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"Greek Foreign Direct Investments (FDI) in Turkey"

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CONTENTS

INTRODUCTION

Developments in the Persian Gulf Region, together with developments which are under way chiefly in the fields of energy and commerce in the Black Sea area, are once again bringing the Aegean area to the forefront of international economic developments.

Located in this new strategic area which is developing because of the above-mentioned factors, Greece and Turkey find themselves in an exceptionally privileged position. Both countries are facing a unique opportunity to become powerful economic forces in the region, much to the benefit both of their own people and of the region as a whole.

In order to achieve satisfactory economic performance, the two neighbouring countries should focus their attention and actions on crucial and fundamental areas of co-operation. Moreover, the globalisation of the economy and the prospect of Turkey's accession into the E.U create an appropriate climate for private investments.

Therefore, it is more than easy to understand the vital role of Foreign Direct Investments in the Greek-Turkish co-operation. The goal of this paper is to describe the Greek FDI in Turkey, presenting a case study between the two countries.

In the first chapter, we make a reference to the Greek FDI in the Balkan region. This is very interesting, because the Greek economy started to be extrovert and invest in third countries in the beginning of the 1990's, when the Balkan region entered a new era in its history. In the second chapter, we describe the Greek FDI in Turkey, something which is the main goal of this paper. Our analysis is being enchanted by the contents of the third chapter, in which we present the results from an empirical study that was conducted in Greek companies that have invested in Turkey. The fourth and final chapter contains the conclusion that we excluded from the present effort.

*C*HAPTER 1:
GREEK FDI IN THE BALKANS

A. Greek outward FDI: *the beginning*

During the process of industrialisation *(1960-1980)* and afterwards Greek outward investment to Western and developing countries had been marginal, and government policy had only emphasised inward investment.

The scenery was changed by the opportunities that arose from the collapse of the centrally planned regimes and the beginning of the process of transition to the market economy of the Central and Eastern European Countries *(CEECs)*.

This is arguably in accordance with the concept of the investment development cycle, suggesting that, as a country develops, it's propensity to engage in outward investment *(as well as to be invested in)* proceeds through various phases, with outward FDI becoming a means of industrial restructuring only in the final stages of development *(Ozawa 1991; Dunning 1991)*.

In other words, Greece started investing in foreign countries as a result of two simultaneous conditions: *(a)* The Greek economy reached a point that allowed outward FDI to be commenced, *(b)* In an geographic area very near to Greece, high opportunities were created overnight *(shift in the economic system of the Central and Eastern European Countries: from protected economy to the free market system)*.

B. To FDI or not to FDI?

As we mentioned above, during the eighties the Greek economy reached a point that it could commence to outward FDI and simultaneously, out of sheer luck, a huge market opened in a geographical area next to the Greek borders. Despite the initial enthusiasm that one may have listening to those events, these two facts alone are not enough to justify the beginning of outward FDI towards the Balkan region. So, an important question raises: why did the Greek companies decided to invest in the region? Let's try to answers that question, using arguments from the experience of the Greek FDI in the Balkans:

<table>
<tr><td>▪ Market size.
▪ Maturity level of the markets.</td><td><u>AIMING AT THE DEMAND</u></td></tr>
<tr><td>▪ Law labour cost.</td><td><u>AIMING AT THE COMPETITIVENESS</u>
(<u>price leadership</u>)</td></tr>
<tr><td colspan="2">➲ Market Size Versus Labour Cost: Investments that aim at law labour prices have a ten year limit. After that period, labour prices will start to reach the prices of the other European countries, depriving the companies from the advantage thei sought when investing in the Balkans[1].</td></tr>
<tr><td colspan="2">▪ Geographical proximity / Low transportation costs: The majority of Greek entrepreneurial activities are developing in the three neighbouring countries – Albania, Bulgaria and FYROM.</td></tr>
<tr><td colspan="2">▪ Greek businesses have a relatively good knowledge of the specific features and conditions of the Balkan markets (better than their European counterparts).</td></tr>
<tr><td colspan="2">▪ Lack of local competition / It is relatively easier to build competitive advantages.</td></tr>
<tr><td colspan="2">▪ Lack of intensive Western interest: Delays in investment programmes, currency deprecations, political instability and various cultural barriers have given prospective Greek investors a breathing space, with international capital still hesitant, to work without severe competitors from Europe (these competitors would have been extremely dangerous because of their experience in internalisation, their financial capabilities and their brand name, among others).</td></tr>
</table>

[1] *<u>An indicative and interesting example</u>*: The accumulation of textile companies in certain areas of the Balkans has contributed to the appearance of a very high rate of employment. The pressing need for more workers have pushed several companies to try to attract workers already hired by competitors, by promising them higher salaries. Therefore, prices are forced to increase.

▪ The opportunity to become multinationals.
▪ The Balkans are considered, and, in practice are, the gate towards the markets of Russia, Moldavia and Ukraine.

C. The phases of the Greek FDI in the Balkans

It could be said that Greek FDI in South Eastern Europe, especially in Romania, Bulgaria, FYROM, Serbia and Albania, underwent three distinct phases since the beginning of the 1990's:

▪ The main characteristic of the first phase *(early 1990s)*, was the intention of the Greek firms to obtain quick and easy profit. The South Eastern European market was viewed as an "El-Dorado" country, and over 500 small companies registered for entry in these markets paying a trivial amount, but most of them never activated their business *(Kamaras, 2001)*. The main identity of the Greek companies was vendor - traders and their business was focused on food products, clothing and footwear, as well as on the export to Greece of industrial products, such as scrap, sheet-iron and building iron. The results of these attempts were not always successful but presented Greek companies with the opportunity to evaluate local markets through actual trade. Small-scale capital and middle-size Greek companies worked as pioneers for the main force of Greek business. The first phase was not so prosperous for the businesses involved, mainly because of the political and economic turbulence associated with the Balkan states' initial steps towards the freemarket economy *(Kamaras, 2001)*.

▪ The second phase began in the middle of the 1990s and was characterised by the gradual establishment of Greek Banks in Balkan states, especially in Bulgaria and Romania *(Kamaras, 2001)*. This initiative of the Greek banking sector, state and private, motivated large Greek companies to follow since they could benefit from the necessary financial back up. The interest of all the big Greek banks to participate in the South Eastern European market was materialised through acquisitions or establishment of local branches. Moreover, during the second period, large Greek companies swiftly commissioned extensive market research, formulated business plans and developed numerous joint ventures with local companies that were in the process of privatisation.

- The current, third phase, of Greek FDI in the Balkans began in 1998. It is characterised by a strong effort on the part of major Greek companies to expand their activity to more than one Balkan market, thus creating networks of establishments operating throughout the Balkan Peninsula *(creation of vertical and horizontal joint ventures)*. This type of FDI was adopted by the Greek state telecommunications company, the National Bank of Greece which is the largest banking corporation in Greece, Alpha Credit Bank which is the largest private bank and the second largest banking corporation in Greece, Delta SA *(one of the largest dairy products manufacturing firms)*, 3E *(the largest beverages bottling company in the country)*, Hellenic Petroleum SA *(the largest Greek manufacturing company)* as well as by others *(Louri and Papanastassiou, 2000)*. These companies have been followed by most of Greece's large companies, covering not only important manufacturing and service activities, but also primary sector activities, such as mining and energy production.

D. Greek FDI in the Balkans

Given the opportunities that occurred in the Balkan region in the beginning of the 1990's, a large number of Greek enterprises expanded into the neighbouring countries though foreign direct investment or participation in the construction of large infrastructure projects. The majority of these investment initiatives were concentrated in the fields of trade, services, finance and, to some extent, in manufacturing *(textile industry)*.

In general, we can say that the post 1990 economic performance of Greece in South Eastern Europe has been positive, but not overwhelming *(Demos, Filippaios, and Papanastassiou, 2004)*. Or to put it in other words, Greece, being inexperienced in investing in other countries, achieved satisfactory but not optimal results. There is no doubt that a county with experience in foreign investment would have achieved better results.

Despite the problems from the lack of experience, a zone of strong Greek economic influence was built in its three neighbouring countries, Albania, FYROM and Bulgaria. The Greek private sector undertook specific initiatives and Greek corporations in general have been very active in Balkan countries with investments of more than 4 billion dollars *(Greek Ministry of External Affairs: www.agora.mfa.gr)*. Knowledge of local economies, stable business links and proximity to headquarters make Greek entrepreneurs valuable partners for business expansion in the area.

The sectors that attracted Greek companies the most were, and still are, construction, food industry and banking. Greek public corporations are also involved in the reconstruction of infrastructure networks particularly during the last years.

The Greek Banking Sector has a huge presence in the Balkans. In general, Greek Banks currently operate a total of 650 branches outside the domestic market. Apart from Cyprus, the five countries where Greek banks have the largest concentration of branches are: Romania *(36 branches)*, Albania *(31 branches)*, USA *(31 branches)*, Bulgaria *(25 branches)* and the United Kingdom *(23 branches)*. The cities where branches of Greek banks are most concentrated are: London *(19)*, Bucharest *(15)*, Tirana *(10)* and Sofia *(8)* *(Greek Ministry of External Affairs: www.agora.mfa.gr)*.

Large Greek Companies invested in more than one country in the Balkan region: *strategic investments*. Most of the Greek enterprises that have made significant investments in Bulgaria have also invested in Romania, FYROM and Albania. The most popular choices for Greek investments in the Balkans are Albania, Serbia and Montenegro, Bulgaria, Romania and FYROM.

D.1. Greek FDI in Bulgaria

Greece is Bulgaria's second largest foreign investor with 10,2% of Bulgaria's FDI inflows. Since 1992, more than 1.500 Greek enterprises invested over 1,8 billion Euros. Greece is also the leading investor in the Bulgarian banking sector, holding 25% - 30% of the market *(controlling 20% of the market in the first half of 2005)*.

Over 1.500 Greek owned companies have invested in Bulgaria since 1992, accounting for FDI inflows worth 1,8 billion Euros. Greek investors primarily focus on Bulgaria's industry *(food, building materials, clothing)* and services *(banking, telecommunications, information technology, insurance and tourism)* as well as trade.

The top five foreign investors in Bulgaria in 1996-2005 can be seen in the following table:

Country of FDI origin	**Percentage of total FDI inflows in Bulgaria**
1. Austria	16,4% *(approximately 1.829 million Euros)*
2. Greece	10,2% *(approximately 1,055 million Euros)*

3. The Netherlands	9,1% *(approximately 939.5 million Euros)*
4. Germany	9,0%
5. Italy	7,0%
6. Other countries	48,3%

Sources: INVgr, Hellenic Business Council in Bulgaria, InvestBulgaria Agency (IBA)

D.2. Greek FDI in FYROM

Greece is FYROM's largest foreign investor: the size of the Greek investments in FYROM is 850 million Euros, exceeding the investments of any other country. The Greek investments in FYROM were extremely useful for the local economy, creating 20.000 new jobs over the past years *(Greek Ministry of External Affairs: www.agora.mfa.gr)*. FYROM has the lowest level of FDI attraction among the countries of the South Eastern Europe, a fact that has resulted in a small number of FDI.

D.3. Greek FDI in Serbia – Montenegro

The Greek FDI in Serbia – Montenegro have reached 1,5 billion Euros, ranking Greece in the first place of the countries that have invested in Serbia. Greek companies have been concentrated in the Banking and the Energy Sector, as well as in the Sugar and Food Industry. Eighty *(80)* Greek Owned Companies are nowadays active in the market of Serbia – Montenegro, employing over 20.000 workers *(Greek Ministry of External Affairs: www.agora.mfa.gr)*.

D.4. Greek FDI in Albania

In Albania, Greece has the second place in FDI after Italy. The Greek investments in the neighbouring country reach 500 billion Euros. Albania during the last years of the 1990's encountered numerous problems in its economic and politic stability, a fact that resulted in small FDI attraction. The solution of these problems helped the third countries to invest in Albania *(Greek FDI increased significantly)*. Nowadays, the Albanian economy hosts approximately 250 Greek companies *(Greek Ministry of External Affairs: www.agora.mfa.gr)*. It is worth mentioning that many Greek companies try to reach the Albanian market through Cyprus, taking advantage of the favourable tax indexes of the island.

E. Conclusions

- The Greek FDI outflows started after the collapse of the centrally planned regimes of the Central and Eastern European Countries. Before that event, the Greek economy was highly introverted.

- The sudden opportunities that were created overnight in the Balkan region and the inexperience of the Greek economy to exploit these opportunities *(lack of experience in investing abroad)*, were the main reasons that did not allow the Greek economic involvement in the area to be ultimately successful.

- Nowadays, Greek companies have gained enough experience in FDI and they are ready to compete with the companies of the Western Europe that try to penetrate the markets of the Balkan region.

- The geographical proximity and the low labour cost, constitute the main reasons for investments by small companies. On the other hand, big companies make strategic investments in the whole Balkan region, aiming in establishing a leader position.

- Mutual Benefits exist between (a) Greece and (b) Balkan countries.

  (a) Greek inward FDI is increased: *Many European and American companies target to enter the South Eastern European markets by forming a corporate base in Greece first and then proceed to the less developed and less known Balkan economies*.

  (b) For the majority of the countries in the Balkan region, Greece represents, in its traditional role as a commercial crossroads, one of the most important markets in the area: *As such, it can contribute to the efforts of the transition economies in the restructuring and stabilisation of their economies*.

- The experience from investing in the Balkans, along with sufficient critical mass, modern management skills and good systems in place can give the change to Greek firms to invest in places as far away as China and America in the same manner as their E.U counterparts.

CHAPTER 2:
GREEK FDI IN TURKEY

A. FDI environment in Turkey

A.1. Global outook to FDI Flows

In respect of global investment flows, a significant slowdown can be observed between 2000–2003. Global foreign direct investment flows declined sharply in 2001. Inflows fell by 45 percent and outflows by 50 percent. This reversal -after a steady growth since 1991 and large rises in 1999 and 2000- reflects two factors: the slowing of economic activity in major industrial economies and the sharp decrease in their stock market activity. These combined to slow down new international investments, particularly new cross-border mergers and acquisitions (M&As). FDI inflows fell by 45% in 2001, and by a further 20,5% in 2002. FDI inflows declined for the third consecutive year in 2003. No previous FDI downturn in recent decades exceeded two years. Global FDI inflows fell by 12% in US$ terms in 2003, to an estimated US$ 575 bn *(EBRD, 2004)*. The global slowdown, political risks, stock market collapse and corporate scandal have all taken their toll on global foreign direct investment. The run-up to the war in Iraq, and the ensuing uncertainty, contributed to the overall decline in FDI in 2002. The high oil risk premium and the impact on overall confidence shaved about half a percentage point off world growth over the past year. It also reinforced the already existing investor caution around the globe. The impact of recent geopolitical uncertainty on FDI is in strong contrast to the negligible economic impact of the September 11th 2001 attacks on the US and subsequent fears of terrorism. The steep decline in global FDI in 2001 and the sharp global slowdown predated the events of September 11th. However, despite the likelihood of continuing international political tensions, FDI will recover strongly over the next five years, according to World Investment Prospects, annual analysis of global investment trends, published by the Economist Intelligence Unit.

A.2. Legal and regulatory framework of business in Turkey

Further to achievements towards macroeconomic stability, the focus now is shifted to improve the investment environment in Turkey. After years of struggle with high inflation and high volatility in the interest rates and the exchange rate, the economy now has moved to a better stage. Although macroeconomic balances and especially, public balances are still important and in need of further improvement, Turkey now is in a position to devote efforts to microeconomic issues, that had not got the chance of being on the agenda up to now. Having overcome the two major obstacles of sustained growth, namely, political and macroeconomic instability, 2004 now should be regarded as the year of igniting growth and the years to come as the process of sustaining growth. However, sustained high economic growth will come through by removing obstacles of doing business. Although the top priority now shifts from stabilization to growth, sustained high growth will not come automatically. The locomotive of growth will be obviously private sector, both domestic and foreign. A robust growth perspective necessitates the removal of barriers to investment and entrepreneurship. Elimination of market failures and making the market economy perspective prevail among the bureaucracy with accomplishing the public sector reform, we see as the main prerequisites of igniting growth.

A.3. Legal system and enforcement of laws

In Turkey:

a) An administrative transaction produces all the legal consequences, the rights and the responsibilities, concerning that the administration established the transaction and the drawees benefits from the transaction, if it is established in a suitable manner within the certain legal system and general principles of law.

b) If the administrative transaction has been established contrary to the legislation and the general principles of law, this transaction can be abolished by the state in 60 days. But the state always has the authority of abolishing this kind of transactions concerning its consequences regarding future that are contrary to legislation without prejudicing the acquired rights of the third parties.

c) If the administrative transaction has been established in line with the legislation and the general principles of law, but it became contrary in a time period because of some amendments in the legislation, this transaction cannot be abolished by the state in any way. But again without any prejudice to acquired rights of the third parties, these transactions can be abolished concerning their consequences regarding future. The decisions of Danıştay -Supreme Court for Administrative Law- also confirm the points mentioned above. Although Turkey has made significant progress in modernizing its business legislation, a stable legal framework for investment decisions cannot be established. In the last 20 years, Turkey has made progress in modernizing its business legislation. The ongoing reform efforts are closely correlated to the objective to accede to the EU.

Recommendations:

1. Increasing the salaries of judges' budget permitting and decreasing the workload of judges to a level where the duration of cases becomes acceptable can also be a solution for qualified workforce and independent and impartial trial.

2. The laws might have a deadline in which implementing legislation like regulations and decrees should be adopted and all relevant interest groups, including business. Associations should be invited to comment on draft legislation before laws, law decrees, or regulations adopted. This will increase the quality and predictability of the legislation.

3. Standards of behaviour for public service should be legislated in order to prevent corruption and bribery. The real value of public personnel wages should be maintained.

4. A fundamental state reform should be generated to ensure the state's regulating duty.

A.4. Global situation: recent trends in FDI

Potentially, Turkey is an attractive country for global investors. Turkey has a large and dynamic market with a relatively high quality labour force and economic location advantages with easy access to regional markets. Despite these advantages Turkey could only attract USD 1 billion foreign investment on the average per year since 1990.

According to generally accepted international standards, the minimum annual FDI attraction potential of Turkey is USD 35 billion (UNCTAD, 2002), which means that Turkey faces an investment loss of minimum USD 34 billion every year. In order to catch this potential Turkey has to build confidence to its economy by ensuring stability of rules and regulations, transparency and political stability. Besides the improving economic setting with liberalized regulations and radically cut red-tapes, below discussed advantages offers further attraction for foreign direct investments into Turkey.

Export and domestic market oriented investment: Turkey is one of the few privileged countries that have the potential to attract investment both for export and as well as for domestic market. With a population of 68 million, Turkey has a huge domestic market and among the biggest emerging markets. Moreover, Turkey enjoys a very special location at the crossroads between East and West, overlapping Europe and Asia geographically. The proxy to the new emerging markets in Middle East and Central Asia creates unique business opportunities. As a leading investor in Caucasian and Central Asian Turkic Republics and having strong cultural and historic ties with the region, Turkey offers an exclusive opportunity to develop business with these countries.

The gateway of energy resources: Turkey is located at the gateway of Middle East and Caspian petroleum and Central Asian natural gas to the west, which are regarded as the future energy reserves of the world. The construction of oil and natural gas pipelines has become a national policy for Turkey, in its quest to harbour different points of connection. In the domestic market, network industries and natural monopolies are being introduced to market competition by the removal of sectoral entry barriers. Therefore, the energy production and distribution business opportunities are appealing. Major legislative changes in the Electricity Market Law, Natural Gas Market Law and Petroleum Market Law make the sector more attractive both for domestic and foreign investors.

Demographic window of opportunity: The size of the adult population, in other words, “the potential active labour force” will continue to increase at a constant rate over the next two decades on contrary to the developed countries. In line with the Southeast Asian experience, in period of stabilized population growth and increasing households and labor supply, per capita income and welfare improves significantly.

B. FDI IN TURKEY

The surge of direct foreigner investments in Turkey the two last decades presents fluctuations, remains considerably corresponding sizes of emerging markets (Poland, Hungary and Czech Republic). In 2004 the height of new foreigner investments is calculated in 1.109 million of dollars USA (against 546 million in 2003). Accumulatively, from 1980 until 2004 the real surges amounted in 17,1 billions of USA.

TABLE - Surges of Foreigner Investments (FDI) in Turkey

Years	**Number of companies of foreigner capital**	**Real surges FDI (million of USA dollars)**
1980	78	35
1981	109	141
1982	147	103
1983	166	87
1984	235	113
1985	408	99
1986	619	125
1987	836	115
1988	1.172	354
1989	1.525	663
1990	1.856	684
1991	2.123	907
1992	2.330	911
1993	2.554	746
1994	2.830	636
1995	3.161	934
1996	3.582	914
1997	4.068	852
1998	4.533	953
1999	4.950	813
2000	5.328	1.707
2001	5.841	3.288
2002	6.280	1.042
2003	7.470	546
2004	9.606	1.109

Source: G.G. Of Ministry of Finance

The main countries of origin of foreigner investments are: France (5,6 billions of dollars USA, 16,6% of total), Holland (5,3 billions, 15,7%), Germany (4,3 billions, 12,7%), USA (3,9 billions, 11,5%), UK (2,6 billions, 7,8%), Switzerland (2,2 billions, 6,6%), Italy and Japan (1,8 billions, 5,5%). More generally, the basic foreigner investors emanate from the space of OJ (69%) and rests of states of OECD (19,8%).

The secondary sector has attracted the bigger part of foreigner investments (53%) and tertiary rest (44%). Minimal share has been directed in the rural sector.

Main industrial sectors that they have assembled until today most foreigner investments, according to the invested capital (million of dollars USA), are the following *(Foreign Economic Relations Board of Turkey, 2005)*:

- Not industrial chemical products: 581,7 (100 companies)
- Foods: 466,7 (168 companies)
- Car industry: 392,8 (37 companies)
- Energy: 367,0 (51 companies)
- Parts/elements of vehicles: 307,2 (130 companies)
- Electric instruments: 185,2 (95 companies)
- Tobacco industry: 141,4 (14 companies)
- Electronic machines: 139,4 (120 companies)
- Chemical: 128,7 (42 companies)
- Ready clothing: 124,7 (224 companies)

In the sector of services more important presence of foreigner investments is answered in the following sectors *(Foreign Economic Relations Board of Turkey, 2005)*:

- Banks and remaining financing services: 809,1 (37 companies)
- Telecommunications: 716,5 (45 companies)
- Trade: 499,2 (2.470 companies)
- Financing of investments: 406,9 (70 companies)
- Hotels: 308,4 (346 companies)
- Remaining services: 381,4 (269 companies)

The foreigner investments in the sector of rural services amount in 267,1 million dollars USA. (68 companies).

C. Greek FDI in Turkey

C.1. An earthquake that did some good…

Bilateral relations between Turkey and Greece have dramatically improved since 1999. A policy of rapprochement was initiated in the summer of 1999 following the earthquake which hit Istanbul and Athens. This policy has contributed to the signature of numerous bilateral agreements in a variety of different areas as well as to the adoption of several confidence-building measures. Joint economic and industrial projects have been started. Exploratory talks have started in April 2002. In the last year, bilateral relations have continued to evolve positively.

As a result of the implementation of a series of confidence-building measures both governments are taking steps in view of a gradual and balanced reduction of military expenses. There have been 26 meetings at the level of under-secretaries of both countries in the framework of the exploratory talks launched in 2002 *(Danos, V.)*.

Turkey and Greece agreed in December 2003 to build a highway connecting the Greek border to Istanbul and signed an agreement for the prevention of double taxation. During his official visit to Athens in May 2004, the Turkish Prime Minister paid a private visit to Western Thrace where he called on the Turkish-speaking Muslim minority to contribute to Greece’s prosperity. In May 2004, the Turkish General Staff highlighted that any unresolved issues should be settled in line with the ***acquis*** and referred to the International Court of Justice.

C.2. Bilateral trade of Greece and Turkey

In 2005, the Greek exports amounted in 724 million of USA dollars occupying share of 0,6% on the total imports of Turkey, while the exports to Greece of were 1.124 million of USA dollars corresponding in the 1,5% of total of Turkish exports (against 1,8% in 2004).

The commercial balance remained negative for Greece, taking place however positive development (reduction of deficit), while the increase of Greek exports was important (21,8%), while the Turkish exports was decreased in absolute degree (-4%).

TABLE - Development of bilateral trade 200 4/5 (million of USA dollars)

	2004	2005	Change
Greek exports	594	724	*21,8%*
Greek imports	1.171	1.124	*-4,0%*
Commercial deficit	-577	-400	*-30,7%*
Volume of Trade	1.765	1.848	*4,7%*

Source: Statistical Service Turkey (DIE)

TABLE - Development of bilateral trade January 2005 / 6 (million of USA dollars)

	2005	2006	Change
Greek exports	51. 313	60. 019	16,7%
Greek imports	73. 972	63. 433	-14,2%
Commercial deficit	-22.659	-3.414	(85,0%)
Volume of Trade	125.285	123.452	-1,5%

Source: Statistical Service Turkey (DIE)

C.3. Greek FDI in Turkey: real facts

Official data from the Greek Ministry of Finance state that the height of Greek invested capital in Turkey is 14 million of USD. According to that data, Greece holds the 4th position in the list of the most important countries that invest in Turkey, with 77 Greek companies that have invested in the neighbouring country *(until year 2004)*.

Country	***Invested Capital (million $)***
Italy	240
Germany	98
Holland	86
Greece	*14*
Denmark	12
U.K	11
Belgium	6
Spain	5
Switzerland	3
USA	2
Other	96
Total	**569**

Interesting comments:

- The majority of the Greek investments has been realised in the tertiary sector (trade / services). In detail, we have:

Primary Sector	**3**
Secondary Sector	24
Tertiary Sector	50
Total	**77**

- At least half of the companies that moved into Turkey, did so between 2001 and 2003, in an time that the Turkish economy was on crisis.

- An agreement on the abolishment of Double Taxation was signed between Greece and Turkey and is valid from 01-01-05.

C.4 Greek FDI in Turkey: prospects

Among the positive elements of the Turkish economy, are included:

- The big market size.
- The labour cost is still considered law.
- The geographical position of Turkey provides prospects for exploiting neighbouring countries.
- The improvement of the Greek – Turkish relationships.
- The accession of Turkey to the E.U (that has affected the basic macro economical figures of Turkey through the EU financing).
- The demographic identity of Turkey is very positive (young population).

Among the negative elements of the Turkish economy, are included:

- Bureaucracy.
- Complex and unstable law system.
- High taxation.
- The size of the black economy.
- Corruption.
- Law incentives from the Turkish States.

D. Conclusions

Turkey has made further considerable progress towards being a functioning market economy, in particular by reducing its macroeconomic imbalances. Turkey should also be able to cope with competitive pressure and market forces within the Union, provided that it firmly maintains its stabilisation policy and takes further decisive steps towards structural reforms.

Economic stability and predictability have been substantially improved since the 2001 economic crisis. Previously high inflation has come down to historic lows, political interference has been reduced and the institutional and regulatory framework has been brought closer to international standards. Thus, an important change towards a stable and rule-based economy has taken place. Key economic vulnerabilities, such as financial sector imbalances, have been tackled. Financial sector supervision has been strengthened. As a result, the shock resilience of the Turkish economy has significantly increased. Important progress has been achieved in increasing the transparency and efficiency of public administration, including public finances. Furthermore, important steps have been taken in facilitating the inflow of FDI and in improving the legal framework for privatisation.

In order to transform the current positive dynamics into sustained growth and stability, it is of crucial importance to continue the ongoing reform process. Maintaining a stability-oriented economic policy is a key element in this respect. In particular, fiscal imbalances have to be reduced and the disinflation process has to be maintained. The business climate would be improved by streamlining administrative procedures and strengthening the rule of law. Improving the efficiency of the commercial judiciary is of particular importance in this context. The banking sector’s surveillance and prudential rules should continue to be aligned with international standards. The privatisation of state-owned banks and enterprises should be accelerated. Sufficient public and private investment and devoting particular attention to education are important to increase the competitiveness and the growth potential of the economy. The inflow of foreign direct investment has to be encouraged by removing remaining barriers.

CHAPTER 3: EMPIRICAL RESEARCH

A. Research Methodology

The stimulus for the empirical research was given in a Commercial Display in the Greek town of Thessaloniki *(June, 2003)*, in which the Greek-Turkish Chamber of Commerce was presence. It was the first time we were informed that the two neighbouring countries have developed certain structures and actions to enhance business activity. As a result of the contact with the Greek-Turkish Chamber, we were given a full catalogue of the Greek companies that have invested in Turkey *(80 companies since 2003)*.

Right after the Display, the idea of doing a research project on the Greek FDI in Turkey started to bloom in our minds. Firstly, we reviewed the bibliography about FDI, so we could ask the proper questions. We also used our own academic experience about the subject and at the same time consulted experienced professionals who had a direct connection with the real economy.

In order to collect the necessary data from the Greek companies that invested in Turkey, we formed a questionnaire that consists of 2 parts. In the first part the person who fills in the questionnaire is asked to provide some basic general information about the company. The second part *(main body of the questionnaire)* consists of questions that try to understand the nature of the Greek FDI in Turkey *(see Appendix A for the questionnaire)*.

Prior to the beginning of the survey we conducted an additional control for the validity of the content of the questionnaire, in the duration of which we consulted many experienced practitioners that helped us avoid using inappropriate, discriminatory or ambiguous questions. After the completion of the pilot testing, the questionnaire was crystallised.

Questionnaires were distributed only after telephonic contact with the appropriate person in the company has been established. In order to send the questionnaire and the necessary clarifications to the persons contacted by telephone, we used mail, fax or electronic mail services. When the distance allowed it, the completion of the questionnaire was made during a personal visit of a member of the research team to the company. Answers were usually given by the Chief Executive Officer *(CEO)* of each company.

After making all necessary telephone calls, 80 questionnaires were sent to 80 companies. This procedure started in the spring of 2004 and lasted until the August of the same year. From the 80 questionnaires, 20 were returned and after conducting the necessary controls 17 were used for data analysis. This number represents a response rate of 25% and is considered logical and in-line with previous surveys.

B. Results

- The 17 companies of our final sample have an average of 685 employees in Greece *(standard deviation = 1181)* and 69 in Turkey *(standard deviation = 97)*:

	Average of employees
Greece	*685*
Turkey	*69*

- 47% of the companies had an annual turnover less than 40 million Euros, 11,8% between 40 - 60 million Euros and 41,2% over 60 million Euros. On the contrary, the annual turnover of the subsidiaries in Turkey were at 100% less than 40 million Euros:

Annual turnover in Greece	
Less that 40 million Euros	47%
Between 40 and 60 million Euros	11,8%
Over 60 million Euros	41,2%
Annual turnover in Turkey	
Less that 40 million Euros	100%
Between 40 and 60 million Euros	0%
Over 60 million Euros	0%

- Most of the Greek companies *(6 of them, 35,3%)* started investing in Turkey in the year 2000. All the percentages can be seen in the following table:

Year of investment		
	Frequency	*Percent*
1993	1	5,8%
1996	1	5,8%
1998	1	5,8%
2000	6	35,3%
2001	3	17,6%
2002	2	11,8%
2003	3	17,6%

- One out of two Greek companies invested in Turkey through a new joint-venture. All the percentages can be seen in the following table:

Method of investment		
	Frequency	*Percent*
Creation of a new wholly owned company (greenfield site)	1	5,9%
Creation of a new joint-venture company (greenfield site)	9	52,9%
Partial acquisition (majority of shares)	4	23,5%
Partial acquisition (minority of shares)	3	17,6%

- The most important incentive of investing in Turkey is the market size *(70,6%)* and the low labour cost *(23,5%)*. All the percentages can be seen in the following table:

Stimulus for investment	
	Percent
Market size	70,6%
Low labour cost	23,5%
Geographical proximity	41,6%
Favourable taxation environment	5,9%
Link to other former-USSR countries	11,8%

- For all the Greek companies the investment in Turkey, the investment is complementary to the productive activity that takes place in Greece *(100%)*.

- The most important problems a Greek company faces in Turkey, are the economical instability *(93,8%)* and the political instability *(31,3%)*. All the percentages can be seen in the following table:

Main problems in Turkey	
	Percent
Lack of trust from the Turks	18,8%
Political instability	31,3%
Inadequate support from the Turkish official Administration	0%
Lack of experienced managers	18,8%
Economical instability	93,8%

- The 29,4% of the Greek companies stated that their decision in investing in Turkey was very much affected from the possible accession of the country to the E.U. On the other hand, 23,5% stated that they were not at all affected from that possibility. All the percentages can be seen in the following table:

Impact from the possible accession to the E.U		
	Frequency	*Percent*
Very much	5	29,4%
A lot	3	17,6%
Medium / Average	3	17,6%
Little	2	11,8%
Not at all	4	23,5%

- The 76,5% of the Greek companies said that the Greek State did not supported their efforts in Turkey, while only 11,8% said that it did.

- Most of the products that are produced in Turkey by Greek companies are sold to the Turkish market *(70,6%)*. All the percentages can be seen in the following table:

Markets in which the products made in Turkey are sold	
	Percent
To the Turkish market	70,6%
To the E.U market	17,6%
Both to the Turkish and the E.U market	29,6%
To the markets of non E.U member states	29,4%

C. Conclusions on the survey

- The size of the Greek Companies that invested in Turkey:

  The results revealed that only medium and large Greek Companies invested in Turkey. This is logical, since smaller companies lack capabilities *(experience)* and resources for such an ambiguous and difficult endeavour. It is also logical that the future improvement of the Greek-Turkish co-operation will allow even smaller companies to follow the steps of the large companies that first started investing in Turkey.

- The economic role of the 1999 earthquakes:

  As stated in all the texts about the Greek-Turkish relationships, the 1999 earthquakes helped the two countries come together socially and economically. This belief is in line with the results of our survey, since most of the Greek companies that invested in Turkey started their economic activity after the year 1999.

- Method of investment:

  One out of two Greek companies invested in Turkey through a new joint-venture. This finding is very important, because it shows that when businesses try to penetrate an new and unknown market, they find that “working with the locals” is the best way to success. Local managers have deep knowledge of the market, they understand its verbal laws, they know how to handle issues with the public authorities, and in that way boost the economic performance of the joint-company.

- Incentive for investment:

  The most important incentives of investing in Turkey is the Market Size and the Geographical Proximity and then follows the Low Labour Cost. Greek companies find that a market of 100 million people is certainly a great idea for making business.

- Main problems in Turkey:

  The most important problems a Greek company faces in Turkey, are the economical instability and the political instability. These two factors are without any doubt strong barriers to investing abroad. The Greek financial world expects that the prospect of the Turkish accession to the E.U will improve these unfortunate circumstances, and Greek companies will be more willing to invest in Turkey in the future.

- Impact from the possible accession to the E.U:

  Some Greek companies stated that their decision in investing in Turkey was very much affected from the possible accession of the country to the E.U, while others stated that they were not at all affected from that possibility. This strongly implies that Greeks don't only enter Turkey for the future, but they try to enter for today in order to take advantage of the big market size and the market immaturity.

- Assistance from the Greek State:

  The big majority of the Greek companies said that the Greek State did not supported their efforts in Turkey *(only 11,8% said that it did)*.

- Markets in which the products made in Turkey are sold:

  Most of the products that are produced in Turkey by Greek companies are sold to the Turkish market (70,6%). That's shows the tendency of the Greek companies to take advantage of the huge Turkish Market.

CHAPTER 4: CONCLUSIONS

The conclusions of this paper will try to full the gap between theory and real practice. In other words, we will try to use what the theory says, in order to provide useful advice to the companies that will try in the future to penetrate the Turkish market or the markets of the Balkan states.

It is common knowledge that the regional political environment of the Balkans and Turkey is, for the moment, relatively stable. A new wave of Greek investors has already begun, or is gearing up, to follow the pathfinders. But they need to be mindful of the lessons learned by their predecessors:

- The most successful tactic is to make relatively small, incremental investments and use them as a stepping-stone for the next. Large ad hoc investments, made without a coherent, long-term strategy, tend to create difficulties.

- Alliances with foreign multinationals provide comfort. Association with international financial institutions such as the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) can do likewise.

- Strong, but flexible, corporate structure is necessary, so that the results of the company abroad in the start-up stage do not impact negatively the domestic profit & loss statement.

- Willingness to export know-how and management skills is essential. The continuous training and development of the human capital will help the company to achieve its targets.

- "Putting the locals in charge" is the best way of having total control over the company: local managers know the special cultural, demographic characteristics of the country, they understand better the legal issues and the verbal laws of the market and they can help with the relationships of the company with the State.

- A strong back office capable of coping with the vagaries of foreign currency markets is a must. Hedging is often best achieved by borrowing in the local currency but, when long term funding is not available, an ability to swap rapidly currency against debt obligations is essential.

In short*, the basic elements for success abroad are the same as those of investing at home: vision and timing. With sufficient critical mass, modern management skills and good systems in place there is no reason that Greek firms cannot now invest in places as far away as China and the Americas in the same manner as their E.U counterparts.*

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INTERNET SITES:

The main site in which we based our research for up-to-date data is: www.agora.mfa.gr, *(mostly in Greek)*. Various other sites were used: www.naftemporiki.gr, www.imerissia.gr, www.express.gr, www.isotimia.gr, www.kerdos.gr *(all in Greek)*.

APPENDIX: QUESTIONNAIRE

Greek FDI in Turkey: ***A questionnaire research***

This research is conducted by the:

Technological Educational Institute (T.E.I) of Kavala

School of Business and Economics

Department of Accounting

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Introduction

- The purpose of this empirical research is to shed light on the Greek FDI in Turkey. The research is trying to extract some valuable information from the Greek companies that have invested directly in the neighbour country.
- The questionnaire is divided into two parts and it should be filled in by a senior manager of the company.
- All responses are strictly confidential.
- The completion of this questionnaire demands 10 minutes of your time.
- We sincerely appreciate your time and ideas. The results can be forwarded to you upon your written request.

SECTION A: GENERAL INFORMATION

The first part of the questionnaire is divided into two sub-units and includes general information about the company that invested directly in Turkey and the company that was created in Turkey.

A.1. INFORMATION ABOUT THE GREEK COMPANY THAT INVESTED IN TURKEY

1.	Official name of the company	……………………………
2.	Sector of operation	……………………………
3.	Type of activity in this sector	……………………………
4.	Legal form	……………………………
5.	Number of employees *(in Greece)*	……………………………
6.	Turnover *(in Greece)*	
	Less that 40 million Euros	☐
	Between 40 and 60 million Euros	☐
	Over 60 million Euros	☐

A.2. INFORMATION ABOUT THE COMPANY THAT WAS CREATED IN TURKEY

1.	Official name of the company *(in Turkey)*	……………………………
2.	Year of investment	……………………………
3.	Sector of operation	……………………………
4.	Type of activity in this sector	……………………………
5.	Number of employees *(in Turkey)*	……………………………
6.	Turnover *(in Turkey)*	
	Less that 40 million Euros	☐
	Between 40 and 60 million Euros	☐
	Over 60 million Euros	☐

SECTION B: MAIN SET OF QUESTIONS

The second part of the questionnaire consists of eight questions that aim in understanding the nature of the Greek FDI in Turkey.

1.	In which way you implemented your investment in Turkey;	
	Creation of a new wholly owned company (greenfield site)	☐
	Creation of a new joint-venture company (greenfield site)	☐
	Partial acquisition (majority of shares)	☐
	Partial acquisition (minority of shares)	☐

2.	Why did you invested in Turkey;	
	Market size	☐
	Low labour cost	☐
	Geographical proximity	☐
	Favourable taxation environment	☐
	High labour productivity	☐
	Link to other former-USSR countries	☐
	Other	☐

3.	The investment in Turkey:	
	Substitutes a segment of the productive activity that takes place in Greece	☐
	Is complementary to the productive activity that takes place in Greece	☐

4.	Which are the most important problems that a Greek company faces in Turkey;	
	Lack of trust from the Turks	☐
	Political instability	☐
	Inadequate support from the Turkish official Administration	☐
	Lack of experienced managers	☐
	Economical instability	☐
5.	In what degree your decision for investing in Turkey was affected from the country's anticipated accession to the E.U;	
	Very much	☐
	A lot	☐
	Medium / Average	☐
	Little	☐
	Not at all	☐
6.	Did the Greek State supported you in your effort;	
	Yes	☐
	No	☐
	If yes, in which ways;	
	…………………………………………………………………………………………….	
	…………………………………………………………………………………………….	
	…………………………………………………………………………………………….	

7.	In which markets are the products sold;	
	To the Turkish market	☐
	To the E.U market	☐
	Both to the Turkish and the E.U market	☐
	To the markets of non E.U member states	☐

Thank you very much for your time in the completion of this questionnaire.

Would you like the results of this survey to be sent to you?

Yes ☐ *No* ☐