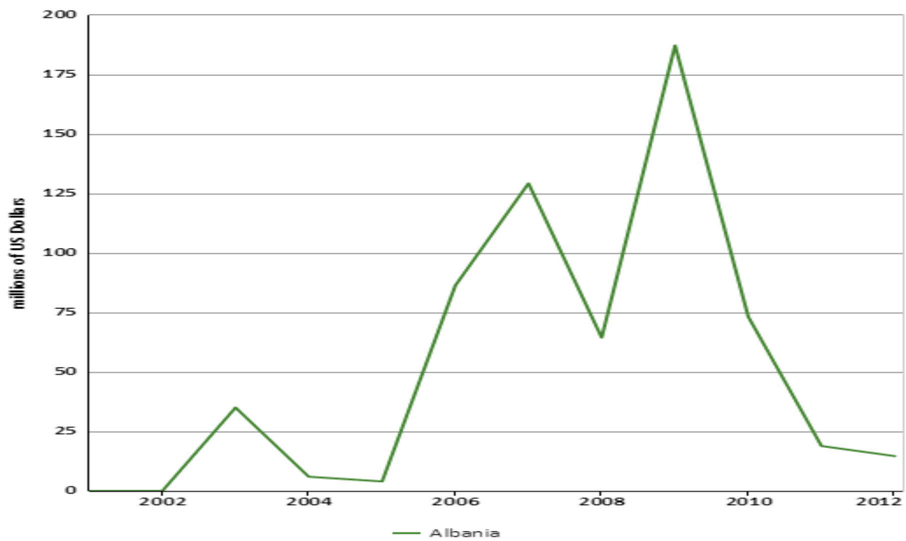


Image 11: Greece-Albania's FDI inflows (2002-2012)

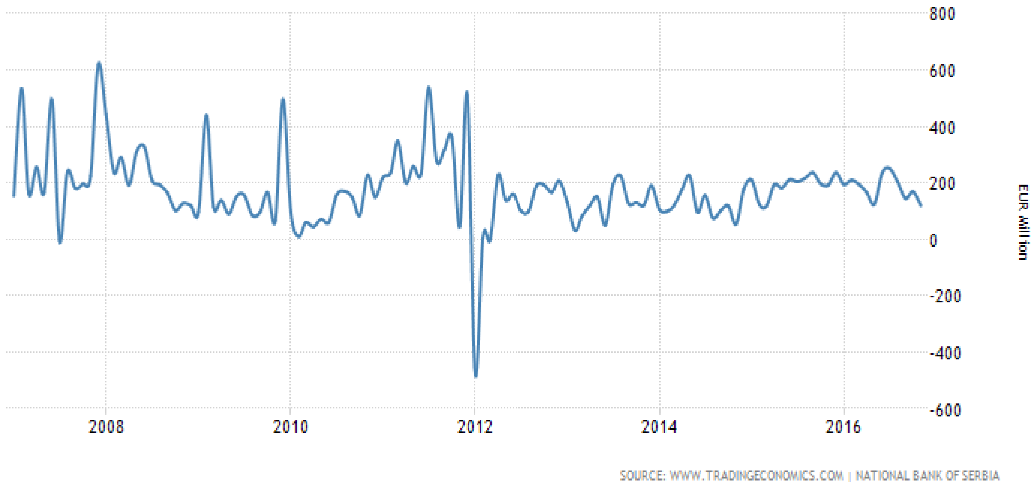


It is evident that in close proximity to the year 2010, when the economic crisis struck the Greek economy in a harsh manner, there is a spike of Greek investments taking place in Albania. More generally speaking, in the post-crisis years the investments from Greece are thought to flourish in Albania, according to data coming from the chairman of the Albanian Office of Economic and Commercial Affairs. (Kaitantzidis, 2015). In 2013, there is an increase of 39,10% in bilateral FDIs. All in all, for the interval from 2007 to 2014, Greece is calculated to be by far the investing country with the highest FDIs. (Onti, 2013) claims that the sectors of the economy where FDIs are mainly taking place are *"banking, telecommunications, health care services, fuel, construction, information technology, production and marketing of building materials, legal, accounting and advisory services, food industry, textile and shoe-making"*.

d. Serbia

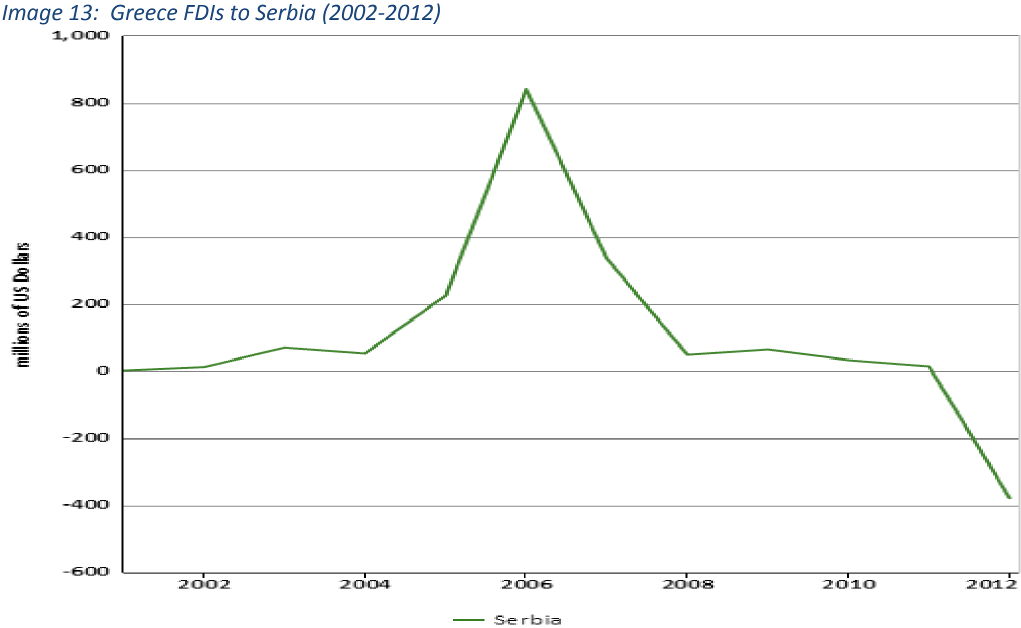
Yet again, Greece seems to be one of the most prominent investors in Serbia. (Tsantilas, 2009) claims that Greece is actually the first foreign investor, with the highest magnitude of investments for the last twenty-one years. The accumulated magnitude of investments from 1996 onwards, if one includes offshores, investments in Montenegro etc. reaches 2.1 billion. In the diagram below, there is the evolution of total FDIs taking place in Serbia, from 2007 onwards, as well as the graph of Greek FDIs taking place in Serbia from 2002 to 2012.

Image 12: Serbia's FDI inflows (2007-2017)



In the graph below, we can observe the manner Greek FDIs taking place in the neighboring country evolved from 2002 to 2012.

Image 13: Greece FDIs to Serbia (2002-2012)



According to official data stemming from the Greek embassy services, in Serbia, there are 153 companies at work which are of Greek interests; employees occupied in these companies are approximately 20 thousand individuals. There have been Greek investments ever since 1996, but their recording began in 2001. According to the same sources, if one takes into consideration only the post-2001 investments, Greek FDIs rank fourth, with an accumulated magnitude of FDIs reaching €1,5 billion .

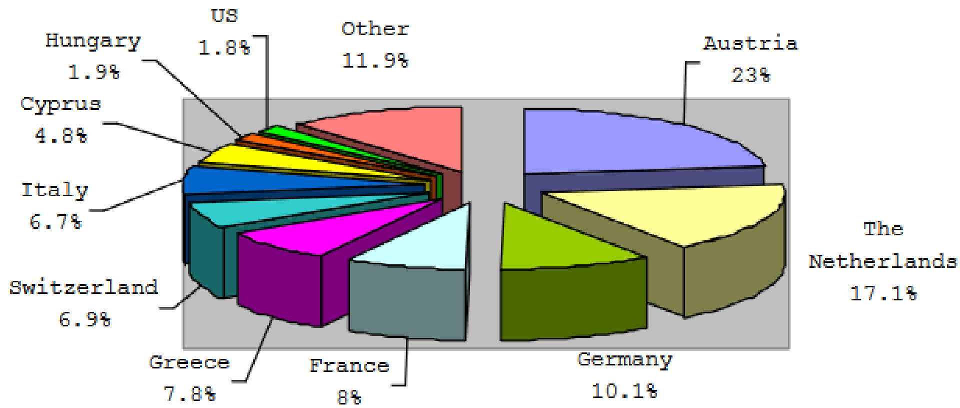
However, if one counts in the pre-2001 ones as well, then Greece should rank at least second. Two of the investments of the greater importance have been those of Eurobank's and the National Bank of Greece, as they both were 0,4 to €0,5 billion and were thus included in the 20 highest foreign investments ever taking place in Serbia.

e. Romania

Romania is yet another country of the South-Eastern Europe which went through a series of excessive privatizations procedures dating back in the Nineties. However, this privatization trend was definitely favorable to a growth of Foreign Direct Investments, which began to amass at the same time, after 1992 and especially 1996. (Tsolis, 1999). Major companies sold thereafter to various investors were car manufacturing company Dacia, the national company of tobacco, Banc Post and more. Greek investors (the partly private National Organization of Greek Telecommunications) were the ones who bought Rom Telecom.

If one compares the graphs below (Images 15 and 16), it is fairly obvious that the Greek FDIs were relatively very high, in the pre-crisis years. Indeed, if one calculates, for example, the mean percentage of Greek FDIs taking place in Romania for the pre-crisis years 2001-2006, he will find it to be as high as 42,13% (Filippaios & Tzoumis, 2008). Greece was actually the fifth foreign investor with regard to the host country's total investments, as is seen in pie chart below for the year 2006 (Vasilescu et al., 2006).

Image 14: FDIs to Romania (2006)



However, in the years after the crisis began, Greece's contribution to the total FDIs taking place in Romania significantly diminished, thus ranking 6th in year 2016, after the Netherlands, Austria, Germany, Cyprus and France (US BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, 2015).

Image 15: Romania's FDI inflows (2005-2017)

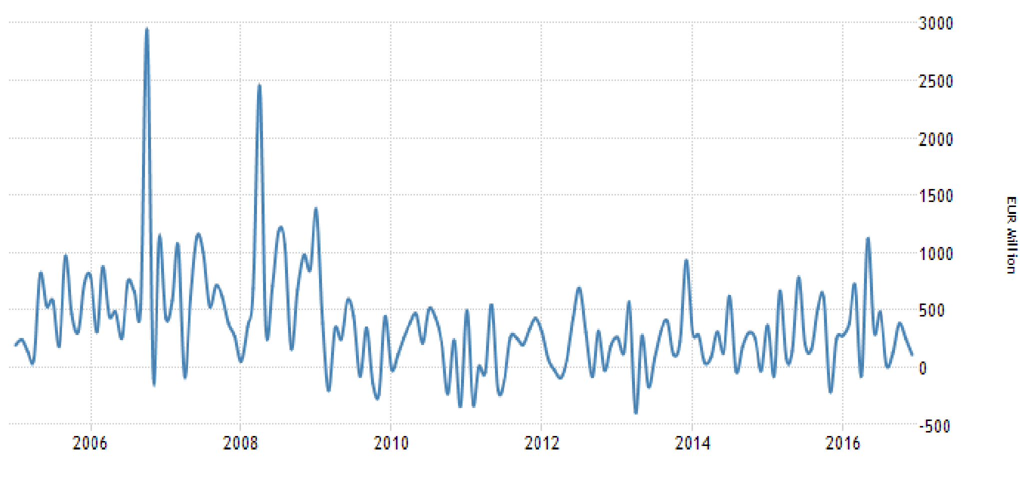


Image 16: Greek FDIs to Romania (2003-2012)

4. Conclusions

From all the material reviewed above, it is obvious that Greece has been (and still is) a foreign investor of paramount importance for all the South-Eastern Europe countries examined, since its investors have been engaging in Foreign Direct Investments in such quantity that the country has been continually ranking from first to sixth as a foreign investor. Greek investors began to invest in all these countries from the early to mid-Nineties, when the dissolution of former socialist states gave way to neoliberalism. This implies that the high capital tax rates of the Nineties were gradually lowered by local governments to an extremely low level of 10-15%.

The interest of Greek investors was also rather widespread, since it involved several different sectors, from banking and car manufacturing to telecommunications. A diverse set of large magnitude investments also occurred; the acquisition of the Bulgarian Postbank by Eurobank is one famous example. Another famous example which took place in the same sector was the acquisition of almost 100% of the Serbian Vojvođanska Bank by the National Bank of Greece.

The bilateral relations of this kind are cultivated up to the current years, as many statements are continuously made by respective authorities of the aforementioned countries to the Press and elsewhere. At the same time, it is true to a certain extent that Foreign Direct Investments flourished due to the crisis striking Greek economy in a devastating manner and undoubtedly more profoundly than the other countries of SE Europe.

It is easily comprehensible that powerful Greek investors were discouraged to invest in an economy that was brought to stagnation, with consumers of limited available income and therefore diminished expected product profitability. Consequently, this, among others, is a very important factor that needs to be taken into careful consideration, if we are to perform some type of future prediction regarding the FDIs, that is, their evolution in the forthcoming years.

In terms of the above matter, is would seem reasonable to assume that the Foreign Direct Investments will continue to exist at a high to very high level, irrespective of Greece's speed of economic recovery and related phenomena. This prediction stands to reason, because of the fact that Greek FDIs of all kinds have been a permanent phenomenon, occurring either at times of large and moderate GDP Growth or at times of recession. Despite the invariable and undoubted influence of the performance of the FDIs' home country, there has been developed a certain level of independence, pertaining to them, with globalized commerce of the last twenty years being a definite cause of this.

Finally, it is certain that FDIs have been and therefore will be a competitive option to investments in the domestic economy in the future. This is a plain fact; however, each economy presents its own distinct opportunities and advantages and, historically, large investors tend to seize the opportunities discerned in both, as was seen in some of the examples reviewed in the previous paragraphs.

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