THE DETERMINANTS OF FDI IN TRANSITION COUNTRIES; INCENTIVES AND BARRIERS BASED ON A QUESTIONNAIRE RESEARCH: THE CASE OF BULGARIA, 1989-2000

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Introduction

Through the years, many theorists studied the concept of investing abroad, and particularly foreign direct investment. What FDI is, cannot be defined in a four-line definition since it involves much more than a simple money transaction that aims to profit (Bitzenis A., 2001b).

The definition[1] of Foreign Direct Investment[2] is:

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[1] 'Direct investment' shall be [for the Bulgarian case]:
a) the establishment or acquisition of a commercial enterprise;
b) the acquisition in a company, of the rights of unlimited liability partner, (or) of an equity stake giving the right to over 20 percent of the votes at a general meeting;
c) granting a loan for a period not less than 5 years for the purpose of direct investment under 'a' or 'b', or related to an agreement for participation in the profit distribution;
d) additional investment to the investment under 'a' or 'b'.
According to Foreign Exchange Law (Adopted by the 38th National Assembly on 8 September 1999; published in the State Gazette, issue 83 of 21 September 1999)

[2] Methodology for Compilation of the Direct Investment in the Country [Bulgaria]: When compiling the direct investment in the country, the Bulgarian National Bank adheres to the international conventions and requirements set in the IMF Balance of Payments Manual, Fifth Edition, 1993, and in the OECD's issue Benchmark Definition of Foreign Direct Investment, OECD, 3rd edition, 1996. In accordance with these requirements, a direct investment in the country is an international investment, in which the direct investor, resident of a foreign economy, acquires a lasting interest in an enterprise resident of the Bulgarian economy (direct investment enterprise). The direct investment includes both the initial transaction, through which the relationship between the direct investor and the direct investment enterprise is established, and all subsequent transactions between them. The transactions can be both towards increase/decrease in the liabilities of the direct investment enterprise to the direct investor, as well as towards increase/decrease in the claims of the direct investment enterprise to the direct investor.
Therefore, the BNB reports both accomplished investment and disinvestment. The basic principles of the reporting of the direct investment in the country are: first, only actually received, and not contracted, amounts are recorded, and, second, when financial instruments are used for settlements, they must be recorded at their market price, and not at their nominal value. The presence of a lasting interest presupposes a long-term relationship between the direct investor and the direct investment enterprise and a considerable degree of influence on the part of the investor in the management of the direct investment enterprises. Because of the necessity of international compatibility of the data of the separate countries, in the Balance of Payments Manual is adopted the principle that the acquisition of 10% or more of the voting power (has increased in 20% nowadays) in the management of the investment enterprise is considered an establishment of a direct investment relationship.
In accordance with the standard presentation of the balance of payments, the Direct investment in the country item comprises:
a. Equity capital – acquisition/disposal of shares and equities (in cash and in kind) by non-residents in/from the share or equity capital of Bulgarian enterprises. The acquisition of equities and shares in the capital is reported as increase in the direct investment in the country, and the disposal – as decrease.
b. Other capital – principal received and paid on loans (both on short- and long-term ones) between the direct investor and the direct investment enterprise. The receipt of a principal is treated as an increase of the direct investment abroad, and the repayment of the loan – as a decrease.

> "*...FDI is defined in the IMF Balance of Payments Manual (5th edition) as 'investment that involves a long-term relationship reflecting a lasting interest of a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor. The direct investor's purpose is to exert a significant degree of influence on the management of the enterprise resident in the other economy'* (1993)" [Dunning 1993, p5]

FDI derived from needs and opportunities presented in an imperfect market. There is a lot of literature that analyses the reasons that a firm or individual entrepreneur would want/have to invest in a foreign country directly. There is also a lot of literature about how to predict the outcome of such an investment and choose the best alternative. The generally accepted characteristics however coincide in the definitions taken from several sources.

"DFI is defined as investment in equity to influence management operations in the partner company" [Meyer 1998, p125]

The IMF's definition emphasizes in "*lasting interest*", "*a significant degree of influence*" of the investor over the company outside the home country [Brewer 1994, p117]

"There are many different operational definitions of FDI, but all aim to encompass the desire of a home country firm to obtain and manage an asset in a host country" [Barrell et al., 1997, p64]

"A DIRECT FOREIGN INVESTMENT is the amount invested by residents of a country in a foreign enterprise over which they have effective control." [Ragazzi 1973, p471]

The main points are investing, acquiring and obtaining a foreign firm or asset and influencing or controlling the management operations. The essence of FDI is clearly displayed in the 'objection' of MacManus[3] about the name FDI:

"Foreign Direct Investment is a rather inappropriate name for the process by which productive activities in different countries come under the control of a single firm. The essence of this phenomenon is not foreign investment, which is an international transfer of capital, but the international extension of managerial control over certain activities."[MacManus, 1972, p66]

The problems begin at the very first step economists might take; measuring and comparing FDI flows among several countries. This is because each country may have different standards for a foreign investment to be considered direct. The OECD has recommended that the minimum equity stake for an investment to qualify as direct should be 10%. However, the differences among countries are distinct. For example in the US, Canada, and Australia the minimum is 10%, in France and Germany 20% (or 25% according to Brewer (1994)) and in New Zealand 25%. It is obvious that the state records regarding FDI may be incomparable. [Dunning 1993, p12]

The issue of control and influence is very important in defining FDI, but does need some clarifications. The fact is that, depending on the host country, when an entrepreneur or a company

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c. Reinvested earnings – the share of non-residents in the undistributed earnings/ loss of the enterprise for the reporting period. The share in the undistributed earnings is reported as increase of the direct investment in the country, and the share in the loss – as decrease.
In the compilation of the balance of payments, the BNB uses data from the following sources:
- Privatisation authorities
- Agency for Privatisation and branch ministries
- Insurance Supervision Directorate at the Ministry of Finance
- Central Depository
- Financial sector enterprises
- Foreign investment enterprises from the non-financial sector
- National Statistical Institute

[3] see MacManus C. J., chapter 2, p.32, 1972.

acquires more than 10% or 20% or 25% of a foreign company, it is considered FDI. But does such a small percentage ensure control for the investor? The ownership rights issue over a company is a very complicated subject nowadays. The control over the strategic decisions of the company is determined by the corporation statutes. Since the contents of the statutes may vary, any assumptions and generalizations about control are forbidden. Sometimes a person may have management control by owning 10% of the company (if for example the given company's shares are divided among many shareholders through the stock market) or may have no management control even if s/he owns 51% of the company. In some cases also, a person may have both management control and over 50% of shares and not be able to take important decisions (if for example the corporation statutes defines that in order for a decision to be valid the 2/3 of the owners must agree). So, one must keep in mind that not all investments over 10% or 25% lead to managerial control.

Some definitions use "lasting interest" and "significant amount of influence". This is more accurate in explaining the current status of several FDIs, but still it is vague, since it does not specify the target of the "influence". "Influence management operations" is even more accurate, but not enough. In fact, in order to clarify this issue one must first specify the amount of control the investing company needs over the company that receives the investment. This differs according to what the investing company expects from the investment.

Another difficulty is to specify the components included in FDI measurement. The following components should be used when reporting to the IMF.

- Equity Capital: the value of the initial investment
- Reinvested earnings: all earnings of the affiliate company that are reinvested on the initial investment.
- Other capital: the transfer pricing between the mother company and the affiliate, (short and long-term capital)

[Barrell et al., 1997, p64]

The problem arises because many countries exclude at least one of those components when reporting to the IMF. [Brewer, 1994, p117] "*The reinvested earnings component of FDI is particularly problematic. It is the most difficult component to measure because the data are not collected from foreign exchange records, but are based on surveys of the firm.*" [Brewer 1994, p117] This is one of the reasons why this component is not included in many national FDI records. This problem is also distinct in Bulgaria, where the Bulgarian Foreign Investment Agency (BFIA) includes the reinvested earnings in its official catalogues, while the Balance of Payments (BP) of the Bulgarian state, which is the source of data used by official institutes, does not. Although the BP is projecting the obvious capital flows, it excludes the reinvested earnings, the investments applied in gray/black/unofficial ways (shadow economy) and individual investments (not as a registered company). The clear capital inflows, or individual acquisitions appearing in BP are the minimum FDI volume that the country may have, but still the actual investment is usually much higher. The Bulgarian official catalogues (NSI) generally present distinct problems, since they often present different data for the same variables in a certain period of time. Also some of the companies that have invested in Bulgaria do not appear in the catalogues (BFIA) or appear with smaller amounts for several reasons appearing in one of the following sections of this paper.

The paper is organized as follows: firstly the paper deals with Greek FDI activity in Bulgaria during the transition period, secondly reviews the incentives and barriers for foreign investors (and especially for Greek Entrepreneurs), who undertake an FDI project in Bulgaria. Moreover, in this section, results from questionnaire and statistical analyses[4], which have been carried out from this author, are also presented and discussed. Lastly presents the conclusions derived from this paper.

[4] The statistical analysis establishes possible relations between the variables for the 64 questioned companies. The nature of the relation between the variables, if any, was investigated with the chi-square statistic, which is regarded the most suitable for this kind of data. Instead of using a statistic method like correlation coefficients, which requires data collected in a continuous form, the chi-square test allows to make inferences for the population of interest, in this case foreign investors in Bulgaria, by making use of the categorical data. The

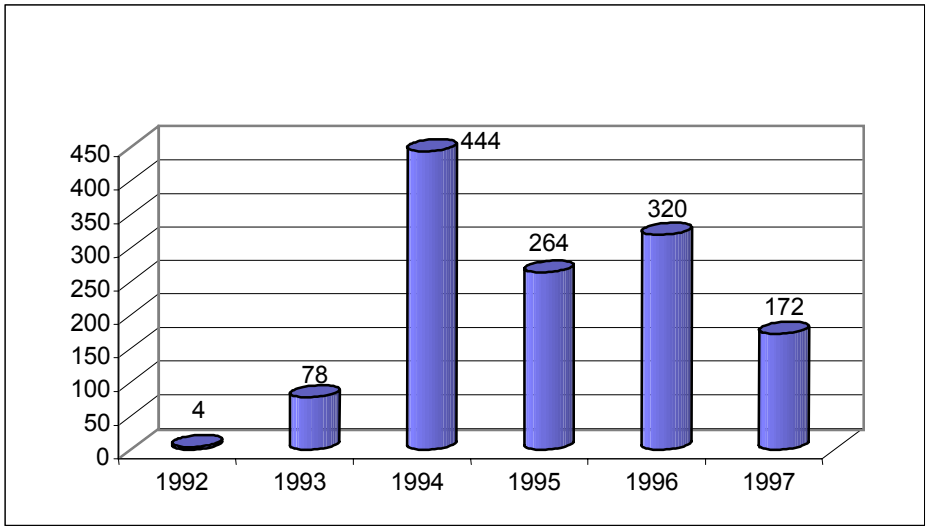
Greek FDI Activity in Bulgaria during the Transition Period

The Greek business presence in Bulgaria started in 1992 and it is possible to distinguish five time periods.

The first period is between 1992-1994 (see Figure 1), the main characteristic of which was the ability of Greek firms to obtain quick and easy profit. The CEE market in general was viewed as an 'El-Dorado' country, so dozens (over 500) of small entrepreneurs registered for entry in the Bulgarian market paying a trivial amount, but most of them never activated their business. The core activity of the vendor -traders in this period was focused on food products, clothing and footwear, as well as the export to Greece of industrial products, such as scrap, sheet-iron and building's iron. Some big companies started gradually to carry out the first market research programs and an increase of exports to Bulgaria of final food products was observed.

Figure 1. Number of Greek Investments in Bulgaria until end 1997 (total 1282)

results are valid in most of the cases at 0.01, 0.05 and 0.1 levels of significance and the inferences about the population were based on the results of the p-value. There are reported to be some 110 foreign enterprises in Bulgaria, according to the official catalogue obtained from the Bulgarian Foreign Investment Agency (BFIA) mid 1998, which have invested over 1,000,000 US dollars. For the purpose of this questionnaire research, this author used an extended catalogue of 131 foreign investors in Bulgaria, which was comprised from the official BFIA catalogue mentioned above, and another 21 investors mainly of Greek origin, whose data was collected from one to one interview (5 companies, which were excluded from the old BFIA catalogue mid 1998, have included in the new BFIA catalogue end 2000). These 21 other investors did not form part of the BFIA official published data of foreign investment in Bulgaria due to the expected inefficient data collection in such a hard task, and due to all the other reasons mentioned in this paper. The response size was 64 out of 131, and they formed the sample size. Literature has shown that this response rate in the subject area is extremely large and according to statistics a sample size (response rate) of 10% of the population of interest is regarded big enough to allow secure inferences about the population of interest. Our response rate was 48.9% of the updated catalogue. The sample is very representative (see also figure 6b(1)) since it comprises companies that have invested a very significant amount of US $ for the magnitude of the Bulgarian Economy. The invested volume of the 131 companies adds to 75% of the total foreign invested capital in Bulgaria (Total FDI inflows in Bulgaria: 1.7 billion US$ in mid 1998). The questionnaire was originally based on author's knowledge on the huge literature regarding FDI theories and following the Dunning theory regarding the possible reasons and entry barriers for foreign investment in Bulgaria. Moreover, it was enriched and updated according to the answers, received in the course of time from the investors. The survey lasted 18 months (time period January 98 – June 99), but most of the questionnaires were completed in the period Jan '99 - June '99. The total invested amount for the 110 foreign companies was 1,283,419,173 USD$ and for the 21 enterprises was 47,6 million USD$. The statistical sample with 64 companies consists of a total investment amount equals to 863 million USD$, which is the 64.7% of the total investments of these 131 companies or the 50.7% of the total Bulgarian FDI inflows (BFIA catalogue, Foreign Direct Investments over 1 million USD$ (as of 30 June 1998)). The whole statistical research appears in author's Ph.D. thesis, "Foreign Direct Investment during the Transition from Planned to a Market Economy: the case of Bulgaria 1989-2000", *Unpublished Ph.D. Thesis*, University of Glasgow.



Source: BFIA and author's research

During the second period, between 1994-1995, the main characteristic was the entry of significant Greek firms with their own representative offices inside the Bulgarian market with their main targets in undertaking business activity being the food products, the durable consumer goods and the services sectors. With the increase of the number of important Greek firms in the Bulgarian market, the share of each vendor was reduced. Many of these traders transfer their activity into other sectors where it was possible to get higher and easier profit. During this period, Greek industrial activity was focused on the manufacture industry (clothing, food), on trade activities (food products, clothing, footwear) and on the recreation services.

The main characteristic of the third period, from 1996 until end 1997, although there was a significant amount of new companies registered in Bulgaria, was that they did not actually activate or even withdrew, due to the three financial crises the country went through, which lead to high inflation rates, instability, corruption and very limited per capita consumption for the Bulgarian citizens.

In the fourth period when the situation had changed and the country became politically stable, having fixed exchange rate with currency board and significant lower inflation rate the remaining large Greek companies overcame their doubts slowly and cautiously and entered the Bulgarian market. There was a distinct predominance of firms bigger in size and the creation of vertical and horizontal joint ventures, focusing again on the sectors of food products, beverages, durable consumer goods and services.

In the fifth period, from 1998 and onwards, there is intense interest of all the big Greek banks to participate in the Bulgarian market through acquisitions (Eurobank, National Bank of Greece and Commercial Bank of Greece have succeeded, while at the same time Pireus, Credit Bank of Greece and National Bank of Greece have established local branches in Bulgaria).

An increasing number of Greek companies became active in the areas of South Bulgaria, near the Greek borders, because of the low labour and transportation cost, which helped the creation of an export base. Indicatively, around 200-300 Greek textile and clothing companies operate in the particular areas, despite the fact that they have to employ almost twice as many workers – over 90% of them women – as they would in Greece because of the inferior skills of Bulgarian textile workers (at least in the early years). Still the companies make high profits because of the comparatively low salaries they pay. This accumulation of textile companies has greatly contributed to the appearance of a strange phenomenon in these areas: very high rate of women employment opposed to very high rate of male unemployment. An interesting option to this issue is the fact that there are no textile workers available due to the operation of a great number of Greek textile companies. The pressing need for

more workers have pushed several companies to try to attract workers already hired by competitors, by promising them higher salaries. This is deteriorated by the fact that, Bulgaria has over 300 small and medium-sized local tailoring and textile companies, which were released by the Bulgarian trade unions and may export ready-made clothes to Greece.

Greece holds the first position among the European community countries, as far as the number of firms registered is concerned. The gap between Greece and the country to follow (Italy) is about 600 companies. In a worldwide scale, Greece is second after Turkey with a small difference (Tables 1, 2).

Table 1. Foreign Direct Investment by EU - countries with the number of investments as of 31.12.1997

	COUNTRY	1992	1993	1994	1995	1996	1997	TOTAL BY COUNTRIES
1	Greece	4	78	444	264	319	170	1279
2	Italy	2	37	145	143	118	93	538
3	Germany	8	46	92	77	102	51	376
4	Austria	11	27	65	56	47	37	243
5	Great Britain	6	26	44	22	36	16	150
6	Belgium	0	12	35	15	36	13	111
7	France	0	12	34	19	34	10	109
8	Holland	2	9	27	25	25	17	105
9	Luxemburg	0	7	3	4	9	9	32
10	Sweden	0	0	8	7	11	2	28
11	Spain	1	4	11	3	2	4	25
12	Denmark	0	1	5	5	0	9	20
13	Ireland	0	2	3	3	8	2	18
14	Finland	1	3	3	2	2	0	11
15	Portugal	0	1	0	0	5	2	8
	Total by years	127	358	1013	740	850	532	3053

Greece and Turkey share the same problem of many registered but not active firms. The statistical problem with that fact is enormous since data is available only up to 1997, for there is no update by formal known sources. Therefore, the inactive companies are not accounted for, nor subtracted from the list of foreign companies. Another example of these practices is the case of the British Rover that appears in the privatisation lists as an investor although it withdrew its investment shortly after the deal [Bitzenis, A., 2001i]. The bulk of the small-scale Greek firms, which expand their operations in the Bulgarian market, have a family character and they avoid employing human personnel specialized in management. Moreover there is an absence of continuity in the main productive direction (absence of long-term planning and innovations). A key factor is the inability of the firms to promote a quick transformation of the business structure and the re-adjustment of the existing human resources to the changing competitive conditions. In general, there is a low level of application of methods for improving productivity in the development of the business plan of the firm. A great drawback is the relative shortage of executives with sufficient knowledge of the conditions in the Balkan market.

Table 2. Foreign Direct Investment by countries with the number of investments as of 31.12.1997

N	COUNTRY	1992	1993	1994	1995	1996	1997	TOTAL BY COUNTRIES
1	Turkey	2	59	230	383	553	401	1628
2	Greece	4	78	444	264	320	172	1282
3	Syria	0	19	135	49	314	148	665
4	Armenia	0	0	59	117	330	121	627
5	Russia	11	37	137	140	187	90	602
6	Italy	2	37	145	143	118	93	538
7	China	0	3	41	47	195	110	396
8	Lebanon	0	25	124	21	131	86	387
9	Germany	8	46	92	77	102	53	378
10	Yugoslavia	0	5	100	69	95	24	293
11	USA	1	28	53	72	55	38	247
12	Austria	11	27	65	56	47	37	243
13	Ukraine	0	8	42	69	61	52	232
14	Iraq	0	4	15	32	88	40	179
15	Cyprus	5	24	45	16	33	38	161
16	United Kingdom	6	26	44	22	36	16	150
17	FYROM	1	10	38	37	33	20	139
18	Belgium	0	12	35	15	36	13	111
19	France	0	12	34	19	34	11	110
20	Switzerland	2	18	33	22	21	12	108
21	Netherlands	2	9	27	25	25	18	106
22	Moldova	0	1	11	23	45	14	94
23	Jordan	0	2	17	10	32	32	93
24	Vietnam	0	5	42	8	30	4	89
25	Czech Republic	1	3	6	10	28	25	73
26	Iran	0	2	23	8	21	11	65
27	Israel	0	5	15	14	21	9	64
28	Poland	1	4	8	7	15	3	38
29	Afghanistan	0	5	11	4	13	3	36
30	Georgia	0	0	3	3	14	14	34
	Total by years	69	604	2276	1932	3308	1889	10078

Source: BFIA

Nevertheless, Greek traders have a relatively good knowledge of the specific features and conditions of the Bulgarian market; low transportation costs, low management, transaction costs and high quality of goods sold at relatively affordable prices form their competitive advantages in Bulgaria. Bulgaria is considered, and, in practice is, the gate of the Balkans towards the market of Russia, Moldova and Ukraine, while its role in the trade with countries of Central Asia (Uzbekistan, Takzikistan, Kazakhstan, Turkmenistan) as well as Georgia, Armenia and Azerbaijan is growing in time.

Large Greek companies invest in more than one country in the Balkan region, since they found more opportunities than simply the geographical proximity and low labour cost, factors that constitute the main reasons for investments by small companies. These large companies recognised among others the lack of local competition, the lack of intensive Western interest and the opportunity to become multinationals. Therefore, they made successful strategic investments. Most of the Greek enterprises that have made significant investments in Bulgaria have also invested in Romania, FYROM and Albania.

A Questionnaire Analysis Determining the Incentives and Barriers for Foreign Investors in Bulgaria; the case of Greek Entrepreneurs

Greece and Bulgaria had trade relationships for centuries, because of the geographic proximity of the two countries, the cultural closeness and the common religion beliefs. Bulgarian people have always admired Greek traders. The fact that, they were historically connected both by the Byzantine Empire and the occupation of the Ottoman Empire brought the two countries even closer. The rise of the communist regime and the 'cold war' between the Eastern Europe and the Western countries, deactivated more or less the relations of the two countries, but after the fall of communism the relationship recovered significantly and the two countries are currently in very good terms with each other. Countries such as the Czech Republic, Hungary and Poland are neighbors to Europe's strongest economy, Germany, after the fall of the Iron Curtain, while Bulgaria is neighbor to one of the European Union poorest members - Greece. Still, Greece is the closest EU member of Bulgaria, in fact it is the only EU member in the Balkans and one of the richer countries in the Balkans, and since Greece supports the membership of Bulgaria, Greek entrepreneurs and their products are very welcome in the country. These are only some of the reasons that Greek enterprises, both small and large, are so economically active in Bulgaria. However, there are much more advantages for the Greek entrepreneurs investing in Bulgaria as well as in other CEE countries (for more, see Figures 2a, 3a, 4a, 5a). One of the reasons that Greek entrepreneurship and trade flourish in the Balkan area is its strategic geographical position and the fact that it is the only country in the region that is close to the Western standards, and a member of the EU.

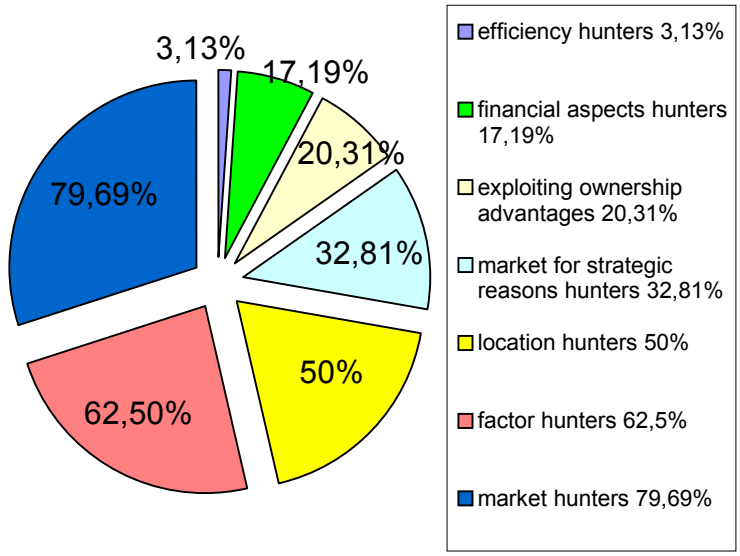
For the purpose of the author's PhD thesis, a questionnaire was designed to extract valuable information regarding the determination of FDI in Bulgaria during the post-communist period 1989-1999. Its purpose was to identify the kind and the type of incentives and entry barriers for inward foreign direct investment, that the foreign firms have considered in order to decide whether they should make an investment in Bulgaria or not. For the purpose of this empirical research, a data set was collected from a primary source (using an own-design questionnaire and personal interviews, which were contacted in order to gain in-depth qualitative information).

According to the existing literature, there has been no other statistically analyzed research for Bulgaria, with such a magnitude (100 companies have been interviewed using a questionnaire and 64 case studies have been presented in the research [Bitzenis A., 2001d]) and statistical significant sample, in order to identify the incentives and barriers for the FDI decisions in Bulgaria.

Presentation of the data and Interpretation of the results

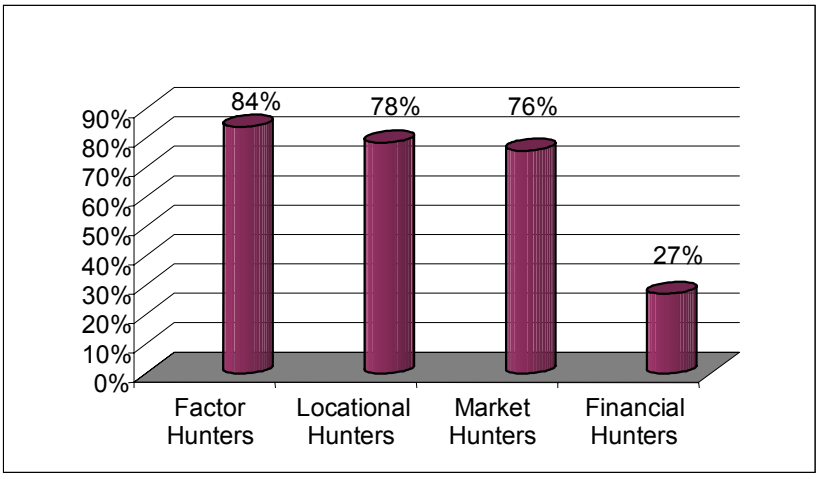
In order to obtain the incentives and barriers of inward FDI in Bulgaria and to divide them into several groups according to the FDI theory, a research was run using a questionnaire and the results were analyzed and studied. The managers that were interviewed were asked to mention up to three groups of incentives that they considered to be the most important for their company in undertaking an FDI project. Therefore, the sum of percentages found in Figure 2 is not equal to 100%.

Figure 2. Groups of Incentives from Questionnaire Analysis (Ranking) – 64 MNEs



Source: Author's Questionnaire Research

Figure 2a. Greek entrepreneurs in Bulgaria are...

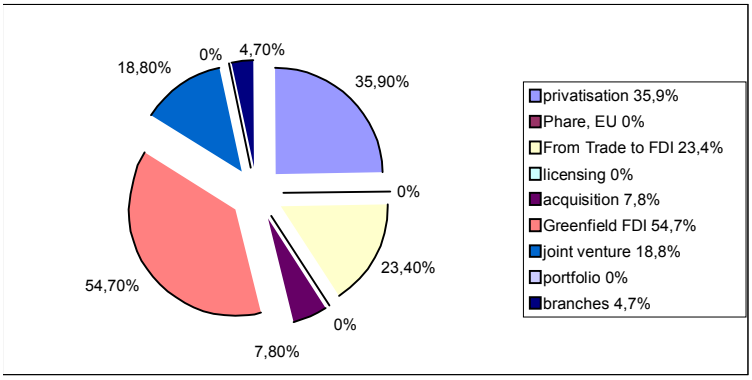


Source: Author's Questionnaire Analysis' Results

According to this figure, foreign investors have been proved to be market hunters with a percentage 80%, followed by factor hunters with 62%, locational hunters with 50%, strategic market hunters with 33%. At the same time 20% have invested in Bulgaria in order to exploit their ownership advantages and 18% to exploit financial advantages. Only 3% of the investors were efficiency hunters. From what was mentioned above, one can infer that in a country such as Bulgaria having a customer base of eight million people with many unsatisfied needs, foreign investors focus primarily on the characteristics of the market.

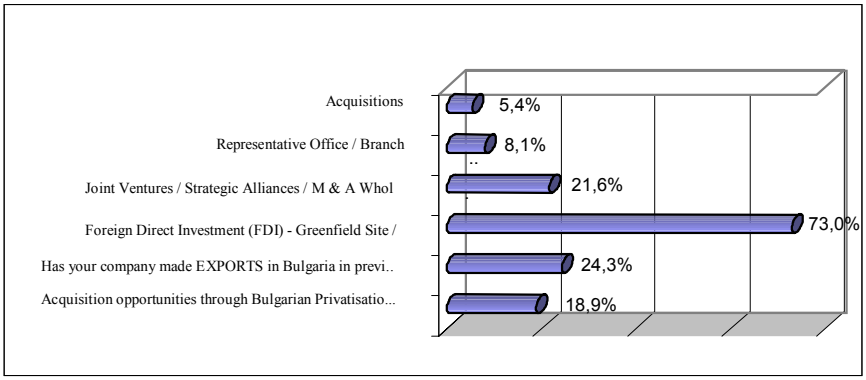
Furthermore, 55% of the investors have chosen as a best or preferable way for their FDI projects the green-field way, followed by 36% of the investors, which took advantage of the opportunities that the Bulgarian privatisation programs offered especially in the period 1998-2001 (Figure 3).

Figure 3. Ways that have been used by MNEs in order to invest in Bulgaria



Source: Author's Questionnaire Research

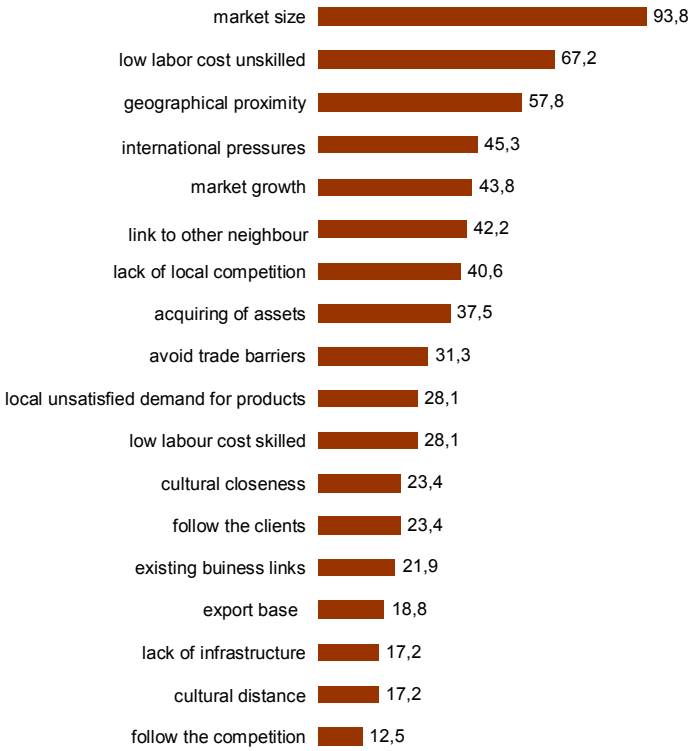
Figure 3a. Ways of investment in Bulgaria for the Greek entrepreneurs 1989-1999



Source: Author's Questionnaire Analysis' Results

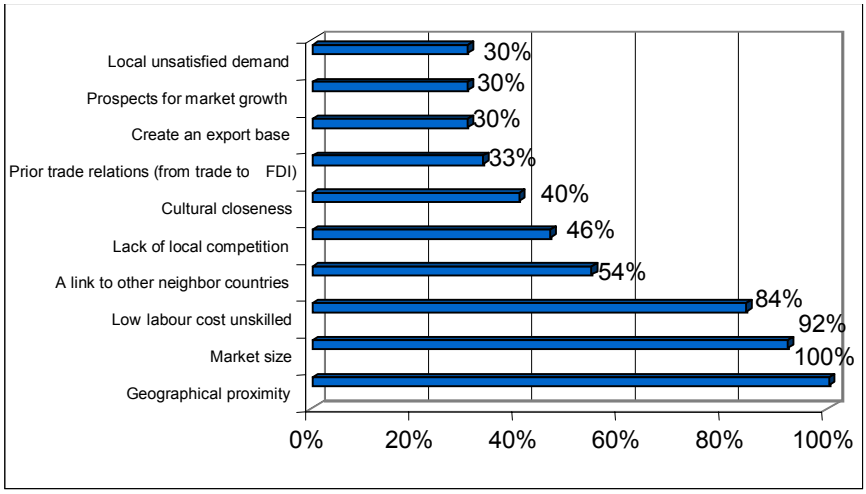
From Figure 4, it can be pointed that the main incentives (as expected) were: the market size (94%), low labor cost of unskilled workers (67%), geographical proximity (58%), international pressures from competition (45%), prospects for market growth (44%), link to other neighboring countries (42%), and lack of local competition (40%).

Figure 4. The Most Important Incentives for FDI in Bulgaria (Research from 64 MNEs)



Source: Author's Questionnaire Research

Figure 4a. Determinants (Incentives) for the Greek FDI inflows in Bulgaria

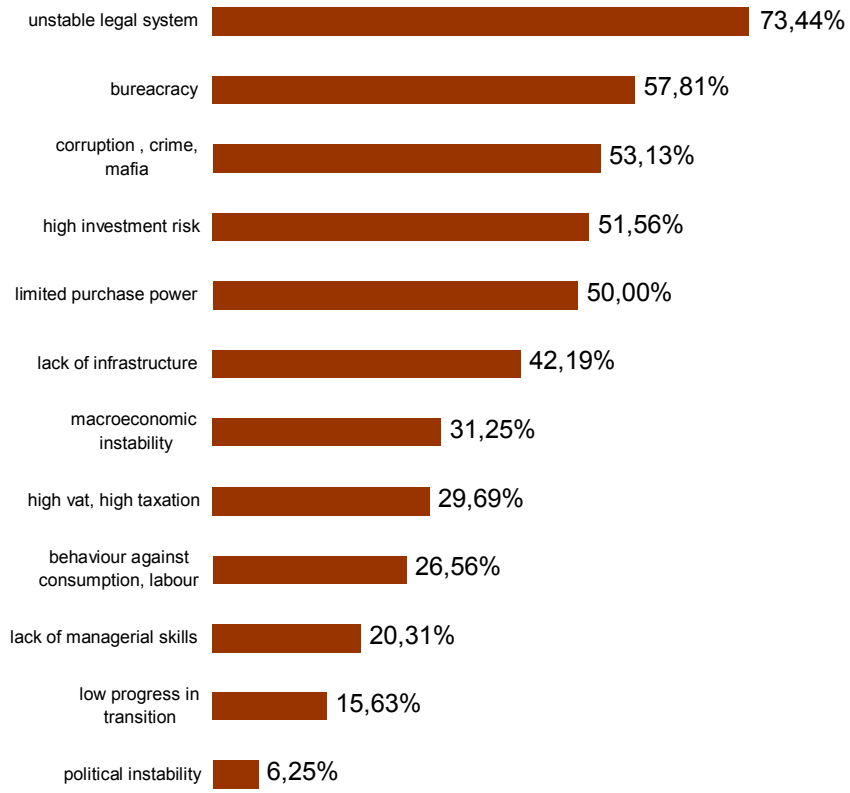


Source: Author's Questionnaire Analysis' Results

The most important barriers that the investors had to deal with are shown in Figure 5. The biggest obstacle was the unstable legal system in Bulgaria (74%), followed by the bureaucracy (58%), corruption, crime and mafia (53%).

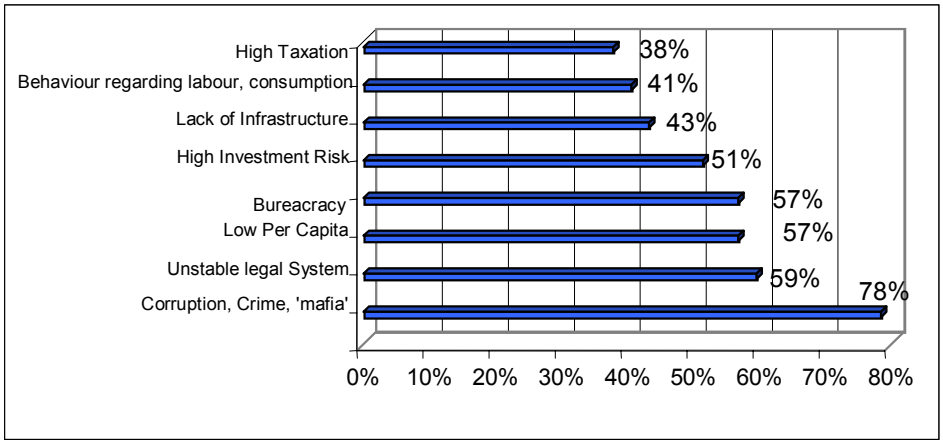
The main incentive for FDI inflows in Bulgaria was the market size with a high percentage of 94%. Although Bulgaria is not a big market such as France, Germany, etc. on the other hand this high percentage was not a surprise for the author because of the following reasons: 37 companies out of 64 interviewed companies were Greek. Thus, these companies considered Bulgaria as an important market with a population of over 8,300,000 people (which is "another Greece" for them). For companies such as Coca Cola, McDonalds etc. every country and every market is significant and their policy is to participate in almost every country (market hunters) in the world (even in Bulgaria). The majority of the 27 foreign (western) MNEs participated in the questionnaire research have considered Bulgaria as a link to other neighbor countries and especially to CIS countries (considering Bulgaria as a "bridge" for a future expansion to CIS countries or creating an export base to feed with products the neighbor markets).

Figure 5. The Most Important Barriers, Obstacles or Disincentives for Bulgarian FDI Inflows (Research from 64 MNEs)



Source: Author's Questionnaire Research

Figure 5a. Barriers for Greek FDI projects in Bulgaria



Source: Author's Questionnaire Analysis' Results

From Table 3 we can argue that 28/60 (46.7%) MNEs that have mentioned as a significant incentive the size of the Bulgarian market (CX21), have also considered that in their investment choice there was a need for physical presence in many countries (DX41) (companies with strong brand name such as Coca Cola, Siemens, MacDonalds, etc.).

Table 3. Locational Determinants of Bulgarian FDI

			DX41		
			NO	YES	Total
CX21	NO	Count Observations	3	1	4
		% CX21	75,0%	25,0%	100,0%
		% DX41	8,6%	3,4%	6,3%
	YES	Count Observations	32	28	60
		% CX21	53,3%	46,7%	100,0%
		% DX41	91,4%	96,6%	93,8%
Total		Count Observations	35	29	64
		% CX21	54,7%	45,3%	100,0%
		% DX41	100,0%	100,0%	100,0%

* The size of the Bulgarian Market (CX21) - International Pressures from Competition / Physical Presence in different Countries (DX41)

Again (from Table 4), we can point out, that 60 out of 64 companies, which have selected Bulgaria for its market size, a significant percentage of 24/60 (40%) MNEs have also considered Bulgaria as a link to other neighbor (ex CMEA) countries (AX7).

Table 4. Locational Determinants of Bulgarian FDI

			AX7		
			NO	YES	Total
CX21	NO	Count Observations	1	3	4
		% CX21	25,0%	75,0%	100,0%
		% AX7	2,7%	11,1%	6,3%
	YES	Count Observations	36	24	60
		% CX21	60,0%	40,0%	100,0%
		% AX7	97,3%	88,9%	93,8%
Total		Count Observations	37	27	64
		% CX21	57,8%	42,2%	100,0%
		% AX7	100,0%	100,0%	100,0%

* The size of the Bulgarian Market (CX21) - The attraction of East European Market / A link to other ex CMEA countries(AX7)*)*

A further explanation for the high percentage of the incentive – market size- may be the fact (Table 5) that 27/60 (45%) MNEs have also considered as an incentive for an FDI project the prospects for growth of the Bulgarian market (CX22).

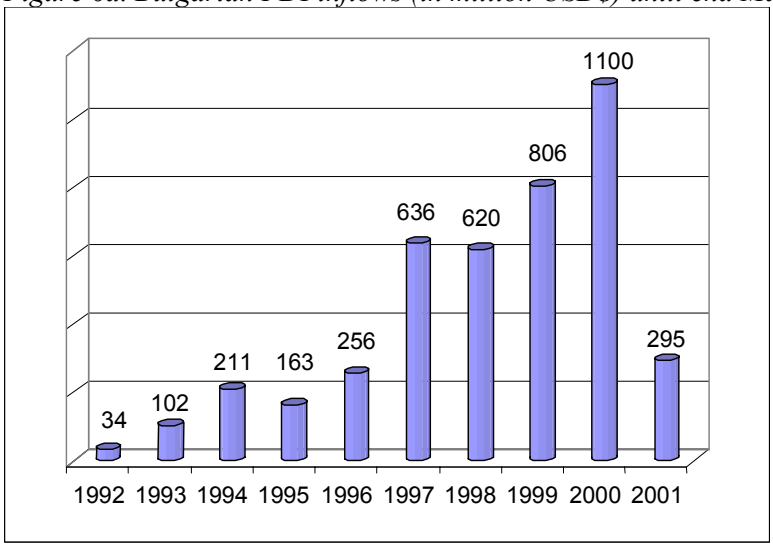
In addition, from the results of the research (Figure 5), 52% of the total number of investors stated that their investment in Bulgaria is a high risk one, and 50% that the limited purchasing power of the Bulgarian customers is a reason for limited demand for their products. There are a lot of reasons behind the fact that only 52% of the total foreign investors participated in the questionnaire research, have considered risky the Bulgarian environment and not all of them. In the questionnaire research (Figure 3), 23/64 (35.9%) companies were participated in a privatisation program (when at the same time -from the official statistical data, see Figure 6c – the privatisation deals were 43% of the total FDI inflows in Bulgaria).

Table 5. Locational Determinants of Bulgarian FDI

			CX22		
			NO	YES	Total
CX21	NO	Count Observations	3	1	4
		% CX21	75,0%	25,0%	100,0%
		% CX22	8,3%	3,6%	6,3%
	YES	Count Observations	33	27	60
		% CX21	55,0%	45,0%	100,0%
		% CX22	91,7%	96,4%	93,8%
Total		Count Observations	36	28	64
		% CX21	56,3%	43,8%	100,0%
		% CX22	100,0%	100,0%	100,0%

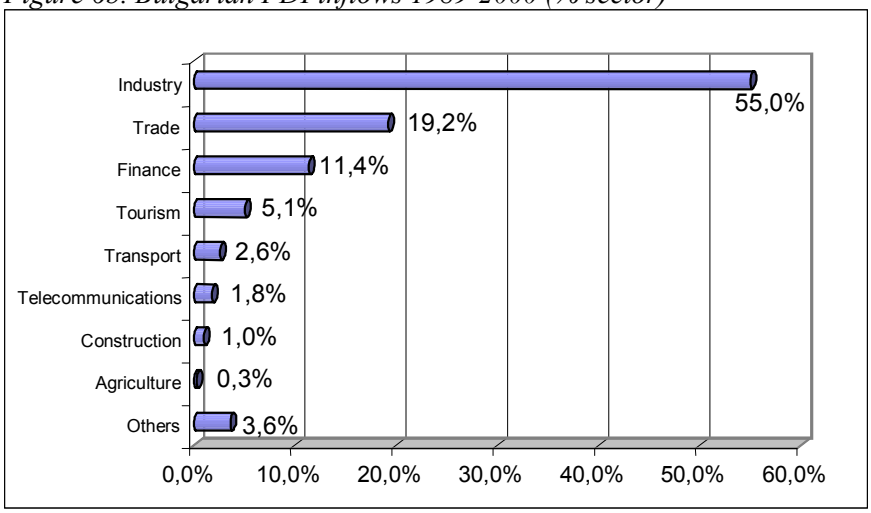
* The size of the Bulgarian Market (CX21) - Prospects for Market Growth (CX22)

Figure 6a. Bulgarian FDI inflows (in million USD$) until end March 2001



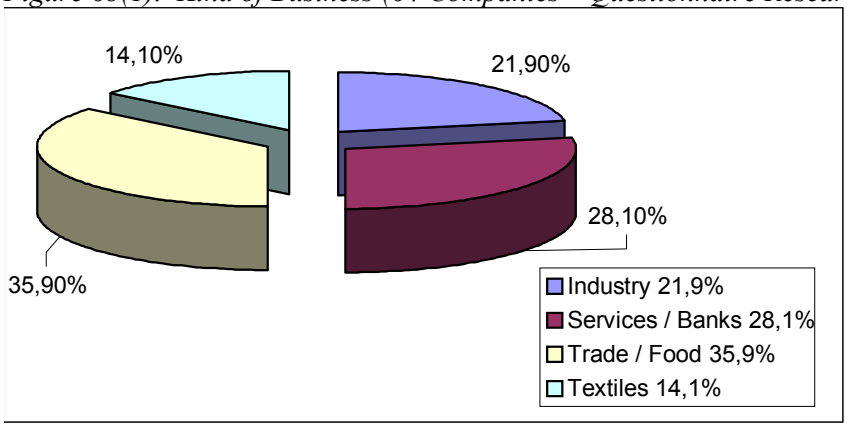
Source: BFIA Catalogue

Figure 6b. Bulgarian FDI inflows 1989-2000 (% sector)



Source: BFIA Catalogue (until end 2000)

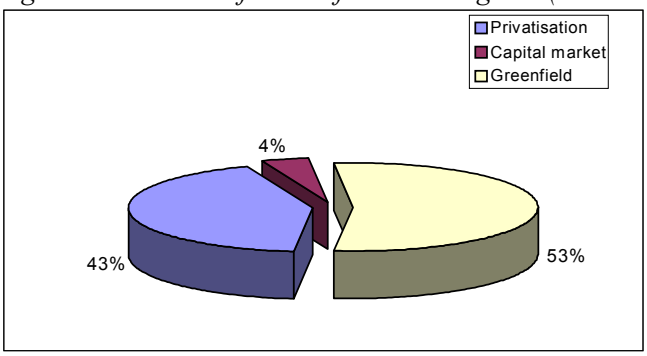
Figure 6b(1). Kind of Business (64 Companies – Questionnaire Research)



Source: Author's Questionnaire Research

Note: The sample of the author's questionnaire analysis is **also representative**, because the answers (see figures 6b(1) and 6b), which have been collected and analysed, belonged almost proportionally to the sectors of industry, services, trade. Moreover, from the survey the services sector accounts 28% and the FDI inflows in Bulgaria in the same sector were 18% (Finance 11,4% + Tourism 5,1% + Telecommunications 1,8% =18.3%). Trade in the same sector was 19,2%. Finally, survey accounts 36% and the FDI inflows in Bulgaria in the answers from the industrial sector were 22% and textiles 14% (total 36%) and at the same time the FDI inflows in Bulgaria in the industrial sector were 55% of the total.

Figure 6c. Sources of FDI Inflows in Bulgaria (1989-2000)



Source: BFIA Catalogue (until end 2000)

This means that a few of them they could acquire a national company in a price in which the risk has been included. In other words, the price for the acquisition of the company was lower than the price of similar companies, which have been privatized in the western countries. MNEs have acquired a

Bulgarian national company in a low price, because of the undertaking risk. Thus, it was supposed to be without sense, if these companies had informed us, via the questionnaire, that the Risk was a barrier for them.

However, it was an unexpected fact that the statistical analysis has shown to us that there is no association (Table 6, continuity correction = 0.851) between the way of investment through the privatisation program and the risk as a barrier. Only the 52.2% (12/23) of the MNEs that have participated in the Bulgarian privatisation program have not mentioned the Bulgarian environment as a risky environment.

Table 6. Risk under Bulgarian Privatisation Programme

			Y75		
			NO	YES	Total
W1	NO	Count Observations	19	22	41
		% W1	46,3%	53,7%	100,0%
		% Y75	61,3%	66,7%	64,1%
	YES	Count Observations	12	11	23
		% W1	52,2%	47,8%	100,0%
		% Y75	38,7%	33,3%	35,9%
Total		Count Observations	31	33	64
		% W1	48,4%	51,6%	100,0%
		% Y75	100,0%	100,0%	100,0%

*Acquisition Opportunities through Bulgarian Privatisation Program (W1) - High Investment Risk (Y75)

From the statistical analysis the author did not also find any statistical relation (any association) between most of the ways of investment (such as the way of greenfield FDI and risk, acquisitions and risk, joint ventures and risk) and the barrier high investment risk. This is maybe due to the fact that all MNEs, in their decision-making for an FDI, knew that Bulgaria belongs to a high risky region before start thinking for undertaking an investment project to this region. Thus, it was not a barrier the high-risk environment, but a reality to cope with it. On the other hand, a few large-scale companies in worldwide economic figures have made a low volume investment in Bulgaria, thus this limited investment is the answer to the consideration of the risk. Furthermore, there are some sectors and some cases that are low-risk cases such as the participation of Greek banks in Bulgaria, which banks have followed rules from their Greek experience and mainly they support secure Greek customers (follow the clients theory - over 1000 Greek companies and thousand Greek students participate in Bulgaria). Finally, a few companies have answered up to three barriers that were supposed to be the most important or significant for them and thus, they have excluded the barrier Risk, because of the others.

Furthermore, another element that may affect the consideration of the risk as a barrier for an FDI inflow is the "prior trade relations".

From the research (Table 7), the author has also found that there is statistical association and relation between MNEs that had prior trade relations with Bulgaria and the risky environment as a barrier. Fifteen (15) out of sixty four (64) companies (23.4% of the total) that have invested in Bulgaria having prior trade relations or/and creating in Bulgaria an export base, only 3/15 (20%) of these companies have also considered Bulgaria as a risky environment. Furthermore, only 3/33 (9.2%) of the total companies that have considered Bulgaria as a risky environment were MNEs that had prior trade relations with Bulgaria. This means that the prior trade relations have given to them the necessary experience to cope with risky environments and/ or with secure clients. From the statistical point of view (continuity correction = 0.012), there is an association (in 5% level of significance) between RISK and the way of investment – from trade to FDI (Y75).

Table 7. Risk and Prior Trade Relations

			Y75		
			NO	YES	Total
W3	NO	Count Observations	19	30	49
		% W3	38,8%	61,2%	100,0%
		% Y75	61,3%	90,9%	76,6%
	YES	Count Observations	12	3	15
		% W3	80,0%	20,0%	100,0%
		% Y75	38,7%	9,1%	23,4%
Total		Count Observations	31	33	64
		% W3	48,4%	51,6%	100,0%
		% Y75	100,0%	100,0%	100,0%

*MNEs prior trade relations in Bulgaria (W3) or Bulgaria was an export base (from trade to FDI)- High Investment Risk (Y75)

Finally, there are a few others elements that may affect the consideration of the risk in the investment decision procedure such as:

- the idiosyncrasy of the entrepreneur or the management board of a MNE
- MNE's behavior against the risk diversification of its activities,
- the MNE's objective of hedging the market risk,
- the pressures from globalisation
- the multinationality of the MNE
- other strategic reasons
- the policies that may differ from company to company (especially in different time periods, in various target markets)
- the needs of MNE
- the lack of adequate information regarding the business environment in a country

As far as the Greek investors in Bulgaria, the Figures 2a-5a show the differences between the Greek investors and the other worldwide investors. Greek investors have proved to be factor hunters with a percentage of 84%, closely followed by a percentage of 78% that are locational hunters. Apart from the obvious reason of geographical proximity this change in the ranking of the group of incentives is due to the fact that most of the thirty seven (37) Greek companies participated in the research were in textile sector, industry and food sector that required low cost manual labor. Regarding the ways of investing, Greek investors have also preferred the green-field way, but at the same have rejected the way of privatisation as a means of FDI. As far as the separate incentives are concerned, Greek investors, as expected, ranked the geographical proximity (100%) as the main motive for their FDI activity. Other important factors were the market size (92%)and the low labour cost for unskilled workers (84%).

The main barrier (Figure 5a) that Greeks had to face in their investment was corruption, crime and mafia (78%) followed by the unstable legal system (59%), the bureaucracy and the low per capital income being in the same position with 57%. These answers are somehow surprising because the same conditions as far as bureaucracy, unstable legal system and corruption also prevail in Greece. However, the "Balkan Enlargement Spirit" that prevails the behavior of the citizens in the Balkan region is a factor that explains this situation (for more details see 1d- paragraph).

Chi-square questionnaire analysis[5]

(-1a-) MNEs isolated interest for FDI inflows in Bulgaria

[5] Only a few representative examples of the extensive statistical analysis done by this author in his PhD thesis will appear in this paper

Thirteen companies (Table 8) participated in the questionnaire research have invested an amount of over 14.4 million USD$, which amount was the mean of the total investments made from sixty-four MNEs (sample of the questionnaire). The majority of these foreign investors have undertaken FDI projects with an amount that was less than the mean (51/64 companies). This data did not surprise the author, and it is not a disadvantage of the questionnaire analysis and thus of the sample.

Table 8: Average of MNEs FDI inflows (from the questionnaire research- Average = 14.412 million USD$)

invest >= 14.412 (FILTER)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than mean volume of investment	51	79,7	79,7	79,7
	greater than mean volume of investment	13	20,3	20,3	100,0
	Total	64	100,0	100,0	

On the other hand, the same conclusion can be derived from the official statistical data (see Table 9) - only five companies have invested in Bulgaria more than 30% of the total FDI inflows. Moreover, according to the Bulgarian Foreign Investment Agency (BFIA) the following 25 companies (ranking the MNEs regarding the volume of FDI inflows) have invested another 30% of the total etc.

Table 9. Biggest foreign investments in Bulgaria over 1 million USD each (as of October 2000)

No	INVESTOR	COUNTRY	SECTOR	BULGARIAN COMPANY	YEAR	VOLUME $ million
1	UNICREDITO	ITALY	finance	BULBANK	2000	307.0
2	NATIONAL BANK OF GREECE	GREECE	finance	UNITED BULGARIAN BANK	2000	270.0
3	EBRD	International			94-99	261.2
4	SOLVAY	BELGIUM	chemical industry	SODI DEVNYA	97,98	206.0
5	UNION MINIERE	BELGIUM	copper smelter	MDK PIRDOP	97,98	190.3

Source: BFIA Catalogue

In addition, the FDI outflows from one country to another, is usually not an issue of national interest or a specific interest from one country to another. Derived from the worldwide statistical information there may be found countries with significant FDI inflows and simultaneously these inflows to be from very few MNEs. This "isolated" interest of the multinationals is also clear from the example of the two Belgian multinationals that have invested in Bulgaria (Table 9). These two companies for strategic reasons (acquiring an existing Bulgarian firm producing similar products, having access to other neighboring countries, increasing their world-wide market-share) proceeded to FDI decisions in Bulgaria. Belgium is in the second place (actually in the third place after Greece and Germany, see page 124 and onwards) in FDI inflows to Bulgaria and 95% of these inflows belong to the above two companies (Tables 9 & 10).

This author in another paper [Bitzenis, A. 2001c] argues that there is an interest from MNEs to invest in a host country and not from specific home countries to give incentives or even provoke their home firms to invest in a specific host country. The interest is more company centered and that is evident in Central Eastern Europe by the fact that the bulk of the CEE FDI inflows come from approximately 40 multinationals from five advanced countries. With statistical data it can be demonstrated that less than 40 large MNEs coming from the most advanced countries (USA, UK, Italy, France, Netherlands, Japan) have invested 43% of the total volume of foreign investment in Hungary, Bulgaria, the Czech Republic and Poland.

Table 10. Foreign direct investment in Bulgaria by countries and by years in millions of USD

N	Country	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total by countries

1	Germany	0.11	56.63	111.43	16.16	53.10	31.44	55.7	101.3	72.3	498.2
2	Belgium	0.00	0.14	0.30	10.02	0.79	264.39	31.22	66.22	39.80	412.9
3	Italy	0.01	0.22	5.17	2.27	1.19	0.42	2.06	23.02	339.70	374.1
4	Greece	0.16	5.08	2.97	29.79	14.55	16.10	3.33	14.91	241.1	328.0
5	Cyprus	0.33	1.19	0.39	1.40	7.51	20.55	109.09	108.91	-11.3	238.1
6	USA	0.00	10.49	16.15	16.10	20.66	46.61	38.6	49.8	37.1	235.5
7	Austria	13.03	1.02	14.66	1.39	12.07	12.46	46.91	23.39	88.8	213.7
8	Russia	0.31	1.35	2.27	15.05	14.37	2.01	14.84	103.74	50.8	204.7
9	Netherlands	0.07	0.52	37.94	0.85	46.27	10.80	41.28	27.96	17.4	183.1
10	UK	6.2	5.6	2.4	13.7	7.3	15.8	58.9	48.00	22.6	180.5
11	Turkey	0.00	9.84	1.26	13.74	7.26	9.87	23.76	39.39	19.5	124.6
12	France	0.00	0.22	4.19	4.99	6.51	0.82	3.35	62.72	28.9	111.7
13	Spain	0.04	0.06	0.01	0.00	0.00	49.55	56.8	3.21	0.7	110.4
14	Switzerland	0.38	6.69	0.24	7.87	23.08	31.36	6.58	13.13	15.0	104.3
15	Korea	0.00	0.00	0.26	0.20	22.31	22.90	1.78	2.81	6.6	56.9
16	Bahamas	0.00	0.00	0.00	0.00	0.00	0.00	22.76	10.36	14.2	47.3
17	Luxemburg	0.40	0.58	0.58	0.36	0.23	11.75	22.71	3.81	0.0	40.4
18	Ireland	0.00	0.00	0.02	17.40	0.18	5.21	0.97	3.72	1.0	28.5
19	Hungary	12.26	0.05	0.00	0.00	0.07	0.00	0.68	1.68	2.0	16.7
20	Israel	0.00	0.03	0.93	0.02	1.45	0.01	0.03	13.84	0.00	10.0
21	Czech	0.00	0.00	0.05	2.34	2.28	4.68	0.58	0.09	0.00	10.02
22	Malta	0.00	0.00	0.01	0.12	0.09	0.09	8.9	0	0.5	9.7
23	Liechtenstein	0.00	1.11	0.13	0.01	0.00	2.53	0.79	1.28	3.0	8.9
24	Sweden	0.00	0.00	0.01	0.03	1.42	2.36	0.94	1.57	0.3	6.6
25	Japan	0.01	0.00	0.08	0.50	0.60	1.90	1.89	0	1.3	6.3
26	Denmark	0.00	0.00	1.07	0.02	0.00	1.12	1.58	0.33	1.3	5.4
	…….										
	Total by years	34.42	102.37	210.86	162.63	256.36	636.16	619.96	806.10	1100.0	3928.9

Source: BFIA END 2000

(-1b-) Small Firms and Risk

With the help of the questionnaire analysis using the statistical package of SPSS, we are searching if the barrier of considering Bulgaria as a risky environment is depending either on the invested amount, or in the sector that the MNE belongs to, or finally to the origin of the MNE.

It is mentioned above, that the average amount of FDI inflows in Bulgaria (in million of USD$), which foreign MNEs have invested, it was the amount of 14,412 million USD$. Only 13 companies that participated in the questionnaire research have invested more than the average. 27/51 (53%) of the companies that have invested less than the average have considered as a high risky environment the Bulgarian one. 6/13 (46%) of the companies that have invested more than the average have also considered as a high risky environment the Bulgarian one. According to the continuity correction test (2x2 table – continuity correction =0.9), the p-value is >0.1, thus we neglect the Ha hypothesis, and we accept the Ho hypothesis and so, there is no association between the two variables (high risk environment as a barrier and the volume of the investment).

It is well known that the small firms are vulnerable to fluctuations in the technological, political and generally the external environment. A small firm has also difficulties in financing its expansion activities, since self-financing is not usually possible, and it to be trusted by the fund-market in order to be financed. The most important constraint for the small companies, next to the managerial inefficiency, is the limited access to information, and the high cost of acquiring information. In periods of economic crises, the first companies that are forced to close are the small one. The small firm is more sensitive to the uncertainty-risk factor, because of all the above factors, and they are more likely to be risk-averse. The small MNEs are companies with limited amount and dispersion of subsidiaries. The large MNEs in their way to diversify the total risk, they diversify their activities in order to reduce and hedge the total risk. Thus, due to this specific management rule they undertake more risky investment projects in relation to the small companies. The small companies are more risk averse, the management is more biased by personal interests and feelings, and the goals are in a lower scale than those of a large MNE.

However, the idiosyncrasy of the entrepreneurs of the small companies maybe more risky than the average or even more risky than those of large MNEs. From the author's research, 10/13 (77%) of the companies, which have invested an amount more than 14 million USD$ (data mid 1998) were also large MNEs in worldwide economic figures and 13/51 (25%) companies that have invested less than the average of 14 million USD$ were also large MNEs in worldwide economic figures. Thus, there is no a trend to underpin the argument that the large MNEs in worldwide economic figures are more risky companies or in other words the small firms are risk-averse. It is not necessary a large MNE in worldwide economic figures to undertake only large FDI projects in a country such as Bulgaria. Each investment is closely depending on the sector that the MNE belongs to, on local competition and on the investing plans and the risk that the MNE is willing to undertake. Thus, the consideration of the risk in the decision making of an FDI project depends from the sector in which each foreign company activate in Bulgaria and the level of the amount of money that needed for the establishment of an FDI project. Furthermore, not always the risk is in full correspondence with the amount that has been invested.

(-1c-) High investment Risk as a barrier and the kind of MNE's activities

The biggest percentage 17/23 (74%) of the companies (participated in the research) that belong to the industrial sector (see Table 11) have considered Bulgaria as a high risk environment. 50% (9/18) companies from the services sector have also considered Bulgaria as a high risk environment and only 7/23 (30%) from the trade or food sector have considered as a barrier the Bulgarian risky environment. Little more than half of the total companies [33/64 (51.6%)] that participated in the research have also considered the risk as a barrier for undertaking an FDI project in Bulgaria. From statistical point of view, the p-value is <0.05, thus we accept the Ha hypothesis (Pearson chi-square 0.013), and so, there

is association between the two variables (kind of business and the investment risk barrier) at 5% level of significance.

Table 11. Risk for each kind of business

			Y75		
			No	Yes	Total
Grouped Kind	Productive/Industry +Textiles	Count	6	17	23
		% Grouped Kind	26,1%	73,9%	100,0%
		% Y75	19,4%	51,5%	35,9%
	Services/Banks	Count	9	9	18
		% Grouped Kind	50,0%	50,0%	100,0%
		% Y75	29,0%	27,3%	28,1%
	Trade/Food	Count	16	7	23
		% Grouped Kind	69,6%	30,4%	100,0%
		% Y75	51,6%	21,2%	35,9%
Total		Count	31	33	64
		% Grouped Kind	48,4%	51,6%	100,0%
		% Y75	100,0%	100,0%	100,0%

*(Grouped Kind): The kind of Business of the MNEs that participated in the questionnaire research (in three groups)- High Investment Risk (Y75)

It is concluded that the risk depends on the sector that each foreign company participates in Bulgaria. It has also been confirmed that companies of the trade sector are less interesting in considering the risk as a barrier and this is maybe due to the fact that these companies are more risky companies or the amount of the investment needed for this sector is lower comparing to the amount needed for investments in the other sectors, or finally, the risky environment of Bulgaria affect their activities less than the investment activities of the companies which belong to other sectors.

(-1d-) High investment risk and the origin of MNEs

Searching for the relation between the origin of MNEs and the risk, we are considering Table 12, in which we found a 2x2 table, thus we consider the Continuity Correction and its p-value. From the chi-square analysis (Continuity Correction=1), we can point out that the p-value is >0.1, thus we neglect the Ha hypothesis, and we accept the Ho hypothesis and so, there is no association between the two variables (origin of MNEs and the barrier high investment risk). It was a surprise for the author the fact that the Greek origin MNEs although they have the experience of the Balkan business ethics and the experience to cope with risky environments, on the other hand half of the Greek MNEs have mentioned as a barrier the high investment risk. A surprise was also the fact that the barrier corruption, crime, bribery, mafia and illegal actions (Y67), has also been mentioned from 29/37 (78.4%) of the Greek companies (Table 13).

Table 12. Origin of MNE and risk

			Y75		
			NO	YES	Total
RID	Greece	Count	18	19	37
		% RID	48,6%	51,4%	100,0%
		% Y75	58,1%	57,6%	57,8%
	Europe & Other	Count	13	14	27
		% RID	48,1%	51,9%	100,0%
		% Y75	41,9%	42,4%	42,2%
Total		Count	31	33	64
		% RID	48,4%	51,6%	100,0%
		% Y75	100,0%	100,0%	100,0%

*(RID) Origin of MNEs (in two groups) - High Investment Risk (Y75)

Table 13. Origin of MNEs and crime-corruption-bribery-illegal actions

			Y67		
			NO	YES	Total
RID	Greece	Count	8	29	37
		% RID	21,6%	78,4%	100,0%
		% Y67	26,7%	85,3%	57,8%
	Europe & Other	Count	22	5	27
		% RID	81,5%	18,5%	100,0%
		% Y67	73,3%	14,7%	42,2%
Total		Count	30	34	64
		% RID	46,9%	53,1%	100,0%
		% Y67	100,0%	100,0%	100,0%

*(RID) Origin of MNEs (in two groups) - Corruption, Bribery, Crime, Illegal actions, cost of protection from "mafia" (Y67)

However, interviews and personal contacts in a time period of 16 months were enough for the author to find out that the Greek investments and the Greek entrepreneurs were among the first and maybe the only cases among the foreign investors that received the fright, threaten, menace, patronage and other illegal actions from mafia. This act can be explained from the fact that most of the Balkan countries and the majority of the citizens from the Balkan states during the history have a big idea for their nationality and their origin. This can be proved by the examples of Greece with Great Alexander walk and the Greek expansion and from the 1900s Asia Minor catastrophe, the Great Idea of Albania, the expectations of Bulgaria for an increase of its borders to the south with the association of Greek Thrace and to the West with the association of a part of FYROM (because of the minorities), the enlargement expectations of Romania during the Balkan Wars, the creation of the Republic of Yugoslavia with the leadership of the President Tito and its subsequent dissolution, and the Turkish occupation (Ottoman Empire) for almost five centuries in most of the Balkan countries. All these examples prove that there is a "Balkan Enlargement Spirit", among the citizens of this region throughout the years, for an expansion of their borders and an idea to become predominant in the region. Having in mind this last argument it can be explained the behavior of a minority of Bulgarians against Greek entrepreneurs. It may be difficult for a part of Bulgarians to accept that Greeks at this time of the history are economically stronger and Greeks have the opportunity to become economically dominant in the region. Thus, during the transition years, events of patronage, nepotism, mafia in the sake of quick and easy profit for nonexistent reasons (asking money for protection from thieves, asking money for the avoidance of losses and damages, from burnings, even more cases of asking money from an entrepreneur in order to balance the supposed illegal avoidance of taxes or the low level payment of tax rates) have been existed. Moreover, reasons such as the fact that Greek entrepreneurs have come from their neighbor country to acquire or create enterprises with low cost and to employ citizens with very low wages, have been received from the underground people (mafia) as an enough reason for gaining illegally money. From the research, the author explored that the mafia did not react the same against the other foreign investors such as the Germans or the Americans.

Considering continuity correction (=0), we can conclude that there is a strong association (in 1% level of significance) between the origin of the MNEs and the barrier corruption, bribery, illegal actions, "mafia" etc. (Y67). Furthermore, although 34/64 (53.1%) of the companies have considered as a significant barrier the corruption, bribery etc., at the same time only 18.5% (5 out of 27) of the foreign MNEs except the Greek ones have considered this barrier as significant one (Table 13).

Finally, a surprise was also the fact (Table 14) that more than half (21/37) of the Greek MNEs (56.8%) have also considered as a significant barrier in their investment plans, bureaucracy (Y72), which exists in the Bulgarian economic activities. However, Greece is also a country that most of the every – day economic activities are characterized from bureaucracy.

Table 14. Origin of MNEs and bureaucracy

			Y72		
			0	1	Total
RID	Greece	Count	16	21	37
		% RID	43,2%	56,8%	100,0%
		% Y72	59,3%	56,8%	57,8%
	Europe & Other	Count	11	16	27
		% RID	40,7%	59,3%	100,0%
		% Y72	40,7%	43,2%	42,2%
Total		Count	27	37	64
		% RID	42,2%	57,8%	100,0%
		% Y72	100,0%	100,0%	100,0%

*(RID) Origin of MNEs (in two groups) - Bureaucracy (Y72)

Moreover, according to the Corruption Perceptions Index (CPI) of 1998, 1999, 2000 and 2001 (the author of the index is Dr. Johann Graf Lambsdorff from Göttingen University/Transparency International Organization, see Tables 15a, b, c, d)[6] we have the following results: Greece seems to appear in the 42nd place in 2001 (it was in the 35th place in 2000 from 36th that was in 1999 and 1998) and on the other hand, Bulgaria has a continuous progress and it appears in the 47th place (it was in 52nd place in 2000, a better place comparing to the 63rd that was in 1999, and 66th that was in 1998). These results are not far away from the reality and it is also true that only Greece and Italy from the European Union countries have scored under 5 (with the exception year of 2001 - only Greece from EU remains in such a bad place). It can be pointed out that the difference or the gap between Greece and Bulgaria in an issue such as corruption is not significant (3.9-4.2). It is also important to be considered that in the decades of 80s and 90s the issue (corruption) in Greece was even worst. Thus, the Greek entrepreneurs may use their "Greek experience in corruption" in the Bulgarian business activities with understanding and not as a significant barrier that discourage their investment plans.

Table 15a, b, c, d: The Transparency International Corruption Perceptions Index: 10 (highly clean) and 0 (highly corrupt)

Country Rank	Country	2001 CPI Score	Surveys Used	Standard Deviation	High-Low Range
1	Finland	9.9	7	0.6	9.2 - 10.6
2	Denmark	9.5	7	0.7	8.8 - 10.6
29	Italy	5.5	9	1.0	4.0 - 6.9
42	Greece	4.2	8	0.6	3.6 - 5.6
47	Bulgaria	3.9	6	0.6	3.2 - 5.0
	Croatia	3.9	3	0.6	3.4 - 4.6
	Czech Republic	3.9	10	0.9	2.6 - 5.6
90	Nigeria	1.0	4	0.9	-0.1 - 2.0
91	Bangladesh	0.4	3	2.9	-1.7 - 3.8

Country Rank	Country	2000 CPI Score	Surveys Used	Standard Deviation	High-Low Range
1	Finland	10.0	8	0.6	9.0 - 10.4
2	Denmark	9.8	9	0.8	8.6 - 10.6
35	Greece	4.9	8	1.7	3.7 - 8.1
39	Italy	4.6	8	0.6	4.0 – 5.6

[6] The Corruption Perceptions Index, which Transparency International (TI) first launched in 1995, ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. The 2000 CPI is a composite index, drawing on 16 surveys from 8 independent institutions. The surveys embrace the perceptions of business people, the general public and country analysts. The surveys were undertaken over the last three years and no country is included in the CPI unless there are results from a minimum of three surveys (a perfect 10.00 would be a totally corruption-free country). Standard Deviation indicates differences in the values of the sources for the index: the greater the variance, the greater the differences of perceptions of a country among the sources. The number of surveys used had to be at least 3 for a country to be included in the CPI. High-Low Range provides the highest and lowest values of the sources.

52	Argentina	3.5	8	0.6	3.0 - 4.5
	Bulgaria	3.5	6	0.4	3.3 - 4.3
	Ghana	3.5	4	0.9	2.5 - 4.7
	Senegal	3.5	3	0.8	2.8 - 4.3
	Slovak Republic	3.5	7	1.2	2.2 - 6.2
89	Yugoslavia	1.3	3	0.9	0.6 - 2.4
90	Nigeria	1.2	4	0.6	0.6 - 2.1

Country Rank	Country	1999 CPI Score	Standard Deviation	Surveys Used
1	Denmark	10.0	0.8	9
2	Finland	9.8	0.5	10
3	New Zealand	9.4	0.8	9
	Sweden	9.4	0.6	10
36	Greece	4.9	1.7	9
38	Italy	4.7	0.6	10
63	Bulgaria	3.3	1.4	8
	Egypt	3.3	0.6	5
	Ghana	3.3	1.0	4
	FYROM	3.3	1.2	5
	Romania	3.3	1.0	6
98	Nigeria	1.6	0.8	5
99	Cameroon	1.5	0.5	4

Country Rank	Country	1998 CPI Score	Standard Deviation	Surveys Used
1	Denmark	10.0	0.7	9
2	Finland	9.6	0.5	9
3	Sweden	9.5	0.5	9
36	Greece	4.9	1.7	9
39	Italy	4.6	0.8	10
66	Bulgaria	2.9	2.3	4
	Egypt	2.9	0.6	3
	India	2.9	0.6	12
84	Paraguay	1.5	0.5	3
85	Cameroon	1.4	0.5	4

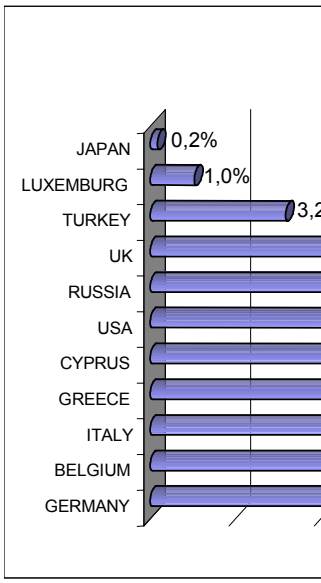
Greek investors in Bulgaria: the significant Greek interest in Bulgaria; a fact or a myth? Are they leading in investments in Bulgaria?

FDI Progress in Bulgaria

The last three years 1998-2000 the amount of FDI inflows was more than 2500 million US$ while in the first six years were less than 1400 million US$. The 43% of the total FDI inflows derived from the privatisation deals when at the same time only 4% of the total FDI inflows were acquisitions of shares through the stock market. 55% of the total FDI inflows were concluded in the industrial sector, followed by the trade with 19.2% and the financial sector with 11.4% (see Figures 6a, 6b & 6c).

In Table 16 and Figure 7, Greece appears to be in 4th position with 328$ million USD until the end of 2000, but this data does not include the Greek investments using offshore companies from Cyprus and Luxembourg. The most significant exclusion is also the acquisition of the license of the second mobile operator from OTE with 135 million USD.

Figure 7. Countries' share of Bulgarian FDI inflows



Source: BFIA Catalogue (until end 2000)

Is Greece the biggest foreign investor in Bulgaria?

According to the interviews [Bitzenis, A. 2001d] some serious Greek investments derived from the tax heavens of Cyprus and Luxembourg using offshore companies for financial and tax reasons.

	Name	Country	Sector	Bulgarian Partner	Date	$ M.	Bfia Rank
1	NATIONAL BANK OF GREECE	Greece	finance	UNITED BULGARIAN BANK	2000	270.0	2ND
2.	ALICO/CEH (EUROBANK 43%) CONSORTIUM	Cyprus	finance	POSTENSKA BANKA	98	24.08	12TH
3.	DELTA	Greece	food industry	DELVI T, DELVI P VITALAKT	93-98	10.47	53rd
4	COMMERCIAL BANK OF GREECE	Greece	finance	INTER. COMMERCIAL BANK	95-99	10.2	57th
5.	THRACE PAPER MILL	Greece	paper prod.	KMH BELOVO	97	6.39	75th
6.	CHIPITA INTERNATIONAL	Greece	food industry	CHIPITA-BULGARIA	95-97	5.55	80th
7.	TKM FRUIT AND JUICE *	Greece	food industry	VITAMINA	96	8.55	63rd
8	HALKOR	Greece	metal	SOFIA MED	2000	5.0	88th
9.	INTRACOM	Greece	Telecommuni-cation	BULFON	95-97	3.58	100th
10	IONIAN BANK	Greece	Finance	IONIAN BANK	95	3.00	106th
11	ILIAS EVSTRATIO KATSIYANIS	Greece		KOLIS	93	1.64	123rd
12	GEORGE TSAGARIS	Greece	garments	PANGAEA	95-99	1.5	128th
13	GOODYS	Greece	restaurant	GOODYS	97	1.10	139th
14	Various smaller Greek Investments	Greece	various		93-98	19.00	
15	Hellenic Bottling Company (3E) + Athens Brewery	Greece	food industry	See following table	93-98	78.4	8th belongs
16	Frigoglass S.A.+ Yioula S.A.	Greece	Glass industry	See following table	97-99	55.9	12th belongs
	TOTAL	Greek interest investments		in million USD$ dollars	1989-2000	504.36	1st belongs

Table 16. Greek interest investments

* The author's research has explored that after mid 1999 there is no strong Greek participation in this FDI project.
Source: BFIA and author's research

Table 17. Hellenic Bottling Company (Coca Cola - 3E) + ATHENS BREWERY + Frigoglass + Yioula S.A. + Leventis/David Group

1	KLARINA HOLDING	LUXEM BOURG	FOOD INDUSTRY	VARIOUS BEVERAGE COMPANIES	93-99	38.6
2	BREWINVEST	GREECE	FOOD INDUSTRY	ZAGORKA	95-97	27.6
3	SOFTBUL INVESTMENT LTD	CYPRUS	FOOD INDUSTRY	VARIOUS BEVERAGE COMPANIES	97 97 97	12.2
4	GLASINVEST LTD	CYPRUS	GLASS INDUSTRY	STIND	97, 98	32.7
5	BARECK OVERSEAS LTD.	CYPRUS	GLASS	DRUZHBA JSCO. PLOVDIV	98, 99	23.2
	TOTAL	(1-3) Coca Cola -3E (HBC – Hellenic Bottling Company) together with Athens Brewery and (4-5) Frigoglass with Yioula have invested 27% of the total Greek investments in million USD dollars. In all the above, the Greek Leventis/David Family Group is a shareholder				134.3
		National Bank of Greece and other Greek banks have invested about the half of the total investments in Bulgaria (307 out of 665)				270+24+10 +3=307

Source: BFIA and author's research

If the cases of CocaCola – 3E (HBC), Frigoglass and Eurobank (Tables 16 & 17) are taken into account, in addition to the case of OTE, which invested in the end of 2000 and the other misleading cases appearing in Table 18, Greece will be considered to be in first position as far as investments are concerned with a total amount of 665 million USD$ invested.

Table 18. Misleading Greek FDI inflows in Bulgaria (Greek investments that are not in the official BFIA catalogue list

1	Xios Bank	3 millions
2	Bulvaria	6 millions
3	Ergo Medi group	3 millions
4	Car Traders x 4	4 millions
5	Nikas	1 million
6	Mixaniki	3 millions
7	Sarantopoulos	1 million
8	OTE	135 millions
9	Textiles x 150	5 millions
	TOTAL	161 millions + 504 millions = 665 millions $USD from Greece. This amount creates Greece (and Greek Companies) as the major foreign investor in Bulgaria in the transition period 1989-2000.

Source: Author's research

From Table 10, we can point out that there are some countries such as Cyprus, Bahamas, Luxembourg, Malta and Liechtenstein, which seem to appear for MNEs as offshore centers or tax heaven centers. The total FDI outflows from these countries having as a "target", Bulgaria, were about 350 USD$ millions (until the end of 2000). More than half of these inflows have been exploited by the Greek MNEs. The remaining, (of this kind), inflows in Bulgaria belong mainly to Russians and Turkish entrepreneurs.

The role of Greek investments in the Balkan region; Did the Greek government encourage FDI outflows in the Balkan region?

This author estimates that the Greek investments in Bulgaria are about USD $670 million, in Yugoslavia USD $450, in Romania USD $950 million and in FYROM and Albania to be not more than USD $250 million and USD $180 million respectively.

Table 19. Ten Greek Investments over $20 USD Million in Eastern Europe

Name of MNE	Home Country	Host Country	Local or Foreign Partner	Purpose of Investment	% of Participation	Amount of Investment $	Additional Investment
OTE + Cosmote	Greece	Bulgaria	GLOBUL	15year license for second GSM operator	100%	USD $135 million	$80-$250 million
OTE	Greece	Romania	RomTelecom	Telecom Services	35%	USD $675 million	
OTE	Greece	Armenia	Armenia Telephone Company (ArmenTel)	Telecom Services (March 1998)	90%	USD $140 million, (GRD 41 billion)	
OTE	Greece	Yugoslavia	Telecom Serbia	Telecom Services (49% withTelecom Italia-STET)	20%	USD $350 (DM 675,070,000 June 1997)	
Cosmo-Holding Albania (97% OTE and 3% Telenor /Norway)	Greece	Albania	Albanian Mobile Communications (AMC)	Mobile Services - license for first GSM operator	85%	USD $85.6 million + USD $21 million =106.6 USD$	USD $80-$90 Million
National Bank Greece	Greece	FYROM	Stopanska Banka	Bank	65%	USD $58.6 million	
National Bank Greece	Greece	Bulgaria	UNITED BULGARIAN BANK	Bank	90%	USD $270 million	
Panafon-Vodafone	Greece	Albania	Vodafone International Holding (UK)	Mobile Services - license for second GSM operator	100%	USD $38 million	
Coca-Cola (3E) + Athenian Brewery S.A.	Greece	FYROM	Balkanbrew Holding, AD PIVARA SKOPJE	Bottling Company	100% 51%	USD $35 million	
Coca-Cola (3E or HBC) + Athenian Brewery S.A.	Greece	Bulgaria	KLARINA HOLDING, BREWINVEST, SOFTBUL INVEST LTD.	Bottling Company	100% 80%	USD $78 million	
Frigoglass + Yioula S.A. + Leventis/ David Group	Greece	Bulgaria	STIND, DRUZHBA	Glass Industry	100% 51%	USD $55.9 million	
EUROBANK	Greece	Bulgaria	POSTENSKA BANKA ALICO INC. USA (57%, 43% EUROBANK)	Bank	78%	USD $24.08 million	
Hellenic Petroleum	Greece	FYROM	OKTA REFINERY (SKOPJE)	Oil refinery, Petrochemicals	54%	USD $32 million	
TITAN	Greece	FYROM	A.D. CEMENTARNICA USJE OF SKOPJE	Cement factory (JOINT WITH HOLDERBANK, SWISS)	85%	USD $30 million	
Coca-Cola (3E or HBC)	Greece	Romania	Molino Beverages, CocaCola Beverages	Bottling Company		USD $60 million	
Delta International Holdings (Lux)	Greece	Romania	Danone	Food Industry	65.6	USD $25 million	
Delta International Holdings (Lux)	Greece	Yugoslavia	Danone – Delyug A.D. – Chipita S.A.	Food Industry	90%	USD $35 million	
Mytilinaios Holdings	Greece	Romania	Sometra S.A.	Metallurgical industry	88%	USD $20 million	
Coca-Cola (3E or HBC), Balkaninvest Ltd	Greece	Yugoslavia	IBP Beograd	Soft drink producer	68%	USD $30 million (84 million dinars in 1997)	USD $24
TOTAL (USD $2.058 billion excluding USD $140 OTE in ARMENIA) – in Balkan Region (exc. Turkey, Bosnia, Slovenia, Croatia)						USD $2.198 billion	

Source: Author's research

The total amount of Greek FDI outflows according to the Table 19 is USD $2.058 billion (about 80% of the total) derived from the investments of the ten biggest Greek MNEs (similar conclusions derived from the author's research for the case of Bulgaria, see Tables 16-18, & 22), which have invested in the Balkan region. Thus, the Greek FDI outflows in the above five countries are not much more than USD $2.5 billion (22% of the total), while at the same time the total FDI inflows in these countries are about 11.4 billion USD$ (end 2000 -see Table 20).

Table 20: FDI Inflows in the Balkan Region

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Total
Albania	–	–	20	58	53	70	90	48	45	41	100*	425
Bulgaria	4	56	42	40	105	90	109	505	537	819	975	3282
Romania	–	40	77	94	341	419	263	1215	2031	1041	998	6519
FYROM	–	–	–	–	24	9	11	16	118	30	160*	208
Yugoslavia	..	..	..	..	..	..	–	740	113	112	–*	965
TOTAL FDI IFLOWS IN THE ABOVE FIVE COUNTRIES OF THE BALKAN REGION	11399											
Bosnia and Herzegovina	..	..	..	..	–	–	–	–	100	90	117	307
Croatia	–	–	16	120	117	115	506	530	898	1408	1000 *	4710
Slovenia	4	65	111	113	128	177	194	375	248	181	181	1777
TOTAL FDI IFLOWS IN THE ABOVE EIGHT COUNTRIES OF THE BALKAN REGION	18193											

Source: National balance of payments statistics; IMF.

Table 21a. Inflows of FDI in Central & Eastern Europe, the Baltic States and the CIS, 1990-2000 (Million USD$)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	
Eastern Europe [b]	479	2 332	3 124	4 165	3 575	9 230	7 974	9 399	15 268	18 615	21 502*	
Baltic states	..	..	119	238	460	454	685	1 142	1 863	1 139	1 148	
CIS	..	..	1 777	1 875	1 770	4 064	5 288	8 842	6 726	6 886*	5 363*	
Total above [b]	..	..	5 020	6 278	5 806	13 748	13 947	19 383	23 857	26 640*	28 013*	145502

Source: National balance of payments statistics; IMF.

[b] Excluding Bosnia and Herzegovina and Yugoslavia.

Table 21b. Outflows of FDI in 1993- 1996(billions of US dollars)

Country	1993	Country	1994	Country	1995	Country	1996
USA	78.2	USA	54.5	USA	95.5	USA	74.8
UK	25.5	UK	28.3	UK	40.3	UK	34.1
France	20.6	FRANCE	22.8	GERMANY	34.9	FRANCE	30.4
GERMANY	15.3	JAPAN	18.1	JAPAN	22.7	GERMANY	29.5
JAPAN	13.8	NETHERLANDS	16.7	FRANCE	18.7	HONG KONG, CHINA	26.4

Source: Balance of payments, International Financial Statistics, IMF, UNCTAD (1998), *World Investment Report, 1998*, p.11

Although the inference that came out of the interviews is that the Greek government did not encourage (direct) individual investors to proceed to an FDI project by offering financial incentives, tax exceptions, loans and grants, it is clear that two big national companies (OTE / Cosmote and National Bank of Greece – see Table 19) have themselves invested around 1.6 billion USD$, which corresponds to 60% of the estimated amount of money totally invested in the Balkan region. However, from the analysis the author has explored that the two national companies have undertaken these FDI projects due to the following reasons: absence of significant foreign investment interest, lack of local competition, belief of a profitable investment project, geographical proximity, interest for expansion of their activities in neighbor countries, follow the clients, increase of market share, participation in new markets, acquisitions in affordable and reasonable prices (embodied in the price the high investment risk) and knowledge of the Balkan market. Thus, it can be concluded that these national companies although they primary invested in these countries for the sake of the profit, on the other hand with their participation in the Balkan region, they encourage (indirect) the other Greek MNEs and entrepreneurs to invest in these countries.

Despite the fact that the biggest amount (80%) of the Greek FDI outflows in the Balkan region was made by only ten companies, and only five companies (see Tables 19, 22) have invested in Bulgaria 85% of the total Greek FDI inflows in Bulgaria, there are about 3000 companies active.

Table 22. Only five well-known Greek enterprises have invested 86%

1	National Bank of Greece	270 millions
2	OTE	135 millions
3	Coca Cola - 3E + ATHENS BREWERY	78 millions
4	Frigoglass + Yioula S.A. + Leventis Group	56 millions
5	Eurobank	24 million
	TOTAL (ONLY 5 (FIVE) COMPANIES)	$USD 563millions from 5 companies (from Greece) in Bulgaria in the transition period 1989-2000
	563 out of 665 = 85 %	
	Only Two GREEK NATIONAL COMPANIES have invested 405 out of 665 million USD$ or 61% of the total Greek FDI outflows in Bulgaria	OTE + National Bank of Greece

Source: Author's research

These companies may have not invested so significant amount of money, however they made value-added activities, thus offering job positions, variety and quality of services and goods, and played a vital role in the local market growth.

The Reasons behind the Misleading Information in the Official Catalogues Regarding the Greek Investments in Bulgaria

In the BFIA catalogue of 1997 (appeared 1282 Greek companies) many Greek companies that the author has approached appear to have invested a much smaller amount than the real one that the author derived from the personal interviews[7] with managers of the firms, a fact raising the suspicion that other companies' data are also misleading. This may have happened 1) because the Greek companies invest through individual companies (amount deviation) 2) because the real investment amount is held back from the authorities for taxation avoidance or other financial reasons, 3) the companies neglect to inform the authorities about the real amount of the investment, 4) the competent authorities do not properly update the catalogues so the real amounts may be listed in later catalogues, 5) a large portion of the invested amount was spent for individual (not through a registered economic entity) investments (acquiring buildings, land etc.) or in the alteration of the grounds surrounding the actual investment, 6) the asset capitals (machinery equipment, cars etc.) transferred from Greece were much undervalued, 7) many companies, especially car dealers have transferred products for exhibition without reporting them as transfer of stock, but the products are used by the Bulgarian subsidiaries. 8) Office equipment has also been transferred without being reported or has been reported in very low prices (depreciation prices that appeared in the accounting books of the mother companies in Greece). 9) The large amount of Greek companies registered for investment in Bulgaria may be partially justified by the fact that many entrepreneurs registered individually in many partnerships and finally invested in one of them, but they were never interested in being deleted (the passive registrations) from the registration lists. This also demonstrates that statistical problems are not always fault of the Bulgarian officials.

The author's research has revealed at least 20 companies that have invested large amounts of money (over 1 million USD), but do not appear in the official lists. Another problem is the manipulation of the data, either because of incompetence or intentionally, so that companies that have withdrawn their investments through the years still appear in the catalogues. An example of this problem is Rover, which withdrew an investment made in the end of 1994 almost immediately and still appears in the official catalogues.

The sources from which one may find data on FDI are several. The primary sources of information are the company itself and the government of the home and the host country; the secondary sources are the international and regional economic agents. Some of them are UNCTC, the World Bank, IMF, OECD, EBRD and EUROSTAT, industrial and commercial trade associations and academic scholars. In general, one should be careful when using statistical data because of several inaccuracies. Dunning has presented some of them in his 1993 book [Dunning H. J., 1993, p.10]

- The book value of the capital assets of the MNEs is noticeably underestimated compared to the replacement value estimated with current market price.
- The way home governments deal with foreign currency translation adjustments, regarding outward FDI, differs from country to country, so the affiliated firm's capital gains and losses are included or not in the parent firm's reports.
- The accounting techniques concerning depreciation are different from country to country.
- Some countries base the data on FDI intentions (passive and active) while others only on the active ones. An interesting example about Bulgaria is that from 1989 and onwards more than 1500 Greek investors registered. At present time, less than half are active.

[7] The author (Bitzenis, A.) also gathered information about the Greek enterprises, the amount of their investments, year of registration, the sector and the number of workers by the Greek embassy in Sofia, Bulgaria.

- The collection of data by governments is derived in different ways and at different time periods. There are also many variations of the quality and accuracy of the research depending on the level of confidentiality and how willing the firms are to produce all the data the government asks for.
- Because of cross border transfer pricing, some of the economic data of a company may be inaccurate.

Apart from the above there are also some less general inaccuracies, but with high occurrence rate, especially in Bulgaria.

- When investigating the origin of an FDI one may be mislead if the investment is contacted through a offshore company, which is directed by a third country firm.
- Companies may overestimate their capital assets in order to be able to repatriate more profits. This may be a usual tactic with Greek entrepreneurs in Bulgaria, until both governments will ratify (late 2001) the agreement for double taxation avoidance.
- Many of the entrepreneurs choose not to take the legal way of transferring money, and move great quantities illegally through the borders. This is easier if the countries are neighbors, and this was also a common practice for Greek entrepreneurs in Bulgaria (mainly small firms). This results to the underestimation of the total FDI inwards since a lot of money capital is invested in a foreign country without being declared anywhere.

Sometimes the deviations are so significant that the FDI outwards is not so close when measured as inwards. Such deviations also exist when the data is derived from two different sources. According to the Polish research department of PAIZ, (until September 2000), Poland had received 43,017 billion USD$, while at the same time (until the end of 2000) according to UN, Poland had received less than 30 billion USD$ (Table 23).

Table 23. FDI Inflows in Poland

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	total
10	117	284	580	542	1132	2768	3077	5129	6471	9461	29571

Source: UN

Since there is little anyone can do about those inaccuracies a researcher should always "*...reminds himself that all estimates are only as good as the data on which they are based…"* [Dunning H. J., 1993, p.10]

The causes of the great accumulation of Greek companies in Bulgaria

There are many reasons why Greece is such a significant investor in Bulgaria. Following, there is a cumulative reference to the most important reasons:

- The Balkans and, in particular, Bulgaria offer Greece a completely new market (market hunters).
- This new market is located very close to Greece (geographic proximity).
- In this market there is a lack of local competition (strategic market hunters).
- The low labour energy and raw materials cost. Bulgaria offers cheap labour, so the transferred enterprises contribute to the increase of unemployment in Greece and in particular in Northern Greece (resource hunters).
- Greece specializes in textile production (esp. in Northern Greece), which also relies in low cost of unskilled labour. The neighbouring Bulgaria offers extremely good conditions in this respect. It will suffice to note that the ratio of wages between Greece and Bulgaria was 1:10 at the beginning of the transition and now is 1:5. However the productivity of the Bulgarian labour in the first years was 1:3 but with the experience gained in certain areas the productivity is getting closer to that of the Greek workers. The latter development is due to the accumulation of a great number of Greek textile companies (esp. in South Bulgaria), which created a higher demand for labour and subsequently raised the salaries (low cost

hunters).

- Many Greek companies aim at creating an export base in Bulgaria, which again offers the advantage of low cost due to both cheap labour and transportation. The latter is greatly facilitated by the geographic proximity and especially the low cost of Bulgarian transportation means (export base).
- The existence of very favourable trade agreements (tax relieves, lack of quotas and tariffs etc) between Bulgaria with other neighbour countries (favourable investment law hunters).
- The bureaucracy, the bribery, the high risk, the corruption which characterized the Bulgarian economy (especially before 1998) while discouraging factors for Western investors, the Greeks viewed it as a more or less familiar reality during the 1980s. The Greeks are very experienced in black economy, which is prevailing in the Balkans (knowledge of similar markets).
- Bulgaria provides a crucial link between Greece and the CIS countries (strategic reason).
- The intensive competition in Greece (due to the presence of many foreign companies) pushed many companies to move towards markets like that of Bulgaria [Chatzidimitriou Y., 1997]. Those companies were mostly small in size. However, other small companies made that move because they had lost their share in the Greek market and even faced bankruptcy (survival or defensive reasons, follow the competition).
- A few Greek companies, mainly small and a step before bankruptcy moved in Bulgaria, hoping that will survive in a new market mainly because of the low cost of labour and energy and the lack of local competition [Labrianidis L., 1996]. Moreover, they also hope that would export these products back in Greece (a way to survive).
- The Greeks took advantage of the fact that in the Bulgarian market there is a lack of interest on the part of Western investors (market hunters) [Paschaloudis D. et al., 1998]. This is due to several reasons:
    - Instability of the economic environment.
    - Low per capita income.
    - Bulgaria's isolation from the Western markets during the Communist years and the low level of trade relations with these markets.
    - Prevalence of the black market.
    - Activity of Mafia, high crime and bribery.
    - Bureaucracy and the interference of a powerful nomenklatura in the privatisation bids that create an unreliable economic environment. It was the work of this nomenklatura that many privatized companies fell into the hands of people other than the high bidders, whereas bureaucracy is the main reason Rover's hopeful presence in Bulgaria was terminated so abruptly. It is quite significant that a powerful foreign investor such as Great Britain (second only to USA in worldwide FDI outflows) is only tenth (10^{th}) in Bulgaria. It seems that this negative climate among British investors was the outcome of Rover's bad precedent.
    - Geographic distance and most importantly the disadvantageous position of Bulgaria compared with other Eastern European countries, which are closer to the Western markets and do not pose the above-mentioned problems (more entry barriers for FDI appeared in the statistical analysis).
- There is a general euphoria arising from the collapse of the communist regimes and the subsequent need for goods and services in the disaffected countries that point to quick and easy profit. This euphoria encourages Greek entrepreneurs to act in haste and without prior thorough investigation of the market (market hunters).
- Greek banks established branches or acquired existing Bulgarian banks not only because of the geographic proximity and the lack of foreign and local competition, but also because of the influx of Greek companies in Bulgaria (follow the client)
- Greek enterprises in specific sectors such as furniture set up their own branches in Bulgaria, although they had anticipated they would have small profits or even losses during the early years of their operation. They did so to present themselves as an expanding force (Before the liberalization of these markets, the Greek companies that had invested abroad had been very

few and far between), and to establish themselves as leaders in their sector before their competitors did so. Also, they had failed to be the first to expand their activities in Bulgaria, they too moved in that market in order that they do not leave their competitors free to enjoy the whole of the market. This is the case especially when the market sector they target shows signs of potential growth (follow the leader, follow the competition).

- Historical ties, cultural closeness (Greek "business mentality" is at least closer to the Bulgarian than the Western) and common religion. Between the European countries and Bulgaria there is cultural distance, which, according to a recent economic theory [Morosini et. al., 1998], encourages investments (this apparently contradicts the commonly held view that the opposite is the case, i.e. that culture closeness encourages investments). However, there is a tendency among modern Bulgarians (just like most other East Europeans) to mimic western consumer activities and thus, the cultural distance, becomes cultural closeness. As Greece has been a member of EU since 1979, in the eyes of the Bulgarian public, Greek goods and services are "European" and therefore of higher quality. The fact that Bulgarian people often travel to Greece also affects their attitude since they become more familiar with the Greek brands.
- In 1990s Greece has made quick steps towards economic development, thus its products and the power of its companies have become more respectable. This positive development has rendered its companies strong enough to successfully compete with the western investors (such successful Greek companies are the Hellenic Bottling Company, Intracom, Delta etc.) and therefore confident enough that the neighboring Bulgaria is a market that naturally 'belongs' to them. Labrianidis (1999a, p.11) has pointed out that according to his research *from a total of 521 Greek companies that have invested in CEECs, 35 companies had activities in more than one country, six of them in more than three countries* [Labrianidis L., 1999a].
- There is a common practice among Greek investors -especially the small ones- to move quickly and en masse towards Eastern European markets without proper preparation and adequate experience in economic activities. Furthermore, they set up small companies with limited capital and second hand machinery, which produce low quality commodities (products that have gone out of fashion or with expired sell-by date) [Labrianidis L., 1997] or offer inadequate services. Many of the Greek companies that were set up in this way in Bulgaria have already closed down or become passive. This was a hard lesson for the Greeks that made them realize that Bulgaria was not the "market paradise" as they had initially thought (emigrant entrepreneurs). Labrianidis (1996/97, p.219) has argued, "... *most of these companies have been thrown out of the Greek market, some of them having left the country overnight, leaving debts behind as well as unpaid employees*" [Labrianidis L., 1996/97].
- The presence of thousand Greek students in Bulgarian universities attracted Greek entrepreneurs to invest –especially– in the areas of entertainment, restaurants and food industry (follow the clients).
- The selling out of Bulgarian state owned companies through privatisation or the creation of several joint ventures, tempted large Greek companies such as the Hellenic Bottling Company-Coca Cola, Titan, Intracom, Titan, Delta, Goodys, Nikas, Thrace Papermill et al., to step in and acquired a great number of them. This participation of the Greek companies in the Bulgarian will boost their power and their position in the world market and will increase the global market share (e.g. the Hellenic Bottling Company became the second bottler in power in the world) (pressures from competition).
- In Bulgaria, large projects have been undertaken by Greek constructing companies such as Michaniki and Sarantopoulos, Latsis Group for infrastructure projects, which have also been subsidized by the Greek, Bulgarian, Russian governments and through European funds such as Phare, Intereg II, III, etc. [Petrakos C. G., 1997]. Greece is a member of EU and Bulgaria is a road for connecting Greece with other EU members. Also, there are several other projects in Bulgaria, like the pipeline for gas, which will help Greece in its energy lack (market strategic hunters).
- Bulgarian laws have given incentives (such as tax relieves, profits when invested are

deductible) for establishing FDI projects. There are also significant incentives for very limited taxation for foreign companies established especially in the Southern part of Bulgaria (which is also the nearest to Greece) in which there is a high unemployment rate (favorable investment law hunters).

- Most of the Greek companies already established in Bulgaria (not more than 500 were active) are small in size, thus they are not really taking into consideration the high risk environment that existed especially at the early years of the Bulgarian transition [Labrianidis L., 1999b]. This has happened due to the fact that their invested capital was of low level, but the anticipated earnings were of high level (risk adverse investors).
- Prior to the transition years and during them many Greek companies had trade relations with Bulgaria. The success of these relations and the good reception of the Greek products in the Bulgarian market encouraged the Greek companies to undertake FDI projects (from trade to FDI). The main reasons for the Greek FDI projects to replace or complement trade relations are to overcome trade barriers, to minimise the production cost, to avoid transportation cost, and to gain brand preference utilising the 'locality' advantage.

As a result of the abovementioned reasons about 1500 Greek companies registered and about 500 actually entered the Bulgarian market.

The Reasons for the Failure of many small Greek Companies

However, the number of the announced Greek investment projects did not correspond with the real number of firms under operation. It appears that several Greek companies, perhaps 45% of those registered until 1994, existed only with their name in the Bulgarian market, awaiting better days to come for them to act. Out of the 1282 recorded Greek investments in Bulgaria, only about 500 are active today. The same stands for the Turkish companies since out of the 1628 record less than 500 are active.

One should assume as a fact that the difference between the announced number of Greek companies operating in the Bulgarian market and the real number of firms in this market, is due to the departure of a significant number of small and medium sized firms from the Bulgarian market. The reasons for their departure are related to the improvement in the structure of control of the domestic market and also to the intensification of the competition from domestic businessmen.

- That only one third of the Greek companies are active in Bulgaria is primarily due to the fact that Greek entrepreneurs wanted easy and quick profit, using limited capital and with no previous experience in economic activities. Their fast produced low quality commodities are no longer bought by the Bulgarians, which leaves them with no option but to return to Greece.
- Many Greeks who, in the early years of the transition, hastened -without any plan for investment and without any market research- to create firms in Bulgaria and registered them but quickly have understood that they do not have a chance to do a business hoping for easy profits.
- Bureaucracy, bribery, high risk and corruption are some of the factors that led a lot of Greeks to close their companies in Bulgaria and return back.
- Some joint ventures due to the inability to cooperate with the local investors were led to failure.
- Some of the "follow the leader" cases failed because the profits the entrepreneurs had expected to gain after a few years did not come. Many of them gave up their efforts either because the losses were significant in the first years of their establishment or the market did not seem to have the potential growth they had hoped for.
- Low per capita income that resulted to low per capita consumption that deteriorated the companies' revenues and profits. This affected the small enterprises more, since their target market is the individual household, which most experienced the crises.

- The three economic crises have made a lot of Greek companies return back to Greece. Especially in the third period, when the companies had already been weakened by the two consequent crises (1996-1997) there was a great level of withdrawals.
- Some Greek companies in the textile sector returned back to Greece because of the insufficient skills of the Bulgarian workers, which resulted in low quality products. The low labor cost was not enough to keep these investors in Bulgaria.
- A number of small Greek companies that were established in the very early years of the Bulgarian transition lasted particularly little as, very soon, the multinationals came along offering the same products with better quality and for affordable prices.

In fact, it is not easy to be exact with the number of those companies that are still active or have left Bulgaria. This is due to a problem with the Bulgarian data, which do not deduct of the total number of investments the companies that never acted in Bulgaria or they are not active yet.

Conclusions – Further Work

Bulgaria has made significant progress towards becoming a functioning market economy. It is not yet able to cope with competitive pressures and market forces within the European Union in the mean term. Bulgaria is establishing a satisfactory track record of macroeconomic stabilisation and performance. Good progress has been made in privatisation, especially as regards banks, and a major reform of health and pension systems has begun. However, structural reforms still need to be taken further and enterprise restructuring needs to be advanced. Financial intermediation continues to be weak, and much remains to be done in areas such as the functioning of the stock market, or the enforcement of bankruptcy cases. Measures to address the weaknesses in the implementation and enforcement of the legal and regulatory framework need to be taken to improve the business climate. Bureaucratic barriers to foreign and local enterprise creation must be eliminated. A sustained implementation of the existing reform program and higher levels of investment are key requirements for continued growth, developing the enterprise sector, and building up competitiveness.

The Greek investments are significant both in volume of invested USD$ and in number. However, this is due to the fact that there is significant lack of western interest in Bulgaria. For example, although Germany (according to the BFIA catalogue) appears in the first place of foreign FDI inflows in Bulgaria, the amount of approximately 500 million USD$ is significant low, having in mind, the strong economy of Germany, the worldwide existence of large-scale in economic figures MNEs of German origin and the amounts that German MNEs have invested in other CEE countries. This lack of significant German interest for FDI outflows in Bulgaria and the similar absence of British (only 180 million USD$), French (only 111 million USD$) and American interest (only 235 million USD$) has given to the Greek enterprises, and especially the large one, the advantage for becoming MNEs and invest in neighbor countries such as Bulgaria, a large enough amount of USD$ in respect with the Greek economy and their worldwide economic figures.

The western interest in the Central and Eastern Europe is very low considering that only a percentage between 2-5% of the worldwide FDI outflows goes to these countries. The lack of significant western investment interest [Bitzenis A., 2001e] in Central and Eastern European countries can be viewed from the following (data for the period 1998-2000); the USA has over 100-150 billion USD$ FDI outflows each year, the UK over 150-200 billion USD$ and Germany over 50-100 billion USD$, etc. Moreover, the world's foreign direct investment inflows exceeded $1 trillion in 2000 according to UNCTAD – it was 865 billion USD$ in 1999, 209 billion USD$ in 1990, and 58 USD$ billion in 1982. At the same time, 145 billion USD$ are the total FDI inflows, from 1989 and onward, in the whole Central and East European region, when at the same period the Balkan region has received only 13% of the total FDI inflows in the CEE region [Bitzenis A., 2001f] (see also Tables 20, 21a, 21b).

The FDI inflows in the Balkan region is insignificant, when the total FDI INFLOWS in the eight countries of the Balkan region account for less than 20 billion USD$ in the last 11 years (1989-2000).

In other words, these eight countries in a period of time of 11 years, have not managed to receive an amount that equals to one- year German or British FDI outflows [Bitzenis A., 2001c].

The author has already pointed out in this paper that the Greek investments in Bulgaria exceed the amount of 650 million USD instead of only 328 million that appears in the BFIA catalogue. This is due to the fact that except the misleading information in the official data there are a few Greek entrepreneurs that have invested in Bulgaria through offshore companies, which have been established in Cyprus or Luxembourg.

It can be concluded that the leader incentives for the Greek entrepreneurs were geographical proximity, market size, low labour cost and using Bulgaria as a link to neighbour countries instead of market size, low labour cost, geographical proximity and international pressures from competition, globalisation, which were the incentives from the whole questionnaire. From the results, it can also be argued that the Greek enterprises' decisions for FDI outflows based upon the geographical proximity, the low labour cost, the lack of foreign competition, and the cultural closeness. The Greek firms were planning to use Bulgaria as a bridge for further investments in other neighbour countries and previous trade relations have been proved very helpful in their decision for FDI.

Finally, problems such as corruption, shadow economy, bureaucracy, and the primitive market infrastructure, discourage foreign investors and additionally decrease the competitiveness of the Bulgarian economy. However, the significant growth in most of the macroeconomic data of the Bulgarian economy and the political stability will provide the author with signs that in the following six years, Bulgaria will enjoy significant growth and development and that the first deadline of 2006 for EU membership maybe not so far from being a successful year.

The Greek enterprises have found the opportunity to become MNEs and to participate in many Eastern European countries, and the following decade (2001-2010) is a crucial decade for them and for the Greek economy in total. If these companies take advantage of the absence of foreign interest for FDI in the region, and their investments become healthy and profitable, then it will not be a surprise if the Greek firms become dominant and strong enough economical entities in the near future.

There are a lot of chances for a few countries from Central and East European region to become future members of the European Union (under the European Union Enlargement Policy). Nowadays, the economic situation of CEE countries is far away from that of the EU and the macroeconomic data of CEE economies (especially that of the Balkan countries) did not satisfy the Copenhagen economic criteria. However, there are some figures that underpin the possibility of EU accession (for a few CEE countries) and for their economic (nominal) convergence with EU criteria until the end of this decade.

Furthermore, the level of the "black economy" in CEE countries and especially in Balkan countries is around 50% of the GDP level of each country (when at the same time the EU countries have around 10% level of "underground economy", and Greece is the only country among the EU that has the biggest level of "hidden economy" - around 30%-40% of GDP). In addition, the GDP per capita of Greece, a country that it is a member of EU and the GDP per capita of Cyprus or Malta that satisfy the criteria for EU accession is around 13,000 US$. The GDP growth for most of CEE countries is around 5%-6% per year. With such a growth rate, if we assume the level of black economy in 50% of the GDP, then we conclude that the GDP per capita of one country such as Bulgaria will reach the level of 13,000 US$ in 10 years. However, estimations and other researches from organizations and institutions are more optimistic and they are talking for earlier EU accession (e.g. for Bulgaria at the end of 2006 and for Hungary by 2004-5) [Bitzenis A., 2001a].

For the purpose of this paper, the conclusions of the research are presented and a short presentation of statistical analysis is included. This analysis is used to present the interrelations between the incentives, barriers and the ways that MNEs establish their investment projects in Bulgaria. A further work to this paper (together with the whole statistical analysis) could be the implementation of an

econometric model of independent variables such as political conditions, per capita income, bureaucracy, inflation, GDP, criminality, bribery, etc. and the way these changes affect the dependent variable, which is FDI.

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