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Trends and Patterns of Greek Outward FDI in CEE Countries

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ABSTRACT

Purpose:
This paper focuses on the internationalization of the Greek Multinational Enterprises in Central and Eastern European Countries. Its purpose is twofold. Firstly, to describe the process through which Greece became a major investor in the region following the collapse of the central planned economies. Secondly, to investigate if there are any different patterns between firms investing in Central and Eastern European Countries and those investing in other EU countries.

Design/methodology/approach:
Using firm level data and a descriptive qualitative approach we analyse the investment trends in the two regions and find indications of different patterns in the volumes and sectoral allocation of FDI.

Findings:
A major finding of this study is that Greek FDI in Central and Eastern European Countries follow different patterns in terms of volume, sector and industrial activity, compared to the respective FDI in other EU countries

Research limitations/implications:
The firm level data used in this study refer to the specific year that each FDI was announced; In this respect one major limitation is that we cannot trace any increase of invested capital or disinvestment to subsidiaries which are already established.

Originality/value:
This paper contributes significantly to the existing literature since it is one of the few studies examining the total of a country's outward FDI in the CEE Countries at sectoral level, using firm lever data in an extended time series extending both in pre-crisis and post-crisis periods.

1. Introduction

Following the collapse of the central planned market economies and the adoption of the market economy in the 1990s, transition economies of the Central and Eastern Europe (CEE) began to attract, initially low in volume but rapidly increasing, FDI flows at a significantly higher level than the rest of the world. Foreign Direct Investment (FDI) inflows were multiplied in volume during mid-2000s especially for the countries that joined the EU, while after 2009 inflows collapsed due to the global recession. The internationalization path for the Greek multinational Enterprises (MNEs) is somehow interwoven to the opening of the CEE Markets. Greece's geographical and cultural proximity created a comparative advantage for Greek MNEs to expand their operations to the region, compared to the MNEs from other EU countries.

This paper is an effort to explore the trends and patterns of Greek outward FDI in CEE Countries, focusing specifically on those characteristics that constitute different patterns of the Greek MNEs' motives and strategies for an extended period ranging from the late 1990s to the post debt crisis period. The paper also attempts a comparison of Greek MNEs' investment patterns in CEE Countries and to the rest EU Countries.

The main contribution of this paper is that it is not restricted to aggregate country level analysis. Using a database that includes firm level data, we are able to go a step further and investigate FDI trends and patterns through a conjunction of the sectoral and the geographical level. Specifically, the extended time series from 2003 to 2019 cover

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both the pre-crisis and post crisis periods. In this respect the uniqueness and novelty of this study is that it investigates the impact of the crisis on the trends of outward FDI of a peripheral economy such as Greece to core and peripheral host counties.

This paper is structured as follows. It begins with a retrospect of CEE Countries transition and the consequent gradual inflow of Foreign Direct Investment (FDI). In this context, the paper examines the internationalization of Greek MNEs in CEE Countries from the early 1990s to the advent of the debt crisis. It specifically focuses on how Greek MNEs have evolved through time and exhibited different qualitative and quantitative characteristic. It also presents the perception of the Greek policy makers over this internationalization phenomenon and particularly to the policies they pursued.

Then follows the description of the research question and the data and methods used in the current study. The approach is descriptive.

The empirical part initiates with a brief presentation of the major destinations of Greek MNEs and the impact of the debt crisis on the activities of Greek MNEs.

In the next section we make an extensive descriptive analysis of the different patterns of Greek FDI in the CEE Countries and the rest of the EU and finally, in the last section there is a discussion of the conclusions along with some key policy recommendations and suggestions for future research.

2. Review of Literature

2.1 CEE Countries transition and FDI inflows

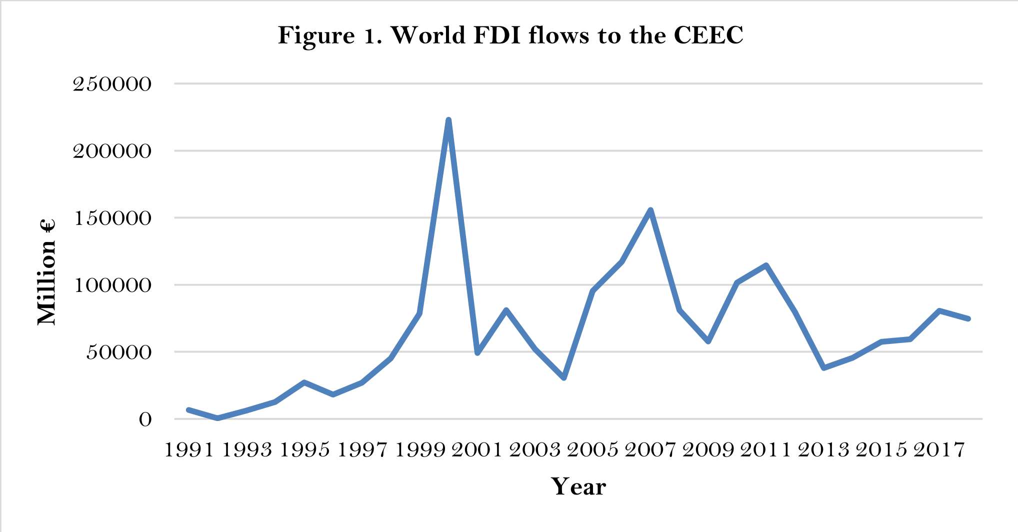
During their industrial development, CEE Countries' centrally planned economies, were almost completely closed to foreign investment until the end of the 1980s. Following the collapse of the communist governments, the actual dissolution of COMECON and the adoption of market oriented economic systems, the transition economies of CEE Countries began to attract low but rapidly increasing FDI flows (Johnson, 2006, p. 5-9). Their transition process included liberalization and stabilization of their economies including structural and institutional reforms and privatizations and restructuring of state-owned enterprises in order to develop location advantages that would attract foreign investors. Initially, the lifting of protectionism led to crowding out their domestic industries resulted in an increase of imports and a decline of exports. This was a result of the low competitiveness of the domestic CEE industries against western imports. Under these circumstances, and with the domestic private and public investments diminishing, attracting foreign capital was probably the only choice for CEE Countries (Bitzenis & Marangos, 2007) for pursuing growth.

The transition to the market economy and the consequent attraction of FDI has not been an identical process for all CEE economies, since their centrally planned economic systems differed substantially. The Soviet Union, for example, implemented a much stricter and more closed centrally planned economic system compared to other countries such as Hungary, Poland, the Czech Republic and Yugoslavia which maintained some relations with the western economies, allowing some foreign capital inflows and private sector activity in their economies. These differences combined with a great deal of political upheavals and institutional changes that took place after 1991 shaped a very disparate business environment. In this respect, three countries alone, the Czech Republic, Poland and Hungary accrued over 50% of total FDI inflows in the region (McMillan & Morita, 2006).

Most of the investments came from developed neighbouring countries, mainly Germany and Austria. The main motive of foreign investors was to acquire a dominant position over their competitors by expanding into a new market with increasing demand potential (McMillan & Morita, 2006) as well as the potential for establishing export platform production activities due to its low labour cost. Of course, only part of these FDI were greenfield since acquiring formerly state-owned enterprises at remarkably low prices has been a popular strategy among foreign investors. A striking example is the automotive industry, with prior state-owned firms been partially or wholly acquired by German, French and Italian automotive industries (eg. the acquisition of Czech Skoda by Volkswagen and Romanian Dacia by Renault (Radosevic & Roziek, 2005).

It should be emphasized that foreign investors, apart from funds, also brought intangible assets such as new technology and innovation, production and marketing know-how and modern administrative structures that improved the competitiveness of acquired firms (Bradshaw, 2005). For most CEE countries, actual benefits from the inflows of FDI were not visible prior to late 1990s since, as mentioned above, FDI inflows were ranging at a relatively low level. After 1998, this trend began to shift. Following the gradual stabilization of CEE economies and managing to restrain inflation (Kornecki, 2010, p. 7), FDI flows starter to accrue. The EU membership status and the subsequent accession of many of CEE Countries in the EU in 2004 and 2007 has been a determining factor for increasing FDI inflows since it induced structural reforms related to business environment and governance (Jirasavetakul & Rahman, 2018). Countries of Central Europe and especially Poland, Czech Republic, Romania and Hungary have been the major FDI attractors since the opening of CEE economies, while Bulgaria also became a major host country after its accession in the EU (PriceWaterhouseCoopers, 2010, p. 2).

The crisis of 2008 had a major impact on FDI flows globally. FDI in CEE Countries certainly experienced some suspension in the previous years' expansion trend. Yet, we could assert that the crisis did not have the same impact on all CEE Countries. Poland, Estonia, Slovenia and North Macedonia, for example, did not experience any severe decrease in inflows while Slovakia, Hungary and Bulgaria witnessed a collapse in their inflows of FDI. After a difficult and, in some cases, painful transition process, FDI inflows to CEE Markets played a major role in their development path and their integration in the international economic environment (Popescu, 2014).



Source: UNCTAD

2.2 Greek MNEs early internationalization into the Balkans

The path for Greece, as an FDI investor, can be traced back to the early 1990s with the collapse of the centrally planned economies of CEE and the consequent opening up of their borders to foreign capital. As a result, many Greek firms found a prolific area to build their internationalization path, taking advantage of the cheaper production factors and the enlarged new market in terms of demand.

The first wave of Greek MNEs' expansion emerged just after the opening of CEE markets in the early 1990s was driven by the Greek "migrant entrepreneurs" living there. These individuals gained from the increasing demand conditions by channelling Greek exports in CEE Countries while many of them acquired managerial positions at the subsidiaries of Greek MNEs in these countries (Kamaras, 2001).

This type of early internationalization was followed by a second "wave" in mid-1990s, consisting of Greek labour-intensive firms such as the textile industries. These firms relocated production processes in the neighbouring countries in order to gain from the lower labour costs (Karagianni and Labrianidis, 2001) and survive, since the domestic environment had become increasingly hostile as a result of the continuous increase in domestic labour costs and foreign imports. Many of these firms found themselves acting as intermediaries within "triangle-like industry networks". Within these networks, firms from core-EU countries such as Germany, directly purchased Greek firms' products that were partially (or totally) produced in CEE Countries, since Greek firms used to transfer labour-intensive processes of their production chain in their neighbouring Balkan countries (Labrianidis, 2003). In this respect, Greek firms that were previously export oriented turned into MNEs controlling export platform FDI in the Balkans. This type of resource seeking FDI in the manufacturing sector exists until today but its added value in the Greek economy is diminishing. The geographical allocation of Greek FDI in this period was rather limited, since the majority of Greek controlled subsidiaries that were established in the Balkan countries and especially in those sharing common boarders with Greece (Bulgaria and Romania). There has also been an opposite flow of migrant labour coming to Greece from the FDI host countries and especially from Albania. (Labrianidis, Lyberaki, Tinios & Hatziprokopiou, 2004).

Moreover, it is worth mentioning that almost 50% of Greek controlled subsidiaries were established in Bulgaria (Bank of Greece, 2006, p. 118). The importance of proximity is also highlighted by the fact that most of the parent companies were based in Northern Greece. It seems that the proximity of Northern Greece's firms with the Balkan markets gave them an advantage towards the bigger, better organized and near the policy makers firms that were based in Athens (Dimitratos & Lioukas 2002). It is also worth mentioning that a significant share of Greek parent firms, especially in the textiles industry were partially owned by German firms (Labrianidis & Kalantaridis, 1997) while many of the Greek parent firms had previously strengthened their position through mergers and acquisitions (Labrianidis, 2000).

The general impression regarding the multinational characteristics of the Greek MNEs investing in CEE Countries of that period is that with the exemption of a small number of big Greek MNEs, the vast majority were not presenting the typical characteristics of multinational firms as observed in the relevant literature. They were basically small and medium sized firms, labor intensive, using obsolete technology and production processes, and with limited innovation, marketing strategies and managerial capacity (Labrianidis, 2000b); Labrianidis et al, 1997).

For the period described above (1990-1997), there are not available consistent data on the volume of Greek FDI in CEE Countries. Available data with extended time series from UNCTAD include only the aggregate of global outward FDI, while more analytical data from the Bank of Greece include time series only from 2001 onwards. If we take into account evidence showing that above 90% of Greek MNEs were investing in Albania, Bulgaria and North Macedonia (Bank of Greece, 2006, P. 118) along with UNCTAD's data, we could safely estimate that the amount of Greek outflows in CEE Countries was around 2.5 million € in 1990 and slowly increased at around 3 million € in 1997.

2.3 Maturing of the internationalization strategies and increase of invested capital

The third wave of Greek MNEs expansion covers the period from 1998 until the outbreak of the 2008 financial crisis. This period is characterized by the maturity of the internationalization process, the increase of invested capital and of the number of Greek controlled subsidiaries and the expansion to new markets (Giakoulas et al. 2012). It began around 1998 and lasted till the outbreak of the debt crisis.

The major characteristic of this period is the entry of large enterprises of Greek oligopoly-sectors such as constructions, telecommunications and banking and the huge increase in the invested capital. These firms expanded their business abroad, often operating as intermediaries of other larger European firms (Bank of Greece). The geographical spread of Greek MNEs subsidiaries has also expanded beyond the boundaries of the neighboring Balkan countries to other CEE Countries. Apart from CEE Countries and Cyprus which had been the major Greek FDI recipients up to then, Greek MNEs started also expanding in core EU economies such as Germany, France, Italy, UK and Spain and also to some international tax havens (Kalogeresis, 2003, p. 165-165).

According to the calculations on data retrieved from the FDI Markets database, Greek FDI outflows in CEE Countries rose from 863 million € in 2003 to 3068 million € in 2008. Especially Greece's FDI skyrocketed from 2005 to 2008. Probably this substantial increase of invested capital from late 1990s up to the advent of the crisis happened because of the following reasons.

Firstly, Greek MNEs were following the global patterns on outward FDI flows which were also rushing during the same period, as a result of the deepening of globalization and increased market openness. Secondly, many sectors grew rapidly and reached the restricted boundaries of the Greek market. In this respect, big firms (especially those of the financial and the telecommunications' sector), sought for new markets, thus shifting part of the internal competition abroad (oligopolistic reaction). Upsizing of these sectors has been the outcome of certain conditions that occurred in the domestic market, thereby leading to their internationalization. Some of the most important of these conditions have been:

- the rise of the stock market in the second half of the 1990s, which enabled a considerable number of Greek firms to raise funds and grow,
- the large-scale mergers and acquisitions that occurred in Greece during the 1997-2003 period, largely caused by the stock market growth (Papadakis and Thanos, 2008) and
- the Olympic Games which had been a major driver of growth in Greece, especially for the constructions sector (Giakoulas 2015).

Thirdly, many of these investments have been escapism FDI as a result of the increasingly hostile business and institutional environment in Greece (Kottaridi et al, 2019).

2.4 The policy scene

FDI were believed to improve (at least in the short run) the efficiency of the Greek MNEs and there was evidence that there has been a rather positive impact on Greece's GDP (Kalogeresis, 2003, p. 217-219). There was also a strong belief that Greece could emerge as the leading economic and political player in the Balkan Region (Tsardanidis, 2001). In this respect, Greek governments, from mid-1990s to mid-2000s pursued policies fostering the expansion of Greek MNEs in the region.

Typically, Greece's investment relations with the non-EU member countries were regulated by Bilateral Investment Treaties (BITs) and Double Taxation Treaties (DDTs). Since the mid-1990s Greece had become increasingly active in pursuing policies fostering regional cooperation through various international initiatives and supporting the European perspective of the Balkan transition countries (Wallden, 1999). Greece has been promoting growth and stabilization of its neighbouring countries and specifically promoted the EU membership and the "Stabilization and Association Process" of Bulgaria, Romania, Albania, Croatia, North Macedonia, Montenegro, Serbia, and Turkey (Bitzenis and Vlachos 2011). Greece has also been providing aid to the Balkan countries through bilateral agreements and funds allocated directly by the Ministry of Finance and Economics, though not under a holistic approach but rather fragmentally (Giakoulas, 2015). In this context, Greece's most holistic attempt has been the Hellenic Plan for the Economic Reconstruction of the Balkans (HiPERB) initiated in 2002 (HiPERB) (Monastiriotis & Tsamis, 2007). The general aim of this programme has been to contribute to political, economic and social stability in South-East Europe and to support recipient countries' European perspective. The programme particularly funded actions for the improvement of infrastructures, human capital, institutions and the welfare state. All these policies began fading after the accession of many CEE countries in the EU and especially after the advent of the 2008 debt crisis.

2.5 FDI patterns between CEE Countries and the EU Countries

Studies have shown (Jones et al, 2020) that there are significant differences in the motives of FDI in CEE Countries and in the rest EU countries. This is a result of differences in production factors endowment and market demand structure between the two areas. These differences have created a pattern according to which, FDI in CEE Countries are often used as export platforms (Neary, 2008) to the near core EU economies as reflected in the core-periphery model (Krugman and Venables, 1990). This pattern will probably boost FDI in the manufacturing sector of CEE Countries.

Furthermore, in the case of Greek FDI, Giakoulas (2015) and Giakoulas and Kottaridi (2020) found that there are different motives of Greek FDI in CEE Countries and in Western European countries. Greek FDI in CEE Countries are mostly attracted by lower production costs and taxation while in the case of core EU countries, they follow more complex, efficiency seeking strategies such as the expansion into new markets and searching for synergies, expertise and strategic partnerships.

3. Research question, data and methods

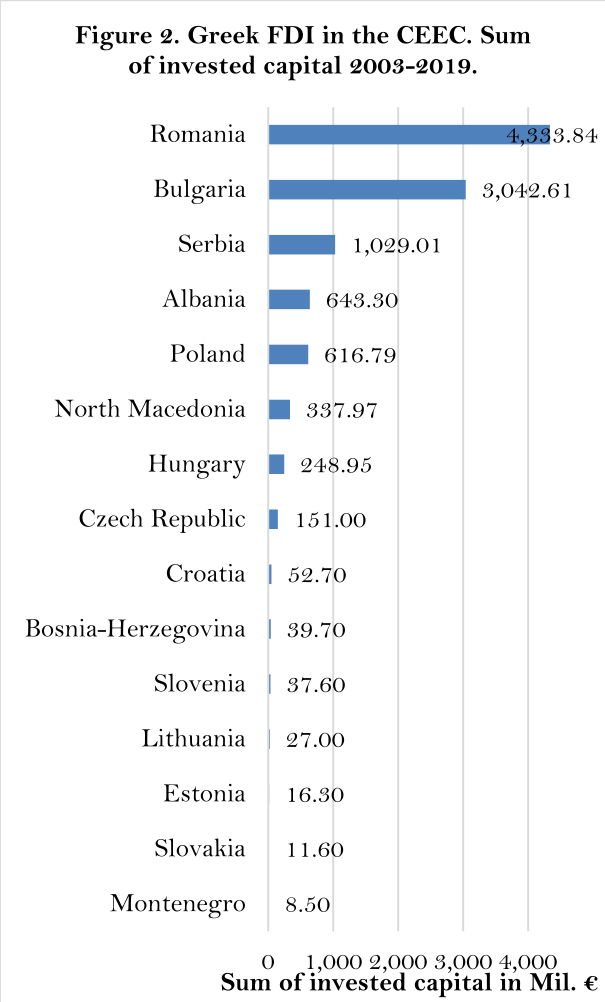
The aim of the empirical part of this study is to investigate whether there are different patterns of Greek outward FDI in Central and Eastern European Countries and in the rest EU countries. The approach is rather descriptive using data retrieved from fDi Markets database which is a private database provided by Financial Times Ltd. The database includes detailed information such as sectoral and geographical information, financial data, investment data etc. for all parent enterprises and their subsidiaries from 2003 onwards and is constantly updated. One major setback of the database is that it cannot trace any increase of invested capital or disinvestments to subsidiaries which are already established. Nevertheless, though compared the total aggregate Greek FDI outflows from fDi Markets database with the respective data from UNCTAD and the trends are coinciding. Information about the FDI are tracked from media sources, industry organizations and investment agencies, as well as information from market research and publication companies.

Using these data, we initially present the main destinations of Greek FDI in terms of invested capital and number of projects, followed by a description of the case for the major destination countries. We subsequently investigate the impact of Greece's debt crisis on the volume of outward FDI by group of destination countries. We specifically use three groupings, Central and Eastern European Countries (CEEC), rest of EU countries (RoEU) and all the other countries (Rest of the World = RoW = Total – CEEC- RoEU).

Using the Peason correlation coefficient and scatterplots we then try to investigate if there are any different patterns among the major destination categories of Greek MNEs. Finally, we compare Greek FDI, both in terms of sector and industrial activity between Western European Countries and Central and Eastern European Countries.

4. Geographical allocation of Greek FDI in CEE Countries

Figures 2 and 3 show the geographical allocation of the sum of Greek outward FDI flows from 2003 to 2019. It seems that Romania is by far the most attractive host country in terms of invested capital and along with Bulgaria which comes second, are the main Greek outward FDI recipients through this period (2003-2019) accruing approx. 70% of the total of invested capital. Serbia is also concentrating around 10%, Albania and Poland around 6% and North Macedonia around 3%. It should be emphasized that Poland is not a typical Greek FDI host country. Its relatively high amount of investment is a result of a sole huge investment of Titan Cement in 2008.



Source: FDI Markets

Romania

Since 2004, Romania has become a particularly attractive destination for foreign investors. Factors such as its market size, its rapidly growing economy, its industrial production background combined with low labour cost, and the country's accession to the EU strengthen its position as an FDI recipient country (Birsan & Buiga, 2009). Romania lagged in attracting FDI compared to other CEE Countries, especially during the 1990-1998 period. This was a result of its delayed and slower economic reform process. The pattern described above started to shift after 1998, when massive privatizations in the country attracted foreign capital in the emerging new enterprise schemes (Birsan & Buiga, 2008). After signing the Treaty for accession in the EU in 2005, significant FDI inflows started rushing in Romania (UNCTAD, 2006, p. 263-265). The reduction of its corporate tax rate from 18%-40% to a flat 16% in 2005 has also been a decisive determinant for foreign investors.

Greek FDI flows in Romania peaked in 2008 reaching the level of 1259 million € and ever since they remain at a significantly low level, ranging below 200 € million. Major investment sectors are ICT and electronics, constructions, and financial services, cumulatively summing up at 74% of total Greek FDI in the country. The Hellenic Telecommunications Organization (OTE) has been the major investor in the ICT and Electronics sector. Also, OTE is probably the only Greek company that made a noticeable investment in Romania after the outbreak of the crisis, investing in Telekom Romania (Romtelecom) in 2016.

In the construction sectors we observe a great deal of bigger and smaller Greek companies, mainly investing in private sector's construction activities.

In the financial sector, Alpha Bank and Pireaus Bank are the major investors while National Bank of Greece has also a significant share. It must be noted that 97% of Greek FDI in the financial sector in Romania took place before the crisis.

Bulgaria

Bulgaria followed a similar internationalization path with Romania. After some failed early attempts for reforms and attracting foreign capital, Bulgaria faced an economic collapse in 1997 (Shteryanova, 2009). A new government pursuing economic reform policies focused on attracting foreign investments. Some of the key reforms adopted had been the establishment of a currency board, the development of a programme for the consolidation its banking system and the adoption of a new legislative framework for attracting foreign investment (Petranov, 2003).

The most determining element of the new legislative framework was the non-discrimination principle between domestic and foreign investors and the safeguarding and protection of foreign properties. The privatization of most of the state-owned enterprises that took place during this period, were also significant determinants for FDI inflows in Romania (Shteryanova, 2009). Probably the most important factor in attracting FDI has been the substantial decrease of the corporate tax rate (Gertchev, 2006) which gradually dropped from 40.2% in 1997 to 15% in 2005 and to 10% in 2007, making Bulgaria's tax rate the second lowest in the EU today. As a result, Bulgaria has evolved into one of the most dynamic FDI recipient countries, with FDI inflows reaching 30% of its GDP in 2007.

Greek FDI outflows in Bulgaria peaked after 2007 reaching a maximum of 1065 million € in 2008. After the outbreak of the crisis, Greek outflows ranged at a rather low level below 100 million €. The sectors of environmental technology, constructions and retail trade make up for 73% of total Greek FDI outflows in the country. Marivent a real estate company, Copelouzos Group and Damco Energy are the major Greek investors in renewable energy in Bulgaria while Danaos, Global Finance and Gek Group are the major investors in the constructions' sector. Regarding Greek FDI in retail trade, a remarkable finding is that FDI did not stop abruptly as in other sectors but continued to accrue till 2012.

Serbia

Serbia's internationalization path and transition process were supposed to be smoother compared to the other CEE Countries. This is because since 1967, Yugoslavia passed a law, permitting minority holdings in foreign investors, with certain restrictions in repatriations of its state-owned firms. In 1989, a new law provided more freedom to investors, making the country more attractive to FDI (Artisien & Buckley, 1992). One particular feature of the country was that its economic system differed substantially from the others' socialist economies since it focused more on self-management of the means of production rather on a strictly centrally controlled socialist system. (Popov, 2004, p. 17).

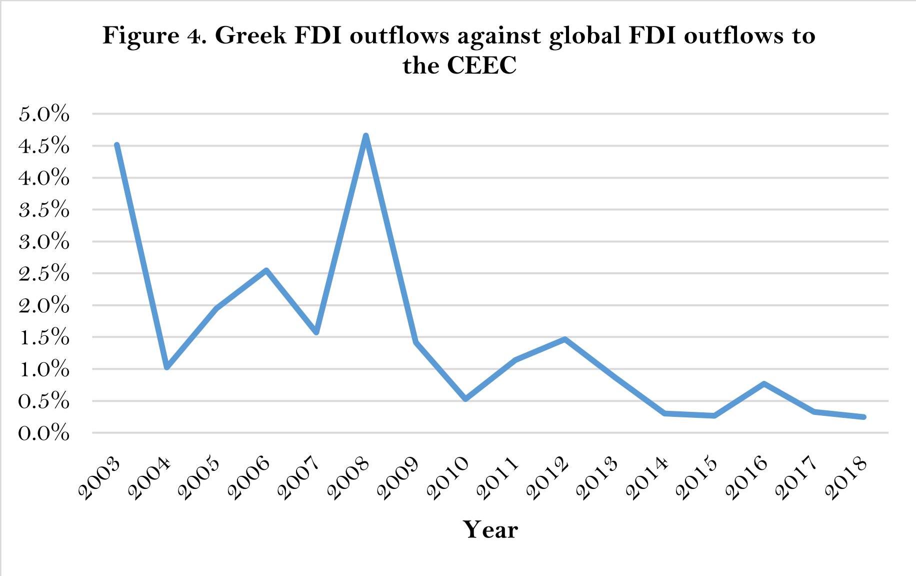
Despite its comparatively favourable investment environment, Serbia fell short on FDI inflows compared to other former socialist countries such as Bulgaria, Romania and Hungary. This was a result of many major problems faced by the country in the 1990s, such as the sanctions imposed by the UN Security Council in 1992 and 2000, over-inflation in 1993 and the bombing by NATO in 1999. Foreign investments actually appeared after 2000, when the country restarted its connection with the international economic environment. In this context, Serbia revisited its relations with major financial institutions, signed bilateral investment protection agreements, and developed the necessary legislative framework that regulated privatizations and FDI. (Ljubenovic Ralevic, Djuric & Djuric, 2009, p. 2).

Greek FDI outflows in Serbia have been ranging at a relatively low level below 100 million per year, except from 2012 when there was a significant investment of 512 million € in the constructions' sector by Latsis Groups, aggregating to more than half of total Greek FDI outflows in the country during the 2003-2019 period. Major Greek retailers such as Veropoulos and Jumbo also invested in Serbia throughout this period.

5. The crisis impact and Greece's withdrawal from CEE Countries

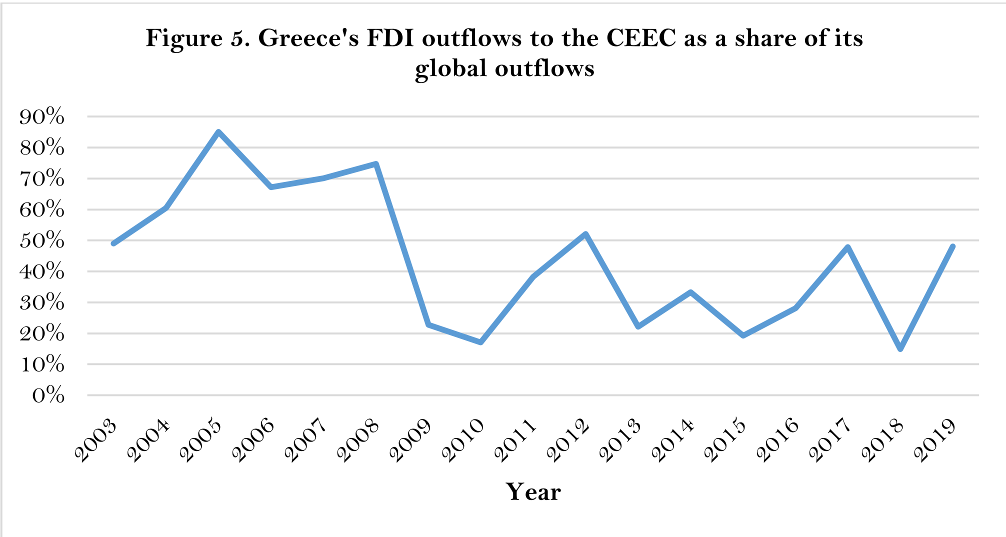
The advent of the debt crisis halted the expansion of Greek MNEs in the CEE region and FDI outflows started falling substantially after 2008 and ranging at near zero level after 2015. Combined with the increasing role of MNEs from core EU countries that had been also expanding in the region from early 2000s, Greek MNEs lost their leading position in the CEE region.

In figure 4 below, we combine data on global FDI outflows to CEE Countries retrieved from UNCTAD's FDI database with data on Greek FDI outflows to CEE Countries retrieved from FDI Markets database. In this respect we are able to construct the ratio of Greek outflows as a percentage of world outflows in the region. As clearly seen in figure 4, Greece had initially a rather significant share, ranging from 1% to 5%. After the advent of the crisis in 2008 Greece's share fell in 0.5% in 2010 and after a small rise in 2012 ranged at a level below 0.5% in 2018.



Source: UNCTAD and FDI Markets

The crisis has of course significantly affected Greece's outward FDI globally and not only in the CEE region. In this respect Greek MNEs withdrawal from CEE Countries could be, at least partially, explained by this trend. However, after the breakout of the crisis we observe a rather interesting phenomenon. The gradual fall of Greek FDI to CEE Countries as a share of its global outflows (Figure 5).

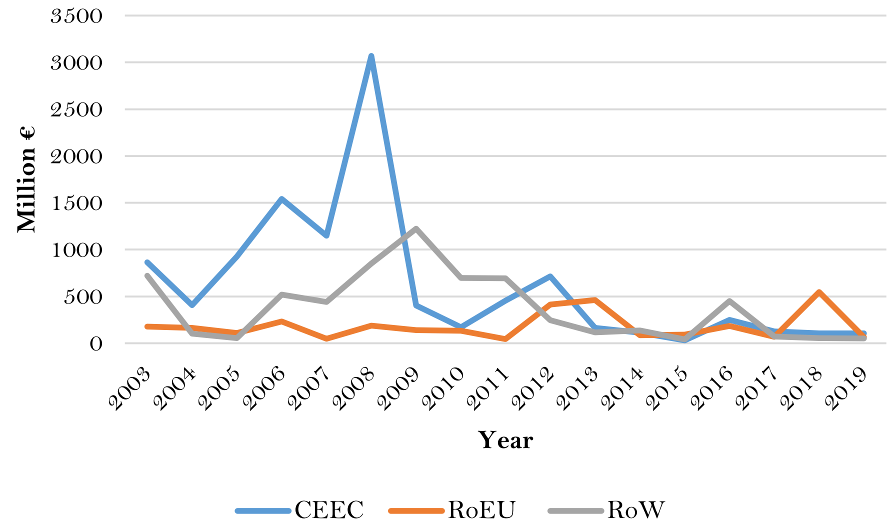


Source: FDI Markets

Historically CEE countries have been the main recipients of Greek outward FDI and as seen in the figure 6 below, outflows to CEE countries surpassed the flows to other EU countries (RoEU) and outflows to the rest of the world (RoW = Total – CEEC- RoEU). This trend peaks in 2008 when outflows in CEE countries surpassed the amount of 4 billion €, accounting for 75% of the total outward FDI in the same year. It's worth mentioning that during this period, FDI outflows to RoEU were at a significantly low-level ranging from 2% to 10% of total outflows while outflows to RoW surmounted them.

This trend changes rapidly after the advent of the debt crisis. We observe (figure 6) that Greek outward FDI to CEE countries and to extra-EU countries fell substantially after 2008 while FDI to RoEU increased and this consists of a pattern change. Greek outflows in CEE countries start falling substantially ranging at almost zero level in 2015, followed by a very slight resurgence. In this respect, during the crisis period CEE Countries lost their primary position as host countries for Greek outward FDI. All the above probably signify a change in Greek MNEs' location decisions after the crisis. An impact of the crisis that cannot been traced though this analysis, is the case that Greek MNEs weakened their position in the capital share of their subsidiaries or even shut them down completely.

Figure 6. Comparison of Greek outward FDI (flows)

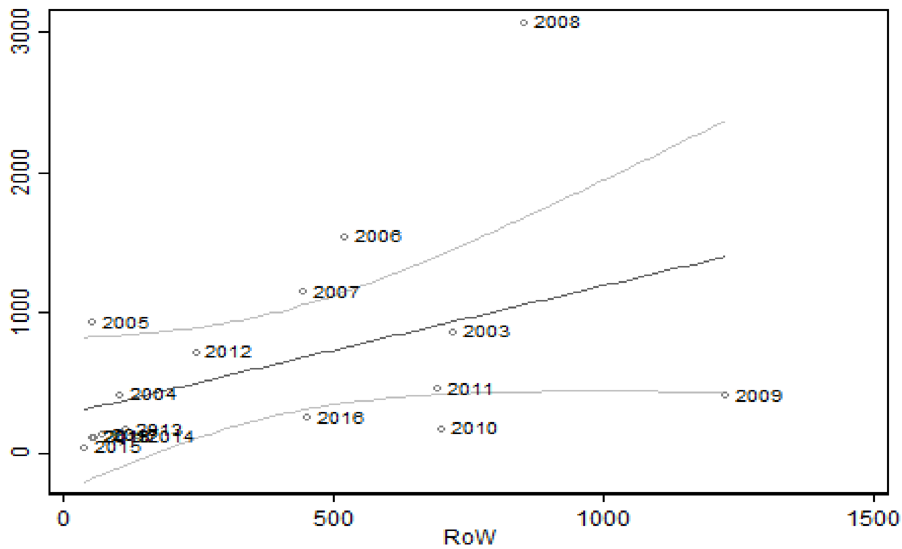


Source: FDI Markets

6. The relationship between FDI flows to CEE countries and other destinations

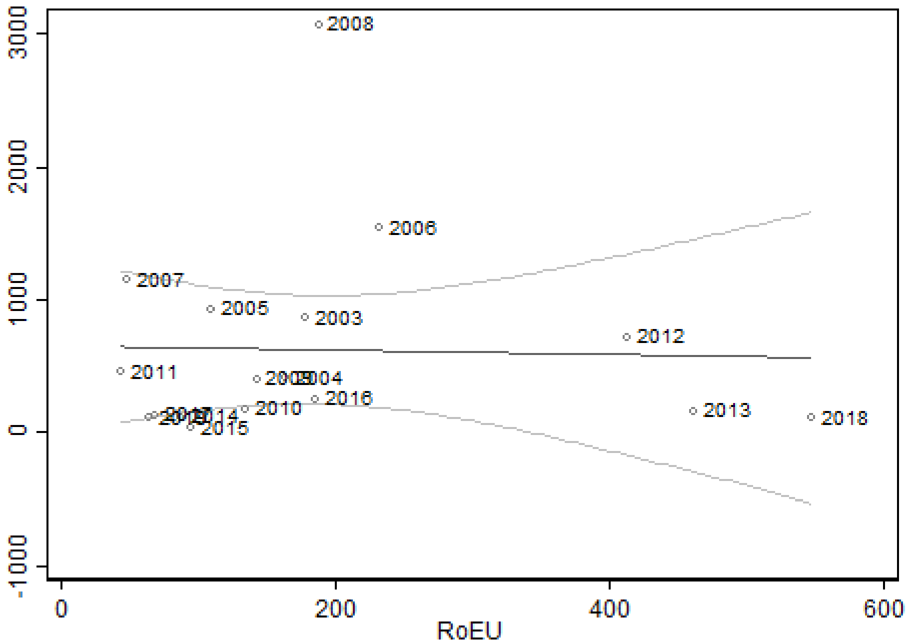
In this section we perform a comparison between Greek FDI in the CCE Countries and Greek FDI in other EU countries in order to identify whether there are indeed any different patterns in terms of growth, sectoral allocation, and operations of the subsidiaries of Greek MNEs. First, we calculate the correlation of FDI flows between the three country groups: CEE Countries (CEEC), EU countries excluding CEEC (RoEU) and extra EU-extra countries (RoW). It seems that while there is a positive correlation between Greek FDI in CEE and RoW countries (Pearson's r=.431, p-value=.084, N=17), there is no correlation between Greek FDI in CEE and RoEU countries (Pearson's r=-.031, p-value=.905, N=17). This finding is confirmed by the examination of the respective scatterplots (Figures 7 and 8) where the linear fit between CEE and RoW countries, regardless of the years that could be considered as outliers, while the linear fit between CEE and RoEU countries is completely flat. This finding clearly implies that the pattern of Greek FDI in CEE countries is not correlated with the respective trends in other EU countries but rather follows the pattern of FDI in non-EU countries. These results indicate that Greek FDI in CEE Countries are determined from different motives compared to the respective FDI in other EU Countries.

Figure 7. Scatterplot and linear fit with 95% confidence intervals between Greek FDI towards CEE Countries and RoW countries.



Source: FDI Markets – Author's calculations

Figure 8. Scatterplot and linear fit with 95% confidence intervals between Greek FDI towards CEE Countries and RoEU countries.



Source: FDI Markets – Author's calculations

7. Comparison of Greek FDI to CEE countries and to the rest of EU by sector and type of activity

We then compare the sectoral aggregate Greek FDI outflows in CEE Countries and in the other EU Countries for the period 2003-2019. For CEE Countries, the most important sectors in terms of aggregate invested capital outflows (figure 9) are Constructions (26.9%), ICT and Electronics (14.5%), Retail Trade (12%), Environmental Technology (11.2%), Financial Services (9.1%), Energy (8.1%) and Food, Beverages and Tobacco (8.1%). The same sectors but with a slightly different hierarchy are important in terms of investment projects (number of subsidiaries) (figure 10), i.e. Retail trade (31.5%), Financial Services (149%), Food, Beverages and Tobacco (10.7%), Constructions (6.5%), ICT and Electronics (6.2%).

It seems that constructions have been by far the most important sector of Greek FDI in CEE Countries in terms of aggregate outflows throughout this period with 2.8 billion €. Titan Cement sums up to almost ¼ of Greek outflows in the constructions' sector with 80% of its investments hosted in Albania, while Latsis Group, holding almost 20% of the sector has mainly invested in Serbia after the advent of the crisis but also in Bulgaria and Romania. Global Finance has also an important share of the sector (11.30%) with subsidiaries in Bulgaria and Romania.

What follows is FDI in ICT and Electronics, reflecting the telecommunications sector. With a total of 1.5 billion € of FDI outflows, the sector is almost exclusively (above 90%) comprised of the FDI of the Hellenic Telecommunications Organization (OTE) in Romania and some minor OTE's FDI in Bulgaria and North Macedonia. Retail trade is the third most important sector, market seeking by definition, with 1.3 billion € of aggregate invested capital. The difference, compared to the other sectors, is that in retail trade instead of having a rather small number of very big MNEs such as in the telecommunications and the financial sectors, we have instead a rather big number of internationalized firms and quite many of them have a significant weight on the sector's FDI outflows in CEE Countries. The most important investors in the sector are Fourlis Group (20.8%) operating a number of subsidiaries in the textiles and consumer products sectors in many CEE Countries, Jumbo (19.9%) a Greek consumers' products company operating in Bulgaria, Romania and Serbia and Veropoulos (16.7%) operating in the Food, Beverages and Tobacco sector investing in North Macedonia and Serbia. Hellenic Petroleum owning gas stations in Bulgaria has also a significant share of 12.4% and OTE with 8.4% operates in telecommunications' equipment and electronics and appliances stores in Bulgaria and Romania.

The Environmental Technology sector with 1.2 billion € is dominated by a small number of Greek companies with the most important being Marivent with 62.6% and Copelouzos Group with 25.6% both operating wind electric power plants in Bulgaria.

Regarding Financial services with 965 million €, it is worth mentioning that all the Greek systemically important banks had expanded their operations in CEE Countries. Piraeus Bank (34.3%) owns subsidiaries in Romania and Serbia, Alpha Bank (31.8%) in Bulgaria and ATEbank (13.4%) in Romania respectively. It should be noted that the Greek banks had a rather aggressive approach on their internalization path in CEE Countries, compared to the banks of other EU countries who had been more risk aversive (Vasiliadis, 2009, p. 95).

The Energy sector with 857 million €, by definition oligopolized, similarly to the banking and telecommunications' sectors, and is dominated by two non-energy sector firms. Titan Cement (54%) built in 2008 a fly ash separation and processing unit in Janikowo, district of Poland, using as raw material the fly ash, which is a waste of the power plants, of the major polish chemical group CIECH. In the same year Coca-Cola Hellenic Bottling (CCHBC) (36%) built a thermoelectric power plant in Romania. Hellenic Petroleum (6.3%) has also made considerable amounts of FDI in Montenegro, North Macedonia and Serbia.

Finally, in the Food Beverages and Tobacco sector with 568 million €, the major investors are CCHBC (46.8%) which has established production units in Bulgaria, Hungary, Lithuania and Romania while Tyras, a dairy producer firm with 37.4%, established production units in Romania and Bulgaria.

Regarding the impact of the crisis on these major sectors, it seems that those more affected had been Financial Services (which actually collapsed after 2009), Energy, Telecommunications and Constructions. On the contrary, the sectors of Food, Beverages and Tobacco, Retail Trade and Environmental Technology were significantly less affected.

Figure 9. CEEC - capital outflows

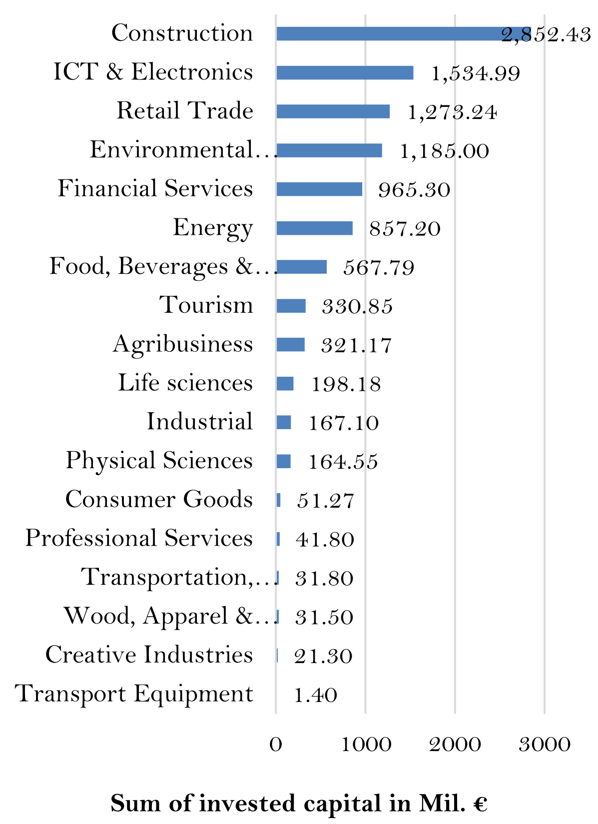
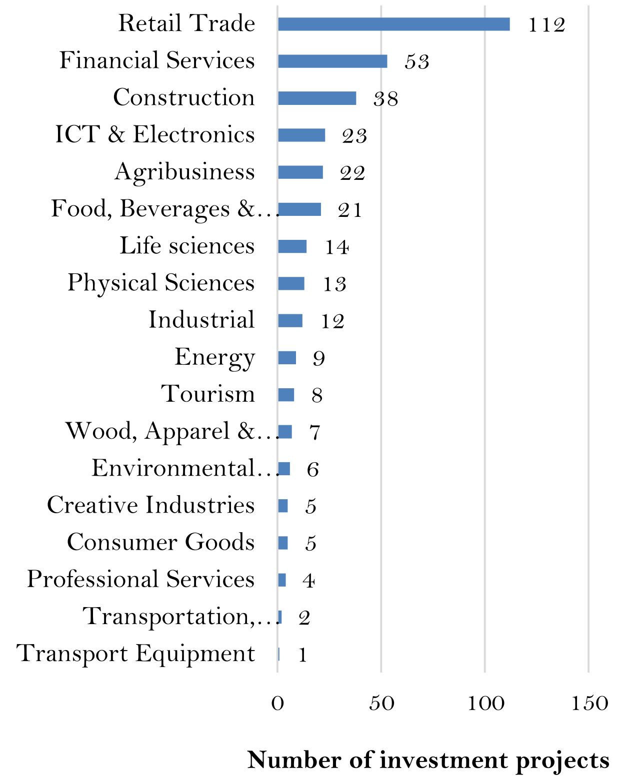


Figure 10. CEEC - number of investment projects



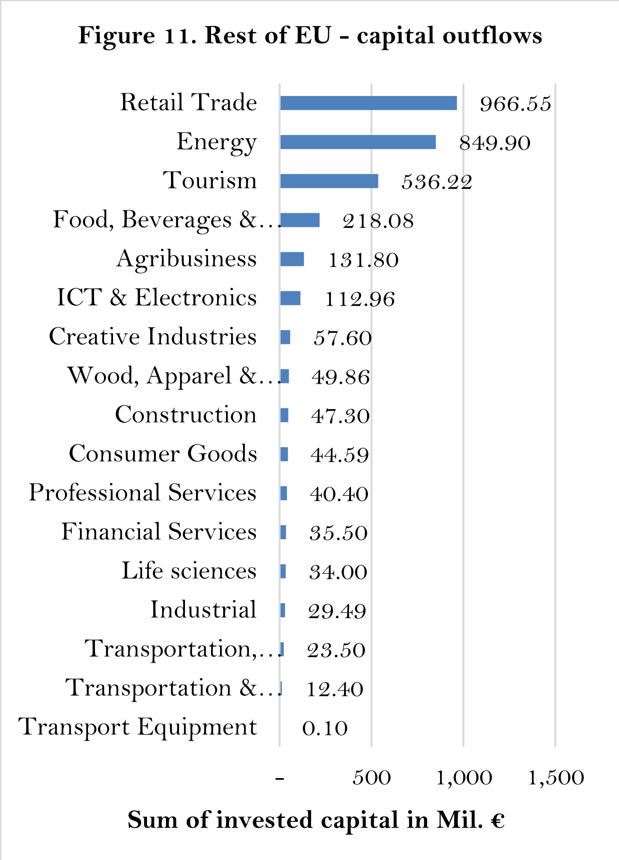
Source: FDI Markets

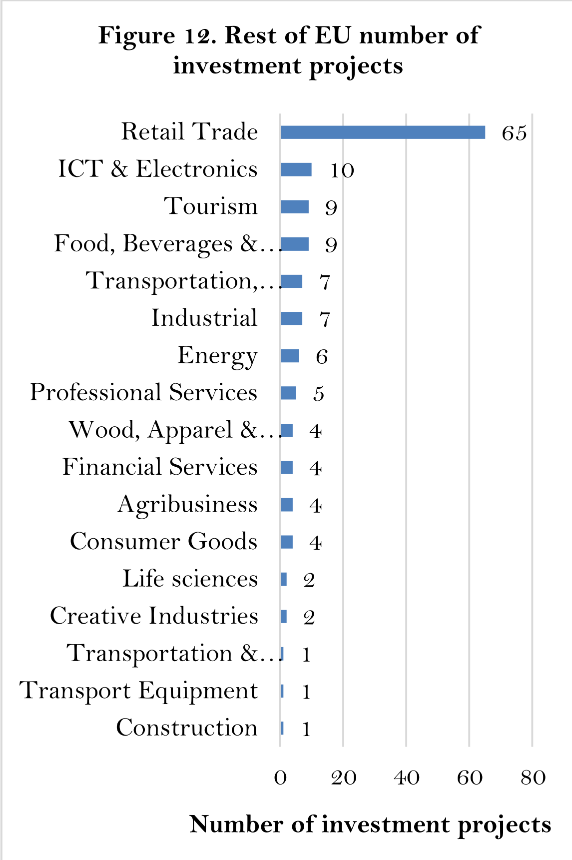
In contrast to the pattern described above, the sectoral hierarchy of Greek outward FDI in the rest of EU countries seems to follow a different pattern (Figures 11 &12). In particular, retail trade is the most important sector in terms of invested capital (30.3%) and in terms of investment projects (46.1%). The same Greek MNEs that have a dominant role in Greek FDI in CEE countries (Fourlis, Folli Follie, Agora Trading and Jumbo) are also the major investors in the rest of EU countries. The UK, Cyprus, France and Spain concentrate approximately 70% of Greek FDI in the sector in terms of invested capital and 72% in terms of investment projects. What actually ranks retail trade first is the significantly lower participation of the construction and telecommunication sectors.

Energy is the second most important sector (26.6%) but with only few investment projects. In terms of invested capital, Greek FDI in the sector are completely dominated by investments of the Greek Aegean Marine Petroleum Network in Spain.

The case for FDI in the tourism sector is exactly the same, with only a few investment projects and two big investments in Spain sourcing from two Greek MNEs operating in the sector.

Finally, in the food and beverages sector, which ranks 4th in terms of invested capital, CCHBC has the leading position. CCHBC acquired significant shares of several Coca Cola's subsidiaries, mainly in the UK, but also in Switzerland and Italy. This strategy followed by the Greek division of Coca Cola was already noticed by the Bank of Greece in 2001, when the company during the previous year had acquired a mammoth share of the UK's Coca Cola (Bank of Greece, 2001, p.253). It was implied that these investments were part of an intra-Group triangular transactions strategy.



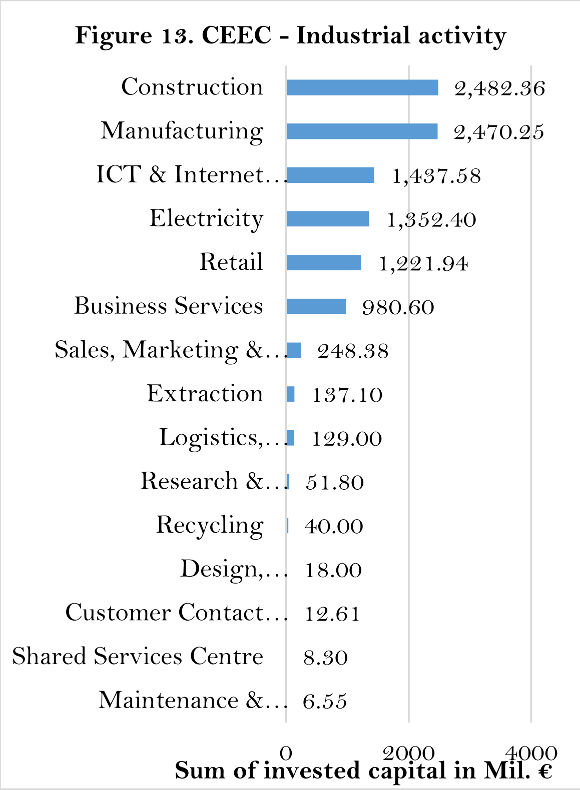


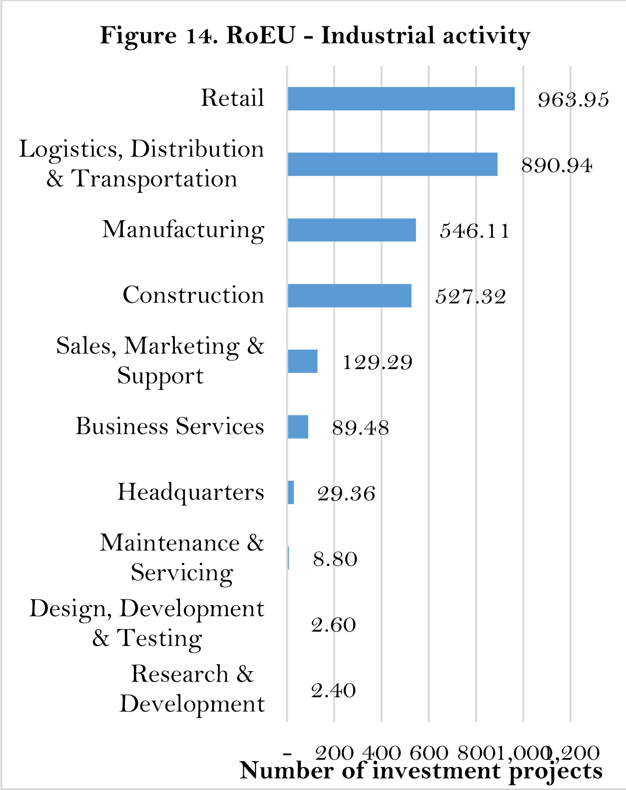
Source: FDI Markets

The sectoral analysis is useful but can also lead to biased deductions. This is because the sectoral allocation of a parent enterprise or its subsidiaries might not absolutely reflect its exact activities. Furthermore, many of the major Greek MNEs are found to invest in both areas.

According to Porter's value chain concept (Porter, 1985), the enterprise as an organization is a collection of different but interdependent activities that take place within and create value. Therefore we compare the exact business activities of the Greek MNEs' subsidiaries in the two regions (Figures 13 and 14). This we are able identify, what is the actual role of the subsidiary within the MNE's values chain and guess the motives for investing in each respective region.

It can be clearly seen that FDI in CEE Countries focus more on activities that are related to manufacturing while the respective FDI in the rest of EU countries are much more services oriented.





Source: FDI Markets

8. Conclusions

The purpose of this paper is from the one side to describe the internationalization process of Greek MNEs in Central and Eastern European Countries from a historical perspective and from the other side to investigate if Greek FDI in Central and Eastern European Countries follow the same or different trends and patterns with the respective FDI in other core EU countries.

The path for Greece, as an FDI investor, originates back in the early 1990s after the collapse of the centrally planned economies of CEE and the consequent opening of their borders to foreign capital. After three phases of expansion, Greek MNEs in CEE Countries had been reaching maturity of their internationalization path, at least at regional level. They are basically big MNEs that are motivated by seeking of new markets, strategic positioning and overall improving of their effectiveness. They have little resemblance to the smaller Greek firms that made the early Greek FDI in the region in the 1990s. The latter still exist and invest in the Balkans, but their importance, at least in terms of invested capital, is limited compared to bigger MNEs of the early 2000s.

FDI in CEE Countries were expected to improve the efficiency of Greek MNEs and have a positive impact on the Greek Economy. This given, Greek governments had been pursuing policies for the growth and stabilization of neighboring countries and specifically promoted their EU membership. All these policies began fading with the accession of many CEE countries in the EU and especially after the advent of the debt crisis which halted the expansion of Greek MNEs in the CEE region and FDI outflows started falling substantially after 2008. Combined with the increasing role of MNEs from core EU countries, Greek MNEs lost their leading position in CEE Countries. At the same time Greek MNEs that survived the crisis started focusing more on EU core countries.

The empirical part of this study, using a dataset of firm level data through an extended time series, indicates that the pattern of Greek FDI in Central and Eastern European Countries does not follow the pattern of Greek FDI in core EU countries. Specifically, we found different patterns in terms of aggregate volumes and in terms of sectoral allocation. However, sectoral allocation does not provide a clear view of these different patterns since the sector of a firm does not necessarily reflect its exact operations and furthermore many of the major Greek MNEs are found to invest in both areas. Therefore, through analysing data that reveal the exact operations of Greek firms abroad, we are able to better identify these distinct patterns of Greek MNEs in the two areas. We conclude that Greek MNEs in CEE Countries are mostly focusing on activities that are related to manufacturing while the respective FDI in the rest of EU countries are much more services oriented.

Considering factor endowments and market potential in the two regions along with the sectoral allocation and organizational structure of the investing MNEs, it seems that FDI in the EU region are more driven by market seeking motives and especially for the fast-moving consumer goods (FMCGs). There are also many dynamic Greek MNEs performing manufacturing activities in core EU countries and producing industrial and consumer goods for the local markets. These are characterized by market seeking along with strategic market seeking motives. The latter are the most mature and promising of Greek MNEs since their structure resembles to that of bigger MNEs from core EU countries.

From the other side Greek FDI in CEE Countries are mostly focused on production of consumer and industrial products and the development of infrastructure for CEE Countries. It is hard to say if the export-platform FDI is the case here since the purpose of many of these manufacturing activities is to produce products and services that are exported back to the Greek market.

A question arising from this finding is which of these two trends is more beneficial to the growth, competitiveness and internalization of Greek MNEs and by extension to the increase of their added value in the economy of Greece. According to previous relevant studies there are two major trends in Greece's FDI. One trend concerns internationalization, driven by taxation avoidance, lower production costs and possibly search of a more friendly business and institutional environment. To some extent this trend most likely consists of disinvestment. The other trend is that of internationalization that apart from seeking a more business friendly environment is mainly driven by strategic growth in new markets and the search for synergies, know-how and strategic partnerships.

We would argue that Greek FDI in CEE Countries better match the first category (but with several exemptions) while Greek FDI in the rest EU Countries better match the latter category. Therefore, a key policy recommendation that can be drawn from this study is that there is an urgent need for reforming Greece's business environment so as to revert escapism FDI outflows and thus restrict the loss of added value in the Greek Economy. At the same time, more dynamic and efficient Greek MNEs could further strengthen their position and produce additional positive effects for the Greek economy. A managerial implication that could be extracted in this framework is that innovation-driven strategic partnerships with local firms abroad can both strengthen the firms' capabilities and further boost their internationalization dynamism (Livieratos et al., 2020).

This study has some limitations. The firm level data from the FDI Markets database only refer to FDI at the time of their announcement. In this respect we cannot monitor the progress of these investments through time. A research using panel data would give us a better insight of the trends of Greek outward FDI before and after the crisis. Furthermore, this study is a mixture of a descriptive analysis and a review of the relevant literature. A future research on panel data could probably investigate the impact of specific FDI determinants such as the institutional framework on Greek outward FDI on Central and Eastern Europe and core European countries respectively.

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