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AN ANALYSIS OF THE LIFE CYCLE OF FOREIGN AFFILIATES IN A SMALL OPEN ECONOMY: THE CASE OF GREECE 1960-2010

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ABSTRACT: *The intellectual aspiration of the paper is to highlight the evolution of MNE activity in the Greek economy during the 1960-2010 period, using as intellectual analytical tools theories of FDI such as the Investment Development Path and New Institutional Economics apparatus. By imposing a time dichotomy in two sub-periods (1960-1980) and (1981-2010) we point out that in the first period, the economic environment was characterized by low wages, trade protection with tariffs and quotas, thus this period is the period of protectionism. During this early period, foreign MNEs had penetrated the Greek market with resource seeking (RS) and tariff-jumping (TJ) affiliates.*
In the second period, which is the period of integration, the economic traits have changed. Thus infrastructure has been improved, wages have risen, trade barriers were gradually perished, and Greek firms started to engage in advertising and marketing and created their own branded products. This period has three sub-periods (1981-1990, 1991-2000, 2001-2010). During these sub-periods foreign MNEs, gradually but steadily reduce the number of RS and TJ affiliates and replace them with new market seeking (NMS) Greenfield affiliates stemmed from TJ units and acquisitions. We also highlight, that throughout the period although the total volume of FDI increased in absolute numbers, in relative terms (i.e. viz. a viz. other states), Greece failed to attract massive FDI inflows for a variety of reasons. Thus this research is associated with the evolution of FDI in a small open economy, its specific forms and with the survival of foreign plants. We have applied descriptive statistical methods and we have found out that in the 1960-2010 period foreign investments in Greece have been transformed. Thus in the early period (1960-1980) foreign MNEs prefer to engage in resource-seeking and tariff jumping investments, where as in the second period (1981-2010) foreign multinationals invest in new market seeking Greenfield affiliates. These results for the case of the Greek economy are reported for the first time. Furthermore, these results can be used as a specific case study of the evolution of a small and increasingly integrated open economy.

KEYWORDS: FDI, Multinational enterprises, Business history, Greece

INTRODUCTION

Over the last two decades multinational enterprises (MNEs) have been developed across the globe, penetrating not only in the traditional western markets, but also in the markets of the emerging economies as well as in the markets of small open economies. However the development of MNEs is not an one way process; i.e. national firms having income generating assets abroad. To illustrate, it is observed across time and countries (markets) that the MNEs establish new subsidiaries, and at the same time, they terminate the activities of

other subsidiaries which are not considered competitive in certain states. This type of decision making by the MNEs is not a simple entrepreneurial decision endorsed by pure microeconomic criteria, related to profits, sales etc. The different growth rates which various economies achieve across time, the fast or slow integration process of every individual economy with the global economy and its extrovert forces will also influence the decision of the MNEs to invest or disinvest.

The stages of national development and growth of every individual economy are captured by the implementation of the general dynamic framework of the Investment Development Path (IDP) (Dunning and Narula, 1994; Narula and Dunning, 2000; Galan *et al*., 2007). The IDP can help us to understand the atmosphere in which the foreign affiliates operate both in the early development stages and afterwards, when the new era of integration and liberalization emerges. Its stylized form describes how a specific country progresses through different stages of openness and integration. This dynamic evolution alters the country's attractiveness to foreign investors and, by extension, changes the attractiveness of several types of affiliates. In particular, as far as the integration process is concerned, we propose that countries are not able to 'jump' from non-integration to deep integration instantaneously (Benito et al, 2003; Narula, 2001). The integration process continues through different stages, which can be distinguished based on the applied policy mix and the integration level achieved.[1] Naturally, the time and duration of each integration phase differs across states, depending on the historical conditions of its inclusion.

We use as case study the small Greek economy, examining several types of 263 foreign affiliates and their life-cycle during the whole post-war period (1960-2010). Starting from the period of protectionism (1960-1980), our paper subsequently achieves to distinguish specific types of integration of Greece into the European and global markets. In particular, we locate three integration periods, that is the first integration period covering the decade 1981-1990 (Stage I: the single market), the second integration period of the subsequent decade 1991-2001 (Stage II: the Maastricht agreement) and the third integration period covering the decade 2001-2010 (Stage III: the Euro era).

Our article elects which types of affiliates are suitable for the period of protectionism, and which types keep pace with the later stages of its gradual incorporation into the regional and global markets, and especially in the EU. Initially, we consider two types of affiliates according to their market entry form that is Greenfields and acquisitions. Subsequently, we analyze each of these two types according to three specific investment motives. The first type of FDI, are resource-seeking (RS) affiliates. These aim to capture natural resources such as precious metals, labor. The second type of FDI inflows are the tariff-jumping & market seeking (TJ & MS). These, attempt to avoid protection measures (tariffs and quotas). The third type of FDI inflows, are the new market seeking (NMS), which seek new markets via

[1] See: Benito G., Grøgaard B., Narula R. (2003): "Environmental influences on MNE subsidiary roles: economic integration and the Nordic countries", in *Journal of International Business Studies*, 34 (5), pages 1-14 and Narula R.: "Multinational firms, regional integration and globalizing markets: implications for developing countries", MERIT - Infonomics Research Memorandum series, 2001-036.
Both make a clear distinction between two subsequent integration periods of the unified European environment. The first period expresses a shallow integration scheme, essentially involving the reduction of tariff barriers. The second period represents a deep integration scheme including different common economic policies, such as industrial, trade and monetary policies applied *inter alia* in the framework of the Maastricht agreement.

market proximity. Furthermore, we apply the New Institutional Economics (NIE) framework in order to explain FDI in a specific open economy given that its development and integration process is strongly associated with external institutional changes.

Thus the structure of the paper is as follows: The first section provides the theoretical framework of FDI and NIE which can analyse inflows and outflows of investment capital. The second section provides the empirical framework, and discusses the economic and institutional evolution of Greece during the 1960-2010 period. In this section the hypotheses which are aimed to be tested are also formulated. The third section, entitled data analysis and results refers to data collection and evaluation and also provides, discusses and analyses the results of the research. The fourth section provides the conclusion and the overview of the argument.

2. Theoretical background: Theories of FDI and New Institutional Economics

The development of the subject in the last fifty years has bequeathed us with a plethora of theoretical explanations as regards the motives and determinants of FDI. At the heart of most of them lies the idea of market failure (Casson 1987), be it structural or transactional (Dunning & Rugman 1985). We may find it convenient to group the various theories of FDI under the following six approaches: The first one is the market power paradigm, stemming from the seminal work of Hymer (1960, published in 1976), which emphasises the oligopolistic and proprietary advantages, such as patents of all kinds, including technology and product differentiation features, that firms try to exploit and/or defend by undertaking FDI (Caves 1971, 1974, 1996; Cowling & Sudgen 1987; Dunning 1974, 1981, 1993; Knickerbocker 1973). As mentioned earlier, the structural failure of oligopolistic competition at home provides the uninational firm with the motive to exploit its proprietary advantages abroad, by engaging in international production and, thus, becoming multinational.

The second approach, that of internalisation, extends the work of Coase (1937) on the nature of the firm and argues that, in much the same way that we need firms to save on transactions costs, firms become multinational to increase efficiency. This is achieved by replacing external markets through internalising various functions. Firms which have already ownership advantages find it more profitable to use such advantages themselves than, say, license and/or franchise them to foreign locations. Using the market entails brokerage and contractual costs and is fraught with information and opportunistic behaviour and/or agency problems, in addition to losing out on possible tax advantages. Thus, by internalising production abroad, various costs of using the market are avoided. Consequently, the internalisation paradigm stresses that firms can save on transactions costs and raise efficiency (Buckley & Casson 1976; Rugman 1980). Under this approach, it is the transactional failure of external markets which forces firms to engage in FDI.

The above two approaches lead to diametrically opposed welfare implications of the activities of multinationals. The market power paradigm implies that multinationals should be regulated to minimise the market failures they cause and, thus, their operations should be discouraged. On the other hand, the internalisation paradigm contends that multinationals are able to resolve transactional failures and to raise efficiency and, consequently, they should be encouraged (Pitelis & Sudgen 1991).

In an effort to bring together the two earlier competing approaches and to provide a general explanation of FDI, in a series of articles, Dunning (1977, 1979, 1981, 1988) has proposed and popularised his "eclectic theory" or OLI (Ownership, Location, Internalisation) paradigm. The theory synthesises various strands of economic thinking, such as industrial organisation, trade, location as well as internalisation and claims that the propensity of firms to engage in international production is a function of Ownership specific advantages, Location advantages and Internalisation opportunities. As proposed by Dunning, the basic tenets of the "eclectic theory" are that a firm will undertake international production if: (a) it possesses certain ownership advantages, which are exclusive or firm-specific proprietary rights, such as patents; (b) it is more beneficial to the firm to use such advantages itself than lease them to foreign firms, i.e., it pays the firm to internalise its activities through international production and (c) it must be profitable for the firm to utilise these advantages in conjunction with at least some factor inputs, including natural resources, outside its home market, otherwise foreign markets can be served by exports. The "eclectic theory" contends that all kinds of FDI can be explained by reference to its conditions. However, the OLI paradigm, in its later versions, also recognises that advantages due to ownership, location and internalisation may change over time and accepts that if country-specific characteristics are important determinants of FDI, it may be invalid to generalise from one country's experience to another.

In addition to the aforementioned approaches, in a survey of theories of international production, Cantwell (1991) has also identified another two, namely, the competitive international industry approach and the macroeconomic development approach. The former, echoing Knickerbocker's oligopolistic reaction thesis, stresses that international production tends to be associated with rivalry amongst multinationals, which helps sustain the process of technological competition and development amongst them (Graham 1978, Cantwell 1989). The latter approach emphasises macroeconomic considerations, such as for example, trade and tariffs, as in the case of the Product Cycle Model (Vernon 1966, 1979); balance of payments issues (Hufbauer & Adler 1968); foreign trade and its effect on the development of the host country (Kozima 1978), who has put forward his Japanese-type, trade-oriented FDI; and the investment-development cycle (Dunning 1981, 1988), which contends that the level of inward and outward direct investment of countries is a function of their national level of development. However, as newly industrialised or industrialising countries are now undertaking outward FDI much earlier in their development, than it was the case before, Dunning's proposition may have to be qualified, than simply to extrapolate from one country's experience to another.

Furthermore, the New International Division of Labour (NIDL) theory contends that, in response to the recession in the advanced countries in the 1980s, "production moved offshore primarily in search of low-cost, relative docile labour in the periphery" (Schoenberger 1988). But multinationals did so, having retained at home control of technology and know-how and having diffused high level skilled production activities in various developed countries, on the basis of market opportunities, local labour market conditions etc. The process of globalisation of the last twenty years has certainly been enhanced by this movement in search of cost minimisation. However, in common with most other theories, the NIDL hypothesis offers only a partial explanation of international production. While certain multinationals behave in the manner described by the theory, such behaviour is not the dominant one and, as mentioned earlier, FDI flows in the developing world are accounting for around 1/3 of the

total. Also, the NIDL theory takes a narrow view of the direction of technological change, location and competition in various markets, which further restricts its applicability.

Lastly, the most modern theoretical apparatus which aims to analyse FDI is associated with the investment development path (IDP) paradigm (see Dunning and Narula, 1994, Narula, 2001; Narula and Dunning, 2000; Galan *et al*, 2007) takes into consideration that, over time, a host country goes through different stages of development and integration in the regional and global markets. Each of these is linked to a different type of FDI accepted by the host country. The individual countries that participate in the global competitive landscape form a type of 'development pyramid', in the framework of which they are classified, according to their level of development and integration (e.g., Dunning and Narula, 1994, Narula and Dunning, 2000). The first stages of economic development mainly offer generic advantages, so the corresponding host countries accept resource- and traditional market-seeking FDI (tariff-jumping investment). As we move towards the higher stages, non-replicable location advantages such as clusters and agglomeration economies dominate, and a leading role is played by efficiency-, new market-, and strategic asset-seeking investments (i.e., acquisitions). Thus, the paradigm indicates that when a national economy passes through the first and moves on to higher stages, its traditional advantages such as low wages and tariffs stop being attractive. Consequently, the survival of corresponding affiliates is directly threatened, whereas efficiency-oriented affiliates with high export orientation or new market-seeking units become more attractive.

All the above intellectual contributions analyse inflows of FDI into a country with purely economic schemata. However the New Institutional Economics (NIE) paradigm, uses broader parameters in order to analyse economic development and these perfectly supplement traditional mainstream FDI theories.

The NIE paradigm is best captured by the concept of the "Square of Power" (Figure 1).

Put Figure 1 about here

The "square of power", provides an alternative theoretical framework for economic development and actually provides another theoretical explanation for FDI inflows. According to the NIE paradigm economic development can occur only if the state mechanism functions smoothly and efficiently. Here the notion is that state bureaucracy can assist private investment and provide the safety of a social state to the general public via the vital state contributions of health, education, general infrastructure, and security. Obviously crucial to these services is the proper and efficient collection of taxes. The state can provide the above services only if the taxes are collected efficiently and used also in an efficient way; i.e. finance the best optimum government expenditures.

The role of the Parliament is also crucial. In a parliamentary democracy various political parties will win elections and rule for a certain period of time. Obviously all political parties have voters (supporters) which belong to certain social classes; and social classes have conflicting interests. The main task of the Parliament is to legislate and the crucial question according to the NIE paradigm is if the parliamentary majority will legislate in order to support exclusively the interests of its own voters or if the legislation will try to compromise conflicting social interests. In the first case, when the interests only of the voters of the specific party which won the election are satisfied, class struggle will increase since the interests of other social classes are marginalised. In this case social instability (violence,

strikes, demonstrations etc.) will certainly decrease the growth rate of the economy and will also have a harmful effect on FDI.
However if the opposite occurs (i.e. a social compromise via the legislation) then all social classes will be satisfied. This will create a stable social environment which will promote economic growth and FDI inflows. A typical example of social compromise from economic history is provided by the case of the Second German Reich (1871-1918). German capitalism was based on a social compromise. The landowners (Junkers) needed the termination of cheap Russian wheat imports, in order to achieve high prices for agricultural products. The industrialists opposed the idea, since higher prices for food would mean higher salaries for industrial workers. The syndicates objected to the idea as well. However eventually the state decided to terminate Russian cheap imports; however in exchange of higher food prices the landowners accepted the development of a big German navy (a move associated with huge demand for iron and steel, thus high profits for the heavy industry). In exchange of the higher food prices, the labour movement was compensated with the creation of a welfare state (free health and education for the working class). Under this social compromise model Germany flourished.[2]

The role of government legislation is also associated with property rights and the rule of law. In a parliamentary democracy property rights, protection of new ideas and patents promotes economic growth and will also affect MNEs decision to invest in the specific location.

Turning to the role of the Central Bank this is also crucial. The aim of the central bank is first to keep inflation at low level, by controlling the money supply, then it has to regulate the financial system effectively and efficiently in order to avoid banking crisis via the collapse of banking institutions and obviously act as the lender of last resort. Furthermore the central bank has to intervene in order to avoid speculative attacks on the nation's currency; thus defend the exchange rate of the local currency from speculative attacks.

Finally public debt, according to the NIE has to be low (as a percentage of GNP) and furthermore long term debt (financed with low interest rates) is a more preferable option to short term debt (financed with high interest rates).

If the above factors (efficient state bureaucracy, social stability via legislation, low inflation, efficient banking, stable exchange rates, low debt) exist in an economy for a long time period then this economy will grow and will attract adequate FDI.

Thus from the ample theoretical tools available for the explanation of FDI, in this specific article we shall use a nexus of ideas from the mainstream theories and the NIE paradigm.

[2] For the rise of German capitalism see: 1)) A.D. Chandler Jr.: "Scale and Scope The Dynamics of Industrial Capitalism", Harvard University Press, 1990, pages: 399-400, 425, 2) R. Chickering: "Imperial Germany and the Great War 1914-1918" Cambridge, 1998, page 2, 3) P. Watson: "The German Genious", Simon & Schuster 2010, pages 340-397 (with the nexus between sciences and economics), 4) J. Fear: "German Capitalism", in the volume: Th. K. McCraw (ed.): "Creating Modern Capitalism", Harvard University Press, 1997, pages: 135-184 and especially pages 141-152. See also: 5) K.D. Barkin: "The Controversy of German industrialization, 1890-1902", University of Chicago Press, 1970. Finally see: S. Halperin: "War and Social Change in modern Europe", Cambridge 2004, pages 148-149 where there is an excellent analysis of the class struggle inside Germany and the ramifications that this struggle had on Germany's economic relations.

From the mainstream theories we will use the concept of ownership and location advantages as these are analysed by Dunning (1988, 1991, 1992). According to this stream of thought multinationals will invest in a specific geographical location because they have certain "ownership specific" advantages over local firms. Local firms enjoy cultural advantages over foreign firms (since they know the local language, the legal framework, and the customer's needs) and they also enjoy privileged relations with the local state bureaucracy. However foreign firms may enjoy other advantages which outperform local firms. Thus foreign firms may have better technology, better quality products, better management techniques, privileged financial connections which allow them quicker and cheaper access to banking finance, better brand name etc. Thus foreign firms can outperform the local ones. Furthermore, "location specific" advantages attract MNEs. To illustrate, low taxes, good infrastructure, cheap / or skilled labour force, access to raw materials, high growth rates, currency stability etc, all these are characteristics which may attract multinationals to invest in a specific location (country). The above ideas will be used in accordance to the NIE paradigm.

However, at this point, an additional theoretical point needs to be addressed: The quality of the multinational enterprise *per se*. We refer to multinationals in a specific location (Greece) for a relatively extended time period (50 years) and obviously the multinationals differ. Thus what was essential economic characteristic for the MNE's in 1960 may differ for the MNEs of the 1980s or the MNEs of the 2009. This is best captured by Jones (1996) who points out: "In different periods, different choices were made between alternative modes of operating abroad, and alternative forms of organization. …During the nineteenth century the exploitation of natural resources and related service activities provided the most dynamic component of international business. Cross border manufacturing was progressively more important as the twentieth century progressed, but services became the most dynamic sector of international business in the 1970s…These trends [are related] to five exogenous factors which influenced the growth and structure of international business over time…First trends …were related to macroeconomic conditions…countries experiencing rapid economic growth have generally been more attractive hosts to MNEs than ones in dire economic circumstances…A second influence… has been…the existence and enforcement of international property rules…Government regulations have often played an important part in corporate decisions to operate in a foreign country…wars and political instability have had long term impacts on international business activity. A third influence has been the degree of capital liberalization. MNEs have flourished in periods when capital has been permitted to move freely across borders…A fourth influence … has been trade protectionism…A fifth influence…has been transport and communications technology".[3]

From the above it is obvious that the resource seeking multinationals of the 19th and early 20th centuries were replaced by manufacturing multinationals and finally by service oriented MNEs. However five common traits across time and types of FDI influenced firms decisions to expand their activities outside the national borders. (As demonstrated later in the 1960s many FDI inflows in the Greek economy were following the old resource seeking type of the nineteenth century).

[3] See: G. Jones: "The evolution of international business", Routledge, 1996, pages 23-24.

The second theoretical issue associated directly with the above points is business cultures and multinationals. The cultural element is extremely diverse, and due to limitations of space, it can not be fully analyzed here. Lipartito (2009) provides an excellent overview of the various aspects and vividly points out that: "business can be practiced, quite successfully, in many different ways in different cultural settings".[4]

At this point we have to provide an overview of the theoretical argument as follows:
Multinationals will operate *en mass* in an economic environment with the following traits:

1. Efficient state bureaucracy, friendly to foreign investors via various ways (protection of property rights and patents, legislation which promotes free competition and does not follow protectionist policies in favor of the local industry, low taxes, provision of legal protection of foreign investors etc).
2. Social internal stability, with minimum class struggle between social classes.
3. Low inflation and capital liberalization accompanied by a well functioning banking system.
4. Low debt and deficit.
5. Minimum political risk associated with minimum potential of inter-state conflict (war), intra state conflict (civil war or unrest etc).
6. Good infrastructure (transportation and telecommunication networks).
7. Ownership advantages of foreign firms viz. a viz. the local firms.

Having identified the main theoretical points we now turn our attention to the three time periods of the economic history of the Greek state.

In the following section, we specify the main development stages of the Greek economy, and assess the integration of the domestic economy with the rest of the world, and the international markets. Furthermore, we explore the impact of these stages in the competitive ability and survival of the several types of foreign affiliates. Finally we present the interaction (positive and negative) of the Greek institutional framework with FDI inflows.

METHODOLOGICAL BACKGROUND AND HYPOTHESIS FORMULATION

The evolution of the Greek economy can be dichotomised in two main periods. These are the period of protectionism (1960-1980), and the integration period (1981-2010). The economic traits of these periods and their influence on FDI inflows / outflows are discussed below.

The period of protectionism (1960-1980)

In the period of protectionism Greece was a developing country. In that period dominated RS-affiliates since foreign MNEs created such affiliates to supply labor intensive products for export exploiting comparative cost advantages of the country. In Greece, such investments were initially performed during the 1970s by Northern and Central European MNEs. Especially in the first half of the 1970s we see a large wave of German resource-seeking FDI, producing and exporting, unskilled labor-intensive goods within textile and clothing industries. In this development (i.e. inflows of resource seeking FDI) the two oil crises of the 1970s and the rapid (at that time) technological change across the globe were essential motivating factors. Technological change triggered an important geographical restructuring

[4] See: K. Lipartito: "Business Culture", in the volume: G. Jones & J. Zeitlin (eds.): "The Oxford Handbook of Business History", Oxford University Press, 2009, pp: 603-628, see page 619.

of global production and created a new industrial division of labor. In this new framework some New Industrializing Countries (NICs) such as Greece became (at that time) more competitive.

At that development stage of the Greek economy, TJ-MS affiliates were dominant too. Greek government policy imposed tariffs and other import controls in several production processes aiming to create a domestic manufacturing sector from scratch (policy of infant industry protection). This policy changed the attractiveness of market entry forms of foreign TNCs dramatically since the importance of foreign production rose substantially, whereas the alternative of exporting from their home country eliminated. In particular, these foreign TNCs created during the 1960-1980 period market-seeking affiliates for the first time in many new industries ranging from consumer to intermediary and capital goods, in the relatively closed but strongly expanding domestic economy (real growth rate of GDP, 6-9% per annum, especially during 1960-1974). These affiliates hold an oligopolistic or even monopolistic position within the local manufacturing, which began to take its first steps in these stages of development.

In the protectionism period, Greenfield investments dominated at the detriment of cross-border acquisitions because there was a limited supply of domestic firms which could constitute attractive acquisition targets for MNEs.

Turning to NIE parameters, inspite of political turmoil associated with the developments of the period (i.e. between 1967-1974 the country experienced a dictatorship and after 1974 a complete change of status occurred from constitutional monarchy to presidential democracy), the institutional (legal) framework associated with FDI inflows remained relatively constant with minor modifications. To illustrate the initial law of 1953 (Law 2687/53) was amended in 1961 (Law 4171/61) since Greece became associated member with the EEC in 1961, and five more amendments occurred during the period 1965-1975 [In 1965 (Law 4458/65), in 1967 and 1968 (Laws 89/67 and 378/68), in 1972 (Law 1312/72) and in 1975 (Law 141/75) respectively].[5]

The Bretton Woods fixed exchange rate regime ($1=30 drachmae) which lasted throughout the 1955-1974 period provided a stable exchange rate and a low inflation environment. Furthermore public debt has also been low. To illustrate public debt increased from 32,074 million drachmae in 1966, to 94,086 million drachmae in 1973 and it was 475,288 million in 1981. In terms of debt / GNP ratio the figure was 22.49% in 1974 and it was 31.68% in 1981.[6]

It is obvious that in this early stage the parameters of the "square of power" were functioning rather well; however public debt had already started to increase. At that time this increase

[5] See: D. Staboglis: "Foreign Investments in Greece A love-hate relationship", Kerkyra-Economia publishing, Athens, October 2008, pages 24 and 44. (in Greek).

[6] See: T. Iliadakis: "Foreign lending the birth and evolution of the new Greek state 1824-2009", Batsioulas editions, Athens, 2011, pages 489, 534 (in Greek). Inflation during the 1955-1972 period was between -0.4% (in 1962) and 5.7% in 1955. After 1973, due to the oil crises inflation increased. During 1973-1980 inflation low was 12.1% (in 1977) and high was 26.9% (in 1974). See: Th. Lianos & S. Lazaris: "The evolution of basic data of the Greek economy in the post-war period", in the volume: A. Kintis (ed.): "2004 The Greek economy in front of the 21st century", Ionian Bank, Athens, 2005, pages: 45-84, especially pages 79 and 81.

was understandable since in 1970s it was associated with the two oil crises and high defence spending.

The outcome of the above trends was an increase of FDI inflows. As Gianitsis (1988) points out: "during the 1963-1978 period total FDI inflows [in the secondary sector alone] were $640.1 million. This figure does not include the value of imported machinery and machine tools…however from the above amount total capital worth of $283 million was expatriated again …". The pattern of foreign FDI also changed. To illustrate in 1968 the synthesis of FDI in industry was as follows: Food - Beverages and clothes: 7.9%, Non ferrous metals: 7.2%, chemical, oil industries & plastics: 37.6%, metallurgy: 36.9%, machinery & electrical equipment: 4.3%, other industries: 6.1%. In 1979 the synthesis was as follows: Food - Beverages and clothes: 18.1%, Non ferrous metals: 15.3%, chemical, oil industries & plastics: 20.3%, metallurgy: 21.5%, machinery & electrical equipment: 8.2%, other industries: 16.6%.[7] For the whole 1955-1982 period total foreign FDI inflows, across the economy, were $1,226.2 million whoever total outflows were $999.7 million, thus the net inflows were $226.5 million.[8]
Taking into account the above considerations, we hypothesize that:

H1*: In the period of protectionism the dominant types of FDI are associated with RS- and TJ-seeking affiliates of Greenfield type. Furthermore in this period, probably the amount of closures is minimal.*

The integration period (1981-2010)
The integration process was associated with relatively high growth rates of the Greek GNP but also with significant industrial structural changes, and de-industrialization effects. Such changes were connected with the substantial increase of openness of the domestic manufacturing, since the share of imports in the domestic consumption rose from 23% in 1980 to 51% in 2000. In this framework, tariffs were gradually abolished during the 1980s and 1990s in the framework of a gradual adjustment of the national production in the EU and global division of labor, mainly across consumer and intermediary industries such as foods, beverages, tobacco products, textiles, garments, leather, plastics, petroleum products, non-metallic products etc.

In parallel, the unit labor cost increased gradually in unskilled-labor intensive industries as a result of the development of the Greek economy. The explanation is that in the long-term the cost of utilizing resources such as unskilled labor rose as the country intensified the use of the specific production factor and the sitting of labor-intensive production became gradually less attractive to foreign investors. Such developments affected negatively those investments where the share of labor costs in total operational costs was very high. Consequently, foreign MNEs reacted and relocated their production activity to other less-developed countries, initially countries of the MENA (Middle East-North Africa) region, south-eastern European states and countries of the Far East.

[7] See: T. Gianitsis: "The Greek industry", Gutenberg editions, Athens, 1988, pages 271-355 for an ample discussion and especially pages 276, 282-283.
[8] See: D. Staboglis: "Foreign Investments in Greece A love-hate relationship", Kerkyra-Economia publishing, Athens, October 2008, page 49. Figures refer to primary, secondary and tertiary sectors of the economy altogether.

At the same time, in the new environment of gradual decreasing of tariffs and escalation of competition, those foreign-owned affiliates located in Greece that enjoyed a high tariff protection had shut down. These units were primarily inefficient because of their relatively low level of specialization and small scale production at the expense of economies of scale as also supported by several EU studies (e.g., Pearce and Papanastasiou, 1997; Morgan and Wakelin, 1999; Benito *et al*, 2003). Given their inefficient character, liberalization forced MNEs to follow as an attractive option the export oriented strategy from home country. This had tremendous negative ramifications for the Greek market, since many TJ- production units were forced to close down.

Nevertheless, new market seeking FDI has increased substantially, due to the proximity advantage ensured by the immediate access to local customers. In this case, the exploitation of location-specific advantages, such as brands, highly differentiated products, sales networks and local market knowledge which are, however, specific to particular individual affiliates have constituted a strong survival advantage.[9]

In the integration period, the closure of the aforementioned affiliates was connected with a drastic reduction of Greenfield investments, the rise of acquisitions and the transformation of the nature of specific types of affiliates. However, such changes occurred gradually across time.

Turning to NIE elements we have to provide for the whole period (1981-2010) the evolution of the square of power. Let us begin with the evolution of public debt an essential element in the square of power. Public debt increased from 589,402,110,283 drachmae (21-10-1981), to 5,198,954,214,338 drachmae (2-7-1989), an increase of 782% in nominal terms in just eight years time. In terms of debt to GNP ratio, it was increased from 31.68% in 1981 to 66.32% in 1989, thus it was more than doubled. By October 10th 1993 public debt had increased to 20,553,110,022,955 nominal drachmae and as a percentage of GNP the figure jumped from 66.32% to 102.83%. Between the years 1993-1995, nominal public debt increased to 27,905,346,411,850 drachmae and as a percentage of GNP the figure increased from 102.83% to 103.80%. Then the period of preparation to enter the EMU (Economic and Monetary Union) followed. Thus during the period 1995-2003 the nominal public debt increased from the previous figure to 58,369,823,742,123 drachmae (which in Euros was 171,323,227,890). As a percentage of GNP the figure was reduced to 100.3% of GNP (debt/GNP ratio). The period 2003-2009 public debt soared. From 184.5 billion Euro (March 2004), it was increased to 292 billion Euro (September 2009). As a debt/GNP ratio the figure was increased from 100.3% to 126.50%.[10] It is obvious that when in May 2010 Greece was

[9] According to the new trade theory location decisions of MNEs will reflect a trade-off between achieving proximity to foreign customers, saving at the same time at transport costs, and concentrating production in a regionally optimal location to reach economies of scale and exploit agglomeration and efficiency economies (*the proximity-concentration hypothesis*; e.g., S. L. Brainard: "An empirical assessment of the proximity concentration trade off between multinational sales and trade", *The American Economic Review*, 87(4), 1997, pp: 163-190, 2) Markusen J.R. and Venables A.J.: "Multinational firms and the new trade theory", *Journal of International Economics*, 46, 1998, pages 183-203, 3) Neary P.J.: "Trade Costs and Foreign Direct Investment", CEPR, 2007.

[10] See: T. Iliadakis: "Foreign lending the birth and evolution of the new Greek state 1824-2009", Batsioulas editions, Athens, 2011, pages 490-491. The above time dichotomy reflects different governments in power and thus it is associated with the theories of political cycles in the economy. To illustrate, the 1981-1989 period

isolated by the international financial markets and was asked to finance its needs from the IMF and the state funding (governmental loans) from its EU partners, the public had been out of control, certainly higher than what the Maastrich Treaty of 1992 accepted for entry in the Euro-zone. The fact that Greece was accepted in the Euro-zone with a public debt equal to 100.3% of GNP is explained by the fact that at that time the debt had a small decrease from the 103.80% of 1995 to 100.3% of GNP in 2003. This decreasing trend however was reversed during the 2004-2009 period, putting EMU entry in jeopardy.

The second element of the square of power is associated with the function of the Central Bank and the broader monetary policy. After the collapse of the Bretton Woods fixed exchange rate regime the value of the drachmae gradually but steadily declined over other currencies. To illustrate, the $/drachmae exchange rate which was $1=30 drachmae in 1974, by 1981 it was $1=55.64 drachmae, in 1985 it was $1=138.2 drachmae, in 1990 it was $1=158.5 drachmae and in 1992 it was $1=190.7 drachmae.[11] The devaluation of the drachmae made easier the penetration of foreign capital in the Greek economy, since foreign MNEs could buyout Greek enterprises more cheaply. On the other hand inflation continued to remain high almost throughout the period. To illustrate, between 1981-1992 period, inflation low was in 1988 (13.5%), whereas peak inflation occurred in 1986 (23.1%).[12] Throughout the 1992-2002 period the country had to meet the criteria in order to enter the EMU, thus during this period inflation continued to decrease, thus providing monetary stability; an essential precondition to attract FDI. To illustrate, inflation in 1996 was 7.9%, but was reduced to 2.1% in 1999; however during the 2000-2003 period increased again. In the year 2000 it was at 2.9%, in 2002 it was 3.9% and in 2003 it was 3.4%.[13]

Turning to the role of government and its ability to attract FDI, the issue becomes more complex. In theory, all Greek governments, had set as an economic policy goal, the massive inflow of foreign capital. The legal framework has been again amended in 1998 (Law 2601/98). However although in absolute numbers FDI inflows increased throughout the period in relative terms Greece remained an isolated location from FDI. To illustrate, Staboglis (2008) points out that: "From a total of 140 countries which are under UN surveys Greece constantly is between 120th and 127th position [in terms of its ability to attract FDI]….Between 1995-2000 FDI inflows increased in Greece by 3%, whereas in Spain the increase was 309%, in Portugal it was 891%, and in Ireland it was 1,733%".[14] According to another study, between 2004-2010 average FDI inflows in EU countries (expressed as a percentage of GNP) were 3.7%, but in Greece they were just 1%.[15]

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reflects socialist governments followed by conservative government in the 1990-1993 period, new socialist governments (1996-2004) and conservative governments (2004-2009).

[11] See: Th. Lianos & S. Lazaris: "The evolution of basic data of the Greek economy in the post-war period", in the volume: A. Kintis (ed.): "2004 The Greek economy in front of the 21st century", Ionian Bank, Athens, 2005, pages: 45-84, especially pages 81-82 (in Greek).

[12] See: Th. Lianos & S. Lazaris: "The evolution of basic data of the Greek economy in the post-war period", in the volume: A. Kintis (ed.): "2004 The Greek economy in front of the 21st century", Ionian Bank, Athens, 2005, pages: 45-84, especially pages 81-82 (in Greek). We point out that during the 1985-1987 period an austerity programme was implemented with main economic goals the reduction of the trade deficit and the reduction of inflation. Thus the decrease of inflation by almost 10% points was part of the stability programme of that time.

[13] See: A. Bitzenis: "Globalisation, Multinationals, Investments and European integration in the new global economic system", Athens, Stamoulis editions, 2009, page 559. (in Greek).

[14] See: D. Staboglis: "Foreign Investments in Greece A love-hate relationship", Kerkyra-Economia publishing, Athens, October 2008, pages 7-8. (in Greek).

[15] See: G. Romeos: "Foreign Investments", Vima daily, 9-10-2011.

According to Staboglis (2008) the main obstacles associated with FDI inflows are associated with the following factors:
a) Economic uncertainty about the long term development prospects of the Greek economy. It is true that infrastructure –a precondition for FDI inflows- has improved throughout the 1980-2010 period with the massive investments in telecommunication networks, terrestrial infrastructure, airports and ports, railways etc. However improved infrastructure alone cannot attract FDI inflows. Bureaucratic rigidities associated with permissions to set up a business continue to be a major obstacle. To illustrate, in Sweden an enterprise is established in 25 days, in Finland in 23 days, in Ireland in 15 days, in Holland in 10 days, in the UK in 7 days, but in Greece it takes between 60-120 working days.
b) The second obstacle is associated the technological capabilities of the country. Although infrastructure has improved, the annual R&D expenditure remains extremely low, thus the country cannot benefit from the presence of technological clusters.
c) The third obstacle is associated with the high energy costs, the high cost of internet providers, high labor cost (viz. a viz. other states).[16]

Finally the fourth element of the square of power is associated with social tolerance towards FDI (and here the parliament and the goverment has a role to play; by promoting social stability and by enlightening the public about the benefits of FDI). However in Greece an additional obstacle is associated with broader social culture. Local societies many times express concern over FDI for various reasons (environmental, historical etc). A typical example is the goldmines in the region of Thrace. Foreign and Greek companies (as a consortium) aim to invest in the region and create 1,100 jobs in order to extract annually 42 tons of gold. In order to get the license the consortium needed 350 signatures (!) from various government departments and when these were obtained the investment had to stop because the local society expressed immense opposition due to environmental reasons.[17]

We can therefore conclude that the NIE parameters had only partial / limited success in attracting FDI inflows in the country. Although in absolute numbers FDI increases across time, in relative terms Greece remains an isolated region when compared with other states (both EU and non-EU).
Having provided the broader framework we now turn to the specifics of the individual integration periods in connection with the development of the corresponding hypotheses.

Integration stage I: the single market (1981-1990)
When the integration process begun in 1981, the economic conditions, did not change dramatically nor instantly. The incorporation of the Greek economy into the regional and global markets occurred gradually, and in line with the adjustment process of its domestic industry. Thus, foreign affiliates operated in an environment of moderate tariff adjustment. Further, in this integration period, the observed rise in labor costs was not significant enough to bridge the corresponding gap between an emerging economy such as Greece and the developed Northern European countries. Consequently, the closures of RS- and TJ-affiliates were relatively limited. Nevertheless, that period introduced the restructuring of the Greek

[16] See: D. Staboglis: "Foreign Investments in Greece A love-hate relationship", Kerkyra-Economia publishing, Athens, October 2008, pages 25, 61-75.
[17] See: D. Staboglis: "Foreign Investments in Greece A love-hate relationship", Kerkyra-Economia publishing, Athens, October 2008, pages 10, 25, 62 and A. Christodoulakis: "Why investments are stopped in Greece", Vima daily, 26-9-2004.

industry, caused a substantial transformation of TJ- into NMS-affiliates, and favoured acquisitions which have been used by new foreign MNEs to enter the local market. Taking into account the above considerations, we hypothesize that:

H2: In the integration stage I of the single market, the closures of RS- and TJ- Greenfield affiliates are likely limited, whereas the importance of NMS-seeking Greenfield affiliates stemmed from TJ units and acquisitions are likely to increase.

Integration stage II: the Maastricht agreement (1991-2000)

In the second integration period, trade and financial liberalization proceeded and several common economic policies were established. In fact, protection has been abolished nearly completely. That means that manufacturing affiliates did not enjoy tariff protection anymore, while economic growth (potentially along with aggressive wage policies) has led to a steep rise of labor costs. As a new economic regime emerged and developed, prospects of foreign survival also changed. At that period the Greek economy experienced immense adjustment and change. The closures of RS- and TJ-affiliates were maximized. Furthermore, the transformation of TJ- into NMS affiliates increased immensely and the cross-border acquisitions were also intensified as a business strategy. Taking into account the above considerations, we hypothesize that:

H3: In the integration stage II of the Maastricht Agreement, it is possible to observe an extensive closure of the RS- and TJ- Greenfield affiliates, and a further increase of the NMS-Greenfield affiliates stemmed from TJ units and the acquisitions.

Integration stage III: the Euro era (2001-2010)

In this period the entry of the common currency (Euro) provided the biggest integration stimulus between the Greek and the global economy. The introduction of the Euro increased the transparency of the economic transactions and the firm value, and forced economic players to adjust rapidly to rationalization and efficiency across markets. The process of wide restructuring of the Greek manufacturing has been almost completed and the old economic structures have disappeared. In particular, the vast majority of RS-affiliates closed, many TJ-affiliates shut down as well, whereas many others survived because they have been transformed into NMS-units. At the same time, the strong wave of cross-border acquisitions has been completed given that a lot of important domestic companies have been already acquired by foreign investors. Thus, a stagnation of closures, new establishments and acquisitions has been observed.

New FDI related to the establishment of efficiency-seeking affiliates acquired immense new momentum. This type of affiliates required a qualitative upgrading of location advantages (e.g., agglomeration economies, clusters, human capital) of Greece which however did not occur accordingly in the specific period. The Greek manufacturing has retained its inward-looking characteristics and the further growth of foreign investment has been besides undermined by the imminent crisis. Taking into account the above considerations, we hypothesize that:

H4: In the integration stage III of the Euro, the old location advantages have been terminated; however they are not yet replaced by modern ones. We therefore, observe an immobility of new establishments, closures and acquisitions, whereas the growth of

ES-seeking affiliates is a sine qua non for the immediate establishment- revitalization of FDI.

DATA AND RESULTS

Data

We investigate 263 foreign affiliates in the Greek manufacturing during the whole post-war era from 1960 to 2010 analyzing two market entry forms (Greenfields vs. acquisitions) and three types of affiliates, i.e. resource-seeking, tariff-jumping and new market-seeking. Our data systematically reveal which of these terminated their activities, which survived across this time period, as well as which affiliates maintained or changed their investment motive in order to adjust to changes from the external economic environment.

The data related to foreign MNEs are obtained from official lists provided by Foreign Chambers of Industry and Commerce based in Greece and the Official Government Gazette issues for all these affiliates that show a wealth of information relating to the establishment, ownership, changes of share capital, closure, and other financial data (annual profits or losses). The above data were compared and contrasted with our personal data set of foreign MNEs, which we have collected from previous primary research projects. This nexus of primary and secondary data provide adequate information for the dynamic evolution of all important foreign affiliates in the Greek manufacturing for the whole post-war era. We provide the results analytically below. We explicitly select those plants with a minimum labor force of more than 10 individuals as initial size (in order to avoid small family firms). Furthermore, we selected affiliates which have –across time– a stable ownership structure and thus we avoid any closures associated with internal managerial conflict which destabilises the enterprise. Thus any closures are associated with the external environment. We exclude bankruptcies and mergers. Applying those criteria we have a total population of around 310 enterprises and from those we select randomly the 263 affiliates across industrial sectors. Thus the sample represents the 84% of the total population.

RESULTS

During the era of protectionism foreign MNEs established almost exclusively RS- and TJ-affiliates in Greece (Table 1). The TJ-affiliates were the most dominant type since they were five times higher when compared to RS-affiliates. The establishment of TJ affiliates was distributed following the principle of uniformity during the 1960 and 1970 decades. However, the RS-affiliates were mainly established in the 1970s (19 out of 25). The vast majority of the affiliates of the time were Greenfields, since out of the 168 Greenfields which were established in the post World War II Greek economy the 162 plants (96%) were established in the period of protectionism (Table 1 & Figure 2). The rapid growth of GNP during the era of protectionism was associated with high demand in non traditional industries (such as chemical products and electrical appliances), which was covered by foreign multinationals via the establishment of TJ-affiliates (Table 2). To illustrate, we point out that 50.5% of these affiliates at that time period were in the two industrial sectors mentioned above (as compared to acquisitions; see below). By contrast, the number of acquisitions was minimal (3 out of 95 in total). This was due to strong ownership-specific advantages which foreign firms enjoyed over the domestic ones. Greek firms at that time, possessed no technological advantage over foreign firms, thus they were not acquisition targets for foreign

MNEs. Furthermore, in the period of protectionism, there were no foreign closures in the Greek manufacturing, nor any changes in the types of affiliates. This phenomenon was associated with the high growth rate of the economy. The above analysis confirms the H1 hypothesis. Furthermore, it confirms the IDP paradigm hypotheses as regards type of foreign affiliates, and economic conditions for a developing economy.

Put Tables 1, 2 about here
Put Figure 2 about here

In the period of integration the external economic environment changed completely. However the changes were gradual, and every phase, had its unique influences on foreign affiliates. To illustrate, during the integration stage I of the single market the Greenfields were almost non existent and they were replaced by new types of affiliates which appeared dynamically. Consequently, in that stage the mode of entry strategy of foreign MNEs changed, since cross-border acquisitions were the most dominant (Table 1 & Figure 2). To illustrate, the 32% (30 out of 95) of acquisitions occurred during the 1981-1990 decade, primarily in the second half of it (28 out of the 30). Cross-border acquisitions occurred in the traditional industries (such as food & beverages, tobacco), since these industries were the most developed during the integration period; thus they were the primary domestic objectives for acquisition by foreign MNEs. Thus almost 32% of acquisitions belonged in the traditional industries (Table 2), thus it seems that the investment strategy of MNEs was adjusted to the changes of location advantages of the Greek economy in order to profit of traditional industrial sectors. At the same time, the first closures of TJ-affiliates appeared. This phenomenon however was marginal at that time, since some short of tariff protection continued to exist for the Greek industry, although this was lower compared to the 1960 and 1970 decades (Table 3). However, the closures would have been many more, if the foreign MNEs had not adjusted their affiliates in the new economic environment. It is interesting to remark that half (41 out of 82) TJ-affiliates were transformed to NMS during the second half of the 1981-1990 decade (Table 4). In the new economic environment it was obvious that the dominant type of FDI was the new market-seeking affiliates, as well as the acquisitions. The latter, occurred, *en mass*, during the afore mentioned decade (29 out of 30) (Table 5). This occurred because the Greek firms had started to establish their own advantages; thus they had started to appeal as acquisition targets to foreign MNEs. Furthermore the united European market promoted business strategies based on acquisitions, at the expense of Greenfield FDI. Another essential point has to be highlighted here. When the new MNEs penetrated the Greek market via acquisitions, the old ones which were operational from the previous period, gradually transformed their affiliates from T-J type to NMS type in order to operate in a new liberal economic environment of zero trade protection. The specific analysis confirms the H2 Hypothesis.

Put Table 3 about here
Put Figure 3 about here

In the integration stage II of the Maastricht Agreement the Greek economy entered a new era of structural reforms. Acquisitions of Greek enterprises by foreign MNEs were multiplied by a factor of 1.8 times higher when compared with the acquisitions of the previous period integration stage I (55 against 30), as this can be deducted from the data of Table 1. In that stage the 58% (55 out of 95) of total international acquisitions occurred. Furthermore during

this period the overwhelming majority of closures of Greenfields occurred. To illustrate, 71 out of the total 80 (89%) closures of Greenfield type took place during the specific period. Out of this figure most closers occurred in the first half of the period (Table 3 & Figure 3). Out of the 71 Greenfields, the 47 closed down were TJ and the 24 were RS, since tariffs have been nullified and the labor cost has been increased immensely. Moreover, 37 TJ-affiliates were transformed to NMS, a number which comprises the 45% of the total of affiliates under adjustment (Table 4). At the same time, almost all acquisitions (54 out of 55), had an NMS motive (Table 5).

These developments occurred because the competitive pressures in the Greek economy were intensified and the complete removal of tariffs and trade barriers forced foreign MNEs to terminate the operations of many TJ-MS affiliates. The other old Greenfield TJ units were transformed to NMS, investing heavily in product differentiation, whereas acquisitions were also maximized. Moreover, labour cost has increased substantially in the Greek economy and labour-intensive industries were having losses. This process led to massive closures of RS-affiliates. The above analysis confirms the H3 hypothesis.

Put Tables 4, 5 about here

In the integration stage III of the Euro, the old functions and norms were gradually replaced by new ones. However at this stage the investment activity of foreign MNEs has been minimized. Only 3 new affiliates of Greenfield type were established and they had a new market-seeking business strategy. During the same period the number of closures was also reduced, since only 7 closures occurred out of the total 86 of the whole time period (Table 3). Finally, the transformation of TJ plants to NMS affiliates was also extremely limited (only 2 cases); since this transformation was completed in the previous period (Table 4).

The broader economic development (positive GNP growth rate) started to reverse after 2007 and by the end of the period recession occurred. This evolution affected negatively the operations of market-seeking affiliates. On the other hand, the ES-seeking affiliates were also not developed. It is obvious that the new qualitative location advantages of the Greek economy were not fully developed, thus the country could not attract investments of higher efficiency and strong export orientation. The Greek economy remained inward-looking, whereas industry (secondary sector) continued to shrink (in terms of GNP contribution) relative to services (tertiary sector).

The small overall FDI confirms the IDP paradigm which points out that high volume of FDI is associated with high quality location advantages, presence of clusters, agglomeration economies, economies of scale and scope, high quality human capital etc. It is obvious that in the case of Greece, such advantages were not fully developed, thus an immense FDI gap occurred, with harmful ramifications for the Greek economy in fields such as export growth, employment creation, technological change, new entrepreneurial / managerial techniques etc. Hence the above analysis confirms the H4 hypothesis.

To summarize we point out that the total number of foreign affiliates until the end of the 1980s was constantly increasing. Until 1985 the increase was based mainly on the establishment of TJ- and RS- affiliates of Greenfield type. From the second half of the 1980s the increase of numbers of these plants continued; however TJ-affiliates were replaced by

NMS Greenfields (stemmed from TJ-affiliates) and NMS acquisitions. In 1990 the total number of foreign affiliates reached its peak of the post World War II period, at 188 plants (Table 6). However after 1990s, the total number of affiliates started to decrease, as the TJ perished and the RS were also reduced to considerable level. The total number of plants remained relatively high due to the number of NMS affiliates, which benefited by the high growth rates of the Greek economy in that period (1995-2007) and the high consumption levels associated with this period. However with the start of the global economic and financial crisis of 2007 economic growth was reversed. Thus the ability to attract ES-affiliates from the end of the first decade of 2000, until nowadays remains an important challenge for a small open economy integrated with the international economic system.

Put Table 6 about here

CONCLUSION

The aspiration of the paper was to provide an analysis of the life-cycle of foreign affiliates in the Greek economy during the 1960-2010 period. Throughout the period the economy was under structural change. Thus during the early protectionist period (1960-1980), the economic characteristics were similar to those of developing economies expressed in low wages, trade protection, limited infrastructure. In this period a "square of power" was established and had functioned partially with success. The result was an inflow of capital across industries with foreign MNEs preferring resource-seeking (RS) and tariff jumping (TJ) affiliates as the best entry mode in the Greek economy.

In the second period, that of integration (1981-2010), some of the economic characteristics, started to look similar to those of a developed economy. In this period infrastructure was immensely improved, the Greek firms started to develop their own advantages, technological change occurred in the economy, trade barriers were gradually abolished and labour cost increased. Furthermore the economy was integrated to the EEC and later the EU/ EMU. In spite however of these advantages the "square of power" did not function as successfully as before. The main reason for this failure was state bureaucracy and the increased public debt. The result was a limited inflow of capital and the gradual decline of resource-seeking (RS) and tariff jumping (TJ) affiliates in the Greek economy. These were replaced by Greenfield new market seeking affiliates (NMS) stemmed from TJ units and acquisitions.

Under the current economic environment of recession the future stability and growth of the Greek economy is directly associated with the ability of the state to attract FDI. Greece has certain advantages (raw materials, educated labour force, good infrastructure, geographical proximity to emerging markets of the Middle East-North Africa (MENA) region and the markets of Eastern Europe and the Black Sea, advanced shipping activities etc) which if associated with broader expected structural reforms (limited state bureaucracy, tax incentives, market liberalization) they can promote FDI inflows. If this occurs it will be beneficial for both the local economy and the foreign investors.

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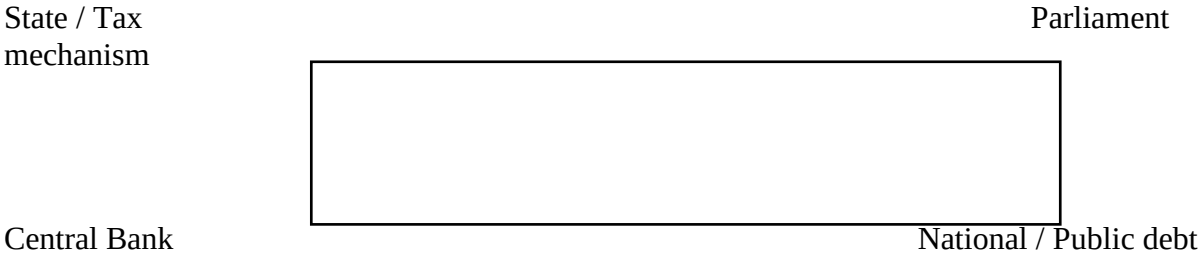
Figure 1: The Square of Power



Source: Niall Ferguson: "The Cash Nexus Money and Power in Modern World 1700-2000", Penguin, 2002, page 16.

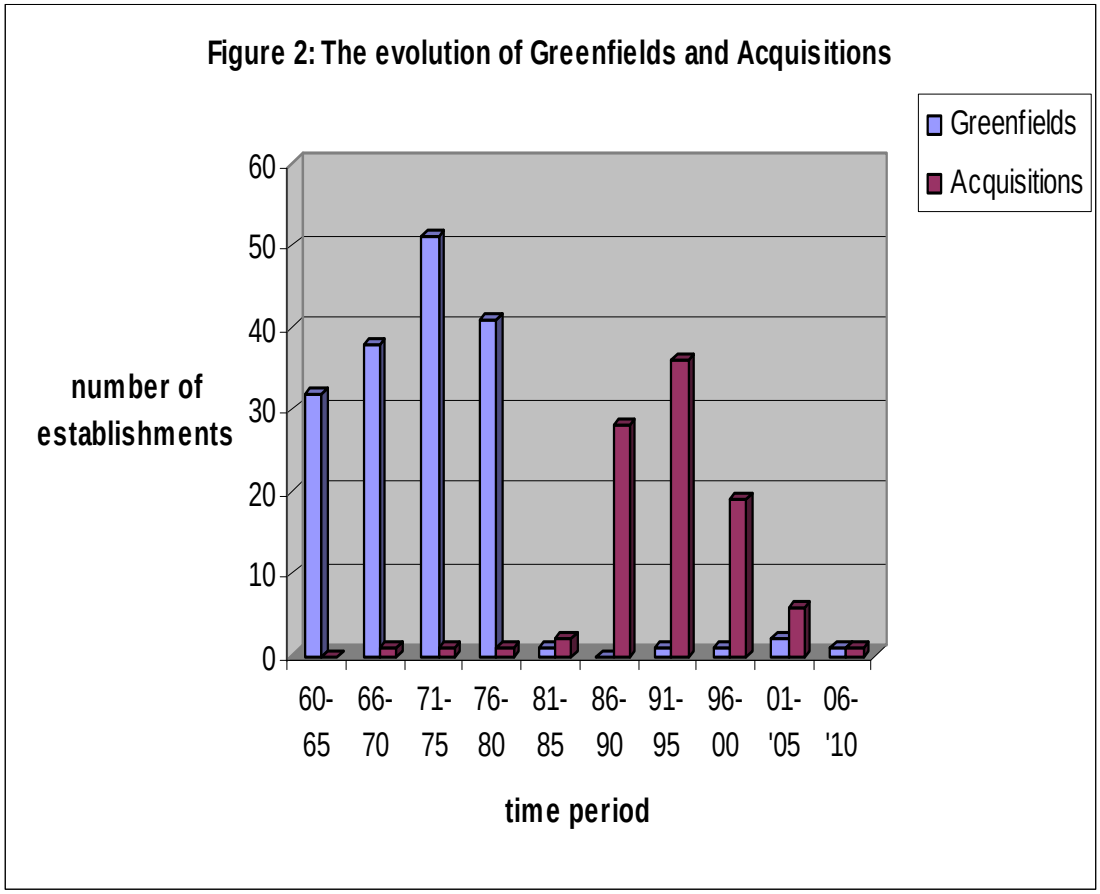


Figure 2: The evolution of Greenfields and Acquisitions
Greenfields
Acquisitions
number of establishments
60
50
40
30
20
10
0
60-65
66-70
71-75
76-80
81-85
86-90
91-95
96-00
01-'05
06-'10
time period

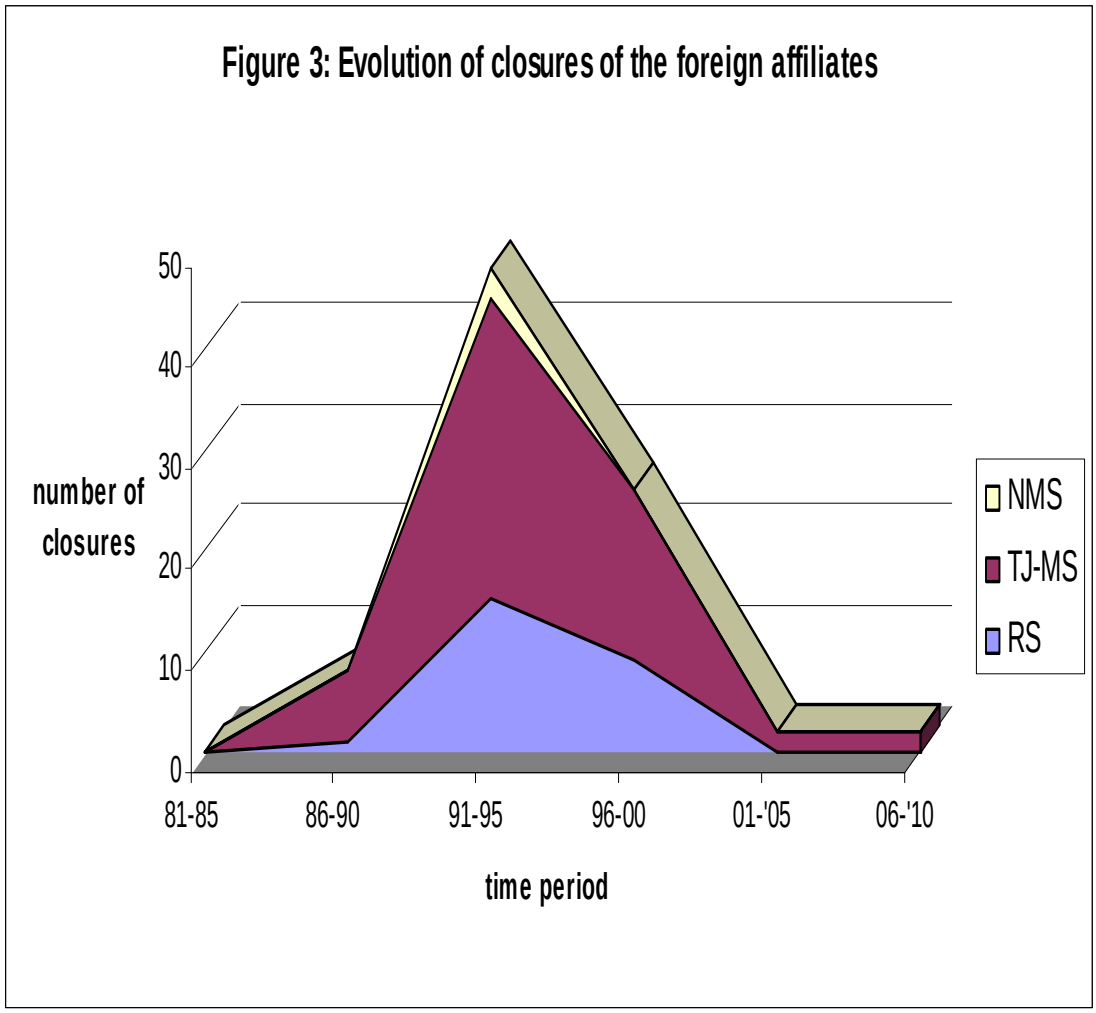


Figure 3: Evolution of closures of the foreign affiliates
number of closures
50
40
30
20
10
0
81-85
86-90
91-95
96-00
01-'05
06-'10
time period
NMS
TJ-MS
RS

Table 1: Evolution of the new foreign-owned affiliates (market entry form and type of affiliates)

Type of market entry	The protectionism period 1960-'65	1966-'70	1971-'75	1976-'80	Integration stage I 1981-'85	1986-'90	Integration stage II 1991-'95	1996 -'00	Integration stage III 2001-'05	2006-'10	TOTAL 1960-2010
Greenfields	**32**	**38**	**51**	**41**	**1**	**0**	**1**	**1**	**2**	**1**	**168**
RS	0	6	15	4	1	0	1	0	0	0	27
TJ-MS	32	32	36	37	0	0	0	0	0	0	137
NMS	0	0	0	0	0	0	0	1	2	1	4
Acquisitions	**0**	**1**	**1**	**1**	**2**	**28**	**36**	**19**	**6**	**1**	**95**
RS	0	0	0	0	1	0	1	0	0	0	2
TJ-MS	0	1	1	1	0	0	0	0	0	0	3
NMS	0	0	0	0	1	28	35	19	6	1	90
Total	**32**	**39**	**52**	**42**	**3**	**28**	**37**	**20**	**8**	**2**	**263**
RS	0	6	15	4	2	0	2	0	0	0	29
TJ-MS	32	33	37	38	0	0	0	0	0	0	140
NMS	0	0	0	0	1	28	35	20	8	2	94

Table 2: Industry breakdown of the Greenfields and acquisitions

Industry NACE-4 digit level	**Greenfields**	**Acquisitions**	**Total**
Foods / Beverages /Tobacco	**30** (17.8%)	**30** (31.6%)	**60** (22.8%)
Textiles/Clothing	**19** (11.3%)	**11** (11.6%)	**30** (11.4%)
Paper/Printing–Publishing	**8** (4.8%)	**5** (5.3%)	**13** (4.9%)
Chemical & rubber products	**55** (32.7%)	**23** (24.2%)	**78** (29.7%)
Non-metallic minerals	**10** (6.0%)	**8** (8.4%)	**18** (6.8%)
Metal products	**15** (8.9%)	**7** (7.4%)	**22** (8.4%)
Machinery/ Electrical appliances	**31** (18.5%)	**11** (11.5%)	**42** (16.0%)
TOTAL	***168 (100.0)***	***95 (100.0%)***	***263 (100.0%)***

Table 3: Evolution of closures of the foreign-owned affiliates

Type of		**Total**	**Total closures**	**Integration stage I**		**Integration stage II**		**Integration stage III**
market entry	**Number**	1981-2010	1981-1985	1986- 1990	1991-1995	1996 -2000	2001-2005	2006-2010
Greenfield	**168**	**80**	**0**	**8**	**45**	**26**	**1**	**0**
RS	27	25	0	1	15	9	0	0
TJ-MS	137	55	0	7	30	17	1	0
NMS	4	0	0	0	0	0	0	0
Acquisitions	**95**	**6**	**0**	**0**	**0**	**0**	**1**	**5**
RS	2	0	0	0	0	0	0	0
TJ-MS	3	3	0	0	0	0	1	2
NMS	90	3	0	0	0	0	0	3
Total	**263**	**86**	**0**	**8**	**45**	**26**	**2**	**5**
RS	29	25	0	1	15	9	0	0
TJ-MS	140	58	0	7	30	17	2	2
NMS	94	3	0	0	0	0	0	3

Table 4: Life cycle of the Greenfields (new establishments, closures, net cumulative effect)

Market entry/ Type affiliate	**The protectionism period**				**Integration stage I**	**Integration stage II**		**Integration stage III**		**TOTAL**	
	1960-'65	1966-'70	1971-'75	1976-'80	1981-'85	1986-'90	1991-'95	1996 -'00	2001-'05	2006-'10	**1960-2010**
Total Greenfields											
Establishments	32	38	51	41	1	0	1	1	2	1	168
Closures	0	0	0	0	0	8	45	26	1	4	84
Net effect	*32*	*70*	*121*	*162*	*163*	*155*	*111*	*86*	*87*	*84*	*84*
RS											
Establishments	0	6	15	4	1	0	1	0	0	0	27
Closures	0	0	0	0	0	1	15	9	0	0	25
Net effect	*0*	*6*	*21*	*25*	*26*	*25*	*11*	*2*	*2*	*2*	*2*
TJ-MS											
Establishments	32	32	36	37	0	0	0	0	0	0	137
Closures	0	0	0	0	0	7	30	17	1	0	55
Transformed into NMS	0	0	0	0	2	41	26	11	2	0	82
Net effect	*32*	*64*	*100*	*137*	*135*	*87*	*31*	*3*	*0*	*0*	*0*
NMS											
Establishments	0	0	0	0	0	0	0	1	2	1	4
Closures	0	0	0	0	0	0	0	0	0	4	4
NMS stemmed from TJ-MS	0	0	0	0	2	41	26	11	2	0	82
Net effect	*0*	*0*	*0*	*0*	*2*	*43*	*69*	*81*	*85*	*82*	*82*

Table 5: Life cycle of the acquisitions (new establishments, closures, net cumulative effect)

Market entry/	**The protectionism period**				**Integration stage I**	**Integration stage II**		**Integration stage III**		**TOTAL**	
Type affiliate	1960-'65	1966-'70	1971-'75	1976-'80	1981-'85	1986-'90	1991-'95	1996 -'00	2001-'05	2006-'10	**1960-2010**
Total acquisitions											
Establishments	0	1	1	1	2	28	36	19	6	1	95
Closures	0	0	0	0	0	0	0	1	5	6	
Net effect	*0*	*1*	*2*	*3*	*5*	*33*	*69*	*88*	*93*	*89*	*89*
RS											
Establishments	0	0	0	0	1	0	1	0	0	0	2
Closures	0	0	0	0	0	0	0	0	0	0	
Net effect	*0*	*0*	*0*	*0*	*1*	*1*	*2*	*2*	*2*	*2*	*2*
TJ-MS											
Establishments	0	1	1	1	0	0	0	0	0	0	3
Closures	0	0	0	0	0	0	0	0	1	2	3
Net effect	*0*	*1*	*2*	*3*	*3*	*3*	*3*	*3*	*2*	*0*	*0*
NMS											
Establishments	0	0	0	0	1	28	35	19	6	1	90
Closures	0	0	0	0	0	0	0	0	0	3	3
Net effect	*0*	*0*	*0*	*0*	*1*	*29*	*64*	*83*	*89*	*87*	*87*

Table 6: Life cycle of all foreign-owned affiliates (new establishments, closures, net cumulative effect)

Affiliates **1960-2010**	**The protectionism period** 1960-'65	1966-'70	1971-'75	1976-'80	**Integration stage I** 1981-'85	1986-'90	**Integration stage II** 1991-'95	1996 -'00	**Integration stage III** 2001-'05	**TOTAL** 2006-'10
Total affiliates										
Net effect	*32*	*71*	*123*	*165*	*168*	*188*	*180*	*174*	*180*	*173*	*173*
RS										
Net effect	*0*	*6*	*21*	*25*	*27*	*26*	*13*	*4*	*4*	*4*	*4*
TJ-MS										
Net effect	*32*	*65*	*102*	*140*	*138*	*90*	*34*	*6*	*2*	*0*	*0*
NMS										
Net effect	*0*	*0*	*0*	*0*	*3*	*72*	*133*	*164*	*174*	*169*	*169*

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Statement:
The paper was written before one of the authors became an employee in an international organization. The paper reflects the views of the authors and has does not reflect the views or ideas of any official individual or any international organization, such as the European Parliament or the Commission etc.
Furthermore the paper was written with the use of open sources and no confidential information was used for the writing of the paper.