Economic, institutional and organizational determinants of Foreign Direct Investments

University of Macedonia

Department of Balkan, Slavic, and Oriental Studies

MA Politics and Economics of Contemporary Eastern and SE Europe

Faitatzidou Panagiota

February 2016

Astract

Foreign direct investments have significant importance for economic development, both for the country of origin and the host country. Especially during the current period, many countries adopt austerity measures to reduce their budget deficits and debt, and they are cutting public investment expenditure, so they are seeking FDI inflows in order to achieve a positive economic environment and growth.

This study is an analysis of Foreign Direct Investments and their determinants, both in terms of the economic and the institutional environment. Also, there is an examination of the organizational determinants of companies which choose to invest in other countries.

The main findings of the study is that all of three factors –economic, institutional and organizational – are key determinants of the FDI inflows to a country and are explanatory factors of why some countries have higher FDIs than others. From all of the factors, the ones which are associated to the institutional environment have the greater long-term effect of FDIs, while organizational determinants play a crucial role on the company's decision to invest in another country.

Keywords: Foreign Direct Investments, Institutional Environment, Organizational characteristics

Table of contents

List of tables

List of figures

Introduction

According to the OECD (2008), direct investment is a category of cross-border investments made by a resident of one economy (direct investor) with the objective of establishing a lasting interest in an enterprise (the company making the direct investment) in a foreign economy than that of the country of residence of the direct investor. According to the World Bank, foreign direct investment may include the purchase of shares of a company in another country, reinvesting the profits of a foreign company in the country where it is located, and a loan from the parent company to thygratrikes of which are based in another country (FDI Association, 2010). According to UNCTAD, foreign direct investment is defined as one which involves a long-term relationship and reflects a lasting interest and control by a resident of one economy (direct foreign investor or parent enterprise) in an enterprise in another country than that of direct foreign resident investor in one economy other than that of foreign direct investors (foreign investment company or subsidiary, or foreign affiliate). Direct foreign investment means that the investor has significant influence over the management of enterprise based in another economy. Such investment involves both the initial transaction between the two entities, and all subsequent transactions between them and among foreign affiliates, anonymous or not, corporate form. The direct foreign investment can be undertaken by individuals and business entities (FDI Association, 2010). In most definitions of international bodies as a minimum to be considered an investment as foreign direct investment, is the occupation of 10% of the investment's host country company.

FDI can take the following form (Bitzenis, 2009):

- Company Establishment in the host country, without a parent company
- Company Establishment in the host country, as a subsidiary of a foreign parent company
- Total acquisition of a company in the host country
- Partial acquisition of the company in the host country, with a shareholding of over 10%.
- Joint venture company, in which the foreign investor will hold more than 10% of the share capital.

Foreign direct investment can categorize under the investment incentives in the following categories (Dunning, 1993, Bitzenis 2009):

- FDI which are motivated by finding and exploiting natural resources in the host country. In this case, the investor wishes to draw the wealth-producing sources, which may take the form of raw materials, cheap labor, the level of technology.
- FDI which are motivated to acquire market share in the host country
- FDI motivated the creation of economies of scale
- FDI motivated vertical integration, with expansion of activities either in precedent or in the next stage of production
- FDI motivated by the acquisition of a share in third markets (horizontal integration)
- FDI motivated by corporate resources and competencies.

In many economies, the reduction of public spending has resulted in a reduction in disposable income and consumption, resulting in reluctance of the private sector for new investment. Also, in several economies, finding borrowed funds to the private sector has become more difficult because of reduced liquidity and increased funding costs. So as a result, countries seeking foreign direct investment in order to rebuild their economies.

The inflow of FDIs, apart from the positive impact on the economy, associated with positive changes in the social and cultural level, and to strengthen the institutional and legal structure and framework of the host countries.

However, to be foreign direct investment in a country, should be fulfilled a number of parameters, which contribute to the decision of companies to enter investment in a country.

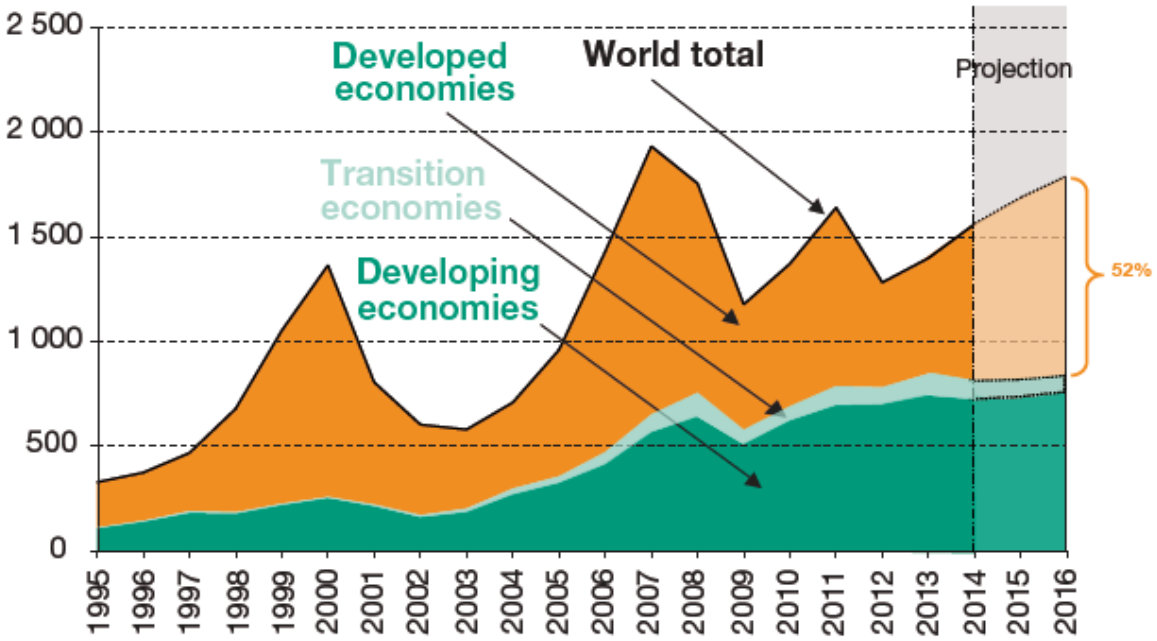
Foreign Direct Investments globally, in Greece and Balkan countries

General trends of FDIs

As the global economy begins to overcome the negative effects of the global economic crisis, foreign direct investment show signs of recovery. For the year 2013, according to UNCTAD, global FDI increased by 9%, reaching 1.45 trillion US dollars (Graph 9). Although FDIs has been directed to all categories -developed and developing economies, as well as economies in transition - the trend is that more and bigger flows will be directed to the developing economies, and there are signs of recovery. In general, forecasts show that FDI will be strengthened in the coming years, reaching, in 2016, the amount of 1.85 trillion USD.

FDI to developing countries in 2013 amounted to 778 billion ISD, and, although there was an increase in flows by 7%, this is lower than the one of the previous years, which amounted to an FDI increase by 17% in these countries (UNCTAD, 2014).

Figure 1. FDI flows

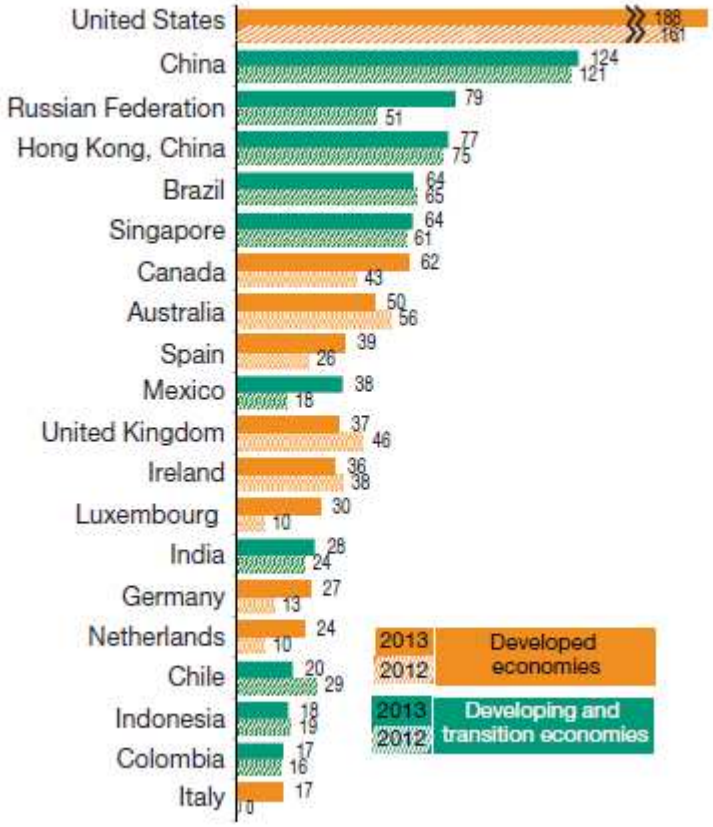


Source: UNCTAD, 2014, p. xiii

As recorded in the following figure () the main host countries of FDI - United States, China, Russia, Hong Kong, Brazil, Singapore, etc.- meet the criteria mentioned above,

both in terms of economic criteria, such as market size, and in terms of institutional criteria, though there are significant differences in the institutional environment of these countries.

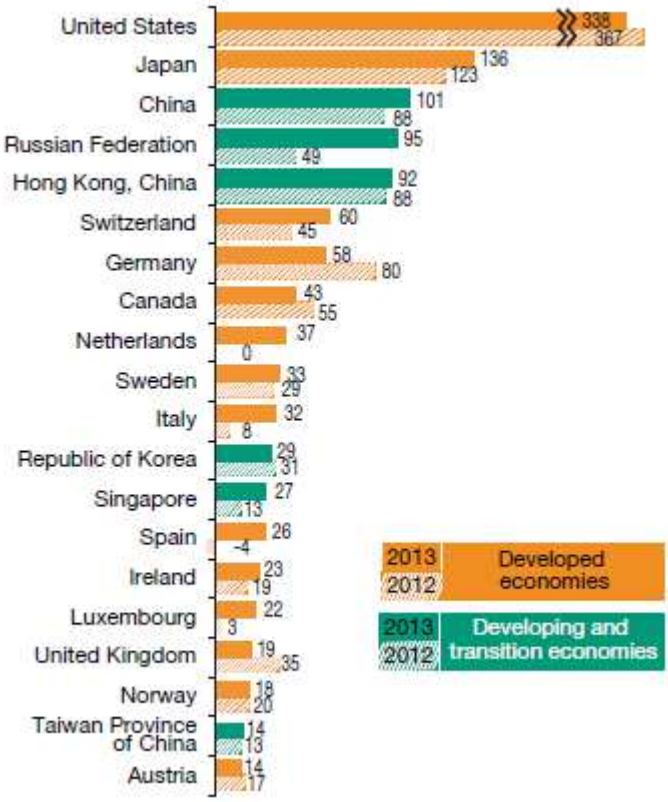
Figure 2. Biggest inflow FDI countries



Source: UNCTAD, 2014, p. xv

As outflow countries of FDI, it is observed that the highest positions have countries like the US, Japan, China, Russia, and so on (). In many cases, FDI outflow countries are simultaneously and host countries of FDI, which demonstrates the global mobility of capital, since, for example, a company based in the US is likely to cover a portion of the share capital a fund outside the US, where, holding over 10% of the total share capital will be recorded as FDI inflows to the US, and with the money of the share capital of the company may set up a subsidiary in another country, which will be recorded as FDI outflow.

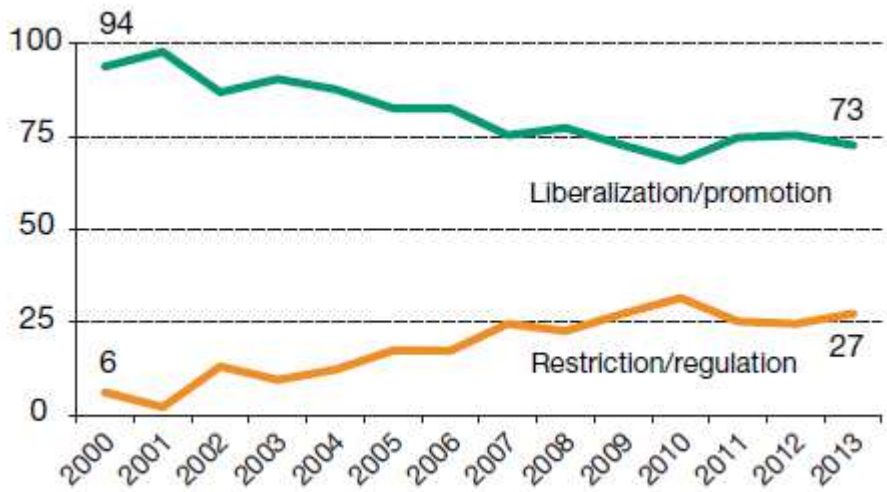
Figure 3. Biggest FDI outflow countries



Source: UNCTAD, 2014, p. xv

In general, countries are following legislation and policies that facilitate the flows of FDI, however, in recent years, the number of those laws has been reduced from 94 jurisdictions worldwide in 2000 to 73 in 2013, and respectively have increased cases worldwide of legislations that constitute barriers or protectionism (6 cases in 2000 to 27 in 2013), which is attributed to the economic crisis ()

Figure 4. Cases of liberazation/promotion and restriction/regulation.



Source: UNCTAD, 2014, p. xxiii

FDIs in Greece and Balkan countries

According to FDI Intelligence data, foreign direct investment in the Balkan countries fell in 2013 by 17% for the period January-November. The number of jobs from foreign direct investment fell by 32% and total generated 8,100 jobs from FDI (Kaczmarski, 2014) At the same time, the average capital per investment increased in 2013 by 31%, which reflecting the intention of foreign companies to invest in larger capital projects.

All Balkan countries recorded a decline in FDI, both in number of projects, and the influx of capital, Albania recorded the largest decrease in number of new projects by 63%, followed by Slovenia recorded in 2013 decreased by 40% and Croatia recorded a decrease of 31% (Kaczmarski, 2014).

Regarding the countries of origin of FDI, Germany ranks first in investment in Balkan countries, however, recorded a decrease of 33%. Also, Austria and Italy, traditionally strong investors in the Balkan countries reduced their direct investment by 65% and 45% respectively (Kaczmarski, 2014).

According to McKee (2015), the French FDI to Romania for the period 2011-2013, recording a significant drop as the number of investment projects has decreased by 50% between 2011 and 2012 and further 41,66% between 2012 and 2013. As stated in an article in the Botsford (2015) for Romania, although processing is the main direction of FDI in the country, but in order to continue the flow of funds, international investors demand greater transparency and a more stable environment with less uncertainty.

Regarding the four countries examined in this study (Albania, Bulgaria, Romania, Serbia), foreign direct investment between 2000 and 2013, based on the data of the World Bank, are configured as follows:

Table 1. FDIs (in mil. Euros) in Albania, Bulgaria, Romania, Serbia, 2005-2013

	2006	2007	2008	2009	2010	2011	2012	2013
Albania	325,14	652,28	1.240,97	1.343,09	1.089,42	1.049,43	920,08	1.253,78
Bulgaria	7.874,48	1.3875,27	10.296,72	3.966,66	1.866,59	2.124,23	1.578,34	1.887,67
Romania	11.450,83	10.290,00	13.849,00	4.926,00	3.204,00	2.557,00	2.629,00	4.108,00
Serbia	4.968,05	3.431,92	2.996,39	1.935,60	1.340,19	2.700,44	1.185,77	1.974,34

Source: World Bank

Typology of Greek FDIs to Balkan countries

According to the study of Labrianidis et al . (2004), companies that have made direct foreign investments in the Balkan countries, follow the following typology:

A. Companies that have parent company in Greece, can be categorized as follows:

- Small companies, which primarily have a commercial activity. Also, a significant percentage of industrial enterprises belong to small industrial enterprises in Greece, which work exclusively as subcontractors for large foreign firms, especially in the garment industry.
- Large companies, which fall into three categories

1. Multinational, who transferred to the subsidiary in Greece the market penetration of the Balkan countries, because these markets are relatively small and it is possible to create economies of scale, especially from distribution channels. Moreover, because the Greek businessmen can more easily adapt to markets that do not have a strong institutional environment and there are often informal practices in business

2. Productive enterprises with the presence of foreign investors and

3. Enterprises that had a presence in the Balkans, especially in export activity or by subcontracting that were entrusted to companies in these countries.

B. Companies without a parent company in Greece, which constitute the majority of cases. Operators of those companies listed in categories

- Those who had business in Greece, and moved the company's headquarters, either because of lower cost or because of failure of the undertaking in Greece (e.g. bankruptcy), either due to low prospects in Greece
- Those in the first step of their business are outside the country, such as, for example, immigrants living in Greece and wish their business activity in the country.

According to the study of Labrianidis et al . (2004), companies without parent company in Greece invest significantly less capital than those from companies with a parent company, but employ more staff, indicating that these firms are labor intensive and low differentiation and specialization.

Iammarino and Pitelis (2000), examining the Greek Foreign Direct Investment in Bulgaria and Romania, mentioned as main parameters the anticipated economic development of countries, the geographical location (proximity to Greece), labor costs, increase market share in Greece and gaining market share in other countries. Also, in the same study, as secondary parameters of the decision of the Greek companies for investment in the Balkans is the neighborhood with the European Union, the raw materials and the common culture. As main difficulties, the researchers focused on bureaucracy and administrative burdens, the instability of the legal environment and the high investment risk.

According to Labrianidis (2001), the Greek foreign direct investment in the Balkan countries can be divided into three periods:

- Period 1989-1993 (El Dorado period). During this period, the Balkan countries started opening them to international markets. This opening was seen by several Greek SMEs as an opportunity to gain direct, fast and high profits, without medium-term investment strategy. Indeed, many companies were able to record significant gains, but several others did not manage to record profits, as they had
- Period 1994-1997 (Mafia period). In this period, due to lack of institutional frameworks and lack of validity and enforcement of laws protecting investment, many Greek companies began to deal with prejudice to their activation in these countries.
- Period 1997-present (regularity period). In this period, the legal and institutional framework of the countries began to stronger, resulting in the activation of Greek businesses invest for the long term.

Bitzenis (2009) distinguishes between Greek Foreign direct investment in Bulgaria in several periods:

- Period 1989-1993, which few Greek enterprises, mostly from North Greece, began to found companies, which had two main activities: the production of products in Bulgaria for export to Greece, taking advantage of the existing customer base and their distribution network
- Period 1994-1995, which recorded more active Greek companies, mainly in the fields of food, durable consumer goods and certain services.
- Period 1995-1996, in which, although there founding several Greek companies, but they have been active, because of two consecutive financial crisis in Bulgaria.
- Period 1997-1998, in which Bulgaria has taken significant measures to stabilize, with lower inflation, stable exchange rate, resulting in the activation of large enterprises to establish joint ventures and the main objective of vertical integration
- Period 1998-2000, where an input Greek banks and the Greek interest companies for privatization.
- Period 2001-present, which recorded Greek corporate investment, which aimed both to cover the Greek market, and the Bulgarian market. Also,

gradually, the Greek enterprises in Bulgaria began to orient and exports to other countries.

As Labrianidis (2000) notes, the Greek investments in the Balkan countries, with few exceptions, do not constitute cases of transnational business. These low labor cost investment, labor tensions, low productivity, without renewing technology with low pay overtime. Nor have brand name, they have not developed strong marketing and promotional plans, and official, compete in terms of price rather than product differentiation.

According to Salavrakos and Petrochilos (2003, p. 332), the reasons for the activation of Greek enterprises in the Balkan countries are:

- Greece is the most developed economy among the countries of the Black sea and South-Eastern Europe
- The breakup of the former Soviet Union, the new geography of Europe and economies reconstruction projects, like privatization programs
- The transition of these countries into open economies
- The positive reception of Greek investments by governments and citizens,
- The centuries-old ties between Greece and the countries concerned, as there is enduring economic and commercial activity and presence.

According to Magoulios and Chouliaras (2014), the trade flows between Greece and the Balkan countries strongly affected by the change in GDP. Specifically, based on the progress of the Greek trade flows with the Balkan countries for the period 1980-2012, trade in imports and Greek exports to and from t decreased in 2009.

In the research of Totev (2004) with respect to foreign direct investment of 28 Greek enterprises in the Balkan countries, was recorded that the main parameters for the investment decision of the companies was the change in the tax and legal status of the host countries, and also a key parameter was the proximity with those countries and trade relations that already existed with them.

As shown by the study of Smallbone et al .(1999) regarding foreign direct investments in small and medium sized enterprises in the Baltic States and Bulgaria, the capacity of SMEs in transition countries to compete in foreign and domestic markets varies between sectors. For example, in the food processing sector, although some media have managed to penetrate foreign markets, the main result so far has been to increase

the level of competition in domestic markets. The data show that foreign market penetration of small and medium food processing enterprises in transition countries often focuses on markets in other transition countries and not to western markets.

Also common is the phenomenon of activation of FDI in the form of the establishment of SMEs to attract residential construction work, based on low labor costs, particularly in the textile and clothing. But this type of entrepreneurship is extremely unstable, with no long term strategy and without the possibility of programming.

An important finding of this study is that the export orientation of SMEs in these countries is difficult due to the lack of counseling and guidance from professional organizations and governments.

With respect to FDI inflows in Greece, a significantly greater proportion comes from OECD countries, especially from Europe

Table 2. FDI inflows to Greece

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
FDI inflows	2.1	0.6	5.4	2.1	4.5	2.4	0.3	1.1	2	2.6
OECD countries	1.6	0.3	4	1.2	2.7	1.6	-0.1	0.77	1.95	
Europe	1.4	0.29	4.2	1.4	2.99	1.6	0.3	0.45	1.71	

Source: OECD

FDI outflows of Greece are, to a considerable extent, directed in the Balkan countries. FDI outflows of Greece are as follows:

Table 3. FDis outflows from Greece

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
FDI outflows	1.00	1.50	4.00	5.20	2.40	2.10	1.60	1.80	0.70	-0.60
OECD countries	0.30	0.40	0.14	2.00	0.29	0.72	-0.28	0.67	0.14	0.50
Europe	-0.90	0.70	1.05	3.10	0.35	0.92	0.13	0.12	0.13	0.46
Albania	0.26	0.40	0.30	0.68	0.94	0.43	0.14	0.55	0.13	0.11
Bulgaria	0.49	0.40	0.91	0.12	0.15	0.12	0.13	0.66	-0.18	-0.58
Romania	0.20	0.40	0.23	0.77	-0.90	0.48	0.11	-0.36	-0.26	-0.27
Serbia *	0.25	0.19	0.48	0.64	0.12	0.60	0.19	-0.16	-0.17	-0.16

* Until 2007, data included Montenegro

Source: OECD

This paper analyzes the framework under which foreign direct investment are established. The aim of the work is to find which factors influence the decision of the companies to invest and operate in other countries by foreign direct investment, and the parameters that they consider important in their business.

The methodology of this study is based on a critical review of an extensive literature focused on the factors that influence the decision of companies to undertake foreign direct investment, an important part of the chosen literature refers to the institutional and economic environment, as fundamental part of FDIs.

The validity of sources is a key concern of the present study therefore are used articles from internationally renowned scientific journals, books from the most renowned international publishers, with authors receiving general recognition and acceptance.

The structure of the study is as follows:

The first chapter develops the theoretical framework of foreign direct investment, analysis of the determinants, regarding economic parameters.

The second chapter analyzes the institutional determinants of FDI.

The third chapter describes the organizational determinants of multinational companies

The fourth chapter describes the criteria of companies' decisions to establish a subsidiary in a foreign country

The fifth chapter mentions the country risk as a fundamental pillar of the decision of companies to undertake foreign direct investment.

The sixth chapter sets out the conclusions of the study.

1. Economic determinants of Foreign Direct Investments

Economic factors are key elements of the decision of companies to engage in Foreign Direct Investments (FDIs). Certainly, there are a vast number of economic determinants that may be taken into account from each company regarding its investments, depending on the target and the type of investment. In this paper we focus on the three main economic factors, as suggested by the literature and their use by international organizations (OECD, World Bank) and the rating agencies.

1.1 Market size

The size of the market has been recognized as one of the key determinants of FDI. Regarding horizontal FDIs, the choice of the company to invest in a production line in a foreign country in order to sell in the local market, the market size is a key determining factor, along with the marginal cost of production (Markusen, 2002): the higher the market size, the greater the chance to obtain a level of revenue to offset the cost of investment (fixed costs, opportunity costs, etc.).

The market size creates significant decisions on whether companies will make an investment in a production line establishment, given that the goods should cover a relatively high proportion, otherwise the company will have to decide not to produce the goods in the country, but exported to the country, which, however, is associated with transport costs, plus some other costs and possible other difficulties, where there are protectionist measures. (Kohler, 2013).

According to Akin (2009), the size of the market as a deciding factor for companies to undertake foreign direct investment, is not related n in the country's GDP per capita, but mainly in the population size. Also, Artige and Nicolini (2006) showed that the size of the market is the main determinant of FDIs, and as other determining factors are the cost of research and development and labor cost.

The size of the market can also be seen in the population density conditions: the greater the population density, the easier is for firms to engage in FDIs, since they would have reduced transportation costs, less need for storage space, more focused segments and less spending on marketing and promotion. According to Billington

(1999), the population density is the main determinant factor of FDIs, accompanied by labor costs and the level of unemployment.

Also Mughal and Akram (2011) showed that the size of the market is the main determinant, but only with respect to the long term.

Haufler and Wooton (1999) showed that the market size is the decisive parameter for FDIs between countries with different market size, with a different country risk and different taxation. As they note, if a country's market size with higher country risk is significantly greater than the market size of the country with the lower country risk, the foreign company would prefer to make an investment in the country with the largest market size, even if it still exists the risk of increased tax enforcement.

1.2 GDP per capita, personal income and level of consumption

According to Billington (1999), GDP per capita plays an important role in the decision of companies to engage in FDIs, since the income level of the country's inhabitants should be at a level which allows the purchase of goods the company will produce.

The analysis of Chakrabarti (2001) shows that there is a steady and significant correlation between FDIs and GDP per capita GDP. Also, in the same analysis it is highlighted that changes in both FDIs and GDP per capita are due mostly to changes in wages, exchange rates and tariffs.

GDP per capita, to a very large extent, determines the level of consumption. Also, GDP per capita is a parameter of wealth, which in turn also determines consumption. The factor of consumption is very important for FDI in two axes:

- Regarding host country, increased consumption results in an increase in FDIs
- Regarding countries of origin of FDIs, the decrease in consumption can positively affect FDIs, since businesses are looking to compensate their revenues, by entering into a new market[1].

1 It has to be mentioned that, in cases of a global financial crisis, most companies will halt their local and international investments

Since income and consumption could be the decisive factors of a firm's choice to invest in a foreign country, we have to highlight the major changes in income and consumption, during economic crises, as the present one.

Because of the economic crisis, income and wealth fell sharply, in most of countries. Regarding U.S., according to Bricker et al. (2012) for the 2007–2010 period, the median value of inflation-adjusted family income fell by 7.7% and mean income fell by 11.1%. Also, the median net worth fell by almost 39%, a fact that surely affects consumption. This lead to the biggest decline in US consumption after World War II (Petev et al., 2011). Not only the consumption decline was deeper than in other recessions, but it was persistent in time, since it took almost three years for real consumption expenditure to be at the previous peak level, which it was at the fourth quarter of 2007 (Petev et al., 2011).

Due to the falling income, consumers are less willing to buy products, being afraid about their future economic situation, in case that crisis will continue. So, even if the income would stay in the same level, consumers are spending less percentage of their disposable income. This is known as the average propensity to consume (Slavin, 2009). According to Lee et al. (2008), because of the crisis the consumption rate, as percentage of the disposable income, from the level of 95% before the crisis, fell to 92% in 2009 and the analysis projects a future level of about 89.5 to 91.5, 3% lower than the period before the crisis.

Also, Teppa (2014) in her analysis for Netherlands, finds that consumers decide to spend less part of their disposable income, lowering their propensity to consume.

A factor which affects consumption is the change of wealth. According to Sousa (2009), the marginal propensity to consume –which describes the percentage of the marginal income which is spend on consumption- out of financial wealth, is from 0.7% in the short term and 1.9% in the long term. That means that, when wealth drops by 1%, then the consumption drops by 1,9 in the long run.

A number of studies regarding various states, shows a positive impact of wealth effect to consumption (McKibbin & Richards for Australia; Pichette, 2000 for Canada; Rossi & Visco, 1995 for Italy; Balmaseda & Tello, 2002 for Spain, all mentioned in Sousa, 2009). The study of Gan (2010) regarding Hong Kong showed a

significant effect of wealth on consumption, especially for younger ages of consumers.

Paiella's (2007) analysis about Italy shows an elasticity of consumption due to wealth changes to be near 4%, meaning that if wealth rises (or drops) by 1%, then consumptions also rises (or accordingly, drops) by 4%.

The elasticity of consumption with respect to total wealth is estimated to be around four percent. The estimated relationship between expenditure and wealth is clearly non-linear, since low-wealth households appear to consume more than would be implied by the relationship between expenditure and wealth for those with higher wealth.

Of course, the declining income and wealth during the economic crisis does not imply that all consumption trend is the same among countries, nor there is an common behavior among consumers.

The analysis of Mansoor & Jalal (2011) for consumers in Bahrain shows that the majority of consumers are shifting from expensive to inexpensive goods and from luxury goods to essential goods. Also, in the analysis, the majority of consumers agree that the global financial crisis has affected their consumption priorities.

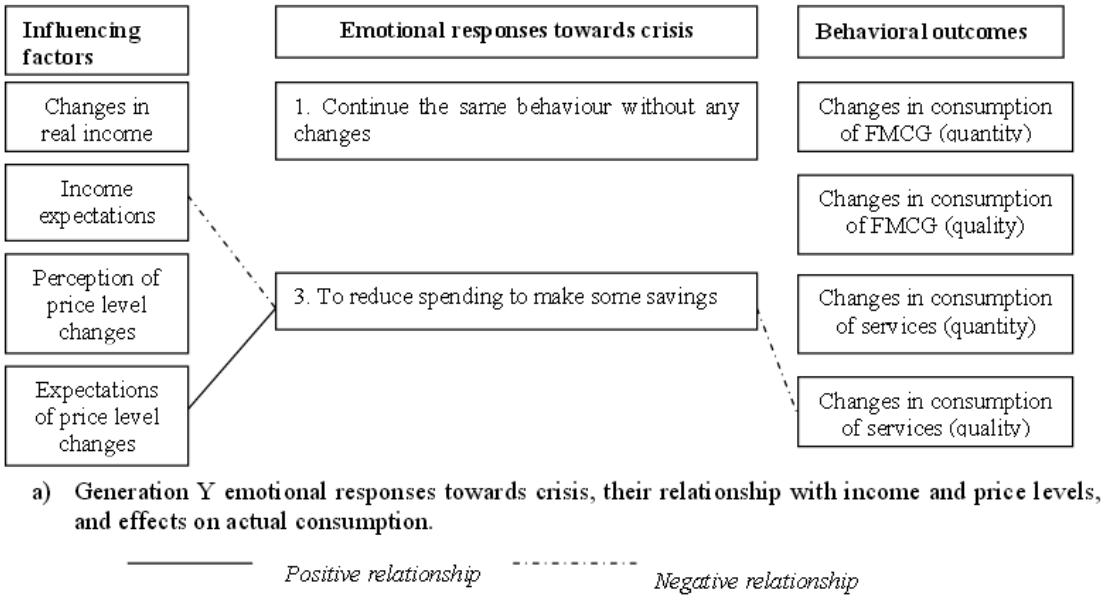
According to Flatters &Willmott (2009), economic crisis affected consumer choices in a different way between goods. The authors found that recession made consumers to seek for more simple, unsophisticated products, and are more risk-averse than before the crisis. Also, consumers are more willing to purchase "green" products, while they are not accepting unethical corporate governance practices.

Pandelica & Pandelica (2011), in a research about Romania found that the most anxious, or even panicked, was the person, the more willing was to lower his/her consumption level and as the top priority of his/her choice was the price of the product, in comparison with other products. Also, in the same analysis, consumers who were afraid about their current situation, categorized as "panicked", were more likely to postpone or even cancel major purchases, including holidays, journeys, and appliances.

Urbonavicius & Pikturniene (2010), in their analysis of Lithuanian consumers during the financial crisis, found that there are different behavioral consumer patterns among generations: the consumers of the older generation (the bulldozers, 43-52 years old) and the younger consumers (generation Y, 20-26 years old). The bulldozers demonstrated a more consistent consumer behavior than generation Y, although both generations reduced consumption in order to overcome the economic difficulties.

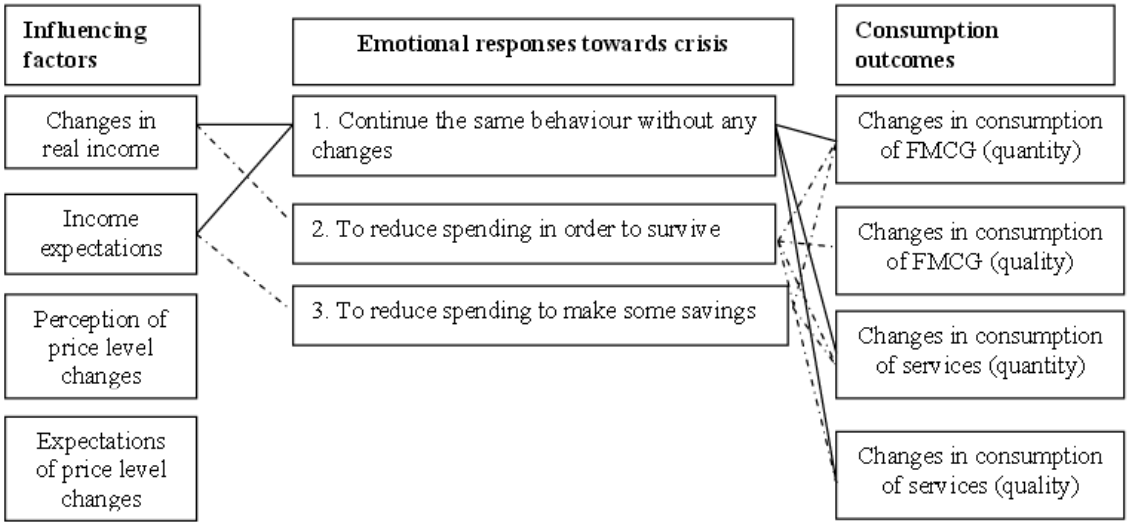
As we can see in the next figures, generation Y is more willing to reduce consumption in services, while the bulldozers is reducing spending in order to survive and to make savings, thus, as a result is reducing consumption among all goods.

Figure 5. Consumption parameters of generation Y.



Source: Urbonavicius & Pikturniene, 2010

Figure 6. Consumption parameters of Bulldozers generation



b) Bulldozer generation emotional responses towards crisis, their relationship with income and price levels, and effects on actual consumption.

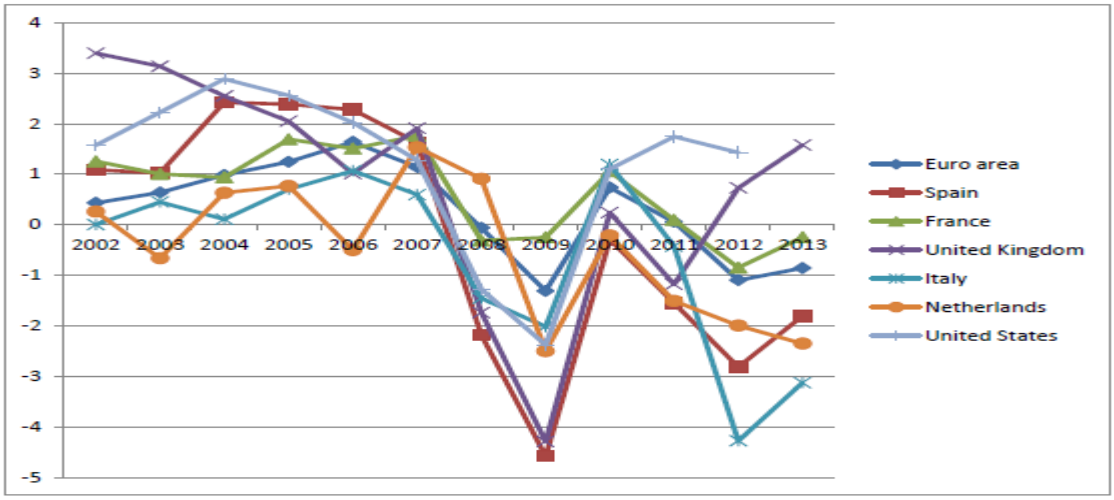
Positive relationship *Negative relationship*

Source: Urbonavicius & Pikturniene, 2010

As authors note, this findings can be useful for marketing strategies, since generation Y reported a higher expected income, companies could use brand value marketing strategies in order to gain this market segment.

According to Teppa (2014), consumers of most European countries have been affected by the economic crisis, but there are differences in the percentage of consumption expenditure among countries. In the case of Italy and Spain, the decline in consumption expenditure was deeper than other countries, something that is explained due to the deeper recession and the higher unemployment in these countries.

Figure 7. Household final consumption expenditure per capita (annual %).



Source: Teppa, 2014, p. 22

Consumption expenditure is, as well affected by stock market prices. The analysis of Garner (1998) of the stock market crash of October 1998, showed a positive correlation between stock market process and consumer spending.

Another factor that affects consumers' choice about the percentage of their disposable income are willing to consume, rather than to save, is the monetary policy of the Central bank.

As Modigliani (1971) notes, monetary policy has an impact on consumer spending. For example, by lowering the interest rates, a central bank is boosting the economy, because this decision will boost private consumption. This factor should be analyzed during the current economic crisis: although most central banks lowered interest rates in historical levels, consumption, as described, declined also at historical low rates. According to Krugman (2013), consumption would have declined even more if the FED (the central bank of USA) had not had the interest rates at almost 0%.

Attanassio & Szekely (2001), examining the economic crisis in Mexico during the 1990s, found that consumers were reducing the consumption amount for durable goods, as well as for goods with a high percentage of human capital, something that could result to a downward spiral, since the unemployment would increase, because of the lower demand for those goods.

Fiszbein et al. (2012), examining consumers' behaviour in Argentina during the economic crisis, found that most consumers were minimizing their expenditure, for

example by not purchasing even the medicine. On the other hand, households responded to crisis through adaptive strategies, such as the change in consumption choices, as well as through active strategies, like working more hours, selling assets or by using savings or even migrate. Also, consumers adopted social network strategies, like the reliance on NGOs or friends and family assistance.

In the study of Alimen & Bayaraktaroglou (2011) about Turkish consumers during the recent economic crisis, analysis showed that although the vast majority of the sample, consisting of 436 responders, cut consumption expenditure, there are multiple factors, such as age, gender, marital status, occupation and income. For example, older people are looking for more information about the products they are about to purchase, while professionals like accountants are more conscious about their expenditure.

Yang et al. (2001) in their analysis proved that consumers are cutting expenses for not so-essential goods, in order to save money for the consumption of the most inevitable goods and services.

The analysis of McKenzie (2006) about the impact of the financial crisis on Mexican households showed that consumers altered the consumption patterns, by reducing consumption of semi-durables, like bedding, glassware and clothing, as well as entertainment, while having higher percentage of expenditure for food, such as eggs, cereals, vegetables, etc. In this way, consumers achieved the maintenance of their living conditions, in a depression environment.

Badea (2013) analyzing the Romanian customers behaviour, found that consumers of lower and below average income reduced the quantity of goods they usually purchase, by preferring smaller packs, lower price and adapting a lower life-style, such as electricity consumption. On the contrary, consumers of higher income and above average income did not change consuming behaviour as much as the previous group, did not change life-style habits, did not cut quality preferences, but could not save money.

According to Bodosca et al. (2014), tourism consumption has been affected by the economic crisis, and, also, for the 58% of the sample, budget was a determinant factor for choosing the accommodation.

Voinea & Filip (2011), by analyzing the changes in buying behaviour during the crisis, found that they consumers are more responsible, more price-conscious, and more demanding. These findings is in accordance with the Euro RPCG C&O (2009) study in which is noted that "before being interested in the price of products, consumers are asking questions about their usefulness (64% of respondents wonder whether they really needed, 60% if the product could not find a lower price elsewhere and 59% if they can afford to acquire). In the context of crisis, perhaps contrary to many expectations, quality is what comes first for the new consumer before the lower price. Consumers surveyed defined quality by: looking for healthy products (42%), looking for strong and sustainable products (47%) and for responsible products".

According to Goodell & Martin, (Goodell & Martin, 1992, mentioned in Stefura, 2010), consumers are adopting new behaviour as a response to economic crisis, by deferring major purchasing decisions, are becoming more price-concerned, resist to companies attempts to set the pre-crisis crisis when the crisis is over, and they are less loyal to the company from where they usually buy the goods.

According to Rosales (2007), during the crisis in Spain, there was a reduction in consumption expenditure, because of the rising unemployment and the reduction of wages. Consumers, especially between 25-45 years old cut entertainment expenditure, while at the same time, being more of a "panicked consumers", with the major task to satisfy their safety and basic needs. Also, consumers have become more rational and they are preferring store brands (private label), rather than leader brands, because they have lower prices.

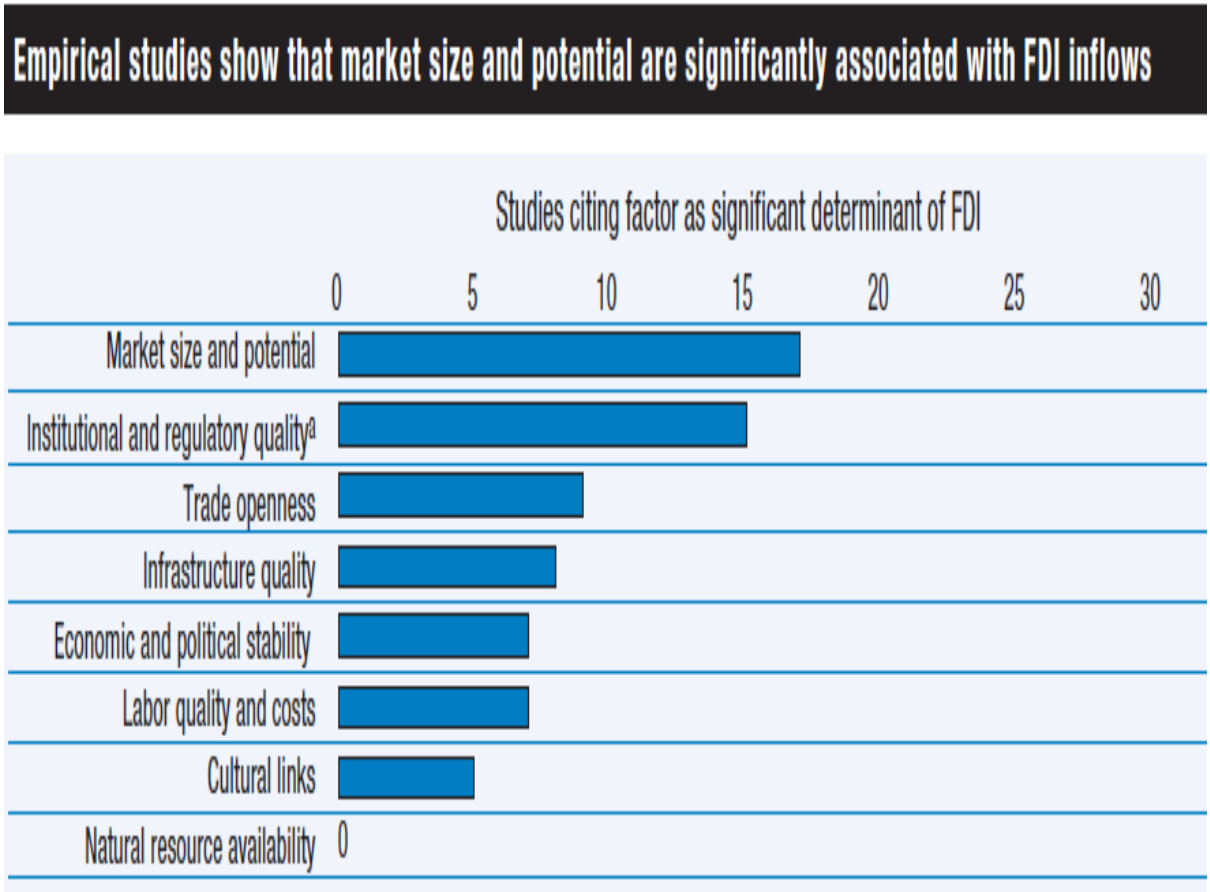
During the current financial prices, not all products' demand declined. According to the GfK market data analysis, during 2011, "demand for mobile phones once again increased in Europe, largely as a result of the rising popularity of smartphones. A 3.2% more mobile phones were sold in 2011, in particular the sales of smartphones increased by 67%" (GfK, 2012).

From all of the above, it could be concluded that, in the current economic environment, the fluctuations in income and consumption would affect FDIs inflows and outflows, something that will be examined in the primary research.

1.3 Growth potential

The market size is not a static picture but a dynamic process. Thus, companies are taking into account not only the current market size but the potential growth of the market. According to Lei and Chen (2011), the greater the momentum of development in a region, the greater the inflow of FDIs. According to Horneberg (2011), market size and growth potential in many studies have been consider as a single factor, and is the most important determinant of FDIs, as shown in the next figure.

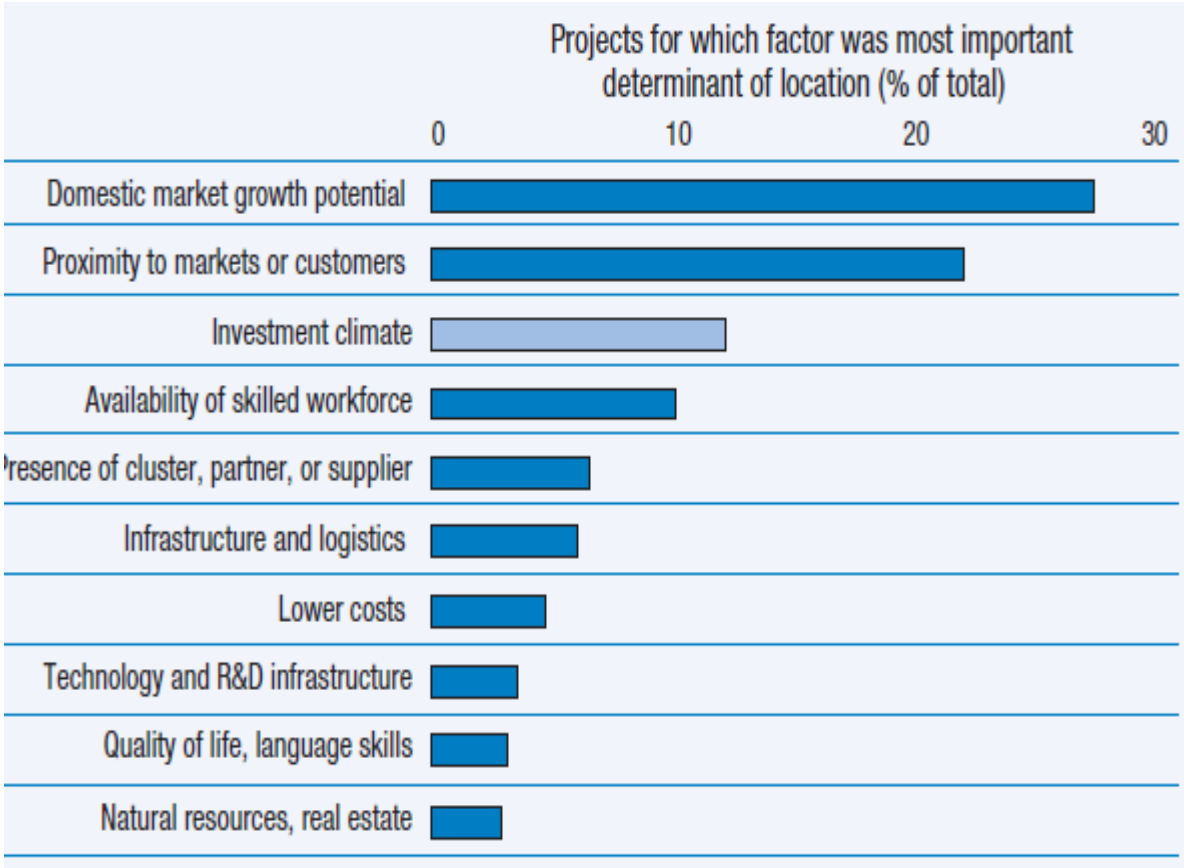
Figure 8. Market size, potential growth and FDIs



Source: Horneberg, 2011, p. 2

Also, in the same study, growth potential of the local market is the dominant factor in the choice of where FDis will be directed

Figure 9. Potential growth of local market as a determinant factors for FDIs



Source: Horneberg, 2011, p. 3

1.4 Unit labour cost

The unit labour cost, which equals the ratio of total labour cost to real output, is one of the most important parameters of the total cost of business, hence it is one of the most important parameters for the decision of companies to make direct foreign investment in the country.

Wage reductions lead to reductions in the price of products and increase the total output of the economy. The rationale of this measure is that every business, setting variable cost according to its needs, has the ability to adjust the marginal and average costs, so it can adjust the price of the goods and the quantity produced at competitive levels. This will happen if the reduction in labor costs will shift downward the variable, marginal and average cost curves. This shift will reduce the price of the good, increasing the quantity produced (Gwartney, 2011).

A key determinant of unit labor costs is undoubtedly the labor productivity. Productivity is inextricably linked to the skills, training and quality of the workforce,

as well as by introducing new technologies and innovation and the existence of the necessary infrastructure.

In economic theory, the rise of unit labor costs has a negative impact on competitiveness. Moreover, the competitiveness directly depends on five factors (Leichter et al., 2010): wage costs, non-wage costs, the performance of the employee, i.e. the productivity of labour, the exchange rate -regarding exporting countries with different currency- and the fiscal and institutional framework that provides a place for entrepreneurs, hence, whether it favors investment.

Certainly a sustained improvement in competitiveness cannot -after a necessary initial period- be based on the decline in nominal wages, coupled with the decline or stagnation of productivity, since the negative effects of a constant wage reduction in domestic demand will outweigh the positive effects regarding external demand. It is therefore necessary to improve the cost competitiveness to support and enhance productivity. In this context, structural reforms, aiming at efficiency of product and labor markets, can enable both the configuration of the potential growth rate to a higher level, while, at the same time, can improve the structural competitiveness (Mankiw, 2012).

The decline in unit labor costs undoubtedly improves the competitiveness in terms of labor costs and thus in terms of price competitiveness. Indeed, to the extent that the amount of gross labor costs do not reflect a corresponding improvement in productivity, i.e. productivity growth is below the rate of increase in gross labor costs, reducing salaries it is imperative, in order to improve the competitiveness of the economy. However, unit labor cost is not the only factor that determines the level of prices of domestically produced goods and services and heir price competitiveness. Besides, improvement of competitiveness cannot be based solely on the continuous reduction of nominal wages, and a decline or stagnation in productivity will have negative effects on domestic internal demand. Therefore, the focus should be on reforms which improve the structural competitiveness.

1.5 Macroeconomic determinants, business valuation, banking system and currency factors of capital inflows and FDIs

The connection between macroeconomics and business value, although is very important, it is usually being underestimated, not only by researchers, but by internal

and external analysts of companies' results and forecasts. The importance of macroeconomic conditions to the company's results is something that has been mentioned from economists, in order to propose an overall economic and financial policy and "fix" the economy, in periods of booms and depression. John Maynard Keynes had shown how an austerity policy has major implications to companies, by reducing their revenues and while someone would expect that lower wages could help firms reduce their costs, thus improve their financial state and allow them produce higher quantity, instead, due to lower demand, firms are facing lower revenues.

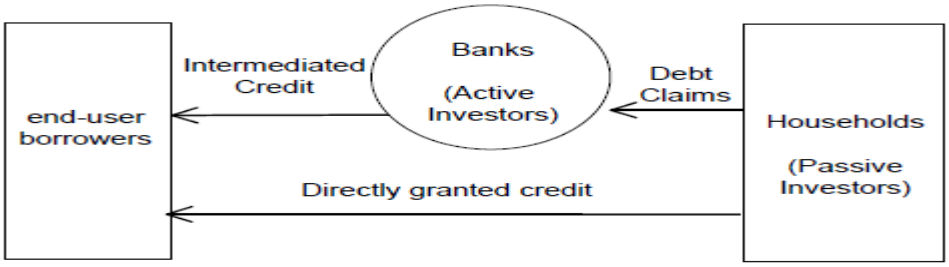
The connection between macroeconomics and corporate performance, especially the one regarding corporate failures, works both ways, since monetary policy has real-economy implications and, at the same time, real economy's output affects monetary and fiscal policy. Bangia et al. (2002) analyzed the case of macroeconomic conditions as a factor with large impacts to firms due to the changing in credit risk. Everett & Watson (1998) found that economic cycle (and in particular, interest rate, unemployment rate and retail sales) affect profitability, gearing, cash flow and thereby influence company failures.

On major issue of economic growth, thus connected to FDIs is the functioning of banking system and capital markets.

Banks are at the institution in which the people deposit their savings, paying interest to depositors. Those depositors' funds are provided by banks as loans to businesses and in return banks receive the agreed interest rate. So, banks, intermediating between savers who have capital, and businesses which are seeking capital.

The above description captures the classic mode of banks and describes the mediating role and mission of banks. This function of banks is the intermerdiation, precisely because savers and businesses does not come into direct contact with each other. The banks are providing the capital from agents with capital surplus to agents with capital deficit, as recorded in the following figure.

Figure 10. Intermediation of banking system



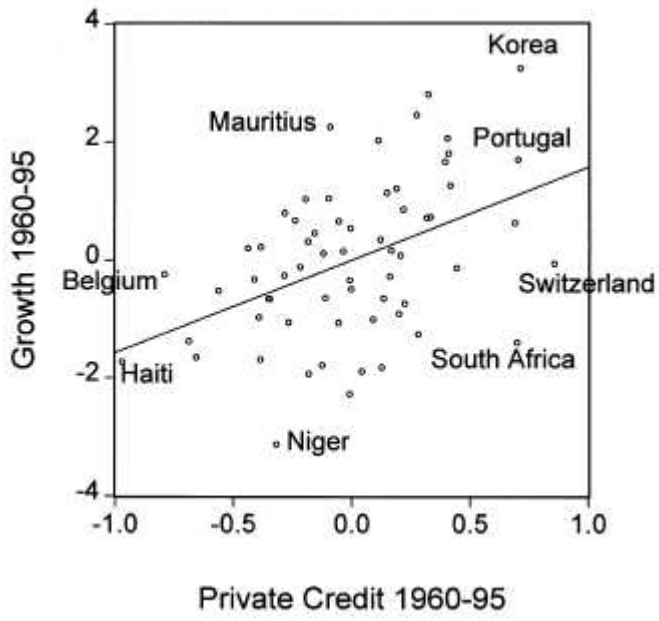
Source: Adrian & Shin, 2009, p. 10.

Banks are transforming the time term of capital srom short-term maturities to longer maturities (Adrian & Shin, 2010), and also, they are reducing investment risk, because they have large dispersion in their loan portfolio and also they have the tools to compensate a number of risks, eg, the risk of interest rate changes.

The existence and operation of banks as intermediaries, there are multiple benefits:

First of all capital is necessary in the production process. Therefore, the channeling of capital towards productive units, is helping them to develop their production, to strengthen their position and expand their activities. This results in the increase of GDP (Beck et al., 2000; Levine et al, 2000; Adrian & Shin, 2009). The supply of credit is positively linked with economic growth, as recorded in the following diagram.

Figure 11. Credit to private sector and growth.



Source: Levine et al., 2000, p. 48

The existence and proper functioning of banks as parts of the financial system development has been shown to enhance the economy and that the strengthening of the banking system supports the growth rate of real GDP, as well as the GDP per capita (Jayaratne and Strahan, 1996). Gertler (1998) shows that the expansion of activities of banks has been a major cause of the increase in economic activity and also increases the criteria of quality borrowing of banks, thereby strengthening the most competitive firms. Bencivenga and Smith (1991) note that the functioning of the banking system ensures not only the productive activity, but also limits the socially unnecessary liquidation of assets, which enhances the efficiency of investment and enhances the formation of new capital. Also, in his analysis For all these reasons, the banks, as part of the development of the financial system is extremely important, as it put the base of economic development (Ohno, 2011), increase the productive capacity of the economy (Mishkin, 2007), create a more stable business environment and have a positive effect on innovation (King & Levine, 1993).

According to Jude (2010), inflation rate, openness to trade and government consumption are influencing the relationship between financial development and growth, since they affect them both, but the degree of affection is not the same for these two variables. As Amano (2013) notes, capital formation varies among

countries, since the countriews which have the most developed financial system have the greater opportunity for higher capital formation.

As Aghion et al. (2004) note that, in order to be a convergence with the growth rates of the United States, countries should increase their financial development.

On the other hand, as Deidda (2006) notes, financial development might be unsustainable, since enterprises tend to be more capital-intensive, so they will need more and more capital, which the economy might not be able to provide. Also, as Bond et al. (2011) note, the development of the financial markets could boost speculation.

A major issue has to do with the failures of the financial system and their consequences to the economy.

The issue of the operation of the banking system is a main pillar of economic activity, as banks are the establishments for transmission of the monetary policy of central bank to the economy, but also have the institutional role of safeguarding depositors / savers, as well as to transmit funds to enterprises and the overall economy. Therefore, governments should have articulated a prudential framework for banks in order to ensure their efficient operation and, above all, to maintain unwavering trust of depositors and other stakeholders about the stability of the financial system.

Apart from the above, as banking activities are now globalized and banks form an interconnected web, an extra dimension of banking supervision, relates to the overall stability of the global economy. The phenomenon of contagion has become one of the most important primary causes of the deepening of the crisis of 2007 (Allen and Gale, 2000).

After the enormous crisis of 1929, USA had established a legal framework for banks (Glass-Seagal Act), which gradually had been abandoned and eventually there was a deregulation. As a result of this deregulation, the number of Savings and Loans Banks which declared bankruptcy during the 1980s increased sharply.

Table 4. Savings and Loans Banks failure, 1980-1988 (in thousand USD)

Year	Number of Failures	Total Assets	Estimated Cost	Supervisory Mergers	Voluntary Mergers
1980	11	$ 1,348,908	$ 158,193	21	63
1981	34	19,590,802	1,887,709	54	215
1982	73	22,161,187	1,499,584	184	215
1983	51	13,202,823	418,425	34	83
1984	26	5,567,036	886,518	14	31
1985	54	22,573,962	7,420,153	10	47
1986	65	17,566,995	9,130,022	5	45
1987	59	15,045,096	5,666,729	5	74
1988	190	98,082,879	46,688,466	6	25

Source: Πηγή: FDIC, 1997

Precisely because of this, it was necessary to ensure a satisfactory level of functioning of financial institutions. This need was reflected in the creation of the Committee for Banking Supervision. The Basel Committee on Banking Supervision (Basel Committee on Banking Supervision) was founded in 1974 with the participation of central banks of thirteen countries (Belgium, France, Germany, Italy, Luxembourg, Netherlands, Spain, Sweden, Switzerland, Japan, Canada, United Kingdom and the USA).

The financial crisis of 2007 highlighted the enormous importance of the financial system for the economies of countries (Blundell - Wignall et al.,., 2008). Before 2007 it was believed that a larger financial sector has positive effects on an economy, as it enhances the circulation of money, increased multiplier is created, businesses find the necessary funding at favorable terms and consumers have the option of obtaining consumer and durable goods, thereby stimulating demand and therefore production.

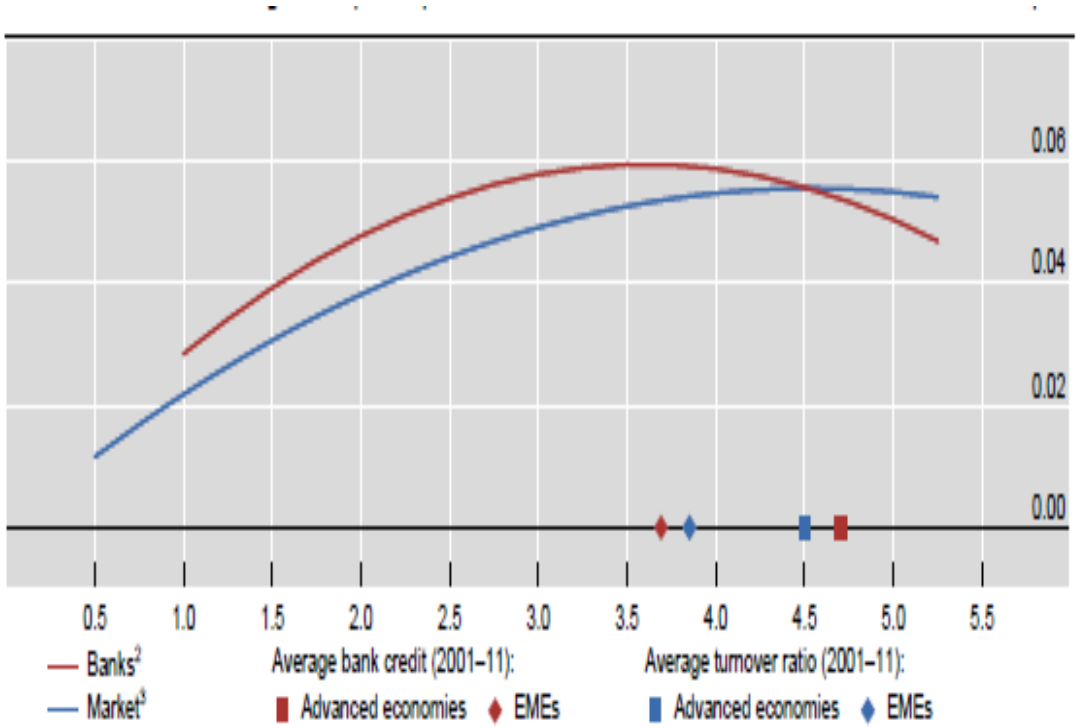
With the onset of the crisis, it was found that, to a significant extent, many of these above elements did not function as expected. The phenomenon of "bubble" on real estate has been triggered by investment firms, with the method of securitization. Also, the direction of capital to speculative markets, such as, derivatives on market indices, on currency market (forex), or in bonds of other countries with higher yields (carry-trade), «broke» the chain of transmission of monetary policy in the economy.

Apart from the above, according to the study of Cecchetti and Kharroubi (2012), the growth of the banking function enhancers in an economy, only on a certain size.

Above this point, the further expansion of the banking sector does not increase the economy of the country.

According to Gambacorta et al. (2014) the existence of banks substantially promote economic development, but it happens to a point, beyond which the expansion of banking reduces the growth rate. Analysts point out that, as the economies are growing, the banking sector should operate in parallel with the development of other sectors, such as investment funds, mutual funds and insurance companies.

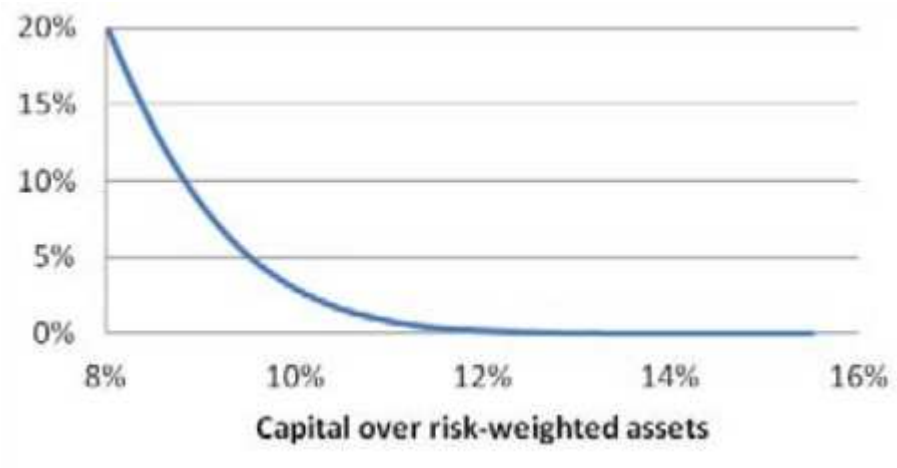
Figure 12. Correlation of GDP growth, banks and capital markets



Source: Gambacorta et al., 2014, p. 30

Financial market failures have serious impacts on the economy and growth. In their analysis regarding UK banks during 2007, Schanz et al. (2001) find when banks have a capital ratio of 8%, then there is probability of systemic crisis –defined by the authors as "the joint default of at least two banks" (Schanz et al., 2011, p. 77)- of 20%, while with a capital ratio of 10% the probability falls to 3% and with capital ratio of 12% and higher, the probability of a systemic risk is zero percent, as shown in the next figure.

Figure 13. Probability of systemic crisis regarding bank's capital.



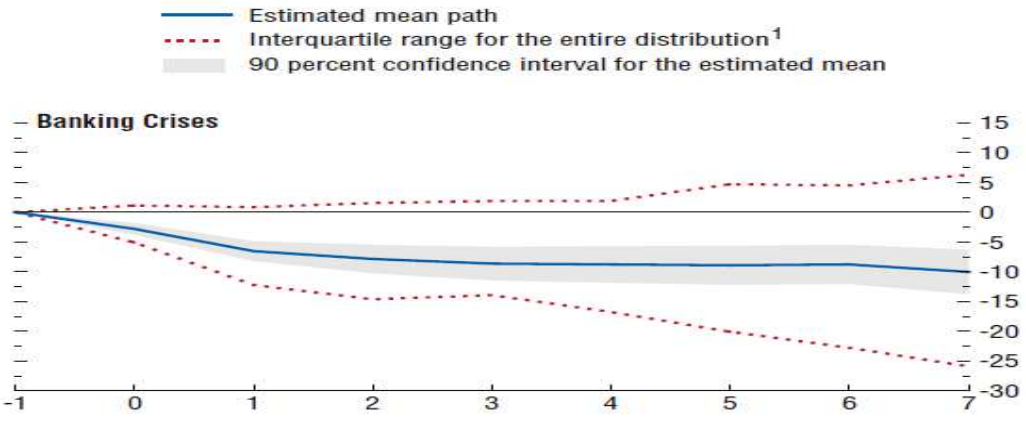
Source: Schanz et al., 2011, p. 77

As Elsinger et al. (2006) and Webber & Willison (2011) note, except the risk of a contagion of a bank's failure to other banks, the other source of the systemic risk of a bank's failure is because the asset values of the defaulted bank have positive correlation with the asset values of the other banks.

IMF (2009) notes that, even after 7 years of the begging of a banking crisis, as part of a financial system crisis, GDP is in reseccion

Figure 14. Output Evolution after Banking Crisis

(Percent of precrisis trend; mean difference from year t = – 1; first year of crisis at t = 0; years on x-axis)



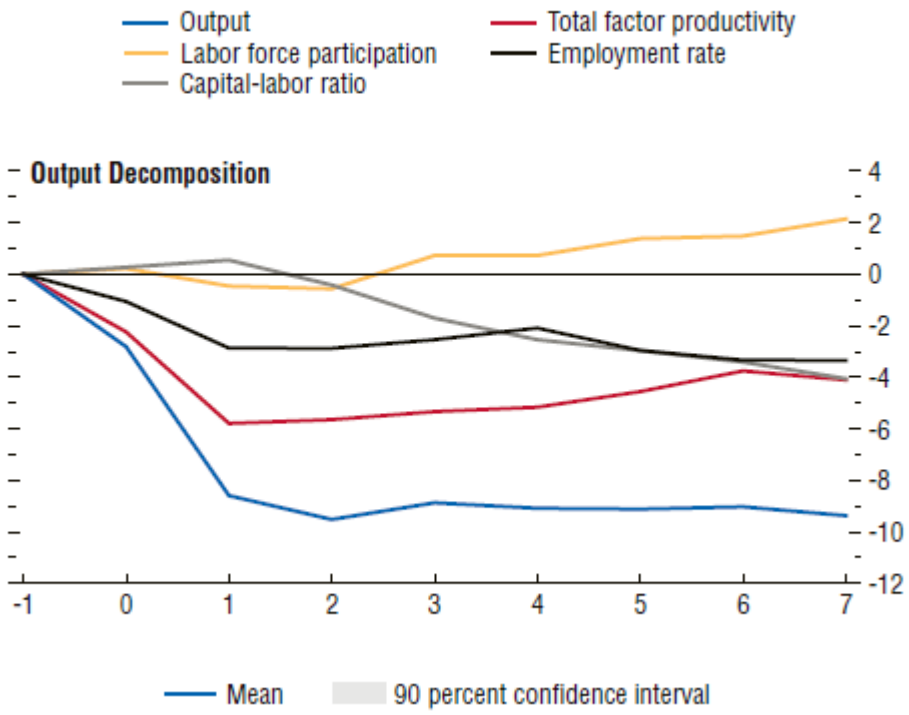
Source: IMF, 2009, p. 126

According to IMF, a crisis in the financial markets affects both the supply side and the demand side.

Regarding supply side, there is a lower output, lower total factor productivity, lower capital/labour ratio and lower employment rate, as shown in the next figure.

Figure 15. Output Decomposition

(Percent of precrisis trend; mean difference from year t = – 1; first year of crisis at t = 0; years on x-axis)

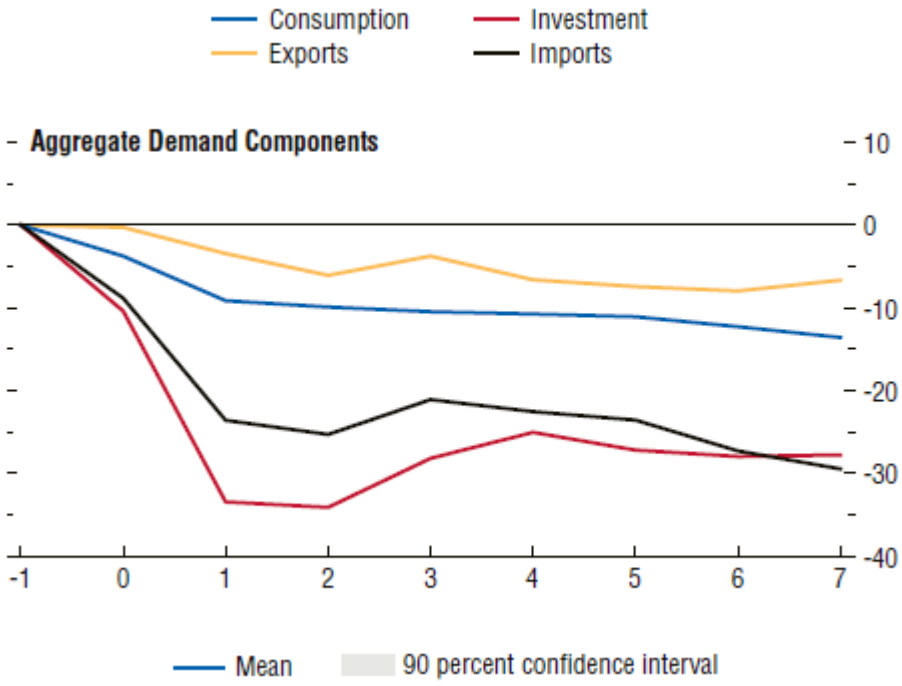


Source: IMF, 2009, p. 132

Regarding demand side, after a crisis in the financial system there is lower consumption, lower exports and imports as wella s lower investments, as presented in the next diagram.

Figure 16. Demand-Side Decomposition

(Percent of precrisis trend; mean difference from year t = – 1; first year of crisis at t = 0; years on x-axis)



Source: IMF, 2009, p. 133

Focusing on monetary policy, Stiglitz and Weiss (1981) note that a tight monetary policy does not allow firms to invest, thus companies are missing their development opportunities. Also, Bernanke & Blinder (1993) showed that Fed Fund rates is extremely informative about the macroeconomic conditions and the total output of the economy, because of their effect in each and every firm's output, since monetary policy is transmitting though credit (in a way that, a tighter monetary policy is reducing credit). Liu & Pang (2009) in their analysis found that macroeconomic variables are influencing business failures. They note that, particularly, interest rates, can be used as a feasible policy instrument to reduce the incidence of failures, because it is a signal of future movements of failure rates. Corporate failures have been identified to play an important role in macroeconomic fluctuations. Gordon (1991) found that a tight monetary policy, thus lower liquidity and higher central's Bank interest rates makes the business borrowing interest rates even higher, while it hurts the whole sector of the firm.

Another aspect is banking liquidity. Whited (1992) notes that when firms are in tough conditions and they need to finance their operations, are facing a lack of liquidity. Of course, this is due to banks' fear of a bankruptcy, but it is a question whether banks are making a self-fulfilling prophecy Hunter and Isachenkova (2003) note that even if

a firm is stable in the long-run, when facing a lack of liquidity, could go bankrupt, resulting to even lower borrowing to all firms, thus higher corporate bankruptcy filings. Bernanke & Gertler (1987) describe a situation of financial fragility, where "balance sheets are so weak that the economy experiences substantial underinvestment, misallocation of investment resources, and possibly even a complete investment collapse" and they suggest that "under some circumstances, government "bailouts" of insolvent debtors may be a reasonable alternative in periods of extreme financial fragility".

One major part of how the real economy, firms' value and macroeconomics are connecting together, has to do with systemic risk. The term "systemic risk" is one of the most widespread terms especially after the crash of Lehman Brothers. As Kaufman & Scott (2003) note: "systemic risk (...) matches the fear of a cry of "fire!" in a crowded theatre or other gatherings. But unlike *fire*, the term *systemic risk* is not clearly defined". As previous chairman of the FED, Mr. Alan Greenspan, (1995) stated: "It would be useful to central banks to be able to measure systemic risk accurately, but its very definition is still somewhat unsettled. It is generally agreed that systemic risk represents a propensity for some sort of significant financial system disruption, … (but) until we have a common theoretical paradigm for the causes of systemic stress, any consensus of how to measure systemic risk will be difficult to achieve".

Chairman of the Securities and Exchange Commission, Mary Schapiro notes that "there are two different kinds of 'systemic risk': (1) the risk of sudden, near-term systemic seizures or cascading failures and (2) the longer-term risk that our system will unintentionally favour large systemically important institutions over smaller, more nimble competitors, reducing the system's ability to innovate and adapt to change. We must be very careful that our efforts to protect the system from near-term systemic seizures do not inadvertently result in a long-term systemic imbalance". (Shapiro, 2009)

As Csiszar (2012) notes: "(systemic risk is) the risk that the failure of a participant to meet its contractual obligations may in turn cause other participants to default, with the chain reaction, (as well as) the probability that cumulative losses will occur from

an event that ignites a series of successive losses along a chain of institutions or markets comprising a system". The European Central Bank (2004) defines systemic risk as "the risk that the inability of one institution to meet its obligations when due will cause other institutions to be unable to meet their obligations when due. Such a failure may cause significant liquidity or credit problems and, as a result, could threaten the stability of or confidence in markets".

The Commodity Futures Trading Commission defines systemic risk as the one "that a default by one market participant will have repercussions on other participants due to the interlocking nature of financial markets. For example, Customer A's default in X market may affect Intermediary B's ability to fulfil its obligations in Markets X, Y, and Z." The Group of Ten (G-10) at 2001 defined systemic risk as "the risk that an event will trigger a loss of economic value or confidence in a substantial segment of the financial system serious enough to have significant adverse effects on the real economy". Kupiec & Nickerson (2004) state that "(systemic risk is) the potential for a modest economic shock to induce substantial volatility in asset prices, significant reductions in corporate liquidity, potential bankruptcies and efficiency losses". Frederic Mishkin (1995) notes that systemic risk is "the likelihood of a sudden, usually unexpected, event that disrupts information in financial markets, making them unable to effectively channel funds to those parties with the most productive investment opportunities".

One major aspect of systemic risk is that it is been considering as that a financial crisis could have impacts to the level of economic activity of the country, like the 1929 crash. As Schwarcz (2008) notes: "the classic example of systemic risk in this context is a "bank run," in which the inability of a bank to satisfy withdrawal-demands causes its failure, in turn causing other banks or their creditors to fail. The original failure can occur when depositors panic, converging on the bank to quickly withdraw their monies. Because banks keep only a small fraction of their deposits on hand as cash reserves, a bank may have insufficient cash to pay all withdrawal-demands, causing it to default and ultimately fail. The chain of subsequent failures can occur because banks are closely intertwined financially. They lend to and borrow from each other, hold deposit balances with each other, and make payments through the interbank clearing system (whereby banks with equity and deposit accounts

exceeding their liabilities can offer these excess funds to other banks who wish to increase loans to their customers). Because of this interconnectedness, one bank's default on an obligation to another may adversely affect that other bank's ability to meet its obligations to yet other banks, and "so on down the chain of banks and beyond."

The case of Lehman Brothers is the same case: the collapse of the financial system had extremely negative impacts to almost every country. In order to rescue the banking system, governments took actions and provided liquidity and capital to the almost-failed banks. That had major consequences in the public debt and, as a result, the taxpayers had to shift the entire burden.

The other major aspect of systemic risk is contagion. Not only bank failures were accompanied by a sharp decline in economic activity, GDP level and asset values and economic activity, but we faced a spread of instability throughout the financial system of the other countries.

The characteristics of a financial contagion are like a financial crisis virus. Because of the interconnectedness, the degree of correlation among institutions, the links between the financial sector of the countries, through the interbank system, as well as the real economy links, through Foreign Direct Investments, imports and exports, and the political links, through the diplomatic connections.

Also, we have to take into account another form of systemic risk and contagion and it's implication to firms' value: the contagion between countries. Gorea & Radev (2013) found that "financial linkages are an active contagion transmission channel only in the case of the troubled periphery Euro Area economies". They showed that "real economy linkages play a more important role in transmitting shocks from the Euro Area periphery towards its core. Countries that have stronger trade interconnections with troubled economies tend to have a higher expected joint default risk".

Reinhart & Rogoff (2011) are mentioning that banking crises precede or accompany sovereign debt crises and that "public borrowing surges ahead of external sovereign

default, as governments have “hidden domestic debts” that exceed the better documented levels of external debt”.

For the Eurozone, a debt crisis afflicting one country becomes a common problem for the entire currency area, because of close trade and financial linkages, especially because of the holdings of sovereign debt by banking groups and other institutional investors, which they have a multinational exposure. In this sense, the portfolio of these investors is facing greater risk, since, in most cases, they don’t hold only public debt, but equities as well.

Another factor of the contagion effect is because the common currency constitutes a channel itself between the member countries. The European Central Bank policies affect the entire currency area, but most of all because of the threat of a collapse of the common currency would create severe losses across the Eurozone area. As a result, a default in one member of the currency union could have massive implications for the other members, even if these (third) members have small direct exposure to the defaulted country.

Regarding FDIs and capital inflows, the issue of a potential currency risk is of the utmost importance.

The primary point of a currency crisis, in Krugman's model is the macroeconomic indicators of the economy and more specifically the current account balance of the country.

The issue analyzed by Krugman has to do with the competitiveness of the economy of countries. Reduced competitiveness may be due both to the cost of production factors, and the reduced productivity of production factors.

An important point, which is the beginning of thought Krugman, is that, precisely because of reduced competitiveness, the country recorded an increase in imports and decrease in exports. Of course, the growth of imports financed by the savings of the country. Therefore, it appears to place a capital outflow, thus a currency outflow.

However, the problem is not confined to the current account deficit. Is it possible the government to choose the loan so that it can finance the import of goods.

Certainly, there are two cases: the first relates to the country having a fixed exchange rate. In this case, by lending the government finance its fiscal deficits constantly

providing domestic credit, reserve assets will decline and eventually there will be a collapse of the exchange rate.

One of the issues arising in this stage is: what could be the government's response? We should not forget that, as formulated, the country increased its imports due to reduced competitiveness. So, basically, the increase in imports is the result of this lack of competitiveness. In order to increase competitiveness and thus reduce imports and improve the current account, should the government measures such as the reduction of wages, both in the sectors of tradable goods, and the branches of non-traded goods, because they affect the total amount of wages.

However, to return to the model, since government has taken the choice to keep lending capital in order to finance imports, speculators are raising questions about the country's ability to keep the fixed exchange rate. Normally, in order to have a fixed exchange rate, the country should have in balance the macroeconomic indicators, such as the balance of payments, since any imbalance in this account would have to be equated by the opposite action in the exchange rate.

So, the country to be able to repay both the borrowing and imports of goods essentially is forced to resort to its reserves. But here there are two issues:

- First, foreign exchange reserves of the country is limited
- Second speculators have no information on the exact amount of foreign exchange reserves of the country, but they see that the country will be deprived of the stocks it holds.

These two parameters essentially make the country unable to support the fixed exchange rate, so according to Krugman's model, this is the case of currency crises.

According to the model of Obstfeld, a currency can be attacked, not by the imbalances that exist in the current account and other macroeconomic imbalances, but the expectations investors have about the measures taken by governments in the future.

An important determinant, as mentioned, of the supply and demand for foreign exchange is the general government policy regarding the financing of the current account, but also the overall monetary policy of the government.

If investors believe that the government will pursue an expansionary monetary policy by increasing the money supply, this marks an increase of the deficit and debt as the country most likely it will make foreign borrowing. Therefore, the country will issue bonds for the repayment of which would have to resort to its reserves. Given that foreign exchange reserves are limited, speculators make a sale of the country's

currency, with the result that the country is selling its foreign exchange reserves to support the maintenance of the currency peg, as toutyo when they can no longer follow this politics, occurs to the abandonment of the exchange rate, thus confirming the initial forecast of speculators. So often this kind of currency crises are referred to as self-fulfilling prophecy.

This case is not limited to the fixed exchange rate, but to floating exchange rates, as well.

The floating exchange rate is determined by supply and demand of currencies in the foreign exchange market. With increasing demand of the domestic currency, the value of the currency increases (appreciation), while increase in supply, the value of currency decreases (depreciation) (Dadkhah 2009).

The underlying factors that determine the supply and demand of a currency are (Krugman et al. 2012):

• The demand for the country's goods from other countries, namely exports. As demand grows for goods produced domestically from other countries increases the demand of the country's currency.

• The income of the country: when income of the country increases, residents increase the demand for imported goods. This means increasing the supply of domestic currency.

• The investments directed to the country from other countries. As residents of other countries increase their investments in equities and bonds in the country, the demand for the domestic currency increases, leading to currency appreciation. Also, as increasing foreign direct investment (FDI) in the country, increases the demand for the domestic currency.

• Profit incentives: if investors worldwide consider that the value of the country's currency will increase, due to improving macroeconomic conditions in the country, then increase the demand for the domestic currency in order to earn profits. Similar is the case where the economies of other countries present recession or negative expectations for their economies: in this case, investors anticipate that the value of the currencies of these countries will decline against the domestic currency and also that it will reduce the performance of the shares, thereby increasing the demand for domestic currency, or to achieve higher profits or because seeking a safe harbor.

• The decisions of the domestic central bank with respect to interest rate: if the central bank takes a decision in the interest rate increase, then, as the domestic currency

offers more performance against other currencies increases the demand for the domestic currency.

• The decisions of the central bank intervention in the foreign exchange market: if the domestic central bank wants to prevent a further increase in value of the currency, it may increase the offered amount of domestic currency, ie may take intervention in the foreign exchange market.

Thus, when investors or speculators are expecting a government to follow an expansionary monetary and fiscal policy, then they will sell the currency of the country, since they are expecting lower interest rates. This leads actually to an decrease of exchange rate, something that the government might want to avoid, thus it will be in need to sell foreign currency in order to keep the exchange rate in the settled rate.

The case of the self-fullfing prophecy about government's actions is not limited to exchange rate. According to the survey of Vaaler et al.,. (2006) elections are evaluated negatively by credit rating agencies.. Specifically, having sampled 391 reviews during 39 elections in 19 countries in the period 1987-2000, it was found that most elections are accompanied by negative reviews, especially if expected to be elected government of the left-wing, while in the case expected to be elected a conservative government (right-wing), the score of the evaluation either remains as it was, or has an upgrade by one or even two points , in the event that the new conservative government will replace a left government.

The same conclusions regarding the rating of countries regarding elections find Block and Vaaler (2004). As noted in this study, the elections generally bring negative evaluation. So, global investors, as well as speculators, are taking actions which are based on assumptions that government's decisions will lead to a currency crisis, therefore, due to their actions, the currency crisis becomes a reality.

One of the biggest issues that arise with regard to the crisis in the exchange rate is the way the capital enters in an economy (capital inflows), the size of the input and the use of those funds.

Typically, capital inflows in an economy seen as something positive, as the economy becomes the possibility of larger productive investments. However, according to the analysis of the authors, for there to case the inflow of capital in an economy running negatives and create a serious crisis.

Initially, it should be noted that a significant part of the crisis in the rate of capital inflow is beginning of the banking sector, since the capital inflows are directed into banks.

The banking system, from its beginnings as a statutory body, the main objective is to bring together the needs of business with the wishes of savers. In this framework, there should be the following clarification: the oikonomounta people make saving a portion of their disposable income (average propensity to consume), it deprived the benefit that would have been on their current consumption in order to receive a fee which will exceed the marginal benefit of that consumption which have decided to abstain. This price is the interest rate offered by the bank. So, we can say that the interest rate of the bank is the opportunity cost of the benefit of present consumption. Accordingly, firms need to borrow capital in order on the one hand to continue and secondly to expand their business. Given that capital is, along with work, the main factor of production, firms derive income from the production process, which revenue should be set in a desired and defined by business proportion to its cost.

Therefore, the bank uses the money of savers to finance businesses. The bank receives interest from borrowers (businesses) and pays interest to depositors. The difference between the interest rate given and what is received and the main income of the bank.

This above description, which captures the classic mode of banks, leads us to conclude that, as more capital is in possession of a bank to lend, the greater will be its revenue.

However, in the above description result a number of issues which must be identified and resolved. The first relates to the risks faced by the financial institution and the second concerns the conditions that relate to the configuration of the level of deposits, hence the institutional framework to safeguard savers.

The concept of holding a bond untill the expiration date does not mean that the bank that holds this bond is no riosk. The risk of a bond to be retained until maturity reflects the issuer's ability to repay the coupon or, respectively, the nominal value of the bond at a specified date and the conditions defined. Therefore, the bank, holding a bond, is exposed to credit risk.

But while this is absolutely clear to corporate bonds instead of government bonds was believed to have no credit risk, psince the bonds have been issued in local currency. The rationale of this belief was that at any moment the country can print currency, so can repay its debt obligations. However, the history of sovereign default and sovereign debt restructuring is large, and has a significant long-term (Sturzenegger & Zettelmeyer, 2006)

The reasons why they may not be repaid on government bonds of a country is enough, the most important that of fear of hyper-inflation, where the currency will lose any reflective concept of values and will not be, in practice, trade media .

Thus, it has become clear that even in the case of possession of government securities, banks are faced with credit risk, which will be counted based on their particular credit rating by the rating agencies.

However, this risk of bonds held until maturity, is clearly inferior to the risk of those securities can be sold at any time. The risks, in this case, it is clearly more and qualitatively different. One such case concerns the liquidity risk, ie there are no deployed buyers of securities who wishes to sell financial institution.

As described above, the allocation of capital to productive units, helping them to develop their production, to strengthen and expand. This results in the increase of GDP (Beck et al., 2000; Levine et al, 2000; Adrian & Shin, 2009).

However, there is the case that the capital would not be directed to the production of new products, but the market existing values. In this case, increasing the offered money resulting higher prices, thus inflation. It should be noted that this increase in the money supply did not happen due to expansionary monetary policy of the central bank, but precisely because of interbanks' loans and the inflow of capital. Of course, in situations where there is a fear of rising inflation, the central bank will raise interest rates in order to on the one hand to limit the demand-After borrowing money will cost more-and on the other to increase the money supply-After capital holdings as savings will bring increased performance.

However, that interbank lending has an important consequence: it increases the prices of assets. Thus, the following occurs: a surplus (capital) bank lends another bank, which in turn lend to firms or to individual customers. This second bank is, therefore,

with increased financial leverage ratio. However, as the overall market there is credit expansion, increasing the value of companies with rising stock prices and a rise in assets of their assets. This increase results in a reduction of the financial leverage ratio.

As noted by Cipriani et al (2012), the financial leverage has resulted in the rise of prices of assets. Indeed, when an asset can be used as collateral, then increasing the value of including significantly. However, in times of economic crisis, the price difference between the assets that can be used as collateral and those that do not have this option does not increase, suggesting its lending reluctance to pledge when we expect a further drop in the share price, because of the crisis.

Adrian & Shin (2010), in their analysis regarding the financial leverage of banks in the US indicate that, on the one hand this leverage works pro-cyclically and secondly that through the leverage increases the overall volatility of the capital market.

The pro-cyclicality of bank leverage recorded in cases where the bank's management to undertake active management of financial figures, as opposed to passive management. As noted by Adrian & Shin (2010), in case of increase of capital due to the increase in the prices of assets that are valued at market prices (mark-to-market), the index of financial leverage of the bank is reduced. If the bank has chosen to active management, it will increase its lending, which will direct in lending, resulting in an increase in balance sheet sizes. Pro-cyclicality is presented precisely because the stock prices rise during the economic rise and fall during recessions.

Given the leading role of financial institutions in each economy, it is logical that banks are always concerned when a currency crisis erupts. We must distinguish two types of risks: a) a specific risk for the borrowing country, where the territory of crisis erupts, and b) risk due to capital moves across borders. As the crisis unfolds, these two risks interact, and the problem often begins with the deregulation of capital markets (financial liberalization), a process that can aggravate both the above types of risk.

The main problem is that lenders can withdraw the capital that they provided in the economy.

When they do withdraw the capital, have been left is a strong recession, while at the same time all sectors have major problems: the banking sector has non-performing loans, and assets cannot be sold except on fire sales.

All of the above are due to a lack of a good institutional environment in the county. Banks accepted lots of foreign capital, but instead of putting this capital for an increase of the total output, they gave loans to other participants of the economy, which led prices to a great increase.

So, the key issue is whether capital inflows can have more permanent characteristics.

2. Institutional determinants of Foreign Direct Investments

The Institutional Economics, like the New Institutional Economics are theories that examine and analyze the economic and social environment. Next, we will examine the basic principles of these theories, in order to have a clearer picture and see the importance of the methodology in relation to FDI

2.1 Institutional parameters of FDIs

The institutional environment is, according to international organizations (OECD, World Bank, UNCTAD) the decisive factor in the competitiveness of a country and its ability to attract investment. According to Schwab and Sala-i-Martin (2013) the institutional environment is determined by the legal and administrative framework within which individuals, companies and governments interact to create wealth. Acemoglu (2002) in his analysis about the level of economic activity of the last 500 years, observes that countries that in 1500 AD were rich, today is relatively poor, while other countries, relatively poor then, now record the most significant growth. Acemoglu finds that is happening because some countries have not developed institutional framework and have remained backward institutions, while other countries have developed their institutional framework, both in the form of formal, as informal institutions, thus creating the foundations for their future development.

The same conclusion, namely that the presence of institutional framework and not the geographical location, is the explanatory factor in the development of certain regions (countries), is in the analysis of Rodrick et al. (2002). In their study, are focusing on the adaptation of the institutional framework to the evolving conditions are the main determinant of achieving long-term growth of all the indicators of an economy.

Chang (2006) notes that the interaction between institutions and economy is the determinant of whether a country will be able to overcome an economic crisis, as well as the duration of a recession during the economic cycle.

Also, historically, the countries with high deficits, high inflation and fluctuating exchange rate, tend to have greater volatility in macroeconomic figures and also have smaller postwar growth than other countries. This phenomenon is attributed to the fact that these countries did not develop an effective and appropriate institutional environment: on the contrary, in these countries where the political institutional framework leaves uncontrolled political elites, there is a lack of a strong legal framework to protect the ownership of foreign investors, and also there is a widespread corruption and political instability.

The interconnection of macroeconomic decisions to the institutional environment is continuous and dynamic: according to Schwab & Sala-i-Martin (2013) the stability of the macroeconomic environment is important for the business, therefore is of profound importance for the overall competitiveness of the economy. Although macroeconomic stability is not, of itself, a factor of productivity growth, it is recognized that macroeconomic instability hurt the economy.

A country with deficits and debt is taking away precious resources from the economy, as the repayment of debt interest payments is arising through taxation. Fisher (1993) observes that the macroeconomic environment does not appear initially as a given, but is determined on the basis of overall conditions in the production of goods, labor costs, and employment and unemployment indicators, noting that a deterioration of public finances is an indication of dysfunction of these individual of component. Therefore, the institutional dimension of the labor market, the mode of production, distribution of resources and the way in which the state sets out budgetary and redistributive policy, constitute the basis of the evolution of the macroeconomic aggregates. The presence of an effective institutional framework is ensuring development.

According to Walsh and Woo (2010), there are a number of quality parameters related to the institutional environment, which have significant impact on the inflow of FDI in a country such as flexible forms of work and security, the independence of justice and depth of economy (Table 1)

Table 5. Qualitative Variables of FDI inflows

Summary of Qualitative Variables' Impact on FDI Inflows

Qualitative/Institutional	...		
Labor Market Flexibility	...	+(dev); +(adv)	-(adv)
Judiciary Independence	...	-(adv)	+(adv)
Legal System Efficiency	...	...	...
Financial Depth	...	+(dev);-(adv)	+(adv)
Infrastructure Quality	...	+(dev); +(adv)	+(dev)
Primary Enrollment	...	...	...
Secondary Enrollment	...	-(adv)	...
Tertiary Enrollment	...	...	...

+ represents significantly positive, - represents significantly negative, 'dev' represents developing countries, and 'adv' represents advanced economies.

Source: Walsh and Woo, 2010, p. 22

In their analysis, Benassy-Quere et al . (2007) found that institutional factors such as bureaucracy, competition in the banking sector, credit expansion, the regulation of financial institutions, the legal obstacles to hiring and firing, the justice system and intellectual property rights have a strong positive correlation with FDI, with a correlation coefficient greater than 0.8 (Table 2)

Table 6. Institutional factors of FDIs

Institution :	Dependent Variable : $\ln(0,3 + \mathbf{FDI}_{ij})$				
	origin	destination	distance	R^2	N
Bureaucracy	0.004	0.003	-0.149[a]	0.826	1950
	(0.063)	(0.052)	(0.036)		
Banking sector competition level	-0.171[a]	-0.004	-0.166[a]	0.813	1868
	(0.071)	(0.06)	(0.036)		
Credit extension	0.009	0.045	-0.164[a]	0.802	2746
	(0.039)	(0.037)	(0.029)		
Credit market regulation	-0.134[a]	0.105[a]	-0.206[a]	0.808	2819
	(0.043)	(0.041)	(0.025)		
Entry administrative conditions	0.126	0.402[b]	0.179	0.842	1159
	(0.2)	(0.224)	(0.122)		
Legal constraints on recruiting and firing	-0.147[a]	-0.192[a]	0.001	0.819	2482
	(0.052)	(0.049)	(0.025)		
Intellectual property rights	0.082	0.017	-0.104[a]	0.823	1981
	(0.086)	(0.075)	(0.027)		
Judiciary system	-0.082	0.033	-0.083[a]	0.824	1934
	(0.133)	(0.143)	(0.026)		
% lab. force with decentralized wage nego.	0.058	0.223[a]	-0.027	0.815	2716
	(0.047)	(0.048)	(0.023)		
Property rights security	-0.083	-0.15[a]	-0.102[a]	0.814	2972
	(0.062)	(0.058)	(0.028)		

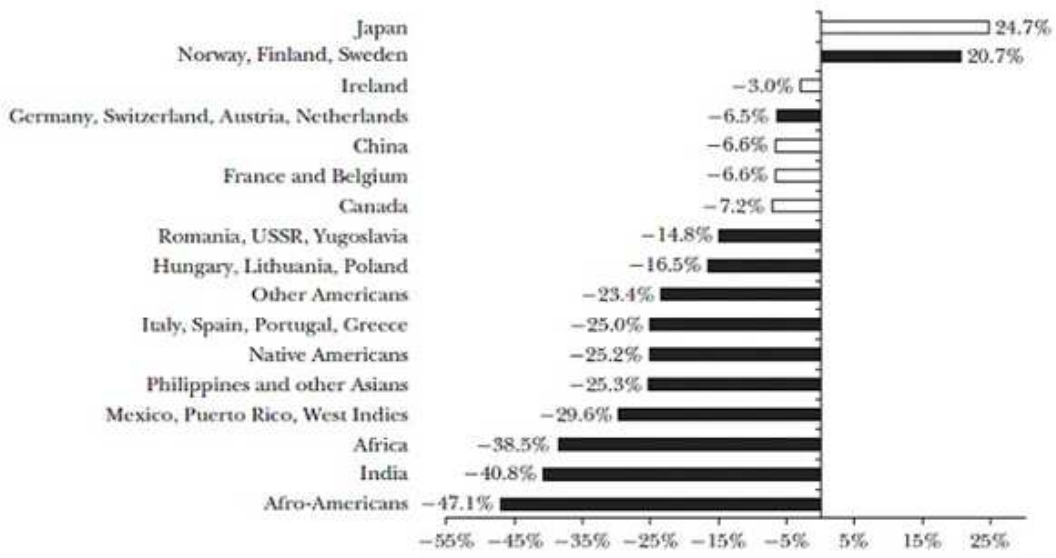
Source: Benassy-Quere *et al*.., 2007, p. 27

2.2 Trust and uncertainty

Trust, in the broad sense - which involves confidence in the exchanges, the contractor, the functioning of markets, etc.- is the necessary condition of operation of any economic system. Thus, the decline in confidence may lead to a significant deterioration in overall economic activity.

Guiso et al. (2006), in their analysis, study the influence of culture in the development of the size of economic activity, by appointing as culture the beliefs and values that ethnic, religious and social groups communicate with essentially unchanged content, from generation to generation (Guiso et al., 2006, p. 23). In this analysis they indicate the importance that has the element of trust for economic activity, and they are examining whether trust varies according to nationality, registering significant differences between ethnicities.

Figure 17. Level of faith, regarding nationality



Source: Guiso *et al.*, p. 31.

The analysis of the factor of trust in connection with the examination of the overall institutional framework has been analyzed by Axelrod (1984), which states that people can develop trust because of the quality of the legal system or as the result of strategic interaction. Also, trust may even be the result of optimal investment in social capital. In addition, there is a direct link between confidence and growth, and the existence of trust encourages trade, promotes the financial system and the functioning of banks -both for savings base and for the provision of loans. Because regions and countries have different cultures there are variations in the level of confidence, as there are also variants of behavior in terms of uncertainty. Some cultures are more willing to face uncertainty, and other civilizations are trying to create a system which minimizes uncertainty. The issue of uncertainty is a critical factor in the decision of the management of companies for foreign direct investment because of uncertainty involves many aspects, such as fiscal policy, the regulation on property rights, etc. Thus, a culture that has smaller uncertainties is more likely to attract FDI from a culture with higher levels of uncertainty.

2.3 Political environment

The issue of institutions and confidence in them is directly related to the concept of good governance, since the better the level of governance, the better he behavior of people , especially in context of economic activity (Lin and Nugent, 1995) .

Kaufmann et al. (2005) recorded six main dimensions of the governance conditions, which are directly related to the amount of income of the economy, growth and competitiveness, hence the inflows of foreign direct investment:

1. Wording opinion and accountability framework
2. Political instability and violence
3. Government Effectiveness
4. Regulatory barriers
5. Rule of Law, and
6. Bribe

The concept of good governance is directly linked to the part of the institutions referred to both the issue of property rights as well as the developments in the macroeconomic indicators of countries (Sheng, 2013). As Acemoglu and Johnson (2005) observe, institutions relating to property (property rights institutions) produce first-order effects)in long-term GDP growth, investment and development, since the existence of such institutions is strong indication that the property, as a concept, is established in culture, traditions, customs and culture of the country's citizens. Therefore, it can be concluded that the more the sense of ownership is embedded to citizens, and there is an establishment of an institutional framework that ensures that property-whether public or private- the greater will be the confidence in the conclusion of contracts , thus increasing economic activity.

Kaufmann et al. (2005), examining data from 209 countries, find straight connection of the economic situation of a country and business environment institutions and the extent to which the adoption of good governance in a country has been achieved, as set out in the above six axes.

Rodrick (1999) in his analysis of the way in which an effective institutional environment is been developing, emphasizes that the creation of the institutional environment should have as its cornerstone and axis the local knowledge, i.e. the existing, prevailing circumstances and the history of the region. As he points out, the institutional development should not give the utmost importance to best practices at the expense of the experiments which could can take place at local level (Rodrick, 1999).

In the same analysis Rodrick (1999) notes five types of institutions that should exist alongside with the whole institutional framework that strengthens and promotes the market mechanism:

- Institutions property rights
- Institutions which make it possible to check the property
- Regulatory institutions
- Institutions of macroeconomic stability
- Social security institutions
- Institutions solving disputes and conflicts

2.4 Level of corruption

Directly connected to the wider institutional framework is the issue of corruption, especially that part concerning the corruption in official institutions, the function of government and the political system. Corruption is related to economic growth. As Mauro (1995), the higher the corruption, the lower is the economic growth. This is an explanatory factor of the higher interest rates of bonds in the countries with higher corruption. Also, as Vargas and Sommer (201) note, the higher the corruption in the country, the more the probability of a sovereign default.

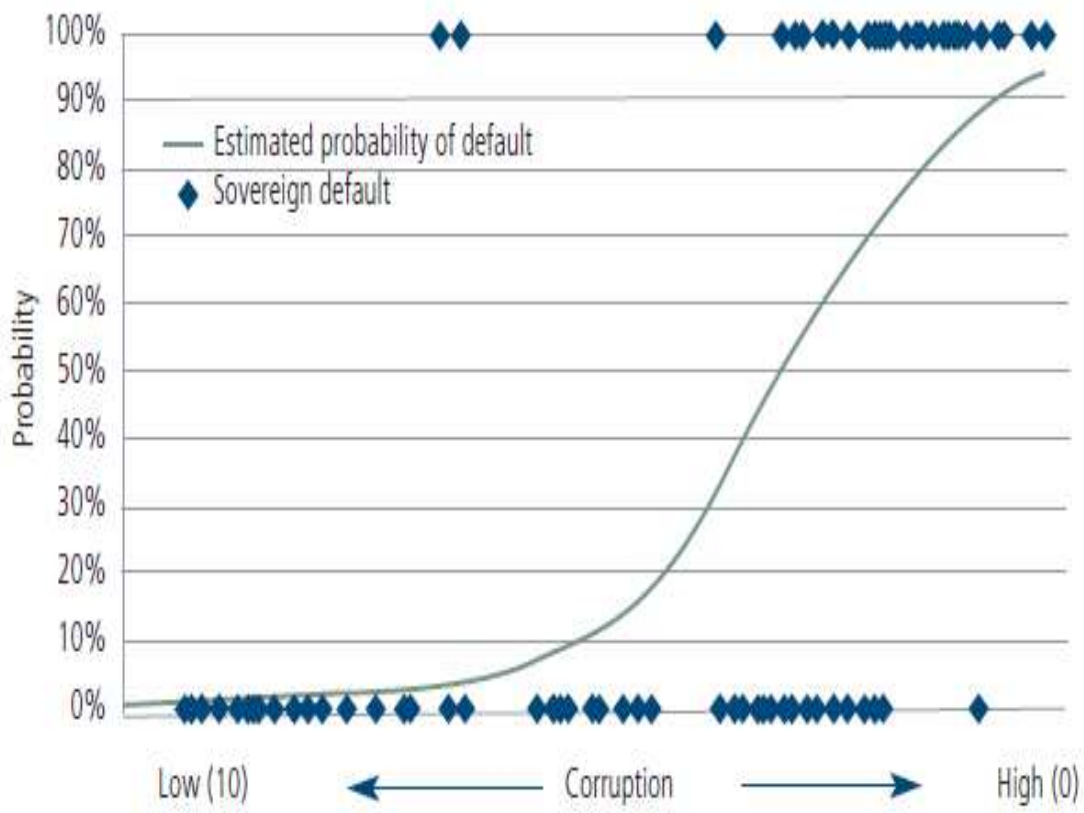
Table 7. Level of corruption and the probability of sovereign default

Corruption index	Level of corruption	Countries	Sovereign defaults	Probability
[8–10]	None	15	0	0%
[5,5–8]	Low	16	1	6%
[4–5,5]	Moderate	16	4	25%
[3–4]	High	19	13	68%
[0–3]	Severe	21	20	95%

Source: Vargas & Sommer, 2014, p. 8

As shown in figure , countries which have defaulted in the last thirty years –the blue diamonds at the top of the diagram- have the highest rating of corruption, measured by the Transparency International Corruption Index. On the contrary, countries with low corruption level have not experienced sovereign default and they have minimum probability of default.

Figure 18. Probability of sovereign default and corruption



Source: Vargas & Sommer, 2014, p. 9

Except of corruption, a poor institutional environment is bureaucratic, thus it is difficult for investors to trust the country, since bureaucracy is connected with favoritism, lack of credibility and ineffectiveness. As Leff (1964) note, although bureaucratic corruption and bureaucratic inefficiency are separate concepts, in most cases they appeal together.

As World Bank and IMF (2001) note, in developing countries – which, in the case of European Union have the characteristics of the transition economies (Rada and Taylor, 2006)- bureaucracy and the poor quality of rule of law makes long-term investors to avoid these economies.

As Garibaldi et al. (2002) note, the only explanatory factors for capital inflows to transition economies are the property rights, as a part of the whole institutional framework, and the financial market infrastructure, which is also connected to the level of good governance and solid institutions (Kaufman et al., 2005).

Regarding the perceived level of corruption in a country, foreign observers should be noted that this is split between the perception of corruption of non-natives (foreign companies, international organizations, non-permanent residents) and the perception of corruption the natives have (citizens, businesses, associations, etc.).

According to Recanatini (2012) corruption focuses on the following forms:

- Corruption in public procurement and public projects: Using bribery and other gifts / benefits to differentiate the public procurement process
- Corruption in budget management: Using bribery and other gifts / benefits to influence decisions concerning the allocation of funds
- Corruption in personnel selection: Usage corruption and other gifts / benefits in order to influence the selection of the personnel
- Corruption in legal system, the administration of justice and the implementation of regulations: Use of bribes and other gifts / benefits to differentiate the legal decisions and regulations.
- Corruption in government: Use of bribes and other gifts / benefits in order to create obstacles to the provision of public services or to provide unnecessary public services (Recanatini 2012, p. 58).

Unfortunately, Greece is leading in both perceptions of corruption, as it has the third higher (worse) place in the perceived corruption of foreign observers and the higher rank (worst) of the corruption perceived by citizens and permanent residents (Keller & Sik, 2009).

The public procurement in most countries of both the European Union and the OECD range from 15% to 20% of GDP (Piga, 2011). There are many cases where the State buys the whole quantity or the largest percentage of total production of some enterprises. This shows that large construction companies work only with the State, building on behalf of the state bridges and highways. Public hospitals are important customers of pharmaceutical companies. Electricity production organizations are the main customers of well-known multinational companies, such as ATT, ABB, Siemens,

Alcatel, purchasing turbines, generators or any other significant technologically advanced products. So many sectors of strategic importance for the economy, such as telecommunications, weapon systems have as the driving force the public procurement. As for products which are not being dramatically affected by the policy of public procurement (e.g. shoes, food, clothing), the State is considered a key client, especially in periods of recession. Here we have to note that in Greece there have been a series of corruption scandals, involving and multinational companies.

Corruption in public works contracts and procurement of public receives systemic character (hence, we can say that it becomes an institution) and institutionalized in two forms: the first refers to low-budget projects, usually on a local scale and reference to which corruption as on the mainly focuses on corrupt practices of local actors from individual companies and the second refers to big budget projects, hyper-local scale. In these projects, companies' consortiums, composed of different sectors which bribe politicians (in order to pass the projects in the budget and approved contracts and funds), bureaucrats (to put pre-agreed criteria) and media (to highlight the necessity and importance of the project, making the company wishing to undertake the project, etc.).

One of the questions raised is whether corruption in public procurement mainly concerns bureaucrats or politicians. Piga (2011) takes as unique politicians and bureaucrats, both of them taking the benefits of corruption. Especially he emphasizes that corruption policies pushes the corruption of bureaucrats -as know that they will move research and sentencing procedures thereof; and respectively the corruption of bureaucrats is essential for politicians, who on the one fear that if incorruptible bureaucrats likely to revealed fraud and on the other hand need the expertise of bureaucrats in order to hide the corruption through many processes, camera specifications and other details.

One issue raised by Piga (2011) is that of when a misguided public supply or inappropriate public project is due to corruption or incompetence. For example, a project tender which was not necessary, it was considered as such, was introduced in the budget approved, financed and executed: this is a result of corruption or it may come from impotence of those who approved this project? In this question, Piga indicates that both phenomena corruption and incompetence- are based on the absence

of an effective institutional framework, so the base does not vary. With effective institutions, there would be drastic interventions, either from formal or informal bodies, in order to be informed about the importance of the project, so whether it is a waste of resources it is useful. Also, Piga indicates that hiring of inefficient or without full knowledge personnel in positions relating to procurement, often it is a scheduled result, because superiors (bureaucratic hierarchy or politicians) want to continue their activities and, in the case that a scandal will be revealed,, then the personnel will have the whole responsibility.

An additional dimension of corruption relates to the business decision to proceed or not in corruption. A company's decision to bribe or not the bureaucracy, and the decision to enter the "black market" or not, depends on how distorted is the perception of all institutions for bribery, corruption and "black market". The greater the public confidence in the institutions, the less the tendency of enterprises to be a part of the informal economy and corruption. Conversely, the smaller the social trust in institutions, the greater the likelihood of corruption, as the company is concerned that, without corruption, will have significantly higher costs than competitors.

To address corruption, the activation of international bodies is necessary. The presence of international bodies has the potential to strengthen the preventive and deterrent governmental mechanisms regarding corruption issues on public procurement (Wren-Lewis, 2012). Also, these international bodies can exert pressure on governments to put high priority on the issue of tackling corruption.

2.5 Privatizations

An additional issue which is a part of good governance, transparency and the adoption of structural and institutional reforms by the citizens, is that of privatization. The issue of privatization has been analyzed by the academic and research community, as the process of privatization has both positive and negative effects on the economy. In their analysis about the countries of the former Eastern bloc in Central Europe, Aghion & Blanchard (1994) observe that as markets released, the termination of state enterprises-which happened rapidly- has not been accompanied by a corresponding activation of the private sector, which resulted in the increase in unemployment and secondly, the deterioration of public finances. Also, in their analysis, they indicate that

in the process of productive transformation, job creation actually happens when there is a relatively low unemployment rate in the country. Conversely, if the unemployment rate is high, the rapid process of transition will be accompanied by even larger increase in unemployment, with great difficulty significantly reducing it, even in the medium term.

It should be noted that the state enterprises rapidly closing has been proven as counterproductive, since there is a reduction of the total quantity produced (i.e. the country's GDP), while the savings base is reduced as well (Castanheira & Roland, 2000) Rodrick (1995) in his analysis of the same question notes that while unemployment increases initially, because the loss of jobs from the public sector is higher than the job creation by the private sector, then there is a reallocation between sectors in the economy, when unemployment It begins to decrease as the capacity of the new sectors starts and generates increased demand for labor. Of course, as noted by Rodrick, because more and more workers will be employed in the private sector the chance to receive a higher salary than that of the public sector is reduced to the same extent that accelerated reforms. This results in the opposition of workers in the rapid privatization and reform programs.

On the same issue, namely the speed of reforms are taking with regard to unemployment, researchers attribute the displayed unemployment not in the absence of job creation by the private sector but mainly to unemployment benefits as provided by Government to former public employees (Boeri & Terell, 2002).

About privatizations, especially those relating to certain critical goods such as water, decision-makers should have considered whether all the institutions are willing to accept these reforms, because otherwise any attempt will bring reactions with risk not only to make the program's unsuccessful, but also the costs of the reforms to be much larger than expected, with the result that any planned investments not to be implemented (Peeroo, 2013).

The privatization of state economic activity carried out by public bodies referred to limit the control of public enterprises in this activity. The sale of the entire public enterprise or a section constitutes the most common way of limiting the active economic role of the state and contributes to immediate cash injection to the state coffers. Market liberalization in order to restore competition in the industry and enter

private enterprises which restricts losses of public enterprises in declining cost conditions burden the state budget to cover losses of economic activity. The contractor delegating certain business activities from public to private enterprises increased cash balances of the state and limit the state's participation in a loss-making industries.

The existence of a balanced mixture of private and public enterprises is the key issue for the proper functioning of an open economy in the modern globalized economic environment. The economic and technological efficiency of public enterprises and the contribution to achieve the economic goals of the state is a necessary condition for continued operation. Amid the global financial crisis, there is the issue of the shrinking role of the state, aiming at fiscal consolidation along with the introduction of New Public Management in the public sector, and streamlining the public sector. Privatization is a key tool of States to rationalize public spending and to attract Foreign Direct Investment, boosting the real economy and creating the right conditions for stable economic growth.

The main reactions to the reform measures are observed both by those who already hold certain privileges which do not want to lose, and by those who don't have any privilege, fearing deterioration in both of their income, and the social network. As to the first, this rejection of the measures is perfectly explicable, both on the basis of preference and personal motivation of individuals (Caplan, 2007), and on the theory which states that an individual will try to improve his position, even at the expense of others. As to the latter, the main point has two dimensions: the first has to do with the labor market and the second has to do with the issue of operating framework of institutions and the principles of good governance.

Regarding the labor market, in a closed system that does not have the ability to create new jobs and which operators and participants have no incentive to improve and increase their competitiveness, jobs for new entrants and outsiders constitute a kind of 'prize' for the conquest of which the applicant worker should be addressed either interest groups or politicians, as would otherwise have little chance to get a job (Mitsopoulos & Pelagidis, 2009). This phenomenon relates to the analysis on the corporatism -which will be later further mentioned- but also on the beliefs of people about productivity and more generally on the functioning of the economy.

A main purpose of public-owned enterprises is the fact that the state wishes to hold a key input. Usually companies holding such inflows are monopolies or government decision for strategic reasons or because the infrastructure costs are insurmountable for a private enterprise. Also, the government of a State is in possession of such monopolies because according to the importance of the goods produced by the enterprise wishing to produce the desired social and non-social deficit created by the action of monopoly. It should be mentioned the very important event of the control of externalities of an undertaking on the part of the state, bearing in mind environmental sustainability than the creation of any profit.

Besides the above, the state retains enterprises to create profits, especially when the business is a monopoly, having supernormal profits, thus increasing budget revenues. Furthermore, the state, through business activity, it is possible to achieve optimal allocation of means of production, contributing to the development of the country and bringing the potential GDP. Of course another reason for the existence of public enterprises is to achieve income redistribution. This can be achieved through taxation when the state is intended to cover a possible deficit in a state enterprise, equally allocating a tax burden that may not correspond to all citizens if they do not buy the product.

At this point it should be clear the case of a natural monopoly which exists where the company operates in the long term by decreasing production costs and inflows which exceed the quantity demanded at each price, and when the company can achieve economies of scale. The government usually chooses for businesses that are natural monopolies to be public and not private. The reason of such a government decision is that in case of a private natural monopoly will reduce greatly the amount of production resulting in a decrease in employment and therefore an increase in unemployment, reduce subsequent consumption, increase transfer payments such as unemployment benefits, with the ultimate and principal effect of reducing the GDP and increasing deficit and state debt.

Because of this effect, the state chooses either to be the owner of these companies or pushes the market towards enlargement, creating an oligopoly. Oligopoly exists when participating in the market very few companies producing the same or similar product. In this case, unless it is working or not allowed by the state legislative

exercise political collusion and cartels, will choose to sell each for the account of the amount which would be equivalent to that of a monopoly for achieving maximum profit with producing the minimum possible amount. At this point applies as the Nash equilibrium and game theory. According to them, the economic actors interact selecting the best strategy taking into account always the strategy chosen by others. So in an oligopoly where each firm chooses the quantity that will produce to maximize profit as if it were a monopoly, after all with their strategy contributes to the increase of production volume and the price reduction, which is beneficial for society and the economy over the monopoly. Beyond the inability to achieve monopoly effect of oligopoly because of the balance Nash, should highlight the role of the supervisory mechanisms and ratifying the state to prevent cartels appearance.

The modern interventionist role of the state is expressed by undertaking various economic activities in the establishment and operation of public companies. The state, seeking to optimize the allocation of resources in the economy, improve income distribution to members of the community, the stabilization of the national economy at full employment and economic growth in the longer term, grants to public enterprises a wide scope . In sectors where fixed costs are very high and only one company can offer the goods at a lower cost than that offered by some companies together while still covering a large part of total demand, formed natural monopolies by public undertakings.

Avoiding formation of private monopolies is the main reason for the existence of public enterprises. Private monopolies produce at the point where marginal revenue equals marginal cost and imposing price greater than marginal cost. The total production is lower than the socially desirable, therefore the optimization of resource allocation cannot be achieved.

Moreover, by preventing the formation of private monopolies, there is an avoidance of speculation to the detriment of consumers against overpricing of goods. The entrepreneurial activities by public bodies also aim at rationalization of production, since public enterprises not only seek to achieve economic efficiency, but also to maximize social welfare. In addition, public enterprises are seeking to promote different economic objectives decided by the government, such as tackling

macroeconomic imbalances through control of inflation and unemployment, promoting regional development, etc.

The entrepreneurial activities carried out by the state could be in sectors and industries, since these sectors have a strategic role for the economy. In particular, public companies engaging in economic activities in industries with declining marginal cost of production. These sectors are the main feature the very high fixed costs resulting in production levels which minimize the average cost to be very high in relation to demand for the good of the industry and the equilibrium quantity in the market is much smaller than the amount in which minimizes the average cost. Thus a single company undertakes the economic activity in this economic sector. So a natural monopoly is created, becoming the main business scope of government.

The optimization of resource allocation, i.e. the production quantity desired by the community and whose cost is willing to cover, it is a key factor in the pricing of public enterprises. Public enterprises, in order to achieve this goal, equate the price of goods and services to the marginal cost, as firms in perfect competition.

The impact of privatization on the overall economy has advantages : first of all, there will be direct revenues, something that the economy needs particularly if it is in recession and has high deficit and debt.. Moreover these revenues can be allocated to public spending , either in public investment, in order to increase GDP through the multiplier effect, or by transfers that would cause an increase in the income of citizen’s thus perhaps increasing consumption and thus GDP.

Additionally, the privatization can help the competitiveness of the country. An increase in productivity can be achieved, due to the reduction of bureaucracy and due to higher management efficiency, resulting in a higher GDP.. Finally, a private company is likely to invest in research and technology -because of the competition-, helping the overall economy.

2.6 Corporatism and trade unionism

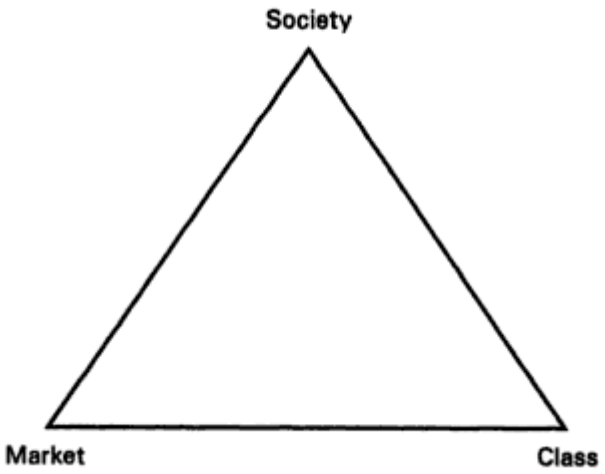
According to Schmitter: "Corporatism can be defined as a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and

granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports." (Schmitter, 1974, p. 93). In this light, according to the theory of corporatism, pressure groups or interest groups are organized into coherent structure, which is recognized as an organization, have formal organizational structure, no hierarchy, are representative and have specific goals to be achieved. The interest groups, which are "within the walls» (insiders), through the pressure to the political system, on the one hand are trying to raise as much as possible the privileges they receive and on the other hand they exclude possible new-comers of all those "outside the walls". Thus, any "social peace" comes as a result of force and not as a precondition for dialogue and decision-making. Specifically, some interest groups have the potential to cause problems in carrying out the functions of the state, their actions focuses precisely to preserve their privileges, even if these privileges are acquired by those who are "outside the walls".

Thereby non-economic groups, such as consumer groups, the unemployed, etc., virtually are being excluded from the social dialogue and institutionalized access to government is limited to groups representing economic interests. Moreover, in contrast to the pluralist model, the corporatist groups have a hierarchical structure and their leaders are not accountable to the members they represent, at least not completely and not clearly. Thus, such a dialogue and negotiation can act as a pretense which covers the effort of state for social control.

An additional dimension of corporatism is that of the trade unions. The employees are organized in groups in order to ensure jobs, the amount of salary and to determine the terms of employment, working life, pensions, etc. The concept of trade unionism is a function which combined three points: the society, the market and class, in the sense of position in production (figure). Thus, through the trade unions pressure is applied either to expand the boundaries of the welfare state, or not to restrict the rights of the hitherto achievements of workers.

Figure 19. The geometry of trade unionism



Source: Hyman, 2004, p. 4

The concept of the welfare state is an important element in the overall European identity (Delanty, 1995), at least until global financial crisis. Certainly, among the member states of the EU there was no uniform, single policy in relation to the manner and conditions of work. Not only each country had set a different level of wages, but each country has a different institutional framework for the terms of retirement, casual work, flexibility in salary and insurance (flexicurity), the terms of employ and dismissal, etc. Thus, while some countries have a stricter framework for the protection of labor, other European Union countries have adopted more liberal measures. This is an impediment to the integration of the European Union, as countries that have implemented policies that provide less employment protection pressuring other countries to adopt similar measures (Hyman, 2011). Notwithstanding the terms of employment and insurance, an additional dimension of the role of trade unions has to do with the general social benefits and the overall concept of the welfare state (Palme, 2001, Hyman, 2004, Hyman, 2011). Europe is generally characterized by the existence of social structures that do not exist in the US or in other regions (Delanty, 1995). This, precisely, the welfare state, constituted-up recently one of the connective links between citizens of European Union countries, as they had a common meaning to the obligations of the state towards them (Palme, 2001).

With the gradual decline of the very concept of the welfare state -not just the reduction of benefits related to health, education, care, etc., but the disqualification of the entire concept of the welfare state as a necessary mechanism social welfare and especially those in a most difficult position observed by others and a weakening of European cohesion and integration, since each state needs to take tougher measures, without a common mechanism to support the welfare state members of the European union.

On the other hand, when trade unions operate in the light of corporatism, then actually act to protect their own interests at the country level but also at group level, avoiding any proposed change, which although likely reduces some of their privileges, but would give some opportunities remodeling of the labor market. Trade unions play a vital role in the social status of Europe but, in order to promote European integration, have to give more attention to the European dimension of trade unions and less attention to national corporatism (Vissel, 1998).

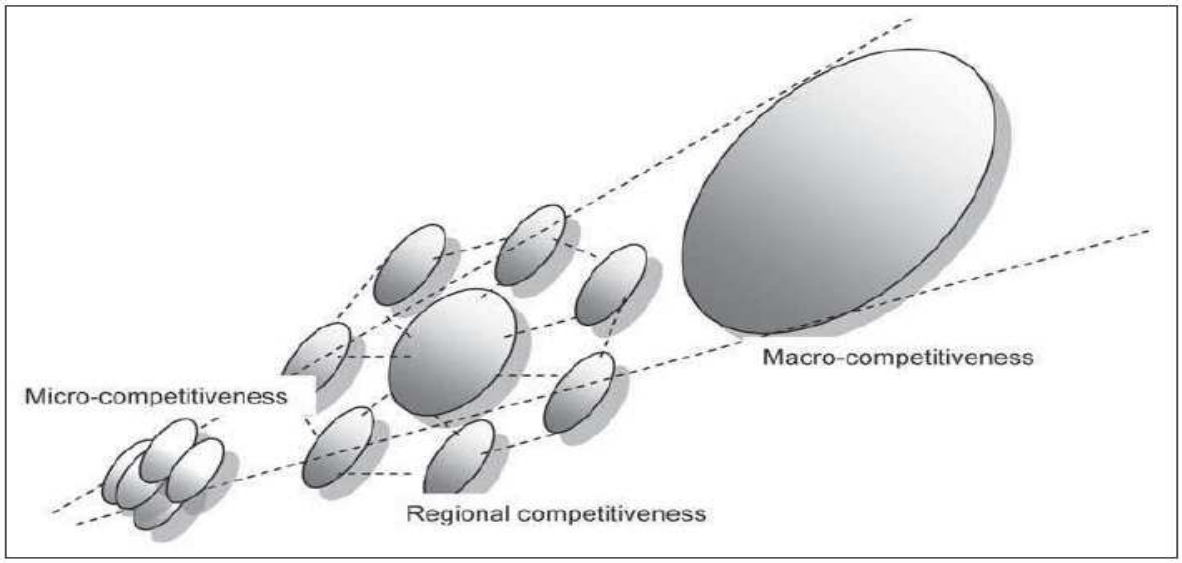
2.7 Market structure

An important determinant of business competitiveness and attracting foreign direct investment is the structure of the product markets as well as their integration with international markets. The structural characteristics of the market include the number of enterprises, their size and their organizational structure, their degree of coiling, the ability export penetration and increasing market shares, their ability to reap economies of scale and scope, and the business culture. The existence of many manufacturing companies is proof intensive competition, as there are entry and exit barriers. Conversely, if there are entry barriers, for example in the form of 'closed' professions, it is expected that competition is reduced and prices of products offered to remain high. The emergence of oligopolistic cartel-type situations is an example of distortion of the conditions for healthy competition. The cartel-type markets should not be confused with the complete clusters of small business activities (clusters), which enhance the diffusion of knowledge and technology are development poles and innovation at regional and local levels, thus expanding their competitive position in the markets.

Moreover, the size of active enterprises in the markets is a sign of competitiveness, as well as small businesses do not have wider margins to create and exploit economies of scale and scope, and moreover associated with loose organizational structures. By contrast, large companies can promote research and innovation, to increase the efficiency of the production process and create internal and external economies of scale. A market with large companies, usually involves integrated information systems, modernized collection networks, distribution and penetration of products in the domestic and international markets. In this way it enhances the openness and the capacity of the business culture in the country and increasing its competitiveness.

According to the analysis of Borozan (2008), competitiveness is centered on business (micro-competitiveness), while the structure of enterprises, their number and their concentration up the competitiveness of the region (regional competitiveness), while competitiveness of all the regions constituting the global competitiveness (macro-competitiveness), which constitutes the main criterion for attracting foreign direct investment (figure).

Figure 20. Levels of competitiveness



Source: Borozan, 2008, p. 52

Geographical concentration and specialization of production, might contribute to the dissemination of technology, knowledge and skills to local businesses (spill-over effect). In this context, external economies of scale and scope can increase the

productivity of production factors giving a competitive advantage in the industry as a whole, as well as in each single enterprise.

3. Organizational determinants of multinational companies

3.1 Definition of multinational company and FDIs

Multinational Enterprises (MNE) or in other words Multinational Companies (MNC) are defined as "firms that engage in foreign direct investment (FDI) by directly controlling and managing value – adding activities in other countries" (Caves, 1996, cited by Peng, 2009, p. 5). According to another definition, a MNE is "a corporation which owns (in a whole or in part), controls and manages income – generating assets in more than one country. In so doing it engages in international production, namely production across national boundaries, financed by foreign direct investment" (Hood and Young, 1979, p. 3). Foreign direct investment is "a firm's direct investment in production and / or service activities abroad" (Peng, 2009, p. 5), or in other words "the transmission to the host country of a package of capital, managerial skill, and technical knowledge" (Kojima, 1973, p. 3).

Kojima (1973) distinguish two types of FDI: trade – oriented which is the Japanese type, and anti – trade – oriented, which is the American type. In comparison to anti – trade oriented approach, in the trade – oriented approach the FDI is being transferred from the home country to the host, which is more advantageous compared with the home one.

The motive for the FDI can be classified in three categories: resource – oriented, labor – oriented and market – oriented investments. The resource – oriented investment is trade – oriented, since it stems from the aim of the company to increase imports because of a small domestic demand. The labor – oriented investment is also trade – oriented, since the company transfers its production to another country with low labor cost. The market – oriented investment is usually referred to the import of some components in order the final product be produced. This import – substituting activity stems for example from the high tariffs a country meets (Kojima, 1973).

3.2 The definition of global strategy

The definition of the word ‘strategy’ is complicated, since this word can be used in several ways (Campbell et al., 2002). Therefore, Mintzberg (1987) proposed the 5 P’s on strategy, suggesting that the strategy can be a plan, a ploy, a pattern of behavior, a position in respect to others, a perspective. Chandler (1962, cited by Campbell et al., 2002, p. 12) state that “strategy is the determination of the basic long – term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals”. The determination of the goals, the adoption of the actions and the allocation of the resources are the tree component of the strategy. However, in a globalized world, the strategy of each firm should be seen under a global perspective. This is because an MNE should develop and adopt various strategies in order to be able to respond to the different environments in the various geographical markets in which it operates (Inkren and Ramaswamy, 2006).

Global strategy does not refer to a specific strategy of a multinational company, but to ‘strategy around the globe’ (Peng, 2009). Thus, global strategy has two aspects. According to the first one, global strategies focus on how companies can develop competitive advantages through the operation in foreign markets (Pont and Noboa, 2003). This is referred as resource – based theory, according to which the acquisition of strategic resources is the key in order the firm be differentiated and have a good performance (Zou and Cavusgil, 1995). The second refers to the strategies made by the domestic firms, in order to compete to the foreign entrants (Peng, 2009). This is the industrial organization – based theory, according to which the strategies of a company are determined by the external industry structure, as the firm should adapt its strategy to the requirements that the external environment imposes (Zou and Cavusgil, 1995).

However, the fact is that both strategies relate to the acquisition on a competitive advantage. Porter (1986, p. 29) states that global strategy can be defined as the strategy according to which “a firm seeks to gain competitive advantage from its international presence through either a concentrated configuration, coordinating among dispersed activities, or both”. Malnight (1996) suggests that these advantages may stem from economies of scale, economies of scope, learning, and coordination costs. Porter (1986, p. 29) adds he “proprietary learning curve in the activity”, as well

as “the comparative advantage of one or few locations for performing he activity”. These advantages can be acquired through the subsidiaries.

A subsidiary can be defined as “any operational unit controlled by the MNC and situated outside the home country. In some cases “there will be a single subsidiary in the host country; in other cases there will be several” (Birkinshaw et al., 1998, p. 224). However, some subsidiaries may lose resources and benefits due to the existence of another subsidiary in another country (Bartlett and Ghoshal, 1991). According to Dunning (1993), these resources may be technological, manufacturing, marketing, organizational and human, while according to Campbell et al. (2002) they may be financial, human, physical (tangible) and intellectual (intangible).

3.3 The types of multinationals

According to Dunning (1993), market seeking, resource seeking, efficiency seeking and strategic asset seeking are factors that can motivate a company to establish a subsidiary in another country.

A market seeker multinational invest in the host country in order to provide goods or services in this market or in the neighbors. The aim of this type of multinationals is double. On the one hand they try to sustain the advantage they have in the host country. On the other hand they try to exploit the advantages that new markets have (Pearce and Papanastassiou, 1996). Dunning (1993) distinguish five motives for market seeker multinationals. The first is the actions taken by the government of the host country, such as the tariffs and the trade restraints, which can make an investment in the host country desirable or not. The second motive is associated with the economies of scale. As the foreign market becomes even larger, it is more profitable for the company to locate its production in this market, so as to avoid high transportation costs and exploit the economies of scale. According to the third motive “component – supplying firms may implement overseas production in order to retain the market of their established customers when these have already set up producing operations abroad” (Dunning, 1993, cited by Pearce and Papanastassiou, 1996, p. 29). The next motive is related to the competitors of the firm. A company may wish to invest in a host country, so as to have a physical presence in the market where its strong competitors operate. Finally, the adjustment of the products in the local needs,

demands and resources of the host country is a crucial factor in the decision of a multinational to invest.

If a multinational is a resource seeker, then it invests in another country in order to be supplied with the necessary resources at a lower cost in comparison to its supply from the home country (Pearce and Papanastassiou, 1996). Dunning (1993) discerns three main types of resource seekers. The first type is associated to the acquisition of physical resources. This type is widespread among primary producers and manufacturing companies. The second type aims at acquiring either well – motivated or semi – skilled labor force at a low cost. Finally, the third type is related to the adoption of technology, information and managerial skills, in order the companies be more competitive via the acquisition of knowledge.

The efficiency seekers try to invest in particular host countries that are located in strategic positions. In this way, the company's subsidiaries are small in number, but they can take full advantage of the global markets, servicing from specific countries. For example, the strategic position of a host country may give the mother company the chance to supply a great number of neighbor countries, without the physical presence of the company in these markets be necessary.

For the strategic asset seekers the technology plays the most important role. The using of external sources of technology though the operation in a foreign market and the establishment of local R&D laboratories contribute to the acquisition of scientific capacity and therefore to the product innovation, which leads to a more effective production.

Casson (1987, p. 2) distinguishes three other types of multinationals. The first is the US – based MNE, which engages in import – substituting investments in the developed countries. The second type is the European – based MNE, which engages in the "backward integration into agriculture and minerals in the colonial territories" in the decades of 1920s and 1930s. The third type is the Japanese MNE, which invested in "off – shore 'export platform' investments in the low – wage newly industrializing countries of SE Asia" in the decade of 1970s. This model of global strategy is according to Porter (1986) the simplest and in fact it means the concentration the greatest possible number of acclivities in one country, which will serve the rest of the world.

It has already been examined the eclectic paradigm of Dunning. This theory specifies some requirements that the company should meet, in order to engage in international production. These requirements are the ownership, the location and the internalization advantages. The first category answers to the question why the company decides to engage in foreign production. The second answers to the question where the company decided to locate its subsidiary and the third gives answer to the question of how the company decides to involve.

Based on the above three conditions, the table below summarizes these three advantages, with regard to the types of multinational companies, as well as the strategic goals of MNC for each type.

Table 8. Summary of types of MNEs, the advantages of the eclectic paradigm and the strategic goals of MNEs

Types of international production (MNEs)	Ownership advantages	Location advantages	Internalization advantages	Strategic goals of MNEs
Natural resource seeking	Capital technology, access to markets complementary assets, size and negotiating strengths	Possession of natural resources and related transport and communications infrastructure, tax and other incentives	To ensure stability of supplies at right price, control markets	To gain privileged access to resources vis-à-vis competitors
Market seeking	Capital technology, information, management and organizational skills, surplus R&D and other capacity, economies of scale, ability to generate brand loyalty	Material and labor costs, market size and characteristics, government policy	Wish to reduce transaction or information costs, buyer ignorance or uncertainty, to protect property rights	To protect existing markets, counteract behavior of competitors, to preclude rivals from gaining new markets
Efficiency	As above, and in	a) Economies of	a) As for the second	As part of regional or

seeking a) Of product b) Of processes	addition access to markets, economies of scope, geographical diversification, international sourcing of inputs	product specialization and concentration b) Low labor cost: incentives to local production by host governments	category plus gains form economies of common governance b) The economies of vertical integration and horizontal diversification	global product rationalization and / or to gain advantages of process specialization
Strategic asset seeking	Any of the first three that offer opportunities for synergy with existing assets	Any of the first three that offer technology, markets and other assets in which firm is efficient	Economies of common governance, improved competitive or strategic advantage, to reduce or spread risks	To strengthen global innovatory or production competitiveness, to gain new product lines or markets
Trade and distribution (import and export merchanting)	Market access, products to distribute	Source of inputs and local markets, need to be near customers, after – sales servicing	Need to protect quality of inputs, need to ensure sales outlets and to avoid underperformance or misinterpretation by foreign agents	Either as entry to new markets, or as part of regional or global marketing strategy
Support services	Experience of clients in home countries	Availability of markets, particularly those of 'lead' clients	Various as above	As part of regional product or geographical diversification

Source: Dunning, 1993, p. 82 – 83 (adapted)

Within the framework of the continuous changing environment at the global economy, MNE have also undergone major changes, seeking new ways and strategies in order to be able to sustain their competitive advantage and be developed. Their goals and activities are influenced to a great extent by the subsidiaries. The remaining section examines and analyses the type of subsidiaries and their roles, as well as their driver for development, in the light of their contribution to the MNE groups.

3.4 The types of subsidiaries

Pearce and Papanastassiou (1996) distinguish three types of subsidiaries: the truncated miniature replica, the rationalized product and the product mandate subsidiaries.

A truncated miniature replica (TMR) is characteristic example of market – seeking behavior, as it is supplies the mother company with a kind of protection of tariffs or other trade barriers. This type is import – substituting, usually referred to as "multidomestic strategy" (Porter, 1986, cited by Pearce and Papanastassiou, 1996, p. 34). However, this type of subsidiaries is unlikely to be involved in any innovation, as the role of R&D is limited. On the contrary, its contribution in making the production chain more efficiency for the needs of the local market is major.

The rationalized product subsidiary (RP) is associated with both efficiency – seeking and resource - seeking MNE. This type usually produces a part of the total product, based on its capabilities and not on the local needs, being a separate stage in the vertical integrated production chain. In fact, the RP subsidiaries' goal is the achieving of efficiency production through the best use of its production capabilities, depending on its location. Thus it has limited, or even none, independence in the marketing or management sector, as well as in the technology innovation. However, it is likely to have some kind of R&D network, but this will be independent of any product sector.

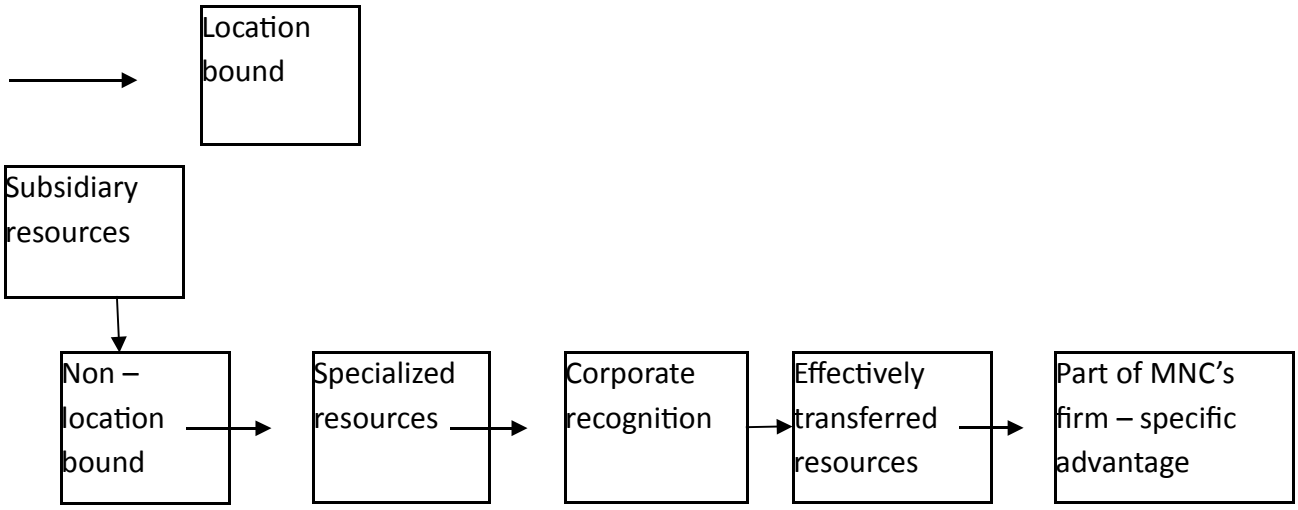
The last type of subsidiary is the product mandate (WPM or RPM), which Bonin and Perron (1986, cited by Pearce and Papanastassiou, 1996, p. 36) define as "an agreement between a multinational enterprise's parent company and one of its subsidiaries to grant the subsidiary exclusive rights to produce and market a product and, if circumstances warrant, to pursue the necessary research and development activity". Thus this type is responsible for the development of the whole product, namely from its creation, production and finally its marketing. It is related not only to efficiency – seeking and resource – seeking goals, but also to strategic asset – seeking objectives. Therefore, PRM are able to combine local productive capabilities, along with the know – how, in order to produce goods, which are fully addressed to the local needs and demands.

3.5 The role of subsidiaries

Subsidiaries play a major role in the global strategy of MNC. Taggart (1999) suggests that subsidiaries provide the mother company with competitive advantage and strategic initiative. This initiative is defined as "the entrepreneurial pursuit of international market opportunities to which the subsidiary can apply its specialized resources" (Birkinshaw et al., 1998, p. 226). Other researchers, such as Jarillo and Martinez (1990) support that subsidiaries contribute to the improvement of financial performance. Subsidiaries are motivated to develop initiatives that add value both in local operations and in MNC's operations (Birkinshaw et al., 1998). In fact, subsidiaries are called to contribute to overall business activities in a global level, though the firm – specific advantages.

In order a subsidiary can contribute to the firm – specific advantages of the parent company, three criteria should be met (Birkinshaw et al., 1998). The first one is associated with the value of the resources. As Barney (1991) points out, in order the resources transfer a competitive advantage to the MNC they should be valuable, rare and not be easily imitated by the competitors; in other words the resources of the subsidiary should be specialized. Burgelman (1983) supports that the initiative taken by the subsidiary is incorporated in the role that the subsidiary plays through "championing efforts and strategic context definition". Thus, the specialized resources of the subsidiary are positively related to the contributory role of the subsidiary to the MNC. The second criterion is related to the recognition of the subsidiary by the corporate management. By the term 'recognition' it is meant the acceptance by the MNC of the specialized resources of the subsidiary. The third criterion is "the effective transfer and / or leverage of the resources in question" (Birkinshaw et al., 1998, p. 225). This criterion is based on the fact that, some resources cannot be transferred in other parts of the company in an effective way. The interaction between these three criteria and the firm – specific advantages that transfer to the MNC is illustrated in the following figure.

Figure 21. The relation between the resources of the subsidiary and the firm – specific advantage of the MNC



Source: Adaption from Blinkshaw et al., 1998, p. 225

Bartlett and Ghoshal (1991) distinguish four major roles of subsidiaries: implementer, contributor, black hole and strategic leader. According to the above mentioned roles, the subsidiaries may result in being only a mere implementer of a global strategy, as designed by the parent company. Implementers give the chance to the MNC to achieve economies of scale and scope, but they do not provide access to information and the control of scarce resources. They are located in a market, which is characterized by limited potential and small significance, such as the markets of the developing countries. As Bartlett and Ghoshal (1991, p. 100) point out, this type of subsidiaries are "deliverers of the company's value added". On the other hand, contributors give emphasis on local capabilities and try to apply them to the mother company's or other subsidiaries' operations. Usually this type of subsidiary is located in a small or not important, in strategic terms, market. If a subsidiary is a strategic leader, then it tries to influence the strategy of MNC by suggesting new ideas and ideas for development and improvement. In the case of the black hole, the company can maintain its position at a global level through its strong presence in the market. Finally, the role of strategic leader can be adopted by a highly competent subsidiary, which in accordance is located in a market, with a strategic position in the global market. In this case, the subsidiary operates as a partner of the mother company, by developing and implementing the corporate strategy.

The following table summarizes the typologies of subsidiaries.

Table 9. Typologies of subsidiaries

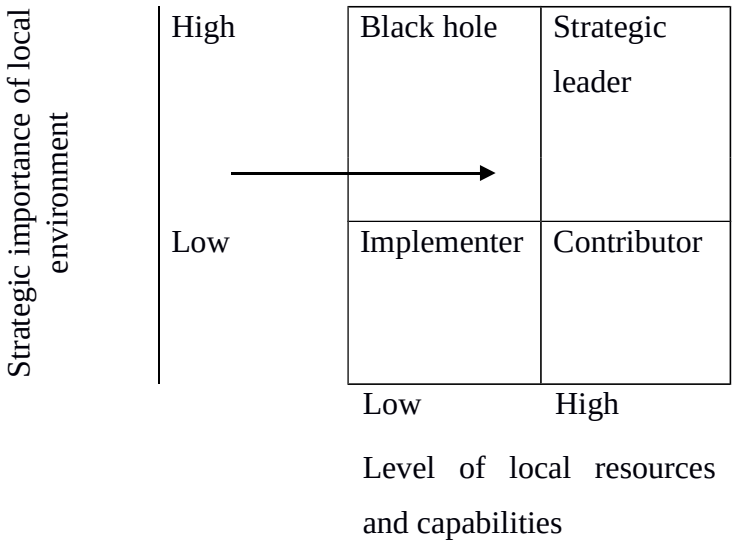
Reference	Variables	Typologies
White and Poynter (1984)	Product scope Market scope	Miniature replica (adopter) Miniature replica (innovator) Product specialist Strategic independent
Jarillo and Matinez (1990)	Integration Localization Active subsidiary	Receptive subsidiary Autonomous subsidiary
Bartlett and Ghoshal (1991)	Level of local resources and capabilities Strategic importance of local environment	Black hole Implementer Strategic leader Contributor
Gupta and Govindaragan (1991)	Knowledge outflows Knowledge inflows	Local innovator Implementers Global innovator Integrated player
Birkinshaw and Morrison (1995)	Autonomy Integration of activities	Local implementers Specialized contributor World mandate
Taggart (1997)	Coordination Configuration	Quiescent subsidiaries Receptive subsidiary Autonomous subsidiary Active subsidiary

Source: Pont and Noboa, 2003, p. 5

If a subsidiary wants to keep control of strategic resources so as to maintain its competitive advantage, according to the strategy implemented by the parent company,

then it should adopt a strategy shifting between implementers and contributors. The following figure depicts the strategic tendency for subsidiaries.

Figure 22. Strategic tendencies for subsidiaries



Source : Pont and Noboa, 2003, p. 8

3.6 The drivers of the development of a subsidiary

The factors that drive the development of a subsidiary are in fact the factors that determine the contributory role of the subsidiary. This contributory role is defined by a number of sets of factors, as they have been stated by Birkinshaw et al. (1998). The first set of factors is the subsidiary – level factors. This set includes the entrepreneurial culture, the specialized resources and the initiative of the subsidiary. The second set refers to the relationship between the subsidiary and the mother company and includes factors such as the autonomy of the subsidiary and the communication between them. The third set of factors is related to the business environment and includes the local competition and the industry globalization. The value transferred from a subsidiary to the mother company and to other subsidiaries depends on the role of the subsidiary itself and hence to the level of subsidiary's autonomy. This is because sometimes the subsidiaries are limited to a sales and

distribution role, without being able to take any responsibilities (Bartlett and Ghoshal, 1986). Based on the factors that Birkinsaw et al. (1998) developed, Pedersen (2006) summarizes the factors that are determinant for the development and the performance of the subsidiary in three categories, namely head – office assignment, subsidiary choice and local environment determinism.

Management

The management of the subsidiary can be determined either by the mother company or the subsidiary itself (Birkinshaw et al., 1998). The management of a subsidiary can be viewed in the light of the level of autonomy, the formalization of the activities, the control of the resources and the social control. The determination of the subsidiary's management is crucial, since a high level of autonomy, in connection to an effective communication with the parent company can lead to high levels of initiatives and innovations.

Gong (2006) has occupied him with how the composition of the management can affect subsidiary's performance. Based on the assumption that the management team plays a vital and crucial role in the decision – making of the firm, the author suggests that a team consists of managers from different countries contributes to the better acquisition and interpretation of information. This is due to the fact that in an heterogeneous team the specific knowledge of the members of the team helps in the better understanding of the culture, the desires and needs of the local markets.

Competition and local density

A survey conducted by Birkinshaw et al. (1998) resulted in the outcome that if the domestic market competition is not too strong, then the subsidiary has more chances to take initiatives and consequently to contribute to the firm – specific advantages in a more effective way. With the issue of local density have been occupied many researchers. Miller and Eden (2005, p. 2) define the term 'local density' as "the number of firms vying for similar resources in a local environment". The two authors

suggest that local density is related to the performance of the subsidiary in a negative way.

Autonomy

According to Porter (1986), in order for a business to manage its global business, its subsidiaries should be allowed to keep a high degree of autonomy, so as to manage their activities in a local basis. Strikwerda (2003) states three reasons for which the parent company should delegate decision rights to the subsidiary. The first is that what Porte said: the subsidiary has the ability to better respond on local changes and exploit the opportunities that arise. In the case that all decisions are taken by the board of the parent company, then there is a delay in the communication and consequently in the decision – making, which may result in the loss of the opportunity. The second reason is associated with ethics. This means that the company, as a miniature of the society, should reflect in its management the values of the society, as they are expressed in terms of respect for the individual. The third and last reason is related to the development of managers. The delegation of responsibilities to a manager of lower grade, gives this person the capability to learn from his mistakes, to feel the consequences of his failures, resulting in his development and future success.

According to Strikwerda (2003, p. 44), the following responsibilities are usually given to the board of subsidiaries:

- Product innovation and product policy
- Pricing and market positioning
- Sales, distribution and marketing
- Product development and process development
- Manufacturing and procurement
- Hiring staff
- Investments in equipment and some other assets (but not real estate).

In addition to that, a research conducted by Carlin et al. (2007) provided evidence that the control by the parent company on the investment opportunities of the subsidiary affects in a negative way these opportunities of the subsidiary.

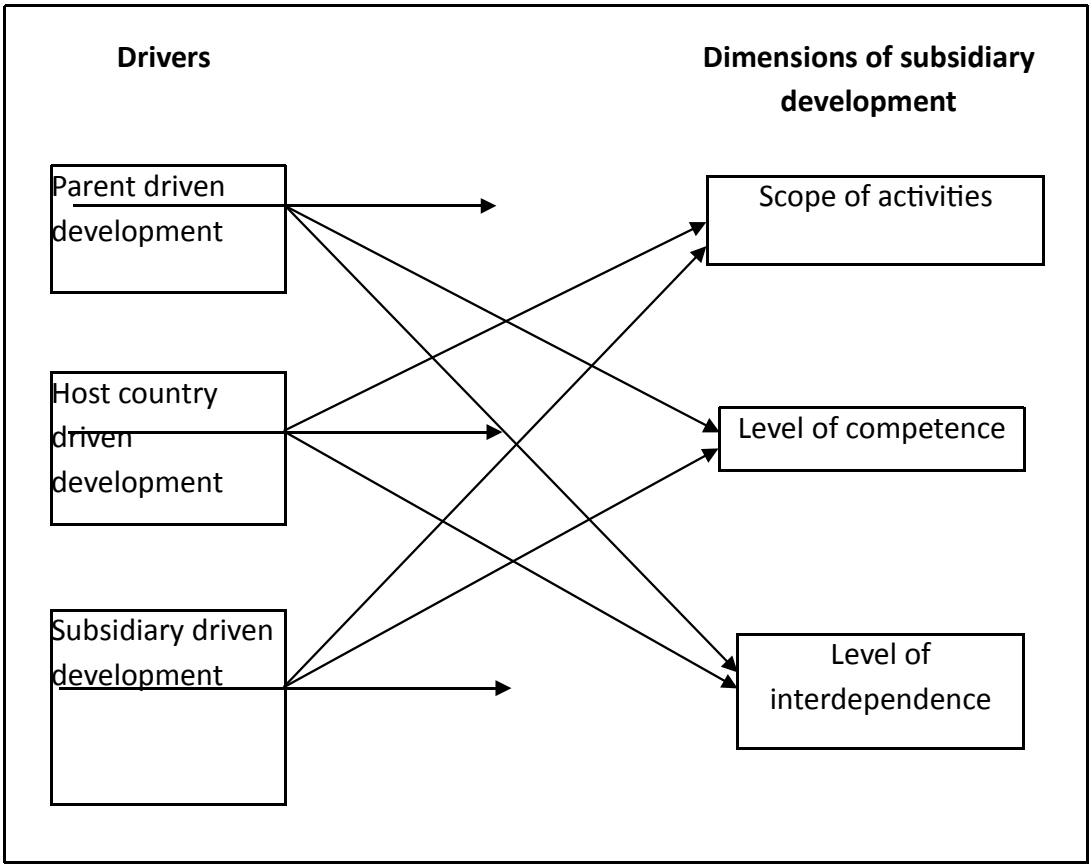
Other factors

Peng (2009) proposes the 'strategy tripod' in order to find the determinants of the development of a firm globally. This tripod constitutes of the industry – based view, the resource – base view and the institution – based view. According to the industry – based view, the performance of a company is based on the level of competitiveness in the industry. The resource – based view supports that the performance is based on the firm – specific advantages of the firm. Lastly, according to the institution – based view, the firms' performance is based on the institutional forces.

Gaur et al. (2007) point out that the staff of a subsidiary and its composition can be a factor of the subsidiary performance, as "subsidiary staffing is a primary strategic means for MNCs to share knowledge, coordinate activities and exercise control over their subsidiaries" (p. 614).

Pedersen (2006) determines three factors in relevance to the subsidiary development: parent company drivers, such as the decision of entering in a new market, or the introduction of new products / services, host country drivers, which reflect the local environment, and subsidiary drivers, which reflects the subsidiary's effort in being successfully adapted in the local market. Based on these three drivers, the author suggests the following model of subsidiary development.

Figure 23. Model of subsidiary development



Source: Pedersen, 2006, p. 18

4. Criteria of a subsidiary in a foreign country

There are many forms of globalization. These ways can be separated into two main categories. The first category is the initial export – type forms of internationalization, which include direct export activity, production on demand, the export with an intermediary, the licensed production, assembly, expertise supply and franchising. The second category relates to the advanced non – export – type forms of internationalization, which include direct investment abroad as either wholly owned subsidiaries, as joint venture, as a strategic alliance, as an acquisition or as contract management and the international investment portfolio performed on world markets and financial markets. Therefore, a company has to choose between several entry modes of internationalization, in order to enter successfully into a new market.

4.1 The theory concerning entry modes

When a company decides to enter a foreign market IT should decide the most appropriate entry strategy. The choice of foreign market entry mode is crucial, since it determines the MNE's strategic decision for producing overseas. According to the international bibliography on foreign direct investment, there are various types of entry strategies: wholly owned enterprises (WOEs), equity joint ventures (EJVs), greenfield investment, mergers and acquisitions (M&A), contractual joint ventures (CJVs) and joint stock companies (JSCs).

In the greenfield investment, the mother company establishes a plant in the host country, in order to produce in the local market, while, the joint venture is the cooperation with a local firm (Raff et al., 2007). This cooperation allows for synergies and the exploitation of the investments of each company, but it has also some disadvantages. According to Smarzynska (2000), the local partner may acquire the technology, know – how and other managerial skills, so as to become a competitor in the near future in third markets. There is also the danger that the local partner may misuses sensitive information of the MNE, resulting in a loss, not only in economic terms, of the MNEs. In the case of a wholly owned subsidiary, the company owns 100% of shares. This entry in the foreign market can be achieved either by building a new facility in a foreign country (green-field venture) or by acquiring an existing company in the host country to use it in order to promote its products (Hill, 2005).

Hill (2005) mentions some additional ways a company can follow in order to entry in a foreign market. The first is turnkey projects. Companies that specialize in design, construction and startup of turnkey factories are very common in many markets. In a «turnkey project», the manufacturer agrees to take every detail of the work for the foreign client, including staff training. Upon the completion of the contract, the foreign customer is given the key to a plant ready for operation - thus the term "turnkey". This is a process according to which technology can be exported to other countries. Such a method is very common in chemical companies, pharmaceutical companies, as well as in oil and mining companies, which are complex and are characterized by expensive production technologies. The second method is licensing. A license agreement is an agreement where the holder of the license (licensor) provides rights of intangible property to another person (licensee), for a given period, and in return, the holder of the permit takes a large amount. The intangible property

includes patents, inventions, formulas, processes, designs, copyrights and trademarks. Another way is franchising. Franchising is similar to licensing, although it tends to include more long – term commitments in relation to licensing. In general, franchising is a special form of licensing in which the person who provides it not only provide intangible assets, usually branded, but also insists that the purchaser would receive all the strict rules under which the new venture will operate.

The survey of Wei et al. (2004) concerning the entry modes of foreign direct investment in China reached to the following conclusions:

- "The more experience the host country gains in attracting FDI, the more likely the foreign investors adopt WOEs relative to EJVs and JSCs, and the least likely they will choose CJVs"
- "A preferable specific location encourages foreign investors to choose WOEs, EJVs and JSCs rather than CJVs"
- "Foreign firms making a large amount of investment tend to prefer WOEs to EJVs, CJVs or JSCs'"
- "If the asset intensity in a host-country industry is high, foreign investors tend to choose WOEs rather than EJVs, CJVs or JSCs"

According to Raff et al. (2007), if the fixed costs of a green field investment are high, then the company will choose the option of a merge or a joint venture. In addition to that, if the expected profits of a green field investment are less than the expected profits of exports, than the company may have to decide between M&A and exports, rather than taking part into a joint venture. However, the governments of developing countries have the tendency to support joint ventures rather than other forms of foreign direct investments. This preference is explained due to the assumption that the local participation enables to a greater extent the transfer of both the technology and the marketing skills (Smarzynska, 2000). In comparison to the greenfield investment, M&A as well as joint ventures allow the participating firms to be aware of the potential synergies, while the investment of a firm benefit also the other firm (Raff et al., 2007). Moreover, in case the choice of exports may threaten its credibility, the MNE may prefer to participate in a joint venture (Raff et al., 2007). If the greenfield investment is more profitable compared to exports, then the MNE can has the ability to offer lower price in order to acquire a local firm; hence it may prefer M&A than a

greenfield investment. Finally, if the MNE decides to export rather than engage in a greenfield investment, the local company do not accept to take part in a joint venture and the trade cost is high, then the MNE will take the direction of a M&A (Raff et al., 2007).

The choice of the company concerning the entry strategic mode is affected by many factors. A survey conducted by Smarzynska (2000) resulted in the fact that the structure of the industry influences the decision – making of a MNE regarding the entry strategic option. For example, the author found that in manufacturing sectors and in countries with a high level of R&D, MNEs that have in their possession few intangible assets tend to participate in joint ventures. Apart from this, the survey of Smarzynska (2000) provided evidence that joint ventures in sectors with high R&D levels allow for a greater transfer of technology and marketing skills than in the case of wholly owned foreign subsidiaries.

Furthermore, the same survey of Smarzynska (2000) proved that the endowment of intangible assets can be another determinant factor. The greater bargaining power and the higher negotiating skills of the technological and marketing leaders in a specific industry may result in more advantageous agreements of joint ventures, thus this kind of MNEs tend to prefer this option of foreign direct investment. In addition to that, their bargaining and negotiating power may be useful in countries where foreign ownership is restricted by the government, leading the MNEs to negotiate sole ownership.

Dubin (1976, cited by Gilroy and Lucas, 2005) discovered that U.S.A. companies have the tendency to prefer greenfield investments, in the case of a developing country with a large market size and a foreign experience. Hennart and Park (1993, cited by Gilroy and Lucas, 2005) found that Japanese investors in the U.S.A. tend to choose acquisitions and not greenfield investments, in the case the potential market is characterized by high scale economies and high concentration levels. Moreover, Andersson and Svensson (1996) suggest that companies that have strong organizational skills tend to favor takeovers, while on the other hand companies that have strong technological skills favor greenfield operations.

Finally, Becker and Fuest (2008) examined the greenfield investment and M&A from a tax policy perspective, reaching to the conclusion that, since “M&A do not imply a relocation of corporate capital but rather a change in ownership and control rights” (p. 1), and “acquisitions are less tax sensitive than greenfield investment because taxes are likely to be capitalized in the purchase price of immobile assets” (p. 1), then M&A investment tend to reduce the implications of tax competition

4.2 The criteria for establishing a subsidiary

4.2.1 The location of the investment

In the decision of a company to establishing a subsidiary in another country, the location is of great importance. Ghoshal and Bartlett (1990) point out that the decisions about whether the company will be located are taken according to the interest of the company, namely the expected profitability, the chance to gain greater market share, the acquisition of certain capabilities, the minimize of the risk and so on. In addition to that, Porter (1986) agrees with this idea, supporting that the location of a firm is one of the sources of its comparative advantage.

According to Billington (1999) there are several factors that affect the choice of the location. The first important factor is the size of the market in which the company desires to entry. The demand for the product, the size of the target groups and the potential for growing should be taken under serious consideration, before the company chooses the country for FDI. Consequently, the larger the size of the market and the total income of the host country the greater the chances for the development of the subsidiary. Therefore, the examination of the total GDP of the host country is extremely significant.

In addition to that, the availability of certain resources in the host country should also be examined and analyzed. These resources may be either infrastructure, or labor. The infrastructure resources may include expenditure on road transport, per capita energy of usage, or indexes such as transportation and popular density index. Regarding the labor, factor such as the unemployment, the level of productivity, the number and the power of labor unions should be examined. Of great importance is the labor cost, although this factor’s significance is mixed. Some researchers have proven that there is a positive correlation between labor costs and the attractiveness of a host

country (Mudambi, 1995), while some other do not (Hill and Munday, 1992; Wheeler and Mody, 1992).

The governmental policies of the host country, such as some macroeconomic variables can have a great impact on a firm's decision to invest. Tariffs, tax rates, interest rates, the number of imports – exports, the existing capital stock and investment stocks are some factors that the parent company should think about.

Venable (1998) adds an endogenous factor in the determining of the location, as it provides a great geographical advantage: the easiness of interaction between the company and the other economic agents, such as customers and suppliers. The linkages between these key players may contribute to the agglomeration of the activity in a number of locations, and can be distinguished into backward and forward linkages. The backwards means that the company and the labor force buy goods from other companies that are located in the same place, while the forward means that the company supplies goods to other markets. Especially this type of linkage may attract other companies to establish a subsidiary in the same location.

4.2.2 The timing of entry

When a firm decides to enter in a new market, it has to solve a major problem: to overcome competitive disadvantages with the existing domestic firms. Therefore, the company should either increase and uses in a proper way its existing assets or develop new resources (Hymer, 1976). Thus, a company entered in a new market should take into consideration the time of its investment (Stalk and Hout, 1990; Vesey, 1991).

Lieberman and Montgomery (1988) support that the early entry of a company into a foreign market is related to the acquisition of an advantage in developing both new resources and capabilities. In their work, Delios and Makino (2002) examine the relation between the time of the entry of a subsidiary into a foreign market and its survival. The timing of entry is associated with uncertainty, stemming from the structure of the market, the demand in the new market, the technology needed not only in the product itself, but also in the geographic market. An early entry means that the company has no information about these factors, in comparison to a later entry, which takes advantage of the experience of previous entrants (Delios and Makino, 2002).

Within this framework, a number of studies (Luo, 1998; Luo and Peng, 1998; Pan and Chi, 1999; Pan et al., 1999) resulted in the existence of positive correlation between the early entry in a foreign country and the performance of the company, namely the profitability, the market share and consequently the sales growth, as well as the acquisition of a local competitive position. Caves (1996) points out that the assets of a company are the crucial factor affecting its timing of entry.

Mitchell (1991) supports the idea that the type of assets that a company possesses at the time of its entry on a market is the factor affecting the relation between the timing entry and the performance of the company. This is because these assets and the derived advantages have the tendency to face the failures stemming from the cross – border between companies (Hennart, 1982). A characteristic paradigm is the technological assets, as in some cases the technology of a company may be possible to be applied in the host country (Teece, 1977). In addition to that, there are also the distribution – based assets and advertising – based assets. Horst (1974) supports that companies having an advantage in distribution – based assets will not gain so much by establishing a subsidiary in another country in comparison to companies with strong advertising – based assets.

According to Dunning (1988, cited by Birkinshaw et al., 1998, p. 222), these assets, known as firm – specific advantages, can be divided in two categories: the asset advantages, that "stem from the exclusive privileged possession of income generating assets" and transaction advantages, "which reflects the firm's ability to economize on transaction costs as a result of multinational coordination and control of assets".

4.2.3 Intangible assets

According to Dunning (1993), a primary factor which motivates a company to be expanded is intangible assets. This assumption is related strongly with the economies of scope. Due to the intangible assets, the company acquires some advantages in the home country that lead the firm to seek the geographic diversification in order to exploit these advantages and under the assumption that the incremental cost of entering in an oversea market will be smaller (Delios and Beamish, 2008).

Apart from this, intangible assets provide the company with a knowledge – based advantage, which can be exploited in the competitive environment in which the firm operates (Caves, 1971), so as to achieve the company greater performance (Barney,

1991), via its subsidiary in the host country (Rugman, 1982). What is more, a number of researches have resulted in the existence of a positive relationship between the intangible assets a company possesses and the market value of the subsidiary (Delios and Beamish, 2008).

As a result, the acquisition of intangible assets provides a strong advantage to the parent company in establishing a subsidiary, as it allows the company to achieve a strong position in the host country and overcome, in this way, the obstacles stemming on the one hand from the knowledge that the local firms have (Hymer, 1976) and on the other hand from the cultural, political and economic institutional differences (Chang, 1995).

5. Country risk as an FDIs factor

Through the analysis of country risk there is an attempt to assess the importance of this parameter in order to estimate the change in the return on investment (Meldrum, 2000). According to Cosset et al. (1992) country risk is defined as the probability of failure of a state to create reserves to be able to repay its debt obligations (Cosset et al., 1992), and Howell defines country risk as the risk of a broader dimension, which includes economic and financial characteristics, accompanied by political and social parameters (Howell, 2007, p.7).

5.1 Country risk analysis

The country risk evaluation has become a factor of the utmost importance, especially after the beginning of the global financial crisis in 2007. The worldwide banking institutions and other institutions in the money market and capital market are required to take decisions on the basis of defined risk limits. Since these entities hold government bonds (sovereign bonds) in different countries, the change in the degree of a country's rating will result automatically in changes in decisions of international institutions regarding the purchase, sale or holding of these bonds. Also, given that the assessment of country risk affects decisively the risk assessment of corporate bonds, the extensive analysis the country risk assessment is required.

Country risk is a fundamental element for the analysis of a series of bodies and institutions (Erb, et al., 1996). The fact of increasing involvement with the issue of the

analysis of country risk, is precisely because of the weighty importance of this parameter.

It should be noted that country risk is not an innovation. Ferguson and Schularick, (2006) note that, in the period 1880-1913, it was recorded a discount of approximately 100 basis points on average, which was, in some cases were up to 175 basis points, between the countries of Asia and Africa that were under colonial rule and other countries in the region. The inclusion of a country in colonial regime gave security and reduce the risk of investors (Ferguson and Schularick, p. 283). In fact, they call this phenomenon as "empire effect"

While each assessment body of the country risk has developed a distinct qualitative and quantitative parameters combination methodology, there are five commonly used parameters for estimating this risk (Guarinoni, 2013). These parameters are as follows (Table):

- Sovereign risk
- Political risk
- Economic risk
- Tranfer risk
- Position risk

Table 10. Five factors of country risk

sovereign	political	economic	transfer	position
a government becomes unwilling or unable to meet its loan obligations, or reneges on loans it guarantees	change in political institutions stemming from a change in government control, or other non-economic factor	a significant change in the economic structure or growth rate that produces a major change in the expected return of an investment	the risk arising from a decision by a foreign government to restrict capital movements	spillover effects caused by problems in a region, in a country's trading partner, or in countries with similar perceived characteristics

Source: Guarinoni, 2013, p. 9

As recorded in this table, sovereign risk refers to the probability that the government is either unwilling or powerless to repay its debt, and the possibility for the government to undertake a renewal of borrowing. Political risk refers to a possible change of institutions associated with government work. The economic risk refers to changes in the economic climate or economic structure. The transfer risk concerns the possibility of a government to decide trade restriction measures and capital transfer. The position risk refers to the possibility to have in place risk transmission problems will arise in other countries in the region or on their trading partners.

The methodology of the PRS (PRS Group's International Country Risk Guide - ICRG) takes into account three pillars: The Economic, Financial and Political Environment, and each pillar consist of parameters, as follows (PRS, 1999):

A. Economic Pillar

1. GDP per capita

2. Change in real GDP per capita

3. Annual change rate of real GDP

4. Annual inflation rates (based on CPI)

5. Budget balance as a percentage of GDP

6. Current account balance as a percentage of GDP

B. Financial Pillar

1. Foreign Debt as a Percentage of GDP

2. External debt as a percentage of Exports

3. Balance of payments as a percentage of exports

4. Net liquidity (months) to cover imports

5. Exchange rate stability

C. Political pillar

1. Government Stability

2. Social conditions

3. Investment environment

4. Internal conflicts

5. External conflicts

6. Corruption

7. Military involvement in politics

8. Religious Tensions

9. Compliance with laws and order

10. Racial tensions

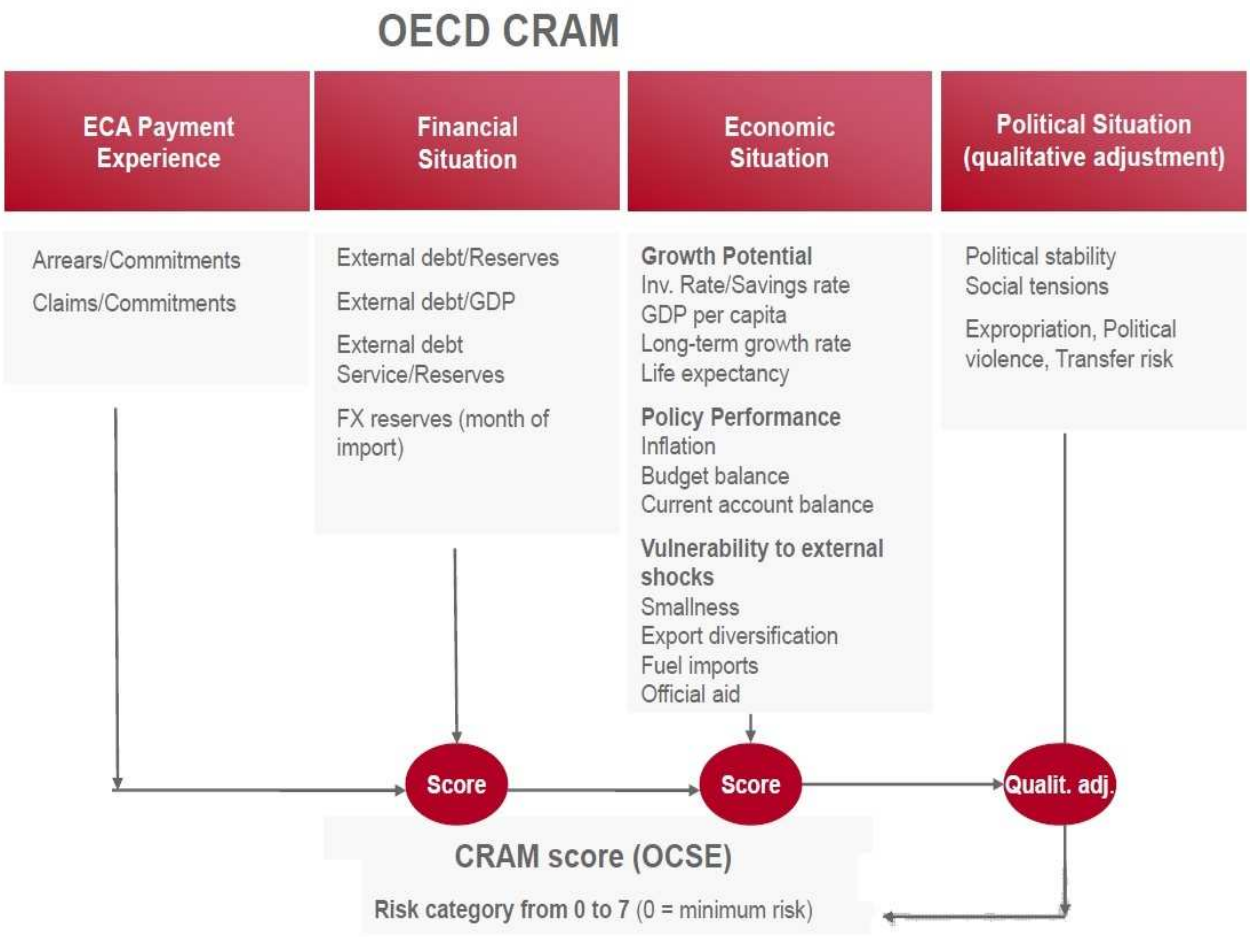
11. Government Report

12. Quality of bureaucracy

As long as the measurement of specific parameters have been conducted, there is the calculation of overall country risk, with the political pillar having the double weight than economic and financial pillar.

The OECD country risk methodology (OECD's Country Risk Assessment Model - CRAM) is taking into account four pillars: the history of payments (previous defaults, restructuring, etc.), the financial situation, the economic conditions and the political environment (Table).

Table 11. OECD Country Risk Assessment Model.



Source: Guarinoni, 2013, p. 9

As recorded in the table above, the first pillar is whether there were payment default events in the country, the second concerns the ratio of external debt to reserves, the external debt to GDP, the external debt service to reserves and the Foreign Exchange reserves. The third pillar relates to the economic situation, to the prospect of growth, as evidenced by the ratio investment to savings, the GDP per capita, the long-term growth rate, and life expectancy. Also, regarding the performance of the policy, the factors accounted are inflation, balance budget and the balance of payments. Also, as a sign of whether the economy is vulnerable, the methodology takes into account the size of the market, the export orientation, oil imports, as well as whether the country is receiving external aid. In the fourth pillar, the political situation, the model takes into account factors like political stability, social tensions, political risk and the transfer risk.

The methodology of SACE is formed in three pillars: the entrepreneur risk, the credit risk (counterparty), the legal and political risk and the risk of lack of investor protection tools (table).

Table 12. Country risk according to the new SACE approach.

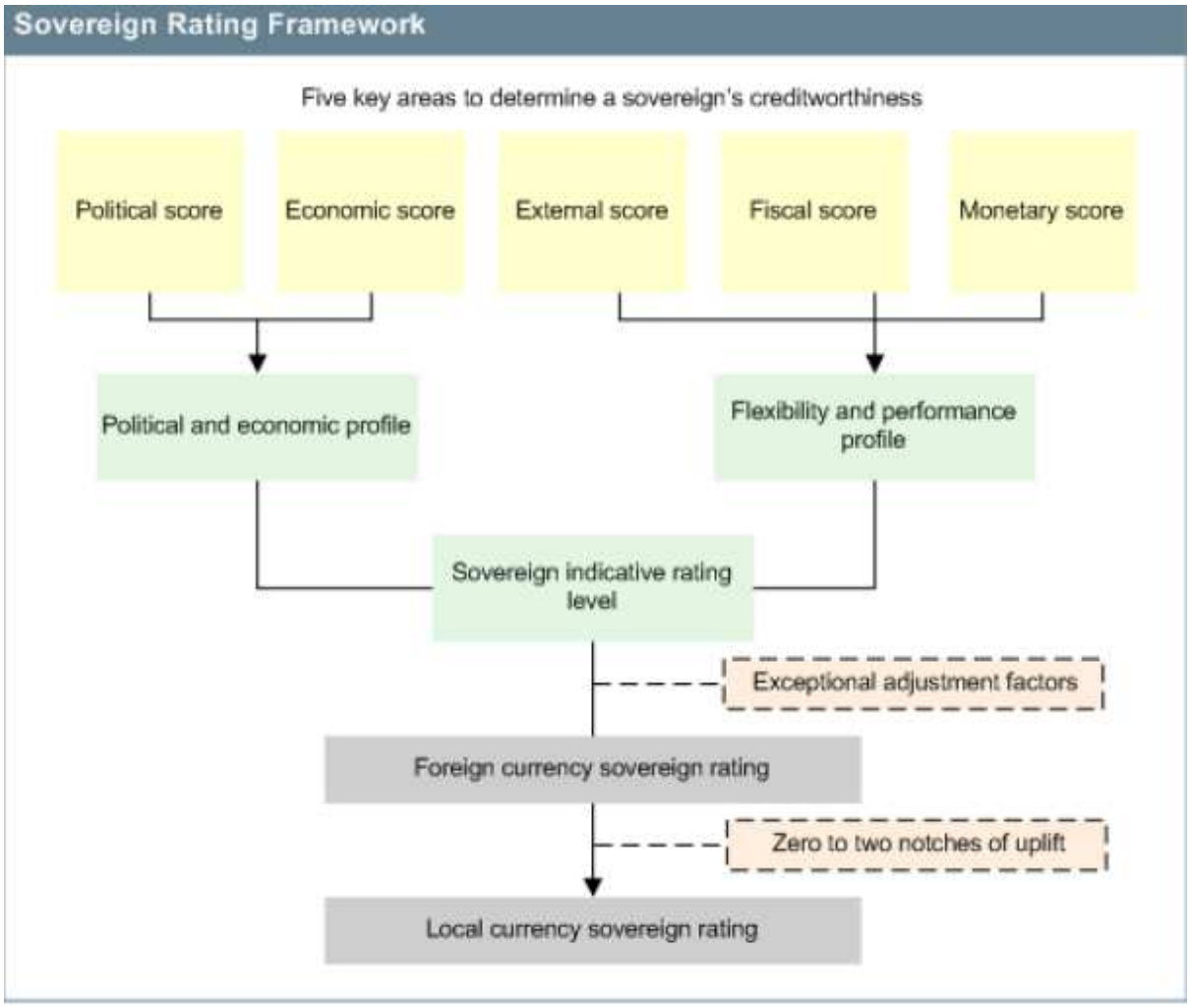
Source: Guarinoni, 2013, p. 9

Standard and Poor's, regarding sovereign risk assessment, examines total country risk based on five parameters (Standard and Poor's, 2011; Standard and Poor's, 2012):

- Effectiveness of institutions and political risk, reflected in the axis of performance policies.
- Economic structure and growth prospects, reflected in the axis of economic performance.
- External liquidity and international investment position, which is reflected in the axis of the external performance.
- Fiscal performance and flexibility, and the debt burden, which is reflected in the axis of budgetary performance.
- Monetary flexibility, which is reflected in the axis of monetary performance.

The two first Pillars constitute the politico-economic profile of the country, while the other three pillars constitute the profile of performance and adaptability of the country (figure).

Figure 24. Sovereign rating framework, regarded as country risk

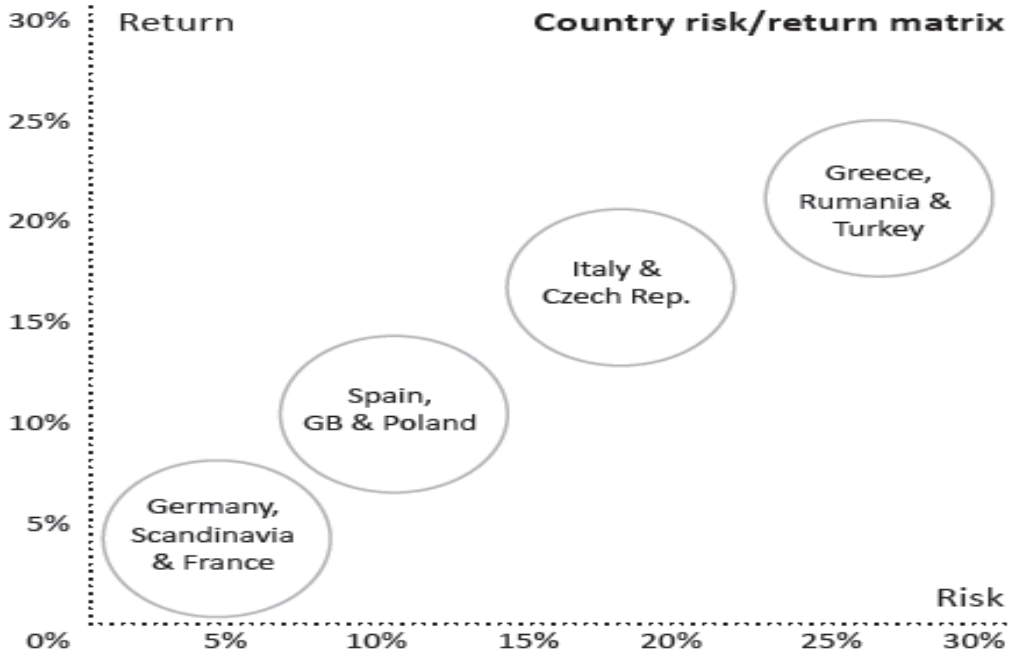


Source: Standard και Poor's, 2012, p. 3

Each parameter receives rating from 1 (highest score) to 6 (lowest score) and, with the combination of the above parameters, is extracted the total score of the country risk.

The higher the risk, the higher should be the return of the investment, as shown in the next figure:

Figure 25. Country Risk / Return

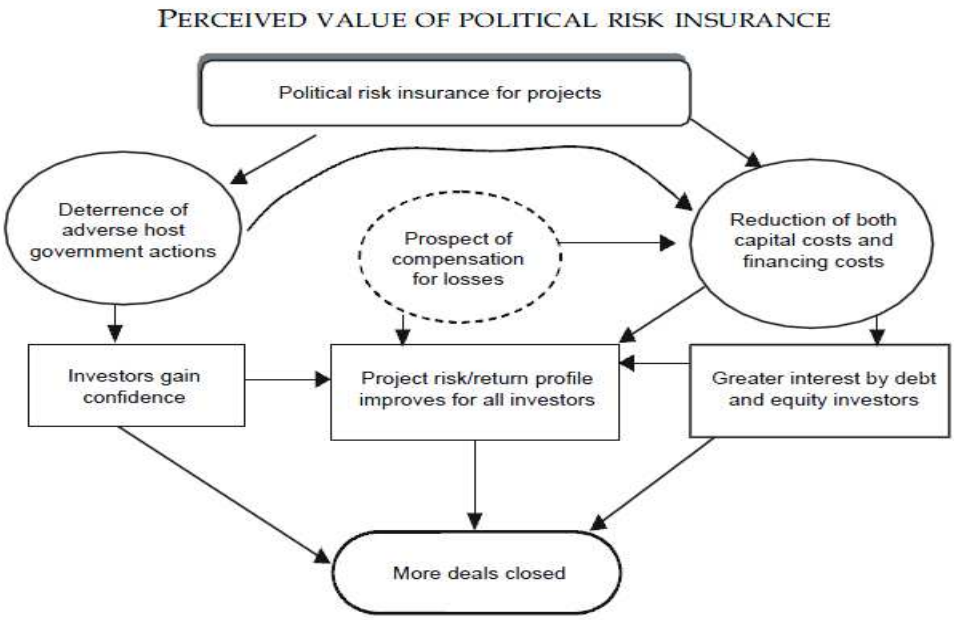


Source: Carrox, 2010. p. 2

As Bharathy & Silverman note: “Risk management theory recommends elimination, mitigation, transfer or acceptance strategies for the treatment of significant risk categories. In the case of country risk assessment, (the focus is) on evaluating the risk due to various political events” (Bharathy & Silverman, 2012, p. 363). The company can use special derivatives products (Hull, 2012) or can be covered through the use of special insurance. Rolfini and Paciotti (2010) are mentioning that Political Risk Insurers are providing equity coverage and credit coverage. West & Marin (2001) note that, the more the companies use political risk insurance, the less becoming the political risk, thus the less the risk premium for the country

The perceived value of political risk insurance is as follows:

Figure 26. Perceived Value of Political Risk Insurance



Source: West & Marin, 2001, p. 216

Risk insurance is becoming a usual practice for many times of risk coverage. As UNEP (2004) notes: "In the past five years, some debt issuers have started using commercial Political Risk Insurance (PRI) to achieve an investment grade rating, even when the foreign currency rating of the issuer's nation is sub-investment grade (or marginal). Although PRI can cover a number of risks, the ratings agencies usually only require currency inconvertibility and exchange transfer cover. This coverage protects investors against the inability of the borrower to convert interest and principal payments from local currency to hard currency (generally USD)".

6. Conclusion

This study confirms the importance of both economic and institutional aspects regarding the inflow of FDI in a country, as well as organizational factors regardiong the decision of companies to establish a company in a foreign country

The government intervention, bureaucracy and corruption levels, are, as has been documented by a series of analyzes examined in the literature review study, very important areas for the receipt of international business decision to proceed or not to direct foreign investment. Without improvement in these parameters it will be

extremely difficult for countries to attract international investment and even those that would give a high added value in these countries. Where, as mentioned above, to reap the maximum benefits from FDI inflows should incoming companies have a long-term, have perspective can support broader economic prospects of the region and the country and is willing to so invest in technology and equipment, and human capital. But to enter this kind of business, there should be an institutional environment that does not change as a result of any government interventions and also there should be a state apparatus that facilitates entrepreneurship, let alone does not create hampered by bureaucracy.

Regarding corruption, as established in the theoretical analysis, an element that is found of the utmost important. Corruption is not only an extremely serious problem because it prevents investment, but also because it attracts dubious investments and disputed benefit. The more widespread the corruption and the more acceptable is corruption in a country, the more companies entering this country will follow corruption methods, thereby destroying the economic environment to deteriorate entrepreneurship and further magnify the problem.

The political environment of the country is a key institutional factor, with great emphasis on risk assessment indicators and other country's business climate indicators. One of the points of attention concerns the legislative environment of the countries: while the overall picture is positive with respect to the laws on enterprises, independent of their size, there is the issue of frequent legislative change. Changes in legislation entail uncertainty, which, in turn, causes difficulty in business decisions, especially in combination with the poor quality of the political environment. In other words, there is a risk, any changes in government to result in a change of the law (investment laws, property laws, tax laws), making it difficult long-term planning business. This element is also the explanation of a negative assessment of the legal and regulatory environment of the countries, since frequent changes lead to overregulation, bureaucracy and ultimately opacity or inefficiency.

The dimension of culture in the axis of the commercial practice is found to be a key element for attracting FDI. Also important is the aspect of education. As noted, without investing in education, countries are losing ground in quality and competitiveness and it is difficult to attract investments to add value to knowledge, technology and innovation.

Macroeconomic factors such as GDP growth and the unemployment rate are important for attracting FDI, however, precisely because of the crisis, should countries have conducted radical reshaping their institutional environment, precisely in order to reduce the negative consequences the crisis. Regarding the work, clearly and labor cost is a factor in the decision regarding the investment and is directly linked to the country's competitiveness. Certainly, there are difficulties beyond the institutional framework, such as the economic environment, which became more difficult due to the economic crisis and finding liquidity through bank lending. At this point it should be noted that the more healthy the institutional environment is, the easier it is for companies to raise liquidity in ways beyond bank loans, for example, through funding from international private equities and venture capitals.

References

Acemoglu, D. (2002). Reversal of Fortune: Geography and Institutions in the Making of the Modern World Distribution of Income. *Quarterly Journal of Economics, 117(4),* 1231–1294.

Acemoglu, D. and Johnson, S. (2005). Unbundling Institutions. *Journal of Political Economy,* 113(5), 949-995

Adrian, T. and Shin, H.S. (2009). Money, liquidity, and monetary policy. *Federal Reserve Bank of New York, Staff Report.*

Adrian, T. and Shin, H.S. (2009). Financial intermediaries and monetary economics. *Federal Reserve Bank of New York Staff Report No. 398*

Aghion, P., and Blanchard, O. (1994). On the Speed of Transition in Central Europe. *National Bureau for Economic Research Macroeconomics Annual,* 283–319.

Aghion, P., Howitt, P. and Mayer-Foulkes, D. (2004). The effect of financial development on convergence: theory and evidence. *NBER Working Paper* No. 10358

Alimen, N and Bayraktaroglu, G. (2011). Consumption Adjustments of Turkish Consumers During The Global Financial Crisis. *EGE Academic Review,* 11(2), 193-203

Allen, F. and Santomero, A.M. (1998). The theory of financial intermediation. *Journal of Banking and Finance*, 21, 1461-1485

Amano, M. (2013). *Money, capital formation and economic growth*. London: Palgrave Macmillan

Artige, L. and Nicolini, R. (2006). Evidence on the Determinants of Foreign Direct Investment. The Case of Three European Regions. *CREPP Working Paper No. 2006/07*

Attanassio, O.P. and Szekely, M. (2001). Wage shocks and consumption variability in Mexico during the 1990s. *Journal of Development Economics,* 73, (1), 1-25

Axelrod, R. (1984). *The Evolution of Cooperation.* New York: Basic Books

Badea, M. (2013). Effects of the Economic Crisis on the Romanian Consumer. *Journal of Knowledge Management, Economics and Information Technology,* III(3), 1-8

Bangia A., Diebold F., Kronimus A., Schagen C. and Schuermann T. (2002). Ratings migration and the business cycle, with application to credit portfolio stress testing. *Journal of Banking and Finance*, 26(2-3)

Beck, T., Levine, R. and Loayza, N. (2000). Finance and the sources of growth. *Journal of Financial Economics*, 58 (2000) 261-300

Benassy-Quere, A., Coupet, M. and Mayer, T. (2007), Institutional Determinants of Foreign Direct Investment, *The World Economy*, 30, 764-782.

Bencivenga, V.R. and Smith, B.D. (1991). Financial intermediation and endogenous growth. *Review of Economics Studies*, 58,195-209.

Bernanke, B.S. and Blinder, A. S. (1992). The federal funds rate and the channels of monetary transmission. The American Economic Review, 82, 901-921.

Bernanke, B.S. and Gertler, M. (1990). Financial fragility and economic performance. Quarterly Journal of Economics, 105.

Bharathy, G.K., and Silverman, B. (2012). Applications of Social Systems Modeling to Political Risk Management. In: *Lu*, J., Jain, L.C., and Zhang, G. (eds). *Handbook* on *Decision Making*. *Vol 2*: *Risk Management* in *Decision Making. Berlin, Heidelberg: Springer*

Billington, N. (1999). The Location of Foreign Direct Investment: An Empirical Analysis. *Applied Economics*, 31(1), 65-76.

Bitzenis, A. (2009). *The Balkans: Foreign Direct Investment and EU accession*. Surrey: Ashgate

Blundell – Wignall, A., Atkinson, P. and Le, S.H. (2008). The Current Financial Crisis: Causes and Policy Issues. *OECD Journal: Financial Market Trends, 95(2), 1-21*

Bodosca, S., Gheorghe, G. and Nistoreanu, P. (2014). Tourist Consumption Behaviour Before and After the Crisis From 2008. *21st International Economic Conference, IECS , 16-17 May,* Sibiu, Romania

Boeri, T., and Terell, K. (2002). Institutional Determinants of Labor Reallocation in Transition. *Journal of Economic Perspectives, 16(1), 51–76*

Bond, P., Edmans, A. and Goldstein, I. (2011). The real effects of financial markets. *NBER Working Paper No. 17719*

Borozan, D. (2008), Regional competitiveness: some conceptual issues and policy implications, 4 (5), 50-63

Bricker, J., Kennickell, A., Moore K., and Sabelhaus, J. (2012). Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances. *Federal Reserve Bulletin* 98 (2), 1-80

Carrox (2010). *Invest in Wind. Generate Energy.* Freienbach: Carrox Enery GmbH

Castanheira, M., and Roland, G. (2000). The Optimal Speed of Transition: A General Equilibrium Analysis. *International Economic Review,* 41(1), 219–239.

Cecchetti, S. and Kharroubi, E. (2012). Reassessing the impact of finance on growth. *Bank of International Settlements (BIS) Working Paper No. 381*

Chakrabarti, A. (2001). The Determinant of Foreign Direct Investment: Sensivity Analysses of Cross-Country Regression. *Kyklos*, 54 (1), 89-114

Chang, H-J. (2006). Understanding the Relationship between Institutions and Economic Development - Some Key Theoretical Issues. *World Institute for Development Economic Research (UNU-WIDER) Working Paper No. DP2006/05*.

Cosset, J.C., Siskos Y. and Zopounidis, C. (1992). Evaluating country risk: A decision support approach. *Global Finance Journal,* **3**(1), 79–95

Csiszar, E.N. (2012). Systemic Risk and the Insurance Industry. OECD working Paper

Deidda, L. (2006). Interaction between economic and financial development. *Journal of Monetary Economics*, 53(2), 233-248

Delanty, G. (1995). *Inventing Europe: Idea, Identity, Reality.* London: Macmillan.

Elsinger, H, Lehar, A. and Summer, M. (2006). Using market information for banking system risk assessment. *International Journal of Central Banking*, 2(1), 137-165

Erb, C.B., Harvey, C.R., and Viskanta, T.E (1996). Political Risk, Economic Risk, and Financial Risk. *Financial Analysts Journal*, *52*, 29–46.

Everett J. and Watson J. (1998). Small business failure and external risk factors. Small Business Economics, 11,

Federal Deposit Insurance Corporation (FDIC) (1997). *History of the Eighties - Lessons for the Future*. Washington, D.C: FDIC

Ferguson, N. and Schularick, M.(2006). The Empire Effect: The Determinants of Country Risk in the First Age of Globalization, 1880-1913. *The Journal of Economic History, 66, pp 283-312.*

Fischer, S. (1993). The Role of Macroeconomic Factors in Growth. *Journal of Monetary Economics, 32(3),* 485–512

Fiszbein, A., Giovagnoli, P. and Thurston, N. (2002). *Household Behavior in the Presence of Economic Crisis: Evidence from Argentina*. The World Bank, Washington, DC

Flatters, P., and Willmott, M. (2009) Understanding the post-recession consumer. *Harvard Business Review*, 7(8), 106-112.

Gambacorta, L., Yang, J. and Tstsaronis, K. (2014). Financial structure and growth. *BIS Querterly Review*, March, 21-35

Garibaldi, P., Mora, N., Sahay, R. and Zettelmeyer, J. (2002). What Moves Capital to Transition Economies?. *IMF working paper* WP/02/64.

Garner, C.A. (1998). Has the stock market crash reduced consumer spending?. *Kansas City Federal Reserve Bank Economic Review*, April, 1-16

GfK (2012). *Demand for smartphones higher than ever before in Europe*. February 13, 2012.

Goodell, P.W. and Martin, C.L. (1992). Marketing strategies for recession survival. *The Journal of BusinessandIndustrial Marketing*, 7(4), 5-16.

Gorea, D. and Radev, D. (2013). The euro area sovereign debt crisis: Can contagion spread from the periphery to the core?. *International Review of Economic and Finance*, 30, 78-100.

Guarinoni, A.. (2013). Country Risk Analysis. *Presentation at Temple University, Rome, Rome, April 3.*

Gwartney J.D., Stroup R.L., Sobel R.S., & Macpherson D. (2011). *Macroeconomics*. 13ed., Mason, OH: South-Western Cengage Learning

Haufler, A. and I. Wooton. (1999). Country Size and Tax Competition for Foreign Direct Investment. *Journal of Public Economics*, 71 (1), 121-139

Horneberg, K. (2011). Attracting FDIs: How much does investment climate matter?. *The World Bank ViewPoint No. 327*

Howell, L. D.(2007). Country and Political Risk Assessment for Managers. In: L. D Howell (Ed.), *The Handbook of Country and Political Risk Analysis* (4th ed.) (3-20). East Syracuse, NY: The PRS Group, Inc,

Hyman, R. (2001). *Understanding European trade unionism: between market, class and society.* London: Sage. Retrieved at 27/12/2014 from http://books.google.gr/books?id=n4RbfBpSO8kC

Hyman, R. (2011). Trade unions, Lisbon and Europe 2020: from dream to nightmare. *London School of Economics Discussion paper No. 45.* Retrieved at 18/12/2014 from http://www.lse.ac.uk/europeanInstitute/LEQS/LEQSPaper45.pdf

Iammarino, S. and Pitelis, C.N. (2000). Foreign direct investment and 'less favoured regions': Greek FDI in Bulgaria and Romania. *Global Business Review,* 1 (2), 155-171.

IMF (International Monetary Fund) (2009). What's the damage? Medium-term output dynamics after financial crises. *World Economic Outlook*, October, 121–151.

Jayaratne, J. and Strahan, P.E. (1996). The finance-growth nexus: evidence from bank branch deregulation. *Quarterly Journal of Economics*, 111, 639-670.

Jude, E.C. (2010). Financial development and growth: a panel smooth regression approach. *Journal of Economic Development*, 35(1), 15-32

Kaczmarski, M. (2014). *FDI into Balkans down in 2013*. FDI Intelligence http://www.fdiintelligence.com/Trend-Tracker/FDI-into-Balkans-down-in-2013?ct=true

Kaufmann, D., Kray, A. and Mastruzzi, M. (2005). Governance Matters IV: Governance Indicators for 1996-2004. *World Bank Policy Research Working Paper Series No. 3630*

Kaufmann, D., Kray, A., and Mastruzzi, M. (2005). Governance Matters IV: Governance Indicators for 1996-2004. *World Bank Policy Research Working Paper Series No. 3630*

King, R.G. and Levine, R. (1993). Finance, entrepreneurship, and growth: theory and evidence. *Journal of Monetary Economics*, 32, 513-542.

Kohler, A. (2013). Income Distribution, Market Size, and Foreign Direct Investment. *University of Zurich Working Paper No. 1345*

Krugman, P. (2013). *End this depression now. New York, NY:* W.W. Norton and Company

Labrianidis L. (2000). Are Greek companies that invest in the Balkans in the '90s Transnational Companies?. In A. Mitsos and E. Mossialos (Eds.), *Contemporary Greece and Europe*, 457-482. London: Ashgate

Labrianidis, L. (2001). Geographical proximity matters in the orientation of FDI: Greek FDI in the CEECs. In G. Petrakos and S. Totev, (Eds.), *Economic Co-operation in the Balkans: A Regional Approach to European Integration*, 463-489. Albershot: Ashgate,

Labrianidis, L., Lyberaki, A., Tinios, P. and Hatziprokopiou, P. (2004). Inflow of Migrants and Outflow of Investment: Aspects of Interdependence between Greece and the Balkans, *Journal of Ethnic and Migration Studies*, 30 (6), 1-26

Lee, W.L. and Krayer, K.J. (2003). *Organizing change*. Hopboken, NJ: John Wiley and Sons

Leff, N. H. (1964). Economic development through bureaucratic corruption. *American Behavioral Scientist*, 8(3), 8-14

Lei, H-S. and Chen, Y-S. (2011), "The right tree for the right bird: Location choice decision of Taiwanese firms' FDI in China and Vietnam", *International Business Review*, 20, 338-352

Leichter,J., Mocci, C. and Pozzuoli, S. (2010). Measuring external competitiveness: an overview. *Ministry of Economy and Finance, Department of the Treasury Working Paper No. 2*

Levine, R., Loayza, N. and Beck, T. (2000). Financial intermediation and growth: Causality and causes. *Journal of Monetary Economics*, 46, 31-77

Lin, J.Y., and Nugent, J.B. (1995). Institutions and Economic Development. In: J. Behrman and T.N. Srinivasan (eds). *Handbook of Economic Development, 3A*. 2301-2370. Amsterdam: North-Holland

Liu J. and Pang D. (2009), Business Failures and Macroeconomic Factors in the UK. Bulletin of Economic Research, 61(1)

Magoulios, G. and Chouliaras, V. (2014). The repercussions of the financial crisis (2008) on the foreign trade between Greece and the Balkan countries, in A. Karasavvoglou and P. Polychronidou (Eds.), *Economic Crisis in Europe and the Balkans: Problems and Prospects*, 51-64. Heidelberg: Springer

Mankiw, G.N. (2012). *Principles of economics*. Mason, OH: South-Western Cengage Learning

Mansoor, D. and Jalal, A. (2011) The Global Business Crisis and Consumer Behavior: Kingdom of Bahrain as a Case Study. *International Journal of Business and Management*, 6(1), 104-115

Mauro, P. (1995). Corruption and Growth. *The Quarterly Journal of Economics*, 110(3), 681–712.

McKee, N. (2015). *French FDI into Romania in decline*. FDI Intelligence, http://www.fdiintelligence.com/Locations/Europe/France/French-FDI-into-Romania-in-decline

McKenzie, D. J. (2006). The Consumer Response to the Mexican Peso Crisis. *Economic Development and Cultural Change*, 55 (1), 139-172.

Meldrum, D.H (2000). Country risk and Foreign Direct Investment Business economics. *The Journal of the National Association of Business Economists*, 35 (1), 33-40

Mishkin, F. (2007). *The Economics of Money, Banking, and Financial Markets*. 7th ed. Boston, MA: Addison Wesley

Mitsopoulos, M., and Pelagidis, T. (2009) Vikings in Greece: kleptocratic interest groups in a closed, rent-seeking economy. *CATO Journal, 29 (3),* 399–416.

Modigliani, F. (1971). Consumer Spending and Monetary Policy. Linkages via interest rates and wealth effects in the FMP model. *Federal Reserve Bank of Boston Conference Series 5.*

Mughal, M.M. and Akram, M. (2011). Does market size affect FDI? The case of Pakistan. *Interdisciplinary Journal of Contemporary Research in Business*, 2 (9), 237- 247

Ohno, H. (2011). Limited market participation, financial intermediaries, and endogenous growth. *Review of Economics and Finance, Academic Research Centre of Canada Article ID: 1923-7529-2011-04-53-10*

Paiella, M. (2007). Does Wealth affect Consumption? Evidence for Italy. *Journal of Macroeconomics,* 29(1), 189-205.

Palme, J. (2001). Will Social Europe Work?'. In M. Kohli and M. Novak (Eds),

Pandelica, A. and Pandelica, I. (2011). The change of consumers' behavior in crisis conditions: A psychological approach to the empirical evidence from Romania. *African Journal of Business Management,* 5 (28), 11399-11412

Peeroo, A. (2013). Privatisation in times of economic crisis: Shalt thou covet thy people's water?. Canberra: *GWF Discussion Paper No. 1305, Global Water Forum*

Petev, I., Pistaferri, L. and Saporta, I. (2011), Consumption and the Great Recession. *NBER Working Paper 17688*

Piga, G. (2011). A fighting chance against corruption in public procurement? In: Ackerman, S.R., and Soreide, T. (eds). *International Handbook on the Economics of Corruption Volume 2*. 141-181. Cheltenham: Edward Elgar

PRS Group (Political Risk Services Group) (1999). *International Country Risk Guide*. East Syracuse, NY : The PRS Group

Rada, C. and Taylor, L. (2006). Developing and transition economies in the late 20th century: diverging growth rates, economic structures, and sources of demand. *DESA Working Paper No. 34*

Recanatini, F. (2012).Tackling Corruption and Promoting Better Governance: The Road Ahead. In: Ackerman, S.R and Carrington, P. (eds). *Anti-Corruption Policy. Can International Actors Play a Constructive Role?*. 55-71. Durham, NC: Carolina Academic Press

Reinhart C.M. and Rogoff, K.S.(2011): From Financial Crash to Debt Crisis. *American Economic Review, 101(5)*

Rodrik, D. (1999). Institutions for High-Quality Growth: What They Are and How to Acquire Them. *Paper prepared for the IMF Conference on Second Generation Reforms, Nov. 8–9,* Washington, DC.

Rodrik, D., Subramanian, A., and Trebbi, F. (2002*). Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development*. Mimeo, Harvard University, October.

Rolfini, R. and Paciotti, S. (2010). Political risk insurance. A technical approach. *SACE Working Paper No. 14*

Rosales, A.C. (2007). *The changes on the Spanish consumer behaviour after the financial crisis*. Dissertation in Marketing, Department of Marketing, School of Business and Engineering — SBE

SACE (2014). *Country Risk ratings*. SACE. http://sace.it/GruppoSACE/content/en/consumer/research/country_info/index.html

Salavrakos, I.D. and Petrochilos, G.A. (2003). An assessment of the Greek entrepreneurial activity in the Black Sea area (1989-2000): causes and prospects. *Journal of Socio-Economics*, 32, 331-349.

Schanz, J., Aikman, D., Collazos, P., Farag, M., Gregory, D., and Kapadia, S. (2011). The long-term economic impact of higher capital levels. *BIS Papers No. 60*, 73-81

Schmitter, P. (1974). *Still the Century of Corporatism?* Review of Politics, 36 (1), 85-131. Retrieved at 9/12/2014 from http://www.rochelleterman.com/ComparativeExam/sites/default/files/Bibliography%20and%20Summaries/Schmitter%201974.pdf

Schwab, K., and Sala-i-Martin, J. (Eds) (2013). *The global competitiveness report 2013-2014: full data edition*. Geneva: World Economic Forum

Shapiro, M.L (2009). Establishing a framework for Systemic Risk Regulation. Testimony Concerning Regulation of Systemic Risk: Hearing Before the Senate Committee on Banking, Housing and Urban Affairs, Washinton, D.C.

Sheng, Y.K. (2013). *What is Good Governance.* Washington, DC: Economic And Social Commission For Asia And The Pacific, United Nations

Slavin, S.L. (2009). *Macroeconomics* (9th ed.). New York, NY: McGraw-Hil

Sousa, R.M. (2009) Wealth effects on consumption. Evidence from the euro area. *European Central Bank Working Paper No. 1050*

Standard and Poor's (2011). Sovereign government rating methodology and assumptions. New York, NY: Standard and Poor's

Standard and Poor's (2012). How we rate sovereigns. New York, NY: Standard and Poor's

Teppa, F. (2014). Consumption behaviour and financial crisis in the Netherlands. *De Nederlandsche Bank Working Paper No. 453*

Totev, S. (2004). Economic Relations in South Eastern Europe: The Intra-Regional FDIPoint of View. *Economic Studies Journal*, 3, 3-31

UNCTAD (2014), *World Investment Report 2014*, United Nations Conference on Trade and Development, Geneva

UNEP (United Nations Environment Program) (2004). *Financial Risk Management Instruments for Renewable Energy Projects*. Washington, DC: UNEP's Division of Technology, Industry and Economics, United Nations

Urbonavicius, S. and Pikturniene, I. (2010). Consumers in the face of economic crisis: evidence from two generations in Lithuania. *Economics and Managemement*, 15, 827-834

Vargas, M. and Sommer, F. (2014). *Corruption and the risks of losses on government bonds*. Frankfurt am Main: Union Investment Institutional GmbH

Visser, J. (1998). Learning to Play: The Europeanisation of Trade Unions. In P. Pasture & J. Verberckmoes (Eds), Working-Class Internationalism and the Appeal of National Identity, pp. 231-256. Oxford: Berg, 231-56.

Voinea, L.,. and Filip, A. (2011). Analyzing the Main Changes in New Consumer Buying Behavior. *International Journal of Economic Practices and Theories*, 1(1), 14-19

Walsh, J.P. and Yu, J. (2010), Determinants of Foreign Direct Investment: A Sectoral and Institutional Approach, *IMF Working Paper No. WP/10/187*

Webber, L. and Willison, M. (2011). Systemic capital requirements. *Bank of England Working Paper No. 436.*

World Bank and IMF (2001). *Developing government bond markets: a handbook*, Washington DC.

Yang, B., Prescott, N. and Bae, E. (2001). The Impact of Economic Crisis on Health-Care Consumption in Korea. *Health Policy and Planning*, 16 (4), 372-385