FOREIGN DIRECT INVESTMENT IN GREECE: AN ANALYSIS OF UNDERPERFORMANCE

Thesis submitted for the degree of Doctor of Philosophy (Ph.D.)

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I Lavrentios Vasiliadis declare that the work presented in this thesis is my own.

Abstract

The aim of this thesis is to examine the underperformance of the Greek economy in relation to attracting foreign direct investment (FDI) in the manufacturing sector. Two other European Union peripheral countries, specifically Ireland and Portugal, are used as a benchmark.

For this purpose three sets of contextual literature have been explored. I first examine the theory of the French regulation school in order to comprehend the development of the European economy and how Greece, Ireland and Portugal have been placed within it, emphasising particularly the ideas associated with peripheral Fordism. Then, I refer to the location theory literature in order to identify the factors influencing the location decisions of firms. Finally, I look upon the literature relating to multinational corporations[1] in order to identify their evolution and the particular factors influencing their locational decision making process. From this study two key factors have been identified that might attribute to the underperformance of Greece in relation to FDI: the Greek institutional framework and the failure of policy makers in Greece to understand the dynamics of capitalist development. The research of these hypotheses consists the essence of the empirical investigation. The empirical analysis takes place through a questionnaire survey of the current multinational enterprises (MNE) in manufacturing sector in Greece, supplemented by follow- up interviews with managers of foreign subsidiaries located in Greece and policy makers of the Greek state.

From the above theoretical and empirical analysis the institutional structures in Greece have been identified as the main cause for the FDI inflows underperformance, enhanced by the geographical peripherality of Greece and the increasing competition from the countries of East- Central Europe as a result of communism collapse and their entrance in the European Union.

[1] I refer to multinational corporation when I am discussing the company as a whole and to Multinational Enterprise (MNE) when I am discussing the branch plants.

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ASEAN: Association of South East Asian Nations
EEC: European Economic Community
ELKE: Hellenic Center for Investment
EU: European Union
FDI: Foreign Direct Investment
GATT: General Agreement on Trade and Tariffs
GDP: Gross Domestic Product
HQ: Headquarters
ICT: Information and Communication Technologies
IDA: Industrial Development Authority
IMF: International Monetary Fund
IT: Internet Telecommunications
JIT: Just- in- Time
LDCs: Less Developed Countries
M&A: Merger and Acquisition
MNC: Multinational Corporation
MNE: Multinational Enterprise
MNF: Multinational Firm
NAFTA: North American Free Trade Agreement
NATO: North Atlantic Treaty Organisation
NIC: Newly Industrialised Country
NIDL: New International Division of Labour
OAE: Organisation for the Readjustment of Firms
OECD: Organisation of the Economic Co- operation and Development
R&D: Research and Development
TQM: Total Quality Management
UNCTAD: United Nations Conference on Trade and Development
WWII: World War II

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INTRODUCTION

0.1 Research Problem

In a time period where Foreign Direct Investment (FDI) inflows have reached historic high, Greece's performance on that field has not followed the same direction. The main purpose of this thesis is to examine the underperformance of the Greek economy in this field. In this respect, the problem/ question that this thesis aims to explore is why Greece has underperformed in relation to Ireland and Portugal. The comparison of Greece with Ireland and Portugal is crucial to some kind of benchmarks for underperformance as these are in some ways comparable countries, given their comparable size, level of development and geographical peripherality.

In order to answer this question, three sets of contextual literature have been explored. I first draw upon French regulation theory in order to understand the development of the European economy and the differential positioning of states, paying particular attention to the ideas relating to peripheral Fordism. I then turn to the location theory literature in order to consider the factors influencing the location decisions of firms. Finally I draw on the literature relating to multinational corporations in order to identify their evolution and the specific factors influencing their locational decision making. From this review I have identified two key factors that might account for the underperformance of Greece in relation to FDI: the Greek institutional framework and the weakness of Greece to understand the dynamics of capitalist development. The investigation of these hypotheses forms the main substance of the empirical investigation. The empirical analysis consists of two elements: First a quantitative survey via a questionnaire of current MNEs in manufacturing sector in Greece in order to produce a geographical mapping of the different kinds of MNEs currently located in Greece; to identify the factors that influenced their decision to invest in Greece and thirdly to identify any issues of concern to the firms in relation to their initial location decision and subsequent experience of producing in Greece. From the analysis of the questionnaires and the literature review one key issue was highlighted, the Greek policy/ institutional framework. The significance of the Greek policy/ institutional framework is explored via semi- structured interviews that were carried out with a structured selection of firms.

To set the context I now briefly outline the political and economic context in Greece and demonstrate the underperformance of the Greece in attracting FDI by reference to two comparable states in the European Union: Ireland and Portugal.

0.2 Political and Economic Context

Since the end of World War II major changes took place in the European continent, which also affected Foreign Direct Investment. The major change was the continuing widening and deepening of the European Community that was transformed into European Union (EU). Within this spectrum, the role of Mediterranean Europe (of which Greece is part) has been different each time. During the 1960s, Mediterranean Europe provided a pool of reserve labour for the core European countries, which also constituted EEC, in order to reinforce the post- war boom of Northern Europe (Russel and Donati, 1999: 138). Additionally, it became the "shelter" of multinational corporations in the changes of production patterns. Mediterranean Europe had the advantage of a mass cheap labour force, appropriate for investment related to assembly production. Thus, industry sectors, e.g. the clothing industry, were relocated from Western Europe to the countries of Southern Europe (Hudson, 2002: 265). Since then most Mediterranean countries joined European Union. During the 1990s, Eastern European countries started to integrate themselves into the world economy, as well as getting ready to become full Members of the EU, changing once again location possibilities as even lower labour costs became available in the European Union. Thus, the role of the Mediterranean countries also changed. Now they have become destination countries for migrants who underpin the economic development of these countries. Nevertheless, Southern Europe continued to have a different course of economic development in relation to Western Europe. As it will be explained in chapter I (one), their mode of development was based on three distinct features: a) labour practices alteration, b) regional uneven development and c) expansion of the informal sector (Russel and Donati, 1999: 138- 139).

For the first time, Greece recognised the importance of FDI in the early 1950s when it initiated legislation that promoted and protected foreign capital into the country (Petrochilos, 1989: viii, Louri, Papanastasiou and Lantouris, 2000: 419, Louri and Minoglou, 2001: 403). Since then there has been several changes (for or against the attraction of foreign investment) by the Greek State[2]. Nevertheless, since the early 1990s there is a clear "devotion" of the Greek state towards the attraction of foreign capital in the form of direct investment into the country. This has coincided with the increase of FDI at the international level.

But, this clear scope of the Greek government in favour of FDI coincided with the opening up of Eastern and Southern Europe to foreign capital. This meant that multinational corporations had from now on more choices where to invest their capital. In this new economic environment that was formed, new opportunities and threats were created. As a result of this new competition (especially since 1990) the foreign capital that came into the country in the form of direct investment was very little following a steady downward trend. This downward trend took place despite the verbal determination of the Greek governments, since 1980s, that is willing to initiate policies that will ease the entrance of foreign investors. On the other hand, two other peripheral countries of the European Union, Ireland and Portugal have managed to follow a different course than Greece in attracting FDI. As a result, the following questions are raised: Why have Ireland and Portugal, which have also been peripheral countries, managed to attract more FDI than Greece? What is to blame that Greece is not with the "winners" of this new era? Is there an explanation on that?

0.3 Research Questions

The aim of this thesis is to identify why Greece has attracted a comparatively small amount of FDI during the last two decades. In particular it seeks to examine the significance of institutional and other factors in stimulating or deterring such investment. One of the key ideas to be examined is whether the Greek institutional framework, which has been argued to be excessively bureaucratic (Kritsantonis, 1992: 623), has a negative impact on potential inward investors. This is of particular importance because in this new era of technology evolution and the rapid increase in the number of countries that are willing to attract FDI, the specific characteristics of a country and the territorially embedded institutions might be of particular importance in determining competitiveness among countries. In this respect my hypothesis is that

[2] The analysis of the policies of the Greek State towards FDI takes place in chapter I.

the Greek institutional framework has negatively affected the attraction of FDI in Greece.

A further issue to be explored is whether Ireland and Portugal, which are used in this thesis as a kind of benchmark to Greece, have advanced a more sophisticated understanding of the dynamics of capitalist development and therefore been able to identify and give preferential assistance to growing sectors (e.g. IT sector). In particular, an analysis of how the states of Greece, Ireland and Portugal, as well as their socio- economic institutions have responded to the evolutions of the global economy since the end of World War II will take place. Here the hypothesis is that Portugal and Ireland very early realised the importance of FDI as a key element for the development of their economy and followed a consistent policy in favour of FDI. On the contrary, Greece has not managed yet to develop a long-term strategy in favour of FDI as the different political parties that have come into power have adapted different policy stances towards foreign investors.

In addition to institutional factors, however, other host- country characteristics, such as physical infrastructure and geographical distance to large markets of the European Union are also important. I therefore aim to explore the importance of these factors in order to try to explain the comparatively poor performance of Greece in attracting FDI. In order to explore these ideas this thesis evaluates the comparative importance of these factors to foreign branch plants that have been established in Greece. More precisely, I have constructed a data set, consisted of the total population of foreign subsidiaries that have manufacturing activity in Greece, then I carried out a survey on that data set and at the end I statistically analysed these data. The hypothesis is that these factors (physical infrastructure, distance to the large markets of the European Union) have also negatively affected the amount of FDI inflows in Greece. In chapter V, I explain in detail the content and methodology used for the construction of the questionnaire.

Thus, overall, the thesis intends to address the following issues/ research questions:

- To map the location, within Greece, of foreign subsidiaries that currently have an activity in the manufacturing sector.

- To identify the nature of the foreign subsidiaries currently present in Greece, in terms of their national origins, time period of entry in Greece, way of entry, degree of ownership, reason to enter the Greek market, type of FDI located in Greece, degree of autonomy by the parent company.

- To investigate the satisfaction of the foreign investors in relation to quality of infrastructure and the operation of institutional factors in Greece (i.e. bureaucracy, legislation, access to information, taxation and incentives).

- To explore the significance of government incentives in attracting FDI in Greece. In particular, I am going to investigate the importance of the incentives provided by the Greek government in FDI decisions.

Finally, in order to answer these questions/ hypotheses, a mixture of approaches (3) is used:

a) A survey of multinational enterprises having an activity in the manufacturing sector in Greece
b) This survey is supplemented through face to face semi- structured interviews
c) The use of secondary data.

0.4 Structure of the Thesis

Thus, in order to fulfill the aims described above, the structure of the thesis will be the following one:

In **chapter one (I)** an analysis of post- war development of the world economy and production takes place. At the same time, the major consequences of these changes to Greece, Ireland and Portugal are identified. In particular, three broad periods are examined, notably the Fordist, post- Fordist and the New Economy ones. Thus, chapter one illustrates this changing world as well as the changes where location theory has been based on. In each period apart from the general approach that concerns the world economy transformation (in economic and social level), the specific transformations of the economies of Greece, Ireland and Portugal are also examined. It is shown that the three countries have adopted different policies in order to respond to these changes and consequently each country has differently taken advantage of the new opportunities that have emerged.

Chapter two (II) illustrates the evolution of some major, for the explanation of FDI, location theories, and how they responded to the world economic and industrial changes described in the first chapter. Throughout this chapter a comparison between the different theories takes place, identifying similarities and differences between the various schools of thought. In particular, the most known trends are presented. The reason is that the theoretical foundation of FDI is still rather fragmented, compiling bits and pieces from different fields of economics (Braunerhjelm and Svenson, 1996: 833). The usefulness of these theories, despite their weaknesses, is that they give some basic explanation on the behaviour of the firm, which is the main actor of FDI, under certain circumstances. Finally, this chapter will provide us with the theoretical support necessary to evaluate some of the factors that influence particular types of FDI, or those from particular countries, which will take place in a later chapter (chapter IV).

Chapter three (III) is an illustration of the main organisational structures that multinational corporations have adopted since 1945 in order to deal with new economic and political developments described in chapter one. In the beginning it presents a number of authors who have analysed the structure of the multinational corporation (theory of the multinational firm) and their changes over time (e.g. neo-classical economic theory, traditional organisation theory, path- dependency theory, value chains approach, etc.). Drawing on these theoretical ideas, Dicken (1998), Belis- Bergouignan, Bordenave and Lung (2001), King and Sethi (2001) have produced models which identify more precise factors that affect the decision making of multinational corporations. In particular, these authors have formalised the discussion of multinational corporations and developed typologies of different types of multinationals- some relating to sectors and some relating to changes over time (i.e. the main models of MNEs and a critical appraisal of them). Then, for the purpose of this thesis, I am going to draw one framework (vertical and horizontal integration of production) in order to help understanding why different types of multinationals will be attracted by different kinds of locational factors. Finally, having looked at the structure of multinational corporations in the context of the evolution of the economy I advance a hypothesis about the types of firm that may be attracted to Greece.

Then, **in chapter four (IV)**, the factors that may influence the decision of a multinational corporation to invest in a country in relation to another one are described from a theoretical point of view. In addition, despite the fact that the location theories tend to take a rather static view of the world and assume that the factors influencing location are the same for all time, I indicate why this is not the case. In this chapter there are continuous links between the factors selected to be analysed and the location and trade theories analysed in chapter II. The factors described concern a manufacturing type of investment. The factors are reviewed in combination with the most common incentives adopted by the governments in order to influence the decisions of multinational corporations. Finally, in the second part of this chapter the analysis of another, not locational factor, takes place. In particular, since the collapse of the communist regimes in South- Eastern Europe, Greece has started to become a source of outward FDI, resulting to the development of an outward orientation of the Greek manufacturing firms during the last two decades as they try to take advantage the new opportunities raised in Greece's neighboured countries. Thus, chapter IV illustrates that Greece is no longer a net recipient of FDI, but on the contrary is also a source of FDI as many of its large firms invest abroad (especially in the South- Eastern Europe) in the form of direct investment.

In **chapter five (V)** the research methodology analysis takes place. In particular, I explain in detail the different methodological approaches used for the empirical study of my research questions. The research methods adopted are a questionnaire, semi-structured interviews and the analysis of secondary data. In addition, I will provide detailed information in the way research questions and interviews were designed to address the objectives of the thesis.

Chapter six (VI) is the core of the thesis. It presents the results of the questionnaire that was sent to 144 foreign subsidiaries that currently operate in

Greece. The first part of the chapter identifies the nature of the foreign subsidiaries currently present in Greece, in terms of their key characteristics, including national origins, sector, location, market orientation. The second part deals with the specific roles the subsidiaries are allowed to take over in Greece by the permission of their Headquarters. The third part of the chapter tries to identify which are the particular activities of the foreign subsidiaries located in Greece. More precisely, it tries to identify the relationships of the subsidiaries, first, with the parent companies, and second with local firms. The fourth, and last, section of the chapter tries to identify the attitude of the foreign subsidiaries towards some institutional factors and services provided by the Greek State then and now. The reason is to see whether there has been any improvement in how the subsidiaries see these institutional factors and services. The findings are discussed and interpreted with relation to the theoretical arguments expressed in the previous chapters.

Chapter seven (VII) uses another form of research (interviews) in order to assess the results of chapter VI. In particular, in this chapter I present the results of twenty face to face interviews with the managing directors of foreign subsidiaries located in Greece. This chapter explores the in depth relationships developed between the parent firm and the subsidiary within the Greek economic environment, as well as the corporate processes that influence the decision of a foreign firm to invest in Greece. Then further two interviews were arranged, this time with policy makers of the Greek State. These two interviews were arranged in order to get the opinion of the State in some of the conclusions of my research. Thus, by these twenty two interviews we (re) investigate the questions/ hypothesis presented in the introduction of the thesis.

Finally, in the **Conclusion** of the thesis, a brief summary of the findings is presented indicating weaknesses with what I have done and where it might go.

But, before I establish the underperformance of Greece in relation to Ireland and Portugal, I will first give a definition of FDI.

0.5 Definition

As far as a definition of FDI is concerned, all definitions given by the main international bodies that deal with FDI have a lot of similarities. According to the Organisation of the Economic Co-operation and Development (OECD) and UNCTAD there are three main features that define FDI: first, the objective of obtaining a lasting interest in an economy other than that of the investor ("direct investment enterprise[3]"). Second, the lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. Third, direct investment involves both the initial transactions between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities (OECD, 1996: 7-8, UNCTAD, 2002: 291). Somewhat similar is the definition of FDI given by Eurostat. The latter defines FDI as "acquisition by an individual or enterprise resident in one country of assets located in another... transactions are included as part of FDI only if a material interest is acquired in a foreign enterprise (usually defined as a shareholding of at least 10 per cent[4]). Once this condition is satisfied, further capital transactions between the two parties concerned, also count as FDI" (European Commission, 1996: 53). Because most of the data in this thesis have been taken by UNCTAD sources, but also due to the similarity in the definitions of UNCTAD and OECD, this thesis adopts the definition of these two international bodies.

0.6 FDI Inflows in Greece, Ireland and Portugal

Greece, Ireland and Portugal have followed a different course as far as FDI inflows are concerned. In relation to their size there is an imbalance to the number of MNCs that have been established in the three countries. Ireland, is the smallest country in size and population, in relation to Greece and Portugal, yet has attracted about five times more FDI than Greece and three times more FDI than Portugal. Moreover, Portugal having about the same size and population as Greece is considered, like Ireland, a "success story" on that field. So the question raised is why Greece does not attract as much FDI as Ireland and Portugal?

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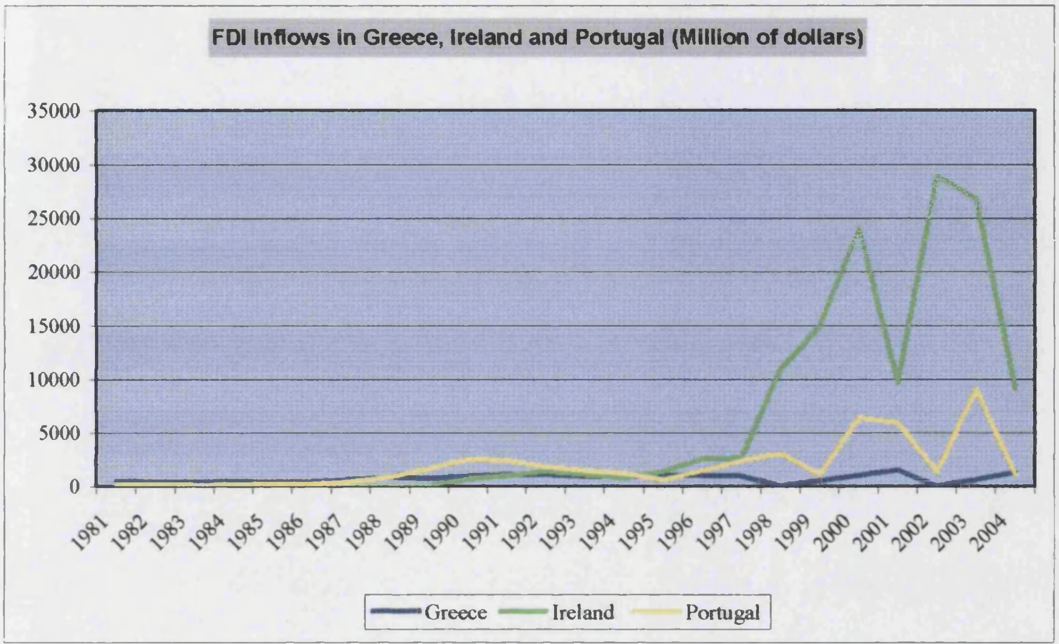
[3]A direct investment enterprise is defined as "an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise" (OECD, 1996: 8).

[4] This threshold of 10 per cent is not the same for all the countries.

Figure 0.1



Combined Source: UNCTAD, World Investment Report 2002, p. 303, UNCTAD, World Investment Report 2005, p. 303, and Eurostat, The Greek Economy in Figures, 2001, p. 72

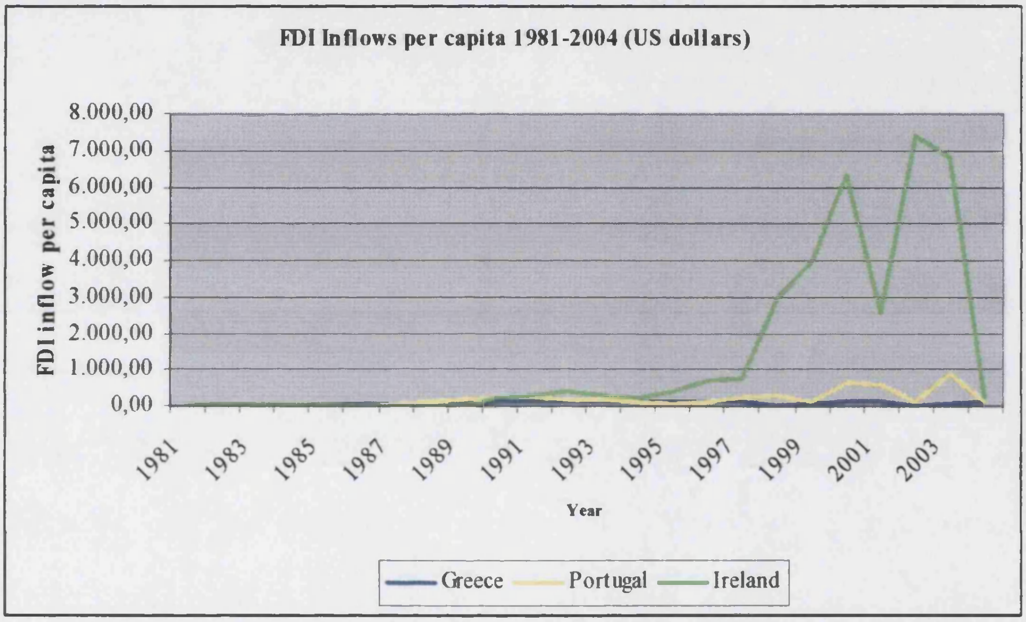
In Figure 0.1 the FDI inflows for Ireland, Portugal and Greece from 1981 to 2004 are presented[5]. During this period FDI inflows grew significantly. In this respect Greece, Ireland and Portugal performed differently as far as the attraction of FDI is concerned. Figure 0.1 shows that for most of the period 1981 to 2004, Greece attracted less FDI than Ireland and Portugal, although during most of the 1980s was in better position. More precisely, despite the fact that the amounts of FDI that the three countries attracted during these years (1980s) were very low in comparison to recent figures, nevertheless Greece was in better position than Ireland and Portugal. It was not until the end of 1980s that Portugal firstly, and then Ireland, started to attract larger amounts of FDI in relation to Greece. In absolute terms Ireland and Portugal have managed to attract much larger amounts of FDI than Greece. Data from UNCTAD (UNCTAD, 2001: 10) on the annual average FDI growth rate confirms this trend for the period 1986- 2000. During this time period, Greece is placed among those countries that FDI inflow increase is between 0- 9.9 per cent. On the contrary, Portugal is placed with these countries that FDI inflow increase is between 10- 19.9

[5] This time period has been chosen because since then United Nations have available data for all the three countries. Before that time, data are missing from some of the three countries.

per cent and Ireland among countries which FDI inflow increased more than 30 per cent.

The same conclusions can be drawn if we analyse Figure 0.2 below where the performance of the three countries is examined in terms of their FDI inflows per capita. This ratio that marks the relative performance (i.e. the dynamism) of Greece, Ireland and Portugal in terms of FDI inflows also shows that Greece has the worst performance compared to Ireland and Portugal.

Figure 0.2



Combined source: UNCTAD, World Investment Report 2002 and 2005, General Secretariat of National Statistical Service of Greece www.statistics.gr, Central Statistics Office Ireland www.cso.ie, Instituto Nacional de Estatistica www.ine.pt

Table 0.1 presents the absolute figures on FDI for the EU[6] 1997- 2004. The data shows that from 1997 to 2004, Greece attracts less FDI than any other EU Member State. Greece attracts small amounts of FDI particularly during the years 1998, 1999 and 2002. The only positive sign is that during the last two years, contrary to the trend to the rest of the EU Member States, the amount of FDI that Greece attracts increases, but still remains in the last position as far as the absolute figures are concerned. It is still very early to see if this increase in the FDI inflows during 2003 and 2004 is the beginning of a reversal trend or it is just an isolated phenomenon.

[6] When referring to the European Union, I mean to the fifteen Member States and not twenty five.

Table 0.1: FDI inflows in the European Union Member States (Million of dollars)

Host Country	1997	1998	1999	2000	2001	2002	2003	2004
Austria	2654	4533	2975	8840	5909	356	7352	4865
Belgium & Lux.	11998	22691	133059	245561	50996	132844	123153	91366
Denmark	2801	7730	15911	32289	6969	6630	2595	10722
Finland	2119	12138	4613	8834	3615	7919	3296	4648
France	23174	30984	47070	42930	52623	49035	42498	24318
Germany	12244	24593	54754	195122	31833	50516	27265	38557
Greece	984	85	571	1089	1560	50	661	1351
Ireland	2743	11035	14929	24117	9775	28981	26888	9120
Italy	3700	2635	6911	13377	14873	14545	16415	16815
Netherlands	11132	36964	41289	52453	50471	25038	19331	4605
Portugal	2477	3144	1234	6464	6017	1767	6558	1112
Spain	7697	11797	15758	37523	21781	43696	29013	18361
Sweden	10968	19564	60850	23367	12734	11738	1288	371
United Kingdom	33229	74324	87973	116552	53779	24029	20298	78399

Source: UNCTAD, 2002: 303; 2005: 303
Data for Portugal in 2001 are estimates where as for Netherlands are preliminary (for the same year).

However, this way of assessment of FDI performance by comparing the absolute values of inflows does not take into account the size of the host economy. Reasonably thinking, the larger economies, as measured by GDP, will attract more FDI than smaller ones. A more interesting issue would be to estimate how successful an economy is in attracting FDI, after taking into account the size of the host economy. By this way the importance, to the foreign investor, of other factors, such as political and macroeconomic stability, the FDI policy regime, industrial competitiveness, natural and human resources, can be identified (UNCTAD, 2002: 23). For this purpose World Investment Report introduced an Inward FDI Index to estimate success in attracting FDI. The Inward FDI performance Index is the ratio of a country's share in global FDI flows to its share in global GDP. Countries with an index value of one (1) receive FDI exactly in line with their relative economic size. Countries with an index value greater than one attract more FDI than may be expected on the basis of relative GDP. This might be due to various factors that affect FDI inflows, such as a welcoming regulatory regime, or attractive business environment, or good growth potentials. On the other hand, countries with index values below one (1) suffer form one or more deficiencies to their economic, political, social and business environment. Table 0.2 presents the position of Greece, Ireland and Portugal according to the FDI Performance Index[7] during the time periods 1988- 1990,1998-2000 and 2002- 2004.

[7] Although, UNCTAD recognises that the Inward FDI performance index should be treated cautiously as an indicator of countries' inward FDI position, nevertheless, it adopts that index due to the difficulties to measure the factors that may affect FDI. This is because social, political and institutional

Table 0.2: Values and Country Rankings by the UNCTAD Inward FDI Performance Index, 1988- 1990, 1998- 2000 and 2002- 2004

	Value			Rank		
Economy	1988- 1990	1998- 2000	2002-2004	1988- 1990	1998- 2000	2002-2004
Greece	1.3	0.1	0.2	45	125	129
Ireland	0.7	5.1	7.8	71	4	5
Portugal	3.2	0.9	1.19	18	64	81

Source, UNCTAD, World Investment Report 2002.and World Investment Report 2006

According to UNCTAD, countries with low value index receive less FDI than warranted by their size (UNCTAD, 2002: 29). From Table 0.2 it is clear that currently Greece and Portugal have deteriorated their position in relation to 1990. On the contrary, Ireland from the 71st position among 140 countries that possessed in 1990 raised to the 5th one in 2004. Moreover, according to this index Ireland indeed received an important amount of FDI, where as Greece and Portugal very little Especially, Greece currently receives a minimum amount of FDI in relation to the size of its market and is positioned 129th among United Nations Members. This is also verified by UNCTAD where it states that "in the bottom 20 countries are mainly developing countries including several Less Developed Countries (LDCs), but they also include Japan and Greece" (UNCTAD, 2002: 29). The data shown indicates that compared to other small economies in the European Union, Greece has underperformed in terms of attracting FDI. The main objective of the thesis is to try to identify the reasons why. But, before I analyse in more depth the objective of this thesis, firstly, I will present how FDI has performed at world scale during the last two decades.

0.7 FDI World Trends During the Last Two Decades

Having analysed FDI trends in Greece, Ireland and Portugal also the analysis of FDI world trends during the last two decades is presented in order to see whether the three countries under examination followed a similar or different path, in relation to the rest of the world.

factors are difficult to quantify at the national level as well as it is especially difficult to evaluate how effectively policies are implemented (UNCTAD, 2002: 24).

Table 0.3 FDI Inflows by Host Region and Economy, 1983- 2004 (Million of dollars)

	World	Developed Economies	Developing Economies
1983-87 (Annual average)	77,1	58,7	18,3
1988-92 (Annual average)	177,3	139,1	36,8
1993	207,9	129,3	73,1
1994	225,7	132,8	87,0
1995	314,9	203,2	99,7
1996	386,140	219,908	152,685
1997	478,082	267,947	191,022
1998	694,457	484,239	187,611
1999	1,088,263	837,761	225,140
2000	1,491,934	1,227,476	237,894
2001	735,146	503,144	204,801
2002	716,128	547,778	155,528
2003	632,599	442,157	166,337
2004	648,146	380,022	233,227

Source: World Investment Report 1996, 2002 and 2005. Combined data

Since the end of the World War II, FDI flows among countries have been steadily increased with a small break at the beginning of 1980s (Chan, 1996:1). This break was due to the petroleum crisis that took place that era and negatively affected the world economy. However, since the beginning of 1983, FDI started rising again, stopping only for a couple of years at the beginning of 1990s, due to a new financial crisis. In 1996, this amount reached to $(US) 386 billion (Table 0.3). This year is a mark point because for the first time FDI has overtaken world exports (European Commission, 1999: 1).

Despite the Mexican peso crisis and the Asian financial crisis in the late 1990s, FDI continued to grow. In 1999, FDI surpassed the one trillion-dollar mark. But, the new international financial crisis in 2001 resulted in a sharp decline (almost halved as seen in Table 0.3) in FDI flows. This significant drop is due to the slowing of economic activity in the world's largest economies, notably the American, Japanese and the European Union ones, and the slow down of new international investment, notably the cross- border mergers and acquisitions[8] (M&As) that have driven recent FDI. Table 0.3 illustrates that it was mainly the developed countries, in which Ireland, Portugal and Greece are part of, that were particularly hit by this new international financial crisis. In the developed world the decline in FDI inflows

[8] According to UNCTAD (p. 3) and the Multilateral Investment Guarantee Agency (p. 1) M&As have driven FDI growth over the last decade. During 1990s investment has remained rather stable on a world basis, notably between $200 billion and $300 billion annually.

reached 59 per cent (UNCTAD, 2002:3). On the contrary, in the countries of the developing world, FDI inflows were only slightly decreased. This can probably suggest that the dynamism that has marked the developing world (or at least a significant part of it) as a location of FDI could not be harmed by this new crisis in the world economy. Since then, FDI inflows have not yet managed to recover to the levels of 2000. United Nations data support that this drop in FDI could be explained by the theory of business cycle. In particular, the decline in FDI flows in 2001 followed rapid increases during the late 1990s. The same happened during the late 1980s and early 1990s, and in 1982- 1983. Consequently, since the early 1980s there have been three business cycles (UNCTAD, 2002: 4). All three business cycles coincide with changes in world economic environment.

Additionally, the developed countries still remain the main sources of FDI (Table 0.4). This is because the home of the largest multinational corporations, which drive globalisation, is still found on the so- called developed economies. All this despite the expectations of UNCTAD few years ago (UNCTD, 1997: 4) that this time developing countries would play a more important role, in comparison to the two previous investment booms[9], as far as the participation in FDI investment is concerned, it seems that this did not happen. Once again developed countries drove the investment boom.

Table 0.4 FDI Outflows by Home Region, 1990- 2001 (Millions of dollars)

	World	Developed Economies	Developing Economies
1990-95 (Annual average)	253 302	221 005	32 021
1996	394 996	332 395	61 309
1997	474 010	394 999	74 797
1998	684 039	631 291	50 256
1999	1 042 051	965 977	73 636
2000	1 379 493	1 271 273	104 207
2001	620 713	580 624	36 571
2002	652, 181	599,895	47,775
2003	616, 923	577,323	29,016
2004	730 , 257	637,360	83,190

Source: World Investment Report 2002 and 2005, combined data

[9] The first investment boom, which took place in the period 1979-1981 was led by petroleum investments in oil producing countries, and the second investment boom, which took place in the period 1987-1990, was concentrated in developed countries (UNCTAD, 1997: 4).

But, what have been the causes of this increase in FDI trends? As it will be analysed in chapter I, in the late 1960s, the Fordist crisis has as a consequence multinational corporations to start seeking refuge in the Newly Industrialised Countries (NIC). This is the time where the large Western firms started founding new subsidiaries, or merging with native firms of the new markets.

CHAPTER I

The Development of the World Economy and Regulation Approach

1.1 Introduction

In the first part of the chapter an analysis of the development of the world economy since 1945 (end of World War II) takes place. At the same time the development of multinational corporations within this context is described. Finally, the situation of European regional economies in each phase of world transformation is also analysed. In particular, the analysis of the development of world economy follows the approach of the Regulation School that has emphasised the restructuring of the production systems and how this has influenced the positioning of countries in the world power system. Moreover, Regulation approach argues that changes in the industrial organisation are broader patterns of development within both core and peripheral countries. In this respect, in this chapter the analysis of the restructuring of the production systems is divided into three broad categories: the first one, called Fordist period, took place from the end of World War II (1945) to the end of 1960s. The second period, called Post- Fordist, took place during the 1970s and 1980s. The last period, called New Economy or even Globalisation era, took place from 1989, with the fall of the Berlin Wall and lasts until today.

Within these three time periods very important changes took place, as far as the structure and organisation of capitalism is concerned. Production processes changed, the purchasing capacity of populations became greater, and the power equilibrium between nations also changed dramatically. As a result of these transformations, as it will be analysed below, governments started to become keener to accept foreign capital. The vast majority of countries opened their economies and adopted economic and political measures aiming at the attraction of FDI. Additionally, the role of the so- called peripheral countries also became more important (in Europe and elsewhere). These countries became a pole of attraction by multinational enterprises. More and more operations of multinational corporations were transferred to these countries, changing by this way the world's economic balance of power[10]. This chapter considers how Greece, Ireland and Portugal integrated in this new world economic system, as well as the relative position of Greece, Ireland and Portugal at global scale as a result of this shift in structure and organisation of capitalism. It is shown that the three countries have adopted different policies in order to respond to these changes and consequently each country has differently taken advantage of the new opportunities that have emerged. By this way I will be able to demonstrate the weakness of Greece to understand the dynamics of capitalist development.

[10] As it will be shown later in this thesis, ex- developing countries increased their share of inward and outward FDI in relation to the previous decades. Countries in Southeastern Asia, such as Philippines and Taiwan, but also in the European continent, such as Portugal, Spain and Ireland increased their status in the field of international economics and politics.

1.2 Perspectives on Economic Restructuring in the Twentieth Century

1.2.1 Fordist Period (1945- 1960s)

In order to understand the economic structure of the today world, it is essential to comprehend the developmental logic of the post-war period. The economic boom just after World War II was an illustration of the supremacy within the main advanced capitalist countries[11] of a peculiar "pattern of development" and of the constancy of a "world of configuration" that linked them together. Recognising the difficulties of combining theory and history, this thesis will track the approach developed by the French Regulation School, which first took up this challenge when it tried to understand the rise and demise of Fordist growth regime (Dicken, Forsgren and Malmberg, 1994: 28; Boyer, 2000: 143). This school put emphasis on the restructuring of production systems, which intensified during the 1980s, indicating an all- embracing shift between two historical periods: Fordism and Post- Fordism. It maintains that the processes shaping industrial organisation are broader patterns of development within both core and peripheral countries. More precisely, they consider the history of capitalism as a succession of phases, each differentiated by certain historically developed, socio- institutionally defined structural forms[12] that give rise to distinctive economic trends and patterns (Brenner and Glick, 1991: 46; Harvey, 2000: 86). Consequently, it is particularly useful for the questions raised in this thesis. The framework rests on four key concepts: regime of accumulation, mode of regulation, mode of socialisation and the role of the state.

More precisely, according to Aglietta (1979: 68) accumulation reproduces the relations of production by continuously altering their operations. In this way the "regime of accumulation" is a form of social transformation that leads to the increase of the relative surplus- value. In other words, by the term "regime of accumulation" is meant a recorded set of regular macroeconomic interactions, which includes the

[11] This hegemonic pattern of development was named Fordism.

[12] According to Boyer (1990: 69) the concept of "structural forms" as used in the regulation approach should not be confused with that of "institutions" as used by the institutionalists. The formers are global in nature, and have effects felt throughout the whole economic system. The latter may be quite local in character, with consequences principally at the microeconomic or intermediate levels.

critical economic conditions for the operation of the productive system (technology, organisation of the labour process, relations between the departments of production). These norms are by themselves an invaluable guide for investors (Leborgne and Lipietz 1991: 28- 29; Mavroudeas, 2003: 487). The "mode of regulation" is the case where any uncertainty of the investors about the future coherence of the regime of accumulation is eased by regulatory mechanisms, institutions, compensatory mechanisms and information systems. The "mode of regulation" relies on actual, historically specific institutional forms. More than one "mode of regulation" can be implemented in a certain "regime of accumulation". Which will dominate depends on the indeterminacy of history. However, not every "mode of regulation" is appropriate for every "regime of accumulation". This system continually adjusts the expectations and activities of individuals to the general logic of the regime of accumulation (Leborgne and Lipietz 1991: 28- 29; Mavroudeas, 2003: 487).

The third term is the "mode of socialisation". This is the establishment and consolidation of a mode of regulation, which is heavily dependent on the political sphere. In politics what matters are political and social struggles as well as agreements and institutional compromises. The different social groups, regardless of the divergences in their interests and their economic inequalities, over the long- run make up a nation in which power relations are perpetuated without major dispute. This stable system of relations of domination, or for some others, of concessions among different social groups (dominant and subordinate) is called social block (Leborgne and Lipietz 1991: 28- 29). Finally, the last key concept is the "role of the state". According to the Regulation School the role of the state is vital because it reinforces the institutionalised compromises, asserts its monopoly of "institutionalised violence", defends the currency, enforces legislation, and manages relations with other nations (Leborgne and Lipietz 1991: 28- 29).

Moreover, as Boyer (1990: 68- 69), a prominent regulationist, argues, institutional differences at the nation- level are very important, but, in the long- run, economic developments depend upon the dominant mode of regulation in each historical era. Thus, whereas, especially OECD countries, operate under a common environment, differences at the mode of regulation at the national level may explain their relative competitiveness and growth rates (Boyer, 1990: 23). This is a very important argument for the evolution of this thesis. At the end of this chapter my intention is to clarify how, through different modes of development, the different national institutional regimes of Greece, Ireland and Portugal were driven towards the dominant mode of regulation, which was their more and more integration into the world capitalist system. But, this argument further stimulates the basic question of this thesis: why does not Greece attract the amount of FDI that Ireland and Portugal do? Having this argument in mind the following structure of this chapter has two tasks. The first one is to describe the world developments, driven mainly by USA and some large European countries, since the end of WWII. The second task is to describe how the countries in question, and particular their institutional regimes, were affected by these developments and what were their (re) actions to them. The two tasks will take place following the regulation approach of things.

Thus, beginning the analysis of the post- war developmental logic, the immediate post- 1945 era was characterised by the Fordist mode of development originated in the United States. More precisely, the Fordist industrial paradigm included the Taylorist[13] principles of rationalisation, plus constant mechanisation. Aglietta (1979: 114) defines Taylorism as the sum total of those relations of production internal to the labour process that tend to speed up the completion of the mechanical cycle of movements on the job and to fill the gaps in the working day. Taylorist rationalisation was based on a separation of the intellectual (i.e. research and development, design, and the scientific organisation of work) and manual (i.e. unskilled operational tasks) aspects of labour. The establishment of the Taylorist- Fordist labour process was supported by a transition in the mode of regulation of capital- capital relations away from full competition towards oligopoly. A qualitative increase in the intensity of capital, the rise of finance- dominated trusts, and the emergence of modern firm allowed for greater inter- capitalist control of competition, markets and in general of the overall investment environment (Brenner and Glick, 1991: 74- 75).

According to Aglietta (1979: 114- 116) Taylorism organised work in such a way that reduced the workers' degree of autonomy and placed them under constant

[13] In the USA, Taylorism came into force in the engineering industries at the end of the 19th century (Aglietta, 1979:114).

surveillance and control. In this respect the relationship between capital and labour had the following form. Each production worker was given a simpler cycle to perform. The inauguration of patterns of this kind led to the conception of new methods of production and new types of machine- tools. "Technical progress" was completely determined by the intensification of output norms. It sought to alter the substance of jobs in such a way as to dodge the workers' resistance where it was not possible to break it directly. At the same time with the above initiations on production methods, there was an attack on organised labour. In the United States, for example, since the end of WWII, and until the 1960s, there was a modification in the relationships between industrial capital and labour unions. More precisely, there was an agreement under which both parties accepted that the unions would contribute to reduce industrial warfare under a "social contract". This would take place in the following way: in exchange for union- demanded wages and benefits, workers would give up control over industrial production to management. The cost of this arrangement would be transferred to the consumers, through higher prices for commodities, rather than in narrower profit margins. This agreement particularly benefited workers in large oligopolistic industries, where unions were strong and profits were significant (Bonacich and Appelbaum, 2000: 6).

After the end of WW II, Taylorist management techniques were incorporated in most industries both in the USA and in Western Europe. This was also favored by the implementation by the USA of the Marshall Plan[14]. The Plan aimed to give to the countries of Western Europe (and Japan) that had suffered from the war those financial and technical means that would allowed them to catch up[15]. As a result of these new management techniques a vast deposit of homogenous and mobile labour-force, both controlled and submissive to capitalist labour discipline, was created. The mass migration of workers particularly contributed to the growth of this pool of labour. Additionally, there was a relatively regular rise in real wages, which was the

[14] Marshall enunciated the Plan at Harvard University on June 5, 1947. The Marshall Plan, whose official title was "European Recovery Program" aimed at: (1) increasing production; (2) expanding European foreign trade; (3) facilitating European economic co-operation and integration, and (4) controlling inflation, which was the program's chief failure (www.marshallfoundation.org/about_gem/marshall_plan.htm, access date: November 2000).

[15] There is a further argument that this was also part of the cold war, i.e. there was concern that people in Europe might be attracted to the Soviet way of life. At this time- contrast to the present- there was an alternative social mode.

result of a constant fall in real social wage costs (Aglietta, 1979: 161). This was because of the increase in productivity.

Whereas this was the case for the United States and the large European countries (and Japan), what about peripheral Europe, and particularly Greece, Portugal and Ireland which are at the focus of this thesis? As mentioned above Fordism contributed to Taylorism by incorporating the collective knowledge of the labour force into the machine system itself. Additionally, the Fordist regime of accumulation stimulated not only a rapid increase in the volume of investment per head but also a growth in per capita consumption. Within this context, the role of peripheral countries was very limited. The reason was that Fordism was based on the principles of mass production and mass consumption. The less wealthy peripheral countries could not fulfil this principle. They could not produce massively, because they could not consume massively. The United States of America in their effort to help peripheral countries to develop some level of mass consumption initiated different forms of aid (the most known one is the so- called "Marshall Plan") so that in the long run the European markets, including the peripheral ones, could consume more American products as a result of the improvement of their quality of life.

But, since the mid- 1960s a slow down in real social wage costs was observed, which challenged Fordism as the principle mode of management of wage-labour. Aglietta (1979: 122) describes this situation as "a crisis of the reproduction of the wage relation, which affects methods and goals of production, as well as modes of life". In particular, it was the slow down in the rate of increase in productivity that led to a rise in the real social wage, which in turn led to the crisis of Fordism. The full employment and the rising wages that were characteristics of the post war boom, which was also in part a consequence of the increase in productivity, led to the trade unions being quite powerful. Precisely, Aglietta (1979: 162) argues that the root of the crisis of Fordism was the intensification of class struggles at the point of production. Whereas, initially in the post war boom it was possible for wages and profits to rise simultaneously, at that time where the rate of increase in productivity declined, profits could only increase by decreasing wages or vice versa. If labour secured wage increases this would have an adverse effect on profits. But, the entrepreneurs would not easily accept this. At the end the crisis extended to the whole spectrum of relations of production, causing disturbance to the Fordism regime of accumulation.

As a result, during the 1960s the Fordist mode of production entered into crisis ending up to its collapse. The main reason for this was the crisis of mass production model, which took place at both micro- scale and macro- scale. According to Leborgne and Lipietz, the cause was not a new global "crisis" of underconsumption, or a problem of supply side. Mainly it was the succession of two destabilising events, i.e. the expression of "internal causes" (notably the crisis of the model of development itself, principally on the supply side) and "external causes" (notably the internationalisation of the economy, which jeopardised the national management of demand) (Leborgne and Lipietz, 1991:31, Dunford and Perrons, 1994: 164). In particular, since the early 1970s, rates of output and productivity growth in developed countries have been halved in comparison to the post- war golden age[16]. The increase in oil prices that took place in the early 1970s accelerated the crisis in the developed countries. In the vast majority of the western world (especially in the most developed countries of the western world) a decrease on the level of demand took place. But, output did not follow a similar trend. On the contrary, large amounts of money were engaged in stocks of goods and material, paying less attention to the quality. At the same time, mass unemployment and widespread social exclusion have appeared, and inequality has increased. The crisis created was so acute that even the Keynesian economic policies, contrary to the past, proved entirely incapable of putting an end to it.

This increase in oil prices, plus low growth in Western economies led to banks having large amounts of oil money seeking investment opportunities. As a result, many developing countries, especially from the Latin America, borrowed in order to invest in industry, with the intention of exporting in order to pay back the loans (Amin, 1997: 20). Towards this direction the developing countries had the support of international organisations and banks[17]. Thus, the collapse of Fordism in the late

[16] According to the analysis provided by Eichengreen and Vazquez (1999: 4), between 1950 and 1971 the GDP of the twelve European Economies grew by 4.7 per cent per annum. Over the period from 1973 through 1992, growth averaged 2.2 per cent per annum.
[17] Because of this stance the international organisations and banks were criticised. For example, among the institutions, IMF was especially criticised because it merely organised the "rescheduling" of the

1960s produced a new pattern of capitalist development[18]. In particular, the large firms of the Western World in their attempt to raise productivity by expanding the scale of production, as well as to recover their profitability, started seeking refuge in the Peripheral Countries or Newly Industrialised Countries[19], where ample cheap labour existed[20], and where the organisational forms of Fordism would continue to be economically viable (Arestis and Paliginis, 1995: 226, Lipietz, 1987: 70, Hudson, 1997: 468; Hudson, 1999: 45). But, in these Newly Industrialised Countries, only selected branches of production, or selected phases of the manufacturing process of one product were transferred. Organisation and control of production processes remained to the core industrialised countries (Antonopoulou, 2000: 38).

But in order for the large Western corporations to be able to invest directly, i.e. via FDI, in peripheral markets, they should overcome two obstacles. The first one was tariff barriers designed to protect local industries by foreign firms. Another problem was that certain socio-economic and political conditions should exist in peripheral countries. A very important condition for the expansion of the Fordist mode of production to the peripheral countries was the existence (in the periphery) of political regimes whose ruling classes supported a "free" but "disciplined[21]" workforce and was determined to use it. But, this was not a condition that existed in all countries. In all these peripheral countries the available labour force had only recently moved from land occupation and its transformation to an industrial worker was not an easy task. This was a difficult process that involved the mobilisation and stabilisation of industrial discipline.

Thus, the expansion of multinational corporations into the new markets and the changing nature of the economic, social and political conditions within these

debt without tackling its causes or the mechanisms ensuring its reproduction and expansion. According to Amin, IMF did nothing to prevent the excessive borrowing of the late 1970s, because the rising debt was very useful as a means of managing the crisis and the overabundance of idle capital (Amin, 1997: 12-13, 20).

[18] According to Harvey (2001: 241) "periodic crises must in general have the effect of expanding the production capacity and renewing the conditions of further accumulation".

[19] The OECD classification uses two pragmatic criteria in order to define a country as a New Industrial Country (NIC): NIC is a country in which manufactured goods represent 25 per cent of GDP and at least 50 per cent of exports (Lipietz, 1987: 74).

[20] This switch of production to less developed countries has been an important moment in the emergence of a new international division of labour (Hudson, 1999: 45; King and Donati, 1999: 137).

[21] By the term "disciplined" I mean that workers will not bring up for discussion demands that may cut the profits of firms. Such demands could be higher wages, better working conditions, etc.

markets was named by Lipietz as "Peripheral Fordism[22]". The characteristics of the markets of Peripheral Fordism include, among other things, the participation of middle class in the consumption of durable goods, exports of cheap manufacturing to the centre, and a negative balance of payments. In order to improve balance of payments, sources of finance were found within the 'old' division of labour[23], from the promotion of raw materials exports and from borrowing[24] from international capital and money markets. These loans were pledged against potential income from traditional exports (including tourism, petroleum and emigration), the promise of work, which in turn depended upon the profitable inauguration of new production processes in the developing countries, upon the existence of markets for their future production, and lastly the recycling of borrowed capital to buy capital commodities from the North[25]. Another form of financing of the peripheral countries had been channeled through direct investment. But because the financing through direct investment was inadequate[26] countries started to borrow from the international capital and money markets. In particular, between 1967 and 1980, the funds repatriated by emigrants, and tourism, accounted for 96 per cent of Portugal's trade deficit where as for Greece was 52 per cent. The difference between Portugal and Greece was that for the former the main source of income was the repatriation of funds by the Portuguese emigrants, while for the latter was commissioning ships. On the other hand, Ireland had already initiated an aggressive policy of FDI attraction and development through exports. For all countries the rest of the deficit was covered through borrowing (Lipietz, 1987: 106-126; Arestis and Paliginis, 1995: 266- 267).

But according to Arestis and Paliginis (1995: 266- 267), peripheral Fordism as developed by Lipietz does not include regulation and accumulation, two fundamental features of Fordist era. More precisely, Fordist accumulation in the developed

[22] "It is Fordism inasmuch as it involves intensive accumulation and mass consumption, especially of consumer durables. And it is peripheral in that some centres of manufacturing, mainly of "mature" products are now located in the periphery" (Arestis and Paliginis, 1995: 266).
[23] Sayer and Walker (1992: 1) define the division of labour as "the system of work specialisation that runs through all human societies, from the most primitive to the most advanced".
[24] The core exports engineering and skilled assembly goods of the new division of labour in exchange for unskilled assembly goods from the periphery (Arestis and Paliginis, 1995: 266).
[25] The deal was that a country had to use the borrowed money in order to buy products from the North. The money could not be used for other purposes (Lipietz, 1987: 107),
[26] During the 1970s, roughly 25 percent of all direct investment by Multinational Firms took place in the Southern Europe. Between 1960 and 1980, the share of capital invested directly to the Southern Europe fell from 60 to 47 percent in the case of Japanese companies and from 40 to 25 percent in the case of American firms (Lipietz, 1987: 100).

countries is the result of a historical process where the necessary institutional framework has already been put in place. This process had the support, at least in Europe, of a strong trade union movement, giving rise to the development of corporate philosophy of the western societies[27]. On the other hand, in the case of the peripheral European countries, production was dominated by multinational enterprises that were externally controlled and were not fully integrated into the national economies. Moreover, their institutional framework was either absent or ill-developed and the relations of the State, capital and trade unions were not the appropriate ones in order for the regulatory policies of the developed countries to be implemented in the European periphery.

The reason for this time lag with regard to the implementation of a common "regime of accumulation", "mode of regulation", "mode of socialisation" and the "role of the state" in economic development between the developed and less developed countries of the western world was that in the first years after the end of World War II, the economies of peripheral countries failed to understand the importance of an open economy in the international context. Of course by this is not meant that peripheral countries ought to have understood the importance of the open economy, as the majority of them did not have the experience (in terms of their institutional forms) for that. We should not forget the world economic and political conditions of that era where two different regimes were competing against each other and the poor and small peripheral countries had to balance between them.

As a result the role of international capital in economic development was ignored. In all countries of the European periphery (namely Southern Europe and Ireland) economic measures that made the entrance of foreign investors very difficult were initiated. Many of these measures were contradictory and were taken due to a political interest of the then party in power[28]. The main reason for this was the desire of countries for an autonomous growth. In Ireland, from 1932 to the late 1950s, high level of protectionism was introduced. In particular, according to the Control of Manufactures Act of 1932, Irish people had to control 51 per cent of the voting shares

[27] As we shall see later, trade unions, for example in Greece, used their powers to pressure government towards different political choices.
[28] This policy was also favoured by the economic recession during this period.

in manufacturing firms. The aim of this Act was twofold: first, to protect the "primitive" Irish industry and second, to block UK firms from taking advantage and setting up companies in the protected Irish economy capturing by this way market share from local producers (Tavares, 2000: 2, Murphy, 2000: 8). This policy resulted to an almost negligent amount of export production and Irish industry became uncompetitive and weak, producing poor quality of products. The consequences of protectionism were revealed after 1960, when the first foreign industries were established in the country[29]. Also in Portugal, immediately after the end of the World War II indigenous capitalists looked to the state for financial support (e.g. via subsidies) in order to ensure freedom from external competition. Their aim was to create conditions that would allow them to make substantial profits. This aim was realized in 1945 with the introduction by the Portuguese government of a law[30] that placed emphasis firmly on manufacturing industry, the continuation of protectionism and a concerted import substitution industrialisation strategy.

The same was the case for Greece. After the end of the civil war in 1949, there was a short period of weak governments that emerged from continuous elections. The first strong government emerged in 1952. The first measures for the restoration of the Greek economy were the lifting of many price and import controls, the drastically devalued drachma and reduced interest rates. This policy continued during the next years accompanied by investments in the infrastructure of the country, particularly in the road network. During the whole period, since the end of World War II and until the mid 1970s, Greek policy was characterised by increasing role of the State in the Greek economy and society. In particular, a large number of government agencies were created, union activity was heavily controlled and the banking system was strictly regulated. However, the role of the State still remained small (Alogoskoufis, Giavazzi and Laroque, 1995: 154). Additionally, during this period the Greek economy was characterised by an over- concentration of almost all economic activities in Greater Athens area that had as a result the relative underdevelopment and even backwardness in the rest of the country (Hoffman, 1967: 661).

[29] Despite the Act many UK companies had been established before 1960.
[30] The law was called: *Lei de Fomento e Reorganizacao Industrial.*

When the crisis of Fordism started, Greece, Ireland and Portugal being next to the European core were obvious places for the expansion of multinational corporations. International capital was seeking places where it could produce and distribute its products to the large markets in safety and rapidly. But, this expansion could not take place without any preparation for the following reasons: first, since the end of World War II Portugal and Greece had emerged with industrial and social structures that were archaic compared to the (dominant) American model. Furthermore, until the 1960s (when both Portugal and Greece had dictatorships) the two countries had completely different historical experiences[31]. Finally, contrary to Greece and Portugal, by the 1960s Ireland could not be characterised as a Newly Industrialised Country according to the criteria set by the World Bank as it was in a more severe economic and social situation than NICs[32].

Nevertheless, in Portugal, Greece and Ireland the processes leading to the development of "industrial discipline" had started since the mid-1950s, i.e. before the crisis of the Fordist period. In both Greece and Portugal, there was a significant economic growth during 1950s and 1960s. But, despite this economic growth mass emigration continued. According to King and Donati, emigration was seen as the causal factor behind economic growth. Additionally, cheap labour in Southern Europe favoured the attraction of FDI, especially in the manufacturing sector (King and Donati, 1999: 137). Nevertheless, the overall outcome for Portugal and Greece was the deterioration of the domestic economic situation, which was characterised by rising imports and declining exports. This in turn led to a deteriorating political situation, which was the result not only of the bad economic conditions, but also of the weak institutional forms[33].

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[31] Since its independence in 1830, Greece tried to recover land from the Authoman Empire and at the same time to achieve a degree of economic development. After the end of the World War II, Greece had left with actually no industrial base and generally a devastated economy. Portugal had gained its independence from Spain in 1640 (a long time ago) and during the two World Wars kept a neutral stance, which did not result to the destruction of its industrial and economic base.

[32] Until 1960s Ireland was characterised by a highly negative balance of payments, net emigration, domination of the agricultural sector, protectionism from foreign firms, declining industrial employment, especially during the 1950s (Sweeny, 1999: 35- 44).

[33] Speaking in terms of the French Regulation approach, we could argue that at this time in Greece (and in Portugal) did not exist a dominant mode of regulation, i.e. in those two countries had not yet been formed strong institutional regimes and as a result it had not yet been established a specific mode of socialisation that would secured a consensus between the different social groups.

At the same time, the 1960s was the decade where dictatorships emerged in the two countries. During the dictatorships in the two countries significant industrial expansion took place. The main reason for this was the new political conditions created with the emergence of the dictatorships. The leaders of the new regimes were keen to accept foreign investors in their countries, especially American ones, as this legitimised their regimes. But, this was not accompanied by a similar upgrade in the quality of life for the people of the two countries (and thus in their ability to consume more). For example, in Greece, prosperity that was previously resulted in a measure of tolerance for the dictatorship was questioned and the sudden fall in living standards stimulated civic unrest (Alogoskoufis, G., Giavazzi, F. and Laroque, G., 1995: 155). When the first democratic governments emerged with the collapse of dictatorships, the labour force in Portugal and Greece was really keen to accept the establishment of foreign capital in their land, often under dead-weight rules[34]. The result was the creation of an industrial economy, which had Fordist tendencies, even if it was not yet Fordist as such. In short, they brought into line with a European version of the American model (Lipietz, 1987: 116).

On the other hand, in Ireland, which was suffering from massive unemployment and massive emigration there was a national consensus for changing the model of development. Already, the coalition government of 1954-57 began to talk to the World Bank and International Monetary Fund. Despite the internal political situation, that for many decades the ideology of independence and self- sufficiency was the dominant one, Ireland had received nearly 150 million pounds in aid under Marshall Plan by 1950 (Sweeny, 1999:38). But, in comparison to Greece and Portugal, in Ireland there was no need for the establishment of a dictatorship for three main reasons: the first reason was the low social and economic conditions of the population as well as its poor industrial base leaving practically the Irish society with no other choice but to accept any new way of development process. Second, it was the close social and cultural connections with United Kingdom, a country that had no history of establishment of a dictatorship as a solution to social and economic problems. Third, Ireland did not have a socialist/ labour party. Neither of the two

[34] For Portugal another reason for accepting foreign capital was the need for financing colonial wars.

main parties was anti- capitalist[35]. Thus, in 1958, the Irish government initiated the establishment of a formal economic planning together with an official declaration of the abandonment of protection and import substitution policies in favour of export-led growth[36]. This date is considered as a turning point for the future development of Ireland[37]. About one decade later this policy was principally geared towards trying to attract foreign multinationals into the country, by not only offering generous grants, but also export tax relief (Murphy, 2000: 8; Barrios, Gorg, Strobl, 2002: 6).

Thus, according to the World Bank classification in that era (end of 1960s) Greece and Portugal were considered as Newly Industrialised Countries, with higher growth rates, particularly in industry, than the "old industrial countries". But, this was not the case for Ireland, which in 1960s was still far from being considered as a Newly Industrialised Country (although economic growth reached its highest levels ever). In particular, in the early 1960s Ireland was still a poor economy with limited industrialisation and low rates of economic growth. At the end of 1960s Portugal was already a 'manufacturing' country, whereas Greece still depended upon agriculture and less upon manufacturing than the average "middle income country". In the case of Ireland, Perrons argues that the development of neo-Fordist techniques, i.e. the introduction of the more automated labour processes, based on electronic information systems with automatic feedback mechanisms, and in combination with the entrance of the country in the European Union[38] (1973), improved the position of this country as a potential FDI location. Thus, since the early 1970s, Ireland started to attract an increasing number of branch plants of multinational enterprises. The production of these branch plants was (and still is) mainly export-oriented (Perrons, 1981:98, 1986: 251; Gorg and Ruane, 2000: 216; UNCTAD, 2002: 172).

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[35] Their origins relate to the differences with respect to partition in 1922.

[36] This policy put more emphasis to a nationally oriented approach, rather than focusing at the level of the region, which was the main policy so far. It provided grants for investment not only to designated areas, but also to non- designated ones (Barios, Gorg, Strobl, 2002: 6).

[37] Ireland always had a form of democracy. The 'unfinished' nationalist campaign meant that the main political parties in Ireland were about to continue to be structured around the response to the partition of the country in 1922.

[38] According to Diane Perrons, these two developments were simultaneous. In particular, the developments in the labour process in multinational corporations and more precisely the fragmentation of production with the ability to maintain control centrally was important in allowing firms to decentralise parts of their operations to countries without much of an industrial history.

Summarising the developments in the world production processes and its effects in peripheral countries and more precisely in Greece, Ireland and Portugal, I argue that in the 1960s the three countries had different forms of integration within the international economy. The above arguments show that, in relative terms, Greece is closest to the "old international division of labour" as it was producing and exporting primary goods, whereas Portugal was characterised by a form of "primitive Taylorisation", as it was exporting cheap industrial goods and has a weak domestic market. Moreover, Portugal since the beginning of 1960s witnessed a growing integration into the quickly expanding international economy. On the other hand, Ireland was closer to the New International Division of Labour[39]. This meant that some peripheral countries were no longer limited to producing just raw materials and food supplies for markets in the industrialised world or even manufactured goods for the domestic market, but have been further drawn into the framework of the world economy, not through interstate relations of colonialism, but in accordance with the exigencies of the framework of international co-operation. Within this New International Division of Labour, only specific manufacturing activities are decentralised. However, this is not a static situation and certain capital goods industries, e.g. iron and steel production, were expanding in these areas, although machine tool industries were still almost exclusively confined to the more mature industrialised economies. In particular, since the early 1970s American, European and Japanese firms located in Ireland large plants that were using "Taylorist and Fordist labour processes giving rise to the super-imposition of a more modern industrial system (Perrons, 1981: 87- 95,1986: 254).

1.2.2 Post- Fordism (1970s- 1980s)

With the collapse of Fordism a new stage of capitalism began to emerge in 1970s[40]. A unique definition of what post-Fordism is cannot be given, as it has been subject of discussion among many scholars. There have been different interpretations of what post-Fordism is, which respectively propose different scenarios of the future development of the global system. Thus, instead of referring to different scenarios of how the world transformed with the collapse of Fordism, a

[39] According to Dickens, Stephen Hymer was probably the first to use the term "New International Division of Labour" in order "to explain the shift of production from the industrialised economies of the 'core' to the economies of the 'global periphery" (Dickens, 1992: 124).
[40] However, the starting period of the post-Fordist era is subject to considerable debate.

reference to some evident points of this change will be analysed. Thus, the post-Fordism world took the following form since the beginning of 1970s.

Thus, according to Aglietta (1979: 122, 127- 128), neo- Fordism is a new mode of production aimed to meet the crisis in such a way as to safeguard the reproduction of the wage relation. At the centre of this regime of accumulation is automatic production control or automation. Capitalism benefits from this because flexibility in the location of production units allows it to break up large working- class concentrations and create an environment that minimises convergence of struggles at the point of production. New systems of production, including contracting- out the manufacture of specialised commodities and services, and the ability to source supplies and services wherever they can most efficiently be provided, develop this flexibility (Bonacich and Appelbaum, 2000: 5). At these new conditions, workers are no longer subjected to a constraint of personal obedience, but rather to the collective constraint of the production process. Within this spectrum, trade unions that had become very powerful, due to the Fordist production processes, started to be considered as rigid and unworkable in the new flexible and more decentralised production system. On the other hand, Sayer and Walker (1992: 8) as well as Harvey[41] (2000: 86- 87) argue that this transition to a new era does not indicate fundamental departure from known workings of industrial capitalism (i.e. Fordism industrial paradigm). Rather, they pivot on the shifting division of labour and new methods of industrial organisation. Fordism still persists over wide areas of industrial sectors despite the fact that it has not remained static.

As far as the new geopolitical conditions created with the crisis of the Fordist mass production regime, Lipietz (1997:15) argues that the post-Fordist world is organised into three continental blocs. The three blocks are Asia and the Pacific around Japan, the Americas around USA and in Europe around Germany. Within these blocs there are countries, which are very unequally developed (core vs. periphery). In particular, peripheral economies generally had in common a number of weaknesses, including infrastructure deficiencies, isolation from the core and marked regional disparities. Furthermore, their economic tradition can restrain development,

[41] This is a point of Harvey's disagreement to the Regulation approach (Harvey, 2001: 86- 87).

such as the large-scale export of labour and the centralised and bureaucratised political structures. A characteristic of these blocks is their internal mobility, i.e. the power relations between countries can change at any time.

From the very beginning of the creation of this new spectrum, the large firms of the western world, as essential elements of the capitalist system, had to change their organisational structure in order to survive. The reason is that 'capitalist enterprises' have to act according to the fundamental norms of capitalism. The most fundamental of these norms is the profit motive, which is the essential element of capitalist activity. Other motives may be the increase of their market share, or simply making the firm bigger. Thus, these changes of capitalist system initiated a fundamental change for the organisation of large firms as well. The cause of this change was the engagement of firms in overseas production. But, this does not mean that all firms followed this pattern and changed their organizational structure to the one that will be described in the next paragraph.

More precisely, in the late 1960s and early 1970s, the vast majority of the advanced capitalist countries responded to the first disturbances of the post- war boom by trying to reinforce the existing system of macro- economic control and mass production. Firms kept following the logic of mass production and tried to cut costs by increasing economies of scale: products intended for domestic sale were standardised for sale in world markets[42]. Production was re-organised to allow decentralisation of labour- intensive processes to low- wage areas (Sabel, 1996: 104).

In particular, there were two main corporate responses in the crisis of Fordism. One was conglomeration; i.e. large firms tried to avoid risks in their home market by diversifying their production or by taking over firms in different sectors. The second way was multinationalisation. The aim of multinationalisation is to attain economies of scale no longer obtainable through the extension of the domestic market. This aim is attained by producing a good that can be sold in many national markets at the same time (Piore and Sabel, 1984: 195-198). Multinationalisation was the typical response of American automobile corporations. An essential requirement of this strategy was

[42] One such example was the "world car" introduced by Ford and General Motors.

the extension of the operations of the firm into at least some parts of the developing world. At the same time they had to defend their market position in metropolitan countries.

Thus, conditions where firms operated within two decades changed substantially. Changes became more dramatic in the 1980s, particularly with the rapid improvement of the technologies and the increase in the welfare of the peripheral countries (in Europe, Asia and Latin America). As a result a large number of firms have initiated new management techniques in order to respond to these changes. The management started to be supported by computerised information systems and the tasks, which were performed by each person, were very clear. Additionally, there has been direct marketisation. The secondary departments of a business, such as catering, security, cleaning, etc, have been separated. Another element of the change in management techniques is that most of the departments are treated as separate businesses, often called business units.

Finally, initiatives like Total Quality Management (TQM) and Just in Time[43] (JIT) push more organisation members to confront customer requirements without these requirements being worked by a centralized order- receiving sector. The initiation of these techniques has also had a knock-on-effect on local companies supplying these multinational enterprises, which in turn have been encouraged to adopt JIT and TQM and other procedures, incorporating built-in quality and product design flexibility. The combination of all these marketisation methods indicates a swing from what might be called bureaucratic responsible autonomy towards market oriented responsible autonomy (Friedman, 2000: 71).

Conclusively, during the 1970s and 1980s the necessity by the large firms of the western world to maintain their market power inside peripheral (and not only there) countries and to respond immediately to the needs of consumers as well as to decreased production costs, changed the way they followed the locational decision-making process. It can be argued that the crisis of Fordism in Europe created new

[43] The "just-in-time" technique emerged in the post- war period and has been particularly applied by the Japanese manufacturing firms (particularly TOYOTA). It raises the total cost of transporting components because it requires flexible & punctual deliveries, but it encourages specialisation in terms of long- term relationships (Sayer and Walker, 1992: 170; Head, Ries and Swenson, 1995: 227).

opportunities for a re- regionalisation of the economy and new developmental possibilities for peripheral countries (and regions). Indeed, a large number of firms were "forced", most of which were dealing with modern manufacturing activities, to expand themselves into the European periphery and other Newly Industrialized Countries. These countries would offer the needed expanding margin of demand in order to achieve further economies of scale. But, one important precondition for this was the maintenance of the demand level for consumer goods in the advanced capitalist countries in high levels. This was the case especially with the American car corporations.

The choice of the large Western firm to expand their activities into the less developed countries had as a result, since the early 1970s, the serious exposure of European peripheral countries to multinational capital[44]. But, in order to remain competitive, especially as a low wage location for investment, in relation to the developed countries, they should maintain their relatively low cost living conditions (Arestis and Paliginis, 1995: 274). More precisely, as far as Greece, Ireland and Portugal are concerned, during this long and painful time period, they struggled to restore competitiveness, either by labour cost reductions or by innovations and quality[45] (Boyer, 2000: 116).

Thus, beginning with Ireland, in the early 1970s there was an important change in regional industrial policy, with the adoption of the "Regional Industrial Plans for 1973- 1977". This change coincided with the Irish membership in the European Union, which gave Irish products easier access to the European markets. It also increased the attractiveness of Ireland as a location for manufacturing investment, mainly for the firms outside the EU, characterised by cheap labour wages and proximity to the European markets (Gorg and Ruane, 2000: 406). The aim of these industrial plans was to ensure the maximum geographical dispersion of new industrial development, by the Irish governing body for industrial policy, the Industrial Development Authority (IDA). The same approach continued in the "Regional

[44] More precisely, Arestis and Paliginis (1995: 274) argue that MNEs were considered as the substitute for the domestic capital and were likely to have a significant impact on the level of employment, output and the balance of payments.
[45] This struggle for improving competitiveness was not only a phenomenon characterised the three mentioned countries, but the majority of the countries, developed and less developed ones.

Industrial Plans for 1978- 1982". Since 1982, there was a distinct change in Irish industrial policy. Their focus changed to trying to attract hi- tech foreign- owned industry into Ireland, while regional dispersion of these foreign firms became of secondary importance. This industrial policy has remained, with small changes, until today (Barrios, Gorg, Strobl, 2002: 6-7). Thus, these two decades were particularly important for Ireland as it was transformed to a really open economy in terms of international trade and started to attract the first multinational enterprises. But, as Sweeny (1999: 45) argues, the growth of the Irish economy since 1977 was based on massive public spending financed by borrowing. According to the same author, this was one of the greatest mistakes of Ireland in the whole 20th century as it took a long time to get public finances back on track.

The 1970s and 1980s were particularly important for Portugal too, as far as the changes in its policy towards foreign investors are concerned. After the 1974 revolution, a significant number of companies, i.e. banks, public utilities, petrochemical, ship- building, etc., were nationalised[46]. The emerged regime opposed Western type development and introduced East- European type nationalisation and central planning. The April 1976 revolution, of Marxian inspiration, explicitly provided protection for a rapidly extended public sector. Thus, at the beginning of the 1980s Portugal still remained a typical peripheral country of that era, i.e. having a high agricultural sector and an enormous state sector where price controls and state interference restricted considerably the functioning of the market forces. But, since the middle 1980s a change in policy took place, This coincided with the accession of Portugal to the then EEC. In 1986 the liberalizing investment code was initiated that relaxed the entry requirements and established the right to foreigners to locate their businesses on equal terms with natives in every sector open to private initiative (Corkill, 1999: 78). The aim of this policy was to win the trust of foreign investors in order to accelerate economic development. This started to take place by the establishment of FDI into the country and the privatization process. At the same time macroeconomic indicators were improving (Nagy, 1999: 194- 198, Pagoulatos and Wright, 1999: 626).

[46] It was not the most profitable enterprises that were taken over by the "people" during the nationalisation process, but the bankrupted, or almost bankrupted, big non- competitive companies (Nagy, 1999: 197).

Somewhat similar to Portugal was the case of Greece, during 1970s and 1980s. Especially, certain, domestic and international, events of the 1970s and 1980s marked the development process of Greece. First of all, in 1974 the Greek dictatorship collapsed. But this collapse coincided with the occupation and loss by Greece of the northern part of Cyprus by Turkey. This led to an anti- American, and generally anti- Western, sentiment to spread all over the country. Additionally, the first world- oil crisis affected the Greek economy and society deeply and caused an extended post- 1974 period of crisis and restructuring (Kourliouros, 2003: 787). Thus, after the collapse of dictatorship, a nationalisation process took place. As a consequence, since the mid- 1970s, the entire Greek industrial sector had suffered serious decline. In that time most industries in Greece were small in size and unable to compete with international capital. The second world oil- shock (1978- 1979) accelerated the tendency of change. The situation became even worse after 1979, continuing this trend in the first half of the 1980s. However, it was not until 1981, when the Socialist party "PASOK" came into power that the public sector really matured. Contrary to the other Western countries, in Greece there was not a restrained union leadership willing to enter into negotiations with the State. Moreover, when the socialists came into power, one of their aims was to further expand their influence within the labour movement, and did this by continuing to support radical policies. As a result, there was an expansion of the public sector mainly by nationalising a host of unwanted bankrupted firms[47]. Thus, in the middle of 1980s, the Greek economy was characterised by high taxation, high inflation, a ballooning public deficit and a large public sector. Contrary to the rest of the Western World, restructuring and adjustment policies did not start to be applied during this decade (Pagoulatos and Wright, 1999: 615- 624; Caloghirou, Voulgaris and Zambarloukos, 2000: 76- 77; Kourliouros, 2003: 787).

The 1970s have been particularly important for Greece and Portugal. Apart from the collapse of dictatorships in the two countries, the 1970s have been marked as the time period where negotiations among the then EEC and Greece (firstly) and

[47] In that time, 48 firms and their subsidiaries, with a total of 30.900 employees, were nationalised and placed under the control of the Organisation for the Readjustment of Firms (OAE). These provided 4,5 per cent of total employment in manufacturing, but for certain sectors the percentage reached 30- 40 per cent (Caloghirou, Voulgaris and Zambarloukos, 2000:77).

Portugal (a few years later) took place allowing the two countries to become members of the European Community. By this decision Greece and Portugal stressed their willingness and support to become partners with countries that support democracy and free trade. On the other hand, according to Williams, the EEC was particularly keen to negotiate and accept as members these countries of Southern Europe mainly because Greece, Portugal (and Spain) offered important new markets for industrial goods of the existing Member States (Williams, 1996: 74).

Nevertheless, for the two countries of Southern Europe, notably Greece and Portugal, the post- war evolutions were characterised by three distinct features that remain so today. The first concerns the course of employment change. Contrary to Western Europe where there was a "horizontal" transition from the agricultural sector to the industrial and then to the service sector, in Greece and Portugal this transition was from agriculture straight to the service sector. Although there was a time- period, mainly during the 1950s and 1960s where employment in industry was increasing, Fordist assembly- line production and Taylorist work practices, never became dominant as in the Western European countries (King and Donati, 1999: 138; Kourliouros, 2003: 786). The second distinct feature is the markedly uneven development of Southern Europe between the 1960s and 1980s. In the countries of our interest, i.e. Portugal and Greece, a polarization of population and development around Lisbon and Athens, with subsidiary poles in Porto and Thessaloniki took place. Finally, despite the significance of a variety of policies and processes, such as foreign investment and EC regional aid, in the development of Portugal and Greece, most important has been the endogenous expansion of the informal sector. To these informal work practices was based the post- Fordist flexible accumulation regimes. (King and Donati, 1999: 138- 139; Kourliouros, 2003: 786).

Consequently, in a time period where large Western firms were looking for new countries, characterised mainly by cheap labour force, only Ireland had taken a clear decision for changing its policy towards a more open economy that would allow foreign investors to come into the country[48]. Already, since the early 1970s, the new

[48] The determination of Ireland towards the creation of a pro- investment environment is also evident by the investment of the Irish government in a state- of- the- art telephone system in the late 1970s and early 1980s (Sweeny, 1999: 90).

foreign firms were contributing much to the economy of this country (Sweeny, 1999: 43). Whereas in most countries FDI was related with oligopolistic competition, this was not the case with Ireland. On the contrary the foreign enterprises investing in Ireland were almost exclusively export- oriented (Mjoset, 1992:275). On the contrary in Portugal and particularly Greece foreign investors were confronted with suspicion and even negatively. Portugal started changing this stance from the mid- 1980s by rapidly opening its economy to foreign investors, and improving at the same time as its macroeconomic indicators. This change of the Portuguese stance coincided with its entrance as a full member of the then EEC. On the contrary, Greece, despite its early entrance to the EEC, the anti- Western sentiment remained strong (not only at the level of the population, but in particular at the level of the political leadership), which in combination with the geographical isolation and other economic problems resulted in keeping the inflows of the foreign capital low and what took place was mainly of an import- substituting nature (Arestis and Paliginis, 1995: 275). It was not until the end of 1980s, with the defeat of "PASOK", that Greece tried to introduce measures for improving macroeconomic indicators and adopting policies towards a more open economy.

1.2.3 1989 – Today: New Economy Era

The 1970s and 1980s had been a very hard period where States re-organised their regulatory framework and the large Western firms searched and found new locations in order to maintain high their levels of production. But, during the 1990s with the rise of new technologies (computers, telecommunications, electronic mass media, etc.) and the globalisation of business activities a new era, very often called information era or new economy, has emerged (Pohjola, 2002: 113) bringing further changes in economic and social preferences. Some authors (Harvey, 1995; Hudson, 1997; Sternberg, 1999; Martin, 1999) consider the new economy as a sequence to the Fordist era. They argue that the roots of the information economy are found in the inherent deficiencies of the Fordist production regime, i.e. the expansion of State involvement in the economy and society of much of the western world. Industrial innovations, the bureaucratic and corporate organisation of society, as well as new demands for education and social services increased the need for rapid access to information, but also to alternatives to mass production processes (Sternberg, 1999: 5, Hudson, 1997: 467; 1999: 29). But, according to Boyer (2000: 113), the emergence and diffusion of information and communication technologies (ICT) meant the functioning of a totally new productive paradigm. This new productive paradigm was marked by the prompt perfection in the quality, combined with a respective decline in prices of ICT equipment and software, the convergence in communication and computing technologies, as well as the growth in network computing (Pohjola, 2002: 134). In that time there was an enthusiasm to the world media that was transferred to the public, because of the new opportunities that started to emerge with the internet and telecommunications in general. All this process became even more evident, and created huge expectations to investors and policy- makers in the late 1990s when stock markets boomed, powered by ICT and "dotcom" firms. At the same time, productivity and economy figures increased, with higher rates than the past 10 years, in the United States, followed by the European Union countries[49] and the rest "developed" world.

Although this is partially right[50] I argue that the New Economy era would not be possible without post- Fordism. Some authors (Hudson, 1997; Sternberg, 1999; Martin, 1999) tend to describe a transition from Fordism to the New Economy era, without taking into consideration the time that States, organisations and companies needed in order to re- organise themselves and find a new regulatory framework. They do not refer to what period follows the crisis of Fordism, which led to the opening of national states, as well as to the search by companies for new locations. According to their argument these changes should have taken place during the Fordist period. But is this the case? I argue that this period of re- organisation of firms and nations is the so- called post- Fordist one (as does the Regulation approach). With the emergence of the New Economy era, a new institutional framework also created in which economic actions take place (Harms and Knapp, 2003:431). The relationship of powers between the State, capital labour and the consumers/ citizens changed in this new era, as it is going to be shown in the next lines.

[49] Nevertheless, growth rates in the European Union remained lower compared to the Fordist era.
[50] The above arguments are right as far as what New Economy is.

But, contrary to the French Regulation School, which supports the idea that post- Fordism remains until today[51], I argue that Post- Fordism has been the transitional stage for national and supranational states, as well as for companies in order to re- organise themselves. Besides, the post- Fordist era is far from being characterised as a prosperous period for the countries. I argue that the New Economy era started when national and international markets were stabilised, and as a consequence a new prosperity period began in which the needs of consumers and companies started to grow up (similar to the product life- cycle theorem[52]). Then new technologies started to become available to the masses (e.g. a significant drop in telecommunication prices, popularisation of the internet) creating new expectations for the companies that produced and served the world population. Companies in order to respond to the new demands as well as to remain competitive (e.g. they had to invest more and more funds to R&D) started to grow in size, either by continuing to invest in different locations all over the world, or by merging with other firms in the same or "relative" to theirs sectors.

In support of the just- mentioned arguments are the following words of Boyer (2000: 166):

> *"A recovery of growth has been frequently assumed to depend on the emergence of a totally new growth regime: its characteristics would include cost and price moderation, increasing exports, spill- over to investment and consumption, recovery of demand and accumulation of growth through interaction of competitiveness and domestic demand".*

Furthermore, Taylor, Watts and Johnston (2002: 6) describe the new global scale of activities as the collective reaction of capital to the economic stagnation of the world that began in the 1970s. This era, according to the periodisation developed in this thesis, is the so- called post- Fordist one.

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[51] For example, Hudson, R. (1997: 468) argues that globalisation is partly due to the problematic character of national mode of regulation. A few lines after, he comments globalisation as one more "post- Fordist" regulatory experiment.

[52] According to Dicken (1999: 161- 162) the essence of the product life- cycle is that the increase in sales of a product follows a systemic pattern from initial innovation through a series of stages: early development, growth maturity and obsolescence. The product life- cycle theorem implies that all products have a limited life and that obsolescence is unavoidable.

But what exactly are the most notable changes of the New Economy era in relation to the post- Fordist one, that justifies the argument of a new periodisation? The rise of ICT technologies has created a new situation where new business practices and economic policies are facilitated. As a result flows have become relatively dominant at the expense of places (Taylor, Watts and Johnston: 2002: 8; Harms and Knapp, 2003: 414). More precisely, the relative importance of the factors that interest major players of the global system, e.g. the multinational corporations that are the central focus of this thesis, have changed. Thus, the management and disposal of knowledge and innovation to different locations (via flows) have increased in importance in relation to the "old" characteristics of countries, such as low labour costs[53]. Moreover, for the time up to the 1970s new structures were being constructed- democracy, welfare states, decolonisation- to enable the world become a more equal place. Since the 1990s, to New Economy there is a turnaround in this tendency where capital has regained its lost powers. National states, are stuck in the old space of place, whereas capital can take full advantage of the new space of flows (Taylor, Watts and Johnston: 2002: 10).

Another notable change of the New Economy era is that national governments seem to lose pace in relation to other forms of governments at lower (e.g. region) or higher (e.g. international organisations) levels. More precisely, according to Sabel (1996: 103), there is a tendency of upgrading the region as an integrated unit of production. To this have contributed the successful examples of industrial districts in Italy (e.g. the case of the Third Italy), West Germany (e.g. the industrial districts in the Land of Baden- Wurttemberg), United States (e.g. with the cases of Silicon Valley and Los Angeles) and elsewhere in the world. If we take the examples of these successful regions into account we can see that local institutions become equally important with the central governments and institutions as far as the policies pursuing the attraction of FDI. At the same time, there is another tendency where central governments continue to give away some of their powers towards international organisations, such as European Union and NAFTA. By this way, particularly

[53] This does not mean that such characteristics have lost their importance. On the contrary, currently it is easier for an ICT firm to know about and develop in low labour cost countries. But, only for certain operations e.g. call centres in India.

developed nations have aggressively promoted globalisation and the opening of new markets to provide cheaper production inputs (Harms and Knapp, 2003: 414). Moreover, according to Castells (1996: 146) these international organisations have allowed some countries being progressively integrated into the global economy, usually through the dominant countries that are geographic regions. But, this does not mean that nation- states have become obsolete. There are other authors, such as Dicken (1993: 32, 40- 41), who argues that national states still remain key players in the contemporary global economy (Dicken, 1993: 32, 40- 41), and Porter who argues that the nation increases in significance because it is the source of the skills and technology that support competitive advantage. Moreover, the opening of borders, through globalisation, make nations even more important (Porter, 1990: 19, 30). In a similar way of thought, Harvey supports the argument that the nation- state is loosing power as a centre of authority in the age of globalisation is "a silly notion". The reason is that currently the nation- state is more devoted than ever to creating a good business environment for investment especially against the labour movement, e.g. by cutting back the social wage. The only evident point where the national- state seems to have lost power is in its relations with capital. Its ability to regulate the mechanisms of allocation of international capital has overrun the national level (Harvey, 1995: 10; Harvey, 2000: 87).

Within this framework described above I argue that the role of the State remains delicate, towards both directions. It sounds more reasonable that capital can have an advantage against the State when the latter gives some of its powers towards sub- national or international forms of governments. Moreover, citizens very often prefer to be governed by a form of government in which may have easier access and can negotiate with more decisiveness, i.e. at a local or regional level rather than at the national level. At the same time, the citizens of a country may consider that decisions taken at international level may protect their main human and living rights better than when decisions are taken only at a national level. This might be more evident with countries with a past of human rights violation, such as Greece, Portugal and Spain. In this respect, the State has to balance the centrifugal tendencies of giving some of its powers against both directions. So far, it seems that the State tries to balance these centrifugal tendencies by giving some of its powers towards the lower and higher level of governments, and by maintaining some powers that it considers essential for its survival (e.g. defence and regulation of the domestic investment environment).

In this respect the role of central government in attracting FDI still remains important, particularly when it still has the capacity to shape the institutional framework and domestic investment environment. Particularly, in the case of each individual country, e.g. in the case of Greece, to what degree there has been a handing over of powers to a lower level of government (e.g. regional or local level) is clearly a matter of domestic politics. And in the case of Greece these regulations that frame the investment environment of the country, e.g. laws, red- tape procedures, incentives, are still decided by the central government.

In any case, these processes of restructuring have had diverse regional development implications, reinforcing the position of some of Europe's strong countries and regions, offering new growth opportunities in others and triggering decline elsewhere. This reshaping of the map of regional growth and decline has been associated with wider changes in the character of contemporary capitalism. As mentioned before, the crisis of Fordism "forced" companies to search for new locations where the organisational forms of Fordism would continue to be economically viable. At the same time, national States recognised that they could no longer maintain full employment via Keynsian policies. Hudson argues that this recognition of the limitations of State's capacities to counter market forces led to a search for new neo- liberal macro- scale regulatory models. In Europe, for example, national States embraced the European Union as a supranational state, which simultaneously encourages globalisation and at the same time is a place of resistance to it[54]. In this way the EU can, in specific circumstances, influence corporate (dis) investment strategies and geographies of production. In other words, what Hudson argues is that globalisation is the result of a series of policy decisions by supranational and national states. Globalisation is based on their participation in changing the international regulatory framework via institutions, such as the IMF, the World Bank, GATT, etc. (Hudson, 1997: 467- 469; 2002: 264- 265). More precisely, as it will be

[54] On the one hand EU adopts policies to promote globally competitive companies (via support for R&D, a permissive attitude to intra- EU M&As, etc.) and on the other hand seeks to promote social and spatial cohesion and equity within EU. These two policies have influenced corporate restructuring and patterns of territorial uneven development (Hudson, 1997: 468).

argued below, globalisation is the process that allowed the New Economy to develop. Within this spectrum, the specific characteristics of places, as well as the territorially embedded institutions are of particular importance in determining competitiveness among states and regional development strategies.

On the other hand, the opposite pole of capital, labour has a different adaptation to this new era. One effect of the New Economy, via the decentralisation of manufacturing production world- wide, is a change of the world manufacturing activity relationship. According to Harvey (1995: 10) this evolution has more than doubled the labour force in less than twenty years. But, this labour force that has been created is "geographically dispersed, culturally heterogenous and therefore much harder to organise into a united movement" (Harvey, 1995: 10). But, an essential question is whether a new form of international division of labour is to be created. Castells (1996:147) has a clear- cut argument on that. He argues that there has emerged a new international division of capital, which is characteristic of the global economy. He calls it "Newest International Division of Labour". For Casstells, this "Newest International Division of Labour" is constructed around four different positions in the international/ global economy: "the producers of high value, based on informational labour; the producers of high volume, based on lower- cost labour; the producers of raw materials, based on natural endowments; and the redundant producers, reduced on devalued labour. All countries are penetrated by the four positions, along a global structure of network and flows" (Castells, 1996: 147). In a more simple, two- position, analysis I would argue that the trend so far is towards a division of the world between a few countries mainly preoccupied with the economic management and control of the world capitalist system, and the production of knowledge and technology, and the rest of the world involved mainly in the raw-materials, agricultural and industrial mass production. On the other hand, another question raised is the kind of new relationship of power that is formed between labour and capital. According to Harms and Knapp (2003: 432) the new conditions have strengthened the position of capital, thus weakening that of labour. But, according to Sabel (1996: 103) trade unions, especially at the regional level, are co- operating in the management of the industry. By this way they come to defend worker's interests through agreements in which the work-force accepts constant re- organisation of the work place in return for the right to take part and review the results of the strategic decisions that affect their destiny. But, this might not be always the case. There are regions that might not have organised labour, especially the less developed ones.

But, whether this trend will mature into a clear- cut division understandably depends on a number of economic, social and political factors and processes. A vital point is whether the labour masses in the peripheral countries succeed in organising themselves politically and claim better terms of remuneration and conditions of labour. But there are difficulties in this direction. The two major difficulties are the totalitarian regimes that still exist in many peripheral countries, and the widespread unemployment. On the other hand if workers in peripheral countries organise themselves and achieve better salaries this will diminish the "comparative advantage of the peripheral countries" (Antonopoulou, 2000: 42).

These changes as a consequence of the expansion of the new technologies has resulted in some authors to argue that a new working class indeed emerges. Antonopoulou (2000: 46) argues that in the traditionally developed countries a different working class emerges. This new working class emerges as a result of the new conditions created due to the expansion of ICT technologies. In particular, the primacy of services in western economies combined with the spread of new technologies, have led to a "new service class" and the "knowledge worker" or the "information worker" (Antonopoulou, 2000: 46). Moreover, persistent long- term unemployment, especially in Europe, combined with the dismantling of the welfare state since the early 1980s, have given rise to the marginalisaton of considerable parts of the population, the so- called "underclass", the "new- poor". Automation and the gradual shifting of manufacturing activity from the centre to the rest of the world (outsourcing), has also hit manual workers in the West severely. Additionally, the easing of social controls upon the labour market has led to the growth of a further new kind of worker, the disadvantaged labourers in part- time and temporary work, working under particularly insecure employment environment. Whereas there is a widespread belief for the benefits of ICT revolution, at the same time, the wages of labour are stagnated or slowly rise, workers work more hours, and more importantly, union participation rapidly declines (Antonopoulou, 2000: 51; Harms and Knapp, 2003: 432). But, there is a debate of whether ICT expansion was a key (or the only) factor for appearance of this new "under- class". As Pohjola (2002: 140) argues, income inequalities seem to have risen in the United States much before ICT investment had any visible impacts on the performance of the economy.

There are many different interpretations of the New Economy. Stiroh considers globalisation and computerisation as influential tools that reshape the world economy in a novel way. Although, globalisation and computerisation are found at the heart of New Economy theory, there is no consensus about what the New Economy really means or how it should be defined (Stiroh, 1999: 82). Nevertheless, the New Economy has three unique features: it is global, it favours intangible things[55], i.e. ideas, information and relationships, and finally, it is extremely interlinked. These features result in the formation of a market and society that is rooted in omnipresent electronic networks. On the other hand, the IMF adopts a different definition of the New Economy. It argues that the main characteristics of this era are: firstly, a higher rate of productivity growth related to investment in IT; secondly, a rise in total factor productivity growth due to IT utilisation across the economy and resulting spillover effects (networking, increasing returns to scale); and thirdly, an increase in factor utilisation, e.g. a decline in the non-accelerating inflation rate of unemployment (IMF, 2000: 71).

As far as the research of this thesis is concerned and the reasons for analysing the New Economy, it is argued that there is a close relationship between the New Economy and FDI. This is because the rise and establishment of the New Economy resulted in a new, more intense competition, for FDI. There were several reasons for this. First, the large demand for products linked with the New Economy, something that reassured the success of such an investment and second, the attraction of such investment was considered essential for any 'modern' or "modernising" country. In particular, the ability of a country to create, supply and exploit knowledge and information seems even more significant and is often regarded as the single most important aspect underlying economic growth and expanding the quality of life. Third, and equally important, the New Economy created the conditions for a

[55] In USA between 1990 and 1996 the number of people making tangible things decreased by 1 percent, while the number of people employed in providing 'services' (intangibles) grew 15 percent (Kelly, 1998: 7).

relocation of production not only within Europe, which is of particular concern in this thesis, but also to the other two major world macro- regions (America and Asia).

But, the emergence of the New Economy would be very hard without the globalisation process[56]. This process has been greatly boosted by the liberalisation of markets, the gradual removal of all sorts of "restrictions" upon the free movement of capital and commodities worldwide[57] (Antonopoulou, 2000: 40). Globalisation is important because one aspect of it is the rate of growth of FDI, which has been exceptional[58]. For this reason globalisation is discussed in more detail. Thus, generally speaking globalisation is a word, or a phenomenon, which lacks a precise definition. Globalisation encompasses every aspect of life, social, economic and spiritual. Additionally, authors define globalisation according to their way of viewing the world. Thus, according to Martin (1999), globalisation is a process that has not started recently, but it is a process beginning since 1960s. Several factors have contributed to the globalisation process. On the one hand, the governments of most countries have given rise to a larger economic integration by opening their markets. This move followed after national governments decided to change the international regulatory framework by participating in institutions such as IMF, the World Bank and the GATT (General Agreement on Trade and Tariffs). For Europe, the Single Market of the European Union implies greater liberalisation for the Member States. In this respect inward investment into the EU became an increasingly important influence on the organizational and territorial mode of production (Martin, 1999: 69, Hudson, 1997: 468; 1999: 29).

On the other hand, Held, McGrew, Goldblatt and Perraton (1999) argue that globalisation contains features such as the stretching of social, political and economic activities across frontiers, i.e. an interconnection of activities across frontiers that is

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[56] Globalisation is a loosely defined term. Generally, it has the notion of a rapid growth of international transactions. Nevertheless, for the needs of this essay the term globalisation is defined as "the process by which markets and production in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and flows of capital and technology" (Eurostat, 1997: 3).
[57] In chapter 3 are referred in details the changing trends of countries towards the adoption of policies that promote the openness of the markets.
[58] According to OECD (1998) FDI flows have reached record levels growing faster than merchandise trade and representing the most important form of foreign capital inflows for many developing countries. Moreover, as I explained in the previous chapter, when the World FDI trends were presented, 1996 has been a mark point as FDI, for a first time, has overtaken world exports. And in 1999, FDI surpassed the one- trillion dollar mark.

characterised by regularity. Furthermore, these global interconnections speed up as the technology improves. Finally, there is a deepening of the world as the impact of distant events is magnified or the other way around local events can have a global effect. Thus, these four authors define globalisation as "a process (or set of processes) which embodies a transformation in the spatial organisation of social relations and transactions- assessed in terms of their extensity, intensity, velocity and impact-generating transcontinental or interregional flows and network of activity, interactions and the exercise of power" (Held, McGrew, Goldblatt and Perraton, 1999: 15-16). Moreover, Sweeney (1999: 128) adopts two definitions of globalisation. One, which says that globalisation, is "the process by which the markets and production in different countries are becoming increasingly interdependent due to the dynamics of trade in goods and services and flows of capital". The other one says that globalisation is "the result of the removal of rules, regulations, quotas and barriers to trade, which has resulted in the freeing up of movement of goods, services and, particularly, capital between countries. It has happened because governments have decided to open up, or have been forced to do so by mobile capital". Finally, Sugden and Wilson (2001: 5) suggest that globalisation is a multidisciplinary process in which new geography and new technologies imply changes in activity and behavior. Already, we witness some new stances of the multinational corporations in order to compete to the new globalised environment. We see the production and/ or R&D facilities moved offshore through direct investment. This time, multinational corporations try to invest far further the periphery of the developed world[59], in the continent of Asia. As a result, new places, not necessary in the developed world (China, India, Pakistan), emerge as suitable locations for the establishment of the production units of the large multinational corporations. Differently from the 1970s and 1980s, i.e. the post- Fordism period, this time together with some labour-intensive production processes, are also transferred knowledge- based functions, such as R&D, logistics, telephone centre services. Thus, we have the phenomenon where some less developed countries, e.g. China and India, to supply the developed world with products, e.g. cars, or computers, once being produced only to the developed

[59] As a periphery of the developed world I characterise Latin America (i.e. periphery of USA) and Greece, Ireland, Portugal and Spain (i.e. periphery of Europe).

countries. Someone could argue that globalisation is a situation, which benefits multinational corporations[60], in particular, resulting in increased FDI.

Within this status all small economies, like Ireland, Portugal, Greece and others have little choice in the era of globalisation but to encourage a policy that favours the attraction of FDI. In any other case, they face the risk to being placed in the margin of the world. Unemployment in recent years has become, probably, the number one problem for the majority of the countries all over the world. In this respect, FDI is a major vehicle to battle unemployment. The whole analysis gives evidence that the world, during the last fifteen years, is moving towards one single direction, which is the liberalisation of the national economies, especially the small ones. This seems to be true. According to OECD (1999:5), industry in small countries is much more globalised than that of larger countries. On the other hand, there are major disparities between these countries. These could be attributed to differences in industrial development.

Within this spectrum countries that have spent long periods pursuing interventionist and even nationalist economic strategies in order to restore their competitiveness have, to varying degrees, acknowledged the need to break out of the narrow domestic market and seek economies of scale in the larger international marketplace. This new neo- liberal macro- scale regulatory model further eroded national state's limited powers. This model was also inserted in the Eastern European countries as a form of "shock- therapy", which conditioned the way in which they were accepted into the wider global economy and redefined the map of locational possibilities for production within Europe (Hudson, 1997:468; 1999: 30; 2002: 265).

This new growth model is associated with the increased mobility of capital, goods, services, commodities, information, people and communications across national frontiers, combined with labour- market flexibility, price stability, and credit to sustain consumption in high levels. Within this spectrum, the capacity of each

[60] According to OECD, firms which export and which invest abroad or are affiliates of foreign firms have higher and faster growing labour productivity, create more jobs, pay their employees higher salaries and generally expand more rapidly than comparable firms which export or invest abroad to a lesser extent. Also, because of their size and the fact that they are located in a number of countries, such firms have easier and lower-cost access to raw materials, technology and the most varied goods and services, all which enables them to achieve appreciable economies of scale (OECD, 1999:6).

country to adopt and implement such a developmental model would be a determining aspect in macroeconomic performance and would place the country in a hierarchical world economy governed, as Boyer (2000: 116) argues, by the diffusion of a financialised growth regime.

For Ireland, Greece and Portugal, all small economies, and members of the European Union, globalisation is a very important phenomenon. This is because all three countries are potential hosts for direct investment from multinational corporations. Within this context of globalisation, national economies are more and more constituted out of three interacting, but empirically unique modes of integration into the world economy. The first one discussed earlier is that of attracting FDI and to a limited degree embedding it in the local economy. The global goes local. The second, and most surprising in the context of Irish economic history, and Greece to a lesser extent, is the appearance of a local network of native firms that have become increasingly integrated into international business and technology flows and have been highly successful in international markets. The local goes global. Third, a series of national neocorporatist social partnership agreements, in all three countries in question, since the mid-1980s have generated a stable macroeconomic and financial environment that has underpinned industrial transformation, while mediating the relationship of unionised workers and welfare recipients to the global economy (O΄ Rian, 2000:184).

During the 1990s, Greece, Ireland and Portugal in different ways managed to take advantage of the new conditions created by the expansion of globalisation. In particular, Ireland profited most from this situation, as it became a major software producer, as well as a major location for investment in pharmaceutical sector and especially in biotechnology[61]. Portugal also managed to attract important investment, e.g. in the automobile sector. On the contrary, Greece, despite its efforts to adjust the productive capacity to market competition (Caloghirou, Voulgaris and Zambarloukos, 2000: 79), failed to attract significant amounts of FDI, but on the contrary its position deteriorated, as described in the introduction. The spread of globalisation coincided with a very important evolution within the European Union. This evolution took place

[61] At least 8 out of 10 worlds' largest Multinational Firms have located some of their activity in Ireland (Report of the Hellenic Embassy in Dublin- Office of Commercial and Economic Affairs, p. 13).

from 1992 when the Single European Market became fully effective, removing many non- tariff barriers between EU Member States and abolishing all capital control within the European Union. In practice, among other things, this meant that the peripheral countries of the EU were even more open to international competition. Additionally, they were better able to use the comparative advantages they had, or had not, created all these years in order to attract FDI. For "outsiders" but also for "insiders", Ireland, Greece and Portugal, would be considered just as a location for investment targeting the whole EU market and not just the local market of a specific country. Additionally, since the collapse of Communist regimes in 1989, much of the attention of the European Union was focused on Eastern European countries. This also resulted to a redefinition of relationships with Mediterranean countries[62] (Hudson, 1999: 9).

Due to the changing of the world balance, the New Economy has both supporters and critics. The former, who are usually found on the right side of the political spectrum, view this new era as offering great possibilities for growth and creativity and argue that in this new development the governments should stay away. In their rhetoric the supporters of the New Economy tend to ignore the social problems this new period might create. On the other hand, the critics of this new era, who are usually found on the political left, claim that the New Economy represents a threat to economic justice and social cohesion. Technology and globalisation are blamed for downsizing, stagnant wages, growing inequality and environmental destruction (Atkinson, 2000: 54). As Harms and Knapp (2003: 435) argue, "the best way to view the New Economy is as an ideological construct supporting the interests of capital".

Conclusively, globalisation, deregulation and computerisation are all components of the transition process towards a single world market characterised by a new global economic culture, i.e. free trade and perfect competition. The new evolutions caused by the New Economy affect the countries of the European periphery as well. It is highly debatable whether less powerful countries have the option to follow a different economic policy than the one, which is predominant and

[62] Which among others include Greece and Portugal.

promotes the openness of the national markets, the deregulation of the labour market, etc. If they do so, they face the risk to become marginal, not only in terms of economics but also in terms of politics. In this respect, countries like Greece, Ireland and Portugal, which participate almost in every Western alliance and are integral part of the western world probably have only one economic policy option: the one that favours the openness of their national market. How quickly each country adapts itself to the new conditions, and how it decides to soften the negative effects of globalisation, which definitely exist, is also a national political decision, which of course also requires a wider social acceptance.

In this section I have discussed the changes in economic restructuring in the twentieth century from the perspective of European peripheral countries, notably Ireland, Greece and Portugal. In particular, I tried to show how the changes in industrial organisation affected and still affect the economic development of these three peripheral countries, and as a result how the three countries are currently positioned in relation to their ability to attract FDI. For this purpose I have argued that economic restructuring since the end of the World War II can be divided in three broad periods: the Fordist one, including peripheral Fordism, the post-Fordist period and the New Economy period, including globalisation. The discussion so far shows that Portugal and Greece, mainly due to political reasons, were always late developers as far as adapting themselves to changes in the way capitalism is organised. On the contrary, Ireland since 1960s adapted a coherent policy towards attracting FDI, which remains until the present. This early adoption of a policy favouring the entrance of foreign investors had as a result Ireland being considered a "success story" on this field. Since the 1980s, the entrance of Greece and Portugal into the European Union, together with the effects of globalisation, has meant that they no longer are late adopters of the economic policies that predominate in the rest of the developed world. Greece and Portugal during the last few years have made a great effort to catch up with the economic and living standards of the large countries of European Union. But, despite this improvement in state economics, only Portugal tried to attract significant amount of FDI. On the contrary Greece only in the early 1990s started to focus its policy towards the creation of a favour environment for foreign investors[63], but so far it has managed to attract only limited amounts of FDI.

By describing the evolution of Ireland, Portugal and Greece in the context of the world economy, I argue that national characteristics and experiences have been important in determining the pace by which a country adjusts itself to world changes. A similar conclusion has been drawn by Caloghirou, Voulgaris and Zambarloukos (2000: 88), but their analysis mainly concerned the domestic industrial restructuring policies of Greece and Spain, and little attention was given to the similar developments in the world context[64]. On the other hand, I disagree with the argument of Caloghirou, Voulgaris and Zambarloukos (2000: 89) that in the long- run international developments narrow the options of individual governments and lead towards the liberalisation and openness of their national markets. Even in the current world this is above all a political decision and it is closely connected with the international field that a government has decided to place itself. That is why different varieties of capitalism continue to exist with important implications for the degree of economic regulation and labour market institutions[65]. Thus, for Greece, Ireland and Portugal, which have decided to be members not only of the European Union, but also of NATO and other, mainly Western originated organisations, their choice towards the liberalisaton and opening of their market was (and still is?) mainly one- way. But, the important thing, I believe, for these countries, that have decided to be part of the Western World, is how fast and how effectively to proceed and adjust their economies to the world conditions.

So far our analysis is based on the principles of French Regulation School. Nevertheless, this is not the only approach, which is based on the periodisation of the world as a way to explain the capitalist evolution. A similar approach is that of the long wave theory as developed by C. Freeman and F. Louca (2001). The basic common place with the French Regulation School is the use of the concept of regime of accumulation in the wider sense of loose overall political and legal co-ordination

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[63] It is highly debatable whether these policies have been successful or not. Of course the figures show that they were not successful at all.
[64] They are mainly concerned with the pressures exercised by the economic and political environment of the European Union, but this also in a very general context, as far as the restructuring of the Greek and Spanish industrial restructuring is concerned.
[65] See for example the cases of Venezuela and Brazil.

and control. But, its use places greater emphasis specifically on the regulation of new technologies within the regime (Freeman and F. Louca, 2001: 364). And this is their basic point of difference. Whereas the long-wave theorists argue that it is technology that leads and frames social change, the French Regulation School argues the other way around, i.e. that the growth of productive forces – even the shape of that growth – is nothing but the expression of a definite set of social relations in every aspect of human life (Lipietz, 1987). In other words, production relations determine productive forces, and not the reverse.

My reference at this point to another approach, similar to the one that my thesis is based on (French Regulation School), has no intention of contestation. On the contrary, the intention is to show that there is a variety of approaches, which their analysis is based on the periodisation of the capitalist world. It is questionable whether the important point of these approaches is the exact periodisation dates (and how these periods are named), or the causes of each crisis. And if the important point is the causes of crisis, then is there a single cause, whether this cause is the formation of social relations within states or the advancement of technological changes? Surely, the point is how well these different understandings provide an insight of the present economic and social context within states and in terms of the relations between them. If I follow the "philosophy" of my thesis probably is a combination of both. More precisely, there might be a capitalist period where the crisis is caused by the controversy of social relations and the next (or previous) capitalist period emerges or collapses by the technology advancements.

Thus, at this point I want to make clear that the analysis of my thesis has no intention to follow the exact periodisation of the French Regulation School or any other approach. Besides, in my thesis I have already stated differences between the French Regulation School approach and my periodisation (Fordism, post- Fordism, New Economy). This effort tries to give "flexibility" and to avoid the "stiffness" of any approach that is used as the basis for the development of an analysis.

1.3 Summary

A major task of this chapter was to document the processes of economic and political restructuring within the context of changing institutional arrangements in relation to Greece (in particular), Portugal and Ireland, in order to establish the context for the empirical research. Within this evolution the development of multinational corporations was also described, i.e. how (mainly) large Western Firms reacted to changes of economic and production processes that took place in major national economies of the world. Moreover, how and to what extent, Ireland, Portugal and Greece were affected by these changes and whether they took advantage or not of the new situation that was created. And of course how finally these three countries are currently placed in this new era.

Changes in the world economy and production processes allowed large firms, mainly from the major economies of the world, to expand their activities by the form of direct investment to other smaller in size countries (and economies). These changes had two major effects. First, some countries found opportunities to develop their economy and become more important players in world level (e.g. South Korea, Ireland etc.) and second, FDI became the major way of capital transfer.

Within this spectrum only Greece did not manage to improve its position in relation to Ireland (that benefited the most) and Portugal (that also performed well). Whereas Ireland, primarily, and Portugal, secondarily, started their economic reforms relatively early (1970s), on the contrary Greece only in the 1990s started to focus its economic efforts towards the creation of an investment environment that will favour the attraction of FDI. However, it is highly debatable whether these economic reforms had the desired result for Greece.

Thus, Ireland in the 1990s had already managed to become a major host economy for multinational enterprises (mainly originated from USA) and as a result so much improved its economic performance (mainly when referring to GDP increase) that became an example for other small countries[66]. Moreover, Portugal also

[66] In this point we have to mention that the remarkable performance of Ireland in GDP increase is inconsistent with GNP increase. Since Ireland became a major host country for MNEs, the gap between

managed to attract some major multinational enterprises, especially in the car industry[67].

Consequently, from the analysis of this chapter it is evident how Ireland and Portugal, which are used in this Thesis as a kind of benchmark to Greece, have advanced a more sophisticated understanding of the dynamics of capitalist development and therefore been able to identify and give preferential assistance to growing sectors (e.g. IT sector). Portugal and Ireland very early realised the importance of FDI as a key element for the development of their economy and followed a consistent policy in favour of FDI. On the contrary, Greece has not managed yet to develop a long term strategy in favour of FDI as the different political parties that have come into power have adapted different policy stances towards foreign investors.

Having presented the major economic and industrial changes since 1945, the next chapter (chapter II) reviews how these changes influenced the major theories of trade and location. In particular, there will be in a chronological order, a presentation of the theories of the industrial location and trade, their critics and how they have been evolved as a result of the world economic and social changes that were presented in the current chapter.

GDP and GNP becomes bigger and bigger. Suggestively I refer that this gap that was 13,9 per cent in 1993 reached almost 19 per cent in 2002 (Report of the Greek Embassy in Dublin, 2002: 7). This is because not all the wealth produced in Ireland stays there. On the contrary, there is a net capital export outside Ireland. This capital is mainly the repatriation of profits by Foreign Firms established in Ireland.

[67] During the 1990s, in Portugal were established companies such as Cofap Europe (that produced car parts), the Continental Mabor (that produced tyres), the Neste Oy (that produced polypropylene), etc. (Corkill, 1999: 80).

CHAPTER II

Location of FDI- Theory and Reality

2.1 Introduction

In the previous chapter we described the main economic and industrial changes that took place mostly in the developed world and had important effects in the location of western firms. But, how have these changes in the location of firms influenced the relevant theories? In this respect, the second set of contextual literature I draw upon in order to answer the main research question of this thesis, i.e. is why Greece has underperformed in relation to Ireland and Portugal, is the location theory literature. In this analysis I will then be able to consider the factors influencing the location decisions of firms. In particular, this chapter will provide us with the theoretical support necessary to evaluate some of the factors that influence particular types of FDI, or those from particular countries, which will take place in a later chapter.

Thus, the purpose of this chapter is to review the predictions of locational theories. Chapter II begins by stating some fundamental location theories (among others, the traditional location theories, New International Division of Labour theory, product life cycle theory, etc.) and how these theories evolved due to the changes in the world economic conditions as described in the previous chapter. Throughout this chapter a comparison between the different theories takes place, identifying similarities and differences between the various schools of thought. These theories, despite their weaknesses, give some basic explanation on the behaviour of the firm, under certain circumstances. Moreover, any attempt to evaluate the factors that influence particular types of FDI, which will take place in chapter IV, or those from particular countries, may need to draw upon more specific theories.

2.2 Theoretical Predictions of the Location Decision- Making Process

The significance of production location has long ago been recognised. Actually location theory was first developed at the beginning of the 19th century. In this respect there is a discord about who the "father" of the location theory is. In chronological order, it was Ricardo who first introduced in 1817 the most basic concept of international trade theory that of the principle of comparative advantage. This theory of international production, known sometimes as "classic", or "pure" theory, is based on the conventional model of two countries producing and trading only two goods in a perfectly competitive environment[68]. A few years later Johann von Thunen (in 1826) with his work "The Isolated State" demonstrated the optimal locations based on (according to his arguments) ring- shaped zones. But, two very important scholars, Schumpeter, in the History of Economic Analysis (1997: 466) and Alfred Marshall, in Principles of Economics (1961: 442)[69] considered that von Thunen´s work is more important than that of Ricardo and thus it is von Thunen who should actually be considered as the "father" of location theory. Additionally, A. Marshall was the first scholar who introduced and emphasized the advantages of spatial concentration by firms. In particular, he argued that the advantages gained by industries are from a pool of skilled labour; the presence of knowledge spillover effects, i.e. "if one man starts a new idea, it is taken up by others and combined with suggestions of their own, and thus it becomes the source of further new ideas"; and finally, the specialization of production, i.e. "for subsidiary industries devoting themselves each to one small branch of the process of production, and working it for a great many of their neighbours, are able to keep in constant use machinery of the most highly specialized character" (Marshall, 1961: 271). What in practice A. Marshall demonstrated was the value of localization economies, as well as the advantages of having different industries in one location. According to Schmutzler (1999: 357), Marshall's arguments were particularly suitable for explaining small- scale concentration of firms within specific industries. In particular, the Marshallian model of industries consisted of a plurality of small, single plant, single product firms.

[68] According to Harvey (2001: 47), Ricardo was not an empiricist and built an abstract model of economic allocation through the market mechanism that had little need for an empirical base. The usefulness of this model was to provide a tool for analysis that would both explain and predict change.
[69] His original work was written in 1890.

For almost two decades location theory has been rather stagnant. It was not until 1919 when the work of two Swedish economists, Eli Heckscher and Bertil Ohlin, advanced the principle of comparative advantage previously developed by Ricardo. Their work is most known as Heckscher-Ohlin (H-O) theory of trade. In short, according to this theory, countries or regions, with abundant supply of labour should export labour intensive products while capital abundant countries should export capital-intensive products[70]. In 1929, Alfred Weber with his work "Theory of the location of industries[71]" revived the interest for the location theory. Alfred Weber introduced the so- called least- cost approach. The aim of Weber was to identify the optimal location of a plant firm. He argued that overall location is determined by four sets of factors, but at the end he concentrates only in two: the general or special factors, i.e. transport costs, labour costs, rent and the regional factors, i.e. forces of agglomeration or deglomeration (Weber, 1929: 20- 21)[72]. For him the most important factor for the choice of optimal location of a plant was transport costs and thus, the most important task should be to minimise transport costs (ch. III, p. 41).

This rebirth had as a result a few years later another important scholar, August Losch, with his work "The Economics of Location[73]" to put the foundations for two other disciplines, notably regional science and economic geography (R. Martin, 1999: 66). Losch (1954: 10) pointed out the importance of agglomerations[74], but his most important contribution has been the "profit maximization" approach, which mainly supports the idea that the optimal location is one where the revenues for the enterprise are maximised. More precisely, he argued that "if we disregard all locally conditioned priceless utilities, the entrepreneur will choose the location of greatest real profit" (Losch, 1954: 17). By this approach, Losch disagreed with Alfred Weber who supported the "least- cost approach" arguing that "Weber´s effort to find the

[70] The H- O model was expanded in 1948 by Samuelson. Since then this model is known as H-O-S theorem and focuses on the disparities in relative factor endowments between countries as the single most significant cause of trade.
[71] Actually, his work was first published in Germany in 1909 and translated into English as the Theory of the Location of Industries in 1929.
[72] The two other factors, which have not attracted much attention from the scholars, are the natural and technical factors, i.e. advantages gained by industries due to natural conditions, as well as the social and cultural factors, i.e. the consequences of particular economic or social conditions of a certain civilisation (Weber, 1929: 21-22).
[73] In 1940 Losch wrote the book "The Spatial Structure of the Economy" and was later (in 1954) published in English under the title "The Economics of Location".
[74] Losch also stressed that there is interdependence among producer and consumer (1954: 5).

optimal location via seeking the place of lowest cost is not satisfactory, as equally important are sales possibilities" (Losch, 1954: 28).

Although, these theories[75] seem not to give a full view on the location decision-making process, nevertheless, they help us to understand some basic rules of the location behaviour. Additionally, they make an initial attempt to account for broad trends and to that extent have been relatively satisfactory. Finally, their reference to geographical distance, reflected in movement costs, still influences the spatial pattern of economic activities on a world scale (Dicken, 1998: 77). Nevertheless, these theories still seem to be characterised by certain limitations. According to Dicken (1998: 77) the above theories have tended to be static, whereas the world currently is increasingly volatile. Moreover, the way these theories deal with the role of the markets, the way firms behave in the absence of perfect competition, and the nature of production (and hence factor demand) is not sufficiently analysed. The role of agglomeration economies is also treated in a rather limited way as their main benefits derive from cost- minimisation rather than revenue maximisation on the output or demand side (Schoenberger, 1985: 242, Dickens, 1998: 75, Hamilton and Linge, 1981: 58). Finally, the traditional location theory refers solely to production units, and therefore is not applicable to modern manufacturing firms that frequently consist of spatially separate, but locationally interdependent administrative, research and development, sales and production units. In other words traditional location theory cannot give a satisfactory interpretation to the changes of international competition that have taken place since 1945 (Pred, 1967: 81, Eckaus, 1987: 120, Porter, 1990: 2).

But, the real issue of "inadequacy" of traditional location theory to explain modern conditions had mainly to do with the fact that it referred to the plants rather than firm. Economic restructuring resulted to two main, interrelated issues. First, the changing nature of the firm, and second, the changing context in which the firm operates. A new type of firm has started to emerge, that the traditional theory had not predicted: the multi- plant firm. Also, the conditions, political and economic started to differentiate. Governments had started to accept foreign capital in the form of direct

[75] There are also theories which try to explain changes in industrial production that adopt a leftist approach such as Marxist interpretation and path- dependence theory. But these theories have developed their arguments in relation to the entrance of Multinational Firms to the countries of Latin America and Asia, which are not relevant to this study.

investment and the increasing purchasing power of the population in developing countries resulted in the need for increased production, which could not be satisfied by the plants located in the industrialised world.

Thus, the conditions created with the crisis of Fordism resulted also in the crisis and renewal of traditional locational theories. Firms started to transfer their production activities to developing countries of Latin America, Asia and Europe contributing by this way to the need of most developed countries to increase their exports of manufactured goods, the profit maximising behaviour of the firm, as well as the greater "freedom" that the firms started to enjoy from the governments of the industrialised world. As a result, firms started becoming multinational by locating their production units in a range of different countries. Within this new framework, theories concerning industrial location process started to be transformed and depart from traditional location considerations. In particular their new aim was to integrate these multinational corporations in their theory and answer two particularly important questions: why do firms go abroad as investors? Why do firms choose to enter foreign countries as producers rather than as exporters or licensors?

A new such theory, which was developed as a result of 1970s diffusion of industrial activity from the core industrial countries to the peripheral less developed countries, as well as the growth of international trade in manufactures, was the product life cycle theory identified by Vernon (1966). The theory gives less emphasis upon comparative cost and more upon the timing of innovation, transport costs, trade barriers, the effects of scale economies, and the role of uncertainty in influencing trade patterns (Vernon, 1966: 190). More precisely, according to this theory a new product (or process) will be developed in one of the technologically advanced countries and at the beginning the whole production will be made within easy reach of the innovator's R&D facilities. Growth in demand then leads to mass production and hence to a standardisation of the technology involved[76]. This in turn allows manufacturing facilities to be diffused to other countries, usually beginning in a few that are already technologically advanced but spreading to others, which are still acquiring industrial know- how. Ultimately, the stage may be reached in which the

[76] According to Vernon (1966: 196) in such conditions the need for flexibility declines and economies of scale through mass production are achieved.

bulk of world demand is supplied by countries with relatively low- skilled (Vernon, 1966; Hamilton and Linge, 1981: 20-21; Dicken, 1999: 161- 162). According to Hamilton and Linge (1981: 22) the product life cycle theory provides a model of the dynamics underlying the continuous process of spatial and structural adjustment taking place to industry at an international level.

Additionally, another theory that developed exactly as a result of introduction of Neo- Fordist techniques is the New International Division of Labour. In particular, this theory argues that certain parts of modern manufacturing activities have been decentralised to selected "Third- World" countries and to the peripheral regions of Europe (Perrons, 1981: 87). According to Dunning (1993: 477- 478), market trends and unilateral political action have been the major shapers of the New International Division of Labour. Other important shapers of the changing nature of labour have been multilateral action, e.g. efforts for economic integration in the EU[77] or in East Asia (ASEAN), and finally certain activities by multinational corporations, e.g. the way multinational corporations internalise cross- border transfers of intermediate commodities between their subsidiaries located in different countries. In this way several countries of the periphery are drawn into the international market as industrial producers of certain manufacturing activities, e.g. components, whereas the economic management and the production of knowledge and technology still remains in the "hands" of few developed countries, notably in the home countries (Schoenberger, 1985: 243, Antonopoulou, 2000: 41).

But, according to Martin, R. (1999: 79) the conceptual framework of the work of economic geographers on the renaissance of regional economies has not been the symmetry location theory or growth theory, but instead approaches that put emphasis on the political, economic, institutional and social bases of regional development and industrial agglomeration. Whereas classic trade and location theories tried to incorporate space into economic theory by focusing on the role of geographical distance in shaping the location pattern of industry (Dicken, 1999: 75), some other schools of thought, such as French Regulation School, worked in a

[77] Especially in the case of the European Union, an important role was played by the free movement of labour and capital. These, changed the relationship between workers themselves (skilled vs. unskilled workforce), but also between labour and capital (capital strengthened its position towards labour as it could now transfer its production from one place to another easier).

complementary way by explaining the changes in the production (and social) modes of regulation, i.e. by emphasising the social (including labour) relations[78] with respect to changes in production patterns. When such changes occur, then the importance of location also changes. A first work of great influence was that of Michael Piore and Charles Sabel in 1984, called "Second Industrial Divide". In this work the two authors argued that the observed emergence of a new industrial- technological paradigm is based on flexible specialisation. In other words, the significance of the two authors, in contrast to the industrial location theorists that I have been discussing so far, is that they have recognised that the pattern/ nature of production was changing, moving from mass production to flexible accumulation. The emergence of this new paradigm (flexible specialisation) was considered by French Regulation School (another school of thought) as the transition from Fordism to post- Fordism, i.e. the transition from mass production to smaller organisational units that produce customised goods and have increased flexibility. The main representative of this school is considered Amin (1994). According to Harvey (1995: 3) Amin, and hence the French Regulation School, supplemented on how capitalism has arranged its geography in a more synthetic account of accumulation on a world scale. On the other hand, according to Dicken, Forsgren and Malmberg (1994: 29) the emphasis of the French Regulation School on an abrupt political transition is one of the basic causes of the critique of this thought. In particular, there are doubts whether it is possible to identify an indisputable shift from Fordism to post- Fordism. Such doubts are two- fold: do post-Fordist forms of production really dominate the collapse of Fordism? Were Fordist forms of production really hegemonic in the past? (Dicken, Forsgren and Malmberg, 1994: 29).

The work of Ricardo and Heckscher & Ohlin with regard to the theory of comparative advantage further enhanced in 1990 by M. Porter with his book "The Competitive Advantage of Nations". Porter, in relation to the other two authors, focuses not on the economy as a whole, but on specific industries and industry segments. He uses the firm as the basic unit of analysis. In particular, in his book he tries to answer the following question (Porter, 1990: 18): "why do firms based in particular nations achieve international success in distinct segments and industries?"

[78] For example capital- labour and labour- labour relationships.

He tries to find these characteristics of a nation that allow to its firms to create and keep competitive advantage in particular fields. According to his arguments (Porter, 1990: 19) "the competitive advantage is created and sustained through a highly localised process. Differences in national economic structures, values, cultures, institutions and histories contribute profoundly to competitive success". There are two basic and one secondary type of competitive advantage: lower cost and differentiation in the first place, and the competitive scope, i.e. the breadth of the firm's goals within its industry, secondarily.

The most recent development is a new type of research/ theory called the "New Economic Geography", which appeared at the beginning of 1990s by Paul Krugman. This theory tries to give an explanation of the location chosen by firms, which at the end leads either to convergence or divergence between different regions. In order to develop this perception he took into account three factors: increasing returns of scale, transport costs and imperfect competition. In particular, Krugman developed a simple model designed to explain "why and when does manufacturing become concentrated in a few regions, leaving others relatively undeveloped? What we shall see is that it is possible to develop a very simple model of geographical concentration of manufacturing based on the interaction of economies of scale with transportation costs" (Krugman, 1991: 484). The most important impact of Krugman's model was that it stimulated new discussions among scholars and further models emerged that tried to answer the question previously mentioned. The "New Economic Geography" is concerned with both the characteristics of the industries, as well as the characteristics of the countries where these locate. The emphasis is now upon the importance of market-size effects, as well as price- index effect, in generating linkages that encourage geographical concentration, on one side, and the opposing force of immobile factors (i.e. competition between firms for a local market) working against such concentration on the other hand (Krugman, 1991: 491- 492; Krugman, 1998: 9-10). Thus, how the relationship between core- periphery will end up, i.e. whether there will be a divergence or convergence, depends on three factors: the home- market effect[79] and the wage index[80], which drive towards divergence, and

[79] Other things equal, the wage rate will tend to be higher in the larger market.
[80] Workers are interested not in nominal wages but in real wages, and workers in the region with the larger population will face a lower price for manufactured goods.

the degree of competition for the local market[81], which drives towards convergence. The question raised is which forces finally will dominate (Krugman, 1991: 491- 492).

Thus a number of models that tried to assess the impact of liberalisation in the world economy were developed. These models can be differentiated into static ones (e.g. Krugman, 1991; Krugman and Venables, 1995; Venables, 1996; Puga, 1999) and dynamic ones (e.g. Baldwin, 1999; Martin and Ottaviano, 1999). In particular, the basic (two-region) model of "New Economic Geography" theory, developed by P. Krugman in 1991, tries to explain which factors have influenced and continue to influence the geographical distribution of economic activity. More precisely, Krugman argues that increasing returns of scale are likely to foster geographical concentration of production of each good[82]. When transportation costs are important, attractive locations for production are those that are close to markets and suppliers, other things being equal. Moreover, the concentration of production in some locations tends to attract the mobile factors of production, such as the employees who, in this case of concentration of production, have better jobs and consumption opportunities. The resulting concentration of the labour force leads to more demand for consumption goods in that location, which in turn makes this region more attractive for producers. Once a region has a high share of production, this pattern is likely to bolster itself: a so-called second nature advantage[83] for the dominant region develops, that is, the region becomes attractive for companies because so many other companies already produce there (Krugman, 1991).

When comparing the above arguments of Krugman with the earlier location theorists (traditional location theory), e.g. Marshall and Weber, we see that their theories have a lot of similarities. In fact, Krugman's ideas are much more similar to traditional location theories rather than the "New Economic Geography" linked with cultural turn. More precisely, Marshall, Weber and Krugman try to give an

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[81] Workers in the region with less manufacturing working force will face less competition for the local peasant market than those in the more populous region. In other words, there is a trade- off between proximity to the larger market and lack of competition for the local market.

[82] In a similar way, Michael Porter has also argued that the degree of geographical clustering of industries within a nation is a key determinant of that nation's international competitiveness (1996: 85)

[83] A first-nature advantage is when a region, in comparison to other regions, has natural resources, or transportation facilities such as rivers or harbour. Furthermore, in a broader sense such advantages could also arise from regional differences in governmental policies, e.g. in taxation, subsidies, etc. (Schmutzler, 1999: 356, 375).

explanation about the factors that influence the location of a firm. Their conclusion is a common one, i.e. that firms tend to locate in certain locations than others. But, the difference between traditional location theorists and Krugman, is that Krugman, apart from emphasising the characteristics of the industry that are important for the concentration of firms in one specific place, moved one step further by incorporating the characteristics of the countries (e.g. market- size effects) in the decision of a firm about where to locate its plant (s).

In 1995, Krugman and Venables tried to incorporate the effects of globalisation and real national incomes in "New Economic Geography" theory. A main cause for the development of this model was the emergence of a New International Division of Labour that had made its appearance since the end of the 1980s, characterised by increasing mobility as a result of new world economic conditions[84] and technologies. Thus, this model tried to explain the linkages between economic geography, international trade and distance costs in a non- technical way. Additionally, the two authors, as a result of the implementation of the European Common Market, tried to predict its effects on spatial distribution of industries between two regions of different development level. Thus, this model tried to analyse whether the different comparative market access of the Southern European countries and the core EU Member States may affect possible gains from economic integration (Karsten, 1999: 11-13, Amiti, 1998: 45). As a result, Krugman and Venables (1995: 858) developed a model where the world economy is organised into a core- periphery pattern and tried to interpret the degree that increasing globalisation, i.e. the closer integration of world markets, influence the real incomes of core and periphery nations. In their conclusion (1995: 876), they argued that it is the scale economies and transport costs that cause regional differentiation (i.e. differentiation between core and peripheral countries). After a certain degree of integration among nations, differentiation starts to emerge. When differentiation becomes a reality the rise in core income is partly at peripheral expense. But, as integration is further developed, then the advantages of the core are eroded and the resulting rise in peripheral incomes may be partly at the core's expense.

[84] An important new economic condition was the implementation of the Single European Market in 1992 among the European Union countries, and/ or the increasing demand for IT personnel by the developed countries that had as a result the import of labour force from developing countries such as India, Pakistan, China to United States and Europe.

Thus, we could argue that Krugman's writings could be separated in two distinctive ways. On the one hand, Krugman tries to account for the spatial concentration of economic activity, referring to the balance between centripetal and centrifugal forces. But, unlike the location theorists of the past, whose work he draws upon, he allows for imperfect competition and the effect of increasing returns to scale, and tries to combine trade and location theory.

In 1996 Venables developed a new model in order to analyse the effects of economic integration on the geographical concentration of production. In particular, he answered the following question: "if economic integration reduces trade costs[85], will it lead to agglomeration and consequently to divergence of regional economic performance, or will it facilitate dispersion of industry in response to wage differences, this leading to convergence of regional income levels?" (Venables, 1996: 342). In essence, Venables incorporated traditional location theory (especially that one expressed by Marshall) into the new European economic conditions, and tried to see how economic integration will affect the different countries that participate in it. According to the findings presented by Venables the answer depends on the strength of vertical linkages and the level of trade costs. If vertical linkages are strong and trade costs are high then economic integration leads to divergence (i.e. industries are concentrated in one location at the expense of others). If linkages are weaker and transport costs are low then integration may lead to convergence (i.e. industries will disperse to different locations) in response to wage differences (Venables, 1996: 342). Another issue that was raised by Venables was that of an "industrial base". In the model he developed, firms want to locate closer to other firms, where there is an industrial base of suppliers and customers. This presence of a strong industrial base enables a location to support relatively high wages, whereas a location with a weak industrial base makes this location less attractive to industries. In general, this model established that agglomeration can be generated equally well by the interaction among the location decision of industries that are linked through an input- output structure. Thus, even with no labour mobility, there may be forces that lead to the agglomeration of an activity at particular locations in an integrating region (Venables,

[85] By trade costs Venables means all the costs associated with supplying different locations.

1996: 356). In this respect, Venables gave an interpretation on how industrial localisation economies are formed.

In 1999, Puga also contributed to the development of "New Economic Geography" school of thought. In particular, he answered to the following two questions: "as economic integration lowers barriers between regions and dissolves national boundaries, will industry become more or less agglomerated in space? And what will be the associated changes in the spatial distribution of income?" (Puga, 1999: 327). According to Puga, the answer to these two questions depends greatly on whether workers move across regions (or countries in an international context) or not, in response to income differentials. In either case, when trade costs are high, industry spreads across regions to meet final consumer demand. On the other hand, when transport costs are low this leads to the agglomeration of increasing returns activities. In this respect agglomeration of firms tends to raise local wages. In case that these higher wages attract more workers, then due to the high supply of workers, wage differentials between the workers, in a particular locality, will be eliminated. If, on the other hand, workers do not move across regions, then wage differentials, in a particular locality, will remain. In this case the connection between integration and agglomeration is of one direction, i.e. reductions in trade costs make firms more sensitive to wage differences and results to the spread of industries across regions (or countries when referring at international level).

In 1999 two other authors developed their models of firm behaviour in conditions of trade liberalisation. These models were characterised by Ottaviano (2003) as dynamic ones. The first such model was developed by Baldwin who hypothesised that agglomeration is driven only by demand- linked circular causality[86]. As trade liberalisation becomes greater between symmetric nations (e.g. developed nations) eventually this produces the core- periphery patterns. Thus, according to Baldwin, contrary to the standard claim in the growth literature, integration will lead to divergence in real capital income levels (Baldwin, 1999: 255- 256). On the other hand, the model developed by Martin and Ottaviano in 1999 examines how growth influences the location decisions of firms and hence how it affects geography and the

[86] According to Baldwin (1999: 255) under these circumstances firms are associated with a particular unit of capital and neither capital, nor entrepreneurs are internationally mobile.

dynamics of spatial distribution of economic activities. It also explores how the rate of technological progress is determined by the location decision of firms (Martin and Ottaviano, 1999: 283). In particular, the two authors analyse the relation between location and growth in two different contexts: in the first context, the spillovers in R&D are global. This means that the invention of new goods affects negatively the future cost of R&D and the discount rate has an impact on income differentials between North and South and therefore on the location of firms. Consequently, in this case high growth rates and high transaction costs are associated with FDI from North to South.

In the second context, R&D spillovers between industries are local, which means that the R&D cost is lower in the location with a high number of firms producing differentiated products. In this case, all R&D activities agglomerate in the North where firms are more numerous and the growth rate is higher because of the concentration of industries. This results in a positive link between trade integration and growth, because a decrease in transaction costs through trade integration would lead firms to concentrate, but not in all cases, in the location with the R&D activity and because of local spillovers, it also stimulates an increase in the growth rate. In this respect, the two authors show that high growth rates and high transaction costs are associated with FDI from North to South. They also show, in contrast to the literature of the "New Economic Geography", and because of the introduction of endogenous growth, that welfare in the South can improve when industrial concentration in the North increases, if transaction costs are significantly low. The reason is that the increase in the rate of innovation that comes from spatial concentration also benefits the South. This location framework is different from the "New Economic Geography" because cumulative causation mechanisms, such as migration or vertical linkages are kept out (Martin and Ottaviano, 1999: 283- 285). In other words, in their model Martin and Ottaviano give a different scenario than the previous mentioned authors of "New Economic Geography. They argue that agglomeration of economic activity in the core countries cannot be catastrophic for the economic development of the periphery, if trade costs are low.

Summarising, the "New Economic Geography" theory focus on the behaviour of firms and the mechanisms of cumulative development in order to explain the geographical clustering of economic activity. Emphasis is placed on the measurable relations between economies of scale and transport costs in order to be able to develop and estimate formal models (Perrons, 2001: 209). Thus, according to the theory of "New Economic Geography", large markets are more likely to attract manufacturing production, due to economies of scale[87]. In other words, external economies of scale are developed. Krugman´s home market effect, as well as price- index effect, shows that strong demand for a particular set of goods in a country would lead that country to be a net exporter of those goods. In traditional model of comparative advantage, an unusually strong demand for a class of goods would imply exactly the opposite, i.e. that the country (or region) would become a net importer of these goods (Amiti, 1998: 51). Finally, new economic geography theory suggests that agglomeration effects could happen as a result of a decline in trade barriers, with firms concentrating in regions where activity is already high in certain sectors (Commission, 1998: 2).

Practically, what the "New Economic Geography" theory suggests is that large companies, tend to concentrate in regions where already other firms (preferably small in size) exist, rather than establishing themselves in an isolated location. Due to this location proximity between firms it is very likely that forward linkages to be created. On the other hand, being located in a cluster with a lot of backward linkages, a firm benefits by obtaining its intermediate products cheaper, e.g. because of lower transport costs, or because it gains from the variation of differentiated inputs, or the intense competition between the companies that produce these intermediate product. The result of these forward and backward linkages is the creation of a clustering of vertically related industries. Moreover, the higher the demand for intermediate goods, the higher the level of geographical concentration of these industries. The process is the same for a region within a country, specially the larger ones, such as USA, UK, Italy, Germany and France. A firm may choose a developed region within a developed country. Then other firms may join the cluster, which may continue to grow as a consequence of external economies, labour policies, etc.

[87] As described in the next lines there are two kinds of economy of scale: first, external economy of scale due to the market size and second, internal economy of scale due to the presence of related industries and lower costs.

This analysis, mainly expressed by "New Economic Geography", also indicates the changing conditions created by globalisation and the opening of the markets to foreign investors. Whereas, in the 1970s and 1980s, firms (post- Fordism era, according to the description of chapter I) were moving away from developed regions, in the 1990s (the new economy era, according to the description of chapter I) with the appearance of new economy features, this tendency seems to have been reversed. Thus, the above analysis also indicates how capital (mainly expressed by firms) has the ability to continually change its behavior patterns in order to survive. This is another indication that New Economy (as described in chapter I) is a completely different period from post- Fordism. This was also mentioned before by stressing the familiarities between traditional location theories and "New Economic Geography".

The above presentation of "New Economic Geography" models (and new trade theories in general) can be completed by the analysis of Ietto-Gillies, who argues that the theory of Venables and Krugman (in particular) cannot explain direct production in other countries, by multinational corporations. In defence of this argument she supports that new trade and economic geography theory consider location in terms of core and periphery, as well as that all the relevant forces act in a harmonious way at the micro and macro level. In new trade theories, nation states are defined in terms of extra costs, barriers to factors and product mobility imposed over and above the costs of operating at the inter- regional level. Her objection is that there are wider differences between nations that are relevant to the understanding of MNCs activities. The main difference concerns what a nation state is. Thus, she defines nation states in terms of their regulatory regimes in relation to taxation, currencies, customs and labour regimes. Her argument is that "if there are external economies of agglomeration and the internal economies are plant economies, then it can only make sense to produce in one location/country and supply other markets through exports. There is a basic conflict and tension between a theory that predicts clustering of production activities and a reality of companies that spread their activities in space- sometimes horizontally, sometimes vertically, sometimes both ways". She also claims that the multinationality of firm, i.e. their ability to plan and organise activities across different regulatory regimes gives the multinational corporations extra advantages over the other players of the economic system, notably the governments, trade unions, consumers and of course rival firms[88]. Consequently, "the forces leading to multinationality cannot- or not always- be assimilated into centripetal or centrifugal forces and the core- periphery pattern, because they favour the spread across nation-states and thus regulatory regimes (Ietto-Gillies, 2000:414- 423).

What in practice Ietto- Gillies argues is that MNCs do not produce directly to different countries due to forces that are external to them (as new trade theories argue). On the contrary, such a way of operating (i.e. spread of operations to different countries) gives MNCs certain advantages in relation to the nation state (which try to control firms and not only by regulation) and other factors that affect the production (e.g. labour unions). Thus, equally important are the strategic decisions that (multinational) firms take in order to overpass different obstacles that try to affect their production processes. This focus of Ietto- Gillies to the actual structure of contemporary firms and multinational firms in particular, makes her approach more resonant with the topic of this thesis. In particular, one crucial question this thesis tries to answer is what particular strategic decisions have made MNCs invest in Greece? These strategic decisions concern evolutions to the broader political and economic environment around Greece, e.g. political and economic turbulence that often used to happen in other South- Eastern European countries, or have to do exclusively with the domestic situation in the country (domestic market oriented investment)?

2.3 Summary

This chapter, together with chapter I, which dealt with the development of the world economy since 1945 and all its effects in multinational corporations and the countries under investigation, notably Greece, Ireland and Portugal, allowed us to put the theoretical foundations in order to answer the main research question of this thesis, i.e. why Greece has underperformed in FDI inflows.

But, before the analysis of the questionnaire, which will allow us to examine more thoroughly the causes of this poor performance of Greece with regard to FDI, an

[88] Ietto Gillies reckons four advantages of the multinationality of MNCs: First, is the ability to minimise their world wide taxation liabilities. Second, they are dealing with a fragmented labour force, third MNCs acquire knowledge of multiple local markets about prospect investment opportunities, labour, wages and government behaviours. Finally, by that way MNCs reduce the risk to halt production, due to social or political or other disruptions in one country.

analysis of the changing nature of the multinational corporation is needed. In other words, the different organisation forms the large firms adopted in order to face the changing world economic conditions described in chapter I will be analysed.

Thus, in the next chapter the main organisational structures that multinational corporations have adopted since 1945 in order to deal with new economic and political developments described in chapter I, are presented. In particular, the theoretical understanding of the organisation structure is presented, which then leads to the production of models (typologies) of different organisational forms of multinational corporations that explain the decision making process of multinational corporations.

CHAPTER III

The Organisational Forms of the Multinational Corporation Since 1945

3.1 Introduction

In chapter I, I drew upon French regulation theory in order to understand the development of the European economy and the differential positioning of states, paying particular attention to the ideas relating to peripheral Fordism. I then turned to the location theory literature (chapter II) in order to consider the factors influencing the location decisions of firms. In this chapter I draw on the literature relating to multinational corporations in order to identify their evolution and the specific factors influencing their locational decision making.

Thus, the first part of this chapter is to present a brief historical overview of the MNE, since 1945. In particular, I will present a number of writers who have analysed the structure of multinational organisations (theory of the multinational corporation) and their changes over time. Then, I will indicate some authors that have formalised the discussion of multinational enterprises and developed typologies of different types of multinationals- some relating to sectors and some relating to changes over time (i.e. the main models of multinational enterprises and a critical appraisal of them). Then, for the purpose of this thesis, I am going to draw one framework in order to help understand why different types of multinationals will be attracted by different kinds of locational factors. Finally, having looked at the structure of multinational corporations in the context of the evolution of the economy I advance a hypothesis about the types of firm that may be attracted to Greece.

In chapter one, I analysed how the world economy evolved since 1945, how the large firms of the developed world grew in size by expanding themselves in new markets and of course how Greece, Ireland and Portugal were placed in the new world fixation. But, very few things were mentioned about the evolution of the nature of the firm itself. Especially, in the current globalised world where firms may have more options about their location, but also more risks as far as their survival and expansion are concerned. Within this context several questions are raised, such as: how the firms of the developed world changed their organisational forms in order to be able to expand and effectively control their new units outside their home country? What particular organisational forms were developed in order for a firm to be called an "international", "multinational" or "global" one? Do these particular organisational forms affect the location decision of the firms? These are the questions that this section will try to answer. In this chapter too, focus is on the multinational corporation being active in manufacturing industry.

3.2 MNE's Brief Historical Overview

According to Massey (1995: 25) organisational structure has probably been the focal point of most recent analysis in geography. In particular, industrial organisation theory has been limped from the beginning by the dominance of the neoclassical view in economics (Sayer and Walker, 1992: 108). According to the neo- classical economic theory, profit maximisation is the key for explaining the behaviour of the firm. Although, this assumption provides enough structure to be a useful theory, nevertheless, it is not able to explain the actual evolution and performance of the firm (De Canio and Watkins, 1998: 276). During the 1990s, there has been a great effort from a large number of authors to develop new or improved theories of the firm, its nature, reasons for existence, behaviour (actual/ optimal), differences and effects (Grandstrand, 1998: 467).

Since the very beginning of this thesis it was quite obviously mentioned that the evolutions in the world economy influenced the cross border organisation and management of multinational corporations. In chapter one the way the conditions changed with regard to the national policies towards the multinational corporations was presented. Additionally, how, in their turn, multinational corporations developed their management and production policies towards the nations in order to maintain and then strengthen their market power, were also presented. The result is that currently, according to King and Sethi (2001:202), multinational corporations have created a business environment that combines global integration and local responsiveness, i.e. how best to meet the local demand while taking advantage of multinational corporations' competitive advantages on world- wide scale.

In addition to firms there are governments that have some powers to regulate the economy and firms within it. But, States have weakened, partly by choice, via the creation of intergovernmental organisations such as the European Union or NAFTA, leading and proclaiming the virtues of neo- liberalism. These virtues have to be followed by other States that chose to be part of the global economy. More precisely, the contemporary era is more competitive due to the fact that action takes place in a global rather than a national or local arena. This context is shaped by firms, which adopt a variety of strategies to remain and become more competitive. Their behaviour, in turn, shapes the competitive environment. In this respect, Carpano, Raahman and Roth (2003: 156) argue that the institutional context (e.g. government regulations) is particularly important in explaining competition among firms. In the case of Greece for example, the Greek institutional framework has been argued to be excessively bureaucratic (Kritsantonis, 1992: 623).

According to the traditional industrial organisation theory in order for firms to expand abroad, they should possess better assets that can generate a comparative advantage in relation to local firms. Such comparative advantages may include the brand name of a product, possession of special marketing skills, economies of scale, high emphasis on R & D etc (King and Sethi, 2001: 201- 202; Carpano, Rahman and Roth, 2003: 155). But, in order for large firms to exploit their comparative advantages, they should deal successfully with one of the main problems of industrial organisation, i.e. how to bring together labour, materials and machinery. In this respect a number of writers have analysed the structure of multinational organisations and how and in what ways they have changed over time.

The structure of multinational organisations may change due to diversification of production. A concept that has been linked, positively, to the growth of the firm by diversifying its production is economies of scope[89]. A firm enjoys economies of scope when it can undertake different but related activities. It benefits from the common inputs, e.g. common raw materials or physical equipment, which uses for the

[89] There are two kinds of economies of scope. The product level economies of scope, which take place due to reductions of unit cost attributable to firm's diversification into several products produced in the same plants, e.g. chemical products. The plant level economies of scope, which take place due to reductions of unit cost attributable to firm's diversification into several products produced in different plants, e.g. airline hub.

production of different outputs. In this respect important are the spatial economies of scope derived when these related activities have to be co- located, resulting in this way to agglomeration economies effect (Pontes and Parr: 3). According to Helfat and Eisenhardt (2004: 1230) economies of scope allow a firm to benefit when exit markets with declining opportunities in order to take advantage of new opportunities in other markets. Thus, for Krugman (1990: 277) economies of scope is the key for understanding both domestic and multinational modern firms. Each firm that can experience economies of scope will find that expanding into new markets gives it a strategic advantage over local firms. This leads to the multinationality of the firm. Thus, economies of scope can give us a simple and easy theory of the multinational firm.

On the other hand, Belis- Bergouignan, Bordenave and Lung (2000: 41- 42), give us a rather different view about the reasons why firms go multinational. Precisely, they argue that during the last decades multinational corporations have developed an evolutionary perspective with regard to the way the world, political and economic conditions change. In this respect, multinationalisation can be regarded as a learning process that makes firms follow a certain succession of configurations. If this is the case, then the transition to more complex forms of organisation depends on each company's own specific experiences (path- dependency[90]). The multinationalisation of the world economy results in changes as far as the location determinants are concerned. But, this time location determinants do not concern only the multinational corporation as a whole, but on the contrary each single division of the Multinationals.

In particular, the theory of path dependency assumes that original decisions are open to revision, but from a certain point in time onwards, decisions taken more and more restrain present and future choices. The classical model of path dependency is based upon rational choices taken by individuals or, in our case, firms. From an economic stance, according to the neoclassical perspective, path- dependency theory has been deemed as a marginal anomaly. Moreover, the role of resources is of particular importance in path dependency theory. Especially when agents have enough resources and/or are able to mobilise a critical mass to overcome persistence.

[90] Path- dependence theory, which adopts leftist arguments, was developed in relation to the entrance of Multinational Firms in Latin America and Asia.

The allocation or reallocation of resources is usually an important and effective means to initiate and implement organisational changes. (Sydow, Schreyogg and Koch, 2005:6, 23).

Moreover, according to Morgan, Rosemary Sharpe, Kelly and Whitley (2002: 1025) changes, due to the internationalisation process, involve a more complex set of calculations concerned with the location of different parts of the production process. Even more precisely, they are concerned with the nature and type of integration and learning between production sites and other facilities, such as R&D. For example, how internationalised are activities of multinational corporations such as their R&D departments? Have they followed similar patterns to the production facilities? According to Gerybadze and Reger (1999: 256- 263) large firms continue to decentralise, but at the same time they try to remain as hierarchical and integrated as possible. In this respect, their most important R&D activities tend to remain located at one pre- eminent center, whereas less advanced business activities tend to be transferred in less important, for them, locations.

Another (complementary to the path dependency approach, as it will be argued later) approach to the firm is the value chains approach, which examines whether firms chose to participate in all stages of the value chain or whether they simply manage the chain and allow the production of different elements to be carried by other firms. In particular, the value chains approach tries to identify the various ways in which global production and distribution systems are integrated. As a result, each strategy a firm decides to follow has implications to the industrial location choice. In this respect the important issue is how firms, usually small and medium sized firms[91], will be upgraded within the value chain. But the upgrade of a firm is related to the kind of commodity produced, the nature of the relationships between the firms in the chain and the relations between the countries involved (Perrons, 2004: 74; Gereffi, Humphrey and Sturgeon, 2005: 79).

[91] Value chain analysis developed in response to the continuing dominance of large- scale producers in already industrialised countries and the increasing complexity of their relations with suppliers (Perrons, 2004: 72).

A key issue in the value chain approach is the ability to maintain control centrally in an environment that demands fragmentation of the production process on behalf of the firm in order to maintain its competitiveness. This also determines the relationship developed between the two parts. If the product is simple, it can be customised easily and the depiction is provided by the buyer, then an arm's length market relation is developed. This means that the efforts for co-ordination and monitoring of the supplier are very easy. This also implies that buyer's demands could be met by a large number of firms, something that weakens the position of the supplier. In this respect the upgrading of the supplier mostly depends on its own capacity and performance. On the other hand, if the production of a commodity demands a more complex procedure then co- ordination and transaction costs increase. The reason is that separate processes are required to be better co-ordinated in order to synchronise the flow of commodity materials through the chain. The main cause is the need of the buyer for a closer monitoring of the whole production cost (the buyer needs to monitor what is to be produced, how and when). This increase in the interaction between the buyer and the supplier makes the valuation more complex and increases uncertainty about the future. This is the so- called networks value chain relationship. As the commodity's production becomes more complex the degree of relationship between the supplier and the buyer becomes even closer. In the quasi-hierarchy relationship the buyer exercises a high degree of control over other firms in the chain. In particular, it gives specific details with regard to the characteristics of the products to be produced. In such a situation the buyer may discourage any upgrade of the supplier. Finally, in the hierarchy value chain relationship the large firm (or the buyer) may own some operations in the chain. Any upgrade totally depends on the desires of the buyer (Humphrey and Schmitz, 2002: 1023; Perrons, 2004: 75; Gereffi, Humphrey and Sturgeon, 2005: 80). In other words, the more complex the production process of a commodity, the higher the degree of control that the large firm exercises over the supplier.

Thus, of particular importance to the value chain approach has been the nature and content of inter- firm linkages and the power that regulates value chain co-ordination, particularly between buyers and suppliers. For the scholars of the value chain approach, local and national structures as well as institutions have an important role into the determination of these relationships (Gereffi, Humphrey and Sturgeon, 2005: 98). In this respect, it could be argued that the value chain approach follows the thoughts of path- dependency school of thought. In particular, it seems that the value chains approach functions in a complementary way to the path- dependency theory. Whereas, the path- dependency approach argues that multinationalisation is the result of a learning process that makes firms follow a certain succession of configuration, the value chain approach analyses the organisational forms that a firm may adopt in order to remain competitive. In other words, the value chain approach specialises in the theory of path dependency.

But, in order for the large Western firms to expand themselves in new markets and effectively control their subsidiaries, two prerequisites are necessary, i.e. technological advancement and the openness of the world markets. In particular, it was the technological advancements in transport and communications that were of significant importance. It is a question whether large Western firms could develop today's complex global structures without technological progress in these two fields. As Massey (1995: 32) argues, technological change contributed to lower costs of production and increased the degree of control by management over the production process. Currently, the technology factor is more and more attended to in economic theorising (Grandstrand, 1998: 471). Taking technological developments (in transport, communications, etc.) as a fact, then how are the large firms organised in order to effectively co- ordinate their production chains within and across nations? Moreover, the openness of the markets, as it was described previously, allowed firms to integrate their activities on regional or world- wide scales. According to an analysis by UNCTAD (2002: 121) this evolution increased competition, not between individual factories or firms, rather between entire production systems, developed by multinational corporations.

The advancements in technology and the openness of the markets enabled multinational corporations to spread their different facilities (e.g. production plants, R&D departments, headquarters) depending on how they considered the best suitable location for each such activity. For example, they could consider that their production plant should be located in a country where there was a cheap and abundant labour force. Or they could consider that their R&D activities should be located in a developed country where there is abundant highly skilled scientific labour force and high quality universities. But, all these departments, being located in different parts of the world, could be managed as well as being located in a single area due to technology advancements. Moreover, due to the above mentioned evolutions, the managers of the multinational corporations had more location options to chose from about where to locate their different departments, which also strengthened their power (economic and political) against the national governments, but also against labour[92]. As a result there is the current phenomenon of less and more developed countries to compete between each other offering a vast range of incentives to the multinational corporations in order to convince them to locate in their country, or at least not to take away, their different departments.

Thus, a number of evolutions, at a world scale, have been associated with the rapid growth of the multinational corporation. These evolutions are the rise of new technologies and products, the emergence of a new wider international division of labour, which allowed the simultaneous concentration of management powers and the decentralisation of the manual operations[93] (Perrons, 2004: 65), and the greater integration of production and services across countries. As Cantwell (1991: 15) argues, the multinational corporation is representative of the type of international economy that has grown since 1945. Of course, this rapid growth of multinational corporations has led to changes in their organisational forms. De Canio and Watkins (1998: 290) argue that organisation and information processing (an essential element of the multinational corporation in order to co- ordinate the activities of its division to different parts of the world, but also to keep gathering information concerning evolutions in its field of activity and thus to remain competitive at world- scale) are related. This sounds normal if we take into account the spread into different locations of establishments that produce only parts of the same products. Besides, as it was argued before in the analysis of the value chain approach, what kind of organisation

[92] Through the historical development of industry whole sectors have changed location to break away from well organised labour force, managing in this way to both lower labour costs and re- establish the controlling power of capital- over labour (Massey, 1995: 55-56).
[93] As explained in Chapter II, the theory of New International Division of Labour, argues that certain parts of modern manufacturing activity have been decentralised to selected "Third- World" countries and to the peripheral regions of Europe. The main shakers of this tendency have been market trends, unilateral political actions, efforts for greater economic integration among countries of the same region such as the EU and NAFTA, and finally certain actions of Multinational Firms, such as the internalisation of the production process.

type and information processing procedures a firm will decide to perform, will depend on the type of commodities this firm produces.

A firm, in order to keep producing such commodities by maintaining the same quality, as if producing them in the same manufacturing plant, has to be aware all the time about the production process. A break in the information of the production process may be fatal for the quality of the product. Moreover, these products, of which different parts are produced in different locations, have to be evolved in order to remain competitive. It is far more difficult to evolve a product produced in different parts of the world, than a product produced in a single location. In these terms, a detailed knowledge of the components of these products is demanded, together with an up- to- date knowledge on the evolutions that take place from the competitors. Then, these two "components of evolution" of a product have to be, at any time, disposable in the form of knowledge in case the management of the firm wishes to change (or evolve) these products. Thus, the efficiency of the firm to remain competitive varies with the processing power of its agents within it. In the case where the firm has spread its production operations to different locations, but at the same time has not managed to organise its information- processing structures in such a way as to be capable to respond quickly to changes from competitors (or just even to evolve) this may limit the competence gains of the firm.

But, the organisation structure of the MNF depends on certain distinctive features. A first set of such features may be related to the parent group as a whole, such as the sector(s) in which the firm is active, nationality, size, etc. A second group of characteristics may be related to the subsidiary, such as the host country, size, age, performance, etc., or to the nature of links (ownership, interdependence), between the parent company and the subsidiary. Moreover, host- market situation, competition, the role of technology (in particular communication and transport technology) and the role of host government policies are also important. But, apart from these factors, other more intangible characteristics are of equal importance. Such characteristics are related to the firm's specific history, which includes the features that derive from its home- country embeddedness and its culture and administrative heritage in the form of accepted practices built up over a period of time (OECD, 1987: 55, Dicken, 1998: 202).

These features that may affect the organisational form of the multinational corporation will become particularly evident when the American, European and Japanese firms are to be analysed. In other words, a firm being, for example, in the automobile sector will develop a different organisational form in relation to a firm in the chemical or food sectors. And even within the same sector firms may be organised differently[94]. Nevertheless, my argument is that the development of these different forms of organisations will be developed at a later (secondary) stage of multinationalisation of the firm, and only when the foreign firm has become familiar with the new economic environment. In this respect Sachwald (1998: 210) argues that at the beginning firms that are little internationalised, e.g. this was the case during the 1980s for the Japanese and French firms, will choose to follow a management practice that favours control over foreign units.

As previously mentioned, pioneers in the expansion to new markets have been large American firms. American firms changed during the 1950s and 1960s their organisational structure from a functional form, where a firm is subdivided into major functional units (e.g. production, marketing, finance, etc.) into a divisional form (either product based or area based). This form allowed American firms to give to the new branches located outside homeland an autonomy in areas such as production and marketing, but they used to keep under the control of the parent company the finances of the branch (Dicken, 1998: 202). Although this divisional structure allowed American firms to acquire greater control over their increasingly diverse product environment, nevertheless, it did not solve all the problems related to the co-ordination and control. Thus, one way for the firms was to organise themselves either on a product- based system, or an area- based system.

Nevertheless, the extent to which a firm decides to separate its divisions and locate them at different places mainly depends on the actual strategy that has been adopted and pursued by the firm. A rather new strategy that has been developed

[94] According to Belis- Bergouignan, Bordenave and Lung (2000:42) American car makers were the first to be multinationalised thus developing a path that clearly leads towards globalisation. Similarly, Japanese car manufacturers tried to enter the new global environment by increasing their internationalisation of production, but they followed a different route. Finally, European car makers, continue to operate in a mono- regional environment, which reflects the difficulties they have faced in integrating themselves in this new globalisation environment.

during the last two, or so, decades by an increasing number of large producers who no longer produce any of their products through their subsidiaries, but they rather allow other smaller firms to do this job for them. But, the quality standards remain equally high because the large manufacturers closely organise their supply chains to guarantee reliability and quality, together with compliance with the different ethical codes of conduct (Perrons, 2004: 72).

As mentioned above (the value chains approach), this organisational structure is possible due to the evolutions in ICT, which allows close tracing of the production process. NIKE for example, does not produce anything, but some clothing firms similar organise a whole set of sub- contracting arrangements without buying anything. In general, the apparel industry has been a pioneer in contracting out its production. According to Bonacich and Appelbaum (2000: 12), this method could be characterised as an instance of flexible production. Subcontracting allows industries to deal with fluctuations in fashion and seasons by hiring contractors when they need them and letting them go when they don't. Manufacturers, not only use local contractors, but also conduct their offshore production through contracting rather than through ownership of subsidiaries. Their main advantage is that in this way they do not possess any fixed- assets allowing them to move production wherever they can get the best deal in terms of labour cost, taxes and tariffs, environmental regulation, etc.[95] that may have an effect on the cost and quality of the final product. Nevertheless, in practice, manufacturers may form long- term partnerships with a core group of dependable contractors, attempting to ensure that they receive steady work (Bonacich and Appelbaum, 2000: 12). This development makes much more complex the issue of FDI. The question is whether the practice of an increasing number of multinational corporations, which subcontracts[96] its products to small firms located around the world, such as NIKE, is considered as FDI. On the other hand, the influence of multinational corporations remains high due to their purchasing strategies.

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[95] The contracting system provides at least five major advantages to industries (mainly those that consider cost as their main location factor for the establishment of production, e.g. apparel industry): it externilises risk, it lessens the cost of labour, it allows manufacturers to evade moral as well as legal responsibility for violation of labour laws and it helps to hinder unionisation (Bonacich and Appelbaum, 2000: 136).

[96] Sayer and Walker (1992: 130) argue that "the term subcontracting is the source of some confusion. Literally it means undertaking some portion of work that has already been contracted for, implying at least a three- tier hierarchy; but it is also commonly used with respect to contracts drawn up between relatively equal firms- what we call simply buyer- supplier contractual relations".

But, which are the main divisions of a large firm that can be allocated at different parts of the world? And what is their role in the overall organisation of the firm? Before formalising different typologies of multinational corporations, it is better to give a description of their main operational units. In particular, three major divisions of a multinational corporation are to be presented, notably the corporate and regional (when in existence) headquarter offices, the R&D facilities and, of course, production units.

The first and most important division of a firm is its corporate and regional (when in existence) headquarter offices. In a large firm the corporate headquarters is the location of overall control for the entire firm (in terms of financial, administrative and production control), which is responsible for all the major strategic investment (and disinvestment) decisions that affect directly the whole firm. They also operate as the intermediaries (e.g. as far as knowledge is concerned) among the different units and subsidiaries of the firm (Massey, 1995: 68; Dicken 1998: 208).

On the other hand, regional headquarter offices, constitute an intermediate level in the corporate hierarchy influencing a number of countries, usually located in a certain geographical region (e.g. South Eastern Europe). A regional headquarter might also be established due to the creation of a regional economic union, such as the European Single Market or NAFTA. For example, partly as a response to the creation of Single European Market in 1992, Japanese firms[97] have begun to establish European headquarters for their operations in Europe (Oliver, Morris, and Wilkinson, 1992: 203; Morgan, Rosemary Sharpe, Kelly and Whitley, 2002: 1033). Once created, their role is to co- ordinate and control the activities of the firm's affiliates within the particular region. Subsidiaries generally report to these regional headquarter offices, in which in turn report to the corporate head office. Finally, regional headquarters are regarded by host countries as an important operation to attract. One of the striking elements of the geography of corporate headquarter offices is that very few, if any multinational corporation, has moved its ultimate decision- making operations outside

[97] For Japanese Firms location started being considered of significant importance as a way of getting behind the tariff barriers put by the European Union and accessing its markets (Morgan, Rosemary Sharpe, Kelly and Whitley, 2002: 1024).

its home country. On the other hand, there is quite a lot of evidence that multinational corporations relocating major divisional headquarters overseas (Dicken, 1998: 209-210; UNCTAD, 2001: 80).

Another important division unit of a large firm is its R&D facilities. According to Gerybadze and Reger (1999: 254) it was in the mid- 1980s that a trend towards investing in R&D sector in foreign countries was recognised. Generally speaking, multinational corporations spend more R&D than other firms, in order to continue to be competitive and profitable at world level. Innovation of new products or new processes (knowledge- specific advantages) is critically important for such firms in an increasingly competitive world economy (Dicken, 1998: 211). But, in relation to other units of a multinational corporation, R&D operations are harder to be relocated abroad. The main reasons are the large communication and transaction costs involved, because of the need by the multinational corporations to closely control each aspect of those activities. R&D activities can be very costly for the multinational corporation in order to generate the final product that will be sold to the market. Moreover, due to the nature of R&D, which in essence gives to the multinational corporation the necessary innovation and knowledge in order to maintain its competitive advantage against their competitors, there is a need for constant monitoring of those activities as well as a need for rapid decisions, which makes constant communication between the headquarters and the R&D department vital. Another reason for making the relocation of R&D department very difficult are the strong synergies developed between corporate R&D and the science and production system around it. In this respect, US and Japanese Firms have been more hesitant to internationalise their R&D activities in relation to European multinational corporations (UNCTAD, 2001: 80- 81). Nevertheless, many large firms have decided to engage in R&D activities outside their home country. Why is this happening? According to Gerybadze and Reger (1999: 261- 262) there are several reasons for this. First, R&D is located close only to their most dynamic markets, where a large number of their products is purchased. Moreover, there are countries where regulatory conditions, licensing procedures and standardization agreements are less strict and thus their new products can relatively fast be tested. Third, for a number of new products a close link between R&D, advanced manufacturing and efficient supplier network is important. Finally, it is important an R&D activity to be located in an area where there is abundant high- skilled and scientific personnel. Usually, such places are where prestigious universities are located.

However, all these reasons are mostly related to strategies followed by multinational corporations that aim at the global market, not separating individual countries. Thus, I would argue that another reason for multinational corporations to engage R&D activities outside their home country is local customisation. Adopting their product to particular national customs is very important, mainly for large markets. But, regardless of the strategy of the multinational corporation, the preconditions just mentioned seem to limit the extent to which R&D activities are decentralised. Depending on the aims and needs of the multinational corporations, but also from the policies (e.g. policies towards liberalisation) and market conditions (e.g. size of the market or purchasing power of the population, or even geographical location) of countries, different places, in different time periods are qualified as suitable for the location of R&D activities.

Equally important for a large firm is its production unit(s). The production unit is the earliest, after sales, operation to be established outside home countries. It is also geographically more dispersed than the functions previously analysed. As it will be mentioned in chapter four there are several factors that may influence the location of a production unit. Moreover, which and in what ways production units will be located abroad depend on the specific sector of a company. For example, a large firm may perform a globally concentrated production strategy where the whole production is concentrated at a single geographical location (or at least within a single country) and exports to foreign markets via overseas marketing and sales network[98]. Moreover, during the 20th century resource- based investment has gradually been displaced by import- substituting investment in other developed countries, resulting in the significant change of the sectoral distribution of international production. This evolution is also related to the increasing share of trade between developed countries. (Cantwell, 1991: 23; Dicken, 1998: 215; UNCTAD, 2001: 84- 85).

[98] This strategy used to be followed by Japanese firms, in their first steps during their internationalisation.

3.3 Models of MNE's- A Critical Appraisal

Having presented a brief historical review of multinational corporations, at this point I will present the different types of multinational corporations that have been developed since 1945- some relating to sectors and some relating to changes over time. The models that are to be mentioned were developed on the basis that the divisions of a multinational corporation can be located in different parts of the world, away from their headquarters. According to Markusen and Maskus (2002: 695), this approach is referred to as the "knowledge- capital model" because it assumes that knowledge is geographically mobile and a joint input to multiple production facilities. Moreover, the models presented here were developed when globalisation era and its consequent influence to the academic community, and elsewhere, has been significant.

Thus, in chronological order, this analysis begins with that of Dicken (1998: 204- 205) who argues that so far three major organisational forms of multinational corporations have emerged and one more is in the process to emerge. In particular, Dicken describes the transformation of the multinational corporation, since the inter-war period to the present era. He gives an explanation why large firms (particularly of USA and large European countries) had to expand abroad by direct investment, and what particular organisation forms they developed in order to exploit their advantages. But, he places emphasis on the organisation forms the multinational corporation has developed in order to respond to changes in world economic conditions and not to the causes.

In this respect, Dicken has developed four models of multinational corporations, the so- called "multinational", the "international", the "classic global" and one which is on the emergence process named as the "complex global". Before the analysis of each model it has to be noted that despite the fact that each model developed during specific historic periods, nevertheless, there is no suggestion that one model was successively replaced by another.

The first organisation model called "multinational" emerged during the inter-war period as a consequence of the desire of the large firms to take advantage of national market differences of that era. These firms were organised at a world-wide scale as a portfolio of national businesses. But, because their primary aim was local domestic markets, subsidiaries had a significant degree of autonomy. This method of expansion was particularly popular among large European firms. Thus, these firms usually locate their subsidiaries in countries with a large population and strong purchasing power. Moreover, depending on the type of multinational corporation, they could establish subsidiaries in areas where there was availability of raw materials or friendly political regimes.

The second organisation model is the “international” one, which first emerged during the 1950s and 1960s when large American firms expanded overseas in order to capitalise on their firm- specific assets of technology and selling expertise. This is the period where Fordism collapses. As was mentioned in Chapter 1 the large western firms, and particularly the American ones, had to expand to new markets in order to keep their production levels high. These new markets were mainly in the less developed countries, including Greece, Ireland and Portugal. Thus, in the political and economic conditions that this model had to involve, there developed a management of far more formal co- ordination and control by the firm’s headquarters over the overseas subsidiaries.

Thus, apart from the domestic markets that remained important for the multinational corporations, new potential markets started to be created for their products. Domestic markets remained important because it was discovered that the population had a consumption mentality and of course a strong purchasing power. Besides, as stressed in chapter 1, one precondition for the multinationalisation of large western firms was the maintenance of the demand level for consumer goods in the advanced capitalist countries in high levels. On the other hand, new potential markets started to emerge in the countries where the multinational corporations expanded. The population there would start to familiarise itself with new products, now produced in its own country. Moreover, the purchasing power of those countries would start to increase as a result of increased investment and improvement to their economies. Of course, nothing could take place if it was not supported by the national governments of European core and periphery. In this respect there was a respective action by the multinational corporations and national governments of both developed and less developed countries of Western Europe towards an increase of consumption by the populations.

The third organisation model is the "classic global" one, which was first used by Ford in early 1900s and revived only in 1970s and 1980s by Japanese firms, which started their international operations. It is based upon a strict centralisation of assets and responsibilities in which the role of subsidiaries is to assemble and sell products, as well as to implement strategies already decided by the centre. In other words, subsidiaries have almost no ability to develop new products and strategies or modify existing ones. The main strength of this model is the effective use of scale economies and of central knowledge and expertise. This management technique ignores local market conditions and the ability of local learning. As mentioned in chapter 1, the development of this organisation model was backed by the rapid improvement of technology and the welfare of peripheral countries (in Europe, Asia and Latin America). The management started to be supported by computerised information systems and the tasks, which were performed by each person, were very clear.

Finally, the model that is the most recently developed one, mainly due to the fast and important advancements in IT sector, is the so- called "complex global" one. More precisely this type of multinational corporation is associated with the emergence of globalisation era, and it is an effort for multinational corporations to respond to the changing conditions of globalisation. Its main characteristics are the use of an integrated network organisation process, as well as of an ability to develop flexible co-ordinating processes. These abilities apply both internally to the firm, as well as outside the firm through a complex network of inter- firms relationships. This type of multinational corporation is more prepared to subcontract out local repair services, and segments of research activity in new technologies not central to its operations (Dicken, 1998: 203- 205).

Dickens' analysis seems to be based on the same concept with the value chain approach. As argued above, for the value chains approach, a firm might develop certain organisational forms in order to remain competitive, depending on the type of commodities it produces. Dickens identifies four organisational forms that a firm may adopt due to the competition with other firms. Moreover, Dickens identifies the ways a multinational corporation organises its production and distribution processes, as well as the importance of local and national structures as well as institutions in the development of multinationalisation by the firms. In a similar way, value chains approach develops a similar concept in order to explain the causes of competition between firms.

Similarly, Belis- Bergouignan, Bordenave and Lung (2000) developed a typology of different forms of multinational corporations that currently operate at world- scale. Although their typology has many things in common with the typology that was developed by Dicken, on the other hand the main difference is that the analysis of Belis- Bergouignan, Bordenave and Lung is based on spatial homogeneity. According to this argument, the greater the degree of homogeneity, the greater the degree of hierarchical control.

More precisely, they divided the types of multinational corporations into three categories. The first type of multinational corporation was named "World- wide company". This type of multinational corporation is both homogenous and ethnocentric. When such a firm invests abroad, at the beginning it duplicates the original company's organisational structure. In this way the firm presents an homogenous form across different nations. But, as the firm is further integrated into the foreign countries, it develops an international division of labour. As mentioned in chapter 2, this means that, where international capital expands, new countries are no longer limited to standardised tasks (usually supplying raw materials) for the manufacturing of products for the developed world. On the contrary, they are further drawn into the framework of the world economy, not through interstate relations of colonialism, but in accordance with the exigencies of the framework of international co-operation[99]. This evolution reinforces the position of multinational corporations against countries and labour, as it creates new locations for establishing manufacturing operations, but also new locations for consuming their final commodities.

[99] In this respect, Sayer and Walker (1992: 7) are correct when they argue that the division of labour is an integral part of economic change as it is one of the basic forces of production, along with mechanisation, technical knowledge and capacities of workers.

The second type of multinational corporation developed by Belis-Bergouignan, Bordenave and Lung is called “Multidomestic Company”. In this case the parent firm gives some autonomy to its subsidiaries that are located in different countries. They produce products that have great local influence. Nevertheless, this type of firm maintains important competencies, such as technology and know- how, at the centre. A third type of Firm is the “Multiregional Company”, which is organised into different, interrelated regions. The particular feature of this type of Firm is that the principal economic functions are decentralised. Finally, the “Transregional company” where activities are integrated across the world. More precisely, different regions are considered to be spaces of specific competencies and efforts are made for their co-ordination in order to work as one unit, but at a global scale. A world- wide set of products is produced and sold in various markets (Belis- Bergouignan, Bordenave and Lung, 2000: 42- 43).

On the other hand, King and Sethi (2001: 203- 205) developed a taxonomy of multinational corporations, mostly based on the targets set by their management. More precisely, a first type of such firms is the so- called export- oriented firms. Such a firm serves international markets via export department. The emphasis is on marketing and distribution efficiency. This type of multinational corporation has a highly centralised management structure, because the parent company controls all resources and decision- making processes. Another type of multinational corporation is named by the two authors as the parent- child configuration. This type of firm is characterised by a greater management experience on international markets and positive returns on exports. Marketing and/ or manufacturing subsidiaries are being developed in one or more countries outside the homeland. Management develops a structure of low centralisation because the operating departments of the subsidiaries, particularly finance, marketing production and logistics, operate independently of each other, as well as of the parent company. The third type is the “global firms”. These firms target international market without distinguishing between countries. Centralisation of management activity is not only high, but also vital for the success operation of the firm. All foreign operations are controlled and co-ordinated by the parent company. However, decision making is fairly decentralised. Finally, the last but not least type of multinational corporation, is the “portfolio management” one. This type of firm has approached the international market by focusing on a specific region, especially for production facilities. But, marketing and distribution activities are performed globally. Like the previous type of firms, their manufacturing activities are highly centralised as far as their management is concerned.

3.4 A Model for an Analysis of the Locational Determinants of FDI

But, for the purpose of this thesis, at this point, I am going to draw one framework in order to help understand why different types of multinationals will be attracted by different kinds of locational factors. In particular, instead of distinguishing multinational corporations to three or four types depending on the hierarchical control they want to exercise to their affiliates, we will adopt a simpler two- type organisation model of the multinational corporations. This kind of organisational model divides multinational corporations into "vertical" integration of production and "horizontal" one. This is probably the oldest and most common way of identifying the types of multinational corporations. Krugman (1990) in his article where he presents a history of the evolution of the multinational corporation since the end of 19th century, divides Multinational Firms to traditional (pre- 1940) ones, and modern ones. The traditional multinational corporation is basically the vertically integrated one, whereas the modern one appears to have a more horizontal organisation. Nevertheless, as Krugman argues (1990: 269) even in the modern multinational corporation someone may find many more vertical aspects than someone should expect.

More precisely, multinational corporations subcontract and brand their commodities through their subsidiaries, or other firms, in different locations all over the world (i.e. decentralise their operations), whereas at the same time maintain a vertical integration of control. Such examples are NIKE, which does not produce any sportswear and DELL, which does not manufacture computers. At the same time, other firms do not produce their commodities any more because they can make more profit from branding and marketing products (Perrons, 2004: 70). Of course any kind of management organisation a multinational corporation may choose will depend on the type of product it tries to make profit from. Thus, for products with a short life cycle, such as clothing, many firms prefer to buy the inputs they need from other, sometimes, native small firms, rather than establishing subsidiaries in different parts of the world in order to produce these commodities (Perrons, 2004: 71).

Moreover, Grossman and Helpman (2004: 238) relate the process of vertical specialisation with the growth in international trade of intermediate inputs, components and specialised producer services. Indeed, "vertical" integration of production network at a world- wide scale started to (re) emerge since the mid- 1960s when large American electronic firms expanded overseas by establishing assembly operations into East and Southeast Asia as well as in Mexico. In essence it was the expansion of sales function of the investing firm. This relocation of production stimulated the development of a second industrial divide, which was related to flexible accumulation and the importance of cluster, that was analysed by Piore and Sabel in 1984 (Dunning, 1974: 22; Dicken, 1998: 217).

The main characteristics of the vertical division (i.e. internal division) of production include the shifts up and down the value chain (e.g. Nissan has set up engine assembly operations in the UK[100]), as well as the geographical specialisation by process or by semi- finished products. A third feature is an increase in the proportion of components acquired locally. The main purpose of such an organisational form is to advance or to protect market shares. The developments in transportation and communication technologies allowed the enhancing of flexibility into geographical location of the production process. More precisely, due to these developments, by the vertical division of production process multinational corporations can take advantage of production related differences between nations, or large regional markets such as European Single Market and NAFTA. Such differences may include low trade costs, stages of production that differ in factor intensities and countries that differ significantly in relative factor endowments (e.g. a country with abundant skilled labour in comparison to a country with less skilled, low waged, labour for final assembly). In other words, a classic New International Division of Labour model is described. Finally, firms, which export their production back to the home country of the parent company, are probably vertical investments. (Dunning, 1974: 22; Dicken, 1998: 217; Markusen, 1998: 736, 738- 739; Oliver, N., Morris, J. and Wilkinson, B. 1992: 203; Ekholm and Markusen, 2002, www.econ.ku.dk, access date: September 2005).

[100] Nissan has been in Sunderland since mid 1980s.

The other type of multinational corporation organisation is the "horizontal" one, which in essence apply the opposite results. The horizontal type of organisation included subsidiaries located in several countries where roughly the same products are produced and there are positive trade costs. These subsidiaries may or may not be harmonized with each other or with domestic activities. They might also increase their product range (e.g. a local car plant starts manufacturing a new car model). Most common investment is of high technology or intermediate technology. This purpose of investment primarily targets the will of the multinational corporation to meet the demand of the local overseas markets, without the loss of an integrated organisation form. The sources of location advantages that are important for horizontal MNEs are trade costs (moderate to high), and a large domestic market. Finally, these horizontal operations attract great interest by both the host and home countries (Dunning, 1974: 22; Markusen, 1998: 738, 739, Venables, 1999: 936; Oliver, N., Morris, J. and Wilkinson, B. 1992: 203, Ekholm and Markusen, 2002, www.econ.ku.dk, access date: September 2005).

In this respect the horizontal type of multinational corporation is mainly buyer/ producer driven. A multinational corporation decides to locate in one country, either to improve its trade costs, or to correspond effectively to the increasing demand for its commodities in this location. It tries to do that without easing their full hierarchical control against their subsidiaries. Additionally, this type of organisational form seems to match the arguments of the value chains approach, that examines the nature and content of inter- firm linkages and the power that regulates value chain co-ordination (in this respect, how a horizontal firm arranges its relationships with its affiliates, keeping at the same time full control of the affiliates' production and decisions taken?). Similarly, in order for a horizontal type multinational corporation to expand in new locations, very important is the role played by the local and national structures as well as institutions of the country that the investment is going to take place. How important is this role, and how local and national structures, as well as institutions, affect the decision of a firm to expand abroad, is examined by the value-chains approach.

3.5 The Organisation of Multinational Corporations that Greece May Attract

Having looked at the structure of multinational corporations in the context of the evolution of the economy it is now possible to advance some hypotheses or expectations about the types of firm that may be attracted to Greece. Usually, high trade barriers that lead to moderate to high trade costs encourage (horizontal) direct investment between countries that are similar in size and in relative endowments, but discourage (vertical) direct investment between countries that are dissimilar in relative endowments. The latter because the HQ country needs to be able to import the final product at relatively low cost (Markusen, 1998: 753). Thus, having this conclusion by Markusen in mind, I suggest that Greece is preferred by horizontally organised MNEs. The reasons are that Greece nowadays is considered as part of a large regional market, that of the European Single Market. At the same time, geographically, Greece is located far from the large European markets and consequently trade costs are considered moderate to high, depending on the nature of industry activity. Thus, any multinational corporation that desires to have a strong presence in the Greek market, is highly likely to prefer the solution of establishing a subsidiary in Greece that will produce the same or roughly the same products as in the other large European Markets. This subsidiary will also include a strong marketing and sales department, essential for keeping and expanding its market share in the local market, but it will not include an R&D department as the research for developing new products takes place elsewhere. Finally, local management may have a moderate to high degree of autonomy in decisions that concern the domestic market, but relies on the parent company as far as the transfer of knowledge and expertise related to marketing and sales techniques, which are to be followed. In that sense, Greece should not be appropriate as a location for producing semi- finished products as part of a world-wide production chain, and thus discourages "vertically" organised multinational corporations for choosing the country as a potential investment location.

The just mentioned hypothesis can be partially supported by Venables (1996: 341- 342) who argues that the location decision of a firm depends on the interaction between production costs and easy access to the markets. More precisely, firms will tend to locate close to the large markets (in relation to locations that firms have higher trade costs) where high wages exist and thus attract more population. This further enlarges the market and creates agglomeration forces for the firms, i.e. attract more firms. Thus, firms in the downstream industry will have lower costs if they locate where there are relatively many upstream firms because in that way they can save trade costs on their intermediate inputs. Nevertheless, Greece fails to attract vertically integrated industries for the reasons just mentioned in the hypothesis that is to be tested is this thesis.

3.6 Conclusion

The patterns of FDI have been changing due to the changes in the organisation forms of multinational corporations (UNCTAD, 2001: 85). On the other hand, it is highly likely that technological and organisational changes will lead to more cross-border cooperative forms. In the era of globalisation, multinational corporations possess a competitive advantage, which considers that the convergence of industrial structures is not only inevitable, but also desirable. For this reason the idea that the evolution towards a single model of industrial organisation is the aim should be rejected. On the contrary, as Belis- Bergouignan, Bordenave and Lung argue (2000: 51) it is necessary to adopt a wider theoretical framework, which integrates different forms of spatial organisation.

As far as Greece is concerned, I argue that horizontally organised firms are most likely to invest in the country. If this is true (something that will be shown by the results of the questionnaire), then the number of multinational corporations that could invest in the country decreases a lot. Only firms that aim to the benefits of the domestic market (e.g. local resources or maintain or increase their market share) could probably come and invest. But, Greece being in the EU Single Market, and having in mind the developments in technology (i.e. in telecommunications and transport), then another equally or even more developed country (e.g. Italy) could get the investment and then Greece being serviced by this multinational corporation via exports.

Besides, as it was analysed in the introductory part of this thesis the majority of investment goes from one developed country to other developed ones. According to Markusen and Maskus (2002: 695) this indicates that horizontal investment is much more important in the world economy than vertical. The reason is found in the characteristics of the horizontal investment in relation to the vertical one, as they were analysed in the previous lines. This argument implies that horizontal investment is the kind of investment countries should desire. From that point of view, in the case of Greece, if it is finally shown that the country attracts mostly horizontal investment then it could be argued that Greece benefits much more than the numbers by themselves (i.e. FDI inflows per year) display. Greece gets significant advantages for its economy (e.g. technology and management transfer), which are also very hard to be quantitatively measured, than it should get if only the country was a destination for vertical investments.

Equally it is very difficult for Greece to compete with Eastern European countries (since 2004 most of them are full Member States of the European Union and in 2007 Bulgaria and Romania also expect to join it) in order to attract vertically integrated multinational corporations. Usually, such firms target low waged countries in order to establish their subsidiary as part of an integrated production system. In other words, for vertical investments, factor endowment variations are of particular importance (Markusen and Maskus: 2002: 695; Ekholm and Markusen, 2002, www.econ.ku.dk, access date: September 2005). But, how much such an investment contributes to the increase in capacity of management capital of a country? In other words how beneficial is such an investment for the overall development of an economy? These are questions that should be answered in the case of Eastern European countries that attract a large number of vertical investments, mostly as a result of their cheap labour factor.

In the next chapter there is an analysis about the factors affecting the decision for investment by multinational corporations. It is shown that factors, and their relative importance in influencing the decision of a MNC to invest in one country in relation to another one, depend on the type of the firm/ product. In the last section of the next chapter the role of incentives in attracting FDI is presented. Currently the competition between countries to attract foreign investors has brought to the fore the importance of incentives.

CHAPTER IV

Factors Affecting the Location of Multinational Corporations

4.1 Introduction

In this chapter the factors that currently affect the location decision- making process of multinational corporations is going to take place. In particular, having in mind the theories of location developed in chapter II, as well as the changing nature of the world- economic conditions, especially since the spread of globalisation that was explained in chapter I, as well as the nature of the multinational corporations analysed in chapter III, we will try to give the current importance of certain location factors in the decision- making process of a multinational corporation. After this analysis we will be able to match in a table different factors with different types of firms (depending on their activities and commodities produced). In the second part of this chapter, special attention will be given to the role of incentives provided by governments in order to attract FDI. The reason is that since countries have become more vulnerable to competition by other countries, they have devoted a lot of resources (in the form of subsidies, investment promotion agencies and laws) in order to convince multinational corporations to invest in their territories. This section will allow us to identify how important these efforts have been by the countries in order to become a more attractive location. The last section of this chapter will refer to another (not locational factor) that its analysis may give some hints regarding the low performance of Greece in FDI attraction. As we referred a little above, the changing nature of the world- economic conditions was also a result of the collapse of the ex-communist regimes. In this respect a lot of native Greek, and foreign firms located in Greece, started to invest in the neighbouring countries, as the Greek entrepreneurs offered the advantage of being more familiar with the mentality of the people in the south-eastern Europe, in relation to other European countries. As a result, since 1990, Greece became among the top outward FDI investors in South- Eastern Europe, i.e. Greece is not any more just a recipient of FDI, but on the contrary, like most of the mature western countries, has a very good performance in outward FDI.

4.2 Which Factors Affect the Decision for Investments by the Multinational Corporations?

In this section focus is going to be on the conditions created in the world economy and their effect on the behaviour of enterprises. In particular, globalisation and the lift of economic barriers in a large number of countries have changed the behaviour of firms. Consequently, the "demands" of a firm to invest in a country have also altered. These "demands" became more specialised depending also on the type of investment and the produced commodity[101]. The changing economic and business conditions is obvious that have also made somewhat superannuated some of the location theories, as it was criticised in chapter II previously.

Location theories seem to explain satisfactory the location decisions taken by multinational corporations. But, most of them tried to explain the behavior of firms in a perfectly competitive environment[102]. The reason is that the theories of location do not take into consideration limitations imposed by countries to FDI. Moreover, location theories do not take into consideration incentive packages that countries currently offer in order to attract foreign firms. In particular, no scholar of the traditional location theory seemed to have taken into account the case of incentives provided by a national state in order to compensate an investor for the competitive advantages of another location. All factors contributing to the optimal location of a firm were related to the characteristics of the area and the firm. In this respect, Alfred Weber's theory with regard to the optimal location of a plant, for example, could be supplemented by regarding one more factor, apart from the natural, technical, general or special factors, that of the government factor with regard to the determination of the optimal location. It is evident that the addition of one more factor will distort the balance of Weber's theory. Nevertheless, it is questionable the degree to which the factor of government incentives would affect differently the conclusions of Weber. The reason is that, as it will be argued in the last part of this chapter, even today, there is a lot of discussion about how much in account we should take the factor of investment incentives when regarding the location- decision making process of the

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[101] Besides, as Massey (1995: 13) argues, locational requirements themselves are an outcome of the characteristics and ever- changing demands of industry.

[102] See the analysis about Ricardo, Heckscher and Ohlin, Weber and Losch in chapter II.

firms. Thus, the purpose of this section is to explain how multinational corporations "behave" in the globalised world we live. What factors and to what extent might influence the decision of a firm to invest in one country in relation to another one? This is the first step to explain the behaviour of the multinational corporations.

In the contemporary world there is a whole list of factors that shape the decision for investment in one country. All countries seek the right incentive package, which attracts FDI. This concern is higher for the peripheral countries of the European Union. Factors such as the size of the market, economic and fiscal policies, labour characteristics, infrastructure, political conditions, etc. still remain influential on the decision of a multinational corporation to invest. European integration has changed the comparative advantages of countries and highlighted the role of national institutions and capabilities in location decisions (Barrell and Pain, 1999: 925). But, these factors in isolation cannot play an important role in the decision of a firm to invest in one country. On the contrary this decision is the result of a mixture of factors, depending also on the type of investment.

In the following analysis, the factors influencing the decision-making process are divided into two large categories: first the host country factors, which include the market characteristics, employment and resources characteristics, and second the multinational corporations' factors, which include transportation, linkages and strategic decisions characteristics. This division has taken place depending on two criteria: first, on which side each factor is closer related, i.e. the formation of the market characteristics are primarily a responsibility of the host county, while the strategic decisions are primarily a responsibility of the multinational corporation. Second, the differentiation will take place on the basis of internal and external benefits or losses, i.e. those positive or negative effects on the production capabilities of a firm, which are the result of the firm's own decision-making and thus controlled by its own managers (internal benefits or losses). On the other hand, external benefits or losses exist when the effects of a decision taken by the firm's managers are independent of their action, e.g. time losses in transport resulting from adverse weather conditions, or bad transport network).

There are many factors influencing the location of a firm or plant. The relative significance of each of these factors depends on the type of the firm carrying out the investment. The factors shape the profile of a country or region. The first such factor is the market size and its relevant absorptive capacity of the host country, i.e. the extent to which a country can adopt the new foreign technologies and alternative management methods "imported" by a multinational corporation. According to Dunning (1993: 58), such markets will have been serviced previously by exports firms, either because of tariff or other cost-raising barriers imposed by host countries. When conditions change then these firms are established in those large markets and produce locally. But, Dunning seems to neglect the significance of multinational corporations developing off shore plants in order to reduce costs. On the other hand, the adaptive capacity of the host country mostly depends on institutional factors, such as legislative framework and political stability and scale factors, such as balance of payments limitations and the size of the internal market for the goods produced via FDI (de Mello, 1999:134).

Secondly, a very important factor is agglomeration (or external) economies. As mentioned in chapter II, this concept, which was first introduced by Alfred Marshall in 1890s, but was also analysed by Weber, Losch and the New Economic Geography scholars who analysed the current effects of agglomeration economies, mirrors the geographical proximity between firms performing different, but linked, operations in the production chain. Agglomeration economies rarely occur at the international level. Mostly they are an interregional or interurban phenomenon (Guimaraes, Figueiredo and Woodward, 2000: 116). They result from the spatial concentration of existing economic activity.

From the time of Marshall and Weber, as analysed in chapter II, the benefits of agglomeration economies have been stressed. In particular, the purpose of such a geographical proximity is the minimization of transaction costs involved. Firms operating in the same or linked economic activities draw on a shared pool of skilled or unskilled labour and specialised input suppliers. Additional benefits derived by the geographical proximity of firms are face- to face contacts, social and cultural interaction, and development of knowledge and innovation (Guimaraes, Figueiredo and Woodward, 2000: 122, Dickens, 1998: 11, Braunerhjelm and Svensson, 1996:

834). In other words, agglomeration economies take place because in a large local market it is easier to find the needed quantity of intermediate goods for the final product, resulting to lower production costs.

Additionally, a concentration of a certain sector in a market (e.g. financial or IT sector) has the advantage of sustaining a crowded specialised local labour market, because in such an "economic environment" employers may find easier recruits and vice versa (Krugman, 1998: 8). Nowadays the source of external economies derives from supplier's network, sub-contractors, university, research centres (depending on the nature of the firm), etc. Agglomeration economies are important for both market-oriented and export oriented firms. As mentioned in chapter II, Marshall (1961: 271) and Weber (1929: 20- 21) identified the importance of agglomeration economies with regard to the plant firm. But, in relation to the current multinational corporation, researches that have taken place during the last two decades have shown that agglomeration economies are particularly important for foreign firms, especially if laws, customs, and so forth are less familiar for the foreign investor (Schoenberger in 1985, Braunerhjelm and Svensson in 1996, Guimaraes, Figueiredo and Woodward in 2000). In such a case agglomeration economies can offset these costs. Ireland and Portugal are typical examples of it. Having the advantage of being close to the large European markets, Ireland and Portugal offset the disadvantage of being small and relatively unknown economically and politically countries. Moreover, both countries have managed to create conditions of agglomeration economies by creating clusters of small businesses that mainly produce intermediate goods for the multinational corporations that have been located in the country[103] (Gorg and Ruane, 2000: 224, Guimaraes, Figueiredo and Woodward in 2000: 124). According to the findings of Gorg and Ruane (2000: 233) linkages seem to increase over time, i.e. new firms attracted to Ireland start off with relatively low linkages, which however increase over time. This is of particular importance because multinational corporations, mainly in the high-tech sector, which apply Just-in-Time techniques, continuously require adequate stock supplies in order to cope with competition. Of course, the nature of the linkages would vary depending on the type of product.

[103] Despite the fact that indigenous firms in the electronic sector have higher linkages with domestic suppliers than foreign firms, nevertheless, the gap between these groups has narrowed over time (Gorg and Ruane, 2000: 224).

A third factor is political stability. This factor used to be taken in great consideration by multinational corporations during the years of Cold War. In particular, American Firms were, and probably still are, very sensitive in terms of political stability in a foreign country. Although this is the same with the European multinationals, the latter have a history where have taken more entrepreneurial risks than their American counterparts. On the contrary, Schoenberger (1985: 253) argues that for an American multinational corporation the previous policies of a State towards multinational capital, and especially the likelihood of nationalisation or control of the investment decisions taken by the firms, can have some bearing on, even slightly, the location decision.

In addition, both the traditional location theory and the New Economic Geography suggest that the key factors leading to the spatial concentration of activity are: economies of localisation, economies of agglomeration and the presence of a pool of skilled labour. These factors continue to be important in shaping firm's decisions even when recognising the contemporary multi- plant firm. But, in relation to the general factor of skilled labour mentioned by these theories, the contemporary structure of the firm pays attention to other labor features such as its costs and existing unionisation. Again the relative significance of any of the characteristics (general or specialised ones) of the workforce that might affect a location decision depends on the specific character of the firm and its broader strategy. For example, an assembly production plant is unlikely to be established in an area where there are high labour wages. Of course this cannot always be the norm. According to US managers, their main concern is not high wages, but rather issues such as work rules, flexibility and management control over production (Schoenberger, 1985: 254). Additionally, Devereux and Griffith (1998) have expressed doubts whether countries with a low wage labour force will definitely be a magnet for investment[104]. Like Vernon[105] (1966) Devereux and Griffith (1998: 336) argue that the choice is more likely to depend on the demand for different kinds of labour during the different production

[104] This is also verified by the research of Devereux and Griffith. They found that although in theory marginal unit labour costs and average unit labour should be important in determining the level of output in a given location and the choice of location respectively, in practice these two units cannot be distinguished; and the measured used does not play an important role in any of the strategic choices (Devereux and Griffith, 1998: 363).

[105] See chapter II

stages. More precisely, some firms may chose low wage areas to establish routine production stages, whereas medium wage areas to establish more value adding production. Other firms, which have extensive R&D projects or increased administrative demands, are more likely to be located in areas with abundant highly paid scientific labour force. Nevertheless, in practice low wages and transport costs often lead to opposing decisions. Usually, low wages are found in less developed countries[106], whereas low transport costs are found in most developed countries in which the markets are more likely to be[107]. The reason is that, as Krugman (1991) argues, for firms that produce commodities with high transport costs, attractive locations for production are those that are close to markets and suppliers. Nevertheless, how companies trade off these opposing choices depends on the nature of the product and the general strategy of the firm, something that makes theoretical generalization difficult.

Equally important is the ample supply of labour. It can be argued that a country, which has excess supply of labour, will be an attractive location for investments. The reason is that high unemployment rates make people lower their values as far as their ideal job and wage are concerned. On the subject of labour unionisation, although the logic dictates that a country with resilient unions will deter multinational corporations from investing there, this is not always true. On the contrary, high levels of unionisation might have a positive effect on the decision to invest. This can be explained by the argument that a union membership boosts the morale of the workers, which in turn increases their productivity, which sequentially attracts FDI. In other words, unionisation is anticipated with higher wages and higher productivity, so the effects also vary by the type of firm. However, unionisation is not always welcomed by multinational corporations. According to Schoenberger (1985: 254), many American companies have shown an aversion to any form of unionisation. As these companies have explained, the reason is not the possible higher wage levels, but rather issues such as employment rules, flexibility and management control over production, i.e. they are cautious with regard to hidden labour costs rather than the

[106] One important factor behind the recent periphelisation of production (within countries, but also internationally) is often argued to be the release of industry from ties to traditional labour, and its acquisition thereby of a new geographical flexibility (Massey, 1995: 31).
[107] However, in some industry sectors transport costs may not be relevant at all, e.g. software production.

price of labour. In United Kingdom, in some cases, multinational corporations negotiate a one union presence in order to avoid dealing with several unions. Nevertheless, even these companies, which were averse to unions, did not consider unionisation as an adequate reason to deter further investments from their side. Moreover, it worth pointing out that level of unionisation has been falling, at least in the European Union.

From the very beginning of the location theory has been pointing out the importance of the availability of certain resources by the host country on the decision of a firm about where to invest. In particular, in the traditional location theory, Ricardo (1817) with the principle of comparative advantage, as well as Heckscher and Ohlin (1919), who advanced the principle of comparative advantage, but also in the new trade theory Weber (1929) when referred to the regional factors that are important for a firm and Vernon (1966), and finally the scholars who represent the New Economic Geography though (in 1990s) all have referred to the importance of having the host country certain resources available. These resources include adequate infrastructure and a certain degree of urbanisation. By adequate infrastructure is meant the existence of good transport facilities (road, rail and air), availability at a low cost of facilities such as telecommunications, energy and water, the accessibility to sites and premises for buying or renting by the multinational corporations, as well as the existing of environmental regulations and procedures (Christodoulou, 1996: 24). These service agglomeration and urbanisation economies potentially bolster productivity and attract more firms in a locality. A high degree of urbanisation means a concentration of consumers and labour force, something that is to the benefit of the firm, assuming it is intending to supply the local market.

Although technology has significantly contributed to the decrease of transfer time and distance, nevertheless, both still may affect the decision of some multinational corporations. In the theory of New International Division of Labour the decentralisation of certain production activities in peripheral countries or continents would not be possible without the decrease of distance via minimisation of transfer times. The significance of transfer time and distance varies according to the type of industry. At our time, distance is important due to the supply of transferable inputs, the demand of transferable outputs[108], or both. But, in the current extremely competitive environment, apart from geographical distance, equally important is the reliability of supply. The importance of distance and reliability of supply is highlighted by Schoenberger (1985: 252) when she argues that the highly competitive environment of modern world means that a product might not be sold at all if it cannot be provided when it is wanted and according to certain specifications. Thus, the worry is not that the additional transportation makes the product more expensive, hence less competitive in the market. For example, distance is a very important constituent for a purely export-oriented company or a firm that apply Just-in-Time techniques. In the latter case, a firm might increase its transportation cost because of the need to provide flexible and punctual deliveries (Head, Ries and Swenson, 1995: 227).

Furthermore, it is argued that network linkages[109] can be an important determinant at the choice of location by a multinational corporation. The reason is that linkages (with local firms) can contribute to the enhancement, maintenance or the restoration of a company's position to the market. Chen and Chen (1998: 445- 449) argue that this is particularly relevant with firms, which enter for a first time a market, as well as with the high-tech industries where linkages are of particular importance. Furthermore, linkages are important for entering a "primitive" market, in contrast to a "mature" one where institutions that smooth the progress of internationalization are still absent. In other words, in a "primitive" market a multinational corporation is almost certain that is going to need the knowledge of local services in order to offset the lack of institutions that facilitate the establishment of foreign firms.

Finally, strategic decisions can play a significant role for investment in a country. Decisions such as the need on the part of the foreign company to preserve existing foreign markets and foreign investment against encroachments by competitors[110]; the desire to maintain or even to expand a foothold in a protected

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[108] Transferable inputs/ outputs are products such as fuels, materials, some kind of services, or event information that can be moved to a given location from wherever they are produced (Hoover and Giarratani, 1999, ch.2: 9).

[109] Chen and Chen distinguish between two kinds of network linkages: the internal (intra-firm) ones and the external (inter-firm) ones. The latter is separated into strategic and relational linkages (Chen and Chen, 1998: 445-449).

[110] A reason to this might be that the initial investment of the company resulted to the speed up of the plans by other competitors.

market; either to gain or maintain a source of supply that in the long run may prove useful; the need to develop and sustain parent-subsidiary relations; the desire to induce the host country into a long term loyalty to a particular type of technology and know-how; the advantage of complementing another type of investment (Petrochilos, 1989: 12-16). Moreover, a new investment in the market can aim to the improvement of the speed of response to orders, the increase of responsiveness to local demand patterns and the improvement of after sales support (Christodoulou, 1996: 60).

The above discussion ends with two major conclusions. The first one is that it is not possible to assess the significance of different factors in isolation, according to theories based on conceptual ideas, having also in mind the analysis of chapter II. On the other hand, empirical analysis considers how these analytical tendencies intersect in particular instances. In particular, the empirical analysis provides an indication of the determinants of industrial location and how they vary by the type of firm. The scale and nature of FDI is subject to all or some of the above-presented characteristics. Nevertheless, even if a country has all or the majority of the above factors, or it adopts policies towards this direction, this does not guarantee the attraction of FDI. This is a very complicated process depending on a variety of factors, such as the international circumstances, the multinational corporations business plans and of course the long-term (economic, political etc.) conditions of the country in question.

Whether it is a dependent/ development firm (Turok), whether it has a world product mandate, whether it is a cost sensitive firm (Amin), all these three writers discuss different types of firm with respect to their likely development impact on the region. But, the categorisation in Table 4.1 is also useful for thinking about their differential locational requirements. Thus, the Table below identifies the importance of different variables for the different types of firms in relation to the regional economies of European Union[111].

[111] In order for the reader to understand the changing importance of the different variables for the different types of firm in relation to Ireland, Portugal and Greece, he or she must also have in mind the analysis of the socio- economic characteristics of the three countries that took place in the first chapter.

Table 4.1- Relation between type of firm/ product and factors

Factors	Type of firm/ product				
	High Tech - just in time	High Tech - Research	Export Oriented	Routine Manufacturing	Domestic Oriented
The size of the host market	Yes	Yes	No	Yes	Yes
Absorptive capacity of the host country	No	Yes	Yes	Yes	Yes
A good base of related and supportive industries	Yes	Yes	Yes	Yes	Yes
Previous governmental policies towards MNE	Yes	Yes	Yes	Yes	No
Availability of certain resources	Yes	No	Yes	Yes	No
Characteristics of the work force	Yes	Yes	Yes	Yes	Yes
Distance (transportation costs)	Yes	No	Yes	No	No
Network linkages	Yes	Yes	Yes	No	No
Strategic decisions	Yes	No	No	No	Yes

Understanding the decision- making process of a multinational corporation is not an easy task. In today's globalised world it is necessary to re-evaluate the way firms compete between each other, but also the way regions see the prospect of a foreign investment being established in their land. Furthermore, what makes a multinational corporation choose one location against another one has to be examined in the context of the multi- objective nature of most facility location decisions. Thus, for example, a multinational corporation that seeks to invest in a market and create a production unit solely for export- oriented products, will probably, among other things, examine the absorptive capacity of the potential country (i.e. how fast the host country will be able to adopt the new technology and management techniques the multinational corporation is going to import) if there is a good base of related products, the previous governmental policies towards multinational corporations, the availability of certain resources which will be necessary for the production of its commodities, as well as the transportation costs and network linkages. Moreover, this kind of firm will be interested in the characteristics of the labour force in the area as well as for the size of the host market (see also Table 4.1). Finally, in such a firm, the impact of tax rates is going to be higher than a firm that aims at the internal market because in a number of surveys, the managers of these firms have responded more positively to tax incentives. The reason is that export oriented firms operate in highly competitive markets with very thin margins. Moreover, these firms are often highly mobile and more likely to compare taxes across alternative locations (Morisset and Pirnia, 2002: 10-11).

It is evident that factors differ according to the type of the investment as well as the commodity produced. But, as it was previously said, certain characteristics by themselves are not a sufficient element for the attraction of FDI. Countries may also provide investment packages in order to tempt firms to prefer them in relation to another country with more or less similar features. But it has to be made clear that rarely can incentives turn a poorly developed location into an acceptable one. "What a good incentive package can do is to represent a decisive factor among roughly equal alternatives. Incentives should be combined with other factors as part of a 'big picture' comparison of contending sites" (Donovan, 1999: 1).

4.3 The Role of Business Facilitation Measures (Incentives)

Location factors are one aspect for the attraction of investment in one country. Nowadays, the advancement of technology, as well as the opening of the markets, has forced countries to become more competitive in order to attract foreign investment. One way for the countries to increase their competitiveness is the initiation of policy measures aiming to the facilitation of investment. These measures may include investment promotion, incentives, after-investment services and improvements in amenities and measures that reduce the "hassle costs" of doing business. While these measures are not new, they have proliferated as a means of competing for the attraction of FDI. This competition has as a consequence, business facilitation measures to become more sophisticated, increasingly targeting individual investors, even though this involves high human capital and other costs (UNCTAD, 1999:10).

According to UNCTAD, differences in FDI performance between countries can be explained by three factors, which play a part in the choice of firms as regard foreign investment locations and determine where they invest abroad. These factors are: the policies of host countries (including the core regulatory framework for FDI), the proactive measures that countries adopt to promote and facilitate investment and the characteristics of their economies. All three factors undergo changes brought about by the process of globalisation (UNCTAD, 1999:2). To these three factors I would add one more, that of the nature of the multinational corporations. In the previous chapters we analysed how the firm was developed during the periods of world economic crises in order to survive. In each such crisis there were new locations that have benefited. Moreover, according to the type of the firm, there are locations that are more appropriate for the establishment of a firm in relation to others. For example, a firm that bases its success on innovation of its products and thus spends each year a large amount of money in R&D will prefer to locate in countries with abundant scientific personnel.

On the other hand, host countries usually maintain considerable discretion in the use of incentives, allowing them to differentiate investment by industry, size and location (UNCTAD, 2003: 123). But, it is very difficult to refer ourselves to every single type of incentive and its effects to the attraction of FDI. In general terms a government has four administrative instruments with which they may encourage a firm, whether domestic or foreign, to make an investment that would not otherwise do: regulation, tax incentives, subsidy and reduction of uncertainty (Robinson, 1987: 3).

A first such measure is the regulation initiated by a government. Since the beginning of 1990s more and more countries have initiated regulatory changes towards greater liberalisation of business practices. On the contrary very few countries have moved towards the opposite direction. This process has also been facilitated by the expansion of globalisation. According to Table 4.2, over the period 1993-2001, indeed, the vast majority of changes in the regulatory FDI regimes of countries were in the direction of liberalization. For example, in 2001, 71 countries initiated changes in their economic environment. Thus, from a total number of 208 countries, 194 had regulatory regimes characterized as liberalized, where as just 14 had a controlled economy.

Table 4.2: National Regulatory Changes, 1993- 2001

NATIONAL REGULATORY CHANGES, 1993- 2001									
ITEM	1993	1994	1995	1996	1997	1998	1999	2000	2001
Number of countries that introduced changes in their investment regimes.	57	49	64	65	76	60	63	69	71
Number of regimes	102	110	112	114	151	145	140	150	208
Of which									
In the direction of liberalisation or promoting[112]	101	108	106	98	135	136	131	147	194
In the direction of control[113]	1	2	6	16	16	9	9	3	14

Source: UNCTAD, 2002:7.

This trend towards greater liberalisation has as result investors currently facing a wide range of investment opportunities. This wide range of investment opportunities is divided into two kinds of incentives: legislated and discretionary ones. The first ones are "on- the- books" and available to any firm that meets certain governmental standards. The second ones are customised and provided only for specific projects (Robinson, 1987: 9; Donovan, 1999:1). The latter are often met in very large investments (e.g. establishment of a car plant in a country) that need special negotiations between the government of the interested country and the multinational corporation planning the investment, or it might be the result of a trade treaty between two or more nations. Incentives target both new and expanding businesses, but they sometimes target one of the two. The new investment law (L. 3299/ 2004) in Greece for example gives 5 per cent higher subsidy to new investments in relation to existing ones. Incentives may also favour small firms over large ones, or vice versa. In the new investment law of Greece again, small and medium enterprises are granted 5 per cent higher subsidy in relation to larger firms. Also, incentives normally depend on a variety of factors including the needs and priorities of a country. Nevertheless, the vast amount of incentives are found in less prosperous areas[114], unless the project is viewed as highly desirable by local authorities or the central government, e.g. the establishment of R&D facilities. Normally, the result is that declining areas are more likely to offer attractive packages for the attraction of investments.

[112] Including liberalizing changes or changes aimed at strengthening market functioning, as well as increased incentives.
[113] Including changes aimed at increasing control as well as reducing incentives.
[114] According to Brewer and Young (1997: 185), incentives are regarded within the European Union as an instrument of regional policy.

A second mode used by governments in order to attract investments is tax incentives. These usually imply a tax reduction from what normally is imposed on inputs, outputs and/or financial results, provided the firm satisfies certain circumstances (Robinson, 1987: 4). Thus, low taxation is generally considered a very important incentive for the attraction of a foreign firm. For example, Head, Ries and Swenson (1999: 209) argue that high corporate taxes have a negative effect on the decision of Japanese firms to invest in a foreign country. Moreover, according to Barrios, Gorg and Strobl (2002: 3), as well as to Stopford (1987:79), Ireland's tax policy, which is characterised by generous tax relief, has been generally recognised as a key factor in its success to attract international investors over the last two decades. But, the impact of tax policy may differ greatly depending on the features of the multinational enterprise. Foreign investors often have at their hands several alternative methods of structuring and financing their investments and of course returning profits to themselves. Additionally, a tax incentive can be applied only after a firm has started its operational activities. This is because according to Robinson (1987: 8) tax incentives in anticipation are rarely effective in stimulating the development of new projects.

4.3: European Union 15 Member States Tax Rates

European Union 15 Member States											
Country	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Austria	34	34	34	34	34	34	34	34	34	25	25
Belgium	40.17	40.17	40.17	40.17	40.17	40.17	40.17	33.99	33.99	33.99	33.99
Denmark	34	34	34	32	32	30	30	30	30	28	28
Finland	28	28	28	28	29	29	29	29	29	26	26
France	33.66	33.66	41.66	40	33.66	35.33	34.33	34.33	34.33	33.83	33.33
Germany	59	57.5	56.6	52.3	51.6	38.36	38.36	39.58	38.29	38.31	38.34
Greece	35	40	40	40	40	37.5	35	35	35	32	29
Ireland	38	36	32	28	24	20	16	12.5	12.5	12.5	12.5
Italy	53.2	5.2	41.25	41.25	41.25	40.25	40.25	38.25	37.25	37.25	37.25
Luxembourg	40.29	30.34	37.45	37.45	37.45	37.45	30.38	30.38	30.38	30.38	30.38
Netherlands	35	35	35	35	35	35	34.5	34.5	34.5	31.5	31.5
Portugal	39.6	39.6	37.4	37.4	37.4	35.2	33	33	27.5	27.5	27.5
Spain	35	35	35	35	35	35	35	35	35	35	35
Sweden	28	28	28	28	28	28	28	28	28	28	28
United Kingdom	33	31	31	31	30	30	30	30	30	30	30

Source: www.kpmg.com, access date: 28th December 2006

In spite of the "spread" of globalisation, the competition between countries to attract FDI, and in our case, the completion of the Single Market, there are still great differences in the tax rates between countries. Characteristic is the example between

Greece and Ireland, which are in the forefront of our analysis. In Greece the profit of a foreign firm is taxed with 29 per cent[115], where as in Ireland only with 12.5 per cent. Common sense would dictate that Greece with great difficulty would attract firms that target an important percentage of profit. This is also true with export- oriented firms. These prefer a policy by the government, which includes tax holidays and tariff concessions. On the other hand, theoretically speaking, this high level of taxation gives Greece several options to reduce corporate taxes to more competitive levels. But, any such attempt will have negative results for the State revenues. In this case the argument might be that lower taxes might attract more investors and thus increase the tax base in the long run and so compensate for the initial losses, but this again is a risky precognition[116]. On the other hand, a market penetration firm would prefer incentives that protect the market, such as tariff and quota protection (Rolfe, Ricks, Pointer and McCarthy, 1993: 338). This is also a more appealing method on behalf of countries. This is because tax incentive schemes may minimise the initial effect on the budget of a country. Furthermore, differences in taxation levels between the host country and the home country may influence the flow of FDI. According to Clegg and Scott- Green (1999: 601), if the taxation levels in the home country are higher than in the host country, then there will be a flow of FDI from the former to the latter.

Of significant importance is also the interaction between the home and host countries' taxation regimes and its resulting effect on FDI flows. More precisely, currently, home country corporate income tax levels and norms, about how taxes paid in the host country are considered at home should influence FDI. First, this influence was recognised long ago by the bilateral agreements that were signed to avoid double taxation of income between countries. In U. S. A. for example, the foreign tax paid by U. S. enterprises can be claimed as a tax credit on the U. S. tax liabilities (up to a rate of 35 per cent). Similar tax credit systems are used by Japan and U. K. where as other countries such as Canada, France, Australia, Germany, exempt more or less any profits earned abroad from home- taxation (Morisset and Pirnia, 2002: 17).

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[115] Until recently tax rate in Greece was even higher. Only since 2005 this rate was diminished, first at 32 per cent and in 2006 at 29 per cent.

[116] Lower tax rates will not definitely result in attracting more foreign investors. The reason is that, nowadays, countries have more similarities than differences and attracting FDI does not only depend on taxation levels. For example, a country with higher taxation levels could provide to international investors better infrastructure or access to a larger market in relation to a country with lower taxation levels.

Another form of investment promotion is subsidy. According to Robinson (1987: 4) a subsidy is the provision by a government to a firm of specific services or other inputs at below market prices. The aim of the government might be the transfer of funds by the firm for doing research and development in a specific locality, or for maintaining employment at a given level, etc. Usually, a country may initiate a range of incentives only after it has decided the type of investments that wishes to attract. Thus, if a country has decided to attract firms, which produce heavy industrial commodities and consequently demand large space for their establishment it will initiate a policy, which promote, for example, cheap land costs.

In this globalised world there are still many countries, which are relatively unknown with regard to the economic, cultural and institutional framework they operate. Thus, these countries may have a relative disadvantage in relation to other more "known" countries as far as the attraction of foreign investment is concerned. Thus, in order for the governments of such countries to diminish or eliminate this disadvantage to prospect investors implement certain measures that might be addressed to a specific investor that wants to start an investment into the country or generally to all the prospect investors. Such measures are a) a commitment by a government to purchase part or all of the commodities of a project at a known price; b) to ensure a measurable market by prohibiting further entry; c) to render local agreements enforceable under international law by permitting binding by external arbitration; d) to enter into international agreements in respect to the payment of compensation in event of expropriation of assets or breach of contracts; e) to participate in international conventions for the protection of proprietary rights (trade marks, patents, copyrights, etc.) (Robinson, 1987: 5). These kind of measures are taken by the majority of countries, even the most developed ones. But, firms pay more attention if such measures are valid to these countries, which have a past of political instability, and where the investment environment might not be stable for the long run.

But, when someone is looking to the range of incentives a government offers, what it has to take into account of, is the number of these incentives that can be utilised from the very first moment a company is established in a country. Thus, for example, a start- up firm cannot utilise all, or sometimes any, of the tax credits being offered, because it is not yet profitable. Equally important is the timing a government provides the incentives to the firms planning an investment. According to Robinson (1987: 7, 10- 11) a host government is better not to offer a subsidy at the start of the discussion of a project, but only when it is perceived that a subsidy might be critical for the completion and success of the investment. Additionally, often governments link investment incentives and performance of firm, e.g. export of the majority of the commodities a firm produces, (Brewer and Young, 1997: 180, 184). Consequently, although a country might wish to attract a whole range of different kinds of FDI, nevertheless every kind of these investments demands a specific incentive policy.

On the other hand, a major "task" of investment incentives is to contain the operational costs of multinational corporations generated by the domestic regulatory and other institutional frameworks of a country. More precisely, facility location decisions may be exposed to external environmental, social, economic and other costs and benefits. For example, they may create pollution and traffic congestion, create jobs, and influence property values as well as tax revenues. These impacts may be multiplied if the decision of one firm to locate in an area influences those of other firms. These externalities are distributed spatially. In other words, they affect some geographical areas more than others do. One way to diminish these consequences is to internalise them to the firm's location decision via political decisions. This can take place by two ways: firstly, if some facilities are prohibited at some locations (e.g. nuclear power plant in a densely populated area). Secondly, if some other facilities are highly regulated at some locations (e.g. the height of a building). Other firms are given incentives to locate in a political jurisdiction (e.g. tax rebates, or infrastructure improvements). All these internalised externalities are viewed by the firms as established costs and constraints. The role of incentives is an effort to trade off these costs and constraints occurred by the investment of a multinational corporation (Current, 2000: 1).

Conclusively, although the influence of public incentives on firms' location is disputable (Perrons, 1981: 83; Robinson, 1987: 10; Brewer and Young, 1997: 177; Barrios, Gorg, Strobl, 2002: 2) it is something more than evident that in the future the importance of incentives will continue to grow. The reason is that in the current globalised world countries find it difficult to compete without a strong arsenal of incentives. Most central and local governments believe, or hope, that fiscal incentives might be able to make the difference between competing countries where the basic, more important conditions, such as locational characteristics, are more or less the same. This also depends on the purpose of investment that a multinational corporation has in mind, e.g. the penetration of the market or an export-oriented strategy. The reason is that a firm, which enters a foreign market for a first time, may place more emphasis on incentives that lessen their initial expenses in comparison with a firm, which acquires or expands existing operations. This is more likely to take place for export- oriented investments.

But, due to the fact that currently the vast majority of countries (both peripheral and developed ones) offer incentives in order to attract foreign and domestic investments, this cannot by itself explain locational choice on the part of firms. According to Perrons (1981: 83) their impact can in any case be determined by meticulously establishing the differential nature of these incentives between countries. Thus, from the point that all countries now offer incentives, it seems that incentives are a necessary, but not sufficient condition for convincing a multinational corporation to invest in one country in relation to another one.

4.4 FDI in Greece: An Analysis of Outflows

So far we have seen that the main drivers of FDI have been the large multinational corporations mainly originated in the developed countries. But, since the openness of the markets and the expansion of globalisation this pattern seems to have changed. Smaller firms from developing countries have also started to invest in neighboured, mainly, countries and even beyond. Of course a main prerequisite for this was these firms to possess certain ownership advantages[117]. Greek multinational corporations tend to apply this rule (Salavrakos and Petrochilos, 2003: 332). Nevertheless, as we are going to see in the next lines, Greece via a dynamic performance in outward FDI since the early 1990s, upgraded its regional role, especially in the area of Balkans.

[117] Of course Greek firms do not have competitive advantage of economic nature against large Western firms. They hold some cultural advantages as well as a location geographical advantage in certain cases, e.g. in relation to the neighboured countries such as Bulgaria, Albania and FYROM (Salavrakos, 2003, www.da.mod.uk/CSRC, date access: August 2005).

Since the collapse of communist regimes (1989- 1990) in South Eastern Europe new opportunities and dangers emerged for Greece. Before 1989 Greece was the only country in the Balkan area, and in South Eastern Europe in general, with a democratic regime. Geographically, Greece had no common land borders with any other democratic regime, but only with Italy via sea. This geographic isolation of the country had as a result Greece always being in the periphery of Europe. In chapter 1 we explained the development path of Greece since 1945 and there is no need to repeat things here. But, when communism collapsed some new opportunities and threats emerge for Greece as the only country with stable economic and political regime, being next to the turbulent ex- communist Balkan countries.

In a sense, that period Greece should be considered as a reasonable FDI location for the large Western firms that would like to penetrate Balkan countries, but hesitated to do that via FDI, due to their unstable political and economic regimes. But, as we have seen in the previous chapters, Greece did not manage to attract more FDI since 1991, in relation to the previous years. On the other hand, a new big opportunity emerged for Greek and foreign firms, being located in Greece. Greece always had good relationships with the other Balkan and Eastern Europe countries and consequently the latter were keen to accept Greek FDI as a way to improve their economic and living standards, as well as to integrate further to Western values and institutions. As a result, the opening of the markets of South Eastern Europe in the early 1990s offered Greek industry a dynamic alternative to revive and/ or increase profits (Demos, Filippaios and Papanastassiou, 2004: 330).

Another reason that Greek outward FDI has been relatively high in South Eastern Europe is the lack of significant investment interest for FDI from the western developed countries[118] for this region. To this has also contributed the geographical proximity of Greece to the countries of South Eastern Europe, cultural closeness (in comparison to other EU and Western countries) and the inexperience of Greek firms in international markets (Bitzenis, 2004: 8- 11; Demos, Filippaios and Papanastassiou,

[118] The investments from the Western countries in South Eastern Europe is very low considering that only a percentage between 1.8%- 3.7% of the world wide FDI outflows goes to these countries (Bitzenis, 2004: 9).

2004: 338). The countries of South Eastern Europe were the first step of the Greek firms to expand further abroad (e.g. to France and US) and increase their competitiveness. In other words geographical factor was important. According to Salavrakos (2003, www.da.mod.uk/CSRC, date access: August 2005) the majority of the Greek entrepreneurial activity is developing in Albania and Bulgaria, the two neighbouring countries of Greece. Thus, since 1990s Greek firms increased significantly the volume of their FDI in the Balkans via careful considerations of their financial and market structures, apparently being driven by the loss of local comparative advantage (Louri, Papanastasiou and Lantouris, 2000: 425). Of course the Greek economy remains small so the Greek volume of FDI outside South Eastern Europe cannot make any impact and attract the attention of economists and academic community.

In Table 4.4 below we can see the increase of FDI outflows in Greece, since 1991, actually the first year that most of the South Eastern European countries enjoyed a democratic regime. From only 5 million dollars of FDI outflows in 1991, it reached the 607 million dollars in 2004, with the peak year in 2000 when FDI outflows from Greece were 2,102 million dollars. If we compare Table 4.3 below with Table 0.1 in the introductory part we can observe that there are years, such as 1998, 2000 and 2002 where Greek outflows overpassed Greek inflows of FDI. This is a particular important conclusion as it shows the dynamism of Greek entrepreneurship. Lately, more and more Greek firms have obtained own- specific advantages in the form of patents, own technology etc. that have allowed them to upgrade their operations and become competitive in a world- scale (Salavrakos and Petrochilos, 2003: 332; Kokkinou and Psycharis, 2004: 297).

Table 4.4: FDI Outflows in Greece, 1991- 2002 (Million of Dollars)

FDI OUTFLOWS IN GREECE, 1991- 2002 (Millions of dollars)									
	1991- 1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Greece	5	156	262	539	2102	607	655	47	607

Source: UNCTAD, 2003: 253 and UNCTAD, 2005: 3003

It seems that post- 1989 period benefited Greece most with regard to FDI outflows rather than FDI inflows. Whereas the Greek State did not manage to follow global evolutions and make all the necessary arrangements so that Greece to remain a competitive country for foreign investors, even after the opening of the borders in Central and Eastern European countries, Greek firms seem to have been more dynamic and adoptive to the economic, social and political evolutions described in chapter I. Thus, we can see the opposite directions that the public and private sectors in Greece have moved.

Greek firms invested in the SouthEastern European countries for the same reasons the large multinational corporations of the developed world invest directly abroad. Such reasons are geographical proximity, low labour costs, lack of local competition, unsatisfied demand, favourable tax rates, knowledge of the market with its prospects for growth and in general cost reduction plans (Louri, Papanastasiou and Lantouris, 2000: 425; Salavrakos and Petrochilos, 2003: 345; Bitzenis, 2004: 8).

The above analysis shows that Greece has already started to act as a mature economy. Some of its largest and most dynamic firms have during the last decade expanded themselves, by direct investment, to other countries, especially to South Eastern Europe. These firms are mostly active in the traditional sector where the production of commodities mainly is based on cheap labour force. This has been the main driver for the Greek firms to expand abroad. Thus, it is rather unlikely foreign firms to invest in Greece in traditional manufacturing sectors, when at the same time similar Greek firms take their operations abroad.

On the other hand, the opening of the markets in the Central and South Eastern Europe, together with the enlargement of the European Union that included ten new Member States from that region has contributed negatively to the FDI inflows in Greece, as we are going to see in the next lines. In particular, Barry and Hannan (2001: 57) argue that most Central Eastern Europe bound FDI has been "market-seeking". Although for the case of Ireland, that the two mentioned authors examine, this kind of FDI does not represent a threat, for the case of Greece (and Portugal) the case is completely different. As we are going to see in chapter VI, most of the multinational corporations invest in Greece in order to penetrate the domestic market, i.e. for the same reasons that they invest in Central and South Eastern Europe. On the other hand, according to Ekholm and Markusen (2002, www.econ.ku.dk, access date:

September 2005) the countries of Central and Eastern Europe tend to attract vertically organised manufacturing firms, a different type of organised firm than the horizontal one, which in chapter III, I argued that Greece is more likely to attract. In other words, Greece and South Eastern European countries target partially the same kind of FDI, something that deteriorates the prospects of Greece to increase its share of inward FDI. As we are going to argue later Greece should focus to attract different kind of multinational corporations in order to be able to compete with South Eastern European countries. Greece should not compete with southeastern European countries in the field of assembly line production investment, rather than in the field of high-skilled, educated and more productive labour force.

Table 4.5: FDI Inward Stock (Million of Dollars)

FDI Inward Stock (millions of dollars)									
	1980	**1985**	**1990**	**1995**	**2000**	**2001**	**2002**	**2004**	**2005**
EU	**217476**	**268253**	**748669**	**1136387**	**2240506**	**2418136**	**2623903**	**4023935**	**4499128**
Memo: Greece	4524	8309	5667	10957	12499	12006	12056	27213	29132
EU Peripheral Countries									
Ireland	32461	33361	34208	40406	118550	138266	157298	229241	211190
Spain	5141	8939	65956	109200	144803	164754	217769	346676	367656
Portugal	3665	4599	10571	18381	28469	32921	43962	65213	64517
Total Peripheral Countries	**45791**	**55208**	**116402**	**178944**	**304321**	**347947**	**431085**	**668343**	**672495**
Slovenia			607	1763	2809	3209	5074	4962	8064
Bulgaria			112	446	2716	3410	3889	7569	9173
Czech R.			1363	7350	21644	27092	38450	56415	59459
Estonia				688	2645	3160	4226	9530	12274
Hungary		49	569	11919	19804	23562	24416	60328	61221
Latvia				615	2084	2332	2723	4493	4783
Lithuania				352	2334	2666	3981	6389	6461
Poland			109	7843	34227	41031	45150	61427	93329
Romania				821	6480	7638	8786	18009	23818
Slovakia			81	810	4634	6213	10225	14501	15324
Total CEE countries		**49**	**2841**	**32607**	**99377**	**120313**	**146920**	**243623**	**293906**

Source: UNCTAD 2003: 257, 260; UNCTAD 2005: 308, 311; UNCTAD 2006: 303, 306

From Table 4.5 above we observe that in absolute numbers FDI inward stocks in South Eastern Europe remain very low in comparison to the old fifteen EU Member States, but even from the four peripheral countries of the old- fifteen European Union Member States. This means that in general terms the opening of the markets in South Eastern Europe has not affected the amount of FDI that has been invested in the EU-15 Member States. On the other hand, since the 1990s the inward stock of FDI in the ten new Member States of the South Eastern Europe has increased about 103- fold, where as at the same time in the old EU has increased only about 6- fold. Thus we can see that, at least up to 2005, FDI inward stock increases in the countries of South Eastern Europe a lot faster than the old EU countries. But, what about Ireland, Portugal and Greece, which is of our main concern? As far as all together peripheral countries (including Spain) of the old- 15 European Union is concerned, we observe that since the 1990s FDI inward stock has increased almost about 6- fold, which is about the same with the average EU fifteen Member States and significantly less than the average new member states of the South- Eastern Europe. This probably indicates that the Ireland, Greece, Portugal and Spain have negatively affected by the enlargement prospects of the European Union as far as inward FDI is concerned. In particular, as far as Ireland is concerned, since 1990 inward FDI stock has increased about 6- fold, this means to the same pace with the total EU. For Spain inward FDI stock since 1990 has increased slightly more than 5- fold, i.e. in a little slower pace than the EU total. For Portugal inward FDI stock since 1990 has increased about 6- fold, i.e. with the same pace as the total EU- 15 Member States. Finally, as far as Greece is concerned, the inward FDI stock since 1990 has increased about by 5- fold. This is slightly lower than the average EU- 15 Member States, but much lower than the average CEE countries. By this we can argue that the opening of the markets in the Central and South Eastern Europe may have just slightly negatively affected the FDI inflows in Greece.

Table 4.6: FDI Inward Stock as a percentage of GDP

FDI inward stock as a percentage of GDP			
	1990	**2000**	**2005**
EU	10.9	26.3	33.5
Memo: Greece	6.8	12.4	13.2
EU Peripheral Countries			
Ireland	119.5	133.8	105.7
Spain	12.5	26.9	32.6
Portugal	14.8	30.1	35.2
CEE Countries			
Slovenia	3.8	15.2	23.7
Bulgaria	0.5	17.9	34.3
Czech R.	3.7	38.9	48.1
Estonia	-	48.4	93.6
Hungary	1.6	49.0	55.9
Latvia	-	27.0	28.7
Lithuania	-	20.5	25.1
Poland	0.2	20.5	31.1
Romania	-	17.5	24.2
Slovakia	0.5	18.4	32.8

Source: UNCTAD, 2006: 307,308,316

The same conclusion can be drawn even if we examine the FDI inward stock as a percentage of GDP. According to Table 4.6 above, even if Greece almost doubles its FDI inward stock as a percentage of GDP, nevertheless it remains much below Ireland and Portugal. In this issue Greece's case seem to be much more similar to Portugal, rather than Ireland. In this respect, we observe that during the same time period, FDI inward stock as a percentage of GDP has also been doubled in Portugal reaching the 35.2 per cent in 2005 in relation to the 13.2 per cent of Greece. Similarly, in the countries of Central and Eastern Europe we observe once more the high inflows of FDI since the opening of their economy. One striking point is that from all the countries in the above Table, Greece has the lowest FDI inward stock as a percentage of GDP.

But, apart from the domestic market that might be a reason for the low performance of Greece, another reason might be the nationality of FDI. Most of FDI in Central and South Eastern Europe comes from other EU countries. On the contrary, in Ireland most of FDI comes from the US rather than the other EU countries (Barry and Hannan, 2001: 57; Barry, 2004: 757; Ekholm and Markusen 2002, www.econ.ku.dk, access date: September 2005). By this evidence the first two authors stress the importance of geographical and cultural proximity of Ireland. On the other hand, as we are going to see in chapter VI when analysing the results of the survey data, in the case of Greece most FDI comes from the other EU countries. This means that Greece competes with the countries of Central and South Eastern Europe for the same source of FDI.

The above mentioned data are until 2005, i.e. when the enlargement of the European Union has just become a reality. With enlargement and the free movement of capital the situation for Greece is expected to deteriorate, as it seems that both Greece and the countries of Central and South Eastern Europe partially compete for the same kind of FDI. Besides, as Barry (2004: 757) and Ekholm and Markusen (2002, www.econ.ku.dk, access date: September 2005) argue, enlargement will increase further the centrality of the more central of the CEE regions by putting an end to the border controls, minimising transport costs. Southern regions (like those of Greece, Portugal and Spain) that do not experience the beneficial effect will become relatively more peripheral and there is a high risk that there will be a diversion of production/ jobs from Southern Europe.

4.5 Conclusion

FDI and locational factors are closely related. Thus, the aim of this chapter was to present the factors that currently may influence the decision of a multinational corporation to invest in a country. Moreover, due to the current competition between nations to attract FDI, in the second part of this chapter, the most common incentives introduced by countries to lure foreign firms were presented. Nevertheless, neither locational factors, nor incentives by themselves, may affect the location choice of a multinational corporation to invest in one country in relation to another one. Its decision is also affected by other factors such as the business plans of multinational corporations, international circumstances, etc. Thus, location factors, and incentives, may only play a complementary and amplifying role in the decision of a multinational corporation to invest in a specific country. In the last part of this chapter, another factor, not locational this time, was also presented. The effect of the liberalisation of the South- Eastern European countries economies, and their entrance to the European Union, to the inward FDI stock in the old EU- 15 Member States and in Ireland, Greece and Portugal in particular. We observed that particularly Greece has been negatively affected by this outcome.

In chapter V the research methodology analysis takes place. In particular, I explain in detail the different methodological approaches used for the empirical study of my research question.

CHAPTER V

Research Methodology

5.1 Introduction

The purpose of this chapter is to explain in detail the different methodological approaches used for the empirical study of my research questions. The research methods adopted are a questionnaire, semi- structured interviews and the analysis of secondary data. In addition, I will provide detailed information on the way research questions and interviews were designed to address the objectives of the thesis, as well as some comments on the secondary data used.

5.2 Surveys

With regard to the methodologies that were chosen in order to collect the information necessary to explore my research questions, the survey technique was one of them. This option took place after considering the strengths and weaknesses of a number of research methods such as "talking with people", "focus groups", "personal interviews", "telephone surveys" and "mail surveys". Unfortunately, there was no complete list with all the foreign manufacturing subsidiaries in Greece. In this respect I had to make this list. Thus, during the initial stages of my research, when I was trying to fill in the list with all the foreign subsidiaries currently located in Greece, and being active in the manufacturing sector, I conducted a number of interviews with key informants that could supply me with this information, such as the personnel of the Hellenic Center for Investment and professors from the Greek universities that had done previous research on FDI.

The majority of the firms included in the database are obtained from a directory provided by Athens Economic University. In essence the list was of a private research company called ICAP and included the foreign firms located in Greece in 1997. Since then some firms included in this directory have closed their manufacturing activities in Greece[119], while others that are not included in the list

[119] From my research to fill in the list of foreign subsidiaries located in Greece, I have found that a number of these subsidiaries, either have closed their industrial activity in Greece and currently their parent companies service Greek market by exports, or they have been bought by their Greek partners. Thus they are no longer foreign ones. Although I have not kept exact numbers of these cases, I believe

have been established in the country. During my employment at the Hellenic Centre for Investment I updated this database so that it now includes all the foreign subsidiaries with a manufacturing activity in Greece. At the end I concluded with a number of 144 foreign- owned subsidiaries located in Greece and have a manufacturing activity. This number, although it might seem low for a country like Greece, nevertheless from my experience and continuous research until the last moment I handed in the thesis, must include more than the 90 per cent of the whole population.

Then, I had to choose a research method technique that would provide me with the most complete answers to my research questions. From the list of different research method techniques mentioned above, I chose the mail survey for the following reasons: first of all a practical difficulty in the case I had chosen the focus group technique is that it would be actually very difficult to arrange a focus group session in a convenient date and time for managers from Athens and other regions of Greece. Particularly, which manager who lives and works outside Athens, would travel to the capital in order to answer the questions of a Ph. D. student? Unwillingness by the side of managers with regard to give an interview to a research student I would face even in the case of face to face interviews. Later in the current chapter, I am going to describe the problems I faced when I wanted to perform twenty interviews with regard to chapter VII of this thesis. Another reason was that it would not be easy to be accepted by the managers of the foreign- owned subsidiaries for an interview, risking by this way the possibility to have a single digit response rate. And as it will be described later in this chapter, I have faced a lot of difficulties even to perform just twenty interviews.

Additionally, questionnaires are familiar to most people, especially in the high- ranking personnel of a multinational corporation. These people very often complete questionnaires sent by their parent- company, with regard to the performance of the subsidiary, or by governmental and private bodies that ask information for statistical reasons. One of the advantages of the questionnaire is that no person gets in between the question and the respondent. The researcher's own

that this evolution shows the de- industrialisation of the Greek economy, as well as the lack of competitiveness of the Greek economy.

opinions will not influence the respondent to answer questions in a certain manner. Another problem that the questionnaire deals with is that it is less intrusive than telephone or face- to- face surveys. When a respondent receives a questionnaire in the mail, he or she is free to complete the questionnaire on his/ her own timetable. Unlike other research methods, the respondent is not interrupted by the research instrument.

Of course there are also certain disadvantages with regard to the methodology technique of the mail survey, some of which I faced during my research. In particular, one major disadvantage of written questionnaires is the possibility of low response rates. In such a case it can dramatically lower our confidence in the results. In my case, as I will explain later, I had to send multiple times the questionnaires, followed by repeated telephone calls, in order to get a response rate that would provide my research with the required validity and credibility. Another disadvantage of questionnaires is the inability to probe responses. Questionnaires are structured instruments. They allow little flexibility to the respondent with respect to response format. I tried to overcome this problem by well defining the research questions I wanted to examine, before sending the questionnaire and structuring it in such a way in order to increase the chances to get responses with regards to these research questions. Moreover, this is another reason why the mail survey was followed by face to face semi- structured interviews. Another problem has to do with who is filling in the questionnaire. When returned questionnaires arrive in the mail, it's normal to assume that the respondent is the same person you sent the questionnaire to. This may not actually be the case. Many times business questionnaires get handed to other employees for completion. I tried to overcome this problem by calling to the persons in charge that I wanted to fill in the questionnaire at least two times (and in some cases there was a third phone call), once when sending the questionnaire, and once three days later.

The conduct of the mail questionnaires research lasted a little more than 3 months, between June and September of 2004. The reason for this long lasted period has been the unwillingness of the managers of the foreign- owned subsidiaries located in Greece to respond to the questionnaires. To achieve better results before sending out the questionnaire (by fax or e-mail) I contacted the person I wanted to respond to it and I was trying to explain the purpose of my study. This was also described in the cover letter that was sent with the questionnaire. Then, after having sent the questionnaire I contacted again the next day the same person asking him/ her if he/ she has read the questionnaire and if I could help with any questions that he or she could have. After one week and if I had no response to the questionnaire I called again to see if there has been any problem with it. At this point I have to remark that there were several occasions where the people I was talking to had either forgot or lost the questionnaire and thus I had to re- sent it to them. At the end there was a final phone call two weeks afterwards. From this last phone call I waited for one more week until I finally stop expecting a response. Nevertheless, the response rate at the end remained low. More precisely, 34 foreign owned subsidiary located in Greece, or 24 per cent, had responded to my questionnaire. Thus, I decided to resend the mail survey after some time had passed. The period I chose to do that was the beginning of 2006. In particular, I decided that February was the best time period to send the mail questionnaire. One of the causes of low response rate in the first time might had been that it took place during the summer period and when firms had to publish their mid-term financial statements. Following the same approach technique as in the first time, I managed to double the number of responses, i.e. 73 responses out of 144 subsidiaries, or 50.7 per cent.

The fact that I had to send the mail questionnaire twice, might had distorted the overall sample in relation to the population. A reason for this might be that the answers in the questionnaire, might be a result of the each time economic environment that might have influenced, positively or negatively, the economic results of the subsidiary. But, on the other hand, I considered that I had to increase the number of responses in order to increase the validity of my research. Thus, in order to see whether the fact that I had to unite two small samples in a large one, and this would not distort my overall sample against the population, I first made a two- tailed Spearman's Rank Correlation test regarding the location of the parent companies of the two small samples. Thus, Table 5.1 below demonstrates that there is a strong positive association (0.601) between the two variables, i.e. between the sample A and sample B, regarding the origin of the subsidiaries that responded in the two samples.

Table 5.1: Correlation Test between the Location of the Parent Companies of the Two Samples

Correlations

			Where is your HQ established? Sample A	Where is your HQ established? Sample B
Spearman's rho	Where is your HQ established?Sample A	Correlation Coefficient	1,000	,601**
		Sig. (2-tailed)	,	,000
		N	33	33
	Where is your HQ established?Sample B	Correlation Coefficient	,601**	1,000
		Sig. (2-tailed)	,000	,
		N	33	39

**. Correlation is significant at the .01 level (2-tailed).

I then further tried to strengthen the validity of my sample by examining the correlation of sample A and sample B with regard to the year of establishment of the subsidiary in Greece. In this respect, Table 5.2 below demonstrates that there is a medium to strong positive association (0.507) between the two variables, i.e. between the sample A and sample B, regarding the year of establishment of the subsidiary in Greece.

Table 5.2: Correlation Test between the Year of Establishment of the Subsidiaries of the Two Samples

Correlations

			When was your subsidiary established in Greece?Sample A	When was your subsidiary established in Greece? Sample B
Spearman's rho	When was your subsidiary established in Greece?Sample A	Correlation Coefficient	1,000	,507**
		Sig. (2-tailed)	,	,003
		N	33	33
	When was your subsidiary established in Greece? Sample B	Correlation Coefficient	,507**	1,000
		Sig. (2-tailed)	,003	,
		N	33	39

**. Correlation is significant at the .01 level (2-tailed).

5.3 Discussion about how questions were chosen and developed, how they relate to the hypotheses/ research questions:

The questionnaire was divided in four parts: the background of the subsidiaries, the role of the subsidiaries, activities of the subsidiary and institutional factors and services. From the questions formed my aim was to explore, among other things, what have been the main reasons for investment in Greece, which are the main countries that foreign firms originate from, what type of subsidiaries are found in Greece, where they have located their manufacturing activity, what kind of power relationship exists between the subsidiary and the parent company, what is their opinion with regard to infrastructure and certain institutional factors in Greece. By this way I would have all the information needed in order to answer my research questions/ hypotheses as stated in the introduction.

At the end I constructed a questionnaire[120] by which I hoped to identify some of the determinants of FDI in Greece during the post- war period. By identifying these determinants I will then evaluate the main variables affecting the decision to undertake FDI in Greece, as well as the main characteristics of the firms that currently have an industrial base in Greece. As a result of my analysis I hope to be able to identify the factors responsible for the underperformance of Greece in terms of its ability to attract FDI. The questionnaire has been constructed deliberately brief (four and a half pages) because large questionnaires are a problem, particularly when they have to be completed by people who manage large companies and their time is very limited.

From the 144 questionnaires sent, 73 were returned filled in. This is a satisfactory number of responses, particularly if someone has in mind the small number of foreign owned subsidiaries with a manufacturing activity located in Greece. Nevertheless, I further analysed some of the characteristics of the 144 subsidiaries, that had obtained through the original list, with those of 73 subsidiaries in order to see if the two samples are correlated. Such characteristics were the location of the subsidiaries, their country of origin and year of establishment. From the

[120] More precisely a five page questionnaire with closed questions was constructed and sent to the financial managers of 144 foreign subsidiaries that are currently located in Greece. See also Appendix 1.

comparison between the sample of responded subsidiaries and the population there seems to be a correlation.

5.4 Face to Face Semi Structured Interviews

Apart from the mail questionnaire research method that was described above, another kind of research was also performed, that of face to face semi structured interviews. Having experienced the unwillingness of managers from the mail questionnaires, and being almost sure that in the case of face to face interviews the result would also be the same, I tried to follow a method that would allow scientific validity by performing a small number of interviews. Additionally, interviews could provide me with information that it was not possible to obtain via the survey, as well as to verify or not the conclusions I had from the mail questionnaire. The reason is that through interviews someone may describe his/ her own experiences in terms of subjective phenomena (Herod, 306: 1993; Brink, 464: 1995) and the interviewer may understand individuals' own perception of different phenomena (Flick, 2002: 6). Of course, on the other hand the risk of interviews is that the interviewee may not be objective in his/ her opinion as he/ she describes at most private and interpersonal experiences (Brink, 465: 1995).

In this respect I decided to choose 20 subsidiaries from those that replied to the questionnaire and arranged an interview with either the general or the financial manager of the firm[121]. But, what were the criteria by which the twenty firms were chosen? Two have been the main sources of choosing the type of foreign subsidiaries in Greece that I wanted to interview. First, was the theoretical framework with regard to the type of multinational enterprises that are most likely to invest in Greece, as I presented in chapter III. In particular, in that chapter, I argued that in Greece is more likely to invest a horizontal type of firm, which will produce the same or roughly the same products as in the other large European Markets and local management may have a moderate to high degree of autonomy in decisions that concern domestic market, but relies on the parent company as far as the transfer of knowledge and expertise.

[121] For information regarding the dates and location of the interviews, see Appendix 5.

The second source of choosing these twenty firms has been the results of the answered questionnaire that presented in chapter VI. Having also in mind the theoretical framework of chapter III, the basic criterion of choice has been whether foreign subsidiaries in Greece had some (84.9 per cent of the answered questionnaires) or no autonomy (12.4 per cent of the answered questionnaires) in the everyday business decision- making process and those that were more autonomous (just 2.7 per cent). This criterion is very important in understanding the type of foreign subsidiaries that are located in Greece, as it indicates the degree of importance that the parent company gives to the local market and its local resources (managerial and/ or scientific personnel, establishing linkages with local firms, etc.). The second criterion has been the method of establishment in Greece. In chapter VI we will see that the two most common ways of entry in the Greek market is either by creating a new establishment (45.2 per cent) or by taking over a Greek company (39.7 per cent). Finally, the third criterion has been the sector of activity of the foreign subsidiary in Greece. In this respect due to the fact of the analogy in the answered questionnaires that was two out of three in favour of modern industry, I followed the same analogy in the Greek subsidiaries that I planned to interview. Thus, fifteen out of twenty subsidiaries I interviewed are in the modern sector.

In a second phase I arranged two interviews with respective policy makers. Although there was no objection by these two policy makers to publish their names, I believe that it is better not do so as I have not any written permission by them. Nevertheless, I will give as much detail as I can regarding their position in public administration. Thus, the first interview was arranged with policy maker A of the Ministry of Finance and Economy. In particular, policy maker A works in the Department of Control and Approval of Private Investment in the Ministry of Finance and Economy. Policy maker A had an important role in the formation of the current and previous incentives Laws. Thus, his opinion is regarded as a very important one, particularly with regard to the incentives that the Greek government provides to private investors, as well as to the way the Greek institutional framework functions towards the issue of investment policy. The second interview was arranged with policy maker B, who works at the Hellenic Center for Investment. In particular, policy maker B is Research and Analysis Manager in the Department of Investment Research and Project Evaluation. Policy maker B has taken part in many investment roadshows as well as to the evaluation of projects on behalf of the Greek government. Thus, he has an extensive experience in contacts with foreign investors and knows very well how foreign investors conceive the Greek investment environment.

From the provision of the above information, regarding the professional background of the two interviewees, it is evident that they should be considered as key informants in the field of FDI in Greece. Both interviewees have contributed significantly to the formation of the last two incentive laws that have been implemented in Greece, and have also been key players in the writing of the new one that is going to be implemented since the first of January 2007.

But, what were the criteria by which these two key informants were selected? When I was planning the whole interview part of my thesis, I had numerous discussions with different academics and policy makers in order to understand how the Greek state has organised itself in order to deal with foreign investors. There were four departments that could come in contact with foreign investors: a) the Ministry of Finance and Economy, b) the Hellenic Center for Investment, c) the Foreign Ministry through their commercial attachés, and d) the Ministry of Development. From these discussions, the conclusion I came up with was that the commercial attachés and the Ministry of Development were referring the foreign investors for details and assistance, mostly, to the Hellenic Center for Investment, and secondarily to the Ministry of Finance and Economy. And this because, as far as the commercial attachés is concerned, their duty is only to provide some basic information about Greece and its economy and then refer those foreign investors that are interested to obtain further information to either the Hellenic Center for Investment, or the Ministry of Finance and Economy. As far as the Ministry of Development is concerned, it simply has no department responsible to provide information and assistance to foreign investors.

Thus, I decided to take only two interviews from the side of the state due to the fact that the Ministry of Finance and Economy, via the Department of Control and Approval of Private Investment, where policy maker A belongs to, and the Hellenic Center for Investment, where the policy maker B belongs to, are the two main departments that come constantly in contacts with foreign, and domestic, investors.

By this way I avoided possible confusion or misdirection of research and conclusions from information that I could have received if I had chosen also to take interviews from policy makers of other public services (e.g. Ministry of Development or commercial attachés) that have little or no contacts with foreign investors.

Consequently, in chapter VII, I performed twenty interviews with managers of foreign subsidiaries located in Greece and two interviews with policy makers from the Greek public administration. Having established in chapter VI an overall perspective with regard to the role of foreign subsidiaries in Greece, and their views with regard to the investment environment in Greece, my aim in chapter VII, was to identify the logic and the meaning of the conclusions found in chapter VI, as well as to obtain any other information that could help me to answer my research questions/ hypotheses stated in the introduction of the thesis. For such a purpose the corporate interview research method, that would help me to understand the firm's observed behaviour (Schoenberger, 1991: 180), has been adopted. By this way mail questionnaire and interviews would operate in a complementary way giving a better picture of the real investment environment in Greece and of course identifying more clearly the causes of the low performance of Greece in attracting FDI.

The structured questions asked are found in Appendix II of this thesis. The aim of these questions is two- fold. Taking the analysis of chapter VI one step further, these questions through face to face interviews with the general managers of twenty foreign subsidiaries located in Greece, aim to examine first, the particular role of the subsidiary in relationship to other subsidiaries located elsewhere in the world (to this goal contributed questions such as how much does your firm contributes to the final product? What is the degree of your decision- making process autonomy? During the last 5 years your decision- making autonomy has increased or decreased? Are you encouraged to pursue autonomous initiatives?), and second, the degree of interaction of the subsidiary with local and national institutions and their opinion with regard to these institutions (to this goal contributed questions such as Have you applied for subsidies during your investment process? Plans for further investment? If no why? If yes why? Have you asked the help of the Hellenic Center for Investment (ELKE) or any other governmental organisation during an investment process? If other organisation which? If ELKE was their help helpful? If not, why?).

Despite the fact that there were only twenty interviews to be performed, I faced a lot of unwillingness by the managers of foreign subsidiaries to accept me and discuss the issue of FDI in Greece. For this reason it took me a long time, and a lot of phone calls, in order to persuade the managers of the appropriate foreign subsidiaries to accept me for an interview. A surprising aspect has been that the managers that have studied and work abroad have been more receptive in my demand for an interview. In total it took me three months to perform all twenty interviews, due to the unwillingness and the tight schedule of the contacted managers. The interviews were held between March and May 2006.

These twenty interviewees were chosen by the list of the 73 foreign- owned subsidiaries that had responded to the mail questionnaire. The main reason for this preference has been that interviews would provide me with more in-depth information with regards to the answers I had received from mail questionnaire. In case I had chosen interviewees from subsidiaries that had not responded to the questionnaire, it was highly likely to distort the validity of conclusions, as these would have emerged from two different samples. All interviews were held in Athens. The main reason of this preference has been the view that in Athens exist the headquarters of the largest foreign- owned subsidiaries that are established in Greece, as well as that due to the more frequent interaction of the managers of these subsidiaries with the State's institutional bodies, as well as between them, they would provide me with more in-depth information with regard to my research questions.

Thus, having arranged the twenty interviews, my aim when I visited them was to get information with regard to the investment environment in Greece that could not be obtained by a mail survey. For this purpose my questions followed the same turn as in my mail questionnaire (background of the Greek subsidiary, role of the subsidiary, activities of the subsidiary and institutional factors and services). But, apart from the first question that I was raising each time I wanted to discuss a certain issue, there were a number of questions raised from the answers that the twenty managers were giving me. I followed this tactic as I wanted to make structured interviews, but at the same time to allow the managers to speak widely with regard to the issues I put into the table. Moreover, before the beginning of the interviews I assured them for the anonymity of their responses. By this way I gained their trust in order to get the real picture behind their story.

As far as the interviews with the two policy makers are concerned, these were arranged just after the interviews with the twenty managers of the foreign subsidiaries located in Greece were over. For these interviews I followed the same methodology as in the previous twenty ones, i.e. semi- structured ones. In appendix 3 are found the initial starting questions. The two interviews took place in the offices of the interviewees and lasted about 45 minutes each.

A main obstacle I had to deal with was the refusal of the twenty-two interviewees to record our discussion. The managers from the multinational enterprises preferred our discussion not to be recorded, as they feared that, somehow, either their competitors or public employees could obtain knowledge of their comments. Additionally, the two policy makers also preferred the interviews not to be recorded as they were very concerned about the media, or someone more superior than them, somehow, picking up their comments and use them against them or their services. Thus, in order to deal with this situation, i.e. not writing down all the time notes ignoring the essence of their comments, I adopted the following approach. During the interviews I was only taking short notes in order to be able to participate actively, with follow up questions, in the discussion that was taking place. But, immediately after the end of the interview I was trying to find a quiet place in order to write down some of his/ her comments that made a particular impression on me, but also a general comment of the interviewee's overall stance in the issues that I had discussed with him/her before.

After having completed all twenty interviews with the managers of the multinational enterprises located in Greece and the interviews with the two key policy makers, my main task was to analyse the results. I did this in a systematic way, analysing the content of their answers, looking at the same time for recurring themes. For example, I mention the issue of "access to information" that is examined in my thesis. There were times in which the interviewees argued that they were indifferent if some other enterprises were managing to obtain information in advance from the Greek public administration about the introduction of a new law or a new procedure.

In this case I should indicate that the interviewee has a neutral opinion on "access to information". But, later in the interview, when we were discussing other issues, e.g. the taxation rules that are valid in Greece, I was witnessing a dissatisfaction regarding the retrospective implementation of certain tax norms, as well as the fact that some of their competitors appeared to be prepared for that, probably because they knew it some time in advance that such a norm is going to be initiated. In this case I had to consider that this interviewee has a negative, rather than neutral opinion, on the issue of "access to information".

Thus, the analysis of the interviews took the following form. A first analysis was taking place just after the end of each interview. This analysis concerned an initial coding of the responses according to the themes that coincided with the major areas of questions that I had developed in my questionnaire (i.e. background of the subsidiary, roles of the subsidiary, activities of the subsidiary and institutional factors and services). I followed this method for two reasons. Firstly, I wanted to avoid to end up with a load of data from all interviews which could result to miss details of important information. Secondly, due to the fact that I could not record the interviews, analyzing the data just after the end of the interview, allowed me to have fresh in my mind the reactions and other details of the words of the interviewees. This has been very important for me, as only in such a way I was able to write down quotes of the interviewees' arguments that had impressed me and contributed to my research.

In a secondary stage, after having completed all twenty interviews (I followed the same methodology for the two interviews from the key policy makers, but obviously I treated them as a different group) all information that concerned a specific theme, e.g. the role of the subsidiary in Greece, were placed in three groups. These three groups included the main group that integrated the majority of the interviewees and two other groups that concerned the two opposites from what the majority in this theme had argued. In this way I was able to get the big picture of the topic I was examining and at the same time identify how strong a tendency is formed. But, as I argued above, this coding was not taking place just from the initial response I was getting during the conversation of a theme, but from the whole discussion, i.e. always follow- up questions in a topic were taking place. And this because, as I demonstrated above, the initial argument of an interviewee could be misleading in relation to his stance in an issue. Following this methodology of interview analysis I was able to identify the logic and the meaning of the conclusions found in chapter VI, as well as to obtain any other information (particularly through the follow- up questions) that could help me to answer my research questions/ hypotheses stated in the introduction of the thesis.

5.5 Secondary Data

In order to establish the FDI underperformance of Greece in relation to Ireland and Portugal, as well as Greek FDI outflows, secondary data were used. According to Hofferth (2005: 893, 896) secondary data can be easily available, in a short time and with a low cost, whereas on the other hand, the researcher should be very careful in order not to let the data to determine the study direction, as well as there is the danger that the availability of data on certain field is likely to influence the direction of the research. Finally, sometimes it takes time to become familiar with data that the researcher did not personally collect.

In my case an initial problem I faced was that there were no available data, in a consistent way, for the period from 1945 to 1980 as far as FDI inflows are concerned. As a result I had to compare Greece, Ireland and Portugal since 1981. Moreover, for this purpose I had to use two different sources of data, UNCTAD and Eurostat, and combine their figures in order to make a sequence of 24 years. Although, in my research question I argue that I try to find out about the underperformance of Greece during the last two decades, so in this case it is reasonable to present the data since 1981, nevertheless if I had available data for the period before 1981 I would then be able to present the better performance of Greece during the prior to 1981 years. On the other hand, as far as FDI outflows are concerned, things were easier as all the data I needed were available from UNCTAD. Besides, the time period exploring in this case was somewhat shorter, since 1991, actually the first year that most of the South Eastern European countries enjoyed a democratic regime.

In the next chapter the results of the mail survey, sent to 144 foreign subsidiaries having a manufacturing activity in Greece, are analysed.

CHAPTER VI

Interpreting the Particular Characteristics of Foreign Subsidiaries Located in Greece

6.1 Introduction

This chapter analyses the findings of the research survey performed with an aim to answer the research questions identified in the introduction and which they emerged from the theoretical analysis of chapters I, II and III. In the methodology chapter I explained the details of the survey research. The questionnaire was sent to 144 manufacturing subsidiaries in Greece, in order to get information about certain characteristics of their companies. In the end 73 subsidiaries replied, or 50.7 per cent of the population. This is a satisfactory response rate, particularly taking into account the small number of foreign subsidiaries that are located in Greece. In essence the questionnaire was sent to the population of the foreign manufacturing subsidiaries in Greece[122]. As it will be shown in the next lines, the foreign subsidiaries that replied to the questionnaire have a locational pattern similar to the 144 subsidiaries. Moreover, the year of establishment and the country of origin between the population and the sample were also compared and showed similar characteristics.

6.2 Location of the Foreign Subsidiaries within Greece

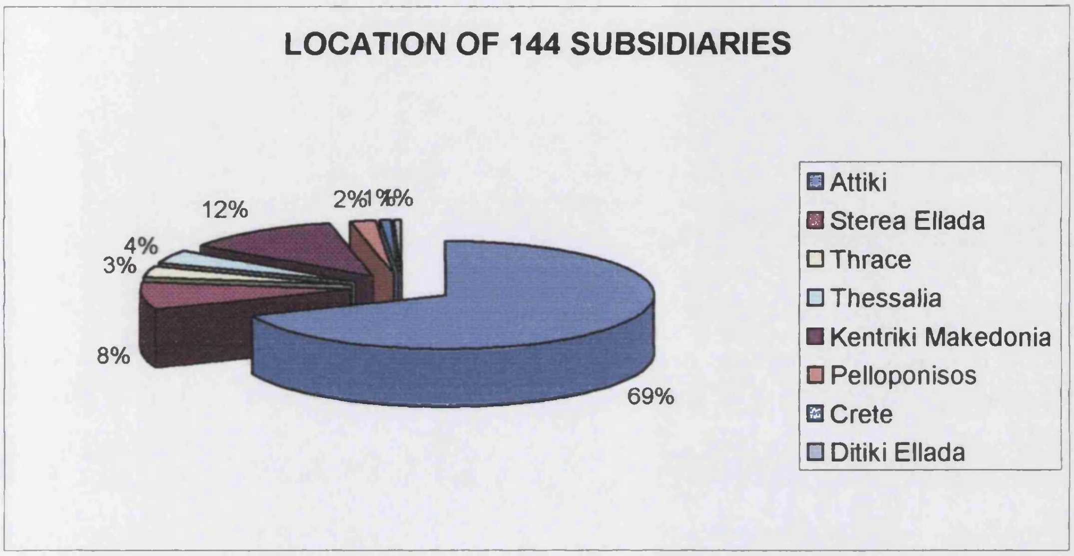
The analysis of the characteristics of the foreign subsidiaries that are currently present in Greece will begin by describing the location of their manufacturing activity, and not where their administration centres (HQ) are found[123]. First, the location of all 144 subsidiaries will be described. Then the location of the subsidiaries that replied to the questionnaire will be presented in order to see how representative to

[122] Given my argument that 144 subsidiaries represent nearly all of the FDI with a manufacturing activity in Greece, I call this the population and I will refer to the 73 firms that replied to the questionnaire as the sample (i.e. from this population)

[123] There are many cases where the location of the manufacturing activity and the local HQ differ. For example, a subsidiary might have the production activity in Thrace and the HQ in Athens. This happens for reasons of business efficiency, e.g. Athens is the economic centre of Greece and being there you can make more and better deals.

the whole population has been the responding sample. The region rather than the prefecture has been taken as the locational unit of analysis.[124]

Chart 6.1 Location of 144 Subsidiaries



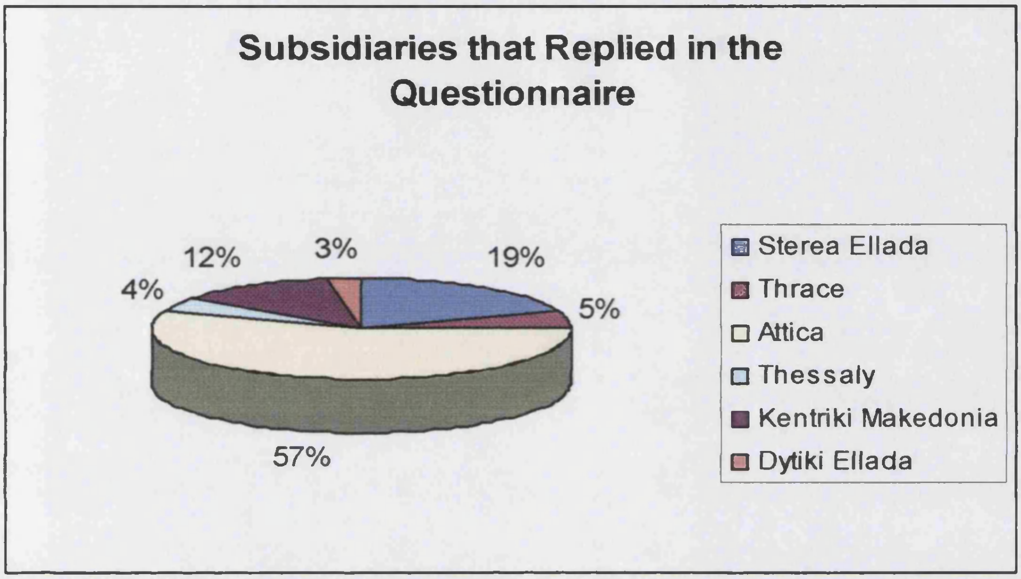
From Chart 6.1 it is clear that the vast majority of the manufacturing subsidiaries are located in the region of Attiki (69 per cent or 99 firms), followed by the region of Kentriki Makedonia (12 per cent or 17 subsidiaries) where Thessaloniki the second largest city (and prefecture in terms of population) of Greece is located. The reasons for these choices are discussed later in the chapter. Then comes the region of Sterea Ellada where the 8 per cent (or 12 foreign subsidiaries) of the subsidiaries in the population have been located. The main characteristic of this region is the proximity to the largest market of Greece (Attiki) and the good communications. Smaller numbers of foreign subsidiaries are located in the rest regions of Greece as portrayed in Chart 6.1. Nevertheless, a particular characteristic is that foreign subsidiaries are not located at all in the insular regions of Greece, e.g. Ionian or Aegean regions, with the exception of the region of Crete, which attracts the 1 per cent (or 1 subsidiary) of the population.

As already mentioned, a questionnaire was sent to all 144 subsidiaries asking for further information with regard to their activities in Greece. 73 subsidiaries replied to this questionnaire, making a response rate of 50.7 per cent. Chart 6.2 indicates the

[124] Usually, a region consists of three or four prefectures.

location of the subsidiaries replying to the questionnaire. There are similarities, as well differences, between those that replied and the total population.

Chart 6.2 Subsidiaries that Replied in the Questionnaire



According to Chart 6.2, in the replied questionnaires, the region of Attiki remains in the top of the locational preferences of the subsidiaries followed by the region of Sterea Ellada and then the region of Kentriki Makedonia. Making a different kind of comparison, if we distinguish between Southern and Northern Greece, 78 per cent of the foreign subsidiaries in the sample are located in Southern Greece, and only 22 per cent in Northern Greece. When describing the particular characteristics of the subsidiaries, we are going also to analyse the reasons for such a location distribution within Greece. The major difference between the two charts is that in the second chart, the response rate is higher in Sterea Ellada than in Kentriki Makedonia, but in real terms the difference is only 5 firms and the location of the responding firms is similar to the overall north south distribution of the firms[125]. Another, less important difference, is that in the second chart there were no responses from the regions of Crete and Pelloponisos.

To explain the locational preferences Table 6.1 groups the sample subsidiaries into those that export less than 50 per cent and to those that export more than 50 per

[125] 80 per cent of the subsidiaries in the first chart are located in Southern Greece, in relation to 78 per cent in the second chart.

cent. The foreign subsidiaries located in Thrace and Kentriki Makedonia are mainly export oriented. A large number of subsidiaries (around 20 per cent or 8 subsidiaries) that are located in Athens are also export oriented, but still the majority of them, around 80 per cent or 33 subsidiaries, sell their products to the domestic market. Additionally, the foreign subsidiaries that are located in Sterea Ellada, Dytiki Ellada and Thessalia, i.e. in Southern Greece, seem to sell the vast majority of their commodities in the domestic market. One argument is that subsidiaries are located in Southern Greece (or more particularly in the area around Attica) mainly for the market proximity of their products. The area around Attica concentrates more than 50 per cent of the whole population of Greece. Moreover, there is a very good transport network there that allows the easy, cheap and on- time delivery of the produced commodities. Conclusively, we can argue that there is some kind of relationship between location within Greece and export orientation.

Table 6.1: Number and Percentages of Export/ Domestic Oriented MNEs in Greece

Number and Percentages of Export/ Domestic Oriented MNEs in Greece				
	Export Oriented		Domestic Oriented	
	Number	Percentage	Number	Percentage
Sterea Ellada	2	14%	12	86%
Thrace	3	75%	1	25%
Attiki	8	20%	33	80%
Thessalia	0	0	3	100%
Kentriki Makedonia	6	67%	3	33%
Ditiki Ellada	0	0	2	100%
Total	19	---	54	----

6.3 Profile of Greek Subsidiaries

Next, a description of the particular characteristics of the foreign subsidiaries that are located in Greece is presented. The nationality of the subsidiaries that responded to the questionnaire and that of the original population (144 subsidiaries) are presented in Table 6.2 below and analysed.

Thus, according to Table 6.2 below, from the countries that replied to the questionnaire, USA and Germany are the main sources of FDI in Greece. In particular, the two countries seem to have the most subsidiaries in Greece, by 16.4 per cent, or 12 subsidiaries each. But, from the original list of 144 subsidiaries the majority of subsidiaries comes from Netherlands (15.3 per cent or 21 subsidiaries) and then from France (10.9 per cent or 15 subsidiaries). Germany and USA, which were the top two countries from the subsidiaries that replied to the questionnaire, are in the fourth and sixth place respectively. One striking point in the population of multinational enterprises is that there are very few subsidiaries (only 3) from Southeast Asia. On the contrary, European countries seem to dominate inward FDI in Greece.

Table 6.2: Country of Origin of FDI

Country	Sample		Population	
	Number	**%**	**Number**	**%**
Netherlands	10	13.7%	21	15.3%
France	8	10.9%	15	10.9%
Italy	4	5.5%	14	10.2%
Germany	12	16.4%	14	10.2%
USA	12	16.4%	13	9.5%
Switzerland	5	6.9%	13	9.5%
UK	5	6.9%	9	6.6%
Cyprus	4	5.5%	7	5.1%
Luxembourg	4	5.5%	7	5.1%
Ireland	2	2.7%	5	3.6%
Belgium	2	2.7%	4	2.9%
Liberia	-	-	3	2.2%
Japan	-	-	3	2.2%
Sweden	2	2.7%	2	1.5%
Liechtenstein	-	-	2	1.5%
Canada	1	1.4%	1	0.7%
Russia	-	-	1	0.7%
Austria	1	1.4%	1	0.7%
Denmark	1	1.4%	1	0.7%
Panama	-	-	1	0.7%
Total	**73**	**100%**	**137**	**100%**
Missing			**7**	
Total			**144**	

In order to see whether the sample comes from the population, i.e. whether there is a correlation between the country of origin of the 144 multinational enterprises (population) and the country of origin of 73 multinational enterprises (sample) that responded in the questionnaire, we are going to do a two- tailed Spearman's Rank Correlation test. The results are indicated in Table 6.3 below, as obtained by SPSS programme. Thus, Table 6.3 below demonstrates that there is a medium to strong positive association (0.510) between the two variables, i.e. between the population and the sample. This further strengthens the argument presented in the beginning of this chapter, i.e. that the subsidiaries that responded to the questionnaire are representative of the whole population. This makes the following results (and analysis) more valid.

Table 6.3: Correlation Test between Population and the Sample

Correlations

			Sample	Population
Spearman's rho	Sample	Correlation Coefficient	1,000	,510**
		Sig. (2-tailed)	,	,000
		N	73	73
	Population	Correlation Coefficient	,510**	1,000
		Sig. (2-tailed)	,000	,
		N	73	137

**. Correlation is significant at the .01 level (2-tailed).

Next the analysis of the periods in which the foreign subsidiaries first established in Greece and survived until today takes place. Unfortunately, it is not possible to have data for subsidiaries that have left Greece for different reasons, as the questionnaire was sent only to these subsidiaries that still operate in the country. In order to make the interpretation of this question easier, the answers (dates) given in the questionnaires were grouped in three categories: 1945- 1969, 1970- 1989, and 1990- 2004. This grouping matches the analysis in Chapter I (Fordist period, post-Fordist period and New Economy) that has been adopted in this thesis. Thus, in Table 6.4 below, the subsidiaries of the population (144) and the subsidiaries that replied to the questionnaire are analysed:

Table 6.4: Year of Establishment

	Sample		*Population*	
Time Period	**No. of Firms**	**Percentage**	**No. of Firms**	**Percentage**
1945- 1969	22	30.1%	54	38%
1970- 1989	40	54.7%	59	41.5%
1990- 2004	11	15.2%	29	20.5%
Total	**73**	**100%**	**142**	**100%**
Missing			**2**	
Total			**144**	

The results in Table 6.4 above demonstrate that most of the subsidiaries (both when examining population, but also the sample) that have survived until today were first established in Greece during the post- Fordist period (1970- 1989), followed by the Fordist period (1945- 1969). During the most recent period (1990- 2004) Greece has attracted less subsidiaries with manufacturing activities.

As mentioned in chapter I, the time period 1970- 1989, or the so- called post-Fordist period, was particularly important for Greece. It is the period where the dictatorship collapses (1974), and Greece joins the European Union (1981). Additionally, it is the period where Fordism paradigm of production has started to collapse. Greece, being located in the periphery of (Western) Europe, is among the choices of international capital that seeks places (characterised by low labour wages) where it will be able to produce and distribute its products to the large markets in safety and in a short time.

Moreover, according to the results of Table 6.4 during the time period 1945-1969, or the so- called Fordist period, a significant number of firms that were established in Greece have survived until today. In particular, during the Fordist period the 30.1 per cent (or 22 subsidiaries) of the companies that responded in the questionnaire were first established in Greece and operate until today. After the end of the WW II and the civil war (1949), Greece struggled to restore its economy, and particularly its industrial infrastructure. During the 1950s and 1960s there was significant economic growth in Greece. This, in combination with cheap labour, made the country a favourable location for the large Western firms. According to the World Bank classification in that era (end of 1960s), as mentioned in Chapter I, Greece and

Portugal were considered as Newly Industrialised Countries, with higher growth rates, particularly in industry, than the "old industrial countries".

Finally, the fewest companies (15.2 per cent or 11 subsidiaries) have been established in Greece during the last period, or in the so- called "New Economy". This is the period where FDI overpasses exports, as new locations and markets have become available to the international capital. In other words, whereas foreign investment reaches its peak during the 1990s[126], at the same time Greece attracts less and less FDI[127] despite its efforts to adjust the productive capacity to the market competition (Caloghirou, Voulgaris and Zambarloukos, 2000: 79). As a consequence, the results here coincide with the analysis in the introductory chapter, concerning the poor performance of Greece as a FDI location. Efforts to improve the competitiveness of the country started in the beginning of 1990s, but from the results these efforts were not consistent and also they were not satisfactory in order to reverse the tendency.

Another characteristic examined is the way of entry of the multinational corporations in Greece. Depending on the activity of the firm, ownership structure can be very important. Thus, the simplest form of inter- firm alliance via ownership and investment is the parent- subsidiary relationship. Practically every large firm owns (wholly or partially) smaller firms to which it might allow a degree of autonomy from the parent company. There is no effort to absorb the subsidiary completely because it might reduce flexibility. Another form of alliance is the joint venture form. It occurs when two firms enter directly into a shared ownership agreement. Joint venture goes further than licensing and technology- sharing agreements in combining strengths of independent firms. Joint ventures have long been used as a way to enter foreign markets, set up producing subsidiaries abroad, gain access to natural resources, etc. (Sayer and Walker, 1992: 134). Nevertheless, the way of entry in a foreign country depends also on the kind of commodities a firm produces. For example, technology-based manufacturing firms may wish to control from the very beginning the whole spectrum of an investment in a new country. The reason is that the comparative advantage of these firms are the so- called intangible assets, i.e. scientific knowledge,

[126] See Introduction Chapter for an analysis of FDI flows.
[127] See the introduction of the thesis for an analysis of the Greece's track record in attracting FDI.

production skills, know how and brand names (Nakamura and Xie, 1998: 572). Table 6.5 documents the different ways the sample of foreign firms entered Greece.

Table 6.5: How Subsidiaries Originally Established in Greece?

Way of Establishment	Number	Percentage
By the take over of an existing company	29	39.7%
As a joint venture with existing Greek Company	6	8.3%
By the creation of a new establishment	33	45.2%
Other	5	6.8%
Total	73	100%

According to Table 6.5 above, the majority of the foreign subsidiaries (45.2 per cent or 33 subsidiaries) replied that they were established by the "creation of a new establishment". On the other hand, 39.7 per cent of the subsidiaries (or 29 subsidiaries) stated that the parent company entered the Greek market by the take over of an existing company. These results show that foreign firms are generally divided with regard to their preferred way of entry into Greece. Moreover, according to these results, a large number of foreign firms prefer to enter the Greece market on their own, without seeking any special partnership with local entrepreneurs.

But is there any relationship between the country of origin and the way of entry of multinational corporations? To investigate this we divided firms to American and European ones. We should expect that due to geographical proximity and common cultural attitude European Firms should be less hesitant in investing in Greece without seeking partnership with local firms[128]:

Table 6.6: Way of Entry & Origin of the Foreign Firm

	How Originally Established?				
Continent	By the take over of an existing company	As a joint with existing Greek company	By the creation of a new establishment	Other	Total
Europe	18 30%	5 8.4%	34 56.6%	3 5%	60 100%
America	8 61.6%	1 7.7%	1 7.7%	3 23%	13 100%
Total	26 35.7%	6 8.2%	35 47.9%	6 8.2%	73 100%

[128] By the term local firms we mean the firms that are located in the same region, e.g. region of Attica, or region of Sterea Ellada, etc.

Indeed, Table 6.6 demonstrates that most American companies seem to prefer to enter the Greek market via the take over of an existing company. In other words they prefer to invest in already established companies (and probably to the already established products these firms produce) to the Greek market, instead of starting something new. On the contrary, European Union countries, such as Germany, France, UK and Italy, are less hesitant to enter the Greek market by creating their own subsidiary. An explanation for such a different behaviour between American and European firms, might be that the former might be afraid that their products consumed in USA or other European countries might not fit in the culture and tastes of the Greek consumers. Moreover, as mentioned in chapter IV, with regard to the location factors that affect the decision of a multinational corporation about where to invest, for the American multinational corporations the previous policies of a State towards multinational capital, and especially the likelihood of nationalisation or control of the investment decisions taken by the firms, may affect negatively their decision to invest in this country (Schoenberger, 1985: 253). The contradictory policies of the Greek State towards the multinational capital since 1945, as well as the extensive nationalisation that took place between 1974 and 1985, might still make the American firms hesitant to invest in Greece. This might also explain the low FDI in the early 1990s, as memories were still fresh with regard to the inconsistency of the Greek State towards foreign investors.

The degree of ownership to a new establishment created to a foreign country is also a very important decision taken by a multinational corporation. It affects the degree of control, but also the risks and profits that the new establishment might or might not bring to the multinational corporation. Moreover, it affects the productive efficiency enjoyed by the subsidiaries, but also the diffusion of technology to them by the parent company. According to Louri, Loufir and Papanastasiou (2002: 42) the main reason that multinational corporations select full ownership is the resource intensity of the industry and firm- specific variables. Geographical and cultural distance plays a negative role, while invested capital and prospective firm profits play a strong positive role. Thus, in Table 6.7 below we present the degree of ownership that the 73 foreign subsidiaries, decided to obtain when first invested in Greece, and also examine if these subsidiaries, by the time, have increased or decreased their share.

Table 6.7: Original and Current Ownership Percentages by Foreign Firms with Respect to their Subsidiaries

	Original		Current	
Percentage	**No. of Firms**	**Percent**	**No. of Firms**	**Percent**
0-20	4	5.5%	2	2.7%
21-40	2	2.7%	2	2.7%
41-60	13	17.8%	3	4.1%
61-80	4	5.5%	2	2.7%
81-100	50	68.5%	64	87.8%
Total	**73**	**100%**	**73**	**100%**

According to Table 6.7, the vast majority of the foreign firms when first invested in Greece did so dynamically by taking over more than 80% of the subsidiary they created. This means that foreign multinationals do not want to risk any of their proprietary rights and also by full ownership it is easier to exercise the management policy they want, determine transfer pricing, as well as secure more profits. Moreover, it seems that these foreign firms, over time, have strengthened their percentages to these subsidiaries. Such a move should mean that they find the Greek market, at least profitable for their businesses and thus have an interest to maintain their investments.

But, is there any relationship between the original percentage of a multinational corporation to a subsidiary and the way of entry? According to Table 6.8 below, there seems to be such a relationship. Regardless their way of entry in the Greek market, the sample foreign firms obtained the majority of the shares to their new investments in Greece.

Table 6.8: Relationship between Way of Original Entry and Original Percentage

	What was the original percentage?					
Way of entry	**0-20%**	**21-40%**	**41-60%**	**61-80%**	**81- 100%**	**Total**
By the take over of an existing company	1 3.8%		8 30.8%	2 7.7%	15 57.7%	**26** **100%**
As a joint venture with existing Greek company			4 66.7%		2 33.3%	**6** **100%**
By the creation of a new company	2 5.7%			2 5.7%	31 88.6%	**35** **100%**
Other	1 16.7%	2 33.3%	1 16.7%		2 33.3%	**6** **100%**
Total	**4** **5.5%**	**2** **2.7%**	**13** **17.8%**	**4** **5.5%**	**50** **68.5%**	**73** **100%**

As far as the main goals of the multinational corporations when they decided to invest in Greece, these are presented in the Table 6.9 below:

Table 6.9: What Were the Motivations by the Parent Company to Invest in Greece?

Motivations	**No. of firms**	**Percentage**
Availability of natural resources	8	10.9%
As the best way to competitively access the Greek market	38	52.1%
To access neighbored countries	8	10.9%
The existence of local cluster of firms working on similar or complementary activity	5	6.8%
To defend market share in the Greek market	14	19.3%
Total	**73**	**100%**

Table 6.9 demonstrates that, for the sample subsidiaries, the main rationale for locating in Greece was that they considered this way to be the most competitive way to access the Greek market (52.1 per cent or 38 multinational enterprises). Additionally, 19.3 per cent (or 14 companies) of the multinational enterprises thought this was the best way of defending their market share. If we try to interpret these results, a first clear argument is that foreign investments in Greece are mostly made with regard to the domestic market. This might be an important cause for the low FDI inputs in the Greek market. This might be, firstly, because they consider that the value of the Greek market in their overall profits is so small that it does not worth the devotion of time and resources to improve it. Second, they might consider that they

can effectively defend or access the Greek market only by exporting their products from another country and managing them via local commercial representatives. A third parameter might be that other reasons, such as bureaucracy or the general economic environment in Greece, might discourage them from investing directly in the country. If these arguments are true, then it gives us a reasonable (but not the only one) explanation with regard to the low FDI inflows in Greece. We intend to examine the validity of these variables below.

Additionally, the low response rate in the option "the existence of local cluster of firms working on similar or complementary activity" shows that Greece has not managed to create a strong industrial base in any activity, and thus to be a location of other similar firms that want to take advantage of economies of scope (or external economies of scale) that could be created. This is a very important conclusion that is going to be explored further during the interviews with managers of foreign subsidiaries located in Greece. With regard to the number of employees foreign subsidiaries have, the results are demonstrated in Table 6.10 below. The responses given were divided, as shown in the next table, in 7 categories for the better interpretation of the results.

Table 6.10: How many Employees does your Establishment Have?

Number of employees	No. of firms	Percentage
0-100	21	28.7%
101-200	7	9.6%
201-300	19	26.0%
301-400	17	23.3%
401-500	3	4.1%
501-1000	2	2.6%
1001 over	4	5.7%
Total	73	100%

Table 6.10 indicates that only 9 of the subsidiaries out of 73 in Greece employ more than 400 people. 36 subsidiaries (or about 50 per cent) are in the range 200- 400. These ranges are very low in comparison to the European standards, and the

subsidiaries located in Greece would be considered as small medium enterprises[129]. These numbers are reasonable if we have in mind that the majority of the subsidiaries, as seen before, produce for the domestic market, which is small in size.

But, in order to research further whether this is the case, I am going to distinguish industry sectors in modern and traditional ones. This distinction is used in order to demonstrate, together with other findings of the research, whether Greece attracts, or not, labour intensive industries. Thus, the distinction between traditional and modern sector, which has been taken by the Greek National Statistics Service, is related with the use or not in the production procedure of new technical means. More precisely, a company is being placed to the traditional sector if the commodity that produces is being manufactured since a long time ago (e.g. early 20th century) without significant technological change, e.g. food and agriculture products or beverages. On the other hand a company is being placed to the modern industry, if the commodity produced is based on technological development, e.g. machinery and electric equipment. This general distinction of industry sectors, despite some potential limitations it might have, nevertheless it comes in accordance with the general belief, and practice I would argue, that the more technology an industry uses, the less labour is occupied in it. Conclusively, this distinction can contribute to the purpose of this part of the research, i.e. to see what kind of industries Greece attracts. Thus, Table 6.11 in the next page presents this distinction.

[129] According to the Appendix I of the Community Law 70/2001/EC as amended by the Committee 2003/361/EC one of the criteria to consider a firm as a small- medium one is that this firm has to employ less than 250 employees.

Table 6.11: Sector Description

Sector Number	Sector Description	Modern or Traditional
20	Food and Agricultural Products	Traditional
21	Beverages	Traditional
22	Tobacco and Tobacco Products	Traditional
23	Textile Products	Traditional
24	Fabric and Leather Products	Traditional
25	Wood and Cork	Traditional
26	Furniture	Traditional
27	Paper and Products	Traditional
28	Newspapers, Magazines and Publishing	Traditional
29	Leather and Fur	Traditional
30	Rubber and Plastics	Modern
31	Chemicals, Gases, Medicines and Cosmetics	Modern
32	Petroleum and Coal Products, Gas bottling	Modern
33	Non- Metallic Mineral Products	Modern
34	Primary Metal Products	Traditional
35	Metal Products and Structures	Modern
36	Machinery	Modern
37	Electric Equipment	Modern
38	Transportation Means	Modern
39	Miscellaneous Manufactured Products	Traditional

Source: Greek National Statistics Service

Table 6.12: Relationship between Number of Employees and Sector of Classification

	Sector of Activity		
Number of Employees	**Modern**	**Traditional**	**Total**
0-100	13 27.6%	8 30.8%	**21** **28.7%**
101-200	4 8.5%	3 11.5%	**7** **9.6%**
201-300	15 31.9%	4 15.4%	**19** **26.0%**
301-400	10 21.3%	7 26.9%	**17** **23.3%**
401-500	2 4.2%	1 3.8%	**3** **4.1%**
501-1000	1 2.1%	1 3.8%	**2** **2.6%**
1001 over	2 4.2%	2 7.7%	**4** **5.7%**
Total	**47** **100%**	**26** **100%**	**73** **100%**

According to Table 6.12, Greece seems to fail to attract companies seeking to produce labour intensive mass- produced goods. On the contrary most of the subsidiaries seem to be active in the modern sector, which usually uses less labour and more technology in producing the commodities. This result (in combination with the previous two conclusions, i.e. that most of foreign subsidiaries in Greece target the domestic market and are considered as small and medium enterprises) is consistent with my provisional expectations in the introductory part of the thesis, i.e. that Greece fails to attract companies seeking to produce labour intensive mass- produced goods. More precisely, Greece seems to attract similar type of companies to other European Union countries, i.e. companies that use expertise highly- skilled and not cheap labour force, but not in the large quantities as the other European Union countries.

Lastly, the pattern of the relationship between the company size and the company's origin is investigated in the Table below:

Table 6.13: Relationship between Number of Employees and Nationality of the Parent Company

	Number of Employees							
Nationality of parent company	0-100	101-200	201-300	301-400	401-500	501-1000	1001 over	Total
Netherlands	4 40%	2 20%	4 40%					**10**
France	3 37.5%	1 12.5%	2 25%	2 25%				**8**
Italy		1 25%	2 50%	1 25%				**4**
Germany	4 33.3%	1 8.33%	3 25%%	2 16.8%		1 8.33%	1 8.33%	**12**
USA	1 8.33%	1 8.33%	3 25%	4 33.3%		1 8.33%	2 16.8%	**12**
Switzerland	1 20%		1 20%	2 40%	1 20%			**5**
UK	1 20%		2 40%	1 20%			1 20%	**5**
Cyprus	3 75%	1 25%						**4**
Luxembourg	2 50%		1 25%	1 25%				**4**
Ireland	1 50%				1 50%			**2**
Belgium			1 50%	1 50%				**2**
Austrial				1 100%				**1**
Sweden				1 50%	1 50%			**2**
Canada				1 100%				**1**
Denmark	1 100%							**1**
Total	**21**	**7**	**19**	**17**	**3**	**2**	**4**	**73**

As already mentioned the majority of the subsidiaries established in Greece are considered as small and medium sized. Nevertheless, from Table 6.13 a conclusion is that USA seem to be the origin country of the largest enterprises located in Greece, followed by Germany and UK. Other conclusions are difficult to be drawn due to the scattering of the data.

6.4 Roles of Subsidiary

At the beginning of the current chapter (Table 6.1) we presented the foreign subsidiaries located in different regions of Greece and whether they are export or domestic oriented. Now, we will further analyse the degree of export orientation of the foreign subsidiaries in Greece. More precisely, at a first place, we are going to present analytically how much of their production the foreign subsidiaries that responded to the questionnaire export.

Table 6.14: What Proportion of the Production is Exported?

Proportion of exports	No of subsidiaries	Percentage
0-10	44	60%
11-20	5	6.9%
21-30	2	2.7%
51-60	14	19.4%
61-70	5	6.9%
91-100	3	4.1%
Total	73	100%

Table 6.14 demonstrates that the majority of the foreign subsidiaries located in Greece (60 per cent or 44 subsidiaries) export from 0 to 10 per cent of their whole production. From these subsidiaries, 26 do not export at all. In total, the 69.6 per cent (or 51 subsidiaries) of these subsidiaries, export a maximum of 30 per cent of their production. On the other hand, only 30.1 per cent (or 22 subsidiaries) of the subsidiaries export more than 50 per cent of their production. These results (in combination with the motivations and the number of employees analysed before) strengthen the view that foreign firms establish a subsidiary in Greece mainly with a view of supplying the internal market and exports being a secondary target.

Furthermore, in order to see if the results of Table 6.14 can be generalised to the entire population we will make a test of significance. In particular, my expectation is that foreign firms establish subsidiaries in Greece mainly with a view of supplying the internal market and exports being a secondary target. Thus, the null hypothesis is

Ho: Subsidiaries in Greece are mainly export oriented.

Table 6.15: Null Hypothesis Testing- Subsidiaries in Greece are Mainly Export Oriented

One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
What proportion of your production is exported?	11,867	72	,000	3,5342	2,9406	4,1279

From the Table 6.15 "One- Sample Test" we see that the value 0.0 is less than the value a=0.05 so we reject the null hypothesis. This means that the trends we analysed above concerning the production orientation (which is towards the internal market rather than abroad) are statistically significant. Moreover, because the mean difference is between the lower and upper level given in the above table, this means that there are 95 per cent chances that our interval will contain the population mean. The interpretation of these results shows that the respondents of the sample have a similar behaviour pattern to the population, with regard to the export orientation of the foreign subsidiaries in Greece.

Going deeper to the analysis of the profile of the foreign subsidiaries located in Greece, the pattern of the relationship between the export percentage and the sector (modern or traditional one) the subsidiary is active is investigated.

Table 6.16: Relationship between Proportion of Exported Production and Sector Classification of the Subsidiary.

	Sector Classification		
Proportion of Exports %	**Modern**	**Traditional**	**Total**
0-10	24 51.1%	20 76.9%	**44** **60%**
11-20	4 8.5%	2 7.7%	**6** **6.9%**
21-30	2 4.3%		**2** **2.7%**
51-60	9 19.1%	4 15.4%	**13** **19.4%**
61-70	4 8.5%		**4** **6.9%**
91-100	4 8.5%		**4** **4.1%**
Total	**47** **100%**	**26** **100%**	**73** **100%**

Table 6.16 demonstrates that the subsidiaries being active in the traditional sector export (in their majority) only small amounts of their production. On the other hand, all the companies that export more than 60 per cent are active on the modern sector. These results could be considered as surprising ones, because one should expect that the traditional sector's subsidiaries that Greece attracts, invest in the country in order to take advantage of the natural resources or cheap labour (both main characteristics of a traditional sector firm) and export their commodities. But, this is not the case. On the contrary, this result is consistent with our previous findings, i.e. that natural resources is not a major factor for investing in Greece and second that the country fails to attract labour- intensive subsidiaries.

In chapter III we discussed the types of multinational corporations and the degree of autonomy each type allows to subsidiaries. This degree of autonomy might extend from full control by the parent firm to complete autonomy (from the parent company) at a regional or local level. There are different types of multinational corporations, depending either whether the analysis takes place in time (e.g. Dicken, 1998, who examines the transformation of multinational corporations over time), or in space (e.g. Belis- Bergouignan, Bordenave and Lung, 2000, who argue that the greater the degree of homogeneity, the greater the degree of hierarchical control) or examines the strategic targets set by the management of the multinational corporation (e.g. King and Sethi, 2001)[130]. All these authors distinguish between different types of multinational corporations according to the management structure created in order to get effective decisions with regard to their every day operation and strategic goals. Consequently, the degree of autonomy that multinational corporations allow to their subsidiaries located in Greece will enhance our knowledge about the type of foreign firms that invest in the country. This is an issue that is also going to be discussed during the interviews with the managers of foreign subsidiaries located in Greece and will allow us to understand what kind of foreign subsidiaries are located in Greece and whether the relationships developed between the parent company and the subsidiary influences FDI inflows. Table 6.17 presents the role of the subsidiary in Greece in terms of the output.

Table 6.17: How would you Evaluate the Role of your Subsidiary?

Role of subsidiary	No of subsidiaries	Percentage
Produces some of the parent's already existing product lines	43	58.9%
Produces a certain set of components and the final product is produced elsewhere	5	6.8%
It has autonomy and creative resources	25	34.3%
Total	**73**	**100%**

The data in Table 6.17 show that the majority of the subsidiaries (58.9 per cent or 43 firms) produce some of the parent's already existing products for the Greek market. Although, we cannot be sure of the reasons that these firms produce the parents' products, nevertheless, if we take into account the typology of Dicken (1998), we could argue that it is the "classic global" organisation model that mostly applies in the Greek case[131]. If we take into account the typology of Belis-

[130] For a detailed analysis of different types of Multinational Firms see chapter III of the Thesis.

[131] As referred in chapter III this type of Multinational Firm was first used by Ford in early 1900s and revived only in 1970s and 1980s by Japanese firms, which started their international operations. It is based upon a strict centralisation of assets and responsibilities in which the role of subsidiaries is to assemble and sell products, as well as to implement strategies already decided by the centre.

Bergouignan, Bordenave and Lung (2000), it is the "World- wide company" that mostly applies in the Greek case[132]. Lastly, if we take into account the typology developed by King and Sethi (2001), this kind of operation mostly applies to "portfolio management"[133]. On the other hand, 34.3 per cent (or 25 subsidiaries) of the companies responded that they have autonomy in what they produce. These companies might have got this autonomy for two reasons: first, because their production remains domestic- oriented and the parent company tries to penetrate the Greek market by producing products that are close to the Greek culture and distinctiveness. In other words it tries to produce products that may have great local demand[134]. The second reason might be that the parent company tries to expand its products, which are oriented to the world market, by giving the opportunity to its local branches to integrate local ideas to products sold world- wide. Finally, just 6.8 per cent (or five subsidiaries) produce a certain set of components and the final product is produced elsewhere. This means that very few foreign subsidiaries produce intermediate products, which are then transferred to other plants for the final assembly.

When I previously analysed the background of foreign subsidiaries in Greece, I argued that only 10.9 per cent (or 8 subsidiaries) were established in order to take advantage of the natural resources that exist in the country. As a result, it was argued that for those foreign firms, Greece is not probably regarded as a peripheral country, where multinational corporations invest in order to take advantage of natural resources, or any other characteristics of such a country. Thus, the result concerning the low number of firms producing intermediate products, further strengthens my argument that Greece is not considered as a peripheral country for foreign investors. Finally, this result also strengthens the argument that the Greek market probably lacks (in quantity and quality) the necessary small firms that are vital in today's economic activity in order either to supply raw materials to the main industrial units, or to

[132] This type of Multinational Firm is both homogenous and ethnocentric. When such a firm invests abroad, at the beginning it duplicates the original company's organisational structure. By this way the firm presents an homogenous form across different nations.

[133] This type of firm focuses on a specific region, especially for production facilities. But, marketing and distribution activities are performed globally. Their manufacturing activities are highly centralised as far as their management is concerned.

[134] If this is the reason then according to Belis- Bergouignan, Bordenave and Lung (2000) this is the so-called "Multidomestic Company" Multinational Firm.

produce part of the final products. In this way, foreign subsidiaries fail to establish strong links with local firms.

In relation to the degree of autonomy and the national origin of the foreign subsidiaries located in Greece, the following results are given:

Table 6.18: Relationship between Nationality of the Parent Company and the Role of Subsidiary

	How would you evaluate the role of your subsidiary?			
What is the nationality of the parent company?	**Produces some of the parent's already existing product lines**	**Produces a certain set of components and the final product is produced elsewhere**	**It has autonomy and creative resources**	**Total**
Italy	3 75%	1 25%		**4 5.5%**
Germany	7 58.3%	2 16.7%	3 25%	**12 16.4%**
Sweden	1 50%		1 50%	**2 2.7%**
USA	3 25%	2 16.7%	7 58.3%	**12 16.4%**
France	3 37.5%		5 62.5%	**8 10.9%**
Switzerland	4 80%		1 25%	**5 6.9%**
UK	3 60%		2 40%	**5 6.9%**
Netherlands	7 70%		3 30%	**10 13.7%**
Canada			1 100%	**1 1.4%**
Cyprus	3 75%		1 25%	**4 5.5%**
Luxembourg	3 75%		1 25%	**4 5.5%**
Ireland	2 100%			**2 2.7%**
Belgium	2			**2 2.7%**
Austria	1 100%			**1 1.4%**
Denmark	1 100%			**1 1.4%**
Total	**43 100%**	**5 100%**	**25 100%**	**73 100%**

Table 6.18 demonstrates that the American firms operate in a more autonomous basis in relation to the European companies. On the other hand, the majority of German subsidiaries produce some of the parent's already existing products.

Table 6.19: Relationship between Role of the Subsidiary and Operation of an R&D Department

	Do you have an R&D department?		
How would you evaluate the role of your subsidiary?	**No**	**Yes**	**Total**
Produces some of the parent's already existing product lines	26 59.1%	17 58.6%	**43** **58.9%**
Produces a certain set of components and the final product	4 9.1%	1 3.5%	**5** **6.8%%**
It has autonomy and creative resources	14 31.8%	11 37.9%	**25** **34.3%**
Total	**44** **100%**	**29** **100%**	**73** **100%**

Table 6.19 demonstrates that in relation to the subsidiaries, which stated that they have autonomy and creative resources to perform their operation, almost half of them have an R&D department. Probably, these firms either believe that the Greek scientific labour force can produce some products that could be sold in a world basis, or they use these R&D departments to adapt their products to the Greek tastes. Moreover, just a little less than half of the subsidiaries that produce some of the parent's already existing products have an R&D department. This might take place because as the aim of most of the foreign firms that invest in Greece is the Greek market they want to adopt some of their products to the Greek tastes.

Table 6.20: Do you have a Marketing and Sales Department?

	No of Firms	Percentage
No	9	12.3%
Yes	64	87.7%
Total	73	100%

According to Table 6.20, almost all subsidiaries (87.7 per cent or 64 firms) stated that they have a marketing and sales department. This probably means that almost all foreign subsidiaries have some kind of commercial activity in Greece, apart from just producing some products. The rest subsidiaries of the sample either have no commercial activity in Greece, or sell their produced commodities using different channels.

6.5 Activities of the Subsidiary

The third part of the questionnaire tries to identify which are the particular activities of the foreign subsidiaries located in Greece. More precisely, it tries to identify the relationships of the subsidiaries, first, with the parent companies, and second with local firms.

Thus, in the first place it examines the proportion of the production supplies that the subsidiary imports from the parent company or other subsidiaries of the multinational group[135].

Table 6.21: What Proportion of your Production Supplies is Imported from the Parent Company?

Imported Proportion %	**No of Firms**	**Percentage**
0-20	39	53.4%
21-40	9	12.3%
41-60	3	4.1%
61-80	7	9.6%
81-100	15	20.6%
Total	**73**	**100%**

According to Table 6.21, a little more than half of the subsidiaries (53.4 per cent or 39 subsidiaries) import a small amount of production supplies from their parent companies (between 0-20 per cent of their input needs). On the other hand, 20.6 per cent of the subsidiaries (or 15 firms) import almost all of their production supplies by their parent companies. The remaining subsidiaries are found in between these two levels. From these results there does not seem to be a great dependence, as far as the production supplies is concerned, of the subsidiaries on their parent companies as 65.7 per cent or 48 subsidiaries import less than 40 per cent of their production supplies by their parent companies.

[135] The information provided in Tables 6.21 and 6.22 refer to the value of inputs.

Next, the percentage of supplies that subsidiaries purchase by local[136] firms is examined.

Table 6.22: What Percentage of your Supplies is Purchased by Local Firms?

% of supplies purchased	No of Firms	Percentage
0-20	32	43.9%
21-40	12	16.5%
41-60	16	21.9%
61-80	5	6.8%
81-100	8	10.9%
Total	**73**	**100%**

The above results demonstrate a tendency that has already started to be formed by the interpretation of the other results on this questionnaire. 39.6 per cent of the foreign subsidiaries (or 29 firms) get more than 40 per cent of their input supplies from local firms to use them for their final production. On the other hand, the 60.4 per cent of the companies (or 44 subsidiaries) get a maximum of 40 per cent of their supplies inputs from the local firms. These results show some kind of interdependence that has been formed between multinational enterprises and local Greek firms. On the contrary, a lot of subsidiaries seem to operate on a parallel (semi-) independent basis. This conclusion can be considered as a negative one because from the moment that the production of a commodity has no dependence on local added value, makes easier the decision of a multinational corporation to transfer its production to another location. Especially, in the case where the HQ of the multinational corporation considers that the Greek market, either is not that important any more, or can be served by different methods (i.e. imports). Moreover, local firms do not seem to benefit from gaining knowledge of production methods and management that uses foreign firms.

[136] By the term local are meant other firms that are found in a distance of 300 km from the subsidiary. Usually this distance includes the region that the foreign subsidiary is located, as well as the neighboured regions. A region usually includes 3-4 prefectures.

Table 6.23 below demonstrates the degree of the decision- making autonomy that the foreign subsidiaries enjoy in Greece.

Table 6.23: What is the Degree of your Decision- Making Autonomy?

Degree of decision making- autonomy	No of Firms	Percentage
Decisions by parent/ regional headquarters without consulting Greek subsidiary	9	12.4%
Decisions by parent/ regional headquarters after consulting Greek subsidiary	17	23.3%
Decisions by Greek subsidiary after consulting parent company	45	61.6%
Decisions by Greek subsidiary without consulting parent company	2	2.7%
Total	**73**	**100%**

According to the above results the vast majority of the firms (61.6 per cent or 45 subsidiaries) responded that the decisions are taken mainly by the Greek subsidiary after consulting with the parent company. Moreover, 23.3 per cent of the firms (or 17 subsidiaries) replied that the decisions are taken by the parent company, but only after consultation with the Greek subsidiary. This shows the small degree of autonomy that the subsidiaries enjoy in Greece. There might be three reasons for this. First, that the managerial personnel in the subsidiaries does not have the expertise to take decisions that will affect the course of the firm in Greece. Second, simply that the multinational corporations do not think that the Greek case needs any special strategy (that will be formed by the knowledge of the local managers) in order to be accessed, and that the strategy planned by the HQ for all the subsidiaries around the globe is enough. Third, they want to have full control of their business in Greece at all time.

These two results, which show an exchange of strategic ideas between the local branches and the parent companies (in 84.9 per cent of the cases regardless who gets the final decision), reveal that the production is mainly oriented towards the Greek market, or in the best case in other neighbouring countries. This result is consistent with the argument that Greece attracts domestic oriented FDI. In this case, the Greek highly- skilled personnel is (in most cases) the most suitable to decide which strategy is the best for penetrating or expanding the Greek market. The parent company can provide assistance to the local personnel, either by transferring know-how, e.g. on marketing techniques, or by just giving its approval to the strategy that is to be followed. On the other hand, only 15.1 per cent of the subsidiaries have no involvement in the decision of the strategy that is to be followed for the produced commodity.

6.6 Institutional Factors and Services

The fourth, and last, section of the questionnaire examines the attitude of the foreign subsidiaries towards some institutional factors and services when first invested and now. The reason is to see whether there has been any improvement in how the subsidiaries see these institutional factors and services. Thus, the first such factor is bureaucracy[137].

Table 6.24: How do you Rate Bureaucracy, When First Invested and Currently?

	When first invested	Currently
Very Satisfied	0 0%	0 0%
Satisfied	5 6.8%	12 16.4%
Neither satisfied/ nor unsatisfied	15 20.6%	15 20.6%
Unsatisfied	29 39.7%	31 42.5%
Very unsatisfied	24 32.9%	15 20.5%
Total	**73 100%**	**73 100%**

According to Table 6.24, when foreign firms first decided to invest in Greece the 72.6 per cent of them (or 53 subsidiaries), developed a negative opinion, as far as bureaucracy is concerned, which was probably formed by their interaction with public services. This is a particularly negative result, especially if considering the fact that only 6.8 per cent of the foreign subsidiaries (or 5 firms) had a positive opinion regarding bureaucracy in Greece. Despite the continuous announcements by the Greek governments of the last twenty years towards their determination to ease the investment environment in Greece, and particularly despite the increase in the competition among countries to attract FDI, the situation in Greece does not seem to

[137] By the term bureaucracy we mean the number of papers/ permissions and the subsequent time necessary in order for an investor to begin its business operation.

have changed if we take into consideration what is currently the opinion of the foreign subsidiaries about bureaucracy. In particular, currently, 63 per cent of the subsidiaries (or 46 firms) are still very unsatisfied or just unsatisfied with bureaucracy in Greece, which is a minor improvement in relation to the previous years. On the other hand, the number of firms, which state that they are satisfied by the red- tape procedures in Greece has increased slightly to 16.4 per cent (or 12 firms). The rest of the firms still remain neutral about the bureaucratic status in the country.

Indeed the above dissatisfaction of the investors is reasonable if we see Table 6.25 below. This Table shows that in Greece currently someone needs more permits and days to start a firm, in comparison to other selected EU countries, some of them competitive to the type of FDI Greece also tries to attract.

Table 6.25: Permits and Days to Start a Firm

Country	Permits to start a firm	Days to start a firm
UK	2	7
Denmark	3	30
Germany	3	30
Ireland	3	15
Netherlands	3	10
Portugal	5	60
Spain	5.5	60
Greece	**6.5**	**60**

Source: World Economic Forum 2001, Global Competitiveness Report 2001- 2002

The second institutional factor examines the opinion of foreign subsidiaries about the Greek legislative framework[138], when first invested and now.

Table 6.26: How do you rate legislative framework, when first invested and currently?

	When first invested	Currently
Very Satisfied	0 0%	1 1.4%
Satisfied	8 10.9%	8 10.9%
Neither satisfied/ nor unsatisfied	36 49.3%	37 50.6%
Unsatisfied	16 21.1%	14 19.2%
Very unsatisfied	13 17.8%	13 17.8%
Total	**73** **100%**	**73** **100%**

As far as the legislative framework is concerned (Table 6.26), although the opinion of the foreign subsidiaries is slightly better than in the case of bureaucracy, it still remains negative as a whole. In particular, when first invested, almost the majority of the subsidiaries (49.3 per cent or 36 subsidiaries) had a neutral view concerning the legislative framework in Greece, where as the 38.9 per cent (29 subsidiaries) had a negative view and only the 10.9 per cent (or 8 subsidiaries) had a positive opinion. Currently, the number of firms that are satisfied with the Greek legislative framework has increased marginally by one subsidiary (12.3 per cent or 9 subsidiaries), where as the number of firms that have a negative opinion has decreased only by 1.9 per cent, to 37 per cent (or 27 subsidiaries). As a whole, the opinion of foreign subsidiaries in Greece remains unchanged during the last years, meaning that all the efforts of the Greek government to improve the legislative framework in order to facilitate investments have failed. I would argue that the main problem of the Greek legislative framework is the complexity of the Greek laws and normative rules.

The third institutional factor that is examined in the questionnaire is the access to information[139] that foreign firms have in Greece, in relation to domestic firms.

[138] By the term legislative framework we mean all these laws that determine business operations and investments.

Table 6.27: How do you Rate Access to Information, When First Invested and Currently?

	When first invested	Currently
Very Satisfied	0 0%	2 2.7%
Satisfied	4 5.5%	24 32.9%
Neither satisfied/ nor unsatisfied	41 56.2%	28 38.4%
Unsatisfied	22 30.1%	14 19.2%
Very unsatisfied	6 8.2%	5 6.8%
Total	**73** **100%**	**73** **100%**

As far as the "access to information" factor is concerned (Table 6.27), the picture is mixed. During the first years of their investment, the majority of foreign firms (56.2 per cent or 41 subsidiaries) had a neutral view, where as 38.3 per cent (or 28 subsidiaries) had a negative view and just 5.5 per cent (or 4 subsidiary) had a positive view. Currently, what seems to have happened is that foreign firms have a clearer picture on how the situation is (probably because now they have the experience on how the "system[140]" in Greece works). In particular, the number of firms that have a neutral opinion has decreased to 38.4 per cent (or 28 subsidiaries), where as the number of firms that have a negative point of view has also decreased reaching the 26 per cent (or 19 subsidiaries). On the other hand, the number of firms that have a positive point of view has increased substantially reaching the 35.6 per cent (or 26 subsidiaries).

Having described the opinion of subsidiaries that replied to the questionnaire with regard to bureaucracy, legislative framework and access to information, we can argue that the absorptive capacity of Greece to changes in the international business environment remains low. Foreign businesses are still unable to justify behaviours and

[139] By the term access to information we mean the "rules" of the market, e.g. for procurement of equipment by the government, which have to be the same for local and foreign businesses.
[140] By this term I mean the methods and procedures required to be followed by the managers of a firm in order to gain access to information necessary to compete in the market.

rules of the Greek State. In other words, laws, customs, and so forth remain less familiar for the foreign investor and in this respect there should be other factors that may offset these deficiencies[141]. In other words, given that the foreign firms have located in Greece despite the negative views on bureaucracy, legislative framework and access to information, there must be some other compensating advantages.

The fourth institutional factor that is examined is taxation as this will influence local production costs. Gorter and Parikh (2003: 193- 194) argue that much of the tax competition literature suggests that countries try to attract foreign capital by setting low corporate income tax rates. According to this statement, low tax states should attract relative high FDI. Thus, when a firm is about to choose amongst a small number of locations, it will compare the post- tax level of profits arising in each location (Devereux and Griffith, 1998: 337). In this respect, the following answers were given to the questionnaire:

Table 6.28: How do you rate taxation, when first invested and currently?

	When first invested	**Currently**
Very satisfied	0 0%	0 0%
Satisfied	16 21.9%	18 24.7%
Neither satisfied/ nor unsatisfied	21 28.8%	19 26%
Unsatisfied	26 35.6%	23 31.5%
Very unsatisfied	10 13.7%	13 17.8%
Total	**73** **100%**	**73** **100%**

In a sense, the results from the Table 6.28 mirror the stagnancy of the Greek taxation laws during the last 30 years, as well as the fact that Greece has one of the highest taxation rates in Europe. In particular, when first invested, 49.3 per cent (or 36 subsidiaries) of the companies held a negative view concerning the Greek taxation system, whereas only the 21.9 per cent (or 16 subsidiaries) of the companies had a positive view and 28.8 per cent (or 21 subsidiaries) a neutral opinion. On the other

[141] One such factor may be agglomeration or urbanisation economies or adequate infrastructure, etc.

hand, currently the number of firms that have a positive opinion regarding the Greek taxation system has only slightly increased, i.e. 24.7 per cent (or 18 subsidiaries), and the number of firms that have a neutral view has decreased also slightly reaching the 26 per cent (or 19 subsidiaries). Respectively, the number of foreign firms that have a negative view has remained the same, i.e. 49.3 per cent (or 36 subsidiaries). This stagnancy in the negative opinions could be considered reasonable and, probably, mirrors the discontent of the foreign firms (and the native firms I would argue) about the slow pace by which the Greek State tries to change a widely recognised negative taxation system.

Finally, the last institutional factor examined is the opinion of the foreign firms regarding the incentives that the Greek State provides to new investors in the manufacturing sector. As mentioned in chapter IV, one way for the countries to increase their competitiveness is the initiation of policy measures aiming to the facilitation of making business within their land. One such measure is incentives.

Table 6.29: How do you rate incentives, when first invested and currently?

	When first invested	Currently
Very satisfied	0 0%	4 5.5%
Satisfied	16 21.9%	26 35.6 %
Neither satisfied/ nor unsatisfied	23 31.5%	18 24.7%
Unsatisfied	27 37%	20 27.4%
Very unsatisfied	7 9.6%	5 6.8%
Total	**73 100%**	**73 100%**

Incentives is the only field where foreign firms have a rather more positive view with regard to the attitude of the state towards attracting foreign investment. At this point, I have to mention that when this questionnaire was sent, the law that determines the incentives provisions to new and old manufacturing investments was about to change. These changes were known to the people who responded to the questionnaire, in the first phase of the sent questionnaire, and the investment law had already started being implemented when I resent the questionnaire, and it might have affected their opinion. In general the Greek government follows the world tendencies (e.g. regulatory changes towards liberalisation, tax incentives, subsidies, etc[142]) with regard to the adopted policies measures for promoting investments. Thus, with regard to the replies the 73 subsidiaries gave, where as only 21.9 per cent (or 16 subsidiaries) of the foreign firms were satisfied with the investment incentives when first invested in Greece, currently this percentage has increased to 41.1 per cent, or 30 subsidiaries (almost doubled). On the other hand, the 46.6 per cent (or 34 subsidiaries) of foreign firms had initially a negative opinion about the incentives, and currently this percentage has decreased to 34.2 per cent (or 25 subsidiaries). Of course, this percentage is still significant, but the trend is downward. Finally, the number of firms that had a neutral view regarding incentives was initially 31.5 per cent (23 subsidiaries) and now has fallen to 24.7 per cent (or 18 subsidiaries). But, as stressed in chapter IV the influence of public incentives on firms' location is disputable (Perrons, 1981: 83; Robinson, 1987: 10; Brewer and Young, 1997: 177; Barrios, Gorg, Strobl, 2002: 2). Very strong incentives by themselves cannot be the sole factor that may affect the location decision of a multinational enterprise. Incentives, are one factor, among many others, that will be considered by the multinational corporations when they decide where to invest. Thus, the improvement of the opinion of foreign subsidiaries that replied to the questionnaire cannot by itself be considered as that the Greek investment environment has changed for the better. It is the overall picture of a country's investment environment that is important.

The second part of the last section of the questionnaire is concerned with the opinion of foreign subsidiaries in Greece with regard to some services that the Greek State provides in order to facilitate the business activity. In particular, the survey asked firms to respond to the quality of infrastructure when they first invested in Greece and to the present time. In general, the results (presented in Table 6.30) show that it has been a clear improvement. For example, in relation to road/ rail network, when first invested, only 9.7 per cent (or 7 firms) of the foreign subsidiaries located in Greece were satisfied with the road/ rail network, whereas 43.6 per cent (or 32 firms) were unsatisfied. This trend seems to have changed as currently, the 53.4 per cent (or 39 firms) of the sample have a positive view for the road/ rail network, whereas only

[142] For a detailed analysis of these policy measures see chapter IV.

the 16.5 per cent (or 12 subsidiaries) have a negative one, and 30.1 per cent (or 22 subsidiaries) are neutral. This change on the view of managers concerning the road/ rail network of Greece seems to be consistent with the huge investments that have taken place during the last 10 years in this section.

The same positive view the subsidiaries also have for the air/sea transportation, which is also a way for distributing their commodities. With regard to telecommunications, the striking point is that currently only 6.8 per cent (or 5 subsidiaries) have a negative opinion. The significant investments that have taken place during the last decades in the telecommunication services seem to have contributed to the high percentage of satisfaction in this field by the foreign subsidiaries. No negative views exist for the services currently provided by the Greek state with regard to energy supply. Finally, with regard to industrial areas, this is the only field that foreign subsidiaries still seem to keep a hesitant position.

Table 6.30: How do you Rate Road/ Rail Network, Air/ Sea Transportation, Telecommunications, Energy Supply and Industrial Areas when First Invested and Currently?

	Very Satisfied		**Satisfied**		**Neither satisfied/ Nor unsatisfied**		**Unsatisfied**		**Very unsatisfied**	
	Then	Now	Then	Now	Then	Now	Then	Now	Then	Now
Road/ rail network	---	3 4.1%	7 9.7%	36 49.3%	34 46.7%	22 30.1%	24 32.9%	6 8.3%	8 10.7%	6 8.2%
Air/ sea transportation	2 2.7%	9 12.3%	23 31.5%	37 50.7%	31 42.5%	18 24.6%	17 23.3%	6 8.3%	---	3 4.1
Telecommunications	---	10 13.7%	12 16.4%	50 68.5%	34 46.7%	10 13.7%	22 30.1%	3 4.1%	5 6.8%	---
Energy supply	---	---	32 43.8%	54 74%	37 50.7%	17 23.3%	4 5.5%	2 2.7%	---	---
Industrial Areas	---	---	18 24.6%	26 35.6%	46 63,1%	40 54.7%	9 12.3%	7 9.7%	---	---

As mentioned in chapter IV, adequate infrastructure[143] can influence positively the decision of a multinational corporation to invest in a country. Adequate infrastructure can contribute to the on time distribution of products to the market(s). A good road/rail and air network, as well as provision of telecommunication network and energy supply at low rates increase the competitiveness of a country. Besides, adequate physical infrastructure contributes to the minimisation of distance, which at our time is more important than ever before for the firms in order to remain

[143] In chapter IV we presented a definition of adequate infrastructure, provided by Christodoulou (1996).

competitive, at world, regional or local level. Consequently, it seems that Greece does not suffer from a poor physical infrastructure and provision of services. On the contrary, it seems that the efforts made during the last fifteen years are recognised by foreign investors. Nevertheless, a negative point seems to be the low esteem of foreign firms for the industrial areas formed by the Greek State.

6.7 Location and Incentives

The third issue that concerns this thesis is the importance of incentives in attracting FDI in Greece. Before analysing the relationship between location of foreign subsidiaries in Greece and incentives provided by the Greek government, I will first give a short review of incentives in Greece. The initial starting point for introducing incentives in the Greek development policy has been the termination of the Marshall Plan in 1952. More precisely, the Legislative Decree No. 2687 of 1953 was introduced under which the repatriation of capital could begin one year from the date that the enterprise financed by foreign capital begins to produce. The repatriation amount could not exceed 10 per cent of the capital initially imported. Since then, other laws were also introduced, such as Law No. 4171 of 1961, as amended by Legislative Decrees No. 4256 of 1961 and No. 916 of 1971, which covered investment projects in excess of Drs. 90 million. In 1975, Law No. 159/75 simplified the procedures for approval of FDI, but also raised the amounts for investments to be eligible for treatment under Law No. 4171/61 from 90 million to 150 million drachmas. Three years later, Article 33 of Law No. 849/78 replaced Legislative Decree No. 4256/61 allowing even more capital repatriation by foreign investors (Spyridakis, 1999: 111-112). In this respect it is evident that these laws did not aim to a policy of equal regional development, but rather to lure foreign investors to invest in Greece, not considering the location.

The modern status of incentives provided by the Greek government is based on Laws 1262/ 82, 1892/92, 2601/98 and 3299/04 that include an array of incentives aiming to stimulate the attraction of foreign industries, particularly in the less favoured locations of Greece. A main characteristic of this evolution are the continuous adaptations as far as the geographical targeting of the incentives as well as the kind of incentives provided each time. Additionally, with the Gazette 854/A/94, the Ministry of Finance and Economy introduced incentives for long term investment plans (2-5 years) implemented by already operating firms in Greece (Articles 23a and 23b). With the introduction of Law 2601/98, these two articles were incorporated to the general investment Law and have also been included in the next amendment of Law 3299/04. As we are going to see in the next line, the aim of all incentive laws, which has been the geographical dispersion of industrial activity towards the less developed regions of Greece, was not particularly successful.

Map 6.1 Incentive Zones in Greece

Source: www.elke.gr

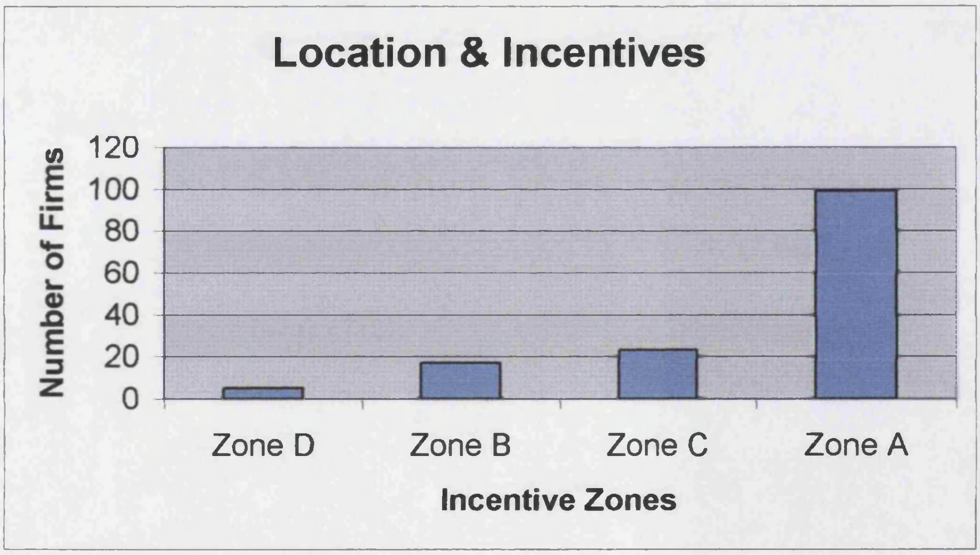
Thus, having already mapped the location of subsidiaries in Greece, then I compared this with the map of incentives offered in order to find their relationship[144]. In particular, Greece is divided in four zones as far as the incentives given. Zone D is divided in Zone D1, D2 and D3 and includes the region of Thrace, part of Epirus, Kentriki and Western Macedonia, the prefecture of Dodecanese and offers up to 55

[144] The incentives given are according to the New Investment Law, L3299/2004.

per cent subsidies to new and existing manufacturing companies. Zone C includes almost all Greece (except Attica and part of Thessaloniki) and offers up to 45 per cent of subsidies to new and existing manufacturing companies. Zone B includes part of Thessaloniki and offers up to 45 per cent of subsidies to new and existing manufacturing companies. Finally, Zone A includes the region of Attica and part of Thessaloniki and provides no incentives for new or existing manufacturing companies[145].

In the introductory part of the thesis I argued that my expectations are that foreign firms tend to ignore government financial assistance. Indeed, according to the previous findings, foreign firms tend to ignore incentives when they decide to invest in Greece, as most of them are being located in areas where the government gives low subsidisation for investment in relation to other regions of Greece. Another way to see if this is true is to see if there is any relationship between the location preference of foreign firms and the regions that offer the highest incentives. Chart 6.3 below includes all 144 subsidiaries.

Chart 6.3: Location and Incentives



Thus, from Chart 6.3 we can see that the majority of subsidiaries are located in regions that offer no incentives. In particular, this is happening as most of the

[145] Alternatively to subsidies, firms may chose to be qualified for tax exemptions or cash grants for the expenses of wages relating to the employment created by the investment applied for.

subsidiaries are located in the region of Attica, where the Greek State offers no incentives for manufacturing activity, as it tries to decentralise the economic activity. Nevertheless, foreign firms seem to insist to invest in Athens, as they consider that proximity to the main Greek market is more important from some funding provided by the Greek State. Probably, this is happening as the majority of the FDI in Greece seem to be domestic oriented. Of course someone should consider the fact that many investments that are included in the survey took place much earlier. Nevertheless, these old investments remain located in areas with very few, if any, tax and other financial incentives and the more recent incentives, since 1982 when the current concept of incentives based on equal regional development was introduced, seem to have the same preference in locations.

Of course, the subsidiaries presented in Chart 6.3 above have not all been established during the implementation of L. 3299/04 that divides Greece in four areas. On the contrary the majority of them have been established in Attica region a long time ago. This preference of most investors to be established within Attica region, irrespectively of their year of establishment has its explanation. All the incentive laws that described in previous paragraphs had very little effectiveness due to the failure to meet a critical issue of their implementation, that of the spread of investments in different regions of Greece, and in particular in the less developed ones. The main cause, among others, of this failure has been that the incentive laws before 1970s did not give much priority to the strengthening of the periphery against the centre (Attica). All these laws were distinguishing Greece in two parts, compared to four parts that the modern incentive laws distinguish Greece, that of Athens and the rest of the country. The difference of subsidy percentage between these two parts was very little, 10 per cent, and thus investors, foreign and domestic ones, preferred to invest in the region of Attica. The main concern of these investment laws, as also mentioned earlier, was just to attract foreign investors, without paying much attention to the location were these investments were about to be established. Moreover, since 1970s, other vital problems in the implementation of investment laws, such as the scarcity of funds by the Greek state, the lack of co-ordination during the evaluation procedures, their short term of implementation and the large bureaucratic procedures that required by the investors had as a result the latter to prefer not to apply for these benefits (Kampelis, 1999, www.alex.eled.duth.gr/pamth, access date: May 2007). As mentioned above, only since the introduction of L. 1262/ 82 there has been a clear devotion of the Greek state to stimulate the attraction of investments in the less favoured Greek regions. This has taken a dual form. On the one hand, it was increased the difference of subsidy in the less favoured regions against the region of Attica, currently this difference may reach the 25 per cent, and on the other hand, there were put serious bureaucratic obstacles in establishing manufacturing industries in the Attica region.

6.8 Conclusions

This chapter has provided a mapping of the location of foreign subsidiaries with a manufacturing activity within Greece and showed how the majority of subsidiaries are located in the regions of Attica and Sterea Ellada (which is next to that of Attica). Indeed the vast majority of the subsidiaries are located in Southern Greece and mainly target the domestic market, whereas subsidiaries in Northern Greece are more likely to be the export- oriented. Thus, we can argue that Greece mainly attracts subsidiaries that produce for the domestic market.

The majority of foreign subsidiaries emanate from the Netherlands and France though the response rate to the survey was higher from subsidiaries belonging to US and German firms. In other respects there was sufficient similarity (a significant Spearman's Rank Correlation Coefficient) between the population and the sample to have confidence in the survey results

One striking point is that there are very few subsidiaries (only 3) from SouthEast Asia. On the contrary, European countries seem to dominate inward FDI in Greece.

The results demonstrate that most of the subsidiaries (both when examining population and the sample) that have survived until today were first established in Greece during the post- Fordist period (1970- 1989), followed by the Fordist period (1945- 1969). During the most recent period (1990- 2004) Greece has attracted less subsidiaries. According to the analysis of chapter I, the post- Fordist period has been the best one for Greece with regard to the amount of FDI attracted.

Additionally, the results showed that foreign firms (particularly of Europe) are generally divided with regard to their preferred way of entry into Greece, between creating green field investments and merger and acquisition. American companies in particular seemed to prefer to take over of an existing company, whereas firms from European Union countries, such as Germany, France, UK and Italy were more likely to create a new subsidiary within Greece, perhaps as a consequence of better knowledge of Greek culture and tastes by the Europeans.

Then, we presented the degree of ownership that the 73 foreign subsidiaries, decided to obtain when first invested in Greece, and also examined if these subsidiaries, by the time, have increased or decreased their share. The results showed that the vast majority of foreign firms when first invested in Greece did that dynamically by taking over more than 80 per cent of the subsidiary they have created. Moreover, these foreign firms, over time, have strengthened their percentages to these subsidiaries, which probably means that they find the Greek market, at least profitable for their businesses and thus have an interest to maintain their establishments. Furthermore, we demonstrated that there is a relationship between the original percentage of a multinational corporation to a subsidiary and the way of entry. The results showed that regardless of method of entry, these foreign firms took over the majority percentage of their new investment in Greece.

As far as the main rationale for the subsidiaries to invest in Greece, this was to competitively access the Greek market. In general, the domestic market seemed to be the main cause for investment in Greece. This might be an important reason for the low FDI inputs in the Greek market. A further important point demonstrated was the low response rate in the option "the existence of local cluster of firms working on similar or complementary activity". It means that Greece has not managed to create a strong industrial base in any activity, and that no particular linkages seem to have been created between local firms and foreign subsidiaries.

Moreover, the foreign subsidiaries located in Greece would be considered as small and medium enterprises. A clearer view was given by investigating the relationship between the company size and the sector activity (i.e. whether they belong to a modern or traditional sector of activity) of these subsidiaries. The results showed that Greece fails to attract firms seeking to produce labour intensive mass-produced goods. On the contrary most of the subsidiaries seem to be active in the modern sector, which usually uses less labour and more technology in producing the commodities. This result (in combination with the previous two conclusions, i.e. that most of foreign subsidiaries in Greece target the domestic market and are considered as small and medium enterprises) is consistent with my provisional expectations in the introductory part of the thesis, i.e. that Greece fails to attract companies seeking to produce labour intensive mass- produced goods.

Going deeper to the analysis of the role of the foreign subsidiaries located in Greece, the pattern of the relationship between the export percentage and the sector (modern or traditional one) the subsidiary is active, was investigated. In this respect, we saw that subsidiaries being active in the traditional sector, export (in their majority) only small amounts of their production. This result was consistent with our previous findings, i.e. that natural resources are not a major factor for investing in Greece and second that the country fails to attract labour- intensive subsidiaries.

The third part of the questionnaire tried to identify the degree of autonomy of the subsidiary by the parent company. The results showed some kind of interdependence that has been formed between multinational enterprises and local Greek firms, but not to a great extent. On the contrary, a lot of subsidiaries seem to operate on a parallel (semi)- independent basis. This conclusion can be considered as a negative one because from the moment that the production of a commodity has no dependence on local added value, the decision of a multinational corporation to transfer its production to another location is made easier. Especially, in the case where from the HQ of the multinational corporation consider that the Greek market, either is not that important any more, or can be served by different ways (i.e. imports). As far as the decision- making autonomy that foreign subsidiaries located in Greece enjoy, the results showed that this is limited.

Another aim of this thesis, was to investigate the satisfaction of the foreign investors with the quality of infrastructure and the operation of some institutional factors in Greece (i.e. bureaucracy, legislation, access to information, taxation and incentives).

The analysis of the survey results showed that bureaucracy, legislative framework and taxation system still influence in a negative way the opinion of foreign investors about Greece, contrary to "access to information", incentives and quality of infrastructure (with the exception of industrial areas) factors where opinions have improved. In general, the results showed that Greece does not suffer from a poor physical infrastructure and provision of services. On the contrary, it seems that the efforts made during the last fifteen year are recognised by foreign investors.

In the introduction of this thesis I stated that I also aim to explore the significance of government incentives in attracting FDI in Greece. In particular, my intention was to investigate the importance of the incentives provided by the Greek government in FDI decisions. From the analysis of the survey it was shown that multinational corporations tend to ignore incentives when they decide to locate in a specific region in Greece. Thus, it seems that it is other factors that play a more important role in the decision of a foreign firm about where in Greece to establish its operation. Such a factor seems to be proximity to the main Greek market. Probably, this happens as the majority of the FDI in Greece seems to be domestic oriented.

Consequently, from the interpretation of the questionnaire that was sent in 144 foreign subsidiaries located in Greece some very important conclusions are drawn, concerning the special characteristics of foreign subsidiaries located in Greece. A correct interpretation of these patterns will be very helpful for government institutions that design and implement the policy that concerns the attraction of FDI in Greece. Because, in my view, a country in order to excersise a proper policy of attracting FDI, should first identify its strengths and weaknesses, then identify what kind of investments it would like to attract, and finally the role that it would like to play (local, regional, peripheral, global) in the each time global system that is formed. But, steps two and three are not possible without step one.

The next chapter (chapter VII) uses another form of research (interviews) in order to assess the results of chapter VI. In particular, in the next chapter I present the results of twenty (20) face to face interviews with the Managing Directors of foreign subsidiaries located in Greece and two (2) interviews from Greek government policy makers. With regard to the interviews with the Managing Directors, the chapter explores the in depth relationships developed between the parent firm and the subsidiary within the Greek economic environment, as well as the corporate processes that influence the decision of a foreign firm to invest in Greece. With regard to the interviews with the policy makers the chapter explores their comments and reactions to the results of research performed in this chapter.

CHAPTER VII

Why Greece does not Attract an Adequate Amount of FDI?

7.1 Introduction

The aim of this chapter is three- fold. In a first place, by taking the analysis of chapter VI one step further, this chapter, through face to face interviews with the general managers of twenty (20) foreign subsidiaries located in Greece, aims to explore their locational rationale. More precisely, through interviews I explore the corporate processes that influence the location decision, as well as the in depth relationships developed between the parent firm and the subsidiary within the domestic economic environment. In this way, these twenty interviews will explore further the issues arising from the questionnaire findings with regard to the main purpose of investment in Greece, the importance of incentives and the types of multinational corporations that invest in Greece. But, this time the issues that arose will be explored through the experiences, emotions and feelings of the interviewees. Secondly, it will allow some of the issues arising from the theoretical analysis in chapter I (institutional thickness of the Greek state towards FDI), chapter III (type of multinational corporations that are more likely to invest in Greece), and chapter IV (reason of investment in Greece, role of incentives, quality of infrastructure and services of a country) to be analysed empirically within the Greek context. Finally, it will compare and contrast these findings with the views of two people working in important positions of government bodies, which are responsible for creating a pro-investment environment and assist foreign investors to invest in Greece.

In particular with regard to the corporate processes that influence the decision of a foreign firm to invest in Greece it aims to seek answers in relation to the purposes behind the decision of the foreign firm to invest, their opinion on the operation of the domestic institutional framework (which is a major issue in this thesis) and whether they have asked for assistance for their investment from the Greek State (through incentives or other form of public assistance). With regard to the relationships developed between the parent firm and the subsidiary within the domestic economic environment it aims to seek answers in relation to the decision- making autonomy of the subsidiary from the parent company, the subsidiary's (production and managerial) role to the final output that goes to the customers and finally the organisational structure of the subsidiary.

Thus, these twenty interviews also try to give a further insight to the research questions set in the introduction of this thesis and researched by the questionnaire in chapter VI, i.e. with regard to the institutional capacity of Greek public administration to foresee the evolutions in world economy, as well as to adopt and follow a coherent policy towards FDI, the importance of infrastructure to the attraction of FDI in the country, the type (nature) of foreign firms that are more likely to invest in Greece and finally the role of incentives in this effort made by the Greek government during the last years in order to increase the volume of FDI inflows. Interviews allowed me to obtain complex details about these issues and further interpret the results of chapter VI.

Then further two interviews were arranged, this time with policy makers of the Greek State. More precisely, policy maker A works in the Department of Control and Approval of Private Investment in the Ministry of Finance, and policy maker B is Research and Analysis Manager in the Department of Investment Research and Project Evaluation of the Hellenic Center for Investment. These two interviews were arranged in order to get the opinion of the State in some of the conclusions of my research.

7.2 Type (Nature) of Foreign Firms that are more Likely to Invest in Greece

One of the major tasks of these interviews was to identify the strategic aims behind the decision of investing in Greece. Contrary to the results of the survey, according to the interviewees the main cause of investing in Greece was to serve the European market[146]. According to the manager of company 1, that established in Greece before 1990s, "the parent company was searching a country in order to establish a presence for a first time in Europe. Two countries were finally chosen. Greece for its low labour cost and strong presence in the Greek market, and France for

[146] See also Table 7.2 in Appendix 4.

its extensive know- how and abundant scientific labour on their field of activity". Moreover, there seems to be a connection between the time of investment and the strategic goals of the firm. More precisely, a number of foreign firms (six subsidiaries) that invested in Greece before 1990s, and particularly during the so-called post- Fordist period, aimed to serve the European market apart from Greece. Greece was a suitable location as there was abundant, cheap by European standards, labour force. But, currently only three subsidiaries export some of their products to the European Market, i.e. their number has halved. On the other hand, the subsidiaries that invested in the country since 1990 aimed mainly at the Greek market, and secondarily other countries of South Eastern Europe. According to the manager of Company 6 "Greece was chosen as a location for our first investment in South Eastern Europe, because we considered it as the most economically and politically stable country. Moreover, Greeks currently have the highest purchasing power than other Balkan populations. If our investment here performs well then we will examine the possibility to expand to other neighboring countries". This is consistent with our previous conclusion in chapter VI with regard to the domestic orientation of the foreign subsidiaries in Greece. It also gives some basis to the arguments of the two policy makers that will be analysed later in the chapter that Greece can become the gateway of foreign investors to Balkans and South Eastern Europe in general. In my question whether exports percentage has increased or decreased in relation to the past five years, the answer from most of the managers was that it has decreased. Characteristic has been the comment by the manager of company 9 who argued that "a few years ago our parent company created a new subsidiary in Romania. This subsidiary has a much bigger production capacity than we do and serves most of the other markets in the area. We currently work in a supplementary way in cases of sudden increase in demand of some products. Nevertheless, we are competent to serve the Greek market without importing anything". These, words could be considered rather worrisome for the future presence of this subsidiary in Greece. The subsidiary is limited to a complementary and not protagonist role of serving other markets of South Eastern Europe, although it is the oldest established one in the area. A new expansion investment in the subsidiary in Romania or a new investment in another South Eastern Europe could make the subsidiary in Greece obsolete. There are recent examples where manufacturing subsidiaries have shut down and Greece is served via exports from other countries.

As far as the type of commodities the subsidiaries in Greece produce, most of them (16 out of 20) mostly produce some of their parent's already existing products. But, five of them also produce at the same time somewhat differentiated products specifically targeting the Greek market and the neighborhood countries. Some of these subsidiaries (three in particular), also export these differentiated products in the markets of Western Europe and elsewhere (America). With regard to this issue, the manager of company 1 argued that "a decade ago we managed to convince our parent company to export some of our locally produced products to the other European markets that we serve. The success of these products to these markets resulted in more exports to America, the home of the parent company. By then our strategic role has increased significantly and we are encouraged all the time by the parent company to use our local knowledge to make products for the world market". It is evident that if a subsidiary manages to produce products that are competitive at world scale, then the role of this subsidiary will be increased. In this case the Greek subsidiary was favored by the tolerance and acceptance of the parent company to take a risk and initiate a new commodity, produced by a subsidiary of a peripheral European country to the main markets of Europe and then to America. Additionally, the management of the Greek subsidiary was also eager to get a bigger strategic role to the network of the parent company as the manager of company 1 stressed to me: "we were in competition with the other European subsidiary found in France about who would get the first role in the European market. We managed to get it by first producing a local commodity that could be sold all over the world". The other four subsidiaries mostly produce differentiated products, but which mostly target the domestic market. As the manager of company 12 argued "our parent company tries to increase its local share by adapting its commodities to local tastes and customs" As far as the every day decision- making process in the Greek market is concerned, fifteen out of twenty subsidiaries have an autonomous strategy role but always after the consultation/ advice by the parent company. No foreign subsidiary has a clear independent role with regard to the company policy in the Greek market. The manager of company 20 commented that "there is a strict operational framework set by our parent company. Our parent company set the targets and the priorities of our marketing policies". Moreover, the manager of company 14 commented that "how can we have an independent role in the Greek market when the products we produce and sell are of our parent company?". It seems that the dependency of the subsidiary by the parent company has to do with the role of the former in Greece, i.e. producing products that have been designed elsewhere and have to be promoted in the Greek market.

Another important issue emerged from these 20 interviews concerned the increasing role of outsourcing in Greek business practice, but not for the reasons explained in chapter IV, but rather for clearly domestic reasons, i.e. rigidity of employment laws. More precisely, a significant number of foreign subsidiaries (six out of twenty), where they can, outsource part of their production to local firms. According to the manager of company 5 "outsourcing seems to gain ground lately in Greece particularly as a method of labour cost- cutting. My firm uses this tactic more and more as it cannot always predict downturns in the production orders and the competition for keeping costs low is very intense". The rigidity of employment laws that are still valid in Greece as a cause for outsourcing was also stressed by the manager of company 9 who argued that "from the moment I have not the ability to hire or fire personnel according to my production needs, I prefer to transfer this cost to companies that are more willing to take it". Thus, the cause of this outsourcing seems to be different from the points made in the clustering literature[147], but is more to do with labour militancy/ regulation. In particularly, the cause is not the specialization or quality of native firms in producing a part of a specific product, but on the contrary the rigidity of employment laws, which in their turn as we are going to see below, are an adequate obstacle in the reluctance of foreign firms for further investments in Greece.

7.3 Institutional Framework in Greece

In the introduction of the Thesis I argued that the institutional framework in Greece, which is argued to be excessively bureaucratic, has a negative impact in the attraction of FDI in Greece. The interviews of twenty foreign- owned subsidiaries in Greece seem to strengthen the findings of the questionnaire in the previous chapter. As it will be described next, the continuous changes, by the State, of laws, bureaucracy and access to information still remain important weaknesses to the proper

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[147] In chapter IV, I explained how clustering is being developed, and particularly how Ireland and Portugal have benefited by this.

operation of the Greek business environment. More precisely, from the interviews 3 key themes emerged:

1. Rigidity of bureaucracy
2. Legislative framework
3. Access to information/ timing

Beginning with the (re)investigation of bureaucracy status, by all subsidiaries was mentioned the rigidity and high interference of the Greek public sector and the State in general in every day aspects of a firm. According to the arguments of the interviewees, if someone wants to start a new business he or she needs a lot of time until he or she starts running it, which as a result loses the advantage of initiation. The manager of company 1 characteristically stressed to me as an example the experience of a friend of his who "needed 4 years to obtain all the necessary licenses in order to start operating in Greece. If this person knew what is about to being through in order to get all the necessary licenses, he would never had decided to invest in Greece". Another example stressed by the manager of company 16 who argued that "the volume of paper work the Account Department of the company has to do in order to be in accordance with the requirements of the State is enormous and in order not to miss anything with the Greek requirements he has to employ one person more than he would do if procedures were more simplified". Eight managers also stressed the need for differentiation in the treatment the State should have in favour of large enterprises that want to invest in the country. According to the manager of company 10 "three years ago our parent company asked from the Greek State to help to the as soon as possible approval of necessary grants in order to create new facilities in Northern Greece. Whereas the government replied positively, in practice nothing was speeded up with result at the end the investment to be abandoned. The main cause of this inconsistency was the low ranking public employees who have the power to delay procedures despite the desires of the central government". Moreover, the manager of company 13 argued that "the Greek State issues almost every year laws on the special requirements for an investment in Greece, which do not always simplify the situation, and prevent us from making long- term commitments, a necessary condition to make a large investment". This negative picture of Greek bureaucracy mirrors the findings of the survey as presented in chapter VI. It seems that bureaucracy in Greece causes an important dissatisfaction to investors, which deters them from further investing in the country.

Legislative framework is also very time consuming, as mentioned by the vast majority (eighteen out of twenty) of the managers that were interviewed. According to the argument of the manager of company 8 "until 1992 there were limitations in the exportation of earnings. This made us create accounting tricks in order to use the revenues according to our intentions". Moreover, laws that put obstacles in the creation of a proper investment environment in Greece are very slowly lifted. According to the example stressed by the manager of company 6 "the legislative framework with regard to the renewable energy is very slowly developed and not in the right direction, for example making the process of creating an aeolian park complicated and time consuming. Our parent company that would like to invest in this field, as it considers Greece a very good location for the creation of an aeolian park, is very disappointed". As a result bureaucracy and legislative framework put a lot of obstacles in the operation of new and old businesses distorting the investment environment.

Another point that emerged from these interviews was that of access to information. According to the manager of company 4 "our firm is, most of the time, a late receiver of the changes that the Greek governments introduce in laws that affect the business environment we operate. I have witnessed cases where our Greek competitors knew in advance important information with regard to public bids, e.g. the starting date and the duration of the public bid". Another manager, that of the company 11, argued that "very often changes in laws have a retrospective power resulting in disturbing the smooth operation of the company". Some other interviewees (five) expressed no particular opinion about access to information issues as it does not influence their every day operations. As characteristically stressed by the manager of company 18 "we deliberately avoid getting involve in purchases by the Greek State, as the procedures are very time consuming and we do not believe that the rules are the same for all parts of the competition". Of course, the above stressed arguments might be a result of the fact that these companies have not managed so far to get any important purchase by the Greek government, although they would like to have. Thus, they try to put all the blame on the Greek government. Nevertheless, even if this is the case it does not hide the bad use of information by the Greek State that distorts the investment environment and deters companies from competing fairly.

A very important issue in Greece, as in most places of the world, is taxation rates and rules. In my question in this issue I recognised a satisfaction with regard to the decrease in tax rates, but not with regards to the rules. According to the manager of company 7 "the decrease in taxation rates will help us to show better financial results to our parent company, as well as to consider further investments in the future". Moreover, the manager of company 11 stressed that "the decrease in taxation rates is indeed a positive step to improve competitiveness in the Greek economy, but it should not be followed by indirect increases elsewhere, e.g. public utilities". On the other hand the manager of company 4 argued that "the problem of my company is not taxation rates, but taxation rules. By these rules the Greek State holds us hostages as many laws are open to different interpretations".

The above mentioned arguments conclude to the existence of a very rigid investment environment in Greece. This has also as a result the existence of very few plans for new investments by multinational enterprises in Greece. For example, the manager of company 4 argued that "we are very disappointed by the excess, but not legitimate, competition in the industry sector in which we are active. We consider further investment at this point as too risky". Nevertheless, there is another reason for the absence of any plans for investment in Greece. As argued by the manager of company 12 "the domestic orientation of this subsidiary makes any further investment in Greece unnecessary". Nevertheless, the most disappointing aspect of this issue is that the parent companies of most of the subsidiaries plan new investments in other parts of Europe, particularly in Eastern Europe. According to the manager of company 2 "in the next few months our parent company will begin the construction of new logistic facilities in Poland".

Institutional framework has an impact on the investment environment depending on the type of firms a country tries to attract. For Greece that is more likely to attract horizontal type of multinational corporations, as argued in chapter III, there is a need for improvement in its institutional framework. Foreign subsidiaries that are to be established in Greece are more likely to be local centers for the Balkan region and maybe Eastern Europe. The reason is that Greece has developed economic and political institutions that are familiar to those of other Western countries, which are the major sources of FDI. Thus, Greece, being always in the West should use the institutional framework as its strong point in order to compete with the other South Eastern European countries. Nevertheless, Greece did not manage to take advantage of its embedded Western values in order to attract more FDI in relation to its competitors of South Eastern Europe. The conclusion from the twenty interviews, with regard to the operation of the institutional framework in Greece, is that its rigidity deters the subsidiaries that already operate in the country from obtaining a more important role in the operation of the whole Group.

7.4 Incentives

With regard to the incentives provided by the Greek government on new investment, some contradictions emerged. The general view is a satisfaction with the incentives provided, but on the other hand there seems to be no intention by these companies for some kind of investment in the near future, in order to take advantage of the praised incentives. More precisely, according to the manager of company 6 "incentives in Greece are among the most generous in Western Europe as far as I know, nevertheless future investment is determined by other factors too, such as the general aims of the parent company in Europe". Additionally, the manager of company 9 put into the discussion another issue of the incentives provided by the Greek government, that of bureaucracy. In particular, he argued that "if we apply for incentives, then we are obliged to be under strict scrutiny by the Greek government over the next five years. In this way I consider that we lose a great part of our flexibility". Finally, the manager of company 16 argued that "incentives are good but in order to participate someone needs to have gathered a lot of paper before hand. This is negative for someone who wants to do the investment only if the incentives are approved". From the above answers it seems that incentives in the case of Greece are not a determinant factor for investment.

7.5 Quality of Infrastructure

Finally, with regard to the quality of the infrastructure in Greece (road network, rail network, air/ sea transportation, telecommunications and energy supply) in the vast majority of interviews (seventeen out of twenty) there was satisfaction about the progress that has been made. According to the manager of company 3 "during the last fifteen years, there has been a great improvement in all kind of infrastructure, with the assistance of European Funds". In general, the contribution of European Funds was particularly stressed by the interviewees. As the manager of company 9 argued, "I do not know how much progress would have been made in the improvement of infrastructure if there were not European Structural Funds. You see, Greece has a particularly difficult terrain and the construction of 1km of road usually costs more than constructing the same road in another EU country". On the other hand, in other interviews some complaints expressed with regard to the retardation in the completion of major infrastructure projects. For example, the manager of company 14 argued that "how is it possible the Greek government urges us to invest in the periphery of Greece, when Egnatia Odos, the biggest transportation project in Greece, is being constructed for over 15 years, and nobody knows yet when it is going to finish". Thus, it seems that although the importance of infrastructure as a factor for investment in Greece has decreased, something that also emerged in the survey in chapter VI, nevertheless the retardation in the completion of certain projects contributes to the unequal spread of investment (Athens vs. the rest of Greece).

7.6 Interviews with Policy Makers of the Greek Government

Having analysed the results by the survey and the interviews with general and finance managers of the 20 foreign subsidiaries located in Greece, I then arranged two (2) interviews with policy makers of the Greek Government, as I also mentioned in the introduction of the chapter. A striking point has been their similar responses in more issues raised during the interviews. Both, policy maker A (who works in the Department of Control and Approval of Private Investment in the Ministry of Finance and Economy) and policy maker B (who is Research and Analysis Manager in the Department of Investment Research and Project Evaluation of the Hellenic Center for Investment) stressed the small number of foreign investors active in the manufacturing sector that decided to invest in Greece. Especially, policy maker A (who works in the Ministry of Finance and Economy) argued that "with great difficulty I can recall five foreign investors that visited me during the last two years in order to invest in the manufacturing sector by using the incentives provided by the Greek government". Moreover, both interviewees argued that most foreign investors wish to invest in the country via Greenfield investment, with the participation of local partners. As policy maker A argued "foreign investors usually use Greeks only at the beginning as mediators between them and the Greek authorities, but when the time for the investment comes, they do it by themselves (by holding the 100 per cent of the shares of the newly created company)". Additionally, policy maker B (who works at the Hellenic Center for Investment) argued that "most of the time foreign investors are in partnership with Greek businessmen, except the very large investments that they prefer to do by themselves". This is not surprising if we also take into account the results of the survey in chapter VI, which showed that multinational corporations hold the majority of the shares of the new investment in Greece from the very beginning.

Another striking point, which does not come in accordance with our findings from the survey and the interviews with the managers of the foreign subsidiaries located in Greece, is that according to the argument of both policy makers the foreign investors that invest in Greece mainly target the neighboring markets (Balkans, Eastern Europe, Turkey and Middle East) rather than the Greek market. The Greek market is a secondary target for them. This difference between the previous findings and the comments by the two policy makers may have to do with the most general policy of Greece towards foreign investors during the last 15 years. In particular, we have to be cautious of this argument by policy makers as by these words they might try to validate the arguments of the Greek Authorities, i.e. that Greece is an ideal location for Western investors that wish to penetrate the Balkans, Eastern Europe, Turkey and the Middle East.

A very interesting answer was given by both interviewees with regard to the reasons that a foreign investor decides to approach government authorities before investing in Greece. Both interviewees commented that this is due to the extensive bureaucracy that exists in the country in order for an investment to take place. More precisely, as I was told by policy maker B, "there is no way for someone to invest in the country without having contact with Greek Authorities. As a result, foreign investors prefer to have these contacts in the highest possible level (Ministry of Finance) instead of getting into the regular bureaucratic procedures. In this way they expect to deal with bureaucratic requirements faster than following the conventional procedure". Additionally, foreign investors always have a fear that their investment may stop at a lower level of government (e.g. by the Local Government of the area where they want to invest)[148]. Thus, by having contacts at the central government they try to overpass this obstacle. As policy maker A stressed to me, "foreign investors would like an institutional protection of their investment at central level".

Finally, both interviewees argued that foreign investors seem satisfied by the incentives provided by the Greek government. According to policy maker B "Greece provides among the most generous incentives in Western Europe". But as policy maker A stressed to me, "nevertheless, they would also like some other forms of incentives, such as special prices in power and water supplies. But, such kind of incentives the Greek government does not provide, as it avoids entering into special negotiations with individual investors". Nevertheless, incentives by themselves are not a prerequisite for an investment as both interviewees recognized.

On the other hand, there were differences in their responses on two issues. The first difference had to do with regard to which sectors foreign investors mostly invest in Greece. More precisely, policy maker A argued that "foreign firms invest in Greece mostly from the pharmaceutical and high tech sectors", where as policy maker B argued that "firms from food and beverages, as well as chemical industry mostly invest in the country". Nevertheless, this difference might be the result of their own experience, and not of actual figures, as well as particularly policy maker B tries to be in accordance with the general aim of Hellenic Center for Investment, which tries to attract FDI from these sectors. Moreover, policy maker B is in charge for promoting Greece in these sectors he has mentioned to me.

The second difference was with regard to the R&D investments in the country. In particular, policy maker A argued that "foreign investors not only include R&D departments in their investment plans, but very often they just want to invest in this area and have the production process in another country". But, as policy maker A stressed afterwards, "foreign investors, are disappointed when they hear that there are no incentives for firms that want to invest just in R&D, but they have to include in

[148] Greece has a lot of negative examples of investments that have been stopped due to the objections of the local government. A characteristic example is that of TVX gold mining company that never managed to implement its investment in Chalkidiki after strong objections by the local government and despite the approval of the investment by the central government. At the end TVX left the country.

their plans a manufacturing activity in order to be entitled for the incentives provided by the Greek Law". On the other hand, policy maker B argued that "most foreign investors mostly invest in manufacturing activity and there are very few plans that include R&D activity". We need to remember that according to the findings of the survey in chapter VI, most of the foreign subsidiaries located in Greece do not have R&D activity. Nevertheless, from the words of two policy makers we can recognise the shortsighted policy of the Greek government, as it has failed to include R&D investments in the incentives package.

7.7 Conclusion

In general the findings of the twenty-two interviews support the results of chapter VI and strengthen my overall conclusions in relation to the significance of the institutional framework and market access. But, also it provides some insightful explanations with regard to the causes behind the results of the survey. More precisely, with regard to the corporate processes that influence the decision of a foreign firm to invest in Greece, currently this is the access to the Greek market. With regard to the relationships developed between the parent firm and the subsidiary within the Greek economic environment, there seems to be a very limited production and organisational autonomy for the subsidiary.

As far as the other research questions/ issues this thesis explores, there is some kind of embedding with respect to the linkages between foreign subsidiaries and local firms. The rigid labour laws seem to have contributed to this. Additionally, as far as the operation of institutional framework in Greece is concerned, there are still many weaknesses that affect negatively the decisions for new investments from abroad. The poor institutional framework seems to influence in a negative way the role of the subsidiaries located in the country. The bad operation of Greek institutional framework was also stressed by the two policy makers who argued that foreign investors would like to have an institutional protection of their investment, particularly against obstacles that may appear at the level of local government. In its turn this decreasing role of the subsidiaries affects negatively further investment in the Greek market.

On the other hand, there has been significant improvement in the incentives provided by the Greek government to new and already existing firms that plan new investments in the country, as well as to the quality of infrastructure. But, there is also the need for further improving of weaknesses of these incentives, e.g. bureaucracy and special examination of very large investments. But, as we have argued repeatedly in this thesis, incentives by themselves are not adequate in order to influence the decision of a foreign firm to invest in Greece. Moreover, with regard to the quality of infrastructure, although the significant improvement, with the assistance of European Structural Funds, is recognised by the interviewees, nevertheless there is a dissatisfaction about the speed of this improvement.

Thus, the investment environment (which the institutional framework, incentives, quality of services and infrastructure are part of), can shape the role of a subsidiary in relation to other subsidiaries of the same multinational corporation being located in other countries. In this way the degree of autonomy of foreign subsidiaries being located in Greece might be a result of the investment environment that exist in a country. This in combination with the type of firms that are most likely to invest in one country, in the case of Greece the horizontal type of firm as argued in chapter III, can provide us with an insight why Greece does not attract more FDI.

Moreover, from the twenty-two interviews, a further interesting point is revealed. In particular, with regard to the reasons foreign firms create subsidiaries in Greece, the initial intentions of the parent companies have not just been the serving of the Greek market. Nevertheless, due to the changing economic and political conditions since 1989, this target has changed and currently the subsidiaries mainly serve the Greek market, as they export only a minimum amount of their production. This situation could be reversed, and Greece becomes the initial starting point for multinational corporations that want to expand to South Eastern Europe, if institutional framework improves, as argued above. Especially, since the Greek Firms have already started to invest in large numbers in South- Eastern Europe as seen in chapter IV. This means that Greece has created important links with those countries and a pool of labour that has knowledge of the market of South- Eastern Europe has been formed. On the other hand, there is always the risk that European Union firms start supplying the Greek firms instead.

Thus, from the above analysis some important conclusions are drawn. First, that the Greek investment environment negatively influences the relationships developed between the parent company and the subsidiary. This, in its turn, seems to influence the corporate processes of the location decision in Greece, but also the possibility for further investments in the country by already established multinational enterprises. Moreover, the decreasing role of foreign subsidiaries located in Greece, not only in terms of management and production autonomy, but also in terms of market(s) that have been assigned to serve, in the era of globalization, has contributed to the poor performance of Greece in FDI.

CONCLUSION

8.1 Summary of Major Findings

The aim of the analysis in the preceding chapters was to identify the reasons for the underperformance of Greece in the attraction of FDI. As a benchmark were used two other European Union peripheral countries, notably Ireland and Portugal. From this analysis (theoretical and research one) several key points were identified that also contribute to the discussion made by the academic community with regard to FDI and the European peripheral countries, particularly Greece which is the main issue of analysis in this thesis. As it will be commenting right below, the underperformance of Greece has not taken place by accident, but it is the result of certain events.

Having first examined the post- war development of the world economy and production and how Greece, Ireland and Portugal have been influenced by these changes (chapter I) three key points have emerged as being largely responsible for the underperformance of Greece in attracting FDI. First, are the different processes of integration of Greece, Ireland and Portugal into the new world economic conditions formed each time (Fordism, post- Fordism and New Economy) and described in this chapter. Second, is the rigid institutional framework that has been formed in Greece. In particular, Greek institutions have failed to recognize ahead of time of the changes happening in world economy and implement a policy that would take advantage of them. Third, it is the inconsistency appeared at top political level in Greece with regard to the attitude of the State towards foreign investors (nationalization policies).

In chapter II, I described how these changes in world production, and consequently in the location of firms, influenced the relevant theories. More precisely, in chapter two, I reviewed and compared some fundamental location theories (the traditional location theories, New International Division of Labour theory, product life cycle theory, the theory of comparative advantage, the "New Economic Geography" theory) and how these evolved due to the changes in the world economic conditions as described in the previous chapter. The most important findings in this respect were Krugman's emphasis on the significance of market size effects and Ietto Gillies' stress on the significance of the strategic decisions that multinational corporations take.

Both of these factors were found to be important in understanding the locational rational of firms locating in Greece and the precise role that these subsidies play.

Additionally, in chapter III, I drew on the literature relating to multinational firms in order to identify their evolution and the specific factors influencing their locational decision making process, due to the changing economic conditions described in chapter I. As a result I adopted a simpler two- type organisation model of the multinational corporations, i.e. the vertical- horizontal organisation of production. Then I developed the type of multinational corporation that Greece is more likely to attract. In particular, I suggested that Greece is more likely to be preferred by horizontally organized multinational corporations, for reasons explained in that chapter. This conclusion limits significantly the number of multinational corporations that could invest in the country, but also gives guidance with regard to the orientation strategy of the Greek State towards multinational corporations.

In chapter IV, having reviewed some major factors that may affect the investment decisions of multinational corporations, I then categorised the locational requirements of different types of multinational corporations. These locational requirements differ according to the type of the investment as well as the commodity produced. But, certain characteristics by themselves are not a sufficient element for the attraction of FDI. This is a very complicated process depending on a variety of factors, such as the international circumstances, the multinational corporations business plans and of course the long-term (economic, political etc.) conditions of the country in question. Moreover, in the same chapter, having analysed the Greek FDI outward flows, I illustrated that Greece is no longer a net recipient of FDI, but on the contrary is also a source of FDI as many of its large firms invest abroad (especially in the South- Eastern Europe) in the form of direct investment.

Chapter VI discusses the findings from the survey. More precisely, a first conclusion is drawn from the mapping of the location of the manufacturing activities of the foreign subsidiaries in Greece. Most of them are found in the region of Athens and secondarily in Thessaloniki, with the other regions hosting much less foreign subsidiaries. Moreover, according to the findings of this chapter, in Southern Greece are located the foreign subsidiaries that mainly target the domestic market, where as in Northern Greece are located the export- oriented subsidiaries. Thus, it is clear that Greece mainly attracts subsidiaries that produce for the domestic market.

Other issues were also examined in chapter VI, such as the nature of the foreign subsidiaries currently present in Greece, in terms of their national origins, time period of entry in Greece, way of entry, degree of ownership, reason to enter the Greek market, type of FDI located in Greece, degree of autonomy by the parent company. From this analysis, some striking points are first that there are very few subsidiaries from South- East Asia. On the contrary, European countries seem to dominate inward FDI in Greece. This might be due to the timing of investment, as more foreign investments in Greece are since a long time ago when South East Asia would not have been a source of FDI. Moreover, American companies seem to prefer to enter the Greek market via the take over of an existing company, whereas European Union countries, such as Germany, France, UK and Italy prefer to enter the Greek market by creating their own subsidiary. Better knowledge of Greek culture and tastes by the Europeans seems to be an explanation for this result. As far as the main locational rationale for the subsidiaries is concerned, the main factor was to competitively access the Greek market. In general, domestic market seemed to be the main cause for investment in Greece. This might be the main reason for the low FDI inputs in the Greek economy.

Additionally, the survey findings showed that subsidiaries in the traditional sector, export (in their majority) only small amounts of their production. This result was consistent with our previous findings, i.e. that natural resources is not a major factor for investing in Greece and second that the country fails to attract labour-intensive subsidiaries. The results also showed that the majority of the subsidiaries have no local autonomy with respect to decision making. As far as linkages with local firms are concerned, the results showed some kind of interdependence that has been formed between multinational enterprises and local Greek firms, but not to a great extent. On the contrary, a lot of subsidiaries seem to operate on a parallel (semi)-independent basis. This conclusion can be considered as a negative one because from the moment that the production of a commodity has no dependence on local added value, makes easier the decision of a multinational corporation to transfer its production to another location.

Another aim of this thesis was to investigate the satisfaction of the foreign investors in relation to the quality of infrastructure and the operation of some institutional factors in Greece (i.e. bureaucracy, legislation, access to information, taxation and incentives). The findings of chapter VI showed that there is a dissatisfaction about bureaucracy and taxation, a neutral opinion about legislation and a more positive response towards access to information and incentives. But, with regard to incentives, foreign firms tend to ignore regionally differentiated incentives when they decide to locate in a specific region within Greece. Finally, with regard to infrastructure in Greece there is a positive opinion of foreign- owned firms recognising the important investments that have taken place in this area during the last 15 years.

Chapter VII examined the significance of the State institutional capacity to foresee the evolutions in world economy, as well as to adopt and follow a coherent policy towards FDI; the importance of infrastructure; the type (nature) of foreign firms that are more likely to invest in Greece and finally the role of incentives in this effort made by the Greek government during the last years in order to increase the volume of FDI inflows. For this purpose, twenty (20) interviews with either general or finance managers of foreign subsidiaries located in Greece took place, as well as two (2) interviews with policy makers of the Greek government.

In particular, with regard to the corporate processes that influence the decision of a foreign firm to invest in Greece, this is the access to the Greek market. With regard to the relationships developed between the parent firm and the subsidiary within the Greek economic environment, there seems to be a very limited production and organisational autonomy for the subsidiary. This finding was contrary to the analysis of the questionnaire where the picture was more mixed. Nevertheless, these two conclusions strengthen the analysis in chapter III, with regard to the horizontal type of multinational corporations that are most likely to invest in the country.

With regard to the operation of the institutional framework in Greece there are still many weaknesses that affect negatively the decisions for new investments from abroad. The poor institutional framework was stressed by all interviewees and seems to influence in a negative way the role of the subsidiaries located in Greece. The negative role of the Greek institutional framework was also stressed by the two policy makers who argued that foreign investors would like to have an institutional protection of their investment, particularly against obstacles that may appear at the level of local government. In its turn this decreasing role of the subsidiaries affects negatively further investment in the Greek market. On the other hand, there has been significant improvement in the incentives provided by the Greek government to new and already existing firms that plan new investments in the country, as well as to the quality of infrastructure. With regard to the incentives, the satisfaction of investors was also acknowledged by the two policy makers. Nevertheless, these two factors by themselves are not adequate in order to influence the decision of a foreign firm to invest in Greece. As stressed in chapter IV, there is a mixture of factors that contribute to the final decision of a multinational corporation about where to invest.

But, from the twenty interviews with the managers of foreign subsidiaries located in Greece, a further interesting point is revealed. In particular, with regard to the reasons foreign firms create subsidiaries in Greece, the initial intentions of the parent companies have not just been the serving of the Greek market. Nevertheless, due to the changing economic and political conditions since 1989, this target has changed and currently the subsidiaries mainly serve the Greek market, as export only a minimum amount of their production. It seems that the opening of the markets in Eastern Europe has increased significantly competition for FDI, not in favour of Greece.

The different points revealed between the survey results and the in- depth interviews are interesting. It might be a consequence of the in depth interviews being less representative of the range of subsidiaries in Greece. On the other hand, it may reflect the way that in depth interviews are more probing and provide richer information about the actual role of subsidiaries- in this case the actual degree of autonomy that firms actually have, than from a simple tick box response to a survey. But, both the results from the literature review and the research analysis revealed many interesting points with regards to the causes of the underperformance of Greece in attracting significant amounts of FDI in the manufacturing sector. With regard to the institutional framework, long term weaknesses, particularly its rigidity and shortsighted policy planning and implementation were identified. The institutions of the state have always been used by the governments as a tool to obtain political advantages and less as a tool to develop those mechanisms that would ensure the continuity and stability of the State against people and investors, domestic and foreign ones. Only, since the beginning of 1990s this trend started to change, but even then the process has been very slow and is limited by the endogenous weakness of the system itself. One such characteristic weakness is the low educational level of the public employees, the lack of any consistent policy for their training in new things during their career and probably most important the lack of any vision provided by the governments. A public employee has no chance to get in a shorter time period than a colleague of him with the same years of work a higher salary or a better position in public administration. Thus, this rigidity of the State has been stamped by the inability of the State to implement consistently long- term targets.

Equally, significant has been the identification of the cases for investment in Greece by the foreign companies. Since the collapse of Communism at the end of 1980s, and the political turbulence in the Balkan area, Greece found itself for a significant time period geographically isolated from the other European Union countries. The only secure access to Greece was by the sea via Italy. This limited the chances of Greece being chosen as a potential investment location in order to serve neighborhood markets. At the same time the countries of Eastern Europe were making all the necessary political and economic actions in order to become an attractive locations for foreign investors.

As far as the location of most of the foreign subsidiaries is concerned, a concentration of FDI around the two major urban centres of Greece was identified. This trend of locating businesses in the two major cities of Greece is not a recent one. On the contrary it starts since the late 1940s. Despite an effort by the Greek governments in the 1980s and 1990s to provide incentives in order to convince the businesses to locate their manufacturing activities outside Athens, it has not happened to any great extent. Currently, the new incentives law, as the old one, subsidies the establishment of a manufacturing activity in Athens with at least 30 per cent. This is another characteristic example of the inconsistency of the Greek State towards domestic and foreign investors.

But, what was surprising to me with the analysis of the research results was the satisfaction of foreign investors with infrastructure in Greece. Greece was a very late starter in investing consistently and massively in the improvement of its infrastructure. Even now there are significant weaknesses in some basic issues, but at the same time very important, for the attraction of FDI and in general the maintenance and expansion of industrial base of Greece. For example in a visit of mine, as an employee of the Hellenic Center for Investment, in the industrial area of Thessaloniki in 2004, I was recipient of complaints with regard to the repeated interruptions of power supply. One explanation I can give for this result is that due to the fact that most investments that intend to serve the Greek economy are located in Athens, where the majority of the population exist, the existence of adequate infrastructure for the supply of the local markets is less significant.

Moreover, equally surprising has been the type of multinational corporations that are most likely to invest in Greece. Some one would expect that Greece, being in the periphery of Europe, would be most likely to attract subsidiaries that will be part of a wider vertical organisation of production. Greece would be chosen for its of cheap labour force (in comparison to other EU- 15 countries) and raw material and assembly line manufacturing activities would be established in the country. On the contrary, the analysis of this Thesis in chapter III, but also the responses in the questionnaire and the interviews, showed that Greece is most likely to attract horizontal type of multinational corporations (market oriented).

But, the findings of the empirical work also contribute to the theoretical ideas examined in the previous chapters, particular those of the French Regulation School. Although, I have clearly stated throughout my thesis that I do not follow exactly any theoretical school, nevertheless, I have adopted the periodisation of the French Regulation School as the basis to describe the transformations of the world economy and through this the transformation of the Greek economy since 1945. In this respect, one aspect of my thesis was to explain how the Greek capitalist system works, taking into account the different development route followed since 1945, in comparison to the other western European economies, and of course Ireland and Portugal. In this aspect, very interesting has been the evolution of the Greek division of labour since

1945, always in relation to the influences by the international, economic and political evolutions (peripheral Fordism). I can argue that the Greek division of labour has been transformed through political action by the ruling class (emergence of dictatorship), compared to the transformation of the international division of labour that was transformed, mainly, through the technological advancements and the need by the multinational corporations to expand their markets.

Nevertheless, despite this different development route in the first decades since the end of WWII, the entrance of Greece into the then European Community resulted to start a convergence, economic, political, social and organisational one, in relation to the other western countries. Thus, I argued that Greece's performance in FDI is not the result of certain accidental events, but rather the result of certain choices by the Greek institutions. In this respect, the Regulation approach shares the claim of evolutionary and institutional economics that economic development is largely path- dependent and irreversible (Jessop, 1997: 295). In other words, the clear choice by the Greek ruling class for attachment of the Greek institutions to the western values has, more or less, predicted their evolution, as it happened to Ireland and Portugal. But, in the Greek case, despite the continuous convergence of the Greek institutional system to that of other western countries, this has not been able to respond adequately to the requirements created by the diminishing of national barriers to international capital and the vanishing of import- substituting policies. More precisely, the creation of a common market, but also the expansion of globalisation, also changed the performance requirements of the Greek institutions. Unfortunately, from the conclusions of this thesis, the Greek institutions did not manage to adapt themselves to the new world conditions by implementing long- term and consistent policies.

On the other hand, the French Regulation approach considers the state both as a subject involved in regulating the economy and as an object of regulation in its own right. (Jessop, 1997: 297). The Greek institutional framework has been identified as being one of the main causes for the underperformance of Greece in attracting FDI. This has been due to the state intervention in the economy via financial forms (e.g. high inflation and public deficit, weakening of the national currency), regulatory forms (e.g. laws regarding property or foreign investors rights) and/ or a mixture of both. The point is that the Greek institutional framework has been unable to take advantage of the changes (at economic, social and political level) happening at world scale due to its weakness to regulate norms that will ensure the compatibility of different government mechanisms as well as the deficiencies of the market against foreign, and domestic, investors.

Another important aspect of my research is that I emphasize the role of formal (i.e. the central government and its mechanisms, such ministries and public organisations) rather than "informal" (e.g. social capital, "soft" factors such as trust and networking, habits, norms and routines) institutional systems as an important factor for the creation of an appropriate investment environment that will improve Greece as a location to attract FDI. This has not taken place by accident. Since the late 1980s there is a neglect of the state's role in regional and national development (Markusen, 2003: 705). More precisely, my analysis shows how the behavior of the key formal actors in arranging the investment environment in Greece, i.e. the state and its agencies, are responsible for the underperformance of Greece in attracting FDI. Within this framework there is a debate among economic geographers regarding the sources of economic development that lie in the character of locally embedded social, cultural and institutional arrangements (Amin, 1999: 369).

This focus of mine in formal institutions is due to the fact that central government in Greece remains the key actor in driving regional and national economic development. Public intervention, i.e. formal institutional intervention, is a prerequisite for development. This intervention can take the form of the formation of the appropriate legal and regulatory environment, which are essential for technical change (Asheim, 1996: 380; Amin and Wilkinson, 1999: 124; Williamson, 2000: 597). In particular, it is the central government that defines investment environment via the incentives, tax rules, planning restrictions etc. This is in accordance with the development policy followed by other advanced economies that has been largely firm- centered, incentive- based, state driven and standardised (Amin, 1999: 365).

More precisely, through my thesis analysis I stress the fact that contemporary economic (regional and national) development is subject to the diverse forms of (formal) institutions that have been created through the different social and political experiences. The importance of culture and other broader historical factors as a cause of development is stressed by several authors (Asheim, 1996: 395, Amin, 1999: 367; Williamson, 2000: 598). In this respect, one of the major tasks of this thesis was to demonstrate sufficiently the processes of economic and political restructuring within the context of changing institutional arrangements in relation to Greece (in particular), Portugal and Ireland[149]. Thus, in the case of Greece, political and economic instability of the past has as a result the reluctance of the central government to give some of its power to regional or local authorities regarding the formation of the investment environment. This is in accordance with authors who argue, despite some general belief, that formal institutions remain the key to regional and national economic development (see for example Asheim, 1996 and Lovering, 1999).

On the other hand, it is clear that formal institutions by themselves are not the only factors for creating conditions of national and/ or regional development (Asheim, 1996: 380; Morgan, 1997: 492; Amin and Wilkinson, 1999: 124, Yeung, 2005: 48). Thus, the high concentration of firms in the Attica region, where also the Greek government is located might be examined further in the framework of proximity (cultural and geographical) and learning. Effective learning, adaptation and innovation cannot be considered only as a result of informal factors (such as networking, trust, norms, etc.), but also of formal knowledge provided by the state institutions (Asheim, 1996: 380; Amin and Wilkinson 1999: 125). To this seems to be a general agreement between scholars (Morgan, 1997: 500). But, in Greece it appears that the central government has been reluctant so far in allowing state owned agencies, e.g. the Hellenic Center for Investment, to develop these networks that could operate as communication routes between the state and the firms, in a similar way for example of Welch Development Agency (Morgan, 1997: 499). On the contrary, the Hellenic Center for Investment, under the instructions and strict control of the central government, operates as an enforcement mechanism of the decisions taken at the central level.

[149] See chapter I.

8.2 Strengths and Weaknesses of the Thesis

Having completed my research I can recognize certain strengths and weaknesses of my thesis. Beginning with the strong points of my thesis, a first argument is that I develop in a convincing way my own economic and political periodisation, based on French Regulation School. In a way I complement and extend French Regulation approach of the world development since 1945. Moreover, I demonstrate the different understanding of capitalist dynamism and development by Greece and the consequent different political route followed in relation to other countries with common characteristics such as Ireland and Portugal that are used as a benchmark.

Additionally, a particularly strong contribution is the extensive research that took place in order to fill in the list with the foreign subsidiaries with a manufacturing activity currently located in Greece. There are high possibilities that this list covers more than 95 per cent of the foreign subsidiaries with a manufacturing activity currently located in Greece. This, in combination with the satisfactory response rate (over 50 per cent) strengthens the validity of my research and conclusions. As a result of my research, important elements about FDI in Greece are revealed, such as reason for investment, types of multinational corporations more likely to invest in the country, mapping of FDI etc. The research clearly identifies the main causes of underperformance of Greece in FDI inflows. This could be a very useful tool for the policy makers in charge of attracting more FDI. In this respect the Thesis also makes clear what is meant by institutional framework as a cause for the underperformance of Greece. It also reveals other factors as less important for the underperformance of Greece, contrary to the widespread belief, e.g. infrastructure. Finally, it demonstrates the importance of incentives as a factor of attracting FDI in the case of Greece.

On the other hand, there are some weak points that although do not change the essence of the quality of my research, nevertheless may give some ground for criticism. A first weak point is the long time that lasted the completion of the Thesis that had as a result some figures and facts to become obsolete (e.g. figures with regard to FDI inflows in Greece and at world scale in general). As a result I had to change these figures at least three times, something that put into a lot of risk the proper completion of the thesis. A further risk of the long time period for the completion of the thesis was that my topic could have been covered by someone else, as FDI started becoming an issue of discussion in Greece during the last years. Nevertheless, by this time I have not been informed about any similar research.

Moreover, the reluctance I faced by the management of many foreign subsidiaries located in Greece to fill in the questionnaire, further put into risk the validity of my research. Everybody acknowledges that the higher the response rate the more reliable and real are the results. But, from those who responded to the survey, having in mind the lack of enthusiasm by the managers in general to response to it, there is no way to know whether they have given honest responses.

8.3 Further Research

This thesis has covered a wide topic, FDI, and has specifically specialized in Greece. As a result certain issues were raised that could be explored with further research. In particular, during the research the significance of the institutional framework as a factor that influences the attraction of FDI in Greece was highlighted. In this respect the Greek institutional framework as a deterministic factor of economic development requires more research- especially if it to go beyond the well known stereotypes that I have alluded to.

During the presentation of interviews in chapter VII, bureaucracy in Greece emerged that causes an important dissatisfaction to investors, which deters them from further investing in the country. Nevertheless, there might be another reason from deterring already established multinational enterprises from further investing in the country. The longer history of FDI in Greece might have meant that a higher proportion of the inward investors have established links with local firms. In this case, this would be a measure of success as FDI in Greece has become embedded and hence there is less need for new FDI. Nevertheless, this is a topic that requires further research.

A further issue that could be explored in the future is related to the actual structure of contemporary multinational corporation at world scale and on the way strategic decisions are taken. Certain typologies were presented in this thesis, nevertheless multinational corporations change their structure all the time in order to deal with the new challenges that emerge because of the globalisation and the opening of the markets. In this respect, also further research on the type of multinational corporations that are most likely to invest in Greece is required, having in mind the interdependence between global and domestic political and economic evolutions.

Moreover, further research on what type of multinational corporations have invested in Greece and the particular advantages and disadvantages these firms may cause to Greece could take place. My questionnaire provides useful information on this issue, but there is always space for specialization and more in- depth analysis. Finally, a last issue that requires further research has to do with the agglomeration economies developed (if this is the case) between the foreign subsidiaries with a manufacturing activity located in Greece and other local firms. This topic may be related with research on the linkages that have been created with native and foreign firms in Greece.

APPENDIX 1

QUESTIONNAIRE

<u>LONDON SCHOOL OF ECONOMICS</u>

<u>AND POLITICAL SCIENCE</u>

Questionnaire for the completion of the Ph.D. thesis titled:
FDI in Greece: An Analysis of Underperformance

Name of Company……………………………………………
Name of Parent Company……………………………………..
Nationality of Parent Company………………………………

I. BACKGROUND OF GREEK SUBSIDIARY

1. When was the subsidiary established? ☐

2. How was your company originally established?
(please tick any relevant)

(a) By the take over of an existing Greek company. ☐

(b) As a joint venture with existing Greek company ☐

(c) By the creation of a new company with its own production facilities. ☐

(d) Other ☐

3. What was the original percentage posessed by the foreign affiliate? ☐

4. What is the current percentage posessed by the foreign affiliate? ☐

5. What were the motivations of the parent company to establish a subsidiary in Greece? (Please tick each factor you consider relevant)

	Only motivation	Main motivation	Secondary motivation	A consideration	Not a factor
Availability of natural resources					
As best way to competitively access the Greek market					
To access neighbored countries					
Comparative low input costs					
Level of qualification/ distinctiveness of skills of the Greek workforce					
Availability of local scientific inputs					
The existence of local cluster of firms working on similar or complementary activity					
The incentives provided by the Greek government					
To defend market share in the Greek market					

II. ROLES OF SUBSIDIARY

6. What is the company produces? ………………………………………..

7. What is the value of sales of the subsidiary? ………….€

8. Has this value increased or decreased in the recent years …………….

9. What percentage of the sales of the whole MNE group do your sales represent? [%]

10. What proportion of your production is exported? [%]

11. What percentage of your exports goes to other parts of your multinational group? [%]

12. How would you evaluate the role/activity of your subsidiary? (Please tick each factor you consider relevant)

	Only motivation	Main motivation	Secondary motivation	A consideration	Not a factor
Produces some of the parent's already existing product lines for the Greek market					
Produces a certain set of components parts or existing final products for a multi-country or global market					
It has autonomy and creative resources to develop, produce and market a restricted product range (totally innovative products) for multi- country (regional or global) markets					

13. Do you have an R&D department? [ ]

III. ACTIVITIES OF THE SUBSIDIARY

14. Where in Greece is your manufacturing activity located?
(Please give full address) ……………………………..
……………………………..
……………………………..
if you have more than one plant in Greece please give their addresses in the following lines:……………………………………………………………………...
……………………………………………………………………………………
……………………………………………………………………………………

15. **What proportion of your sales are made by the following markets?**

Greece	
European Union (including new Member States of Eastern and Central Europe)	
Balkan countries	
Other countries in Europe	
Rest of the world	

16. **What proportion of your production supplies is imported from the parent company or other subsidiaries of the Multinational Group?** %

17. **What percentage of your supplies is purchased by local firms?** %

18. **What is the degree of your decision- making autonomy?**
(Please tick any relevant)

1) decisions taken mainly by parent/regional HQ *without* consulting *with/seeking* advice from Greek subsidiary.

2) Decisions taken mainly by parent/regional HQ *after* consulting *with/seeking* advice from Greek subsidiary.

3) Decisions taken mainly by Greek subsidiary *after* consulting *with/seeking* advice from parent/regional HQ.

4) Decisions taken mainly by Greek subsidiary *without* consulting *with/seeking* advice from parent/regional HQ.

IV. INSTITUTIONAL FACTORS AND SERVICES

19. **When first invested, how do you rate the following institutional factors in Greece?**
(Please tick any relevant)

	Very Satisfied	Satisfied	Not so satisfied	Unsatisfied
Bureaucracy				
Legislative framework				
Access to information				
Taxation				
Incentives				

20. **Currently, how do you rate the following institutional factors in Greece?**
(Please tick any relevant)

	Very Satisfied	Satisfied	Not so satisfied	Unsatisfied
Bureaucracy				
Legislative framework				
Access to information				
Taxation				
Incentives				

21. **When first invested, how would you rate the quality of the following services in Greece?**
(Please tick any relevant)

	Very Satisfied	Satisfied	Not so satisfied	Unsatisfied
Road network				
Rail network				
Air/sea transportation				
Telecommunications				
Energy supply				
Industrial areas				

22. **Currently, how would you rate the quality of the following services in Greece?**

(Please tick any relevant)

	Very Satisfied	Satisfied	Not so satisfied	Unsatisfied
Road network				
Rail network				
Air/sea transportation				
Telecommunications				
Energy supply				
Industrial areas				

Please return to: 67, Pythagora street
17563, Palaio Faliro
Athens, Greece

Thank you very much for your time.

APPENDIX 2
INTERVIEWS

Questions:

1. How much does your firm contributes to the final product?

2. Have you applied for subsidies during your investment process?

3. What is the degree of your decision- making process autonomy?

4. In which country is the company that gives you orders established?

5. During the last 5 years your decision- making autonomy has increased or decreased?

6. Are you encouraged to pursue autonomous initiatives?

7. Have you established any synergies with local firms? If yes, why (motive)?

8. Plans for further investment? If no why? If yes why?

9. If R& D why?

10. Have you asked the help of ELKE or any other governmental organisation during an investment process? If other organisation which? If ELKE was their help helpful? If no, why?

APPENDIX 3
INTERVIEWS WITH POLICY MAKERS

1. Which countries mostly invest in Greece?

2. What type of FDI do they mostly interest? Greenfield investment, purchasing of local firm, other?

3. In which sectors do they invest?

4. Are foreign investors mostly interested to invest by themselves or in partnership with Greeks?

5. Their investment plans target only the Greek market or other markets too?

6. Do their plans include R&D?

7. What are the main reasons they come to a government institutions and not try to invest by themselves?

8. What is the opinion of foreign investors on the incentives provided by the Greek government?

APPENDIX 4

Table 7.1: Case Study Criteria

Case Study Criteria							
Subsidiary	Autonomous role	Non-autonomous role	Modern Industry	Traditional Industry	Partnership with Greek company	No partnership with Greek company	Year of Establishment
1	X			X	X		1979
2		X	X			X	1966
3	X		X		X		1971
4		X	X			X	1990
5	X			X	X		1964
6	X		X		X		1996
7	X		X		X		1991
8	X		X		X		1988
9		X	X			X	1983
10		X	X			X	1976
11	X			X	X		1980
12	X			X	X		1990
13	X			X	X		1982
14	X		X			X	1967
15		X	X			X	1963
16	X		X		X		1994
17	X		X			X	1975
18	X		X		X		2001
19	X		X			X	1968
20	X		X			X	1979

Table 7.2: Type (Nature) of Foreign Firms that are more Likely to Invest in Greece

Type (nature) of foreign firms that are more likely to invest in Greece			
Subsidiary	Sector	Way of entry	Reason to invest
1	Traditional	Take over an existing Greek company	Enter the European market. Access the Greek market
2	Modern	Greenfield investment	Serve the European market. Access the Greek market
3	Modern	Take over an existing Greek company	Access the Greek market
4	Modern	Greenfield investment	Access the Greek market
5	Traditional	Take over an existing Greek company	Serve the European market. Access the Greek market
6	Modern	Joint Venture with a Greek company	Access the Greek market
7	Modern	Joint Venture with a Greek company	Access the Greek market
8	Modern	Greenfield investment	Access the Greek market
9	Modern	Greenfield investment	Access the Greek market
10	Modern	Greenfield investment	Access the Greek market
11	Traditional	Take over an existing Greek company	Serve the European market. Access the Greek market
12	Traditional	Joint Venture with a Greek company	Access the Greek market
13	Traditional	Greenfield investment	Access the Greek market
14	Modern	Greenfield investment	Serve the European market. Access the Greek market
15	Modern	Greenfield investment	Serve the European market. Access the Greek market
16	Modern	Take over an existing Greek company	Serve the European market. Access the Greek market
17	Modern	Take over an existing Greek company	Access the Greek market
18	Modern	Greenfield investment	Access the Greek market
19	Modern	Greenfield investment	Serve the European market. Access the Greek market
20	Modern	Greenfield investment	Access the Greek market

Table 7.3: Type (Nature) of Foreign Firms that are more Likely to Invest in Greece (2)

Type (nature) of foreign firms that are more likely to invest in Greece			
Subsidiary	Sells in the Greek market	Number of employees	Linkages with local firms
1	93%	22	60%
2	80%	70	10%
3	99%	120	26%
4	70%	380	5%
5	100%	180	10%
6	40%	45	10%
7	100%	55	5%
8	100%	150	40%
9	100%	130	30%
10	100%	75	20%
11	60%	90	25%
12	50%	175	0%
13	100%	50	5%
14	100%	70	0%
15	100%	160	0%
16	100%	65	10%
17	100%	680	45%
18	50%	55	30%
19	100%	80	25%
20	100%	90	20%

Table 7.4: Type (Nature) of Foreign Firms that are more Likely to Invest in Greece (3)

Type (nature) of foreign firms that are more likely to invest in Greece		
	Products	Decision- making autonomy
1	Some of the parent's already existing products	After the consultation/ advice by the parent company
2	Some of the parent's already existing products	No decision- making autonomy
3	Some of the parent's already existing products	After the consultation by the parent company
4	Some of the parent's already existing products	No decision- making autonomy
5	Mostly differentiated products	After the consultation/ advice by the parent company
6	Mostly differentiated products	After the consultation/ advice by the parent company
7	Some of the parent's already existing products	No decision- making autonomy
8	Some of the parent's already existing products	After the consultation/ advice by the parent company
9	Some of the parent's already existing products	No decision- making autonomy
10	Some of the parent's already existing products	No decision- making autonomy
11	Some of the parent's already existing products	After the consultation/ advice by the parent company
12	Mostly differentiated products	After the consultation/ advice by the parent company
13	Some of the parent's already existing products	After the consultation/ advice by the parent company
14	Some of the parent's already existing products	After the consultation/ advice by the parent company
15	Some of the parent's already existing products	After the consultation/ advice by the parent company
16	Some of the parent's already existing products	After the consultation/ advice by the parent company
17	Mostly differentiated products	After the consultation/ advice by the parent company
18	Some of the parent's already existing products	After the consultation/ advice by the parent company
19	Some of the parent's already existing products	After the consultation/ advice by the parent company
20	Some of the parent's already existing products	After the consultation/ advice by the parent company

APPENDIX 5

Table 7.5: Date and Location of the Interviews

Subsidiary/ Policy Maker	Interview Date	Location
1	3 March 2006	Athens
2	3 March 2006	Athens
3	6 March 2006	Athens
4	17 March 2006	Athens
5	24 March 2006	Athens
6	24 March 2006	Athens
7	31 March 2006	Athens
8	3 April 2006	Athens
9	3 April 2006	Athens
10	14 April 2006	Athens
11	14 April 2006	Athens
12	28 April 2006	Athens
13	28 April 2006	Athens
14	5 May 2006	Athens
15	8 May 2006	Athens
16	8 May 2006	Athens
17	19 May 2006	Athens
18	19 May 2006	Athens
19	22 May 2006	Athens
20	26 May 2006	Athens
Policy maker A	29 May 2006	Athens
Policy maker B	29 May 2006	Athens

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