Foreign Direct Investment (FDI) in the Balkans: The Role of Greece

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Abstract

The fall of communism in the early 1990's and the subsequent social and economical developments, placed the spotlight on the potential of the Balkan economies (Albania, Bulgaria, FYROM, Montenegro, Romania and Serbia). Nowadays, 20 years after the dramatic change in the economical status quo, the markets of the Balkan countries seem to be successfully integrated into the free market economy. Foreign Direct Investment (FDI) has a significant role in encouraging and supporting such a transition, making it a matter of growing importance to the countries of the whole Balkan region. Greece, an E.U. member country that has always been integrated into the free market economy, plays a significant regional economic role, especially when it comes to FDI. The present study aims to clarify Greece's economic regional role in the Balkans, provide both qualitative and quantitative data concerning Greek FDI in the Balkans, analyze the current and future investment climate and make predictions about future FDI trends in the region. Results offer interesting observations that can be used by policy makers and companies.

Introduction

During the process of the industrialisation of the Greek economy (1960-1980), Greek outward investment to western and developing countries had been marginal and government policy had only emphasised on attracting inward investment. The scenery was drastically changed by the opportunities that arose from the collapse of the centrally planned

regimes and the consequent process of transition to the market economy of the Central and Eastern European Countries. Greece shifted from being a receiver of Foreign Direct Investment (FDI) into an exporter of capital, with the Balkans being the main destination of direct investment abroad (Labrianidis et al., 2004).

Greek organisations started investing in foreign countries as a result of two, almost simultaneous events: (a) the Greek economy reached a point in it's development cycle that allowed outward FDI to be commenced, (b) in a proximal geographic area high opportunities were created overnight (shift in the economic system of the Central and Eastern European Countries: from protected economy to the free market system).

Given the aforementioned circumstances, Greece has emerged during the last two decades (1990-2010) as a key regional player and one of the largest investors in the Balkans (Bastian, 2004; Demos et al., 2004; Kekic, 2005; Stoian and Filippaios, 2008a). With the opening of neighbouring markets in the early 1990s, Greek organisations and entrepreneurs took the opportunity to exploit their ownership advantages and expand in abroad economies (Dunning, 2001; Stoian and Filippaios, 2008a). Greece has, thus, transformed from a peripheral European country to a regional centre, especially to its neighbouring South-Eastern European countries (Stoian and Filippaios, 2008a).

The whole investment process was enhanced by: (a) the political support of the Greek Government and it's desire to acquire a regional economic role, (b) Greek policies that were specifically designed and implemented in order to transform the country into a key player in the region (policies such as the 'Hellenic Plan for the Economic Reconstruction of the Balkans -HiPERB), (c) the upgrading of the Athens Stock Exchange (ASE) from a developing to a developed financial market (reliable source for raising funds for investment purposes) (Bastian 2004; Labrianidis et al., 2004; Stoian and Filippaios, 2008a; Stoian and Filippaios, 2008b; Totev, 2005).

Within the context described above, the aim of this study is to describe the regional role of Greece in the Balkan investment reality, provide qualitative information about the Greek expansion to the north, present contemporary quantitative data concerning Greek FDI in the Balkans, analyze the current and future investment climate and make predictions about future FDI trends in the region. The present study, describing the

methods that a small-medium peripheral economy used in order to upgrade it's regional role through outward FDI, may offer the ground for understanding the emerging patterns of outward FDI from small peripheral economies, particularly in the context of the expanded European Union.

The following two sections include a reference to the importance of FDI on developing countries and an analysis of the investment climate in the Balkan countries. The phases and the determinants of the Greek investment in the Balkans are included in the following two sections, while the paper is concluded with the presentation of the Greek investment in the Balkans (quantitative and qualitative data), the analysis of the current economic crisis and the future prospects and, of course, the general conclusions.

The importance of FDI on developing countries

One of the most important developments of the 1990's has been observed in the number of emerging opportunities and challenges for cross-border direct investments and co-operative ventures (Dunning, 1993). FDI has been, in the last twenty years, a matter of growing importance to the economies of both developed and developing countries (Lankes and Venables, 1996; Liu and Zou, 2008; Tatoglu and Glaister, 1996, 1998).

FDI can be defined as a category of cross-border investment made by a resident entity in one economy (the "direct investor") with the objective of establishing a "lasting interest" in an enterprise resident in an economy other than that of the investor (the "direct investment enterprise") (Dunning, 1993; Hosseini, 2005). The role of FDI in generating technology transfers and positive spillovers to domestic firms, creating job opportunities, improving the balance of payments, increasing foreign currency stocks etc., has motivated policy makers in recipient countries to implement specific policies for attracting FDI (Deichmann et al., 2003).

FDI's role on developing countries is considered to be significant, since FDI is responsible for GDP development, welfare increase in the host country due to technology spillovers and innovation introduction, new managerial techniques, development of additional management and production skills (Perez, 1997), increased capital flows, job creation and improvement of the job environment, and the development of the industrial sector in the host country (Haddad and Harrison, 1993;

Markusen and Venables, 1999). The positive FDI effects have, thus, led the majority of the developing countries to seek new ways to increase FDI inflows. The competition for attracting FDI aims at strengthening the advantages of each country and eliminating its disadvantages, so as to motivate investors to choose one FDI location over another (Botric and Skuflic, 2006).

Although FDI represent an important source of financial support for developing and transition economies, most of the FDI transactions are concentrated within the developed countries. The economic literature has identified a significant gap between the FDI inflows to the developed countries and those to developing countries (Markusen and Venables, 1999). Surprisingly enough, the global economic crisis seems to have limited that effect. According to the United Nations (2009), investments to developing and transition economies increased to 43% in 2008. More specifically, Africa FDI inflows rose to a record level, with the fastest increase in West Africa (a 63% rise over 2007); inflows to South, East and South-East Asia witnessed a 17% expansion to hit a new high; FDI to West Asia continued to rise for the sixth consecutive year and inflows to Latin America and the Caribbean rose by 13%. Finally, it should be underlined that the expansion of FDI inflows to South-East Europe witnessed an eighth year consequent raise, but are still in an embryonic state, compared to other regions with same characteristics.

The investment climate in the Balkan countries

According to various scholars (Botric and Skuflic, 2006; Kekic, 2005; Zagkos et al., 2007), the South-Eastern European countries are considered to be generally less developed, receive less FDI flows, have weaker relationships with the European Union, and are generally lagging in the transition speed of the Central European countries (Botric and Skuflic, 2006; Kekic, 2005; Zagkos et al., 2007). Specifically, the private sector of the South-Eastern European countries is not as developed as the one in the Central European countries, while, at the same time, the public sector has not yet been fully reformed. Furthermore, the informal economy (gray economy) plays, as a rule, a significant role (Hunya, 2004), while week government structures, political instability, corruption and unemployment are further deteriorating the economic condition. Additionally, the worriers of the Balkan transition point to the possible future upsurge of violence in the region (having the 2004 Kosovo incident

in mind) and raise concerns about the threat of a return of old regime forces in Serbia and elsewhere (Kekic, 2005).

Therefore, one might conclude that despite the liberation process, the Balkans still represent a region with barriers and restrictions, a region that is trade averse and may not be considered as a region of free and full growing trade development (Zagkos et al., 2007).

Despite the above, it is considered that the Balkan region shows great potential. The emergence of a global system of open trade (unrestricted transferability of capital, goods and services), the anticipated completion of the reforms in the economic structures of the Balkan states and the increased flow of foreign capital, combined with the integration of Balkan states to international organisations (EU, NATO), have highlighted a unique and historically significant opportunity for all Balkan states to align themselves permanently to the Western economy and, therefore, become more influential participants in the world community (Bastian, 2004; Botric and Skuflic, 2006; Carstensen and Toubal, 2004; Demos et al., 2004; Nimetz, 2005). The democratization, economy liberation and fulfilment of the EU requirements will improve the reputation of the Balkan countries and will enable their full integration in the European family (Kekic, 2005).

The accession of ten new member states to the EU on 1st May 2004, and the accession of Bulgaria and Romania in 1st January 2007 (first Balkan states to enter EU since the accession of Greece in 1981), made the Balkan countries close neighbours to an enlarged European Union. As a result, the attractiveness of the region for Foreign Direct Investment is expected to improve due to diminished perceived geographic distance to the core of Europe (Hunya, 2004). These positive regional effects can be enhanced by the progress in economic transformation and democratic consolidation that has been already made, thus reducing the risk to invest in the area.

The problems occurred in the ongoing free market integration process of the Balkan states that are described above, had an impact on the quantity of the FDI attracted in the whole region. This can be better observed by comparing South-Eastern European countries with Central European countries, concluding that the latter have received more FDI per capita than their Southern-Eastern counterparts (Pournarakis and Varsakelis, 2002; Slaveski and Nedanovski, 2002). The uneven political

and economic progress of the countries of the region have made them less attractive for FDI, while for the time being, most of these countries receive less FDI than their size and location would normally suggest (Hunya, 2004).

Hence, it is not surprising that, overall, most Balkan countries were unable to fully seize the momentum of transition, lagging significantly behind Central European countries, especially in the early 1990s (Fischer et al., 1996). Their poor performance is clearly demonstrated when compared to the FDI flows directed to the Czech Republic, Hungary or Poland. Investment interest for Romania and Bulgaria scaled up only recently, driven by the progress in the negotiation process and their accession to EU, that led to a substantial improvement in the political and economic environment. By contrast, FDI flows to Albania, Serbia and FYROM remain relatively low, as a result of the serious ethnic and political problems these countries have faced in the recent past (Kitonakis and Kontis, 2008).

During 2003 to 2008, FDI in the Central and Easter European countries experienced a five-fold increase, rising from $30 billion to $155 billion. The credit crunch and consequent recession coincided with a collapse of FDI inflows to the region. In the region as a whole, FDI inflows were 50% lower in 2009 when compared to 2008. This negative distribution is uneven between the countries of the region, with weaker countries having the most severe problems. Looking ahead, FDI is projected to recover only modestly from 2010 onwards and could reach around $172 billion by 2014 (Price Waterhouse Coopers, 2010; Roberts, 2010).

The phases of the Greek investment in the Balkans

Foreign Direct Investment (FDI) has been encouraged in Greece since the early 1950s, in an effort to revive and expand the industrial base of the country (Louri et al., 2000). Historically, the number of Greek companies producing abroad was relatively insignificant, the two main exceptions being shipping (a strong point of the Greek Economy) and the trading of oriental tobacco leaves (a traditional Greek product). Another exception was the productive activity of some construction companies in the Middle East during the 1960s and 1970s (Labrianidis, et al., 2004).

Until the opening of the Balkan economies in the early 1990s, there were fewer than 10 Greek companies that had invested abroad. The expansion of Greek organisations abroad is a phenomenon of the last two decades, with a large number of diverse investment projects being implemented abroad in a very short space of time (Kamaras 2001). Most of these investments have been realised in the Balkans.

The evolution of the Greek investment activity can be defined in four phases/ stages (Demos et al., 2004; ELKE, 2006; Kitonakis and Kontis, 2008; Labrianidis, 2001; Labrianidis et al., 2004; Louri et al., 2000):

- A' Phase (1989-1993 / 'The El Dorado' period): The Balkan countries were seen as areas where one could gain high and easy profits. Most of the Greek companies entering the Balkan markets during that period were small and medium-sized. The underlying idea was that one could enjoy quick profits with no long-term strategic commitment ('stack and run' strategy). This phase was characterized by low capital transfer and lack of long-term strategy, mainly due to political risk and inexperience in foreign investment. These initial attempts were not always successful in terms of profitability and strategic positioning, but Greek companies acquired valuable information, knowledge about the markets and evaluated potentials for further investment. Nevertheless, they were examples of entrepreneurs who enjoyed extremely high profit rates (not exactly playing inside the legal framework). However, in most of the cases it was soon realised that the investment procedure was tougher than expected and numerous entrepreneurs quit and returned home.

- B' Phase (1994-1997 / 'The Mafia' period): After the fortune-hunter investors of the first period completed their run and fled, the companies that remained in the Balkans during the following years started to understand that the investment environment was not an ideal one. The countries of destination were characterised by the predominance of illegal practices, the lack of proper market institutions, the lack of intra-state agreements for the protection of investments, and so on. The newly-born Greek investment community became conscious of the hardships of investing in a country with social, political and economic instability (high rates of inflation, wide use of semi-illegal practises), in many cases through the bankruptcy of many businesses.

- C' Phase (1997-2000 / The 'Wake of the Big Greek Players' period): The gradual stabilization of the social, political and economic environment intensified the investment interest, attracting, mostly, larger Greek organisations. Banks, metal industries, food industries, telecommunications and retail trade companies entered the Balkan markets, either by greenfield investments (establishment of new companies) or by acquiring local companies. Big Greek State companies, such as the Hellenic Telecommunications Organization (OTE), Hellenic Petroleum (ELPE) and the National Bank of Greece became increasingly involved in large expansion projects in the area. This is a period of rationalisation for the Greek internationalisation process, since most investments were made with long-term prospects.

- D' Phase (2001-today / The 'Normalisation' period): The further stabilization of the social, political and economic environment, the significant funds that Greek companies have accumulated from the Athens Stock Exchange (ASE) and the experience that has been gathered from the 'Balkan endeavour', led the Greek investment in the Balkans into the period of normalisation. This period triggered an even larger and wider stream of investment projects: FDI outflows from Greece in 2004 totalled 1,8 billion Euros (more than double than the FDI inflows in the country), from 1,6 billion Euros in 2003 and 1,2 billion Euros in 2002, confirming the increasing internationalization of the Greek economy.

When taking under consideration the revised version of the 'Investment Development Path (IDP) theory' (Dunning and Narula, 1996), in which five main stages of development are recognised, one could argue that Greece can be considered as a stage three country. Countries in that stage experience a deterioration of the comparative advantage in the domestic labour intensive industries (increase in the domestic wages that exceed the level of productivity) and the consequent investment flow into one and two stage countries, so as to take advantage of the cheap labour and/or the natural resources. According to Dunning (1993), outward investment for countries on stage three could be either market seeking or resource seeking. Experience has shown that the Greek outward FDI is mostly market seeking. Overall, it can be said that the investment path of Greece is compatible with the theory of internationalisation (Johanson and Vahlne, 1977).

The determinants of the Greek investment in the Balkans

The analysis of the key determinants of the Greek FDI in the Balkan region can be better achieved by making the following categorisation: (a) General factors, (b) Push factors, (c) Pull factors (Labrianidis et al., 2004; Pournarakis and Varsakelis, 2002; Totev, 2005).

Firstly, the development of the Greek investment in the Balkan economies can be understood in the context of various factors of general applicability (Brada et al., 2004; Kitonakis and Kontis, 2008; Labrianidis et al., 2004):

- The increasing importance of FDI at a global level.
- The increasing trend towards the internationalisation of SMEs during the 1990s.
- The radical social and economic developments of the late 1980s (fall of communism).
- The development pattern of Greece (the country has been gradually transformed into a fully industrialised country).
- The spillover effects of the foreign investments that improved the Balkan economies (motivating even more companies to invest in the area).
- The ongoing progress in economic transition towards capitalism.
- The economic policies toward FDI (both in an EU and a regional level).

The most important factors pushing Greek companies away from the Greek (domestic) market, and leading them to invest in other countries (mostly Balkan) are (Kitonakis and Kontis, 2008; Labrianidis et al., 2004):

- The saturation of the Greek market and the intensification of imported competition in many sectors (gigantic multinationals with wide-known and extremely successful products had put the Greek companies on a hard competitive spot).
- The high labour costs in labour-intensive sectors.
- The favourable economic conditions in Greece (introduction of Euro, raising of significant capital from the Athens Stock Exchange, the GDP development and accumulated experience deriving from the Olympic Games of 2004).
- The need to pursue a ‘follow the leader strategy’ (the decision of many companies to invest in the Balkans motivated others to do so,

transforming the whole process of Greek FDI into a self-reinforcing loop).

- The difficulty in finding local trade partners in the Balkan region, the segmented and unreliable trade networks of merchants-distributors (the choice of internalization was a one way road).
- The opportunity to establish first mover's advantages.
- The opportunity to gain strategic positions.
- The opportunity to produce substantial revenues, thus empowering the mother company and gaining an advantage over domestic competitors.
- The opportunity to take advantage of the rare, valuable and difficult to imitate (Barney, 1991) resources that Greek companies possessed over their Balkan competitors. For example, in developed industries such as banking and mobile telecommunications, the long experience gained in Greece was a valuable asset for cultivating advance marketing skills and transferring integrated services abroad. The development lag between Greek and Balkan companies made these skills the penetrating force for successfully entering local markets.

Finally, there are various possible motives for Greek companies to make and investment in the Balkan region. These can be regarded as 'pull factors' (Botric and Skuflic, 2006; Kitonakis and Kontis, 2008; Labrianidis et al., 2004; Pournarakis and Varsakelis, 2002; Totev, 2005):

- The geographic proximity between Greece and Balkan countries.
- The low cost of raw material and workforce (companies exploited the opportunity to reduce labour costs -especially in labour intensive industries- and acquire a proximity to cheap raw materials that are significant in their production procedure).
- The large size of the Balkan markets as compared to Greece. The FDI literature in Central and East European countries has recognized market size as the most significant factor affecting the decision to invest in these economies. There is a widespread argument that most Balkan FDI has been market seeking rather than production seeking.
- The favourable conditions concerning rivalry, because of the absence of Western firms (companies from advanced industrialized countries hesitated to undertake the risk of operating in the Balkan region). Delays in investment programmes, currency deprecations, political instability and various cultural barriers have provided Greek investors with an initial breathing space, since the international capital was hesitant (at first) to invest in the area (the western competitors would have been extremely dangerous, because of their experience in

internalisation, their financial capabilities and their globally recognised brand name, among others).

- The fact that the Balkan markets are at an early stage of development and, therefore, competition is still based on prices and not on quality / differentiation of the product.
- The low density of local competition (relatively easier to build competitive advantages).
- The avoidance of tariff or non-tariff obstacles.
- The exploitation of existing relations within Balkan States. An investment in one Balkan country can be used for intra-regional trade, taking advantage of reduced tariffs, existing traditional trade channels, etc.
- The integration of Bulgaria and Romania into the EU.
- The prior existence of Greek companies and Greek communities encouraged the establishment of more Greek companies.
- The cultural proximity between Greece and Balkan states. Greek companies have a relatively good knowledge of the specific cultural characteristics of the Balkan countries, thus enhancing their product placement and acceptance.

On the other hand, the disadvantages of investing in the Balkans can be summarised as follows (Kitonakis and Kontis, 2008; Totev, 2005):

- Weak infrastructures.
- Hazy legal framework. There are continuing changes to regulations and laws.
- Lack of political and administrative continuum.
- Bureaucracy. There is an unwillingness of some state authorities to do their job and, therefore, the decisions of the administration are implemented slowly. There is, moreover, lack of information and failure to provide sufficient information on how to run a business.
- Weak tertiary sector.
- Delay in reforms. The reforms in the region lag behind similar processes in other transition countries (e.g. Slovenia, Czech Republic, Poland, the Baltic countries).
- The instability in the region as a whole.
- Corruption.
- Domestic firms are illegally avoiding taxes and there is a differential attitude to firms by the administration (both creating unfavourable competition).
- Week assistance from both National and International organisations.

The Greek investment in the Balkans

Since the political shift in the regimes of the former communist countries in the early 1990s, both trade and investment relations between Greece and the neighbouring Balkan states have followed an upward trend. A large number of Greek companies have undertaken numerous investment projects, thus reviving the traditional production and trade networks of the region or creating new ones (Kitonakis and Kontis, 2008). For the majority of the countries of the Balkan region, Greece represents the most important market in the area, a commercial crossroad, so to say. As such, it can contribute to the efforts of the transition economies in the restructuring and the stabilisation of their economies.

Generally, it can be said that the Greek economic performance in South-Eastern Europe has been positive, but not overwhelming (Demos et al., 2004; Stoian and Filippaios, 2008b). Greek organisations, being inexperienced in investing abroad, achieved satisfactory, but not optimal, results. There is no doubt that a county with significant experience in foreign direct investment would have achieved better results.

When it comes to trade, South-East European countries are among the first market destinations for Greek products. The volume of trade presented constant increase during the last 3 years with available official data (2006-2008), exceeding 8 billion Euros in 2008, showing a 7,1% raise compared to 2007 (7,4 billion Euros). The most significant trade partners of Greece are Bulgaria and Romania, having a share reaching 60% of the total trade volume of Greece with the countries of the Balkan region (Katseli, 2010).

As far as investments are concerned, Greece holds an important position in Balkan markets. The total invested Greek capital (1996-2008) exceeds 20 billion Euros (Katseli, 2010; FDI Magazine, 2010). Taking also into consideration the investments made by companies of Greek interests through their affiliates in third countries, such as the Netherlands, Luxembourg, Germany etc, the actual size of total Greek investments is significantly bigger. Greece is estimated to be first among foreign investors in Albania, FYROM and Serbia, third in Romania and forth in Bulgaria (Katseli, 2010; FDI Magazine, 2010; To Vima, 2009). In total, Greek investment capital is responsible for the creation and the retention of 200.000 jobs in the countries of the Balkan region (Mathiopoulou, 2008).

In Albania, Greece is responsible for the 40% of the invested foreign capital, reaching almost 550 million Euros, while it is estimated that approximately 270 companies of Greek interest are located in the country. In FYROM, Greece has always been the first investor, with total invested capital over 1 billion Euros. Greece, moreover, is the first investor in Serbia for the time being (2009), since Greek companies have invested approximately 2,5 billion Euros through 120 companies of exclusive Greek interests and 150 joint-ventures. Greece is, also, the third larger investor in Romania, with 4.500 Greek companies and a total of 3,1 billion Euros in invested capital. In Bulgaria, Greece holds the fourth place, with the capital invested being approximately 2,2 billion Euros. Additionally, Greek banks hold 26% of the total assets of the Bulgarian banking sector. Finally, coherent official data for Montenegro could not be retrieved (Katseli, 2010; FDI Magazine, 2010; To Vima, 2009).

Besides the above quantitative characteristics of the Greek investment in the Balkans, certain qualitative aspects should also be underlined (Bastian 2004; Demos et al., 2004; Iammarino and Pitelis, 2000; Labrianidis et al., 2004; Louri et al., 2000; Stoian and Filippaios, 2008a; Stoian and Filippaios, 2008b, Totev, 2005):

- In order to better understand the progressive growth of Greek FDI flows, one should first consider the economic geography of the target markets (Balkan countries). The position of the Balkan states provides an advantage to Greece, which has an ideal geographic proximity, since the large distance of the Balkan states from leading European markets and traditional locations of business concentration obstructs their integration into regional and international production networks. Thus, the decreased competition from market leaders allows Greece to develop competitive advantages.

- Certain circumstances that occurred in the second half of the 1990s and the beginning of the 2000s enhanced Greece's capability to invest abroad: (a) Greece succeeded in meeting the convergence criteria of the Maastricht Treaty, thus becoming a Euro-zone member and achieving fiscal stability (strong players emerged in banking, retail trade and telecommunication sectors, as well as in food industry and construction), (b) the undertaking of the 2004 Olympic Games and the subsequent heavy infrastructure spending allowed Greek companies to participate in complex projects and acquire experience that was significant for competing in the Balkan market, (c) the significant

growth of the Athens Stock Exchange (ASE) provided investors with a key source of funds in order to finance their expansion strategies (it is not a coincidence that most leading Greek firms that successfully participating in the ASE started investing abroad: '3E', a Coca-Cola soft drinks subsidiary; 'Delta', dairy products, partner of Danone; 'Intracom', telecommunications, a partner of Siemens; 'Cosmote', telecommunications; 'Chipita' a PepsiCo food subsidiary). As already stated, the whole investment process was further enhanced by (a) the political support offered by the Greek Government and the desire to play a regional economic role and (b) the implementation of Greek policies that were specifically designed to transform the country into a key player in the region.

- The Greek investment flow derives from (a) purely domestic firms or (b) Greek subsidiaries of large multinational organisations. This fact is indicative of the transformation of Greece from a peripheral European country to a regional centre.

- In certain industries, a strategic move of a pioneer company was being followed by similar moves by its competitors, mainly as a reaction to actual opportunities but also out of fear of staying behind. As a result, local competition became regional.

- The majority of the Greek investment initiatives are concentrated in the fields of services, finance, construction, food industry and banking (the Greek banking sector has a predominant presence in the Balkans). Greek public corporations are also involved in the reconstruction of infrastructure networks and private companies participate in the construction of large infrastructure projects.

- Large Greek companies usually invest in more than one Balkan country, thus conducting strategic investments. For many of them, the entry was seen as an investment (Greek companies entered these markets knowing that they would operate at a loss for a period, but hoping that these losses would be compensated by the strong positions they would achieve once the markets started improving).

- Compared with other foreign companies, Greek businesses have certain socio-cultural advantages: they better understand consumers' behaviour and taste; they have better knowledge of the local markets and of the mentality of the Balkan people. These intimate socio-

cultural relations play a significant role as an enhancing factor of the Greek GDI.

- Acquisitions and joint ventures are the most commonly used entry modes. Greek firms involved in FDI are larger than those engaged in domestic investment in terms of assets and turnover.

The current crisis and future prospects

The financial crisis and its impact on the Greek economy became a daily subject in the news, worldwide (BBC News, 2010). At the beginning of May 2010, a solution to help the country out of the debt crisis seemed to have been found by the means of the EU and the International Monetary Fund (IMF). The crisis has forced new levels of economic stringency, the imposition of new taxes and a public sector salary freeze. The Greek crisis has been a major test of the EU economic resilience. Moreover, it constitutes a development that may have significant impact on the Balkan countries (EU or not) which border the Greek economy (BBC News, 2010; FDI Magazine, 2010).

According to numerous economists (Bieber, 2010; FDI Magazine, 2010; Fotiadis, 2010; Jewell, 2010) the main fear in the Balkans has to do with the possible spillover of the recession from Greece to its neighbouring economies. Greece is, after all, not only a major investor in the Balkans, but also a donor and host to several hundred thousand economic migrants from the region.

A reverse Greek FDI trend is likely to follow in the next few years, while at the same time the Greek capital will struggle with recession effects back home. The Greek Central Bank has since last year advised Greek banks to adopt a restricted lending policy in the Balkans, since the region is expected to be hit hard by the ongoing recession (Fotiadis, 2010).

As a consequence of the crisis, Greek investors are also reconsidering their plans. For instance, only in the first nine months of 2009 over 70 million Euros of Greek capital left FYROM with the Greek owners of communication companies selling out and leaving the country (disinvestment strategy) (BBC News, 2010; FDI Magazine, 2010; Fotiadis, 2010).

Moreover, the role of Greece as a promoter of Balkans' integration into the EU will also be limited. The 'Hellenic Plan for the Economic Reconstruction of the Balkans' which has allocated so far 163,4 million Euros for improving public infrastructure and organising community projects in seven Balkan states is unlikely to complete its future projects under the current economic conditions (Bieber, 2010; Fotiadis, 2010).

On the other hand, various Balkan officials make positive predictions about the impact of the Greek crisis to their economies. The inward investment agencies of the Balkan states are optimistic that the Greek crisis will have a limited impact, or even a positive effect on Greek foreign investment. Official Balkan sources assume that that Greek companies may turn to investing in more competitively priced countries, since the increase in taxes in Greece have been made into a significant push factor. Moreover, it is expected that Greek companies might also export more due to the decreased demand at home, as a result of the public sector wage freeze (FDI Magazine, 2010; Jewell, 2010).

According to most predictions that have been made, the most possible scenario is that the Greek financial crisis will discourage Greek investors from over-extending themselves, both domestically and abroad. Access to capital and, likewise, general investor confidence will take a knock, at least until stability returns to the Greek economy (Bieber, 2010; FDI Magazine, 2010; Fotiadis, 2010; Jewell, 2010).

With regard to the mode of investment behaviour during the crisis, it seems that the divestment strategy is a road followed by many companies, while the stabilisation and non over-investment strategy are being the predominant ones.

Conclusions

FDI is an international phenomenon that attracts the attention of all economic entities of the globe. FDI has innumerable effects on the economy of a host country: It influences, among others, the production, employment, income, prices, exports, imports, economic growth, balance of payments, general welfare and the internalisation degree of the recipient country (Erdal and Tatoglu, 2002). The significant positive influence of FDI to the economy of the host country has created severe competition between various recipient countries. The present study focuses on FDI that have been made in the Balkan region by Greek companies.

During the last two decades, Greek companies have exploited the geographical proximity to South-East European countries as a significant advantage for the systematic international expansion of their commercial activities. At the forefront of this expansion were banks and telecommunications companies. These two sectors served as catalysts for numerous other firms of all sizes and sectors to take the courage and invest in the Balkan region. As a result, Greek companies have successfully managed to penetrate the economies of the Balkan countries, and, nowadays, Greece is estimated to be first among foreign investors in Albania, FYROM and Serbia, third in Romania and forth in Bulgaria.

Today, Greek companies are firmly anchored in the Balkan economies. The horizon of their investment is long term. They mostly count on the assumption that they will be among the first to benefit from a continuous improvement in the economic conditions of the neighbouring countries (first mover advantage). Romania and Bulgaria stand out as the favoured destinations for Greek FDI in the region, especially since their integration to the EU. New investment opportunities in the Balkans are the regional energy sectors, the modernization of electricity grids, water, oil and natural gas utilities, regional transport infrastructures (highway and bridge construction), border crossings, airport modernization and revamping railway networks.

The present concludes by attempting to bridge the gap between theory and real-life practice and suggest possible courses of action for Greek, or other companies that intend to invest in the Balkans, or elsewhere. The extended literature review of recent publications indicates that when a company decides to invest in a foreign economy it needs to be mindful of the valuable lessons learned by their predecessors:

- The most successful tactic is to make relatively small, incremental investments and use them as a stepping-stone for the next. Large ad hoc investments, made without a coherent, long-term strategy, tend to create difficulties.
- Association with international financial institutions such as the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) can provide valuable resources and management aid.
- Strong, but flexible, corporate structure is necessary, so that the results of the company abroad in the start-up stage do not impact negatively the domestic profit and loss statement.

- Willingness to export know-how and management skills is essential. The continuous development of the human capital will help the company to achieve its targets.
- "Putting the locals in charge" is the best way of having total control over the company: local managers know the special cultural, demographic characteristics of the country, they understand better the legal issues and the verbal laws of the market and they can help with the relationships of the company with the State.
- A strong back office capable of coping with the variances of foreign currency markets is a must. Hedging is often best achieved by borrowing in the local currency but, when long term funding is not available, an ability to swap rapidly currency against debt obligations is essential.

Finally, it should be noted that with the accumulated experience from investing in the Balkan Region, sufficient critical mass and modern management skills, there is no reason that Greek companies cannot invest in places as far away as China in the same manner as their EU counterparts (Kamaras, 2008; Koutsikos, 2006). We sincerely hope that the present study points to that direction.

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