# GATEWAY GREECE

# THE GREEK BUSINESS PRESENCE IN SOUTHEASTERN EUROPE

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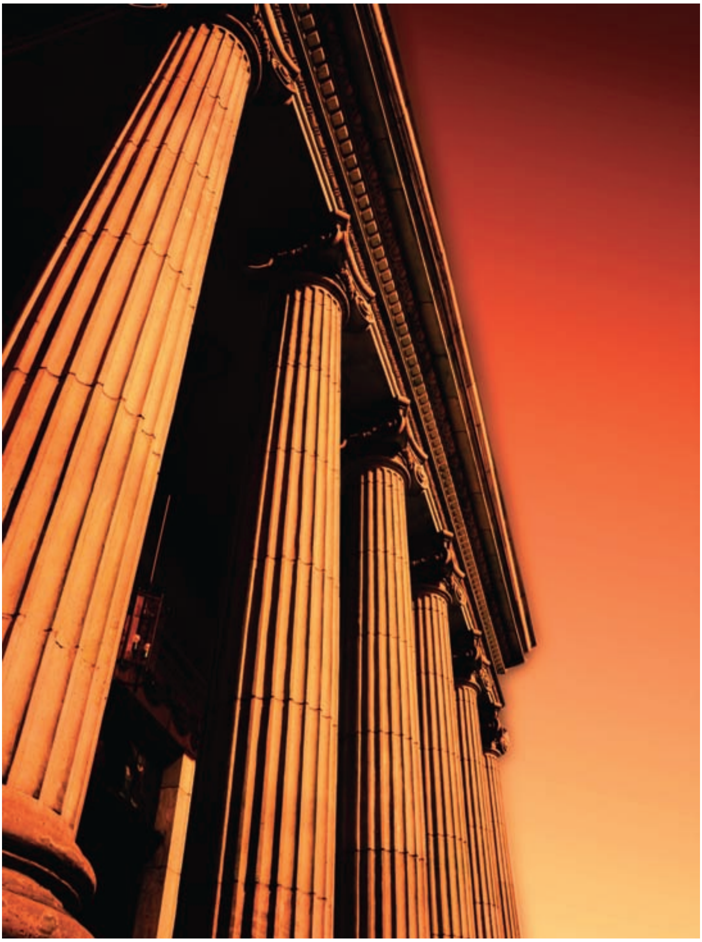

**Greece's entrepreneurs and companies have established a presence in the ex-centrally planned economies of Southeastern Europe, following the collapse of the Berlin Wall in 1989, and in Turkey, as the bilateral relationship steadily improved from the late 1990s onwards. Consequently, trade increased rapidly between Greece and the rest of the region, while Greek foreign direct investment (FDI) has acquired pole position. Greece presently ranks among the first three leading investors in Bulgaria, Romania and Serbia and is the leading foreign investor in Albania and FYROM.**

Taking stock of what has transpired over the last 15 years we can see certain key themes emerge, with regard to the Greek business presence in the region. I shall identify and expand upon the following five:

- In the transition countries of Southeastern Europe a group of large Greek companies have emerged as regional multinationals, a process which has both modernized them and assisted in the modernization of their host economies.
- In the same transition environment, Greece's regional focus has been enhanced by partnerships with global non-Greek multinationals.
- In Turkey, prior to 1989 the only market economy of the region together with that of Greece, Greece exports services, in terms of FDI in the Turkish banking sector, while itself becoming a destination of Turkey's manufacturing exports.
- Greece's position as a member of the eurozone has been critical in its ability to export know-how and capital in both the transition countries of the region and in Turkey.
- Greece's interaction with Southeastern Europe must increasingly be understood in the triptych local-global-regional. In particular, Greece's regional expertise is matched with funding from three sources of global origin: from international investment flows to the Athens Stock Exchange, primarily originating from the developed economies of the West, from the liquidity generated by Greek owned-shipping, the largest fleet in the world, and the liquidity that globally high energy prices generate in the Middle East.

## GREEK MULTINATIONAL CORPORATIONS (MNCs) AND THE TRANSITION COUNTRIES OF SOUTHEASTERN EUROPE

Prior to 1989, Greece had neither direct access to the economies of the surrounding region nor had its companies developed substantial international operations. With the significant exception of Greek shipping, an activity pursued on a global scale, and construction in the Middle East following the first oil boom, in the 1970s, Greek companies were exporting primarily to Western Europe but did not engage in other cross-border activities.

The opening up of the region has transformed the outlook of the country's business community. Close to 4,000 Greek companies have now established operations in the countries of the region and have invested in excess of 12 billion euros. In the more sizeable Greek companies, say the top 40, we observe all the features of a regional multinational: strengthened headquarter functions, solid managerial teams in contrast to the personalized, family-dominated style of leadership of the past, simultaneous operations in several countries, financing of internationalization strategies by the international capital markets. In other words, the opportunities that were made available in the region to Greece's leading companies have been proven a powerful incentive for their overall modernization.

Equally, Greek companies have accelerated the process of transition in the ex-centrally controlled economies of the region. These economies did not feature strong service sectors and they had under-invested in their light industries, precisely in these two domains of business activity where Greece had developed a comparative advantage over time. Thus Greek investment in the food and drinks sector, in the apparel sector, in wholesale and retail activities, logistics and distribution, marketing and advertising, in residential and commercial construction and in finance, filled key plugs in the market economies that were being built up in the region. Dozens of local companies were restructured, under Greek ownership, adapting successfully to this new market environment. Hundreds of professionals – architects, designers, lawyers, engineers, accountants – prospered by providing key services to Greek investors. Workforces in the tens of thousands in the countries of the region were trained in new methods of production and service provision.

To emphasize: This reciprocal modernization has been so transformative for both host countries and Greek investors, that the past has indeed become for both of them, as the poet put it, a foreign country.

## GREEK INVESTORS AND MNCs

The increasing exposure of the Greek business community in the region has not passed unnoticed by leading global MNCs. Actually, two of the Greek forerunners in FDI in the region have themselves been subsidiaries and partners of such MNCs, namely 3E, one of Coca-Cola's key anchor bottlers and distributors, and Athinaiki Zythopoiia, Heineken's subsidiary in Greece. Numerous other partnerships of a regional character between global MNCs involved in professional services and in consumer goods and their Greek subsidiaries or partners have also been implemented.

Global multinationals have appreciated the ability of Greek managers and companies domiciled in Greece to relate to the diverse as well as challenging market environment of the region. Proximity and rising familiarity mean that their strategies in Southeastern Europe have a better chance of being executed successfully, and with a lower cost base, from Greece than from anywhere else. This is critically important, as all of the countries of the region still have lower middle-income status, according to the World Bank's classification system. That does not mean however that the consumer of the region does not have rapidly evolving and sophisticated needs. On the contrary, free travel, global telecommunications and media mean that the local consumer is fast adopting consumer aspirations that are prevalent in some of the wealthiest countries around the world. Consequently, these two factors, low per capita incomes combined with an increasingly demanding consumer base, are what makes region-specific expertise so valuable for global MNCs. In particular, Greek executives and companies have become adept at matching their skills and know-how with host-country resources to deliver a competitively priced as well as attractive package to consumers of the region. This factor is particularly pertinent in activities that in-


volve the establishment of retail networks backed up by the appropriate outlets, marketing strategies and product mix.

It is not only that Greek expertise has facilitated the positioning of global MNCs in the region. The decisions of MNCs to enter into partnerships with Greek companies in the region has been as beneficial to the interaction between the Greek business community and regional markets. Greek managers and businesses have broadened their horizons and deepened their skills and know-how through these partnerships with global MNCs. They have thus enjoyed even greater exposure to the region than would have otherwise been the case. Through career mobility, Greek managers of global MNCs have cross-pollinated the Greek business community at large, accelerating the emergence of a Greek managerial cadre which thinks and operates in a multinational context.

## GREECE AND TURKEY: CARS AND BANKS

A steadily improving bilateral political relationship, despite the occasional hiccup, and in the context of Turkey's EU accession process, has encouraged businessmen in both countries to pursue opportunities at a continuously intensifying tempo.

In the past 15 years, the total value of trade between Greece and Turkey increased from $223 million in 1990 to $2.2 billion in 2006. Turkish exports have enjoyed a notably consistent surplus in value, 20 percent plus over Greek exports in this time period. There are structural reasons for Turkey exporting more to Greece and these will continue to be felt in the years ahead. The contribution of manufacturing to GDP is significantly higher in the case of Turkey than in the case of Greece. Indicatively, cars were the third top Turkish export category in 2005 as they account for 15% of total Turkish exports. Greece simply does not have a car-manufacturing capacity.

Greece, on the other hand, is one of the most service-oriented economies in the world. Thus, it should come as no surprise that Greek banks have made a very significant commitment in the neighboring financial sector. Three out of four of Greece's major banks, National Bank of Greece (NBG), Alpha Bank and Eurobank, have invested in excess of 5 billion euros in acquisitions and joint ventures with local financial institutions in Turkey. The investments of Greek banks in Turkey are significant in their own right, as, importantly, they sent strong signals to the business communities of the two countries that their bilateral relations are set to grow in size and scope. All in all, these significant investment decisions by Greek financial institutions should further accelerate trade and investment between the two countries.

## THE IMPACT OF EUROZONE MEMBERSHIP ON GREECE'S INTERACTION WITH THE REGION

Greece's membership in the eurozone has been critical to the country's interaction with Southeastern Europe. It has resulted in an expanded range of business activities with which the Greek business community can engage the region and enhanced financial resources with which to pursue those activities.

In banking, macroeconomic stability in Greece has enabled Greek financial institutions both to grow and to acquire know-how in activities such as SME and consumer lending, mortgage finance and asset management – something that would not have been possible in a high interest rate, high inflation environment. Additionally, the growth of the financial sector in Greece, which has come as a result of EMU-induced low inflation, has both strengthened their balance sheets and improved their access to the world's financial markets, enabling them to commit an ever-increasing amount of financial resources to the region's financial markets. NBG's capital raise of 3 billion euros, for the purpose of completing the acquisition of Finansbank in Turkey, which was effected in the summer of 2006, the largest ever in Greek corporate history, encapsulated these developments. It is this combination of know-how and capital that Greece's financial sector is now exporting to the region, through its FDI, which has resulted in an overall regional market share of approximately 16 percent, a network of


1,200 banking branches and a personnel of 16,000 – excluding Cyprus and Turkey.
Greek FDI in the financial sectors of the region has been highly beneficial to the host countries themselves. It has boosted the capitalization of local financial systems, strengthened their stability and accelerated financial intermediation, thus increasing both the investment of the host business sectors and the consumption of host populations.

## INTERMEDIATING BETWEEN THE GLOBAL AND THE REGIONAL

Peering into the future we can see Greece enjoying privileged interaction with three major sources of globally generated liquidity as it develops its relationship with the economies of the region.

The first source of that liquidity is the international portfolio investor. The Athens Stock Exchange (ASE) is presently the only stock exchange in the region that belongs to the developed markets category as opposed to that of the emerging markets. The ASE's developed market status means essentially enhanced capacity of Greek companies to source funds from international portfolio investors to finance their operations, whether in Greece or in the region. Currently, international portfolio investors own approximately 45 % of the total capitalization of the ASE, boosting the valuations of Greece's major listed companies by doing so. Most of the investment analyses that underpin these shareholdings underline the positive prospects for sustainable earnings growth of Greek companies due to their regional expansion strategies. These companies, in turn, have channeled their improved funding capacity that institutional investors from abroad have made possible, toward their regional expansion, helping to make Greece the leading foreign direct investor in the Balkans.

The second source is shipping. EMU-driven reforms in telecoms and in banking have put in place the necessary infrastructure for Greek-owned shipping, the largest fleet in the world, to repatriate itself in Piraeus and in Athens. This has boosted the critical service component of Greece's economy both in shipping itself but also through investments of the surplus cash of Greek shipping in banking and real estate, both in Greece and, increasingly, in the region. It is estimated that presently Greek shipping sits atop a cash pile of $300 billion, a significant part of which will increasingly make its way into the Balkans. Already, Greek shipping money accounts for key shareholdings in two of the four major Greek banks as well as in real estate investment funds that are mandated to invest in property development in the region.

The third and potentially as important a source of liquidity as the other two is the regional recycling of the proceeds generated by Gulf oil sales. Worldwide income transfers from oil-consuming to oil-producing economies has reached $1.8 trillion on a cumulative basis in the last five years. The difference with the 1970s is that Gulf countries have acquired over time great sophistication as investors and are channeling part of this liquidity not only to the traditional centers of world finance, such as London and New York, but also to the economies of the region. Egypt and Turkey are already beneficiaries of this shift in their investment preferences and will become even more so in the years to come. Greece has had a foretaste of this process in the rapidly growing Marfin Financial Group, the key shareholder of which is the Dubai Investment Group, and the acquisition of the mobile telecom Tim Hellas by the Egyptian Sawiris Group, itself an indirect beneficiary of Gulf liquidity. Greece's relative cultural and geographical proximity to the Gulf, together with its ability to place an ever-increasing amount of investment flows in Southeastern Europe and beyond, in the wider Black Sea area, holds great promise for the country's increasingly strategic role as an intermediary between proximate regions and globally generated capital flows.