

ECONOMIC RELATIONS IN SOUTH EASTERN EUROPE: THE INTRA-REGIONAL FDI POINT OF VIEW²

The paper is presenting the results of case study survey within the already settled Greek business in neighbour countries. Totally the survey covers 28 big Greek firms. The focus of the study is put on the role of these firms on the development of the bilateral relations.

The case study focused on advantages and disadvantages of doing business in neighbour countries with special attention on: competition with other EU firms; the role of the financial issues; different aspects of legislation, national industrial policy, attitude to the trade unions, etc. Very important is the obtained information about how the big Greek firms found the tax system and the legislation – favourable or not, compared with the one in Greece, as well as the differences they see between Bulgaria, Macedonia and Albania as well as do they find favourable the changes in the tax system and the legislation, which occur in the last years, and what direction should the changes take from their point of view.

It was outlined and analysed the main advantages and obstacles for the business in neighbour countries the Greek firms face. The survey found that the differences in the general establishment and business conditions are main factor for foreign investments attracting or not attracting.

It is studied also the roll of the cross-border relations for the economic development between Greece and its neighbour countries. Outlined is also the role of the EU programmes for the development of these relations. Finally some conclusions and policy implications are done.

JEL: F21, F23, P52

1. Introduction

The paper is presenting the results of case study survey within the already settled Greek business in neighbour countries by providing a survey of big Greek enterprises (firms) doing business in Bulgaria, Macedonia, Albania and Greece. Interviewed were 10 firms in Greece, 7 in Bulgaria, 5 in Macedonia and 6 in Albania. Totally the survey covered 28 big Greek firms. The focus of the study is put on the role of these firms on the development of the bilateral relations, pointing on the cross border relations. It is well known that the development of the cross-border relations within the SME prepares the ground for invading bigger FDI and entering of big firms, which usually are located in the capitals or big towns. The

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survey was provided in Sofia – Bulgaria, Skopje – Macedonia, Korca and Tirana – Albania as well as in Thessaloniki – Greece.

The case study was provided after the finishing of the questionnaire survey in the border regions (Dimitrov, et al, 2001), which helps to find the “right” way to extent the list of the questions. The basis was the already prepared questionnaire and the deepening of the survey is obtained by adding new questions that concern problems like:

- Competition with other EU firms – advantages and disadvantages to make business in neighbour country;
- Receiving more information about some financial issues;
- Foreign direct investments;
- Some different aspects of legislation, national industrial policy, attitude to the trade unions;
- Tax system;
- Long-term strategy of the firms.

Very important is the information about how the big Greek firms found the tax system and the legislation – favourable or not, compared with the one in Greece, as well as the differences they see between Bulgaria, Macedonia and Albania. Do they find favourable the changes in the tax system and the legislation, which occur in the last years, and what direction should the changes take from their point of view.

2. Survey in Bulgaria

In May 2001 in Bulgaria were interviewed seven big Greek firms that operated in the country. The headquarters of the Greek firms are divided between Thessaloniki and Athens, all of them have headquarters in Sofia, and one has headquarters in Sofia and Skopje.

The activities of the firms are as follows: production of cloths and confection – operating in Bulgaria since 1997; trade with agriculture products, food for animals, flower, etc. – operating in Bulgaria since 1991, in this business since 1993; production of croissants and other food – operating in Bulgaria since 1995; production of aluminium profiles and trade with goods from non-ferrous materials – operating in Bulgaria since 1998; computer systems, hardware, internet and other services – operating in Bulgaria since 1993; trade with furniture (mainly office furniture) – operating in Bulgaria since 1992; trade with food and consumer goods (cash & carry) – operating in Bulgaria since 1998.

The interviewed have the opinion that their firms act quite good and their expectations for the future are positive in the sense of improving the performance. Three firms estimate their performance as very good (5), four give the answer good (4). All firms are too optimistic about the future – six from seven (which accounts to 86%) answer that their expectations are for better performance in the future than this year, only one expects the performance to be same as this year.

The firms are oriented to the domestic market but also to neighbour countries. One firm finds a gap in the EU market by sales of aluminium profiles, using factor endowments as raw materials and the skilled cheap labour in Bulgaria, as was outlined in the questionnaire for this firm.

When speaking about the direction of the supplies the picture changes a lot, the participation of Bulgaria on average comes to about 30%. The supply from the other countries is mainly from Greece, but also from other EU countries. Although the part of the supply coming from the Bulgarian firms can be estimated as not low. The main obstacles the firms in Bulgaria face start with the bureaucracy, corruption, and unwillingness of some state authorities to do their job or slowly move the decisions from the administration. The firms also point on non-loyal concurrence; problems with the customary, shortening of their market in Bulgaria, high import duties and taxes that reflect on the prices of the final product or to the quality.

The advantages, which the seven Greek firms find to be on the market in Bulgaria as well as to the neighbour countries³, are related mainly to the “new markets and opportunities”. The average answers are for Bulgaria – 4.7, for Macedonia – 4.6 and for Albania – 4 (the scale is from 0 – no advantages to 5 – high advantages).

Coming to the “ethnic, cultural and the linguistic links” as an advantage, the answers are not so definitive and differ more by firms and countries. The average marks for Bulgaria and Macedonia are respectfully 3.7 and 3.4 and for Albania – 2. Close are the answers for “proximity”, where the average marks by countries are 3.9 for Bulgaria, 3.3 – Macedonia and 2.6 – Albania.

Quite interesting is the answer whether in the neighbour countries is possible to realize easiest profits than in Greece. First of all the answers are not varying by the interviewed and also by countries – Bulgaria and Macedonia has average 3.3 and Albania 3. Although the “easiest profits” are not evaluated as a high advantage, they are accepted from all interviewed as an advantage. This defines also the answer whether the Greek firms have “long term considerations”. Again the answers do not vary a lot. They are estimated as high advantages for Bulgaria and Macedonia with average 4.7 and 4.6 respectfully, while for Albania the “long-term consideration” is estimated as good – 4.1.

As a whole it can be stated that the interviewed Greek firms estimate their advantages mainly in finding new markets, where the general possibilities for making profits are better than the ones in Greece, and because of that they have long-term consideration for their business. Ethnic and Cultural links and proximity are playing certain role for defining the environment for their business. They are approximately same for Bulgaria and Macedonia and are not so highly estimated when it comes to be defined as advantages for Albania.

The main advantages that the seven big Greek firms declared to have, compared with the firms from other EU countries, are related with the proximity and having common border, as well as because of knowing the conditions for business, the consumers’ behaviour and taste, which are close to the ones in Greece and having better knowledge of the local market. The ethnic existence “there are many Greek people in Bulgaria, existing of Greek community” is also outlined. Some firms outline also the existence of complementary between market and industries. Very interesting is that some firms point as an advantage the possibility to offer lower prices of the products because of the proximity and because of the standards in

³ The big Greek firms are quite well acquainted with the conditions in the neighbor countries, so they respond to the questions also for Macedonia and Albania.

Greece are lower than those in the other EU countries. Last but not least, the traditions in the bilateral relations (in the sense of good relations) are also shown.

Responding to the question about the disadvantages that the Greek firms have, compared with the other EU firms on the markets of Bulgaria, Macedonia and Albania, the answers are quite definitive and unanimous pointing to the financial conditions. Greek firms face difficulties in obtaining credits both from Bulgarian and Greek banks. It is outlined that the EU countries are favoured in this respect and have quite higher opportunities to use bigger investments and to realize economy of scale. Also it was outlined that in case of same prices the consumers prefer the EU goods instead of the Greek goods. This is due to the approximately low standards in Greece compared with the EU average and also the lower image that the firms have compared with the other EU ones because of that.

Important question giving a picture about the general performance of the business activity and its future expectations is the one for the plans of initialising and expanding the business further. All Greek firms intend to do that and the direction of this activity is mainly to the Balkan countries, on first place Bulgaria, from the other countries preferred are Macedonia and Yugoslavia but also Albania and Romania, as well as other Central and East European countries.

The long run strategy concerning Bulgaria, Albania and Macedonia is definitely expansion to Bulgaria and Macedonia, and with some reservation and waiting to Albania. The business they plan to initialise is related mainly with trade, both import and export, but import prevailing. The investments are connected with the privatisation process – understandably here the preferred country is Bulgaria but as partner is foreseen also Macedonia and Albania. Only one firm does not intend to invest in the future.

Greek firms are quite satisfied from the infrastructure in Bulgaria and Macedonia (answers no barriers for business or very slight barriers for the development of the business). They find that the infrastructure in Bulgaria is a little bit better than the one in Macedonia. Coming to Albania the answers are that it creates certain barriers and the infrastructure is not satisfactory. If we should look for a kind of differences in the answers for the infrastructure by sub-questions, it will be that the Greek firms are highly satisfied by the communications and the Internet connections, and not so much satisfied by the public transportation.

The trade conditions are also estimated as satisfactory, the interviewed are complaining from the tariffs and duties' fees mainly, and are mostly satisfied by the technical requirements. The average answer for Bulgaria is 4.1, while for Macedonia and Albania it is 4.3. This shows that the seven firms estimate the conditions of trade in terms of tariffs, quotas, duty fees as a little bit better in Macedonia and Albania compared with the ones in Bulgaria.

The Greek firms have no difficulties to start business in the neighbour countries (finding initial funds) – two answers no barriers at all and five answers not significant barrier to start business. Most of them point out the opportunities to access funding as a certain obstacle, problems that arise after initialising the business.

The seven Greek firms are not satisfied with the assistance for their business, provided by national and international organizations. They are completely not satisfied with the European (international) organizations, same is the picture with the national administration institutions, a little bit better is the situation with the

national business association, but again not satisfactory. They consider that they receive a little bit more information for Bulgaria, compared with Macedonia, and significantly less information for Albania. These are big firms that have access to a lot of sources, so the fact that they are not satisfied is very important.

Quite important are the answers concerning the general conditions of doing business in Bulgaria and neighbour countries. The general conditions cannot be a result of purposeful policy in the way that is for example the case of trading conditions. So it can be accepted that the general conditions are more or less exogenous factors with a long lasting effect, which determines the conditions for business activity. The importance of the general conditions is that they are a main factor for attracting or not attracting FDI. The general conditions for running business are quite different by countries (see Table 2.1, also Diagram 2.1. in the Annex).

Table 2.1

Average answers about the General conditions in the neighbour countries given by the interviewed big Greek firms in Bulgaria (the answers are ranged from 0 – they make the business relations impossible, to 5 – absolutely possible)

	Bulgaria	Macedonia	Albania	Average
Political stability	4.7	2.4	2.6	3.2
Corruption	2.9	2.7	1.6	2.4
Security	3.9	2.6	1.7	2.7
Changing of the rules	3.7	3.6	2.9	3.4
Income tendency	4.3	3.6	3.1	3.7
Inflation	5.0	3.6	2.9	3.8
Exchange rate	5.0	3.7	3.0	3.9
Stability of the bank system	4.7	3.6	2.3	3.5
Quality of the bank system	4.0	3.4	2.1	3.2
Labour protection	4.7	4.7	4.3	4.6
Average	4.3	3.4	2.7	3.4

Corruption, change of rules and security are estimated as factors creating certain barriers for the business in Bulgaria. For Macedonia the political stability, security and corruption are the factors that definitely are barriers for the development of the business. For Albania all the factors are seen as creating serious barriers. Corruption and security are on first place, followed by the quality and stability of the bank system and political stability. The only factor, which does not create visible barriers is the labour protection.

Obviously Bulgaria, with the Currency Board and enjoying political stability, actually does not create barriers for the business – the only factor that really creates obstacles for the business is the corruption. Macedonia has problems with political stability, corruption and security but also with the quality of the bank system, the inflation and the exchange rate. Albania is seen as a real risky country that created in all respects serious barriers for the development of the business.

The average results for Bulgaria, Macedonia and Albania determined the region as creating barriers for the business mainly with the corruption and security. Second is the quality of the bank system and the political stability.

To the question "Count up the main advantages and disadvantages of the tax system" the answers differ a lot. Starting with the disadvantages, on first place are put: high VAT; uncertainty of the customs regime; no tax preferences and tax vacation; no stimulus for import of machines and new technologies; social insurance is very high; some firms avoid taxes illegally, which leads to disloyal competitiveness; different attitude to different firms, which means corruption.

As main advantages of the tax system are shown: the tax of the profit is low and is going down; there are no restrictions for the repatriation of the profit.

As a whole the interviewed firms find that the tax system is very high but more interesting is the fact that they find different attitude to the different firms, which creates disloyal concurrence and corruption. The policy-makers in Bulgaria should look for more stimuli for the foreign firms since the disadvantages prevail a lot.

To the question "Do you think that in Bulgaria and in the neighbour countries the legislation is favourable for your business?" the firms are quite definite that to a certain extent it can be accepted as favourable and that in the last year the changes of the legislation are in a direction, which somehow simplifies the business. More firms in this statement are for the positive changes in Macedonia, where the changes in the last years simplify the business. The answer concerning the possible changes in the legislation is also certain – at the moment the legislation needs changes and these changes should be related with its adaptation to the EU legislation system.

The seven firms are very well acquainted with the competitors and the clients on the market of Bulgaria and Macedonia; the answers with one exception are that they know them perfectly. The competitors and clients in Albania are not so well known, although the answer in general is that they have some information.

The attitude in the neighbour countries to the interviewed persons as a businessman can be estimated as excellent – six from the seven answers give the higher range 5 for Bulgaria and only one – 4. The attitude in Macedonia is also very good to excellent, while in Albania it is very good. All this shows that in Bulgaria as well as in the other countries the Greek businessmen face a very friendly environment for their work.

It is interesting to present the final opinion, which the firms express about what is important for their business in the SEE – with some slight shortening their opinion is presented below:

First firm – production of clothes and confection:

Advantages for Bulgaria are the approximately cheap labour with good quality, stable financial conditions, and no inflation. The fact that the local currency (Bulgarian Lev) is pegged to the DM is very important. Through Bulgaria they have access to other markets – for example they export to Macedonia through Bulgaria not through Greece. Also, being in Bulgaria, they have also access to other big markets.

Second firm – trade with agriculture products, food for animals, flower, etc.:

It is important for the investors to come to Bulgaria prepared not to have illusions (over-expectations), because they will be disappointed. One should have a realistic view of the environment. It is very important to look for collaboration with local

specialists who know the economic situation, the market, etc. One should make preliminary investigations before starting the business. The form for entering the market is joint venture with Bulgarian participation, and then the business will be profitable, because the Bulgarian contractor has a strong motivation.

They look for collaboration under the EU programs and other international initiatives that supported the investments (for example SAPARD). They oriented to programs sponsored by the Greek State or EU (which are for Greece) in order to start production in Bulgaria, not only trade.

Advantages for Bulgaria are the approximately cheap labour with good quality, stable financial conditions – the fact that the Lev is pegged to the DM, no inflation (which is very important), access to big markets when using the agreements for world trade.

Third firm – production of croissants and other food:

The business in Bulgaria is successful when it is a result of good market strategy and lower production expenditures. Great advantage is the low price of the labour – 40% of the one in Greece, which makes the product cheaper.

In general the final price is lower than the one in Greece, which makes the products competitive.

Fourth firm – production of aluminium profiles and trade with goods from non-ferrous materials:

The investments in Bulgaria are successful due to the fact that the firm exported more than 70% of the production and at the same time fully covers the internal demand. They are friendly accepted in the country and have optimistic projections for the business in the region. It is necessary the control to be stricter on the border as well as the tax control, from which the state will benefit also.

They are satisfied with the infrastructure.

It is necessary to work in direction towards obtaining loyalty in the competitiveness.

Fifth firm – computer systems, hardware, Internet and other services:

For their business it is necessary to have clear rules and suitable legislation, which to be followed. The agreement for the association with EU, where the duties for the manufacturing goods do not exist, is a great advantage. It can be good if there is a special agreement for the high technologies too.

The market in Bulgaria and the neighbour countries is still narrow, but is extending with the time and the consumers become more and more informed. There are many very good specialists in Bulgaria, which is a great advantage but there is not an adequate policy for stimulating the activities.

Sixth firm – trade with furniture (office furniture mainly):

For their business, but also for the foreign investors in principle, it is important to have stable environment. The political stability for the business is quite important because it is prerequisites for economic stability. For example what happened in Macedonia acts very negative on the investments in the whole region and on the business.

Their activity is successful when the economic relation is successful and the private business extends. Their expectations are for raising the demand (but not very much because of competition's rising). In the last period a kind of stagnation is observed, which they hope will not prolong.

Seventh firm – trade with food and consumer's goods – cash & carry:

Important for the business in Bulgaria and in the neighbour countries is to prove that your intentions are serious, and you will make a long lasting investment. In the first years in Bulgaria invest not serious Greek businessmen and a lot of small firms, which were negative for the image of the Greek investors. It is important to follow the regulations in the country and to have respect of the authorities, so to obtain mutual trust. A problem they suffer a lot is the bureaucracy but such exist also in Greece. They are optimists for the future of the firms and have projects for extending the activity.

3. Survey in Macedonia

In May 2001 five big Greek firms in Macedonia operating in the country were interviewed. The results are based on four of the interviews because we excluded one – for certain reasons the answers we consider biased.

The activities of the firms are as follows: production of oil and oil derivatives – operating in Macedonia since 1999; meat and meat products producer – operating in Macedonia since 1996, in this business since 2000; retail trade chain – operating in Macedonia since 1996, in this business since 1997; milk and milk products, trade with ice-cream in Macedonia – operating in Macedonia since 1996, in this business since 2000.

All the interviewed are on managerial positions. All four firms have headquarters in Athens. Three of them are joint-stock companies and the fourth is a limited liability company. It is interesting to note that interviewed representatives of the firms are highly satisfied with their business in Macedonia. Three of them (75%) think that their situation is very good, and one (25%) – good. They are also highly optimistic about the future performance of their firms in Macedonia. Three firms (75%) expect "better" performance in the following year, and one firm (25%) expects "much better" performance.

The interviewed firms orient their sales to the Macedonian market. In addition, at the same time they are present on the Yugoslavian market (including Kosovo). Speaking of Yugoslavia, these firms purchase significant share of their inputs from Yugoslavia. For example, two firms almost exclusively obtain their inputs from Yugoslavia, one relies on the home country, Greece, buying 75% of the inputs there, and only one purchases a significant share of its inputs in Macedonia (75%). The interviewed firms cite the following main obstacles to their business: bureaucracy procedures; political instability in the region; grey economy; inadequate legislation; high customs duties.

One of the most important advantages for the Greek firms being present at the Macedonian market is the opportunity for expansion on a new market – average answer 4.25. They also value very high "long-term considerations, meaning that they plan to stay at the market for a longer period" – average answer 4.25. Ethnic, cultural, linguistic links are estimated very low – only 1.75, and proximity and easier

profits than domestic ones – also 2.5. Obviously Greek firms still have some reservation concerning the Macedonia due to the former political contradiction (this mark for Bulgaria is 3.7).

Greek firms' advantages, compared with their rivals from other EU countries in terms of their presence at the markets in Macedonia, Bulgaria, and Albania, are mostly related to proximity, traditional cooperation, familiarity with Greek products, and the possibility for further expansion in the region. Greek firms have not replied to the question related to possible disadvantages compared with the firms from other EU countries. This might mean that their advantages are overwhelmingly higher than the disadvantages.

As mentioned previously, Greek firms in Macedonia mostly interest in the expansion on the Yugoslav market. This might be due to the size of the Yugoslavian market and traditional ties between Greece and Yugoslavia in the past. While Yugoslavia is the most preferred country for expansion of the Greek firms already presented in Macedonia, the region of South East Europe is where they have put their intentions for regional expansion in the future. The long-term strategy of the firms is clearly an expansion. Greek firms plan to expand trade as type of business in Macedonia.

In terms of infrastructure in Macedonia as a possible barrier for development of their business Greek firms have some complaints about the roads – average answer 3.75. They are highly satisfied by post and telecommunications – average answer 4.75, and a little bit less but also highly satisfied by railways, public transportation and Internet – average answer 4.5.

Regarding the trade conditions as a barrier for the development of their business in Macedonia, the interviewed Greek firms complain more of tariffs and quotas (limited quantities), and less of duty fees and technical requirements. Actually, in their opinion, tariffs represent a significant obstacle for trade (for 50% of the firms); technical requirements are not so relevant barrier (for 75% of them, the technical requirements are some kind of barrier, but they can be overcome).

The financial conditions in Macedonia for development of business do not create barriers, which cannot be overcome. Greek firms in Macedonia are relatively satisfied with the local tax system. 75% of them claim to be "satisfied to a certain extent", and 25% of them are not satisfied. In addition, they enjoy significant tax concessions under the Macedonian tax law, such as three-year tax vacation for new investment.

The four Greek firms in Macedonia are not satisfied with the assistance (information, financial assistance, etc.) they receive from their national business associations for the development of their business in Macedonia. They are more satisfied with the assistance they receive from the national administration (government) in their home country, and especially from the European (international) organizations.

The general conditions for running business in Macedonia are seen as relatively good. The interviewed Greek firms are not satisfied mostly with the current corruption and the changing of the rules. In their opinion, concerning to the inflation, income tendency, stability and quality of the bank system, there are not any serious complaints.

Table 3.1. compares the answers about the general conditions for running business in Macedonia of the Greek firms, interviewed in Macedonia and Bulgaria.

The Greek firms in Bulgaria are more optimistic about the general conditions in Macedonia. They probably are overestimating only the security and the inflation as barriers. According to the four Greek firms, the legislation in Macedonia, to a certain extent, is favourable for their business (75% of the firms hold this opinion). All of them are aware of the changes that have been made for the last 5-8 years in the legislation in Macedonia in its part for the foreign business activity. However, one half of them find these changes as such that favour and simplifies their business, and the other half find the changes as favourable to a certain extent. In addition to the previous, all interviewed Greek firms support the need of changes to be in accordance with the EU legislation system.

Table 3.1

Average answers about the General conditions in Macedonia from the interviewed Greek firms in Macedonia and Bulgaria (the answers are ranged from 0 – they make the business relations impossible, to 5 – absolutely possible)

	Interviewed in Macedonia	Interviewed in Bulgaria	Average
Political stability	2.0	2.4	2.2
Corruption	1.5	2.7	2.1
Security	3.0	2.6	2.8
Changing of the rules	2.5	3.6	3.1
Income tendency	3.8	3.6	3.7
Inflation	4.2	3.6	3.9
Exchange rate	2.8	3.7	3.2
Stability of the bank system	3.0	3.6	3.3
Quality of the bank system	3.0	3.4	3.2
Labour protection	3.2	4.7	4.0
Average	2.9	3.4	3.2

Almost all Greek firms know perfectly the competitors in their business in Macedonia (75%). Concerning their clients in Macedonia, they know them either very well (50%), or perfectly (50%). In their opinion the main competitors in Macedonia are local firms only.

Half of the interviewed managers thought that the general attitude in Macedonia to them as businessmen is excellent, the other half of them judge the general attitude as good. This shows that they enjoy quite a friendly environment in Macedonia. The managers of the four Greek firms are mostly satisfied with the existing knowledge within their firms concerning management methods, and accounting and finance. They find that their knowledge on marketing methods and the operation of the firm is not so good.

4. Survey in Albania

The survey on the big Greek firms in Albania has been carried out in the district of Korca (5) and in the city of Tirana (1). The district of Korca is preferred place for the big Greek firms because of its closeness to the Greek border. One of the specificity of the Greek investments in Albania is this, for different reasons, one of which is the Greek minority in Albania – they are concentrated in south Albania, the area bordering with Greece.

The activities of the firms are as follows: cloth production for children – operating in Albania since 2000; soft drinks – operating in Albania since 1996; production of cloths – operating in Albania since 1994; production and trade with furniture –

operating in Albania since 1993, in this business since 1995; trade – operating in Albania since 1995, in this business since 1999; fitness articles – operating in Albania since 1993.

Most of the foreign companies operate in Albania since 1993 and on. This is related to the fact that in 1993 a more liberal law concerning foreign investments was passed.

The managers' understanding of the firms' performance is positive and their expectations for the future are also definitely positive. They estimated their on-going activity as good. While as for the future, four of the managers say that they expect better development than this year, while two foresee same performance.

The sales of these firms go towards Greece (three firms with 100% and one with 30%) and to Albania (two firms 100% and one with 70%). The supplies for the firms come mainly from Greece. The direction of sales and supplies shows clearly the inter-relation between the direct foreign investment and the export-import.

The main hindrances encountered by business in Albania according to the interviewed managers are the dishonest competition, power cuts, low level of banking system services, as well as the lack of information of legislation, but also the cut of the electricity.⁴

Concerning the real advantages the firms see for their business in Albania, they give the following answers. New markets/opportunities – on average the answer is 4.2. Ethnic, cultural, linguistic links in general receive positive estimations, the average answer is 3.7. Proximity is valued on average 3.7. Easier profits than domestic are on average 3.4, while for long-term consideration this level is 3.8. Obviously all of the advantages are estimated positively and approximately equal. If we should outline some of them as higher, it will be the one of new markets and opportunities, as well as the long-term consideration, and to a certain extent also proximity.

The main advantages the Greek firms enjoy when making business in Albania are: profit thanks to low cost labour, market demands for these products and services, close distance to the markets. Some of the disadvantages are: dishonest competition, low banking system services, decrease of demand due to the migration of the population, the low income per capita of the population.

In five of the firms the managers plan to definitely enlarge their businesses in Albania, while one firm plans to remain at the same level. The managers foresee their potential markets mainly in Greece and other EU countries, but two of them also pointed the Balkans countries.

The long-term strategy of the interviewed firms in five cases is "expansion" and in one case - "survival". These answers show the positive expectation for the future development of the Greek firms in Albania, since the policy of most of them is expansion. This expansion the interviewed managers foresee to realize by enlarging the trade, both import and export – three of the firms, while two firms plan to create new enterprises. Three of the firms foresee to make investments for the modernization of the technology.

The main reasons to start a business activity in Albania results to be the low labour cost, larger profit than in Greece, the Albanian market demand and the qualified

⁴ In Albania there is permanently a shortage in electricity supply, which sometimes, as in this year, leads to everyday cuts during the daytime.

Albanian labour force, as well as the fact that in Greece there is a lot of competition, while in Albania they do not face a serious competition at this stage. The infrastructure as a hindrance for the development of business in Albania is presented in details as follows. The roads are estimated in three cases with 4, in two cases with 5 and in one case with 1, on average 3.8, which shows that it is not accepted as a serious hindrance. The reason to obtain this approximately high estimation is related to the fact that most of the firms have trade relations with Greece, and since Korca is a city bordering close with Greece, they do not face serious infrastructure obstacles. The firm, which gives the lowest mark 1, deals with the production of furniture and uses internal roads of the country. The same is the situation with the answers also for the railways as a barrier. The average is 4.7, which means no barriers at all, but this level does not correspond to the real situation of the railway services. This can also explain one of the reasons why the Greek firms prefer to establish their business in south Albania closer to the Greek border.

Concerning the postal services the average level is 4.5, telecommunication is estimated on average 4.2, which means that postal services and telecommunication are not hindrance for the business of the interviewed firms. Public transportation is also no hindrance to the development of the businesses, since on average the level is 4.8, but again this can be explained with the fact that the firms do not use it. While as for the use of Internet there are two extreme estimations – four firms estimate equal to zero and two with 5. This is because there is no Internet connection in the city of Korca.

Another hindrance is the regular power supply. Two of the interviewed firms have expressed this as a serious barrier for running business. Obviously the infrastructure is a serious obstacle for developing the business, and the fact that some firms find out a way to adjust to it only proves this.

Concerning the trade conditions, the managers express quite a moderate hindrance for the development of business in Albania. The levies are estimated on average 3.8, the quotas respectfully with 4.8. Likewise, duty fees are not a hindrance – average 4.5, as for technical demands – average 4.3.

Concerning the assistance the firms receive for the development of their business by institutions in Albania, there are different estimations. National administration is estimated with all the marks – average level 2.3. The national associations have obtained approximately the same estimation – average level 2.2. While EU and international organizations are estimated on the two poles – with 5 in one case, with 4 in two cases and with 0 in one case – on average 2.8 (one firm does not respond). This contradiction somehow shows the differences in the understanding of the managers what they can expect and what assistance is possible to be provided by the international and national institutions in Albania.

The general conditions are a serious barrier for running business in Albania (see Table 4.1.). On first place is the corruption, next is the changing of the rules, followed by the political stability, income tendency and the security. Exchange rate, stability of the bank system are conditions that are foreseen not to make serious hindrance. This is due to the improvement of the macroeconomic indexes in Albania since 1998.

The two estimations are quite close. The interviewed in Bulgaria see the security, inflation and the bank system as higher barriers, while the corruption, changing of

the rules, income tendency and labour protection are probably underestimated as a barrier. As a whole the general conditions are serious obstacles for running business in Albania.

Interesting is the comparison by countries of the question "How profitable is your business and how important are the general conditions for the developing of your business?" In Bulgaria the interviewed find that their profits are less than the ones they can realize in Greece. In Macedonia the interviewed declare that the profits are the same as in Greece, and here in Albania the interviewed estimate them as more profitable than the ones they can realize in Greece. These differences by countries somehow corresponded to the estimation of the general conditions as a barrier. Bulgaria with the most favourable general conditions is less profitable, while Albania, where the general conditions make the business most risky, the investments are most profitable.

Concerning the legislation in Albania, the managers find that it is favourable in five of the six cases and all of them agreed that the changes in the last 5-8 years are positive for his business. Their understanding is that the legislation should be adopted in accordance with the EU system.

The largest part of the firms gives relatively good estimation for the recognition of competitors and clients. Only one firm, created recently, in April 2000, gives the lowest estimation. The main competitors for the Greek firms are mainly the EU companies and the Greek ones. Only in one case the local firms are mentioned. The attitude towards the Greek businessmen in Albania is estimated in three cases with 5 and in another three cases with 4, which shows quite a friendly environment.

Table 4.1

Average answers about the General conditions in Albania from the interviewed Greek firms in Albania and Bulgaria (the answers are ranged from 0 – they make the business relations impossible, to 5 – absolutely possible)

	Interviewed in Albania	Interviewed in Bulgaria	Average
Political stability	2.7	2.6	2.6
Corruption	1.0	1.6	1.3
Security	2.7	1.7	2.2
Changing of the rules	2.3	2.9	2.6
Income tendency	2.7	3.1	2.9
Inflation	3.3	2.9	3.1
Exchange rate	4.2	3.0	3.6
Stability of the bank system	3.8	2.3	3.0
Quality of the bank system	3.0	2.1	2.6
Labour protection	3.3	4.3	3.8
Average	2.9	2.7	2.8

The most important opinions of the managers concerning the activity of their businesses in Albania may be grouped in the following way – exploitation of the advantages in the taxation system, the high quality of products that compete on the market, the relatively good qualifications of the workers, etc. While concerning the remarks, it is highlighted that the check in customs must be empowered more, the legislation must be well understood and properly implemented by all the relevant bodies, and infrastructure must be improved especially concerning the normal uninterrupted power supply.

5. Survey in Greece

Ten big Greek firms operating in Greece were interviewed in Thessaloniki in April – May 2001. The interviewed persons are managers, trade and sales directors, and managers of the export, all of them well acquainted with the activity of their firms.

The headquarters of the Greek firm are located in Thessaloniki, some of them also in Athens and in different towns in the neighbour countries.

The activities of the firms are as follows: production of natural juices – operating since 1993, in this business since 2000 (production in neighbour countries); trade with electric truck, parts for electric trucks, construction – operating since 1993, in this business since 1995; sugar articles – operating since 1977, in this business since 1991 (trade with neighbour countries); sea transport – operating since the beginning of 90s; export of spirituous beverages – operating since 1970, in this business since 1990 (trade with neighbour countries); restaurants – operating since 1992, in this business since 1993; fashion confection, clothes – operating since 1991; aluminium profiles and aluminium articles – operating since 1937; tobacco manufacturing – operating since 1997; production of yogurt and ice cream – operating since 1993.

The type of ownership of the firms is mainly joint stock company (seven from the firms), two are subsidiaries – with Denmark and Bulgaria, and one company with Limited Liability. Eight of the firms are 100% owned by the Greek side, two are joint ventures.

The interviewed persons estimate the performance of their firms very positive. 70% of them answer with very good and the other 30% - with good. The future expectations are also quite favourable – 80% expect that the performance will be better than this year, one firm expects the performance to be “much better than this year”, and one firm expects “same as this year”.

Obviously the neighbour countries start to play a serious role in the economic relations of the big Greek firms – 16% of the sales go to the neighbour countries, and which is more important, 12.5% of the supplies come from there (see Table 5.1., see also Diagram 5.1. in the Annex). This accounts that 40% of the sales outside Greece are directed to the neighbour countries, 15 percentage points from them – to border regions. Which is more important, 44% of the supplies coming from the foreign countries have their origin in the neighbour countries, half of this is from the border regions of the neighbour countries. This shows the role that the neighbour countries play for the Greek firms in northern Greece, as well as in the border regions.

As main obstacles for the business in neighbour countries the Greek firms show the state bureaucracy, unstable economic environment, disloyal competition and lack of market regulation, high taxes and lack of concrete incentives for attracting foreign investments. An obstacle for developing business in the neighbour countries in transition is also the low purchase ability of the population, coming from the low level of incomes. Also mentioned are the permanent changes of the regulations and the laws, the corruption, undeveloped infrastructure, poor economic culture and the state of the bank system. These obstacles are revealed to different extent in the different countries.

Table 5.1

Directions of the sales and the supplies of the interviewed firms in % of total sale
and supply

Firms	Greece		Neighbour countries				Other countries	
	sales	supplies	sales	incl. sales in border regions	supplies	incl. supplies from border region	sales	supplies
1	30.0	80.0	30.0	10.0	0.0	0.0	40.0	20.0
2	40.0	25.0	12.0	3.0	45.0	20.0	48.0	30.0
3	60.0	80.0	20.0	5.0	5.0	5.0	20.0	15.0
4	10.0	5.0	10.0	5.0	5.0	0.0	80.0	90.0
5	17.0	100.0	8.0	2.0	0.0	0.0	75.0	0.0
6	90.0	85.0	10.0	0.0	10.0	0.0	0.0	5.0
7	30.0	57.0	30.0	10.0	3.0	0.0	40.0	40.0
8	30.0	60.0	10.0	0.0	2.0	0.0	60.0	38.0
9	45.0	40.0	20.0	15.0	55.0	35.0	35.0	15.0
10	90.0	70.0	10.0	9.0	0.0	0.0	0.0	30.0
Average	44.2	60.2	16.0	5.9	12.5	6.0	39.8	28.3

Ranking the possible advantages (from 0 – no advantages to 5 – high advantages) the aggregate picture is – new market and possibilities – average 4.4, ethnic, cultural, linguistic links – average 3.4, proximity – average 3.6, easier profits than domestic – average 2.3, long-term consideration – average 4.6. The interviewed see highest advantages in the new markets and in the long-term consideration for the region, proximity and ethnic, cultural and linguistic links obviously are understood also as advantages, the less ones are the easier profits than domestic. It can be said that the economic relations that the Greek firms establish in the neighbour countries are not motivated by the easiest profits – always the easiest profits are related with short-term consideration, the neighbour countries are foreseen as a goal for long-term policy of business development.

The advantages the Greek firms have on the SEEC's market, compared with the EU, most often are connected with the closeness to the countries and the presence of a mutual border, which is connected directly with the lower transport costs and to a great extent with the knowing of the specificity of the market (consumers and competitors), economic environment, etc. Another competitive advantage the Greek firm have is the opportunity to offer lower prices than the EU firms because of still existing difference between the standards of Greece and the other EU countries and the opportunity of the Greek manufacturers to produce at lower cost because of this.

As disadvantages of the Greek firms, compared with the other EU countries, are mentioned mostly the lower development of the technologies and the limited opportunity for investments, compared with the developed EU firms. Another disadvantage is the lack or insufficient support by the state institutions in Greece for helping the development of business in neighbour countries. For example, mentioned is the insuring of the export and giving credits as less beneficial for the Greek firms than the other EU firms. Some of the firms do not mention disadvantages, stating that their level is European and there is no difference between them and the EU firms.

The businessmen, representatives of large firms, estimate highly for their firms the advantages from the business in the neighbour countries. These advantages are evaluated mostly in long-term plan, and this responds to the strategy the firms follow in the neighbour countries. The large firms have lasting interests in the region and follow a long-term entering strategy with differentiated product and price policy. The business and investments in the neighbour countries for the most firms are less beneficial than in Greece, counting on bigger return in the future.

Most of the firms consider all countries from the region, especially the neighbour countries, as potential markets. This means that the cross-border economic relations become more and more important for the trade economic relations and the firms' strategies for expansion of their activity. To the question "What is your long-term strategy to the neighbour countries?" – all firms without exception declare expansion.

They intend to realize this policy through trade expansion – 90% of the firms, buying new enterprises – 60%, buying through privatisation – 40%. It is quite interesting to juxtapose these intentions with the answer to "How do you estimate your business in the neighbour countries?". Only one firm declares that the business is more profitable in the neighbour countries than in Greece. Two of the firms declare that it is as profitable as the one in Greece, and seven from ten declare that for the time being it is less profitable than the one in Greece. Obviously the future expectations for the interviewed firms are that the conditions of the economic relations and the possibilities will rise when acting in the neighbour countries.

Concerning the infrastructure as a barrier for development of the business in the neighbour countries, the interviewed are not fully satisfied of the railroads, roads and the public transportation. The communication, including access to Internet, is not foreseen as a serious obstacle at all.

From the trade conditions the main obstacles for the Greek firms are the high tariffs – average answer 2.9, and duty fees – average answer 3.2. The quotas and the technical requirements are not accepted as barriers – 4.2 and 4.4 respectfully.

Finding funds for initialising a business in the neighbour countries is not shown as a barrier – average mark 4.2, but the chances to access financing create difficulties, here the mark of the average answer comes to 2.1. Most of the firms also show other obstacles that they face concerning the financial conditions – high price of the credits, stability of payments, difficulties with non-cash payments or lack of electronic payments.

The firms do not think that they receive sophisticated assistance from the national administration, national business associations and European organizations for the conditions and opportunities for economic relations in the neighbour countries. Although, they are more satisfied from the national business associations.

When identifying the barriers, the businessmen meet difficulties to generalize the conditions for all three mentioned countries and have answered for the countries, for which they have impressions from the developed activity there. They outline the corruption as a big obstacle in the three countries. Interesting is that in the large firms it is a problem for development of their activity to a bigger extent than in the small and medium-sized enterprises. This is natural, since the large enterprises are more dependable on state bodies and decisions for making investments and developing their activity. Other outlined obstacles are connected with the general

economic conditions (inflation, foreign exchange rate, income trend, etc.) in the countries. Here the firms make a difference between the state in Bulgaria and the one in Albania and Macedonia. Interesting is also that the financial conditions in the countries are more important for the large firms than for the small ones, since the first ones operate with larger funds and use credits more often. As "other financial conditions" are mentioned quality of the bank services, state and stability of non-cash and electronic payments, prices of credits.

Without exception the marks for the general conditions as barriers of the Greek firms, interviewed in Greece, are below the average ones for the firms, interviewed in Bulgaria, Macedonia and Albania (Table 5.2., see also Diagram 5.2. in the Annex). The differences between Bulgarian and Greek marks are very high. This means that the general understanding of the conditions between the firms operating in Bulgaria and those operating in Greece are on the two poles. For Macedonia and Albania also exist differences but not so high. It can be said that the image of the SEEC within the Greek firms operating in them is better than the one they have in Greece. This is also a matter of country policy to improve its image and this concerns mainly Bulgaria. Highest differences are observed for the bank systems where it is naturally the firms that operated in Bulgaria, Macedonia and Albania to be well acquainted so the matter comes probably to the inertia in the image. The same is the situation for the security, inflation and exchange rate.

Concerning the estimation of the tax system, there is not a unified opinion about whether the tax stakes are high – some consider them high and think they should be reduced for the producers, and there should be a tax vacation for the new investments. Others think that the tax burden is the same as in their country and this is not an obstacle for them. But a problem for all is the avoiding of taxes and duties, which sets them in conditions of disloyal competition. They outline that the corporation tax is lower than the one in Greece, which they point as advantage.

Table 5.2

Average answers given by the interviewed big Greek firms in Bulgaria, Macedonia, Albania and Greece (the answers are ranged from 0 – they make the business relations impossible, to 5 – absolutely possible)

	Bulgaria	Macedonia.	Albania	Average (1+2+3)/3	Greece	4 - 3
	(1)	(2)	(3)	(4)	(5)	(6)
Political stability	4.7	2.0	2.7	3.1	2.7	0.4
Corruption	2.9	1.5	1.0	1.8	1.6	0.2
Security	3.9	3.0	2.7	3.2	2.3	0.9
Changing of the rules	3.7	2.5	2.3	2.8	1.8	1.0
Income tendency	4.3	3.8	2.7	3.6	3.2	0.4
Inflation	5.0	4.2	3.3	4.2	2.9	1.3
Exchange rate	5.0	2.8	4.2	4.0	3.1	0.9
Stab. of bank system	4.7	3.0	3.8	3.8	2.5	1.3
Quality of bank sys.	4.0	3.0	3.0	3.3	1.8	1.5
Labour protection	4.7	3.2	3.3	3.7	3.4	0.3
Average	4.3	2.9	2.9	3.7	2.5	1.2

Some of the firms suggest when the matters come to establishing new production that is producing Value Added, at least in the beginning tax concessions to be provided. Also shown is lack of mechanisms for attracting investments by tax concessions, there are not such for import of machinery – in Greece they both

exist. There are relatively high excise duties for the level of the incomes of the consumers.

Obstacles for them are the firms avoiding illegally the taxes and the tariffs. In this way they are facing not loyal concurrence. They point out that the tax system is more appropriate in Macedonia for the foreign investors – they can use tax vacation of three years, preference import of new machinery, technology, etc.

Concerning the legislation regarding the investments, according to the interviewed large firms, the disadvantages are lack of incentives for new businesses, for import of new technologies, etc. Here the Bulgarian legislation is stated as most unfavourable for the foreign investors. For example, for Macedonia as positive is mentioned the duty free import of machines and technologies, as well as the tax vacations for the foreign investors, which do not exist in Bulgaria.

The Greek firms think that the legislation in the neighbour countries is not too favourable for them, especially the one in Bulgaria and they do not see significant positive changes in the last 5–8 years. Though, in general the direction of the changes is favourable for the firms, once again especially in Macedonia and Albania. The suggestion they make is that the legislation system needs changes in accordance with the EU legislation system.

All the firms know well their clients and competitors. The latter are shown as local firms – 3 times, Greek firms – 3 times, other EU firms – 4 times, and other – 5 times. It is obvious that the geographical distribution of the competitors to the big firms is quite high if we compare it with the SME.

The general attitude in the neighbour countries is quite friendly, the average mark comes to 4.5 – somewhere between good and very good.

It is quite interesting to present the results about the final general opinion of the interviewed.

First firm - production of natural juices:

For the time being they are satisfied with their investment in the neighbour countries. More important for them are clear rules for the business, they prefer to be equal with the other investors, but to have certainty, and not to be depended on the government or politicians. Big problem in the transition countries is the bureaucracy, which created corruption, but they are optimists, they think they made the right decision when they invested in neighbour countries.

Second firm - trade with electric truck, parts for electric truck, construction:

There are no organizations in the neighbour countries that really represent the business in them like in Greece – Union of the Industrials in north Greece or Union of the Exporters in north Greece. The business is not so active as the one in Greece.

Nevertheless the neighbour countries are the natural trade partners of Greece, especially of northern Greece.

Third firm - sugar articles:

For the successful development of the trade with the neighbour countries clear regulations must exist – that is what the business wants - not to have non-tariff

limitations. The rules of the WTO must be followed for liberalization of the trade. They are satisfied with their business in the neighbour countries, but there are more things to be desired – infrastructure, incomes, etc. Still the region is concerned as risky for investments and trade. For example the export insurance is very high, which is unfavourable. The investments also required great funds for their insurance.

Fourth firm -- sea transport:

Firms, with which they operated in the neighbour countries, are characterized with great independence, they work as local firms, with entirely local personnel, which is important for knowing the conditions in certain country. Neighbour countries are important markets, because they are transport junction in the region and are the ports for Europe and Asia.

Fifth firm -- export of strong beverages:

Neighbour countries are important markets, which will not be neglected. In the neighbour countries the competition is getting stronger, from local as well as from EU firms and other foreign firms, which leads to the improving of the quality. In the beginning the quality was not so important but the prices, now the quality is on first place.

Sixth firm – restaurants:

It is important to have loyal competition and the state (state authorities) not to create obstacles to the business. The business in the neighbour countries is in close connection with the state, and still, there are things that can be changed in order to have free development of the business. In order to initiate business (new enterprise, etc.) one should look for connection (personal) with the authorities – this should be changed. For the time being in the Balkan countries the level of the purchase power is very low and the investments are not quite profitable, but this is the time to enter in these markets.

Seventh firm -- fashion confection, clothes:

To run business in the neighbour countries the firm should have high adequacy and flexibility, because the conditions are not typically market ones like in the developed countries. If the firm survives after the frequent changes in the regulations, this is half success for the business in the transition countries. Great obstacles are the uncertainty and crime. Still the business in the neighbour countries is not as profitable as it should be. In the very beginning, in the 90s, when the people had earnings, the entering of the business was very successful, after that they are in a “survival regime” and now they wait to extend their sales and to increase their activity. There is no middle class in the country, which can be the main consumer of its production. There are very rich people, who buy from well-known brands, and very poor people, who buy low quality and cheap articles. There should be a middle class.

Eighth firm -- aluminium profiles and aluminium articles:

Positive for the firm:

1. Price of the labour is still low, which makes the production competitive – in neighbour countries the labour price is approximately 40% of that in Greece.
2. Approximately liberal trade regime and wide access to external markets.
3. Rising of the economic culture, which is a positive sign.

Not favourable – bureaucracy, high interest rate of the credits, not enough developed market mechanisms. No existence of functioning unions likes in Greece.

Ninth firm - tobacco manufacturing:

They estimate their investments in Bulgaria and Macedonia as a good move, they foresee real benefits from cross-border cooperation – lower expenditures for labour, lower expenditures to rent and to buy real estate. They think that in Bulgaria the importance of the FDI is underestimated. Positive is the stability of the economic environment and the currency board in Bulgaria – they lost a lot from the inflation in 1996-1997. There is still a lot to be done in limiting the bureaucracy, corruption, as well as in the legislation in its part for the FDI.

Tenth firm - production of yogurt and ice cream:

Uncertainty and low incomes make the business difficult in Macedonia and Albania, but they see changes in the last period. The infrastructure is also important for them – in Albania the roads are awful. There is also high corruption within the customs authorities. In Bulgaria they face very strong competition from local firms for the yogurt and from Greek firms for the ice cream.

Despite the difficulties the Greek investors face in the neighbour countries, they estimate their entering on the neighbour markets as a good move and they are optimists in mid-term and long-term plan.

6. Summary and Policy Implications for Cross-Border Cooperation

All interviewed representatives of big Greek firms operating in SEEC in transition, as well as in Greece, estimate the general performance of their firms as very good, they are also highly optimistic about the future, expecting that the presentation of the firms will improve. This is proved also by their intentions for future development that are definitely connected with expansion. This expansion is considered to be provided as a long-term policy for the region.

Almost all Greek firms know perfectly their clients and competitors, they know quite well the SEEC' market conditions, which definitely gives them advantages, compared with the other EU firms. One of the reasons for this is that they find the conditions in the SEEC quite similar to the ones in Greece.

They think that they are very well accepted as businessmen, which helps them to work in a friendly environment. For their business the political stability is important, because it is prerequisites for economic stability, "for the foreign investors in principle is important to have stable environment". They find that what happens in Macedonia will act negatively for the business and the investments in the whole region.

Greek firms accept the general conditions for trade and other economic activity as favourable and satisfactory, this is valid especially for their production in the neighbour countries, where the final price is definitely lower than the one in Greece, which makes the products competitive.

The firms self-estimate their knowledge concerning management and marketing methods as high. Here should be outlined some differences between the countries. According to the provided interviews the firms in Bulgaria declare they are more matured. Their answers show that they should have a little bit higher knowledge of management, compared with the Greek firms in Macedonia, knowledge that is significantly higher than the one the Greek firms in Albania declare to have.

These differences can be related with the ranking of the advantages that the firms foresee from their operating in neighbour countries. While the firms in Bulgaria outline definitely the long-term consideration on first place as advantage, something valid also for the firms in Macedonia – the easiest profits than domestic – is almost assessed as the same advantage for the Greek firms in Albania as the long-term consideration. Actually the firms in Albania estimated their profits as higher than the ones in Greece, in Macedonia they find them the same as in Greece, while in Bulgaria they estimate them as less than in Greece.

These differences can be related also with the role, which the general conditions for the business play. In Bulgaria the general conditions are most favourable, compared with the other countries, which attracts more mature firms that have definitely long-term consideration and for which the easiest profits than domestic are not so important, having in mind also that the easiest profits as a rule can be short-term advantage. In Albania the general conditions are estimated as making serious obstacles, which makes investments risky, because of that the weight of the easiest profits than domestic is considered to be more important and the long-term consideration is not foreseen as important as in Bulgaria. The firms in Albania find that their knowledge for management and marketing methods need improvement. Probably because of that they accept more risky investments, related with the general conditions but in a place where can make easiest profits and do not face strong competition from more mature firms. The place of Macedonia in this picture is between Bulgaria and Albania but closer to the one of Bulgaria.

The advantages the Greek firms have on the SEEC' market are related on first place with the closeness to the countries and the presence of mutual border, which is connected directly with the lower transport costs and to a great extent with the knowing of the specificity of the market, economic environment, etc. Moving their production to the neighbour countries Greek firms use factor endowment low price of the labour by having enough skilled labour for production – paid at least twice and a half less than the one in Greece. In this sense Greek firm develop their business through "low road" path of regional development of the border relations, typical for the regional relations of the EU countries and the Central European countries in transition. On the other hand the Greek firms outlined that they find know-how and labour skill, which corresponds to the ones in Greece. This is one of the prerequisites for successful cooperation in the managerial and technical assistance and for opening the possibilities for "high road" path for regional cooperation that can start by the regional development of increasing technological and industrial competence on both sides (Kratke, 1999). Elements of "high road"

path of regional cooperation can be found in the cross-border relations of the Blagoevgrad region in Bulgaria and Serres region in Greece.

“Ethnic, cultural and linguistic links” are definitely an advantage – firms declare that a Greek Diaspora exists in neighbour countries, which strongly facilitates the development of the economic relations and especially for the development of SME with Greek participation in border regions. This creates the necessary ground for big Greek firms’ participation on the SEEC’ market – one of the main advance of the existing of Greek firms in border regions is the possibilities for subcontracting. Some firms outline the complementary between the markets, a factor that definitely plays an important role for the development of the cooperation (Totev, 2001). Advantage is also the possibilities to offer lower prices of the products because of the proximity and because the standards in Greece are lower than the average ones in EU. Greek firms find special niches for realizing their products in neighbour countries, thus the Greek firms avoid the pressure they are subject on the open European market (Petrakos and Totev, 2001). Compared with any other EU and non-EU firms the Greek business have advantages of knowing the consumers behaviour and taste, which are close to the ones in Greece, and of having better knowledge of the local market, and of course the mentality of the Balkan people that they also share. Last but not least the traditions in the bilateral relations (in the sense of good relations) are also important for the business.

The main disadvantages the Greek firms face on the markets of Bulgaria, Macedonia and Albania, which create barriers for the business, are related with the existence of corruption and lack of security what is typical for the region (Minassian, 2001). Big Greek firms outlined that some firms avoid taxes illegally, which leads to disloyal competitiveness. There is also a different attitude to the firms by the administration, which creates also a disloyal competition and corruption. The loyal competition is outlined as very important for the operation of the big Greek firms and their long-term consideration for the region.

The needs of improving the financial conditions, which definitely will facilitate the FDI, are also outlined as something that will favour the conditions for business. The firms outline that in Bulgaria the financial conditions and the legislation are not favourable, compared with the ones of Macedonian and Albania. The financial conditions in the countries are more important for the large firms than for the small ones, since the first ones operate with larger funds and use credits more often.

Here a relation can be made once again – Albania has a lot of barriers, including the ones related with the infrastructure, it compensates them by providing more beneficial financial conditions for the foreign firms. This of course helps to counterbalance to the other favourable conditions, which the Greek firms meet in Macedonia, and especially in Bulgaria.

Other outlined obstacles are connected with the general economic conditions (inflation, foreign exchange rate, income trend, etc.) in the countries. An obstacle for developing business in the neighbour countries in transition is also the low purchase ability of the population, coming from the low level of incomes. Mentioned are also the permanent changes of the regulations and the laws, undeveloped infrastructure, poor economic culture and the state of the bank system. These obstacles reveal to different extent in the different countries.

6.1. Policy Implications

The countries' image within the Greek firms operating in Greece and those operating in neighbour countries is quite different (see Table 5.2.). The inertia in the attitude about the opportunities for running business in SEEC should be overcome. This is mostly important for Bulgaria, where the differences in the answers between the Greek firms operating in Bulgaria and those operating in Greece are more than significant.

Lack of information and not providing with sufficient information for running business in SEEC are outlined as important disadvantages for running successful business, here also outlined is the fact that there are no any real activity of business unions association as the one in Greece, which actually helps a lot for running successful business. This explains also the reasons for not overcoming the low image of the region. These two conditions are outlined from all firms as definitely necessary for encouraging the business activity, and are matters, which does not allows delay. Other urgent policy implications, which can be provided by the state authorities in the SEEC, are the changes of the national legislation concerning the business activity in accordance with the EU legislation.

Some of the firms point out the need for evolution of the already settled economic relations and activity of the Greek firms in the neighbour countries. This evolution on first place is expected to occur by change of the structure of the business activity from strong prevailing of the trade relations in direction of the production. Reasons for this are the favourable conditions for using factor endowments, the possibilities for penetration of other markets by producing in neighbour countries. For example the Greek producers in Bulgaria use the CEFTA agreements, agreements with CIS countries, and other trade agreements, which makes the economic contacts with these countries more profitable. The Greek firms in Macedonia and those in Bulgaria pointed out that they use broadly the trade agreement between the two countries, which makes their trade more competitive.

Another expected direction of economic evolution is using special programs as INTERREG and other EU programs for developing and extending the economic relations between Greece and the neighbour countries. The SAPARD program for Bulgaria is used by the Greek firms very successfully (Kotios, 2001a).

Finally a kind of evolution can be expected also in changing the origin of the owners by extending the joint venture participation of the Greek firms in neighbour countries. All firms with joint venture capital, though the share of the Greek capitals is from five to twenty times more, point out that this form of ownership gives them advantages. "The form for entering the market is joint venture with participation of neighbour countries and this is the profitable option, because the contractor has a strong motivation for work". "It is very important to look for collaboration with local specialists". They also outlined that they should have the ability to find the way for this cooperation. "Some joint ventures due to the inability to cooperate with the local investors were led to failure" (Bitzenis, 2001, p. 17).

7. Cross-Border Cooperation

The cross-border relations play a significant role for the economic development between Greece and its neighbour countries. The types of relations that can be

observed, following the Stefan Kratke (1999) types of cross-border inter-firm linkages, are:

- far reaching (international) Metropolitan to Metropolitan – in the case of Greece, Thessaloniki to Sofia and Skopje, relations that are typical for the big Greek firms and the first move of the Greek firms was actually by using this type of relations.
- supra regional (big agglomeration to region)⁵ – for the big Greek firms it is observed mainly in the case of Albania, where they oriented to the Greek-Albanian border regions. Not so typical but also obvious a relations was developed also between big agglomeration Thessaloniki and the border region in Bulgaria, Blagoevgrad and Smoljan regions and to the regions of Bitola and Strumista in Macedonia.⁶
- Finally within the big Greek firms third relations are observed – border region to border region, which is typical for the CBC. Big Greek firms from northern Greece foresee the economic collaboration with the neighbour countries, and especially with the border regions, as excellent possibilities for penetration to other markets. Using the low transport cost and proximity they invest in border regions, where the production gives them the possibility to go to other markets, using the competitiveness of producing in neighbour countries. The expectations are that the typical cross-border relations will increase in the sense of the expectations the Greek firms to make their expansions in production. Observed is a move of the big Greek firms, which establish headquarters first in metropolitan regions and second in parallel in border regions. Big Greek firms find easier to operate border to border regions, using subcontracts and others advantages, for which definitely helps the activity of many SME in border regions, including Greek firms. Main advantages to the competitors from other EU countries are related with the proximity and having common border, which gives the opportunity to establish CBC.

As mentioned above, with the deepening of the regional cooperation observed will be establishing of “high road “ path of regional cooperation. A ground of such cooperation can be observed between the firms in north Greece and south Bulgaria, where the survey for the big Greek firms, as well as the cross-border survey shows that Serres and Blagoevgrad start to use the opportunities for such regional relations, firstly by exchange of know how and using the labour skill from both sides.

The accesses that the neighbour countries give to other markets are used differently in the neighbour countries. It can be said that firms, interested in running business in SEE, start with Bulgaria as a country with a little bit bigger market, and then going to Macedonia, and in some cases to Albania. Firms interested in access to the Yugoslavian market and Kosovo start with Macedonia and then go to

⁵ This second type of relations can be attributed to the CBC relations in the broad sense of understanding of the CBC.

⁶ Following the directions of demand and supply, if 40% of the sales outside Greece are directed to the neighbor countries, 15 percentage points of them go to border regions. And if 44% of the supplies come from the neighbor countries, half of this (21 percentage points) is from the border regions of the neighbor countries.

Yugoslavian markets and possibly to Albania. Firms going to Albania usually limited their interests to Albania and Kosovo.⁷

Greek firms interested in running business with the other countries in transition orient mainly to Bulgaria, because of the participating of the country to CEFTA. The other directions, which Bulgaria as a neighbour country provides are to the Former Soviet Union countries, the connections with which are favoured by traditions, proximity and not existing of linguistic barriers. On the other hand, Russian firms looking for establishing economic relations with Greece foresee to realize that by entering on the market of Bulgaria as a country bordering with Greece and in a process of pre-accession to the EU, and of course due to the above mentioned advantages.

All this determines the highly estimated by the interviewed Greek firms possibilities for entering the markets of Central and East European countries, including these of the Former Soviet Union republics. They also outlined the role, which the regulation of Free Trade Zones can play on using the above mentioned opportunities, which will be beneficial for the border regions of Greece, Bulgaria, Macedonia and Albania. Other studies in the project also found that the establishing of free trade industry zones can stimulate the cross-border relations, but for different reasons all attempts in this directions in the observed countries did not lead to any positive results up to now. This is one of the directions, where the EU experience and help will be quite useful (Boyadjieva, 2001; Kotios, 2001b).

Finally the general attitude shared by all interviewed firms is that the neighbour countries are the natural trade partners of Greece, especially of northern Greece.

One important question, which concerns the CB relations in SEEC, is how can these relations be evaluated – weak or not weak? Comparing with the past 10 years, one can outline that this process is outstanding. Comparing with the already established CB relations between Germany and Poland, the activity between Greece and the neighbour countries is weak (Kratke, 1999).

The different level of economic development, different shape of the countries outlined that the experience of the German/Polish CB relations is not possible to be used directly for comparison and as a model for the development of the ones of the SEECs.

- First, the economic potential of Germany is quite different, compared with the Greek one.
- Second, SEEC are actually not prepared for the creating of the CBC as the one, realized by Poland and Germany. Only in the case of Blagoevgrad and Serres regions an evidence of purposeful activity concerning the CB relations is observed.
- Third, only Greece has a kind of state policy for encouraging the cross-border activity. The policy of its neighbour countries in this direction is limited to the activity, which any international program provides direct funding for development of CB relations.

⁷ This direction of entering markets explains why big Greek firms in Bulgaria are well acquainted with the conditions in Macedonia and Albania, while those in Macedonia and Albania are not very familiar with the market conditions in neighbor countries.

The latter shows the importance of the EU programs in this direction and second and even more important is the need the SEEC authorities to realize that the CBC is not only a matter of EU but is a national responsibility.

As a conclusion it can be said that there is a largely enough potential for cross-border economic initiatives and development of trade relations that so far were not used to its full capacity.

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ANNEX

Diagram 2.1

Average answers about the General conditions in the neighbour countries given by the seventh interviewed big Greek firms in Bulgaria (the answers are ranged from 0 -- they make the business relations impossible, to 5 -- absolutely possible)

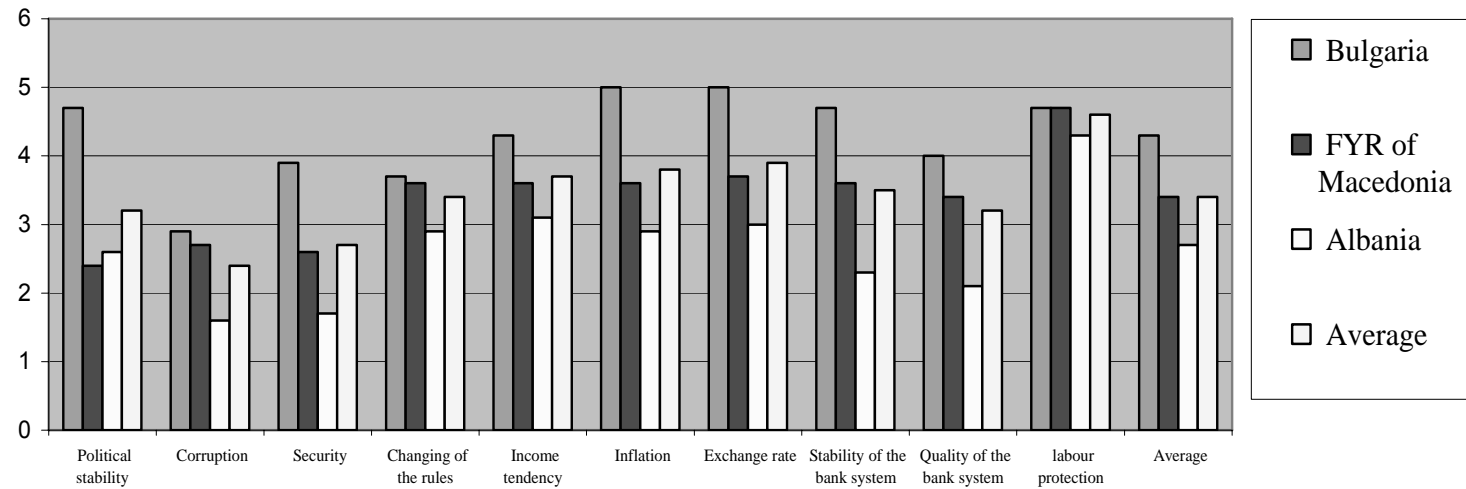


Diagram 5.1

Directions of the sales and the supplies of the interviewed firms

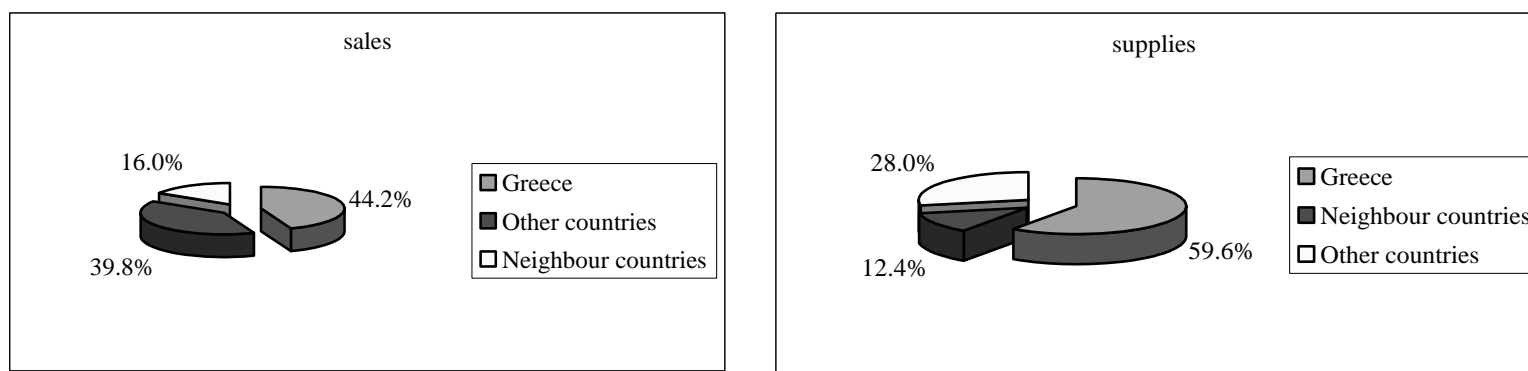


Diagram 5.2

Average answers given by the interviewed big Greek firms in Bulgaria, Macedonia, Albania and Greece
(the answers are ranged from 0 - they make the business relations impossible, to 5 - absolutely possible)

