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MA in Politics and Economics of Contemporary Eastern and Southeastern
Europe

**International Business between
Greece and Bulgaria:
From Enemies to Partners**



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- **CMEA:** Council for Mutual Economic Assistance
- **EU:** European Union
- **FDI:** Foreign Direct Investment
- **FYROM:** Former Yugoslavic Republic of Macedonia
- **GDP:** Gross Domestic Product
- **HiPERB:** Hellenic Plan for the Economic Reconstruction of the Balkans
- **HSA:** Hellenic Statistical Authority
- **IMF:** International Monetary Fund
- **IOM:** International Organization for Migration
- **NATO:** North Atlantic Treaty Organization
- **NSI:** National Statistical Institute
- **OECD:** Organization or Economic Co-operation and Development
- **PPP:** Power Parity Purchase
- **SMEs:** Small and Medium-sized Enterprises
- **UNCTAD:** United Nations Conference on Trade and Development
- **USA:** United States of America
- **USD:** United States Dollar
- **USSR:** Union of Soviet Socialist Republics
- **WB:** World Bank
- **WTO:** World Trade Organization

Abstract

This thesis presents the international relations between Greece and Bulgaria in a historical and economic framework. The purpose of the research is to analyze data of the field of the economic interaction between the two countries in order to assess the magnitude of this relation. The historical background of this interaction is analyzed, followed by data in the area of trade, FDI and migration. The reference period begins with the Greek independence from the Ottoman rule, and the hostile or sometimes neutral relations between the two countries are described. The fall of communism and the regime change in Bulgaria generated major developments in its external affairs. Therefore, the analysis of trade, FDI flows and migration flows between Greece and Bulgaria follows. The variables are elaborated for each country so as to estimate the significance of the interaction between Greece and Bulgaria. The facts that changed radically the evolution of this relation were not only the fall of communism and the transition of Bulgaria. The accession of Bulgaria to EU, the global economic crisis and the Greek debt crisis affected to a large extent the evolution of the international relation of the two countries as well. The conclusions that were drawn from the analysis show that there is a strong economic interaction between Greece and Bulgaria in the areas of trade, FDI and migration. Bulgaria has an outstanding role as a trade partner of Greece and a destination of Greek FDI outflows, while Greece is characterized as one of the most desirable destinations of Bulgarian labor migration. However, the continual internal crisis in Greece is about to reverse this relation. It seems that, at the moment, the interaction between the two countries includes signs of further more impressive development in the near future.

1. Introduction

1.1 Preliminary comments

There has been much debate in literature about the bilateral relations between post communist countries and EU member states. When the communism fell in Eastern and Southeastern Europe and the Soviet Union collapsed in the beginning of the 1990's, several transformations occurred overwhelming the economies that were affected by them.

The Balkan countries were the most influenced by the regime change. The transition to a free market economy was not an easy process due to the economic backwardness and the isolation policy that were inherited by the previous regime. The new democratic governments of the post communist states searched for new partners mainly in the Western countries. Almost all found this new alliance to EU, which appeared to be the pillar of balance in the region.

Many EU member states expanded their economic activities to the emerging economies, which, in turn, regarded their new partners as destinations of migration. The neutral stance of Bulgaria and Romania in the Yugoslav Wars was determining, since they became the first allied economies of the EU. In addition, Greece, which was the only EU member state of the Balkan region, was one of the most benefitted by the new alliance.

Soon, a new form of regionalism appeared in the Balkan region with Greek economy as a potential leader. The dawn of the 21st century found Greece to have developed substantial economic relations with the Balkans, especially with Bulgaria. Additionally, Balkan economies were found on the route of membership to EU. Slovenia and later Bulgaria and Romania became EU member states achieving high levels of European integration. The rest Balkan economies pointed considerable levels of integration to EU, although they remained potential members.

Some years later, the global economic crisis caused the Greek debt crisis, which resulted in the collapse of the Greek economy. Bulgarian economy was not affected by the crisis directly. In essence, the country was affected by the recession of its Western partners that was depicted on their economic activities. On the whole, almost all more or less the Balkan countries were influenced more by the Greek debt crisis than the global economic crisis.

Relationship among Greece and Bulgaria is one of the most significant cases, due to the fluctuating evolution of it. In this thesis, the research of this relationship is attempted with a focus on the development of international business between the two countries. It is crucial to examine how economies with totally different economic and political background and hostile affiliations ended up as the most considerable partners in the Balkan region.

The most important spots of the modern history that connect Greece and Bulgaria are described shortly. Significant facts, which marked the evolution of the relationship between the two countries, are mentioned. Then, the major partners of Greece and Bulgaria are examined separately in the field of trade and FDI, while the migration flows of both countries are estimated. This analysis may enable a conclusion to be drawn about the magnitude of the partnership between Greece and Bulgaria.

The continuous discussion among scholars about the magnitude of the Greek-Bulgarian relationship poses a question about how much it could be developed. Having started after the fall of communism in Bulgaria, economic and political relations among the two countries grew remarkably. Trade between them grew larger, while Greek FDI outflows to Bulgaria expanded. At the same time, migration flows from Bulgaria to Greece were on a rise. It could be assumed that the economic relationship of the two countries provoked a form of regional integration in the Balkan Peninsula. However, the deepening of Greece in the crisis interrupted the further evolution of this integration, since the effects of the Greek crisis affected adversely the whole region.

1.2 Aim of the thesis

The present research started due to the long discussion about the economic relationship between Greece and Bulgaria. Previous researches concluded that the openness of Greece to the Balkan region boosted their economic growth and, in the case of Bulgaria, development was accelerated. Relations of Greece with the Balkans were measured by the amount of trade among them, the stock of Greek FDI outflows to the region and the immigrants that were integrated to the Greek labor market.

This topic was decided due to the long discussion about the bilateral relations between the two countries. However, in order for the magnitude of this relation to be defined, the research was expanded through the comparison with the major partners of Greece and Bulgaria as far as concerned trade, FDI and migration.

Data of these three variables are demonstrated, illustrating the major partners of the two countries and their most significant relations with the rest of the Balkans. This research intends to find out how much the significance of trade, investments and labor migration is for Greece and Bulgaria. The outcome could pose a question to policy-makers about the need of the expansion of this partnership, especially after the enduring reduction due to the Greek crisis. Moreover, regional cooperation is considered to be an effective way to further development inside the EU.

1.3 Structure of the thesis

Apart from introduction, which elaborates on several issues about the content of the research, thesis is divided into six sections.

In the second chapter, the evolution of the relation between Greece and Bulgaria is presented from the independence of Greece to the collapse of the communist regime in Bulgaria. For this purpose, four sub-sections are included: the first presents the most significant facts that turned their relation into hostile, the second describes the period that efforts of settlement between the two governments took place, the third illustrates the most considerable improvements until the fall of communism and the forth depicts the recent economic development of the two countries.

In chapter three, trade of the two countries is analyzed. First of all, the total trade and the major trade partners of both are presented. Then, the trade of Greece and Bulgaria with the other Balkan states is illustrated. Although trade with the most of the Balkans is not significant, it is useful to count it, because trade among Greece and Bulgaria is proved to be outstanding. Finally, trade among the two countries is examined in terms of quantity and category of products.

The forth chapter describes the major foreign countries that invest in Bulgaria and the major destinations of Greek investments. Additionally, the Greek FDI outflows to each Balkan country are presented separately and, later, the flow of FDI from Greece to Bulgaria is depicted in respect of the amount and the sector of the economy that they are absorbed. A reference to the relocation of Greek firms to Bulgaria is made.

Chapter five examines the inflows of migration to Greece and the outflows of migration from Bulgaria separately. The most common origins of the immigrants that reside in Greece are presented, while the most desirable destinations of Bulgarian emigrants are illustrated. Afterwards, the migration

flows from Bulgaria to Greece are described with a reference to their assimilation in the Greek labor market.

In the final chapter, the conclusions made by this thesis are reported. The main findings of the analysis are summarized, compared to what was expected about the significance of the partnership among Greece and Bulgaria. In the end, some aspects of the evolution of this relationship are sketched, indicating what future researches should examine.

2. Greece and Bulgaria

2.1 The years of hostility

After the independence from the Ottoman rule in 1830, Greece did not evolve economic and political relations with other independent states immediately. When Greek government started to seek for partnership, bilateral relations with northern Greece and the Balkans, which were still under the Ottoman rule and their foreign affairs were integrated to the Ottoman external policy, were still characterized as limited. As a result, Greek interest focused more on improving the relations with the European countries, while Greek international relations were neutral or sometimes hostile with the Balkan countries.

In 1878, the state of Bulgaria emerged and diplomatic relations with Greece emerged immediately because of strong political, cultural and religious¹ ties between the two countries. However, after the independence of Bulgaria in 1908, the foreign affairs between them were turbulent and turned to mutual hostility. Greece and Bulgaria were allies in the First Balkan War against the Ottoman Empire, which lost the war and was obliged to concede the territory of the Balkan Peninsula. The redistribution of the new territories created a conflict between the two countries and ended up to the Second Balkan War. The victory of Greece did not improve the relationship with the opposite side. On the contrary, northern Greece and the Balkans had created strong economic ties during the Ottoman period, but, after the war, their relations were hampered. So, the ambience of the Balkan region remained hostile and volatile².

¹ Both countries are members of the Eastern Orthodox Church

² Monastiriotis, V. and Tsamis A. (2007) Greece's new Balkan Economic Relations: policy shifts but no structural change, *Hellenic Observatory papers on Greece and Southeast Europe*, GreeSE paper no. 1, London School of Economics and Political Science, p. 4-5

The two countries did not have the chance to improve their relationship, as the First World War emerged and they took part in opposite coalitions. During the Interwar period, the Bulgarian government recognized the existence of the Macedonian ethnicity of Slavs that claimed to be the descendants of the ancient Macedonians³. The use of the word “Macedonia” by the Slavic people had created a conflict between them and Greece. Foreign affairs between Greece and countries that recognized these people as Macedonians deteriorated too.

Greece and Bulgaria participated in the Second World War once again in opposite sides. The Bulgarian occupation of Greece along with Germany and Italy⁴ during the war worsened their relations even more. It was obvious that the Bulgarian state wished to expand its territory occupying a part of Greece. However, when the war ended, Bulgaria was found around the lost coalition, having left horrible memories to the Greek population. Right after the end of the Second World War, the Cold War appeared which separated the world in two parts: the Eastern Block that was under the influence of the Soviet Union and the West that was influenced by the USA. Bulgaria belonged to the first side, gaining the reputation of the most loyal ally of the Soviet Union, and Greece to the second, forming the last time that the two countries were supporting opposite coalitions.

³ About the assertion of the name of Macedonia by Slavs see: Σφέτας Σ. (2009) *Το μακεδονικό και η Βουλγαρία Πλήρη τα απόρρητα βουλγαρικά έγγραφα 1950-1967*, Εταιρεία Μακεδονικών Σπουδών- Βουλγαρικά Κρατικά Αρχεία, Θεσσαλονίκη

⁴ About the occupation of Greece during the Second World War see: Kotzageorgi, X. (1996) Population Changes in Eastern Macedonia and in Thrace: the Legislative “Initiatives” of the Bulgarian Authorities (1941-1944), *Balkan Studies*, 37(1), p. 133-164

2.2 The postwar period

The first years of the postwar period found the two countries to deal with the consequences of the war. The new conditions intensified the economic and political fragmentation in the Balkan region. Greece was trying to rebound from the losses left from the war, while Bulgaria wished to overcome the connection with the losers of war. They both had to cope with economic and political chaos. Moreover, their national economies were based on agriculture, which was suffering from the disaster of the war. Both economies were characterized by deficits, low productivity, high unemployment and under-investment.

As the years passed, they developed the industrial sector, no matter the fact that they lacked the raw materials necessary for the development of heavy industry. As a communist country with centrally planned economy, Bulgaria copied the model of industrialization of the Soviet Union in the 1930's⁵ and, in the 1980's, became a predominantly industrial country⁶. Conversely, Greece chose the democratic path with a free economy through which an adequate level of industry developed. Following the same legacy⁷, both countries were not ready to follow the changing conditions of the world and started their modern period with a lag compared to the developed world, but, they, finally, accomplished high levels of economic growth exploiting their factor inputs, such as the agricultural population, the imported products and the foreign capital⁸.

⁵ About the model of industrialization of the Soviet Union see: Harrison, M. (1996) Soviet Agriculture and Industrialisation, Agriculture and Economic Growth from the Eighteenth Century to the Present. In: Davis J. and Mathias P. (1996) *Agriculture and Economic Growth from the Eighteenth Century to the Present*, Oxford, Blackwell, p. 192-208

⁶ Holden, L. (1997) Bulgaria: Economic and political change, *Critique*, 25(1), p. 134

⁷ Byzantine-Ottoman-Orthodox legacy

⁸ Nikova, E. (2001) Catching up and falling behind: Bulgaria and Greece at the Turn of the Twentieth Century, *Balkan Studies*, 42(1-2), p.129

It took years for Greece and Bulgaria to normalize their relations, but, in the end, the two countries resumed diplomatic relations. In 1953, they signed an agreement about the delineation of their borders. During the years of industrialization, the economic and political relations between Greece and Bulgaria improved impressively. Greece was already an open economy with outward investments in West and developing countries, including Bulgaria. Although these investments were limited, because of the Greek governmental policy that aimed at the attraction of foreign capital, the two governments signed a couple of agreements regarding important issues. Additionally, the deterioration of the relations of both countries with Turkey resulted in their alliance in foreign policy.

Trade relations between the two countries were rather limited because of several reasons. First of all, the accession of Greece to the EU in 1981 led to trade diversion⁹ mainly in agricultural products. Greek trade relations were focused on the European market. Secondly, as a communist country, Bulgaria followed isolationist policies, which decreased the demand for Greek products¹⁰. Finally, the main part of Bulgaria's imports and exports originated from the CMEA¹¹ and the socialist countries. The most outstanding exceptions were the import of oil from Arabian countries, when Bulgaria tried to confine its dependence of the Soviet oil¹², and some Greek products of multinational companies.

⁹ About the definition of trade diversion see: Wilhelmsson, Fredrik (2006) *Trade Creation, Diversion and Displacement of the EU Enlargement Process*, Lund University, Department of Economics, June 2006

¹⁰ Monastiriotes, V. and Tsamis A. (2007) Greece's new Balkan Economic Relations: policy shifts but no structural change, *Hellenic Observatory papers on Greece and Southeast Europe*, GreeSE paper no. 1, London School of Economics and Political Science, p. 7

¹¹ For information about CMEA countries see: Balassa, B. (1991) Economic Integration in Eastern Europe, *World Bank Working papers*, March 1991

¹² Wight, J. B. and Fox, M. L. (1998) Economic Crisis and Reform in Bulgaria, *Balkanistica 11*, p. 129

2.3 The period of transition

At the end of the 1980s Greece had been characterized as a West developed country, while Bulgaria had already transformed from an underdeveloped country into a rapidly developing and promisingly industrial one. This period was marked by two major developments: the fall of communism in Bulgaria and the Greece's accession to the European Union. On the one hand, Bulgarian economy suffered a huge drop in agricultural and industrial production, international trade and social indicators. It became obvious that the accelerated economic growth of the communist years had created an unviable economy, where modernity was combined with totalitarian policy. On the other hand, Greek economy was overall modernized after the accession of the country to the European Union, but further modernization was inevitable due to the protectionism, clientalism and political favoritism that prevailed in the country¹³.

The end of the Cold War and the disintegration of the Eastern Block brought changes in the economic situation and foreign policy of Bulgaria. The CMEA and the socialist countries decreased their imports and the availability of Soviet oil declined rapidly. As a result, a large trade deficit and a shortage of raw materials emerged in Bulgaria. Also, the termination of the close relations with the Soviet Union ushered the Bulgarian government to make efforts to improve its relationship with the West. Soon, the government imitated the West type of economic policy, removing price distortions from market, limiting trade barriers, developing an open market economy, eliminating monopolies and promoting privatizations¹⁴. An austerity program was adopted in order to stabilize economy causing excessive unemployment, fall of the real wage, inflation and decrease of government subsidies.

¹³ Nikova, E. (2001) Catching up and falling behind: Bulgaria and Greece at the Turn of the Twentieth Century, *Balkan Studies*, 42(1-2), p.132-133.

¹⁴ Wight, J. B. and Fox, M. L. (1998) Economic Crisis and Reform in Bulgaria, *Balkanistica* 11, p.132

At this time, Greece was found in a better economic and political position compared to the rest of the Balkan countries, as it had already assimilated the West type of economic politics. As a member of all the key international organizations, such as EU, NATO, OECD and WTO, Greece was able to assume a leading role in the development of the Balkan economies¹⁵. The opening-up of the former communist economies altered the balance of the Greek economy in the Balkan region. The country could claim a more decisive role in the international politics through interventionist practices that would cause economic development regionally in favor of the domestic economy.

Although Greece promoted the accession of the Balkan countries to the European Union, it failed to play a key role in the region. Several facts, like the name dispute with FYROM, remained, confining the role of Greece in the Balkan region to a solid partner during the European integration process¹⁶. The approach of Greece to the region was led by populist and security considerations and, as a result, economic relationship was confined by foreign policy. The turbulent relations with FYROM, because of the issue of the Macedonian Question¹⁷, and Albania, because of the issue of the Albanian immigration to Greece¹⁸ and the issue of the Greek minority of Albania¹⁹, indicated Bulgaria as the main neighbor partner of Greece with common borders.

In 1991, the Greek and Bulgarian Prime Ministers signed a Treaty of Friendship, Good-neighborliness, Co-operation and Security establishing the

¹⁵ Monastiriotes, V. and Tsamis A. (2007) Greece's new Balkan Economic Relations: policy shifts but no structural change, *Hellenic Observatory papers on Greece and Southeast Europe*, GreeSE paper no. 1, London School of Economics and Political Science, p.10

¹⁶ Christidis, Y. et al. (2017) Greek-Bulgarian Relations: Present State and Future Challenges, *ELIAMEP*, Research report March 2017, p. 9

¹⁷ About the Macedonian dispute between Greece and FYROM see: Ramet, S. P. (1992) War in the Balkans, *Foreign Affairs*, 71(4), p. 79-98

¹⁸ About Albanian immigration to Greece see: Adamczyk, A. (2016) Albanian immigrants in Greece: from unwanted to tolerated? *Journal of Liberty and International Affairs*, 2(1), 49-59

¹⁹ About the Greek minority of Albania see: Pettifer, J. (2001) The Greek Minority in Albania In the Aftermath of Communism, *Conflict, South Slav Journal*, 22(3-4), p. 13-32

Greek-Bulgarian relationship as a stabilizing factor in the Balkan region. However, the dissolution of the Socialist Federal Republic of Yugoslavia, specifically the declaration of independence of FYROM, caused a diplomatic conflict between the two countries, when Greek Prime Minister invited the Bulgarian Prime Minister to participate in a meeting in Athens about the FYROM, but he refused claiming that Bulgaria would not participate in talks about FYROM without its representatives²⁰.

The negative atmosphere deteriorated, in 1992, when Bulgarian government recognized FYROM as “Republic of Macedonia”. Though, the crisis soon was overpassed without affecting further the relations of the two countries. In 1993, an agreement about the promotion and protection on investments between Greece and Bulgaria was signed. Several agreements of economic and political interest followed, ending in the willingness of Greece to promote intensely the accession of Bulgaria to the European Union without expecting anything.

The mid-1990’s was the period in which the economic relationship between Greece and Bulgaria was intensified. Greece created the HiPERB²¹ in order to promote EU’s and its own interests through the economic and political cooperation with the Balkan countries. The plan established Greece as the bridge between EU and the Balkans and facilitated the Greek direct investment in the region, funding the infrastructure of the Balkan countries. Through the HiPERB, various projects of cooperation with Bulgaria were financed, increasing the Greek presence in Bulgaria’s public and private sector. Greek investors had a comparative advantage over the Bulgarian market, to which Greek private sector penetrated initially with modest investments that soon turned to major for Greek standards. By the end of the

²⁰ Christidis, Y. et al. (2017) Greek-Bulgarian Relations: Present State and Future Challenges, *ELIAMEP*, Research report March 2017, p. 12

²¹ About HiPERB see on: Ministry of National Economy (2011) *Hellenic Plan for the Economic Reconstruction of the Balkans*, General Secretariat for International Economic Relations, Athens, September, Available at:

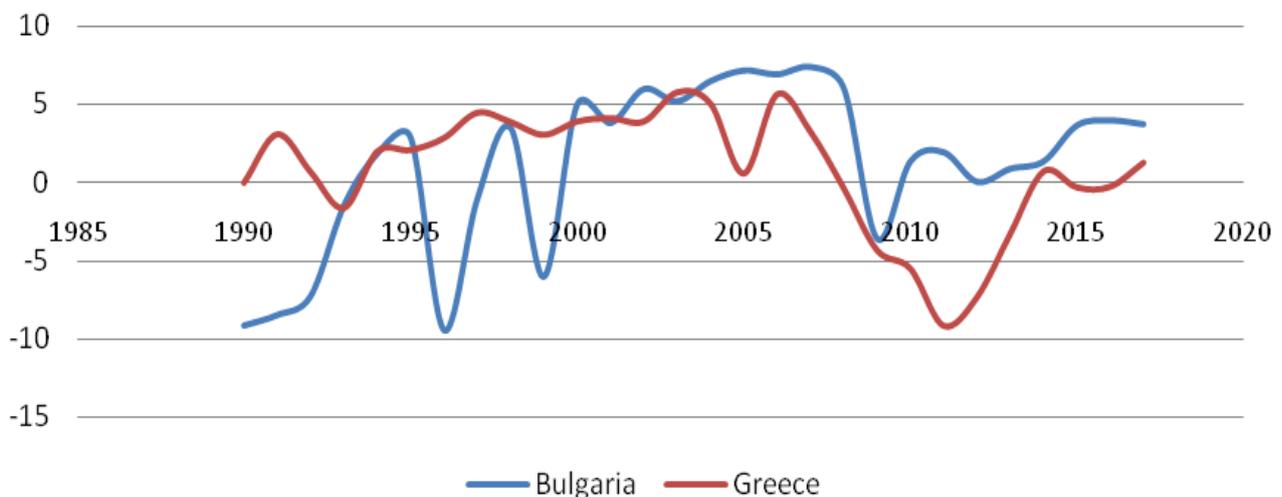
https://www.mfa.gr/images/docs/periferiaki_politiki/HiPERB_en.pdf

1990's Greece was among the major economic partners of Balkans, especially Bulgaria, which transformed from a poor and underdeveloped country to an attractive investment spot.

2.4 The recent years

The fall of communism, the accession of Bulgaria to the EU and the Greek debt crisis were the facts that marked and determined the relationship between Greece and Bulgaria. In essence, once the economic cooperation between Greece and Bulgaria started after the fall of communism, it never ended. However, both economies had totally different routes, which are depicted on the evolution of their national products. GDP measures the market value of all the final goods and services produced in a country in a certain time. The most important part is the fluctuations of GDP that form the growth dynamic of each economy. Although the market value of the Greek economy is higher than Bulgaria's, the last seems to be more vigorous than the former. Growth rates of GDP interpret the different evolution that the two economies had.

Graph 1: GDP growth rates of Greece and Bulgaria in million USD



Source: UNCTAD

In Graph 1, the growth rates of Greece and Bulgaria are presented. Bulgaria began the transition from a communist central-planned to a democratic free economy with a continuous fall of GDP until 1993. Since then, several reasons explain the fluctuations of GDP from 1995 to 2000. During this period, economic and political changes emerged, marking the transition period with instability, lack of decisiveness and loss of credibility in economic policy. A government that maintained ties with the previous regime, the burst

of inflation and the currency depreciation led to the crisis of the domestic banking sector, which, in turn, led to the decline of GDP.

In the years that followed, the change of government and the implementation of measures of macroeconomic stability placed Bulgaria on the growth path, which was about to be improved further by the country's accession to EU in 2007. However, the global economic crisis of 2007 had a bad effect on the Bulgarian economy, which became obvious in 2009 with a decline of GDP. Although it is generally believed that small economies are quite vulnerable to exogenous shocks, Bulgaria soon overcame the global effects of the crisis and, during the last years, the country is a synonym of slow and stable growth.

Greece had a totally different evolution of GDP from Bulgaria's. Until 2007, Greek economy encountered a stable growth, which was interrupted by the global economic crisis that turned into a debt crisis for Greece. In the period between 2008 and 2014, growth rates recorded great decrease and the country's GDP shrunk. The last years, GDP has not recovered at all. On the contrary, growth rates are stable close to zero and GDP remains about 25% lower than the pre-crisis level. The consequences of the crisis and the austerity measures imposed by IMF and EU were dramatic not only for Greek economy. Greece had created strong bonds with Balkan countries, especially Bulgaria, and the spillover effects of the Greek crisis became obvious on their real economies. High unemployment, reduced demand for imports and decrease on investments was the outcome of the crisis, which had bad impacts on the Balkans²².

All these years, the evolution of both the Greek and Bulgarian economy was attended by corruption and shadow economy. Tax evasion, bureaucracy and ineffective law enforcement are the main factors that delayed Bulgaria's

²² Risteska, M. and Daskalovski, Z. (2011) *One Decade after the Ohrid Framework Agreement: Lessons (to be) Learned from the Macedonian Experience*, Friedrich Ebert Stiftung and Center for Research and Policy Making, Skopje

accession to EU and impeded its further economic growth after the fall of communism²³. In the case of Greece, the problem is mostly detected in the governments' behavior. Although Greece changed several governments through years, most of them were accused of briberies and clientalism²⁴.

²³ Goev, V. and Boshnakov, V. (2008) Grey economy and corruption in Bulgaria: Empirical evidence, In *Proceedings from the 4th International Conference" Development: Cooperation*, p. 253

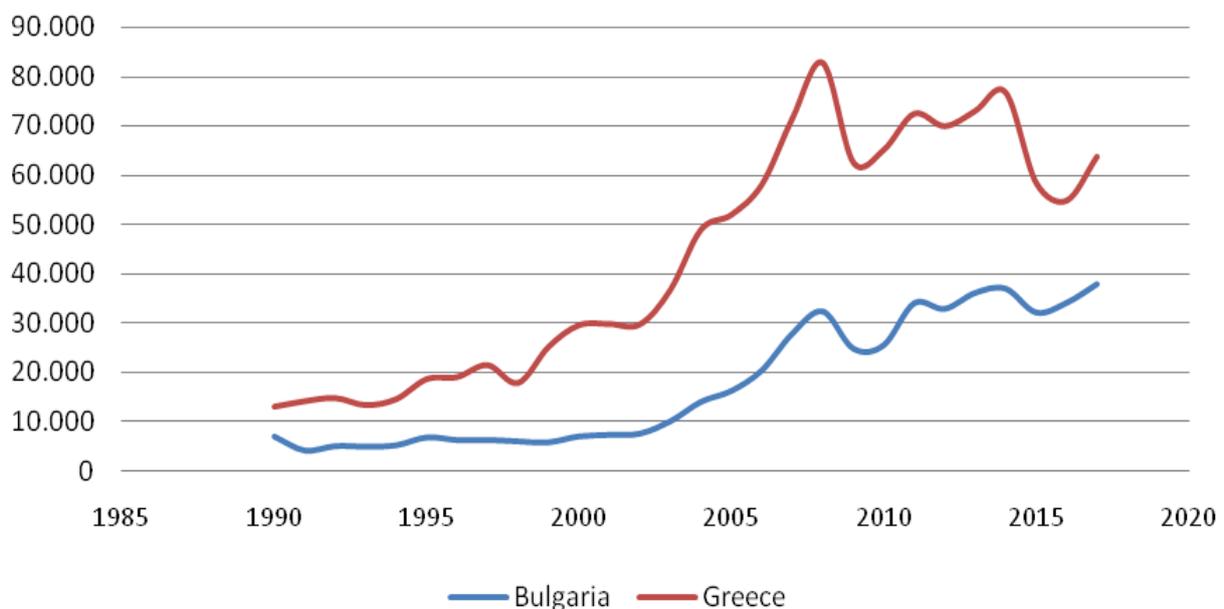
²⁴ Katsios, S. (2006) The shadow economy and corruption in Greece, *South-Eastern Europe Journal of Economics* 1, p. 77

3. Trade

3.1 International trade of Greece and Bulgaria

International trade is an important factor in the process of transition and it is associated with economic growth²⁵. On the one hand Greece, as a West capitalist economy, was depended on external trade in order to achieve higher growth. On the other hand, Bulgaria needed trade, especially with Western countries, so as to accomplish the transformation of the economy from central-planned to market-based.

Graph 2: Total trade of Greece and Bulgaria separately in million USD



Source: UNCTAD

As it is illustrated in Graph 2, the value of total trade of Bulgaria and Greece followed almost the same evolution from 1990 to 2017. The evolution of Greek trade through years was rising, but it was characterized by some fluctuations. The majority of Greek firms had been always small enterprises, which impeded the country's stronger export orientation. Additionally, Greece

²⁵ Chionis, D. et al. (2002) Greece's Trade With the Balkan Countries: Is It Too Little?, *Journal of Economic Integration*, 17(3), September 2002, p. 609

had no innovative industries that could be competitive in the world market. So, the weakness to target at the production and export of specialized and innovative products left the country dependent of tourism and agricultural products, which were the main sectors that flourished and still do in Greece²⁶. In the early 2000's, the raised demand for imports expanded the country's trade deficit, because exports of goods were stagnant and the exports of services, which was on a rise, were insufficient to balance this deficit.

The most important turbulence for Greek trade was in 2009 when the adverse effects of the global economic crisis affected the country's trade. The next years, it followed a slow increase, which was soon interrupted in 2016. Before crisis, the great rise of the Greek trade was driven by the demand for imports, so a trade deficit was created by the low export performance. After the crisis, the total trade of Greece appeared signs of recovery. However, in 2015-2016 the reduction of imports in combination with the low international competitiveness of Greek exports resulted in the further decline of the Greek total trade. In recent years, exports of services, mainly tourism and shipping, improved strongly provoking an increase of total trade. Export of goods also improved, but trade deficit did not reduced, because increased domestic demand boosted imports as well²⁷. The export performance of Greece remained low and unable to compete in the international market effectively²⁸.

Bulgarian trade was growing slowly, but steadily, all these years. The only exception was in 2009, when the global economic crisis hit Bulgarian trade reducing it. On the one had, local economy of Bulgaria used to be dependent

²⁶ German Institute for Economic Research (2016) *The Impact of Research on Greek Economic Growth*, Available at:

https://www.dianeosis.org/wp-content/uploads/2016/11/research_policy_eng_final.pdf p.11

²⁷ See: Black Sea Trade and Development Bank (2015) *Greece Country Strategy 2015-2018*, BD2015 - 067A, Thessaloniki, Available from:

https://www.bstadb.org/about-us/key-documents//Country_Strategy_2015-2018_-_Greece.pdf

²⁸ German Institute for Economic Research (2016) *The Impact of Research on Greek Economic Growth*, Available at:

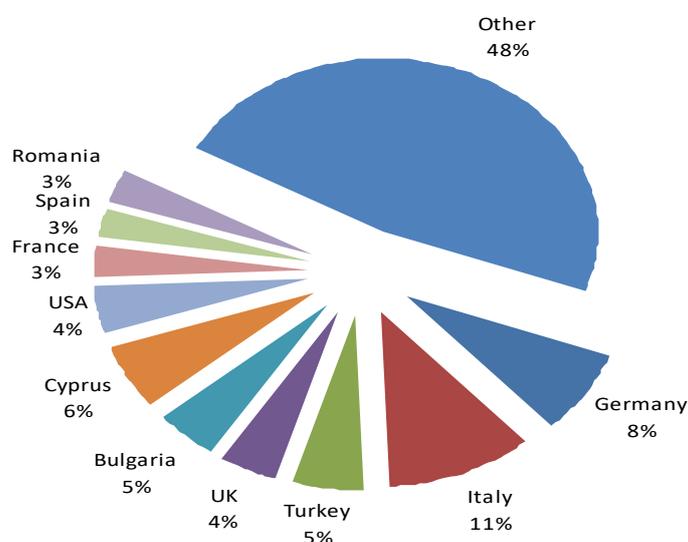
https://www.dianeosis.org/wp-content/uploads/2016/11/research_policy_eng_final.pdf p.16

of exports for its economic growth. This made it quite sensitive to the fluctuations of the global demand, especially during the global economic crisis. On the other hand, a large part of imports of goods were quit intertwined with investment activities, so the crisis had an even more bad effect for firms that were partly based on imports.

Total trade of Bulgaria soon returned to pro-crisis levels, indicating that the country's exports performed well. But, the consequences of the Greek debt crisis were depicted on the fall of trade in 2015, when the slow-down of the Greek trade affected negatively the Bulgarian trade, proving the dependence between them. Moreover, Bulgaria's trade deficit remained firmly in low levels.

In Charts 1 and 2, the ten major partners of Greece's exports and imports are presented respectively. During the 1990's the most important partners of Greece both in exports and imports were European countries, which means that, after its accession to the EU, Greece integrated successfully to the European market. In the same period USA and neighboring countries, such as Turkey, Bulgaria and Romania, were among the major export partners of Greece, but less significant. Also, Russia, China, Korea and USA were among the major import partners with smaller share.

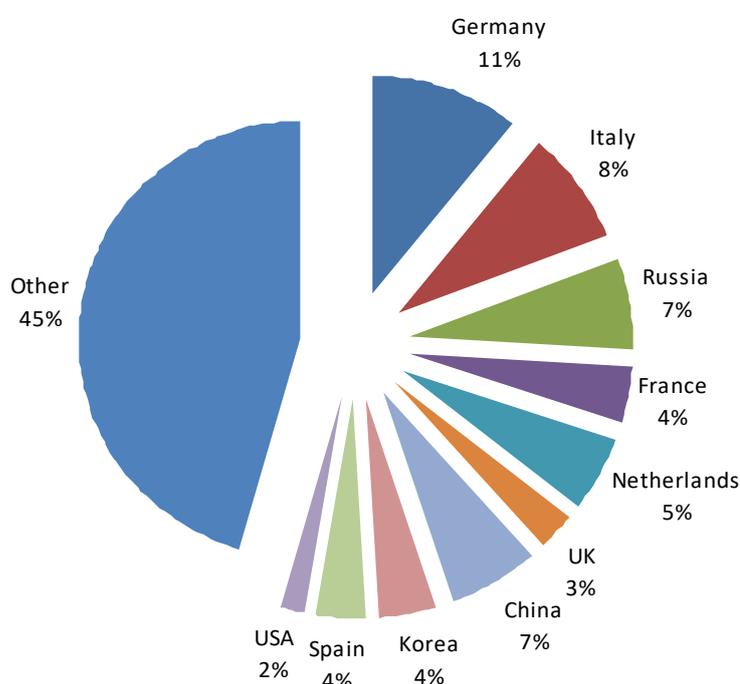
Chart 1: Greek partners' share of exports in % of total exports in 2016



Source: WB

Until the outburst of the crisis, European countries' and USA's share of exports and imports remained the same or, in some cases, declined. The share of exports of neighboring countries increased significantly, while the share of imports of Russia, China and Korea increased. The partner shares of this period indicate that Greece was a country fully integrated to the European market, while the shares of imports show that it was adequately integrated to the world market.

Chart 2: Greek partners' share of imports as % of total imports in 2016

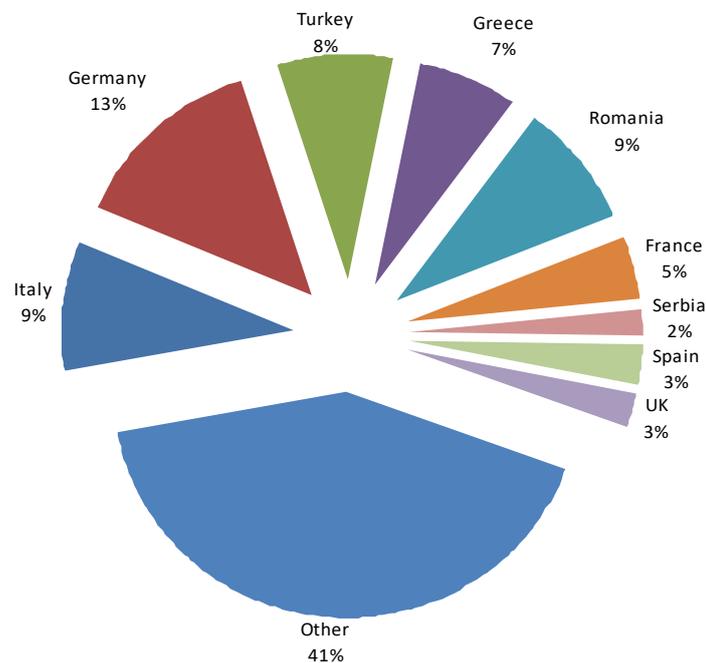


Source: WB

The years of crisis that followed brought important changes in both the export and import partner shares. Apart from Italy and Cyprus, all the European countries' including USA partner shares declined significantly. The share of Turkey, Bulgaria and Romania increased changing completely the order of shares, boosting the theories of regionalism in the Balkan region. The partner shares of imports present little differences. The share of USA and European countries except from Spain reduced to a great extent, while the Share of Korea and specially Russia and China improved greatly.

In Charts 3 and 4 the ten major partners of Bulgarian exports and imports respectively are displayed. As a communist country, Bulgaria's main trade partners were USSR and other socialist countries. Few years after the regime change, Bulgaria applied for accession to EU. So, the share of the main export and import partners of the country changed considerably, because, as an applicant country to EU, Bulgaria began to integrate into the European market.

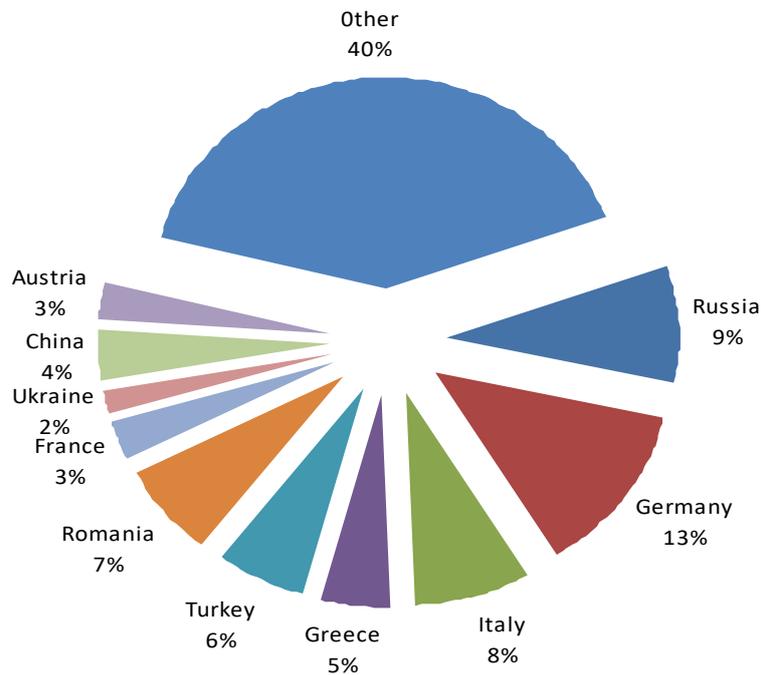
Chart 3: Bulgarian partners' share of exports as % of total exports in 2016



Source: WB

When the country entered the EU officially in 2007, most of the major export and import partners of Bulgaria were EU member states. Trade with Russia, especially exports, declined extremely. Also, trade with neighbor countries like Greece, Romania and Turkey increased. The partner shares of this period showed that Bulgaria integrated to the European market to a considerable degree and presented some signs of regional integration.

Chart 4: Bulgarian partners' share of imports as % of total imports in 2016



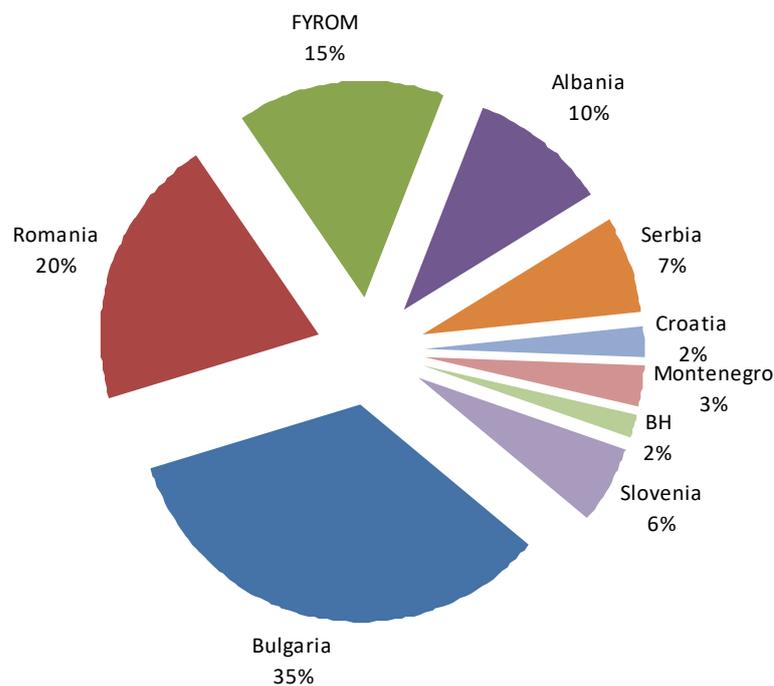
Source: WB

The accession of Bulgaria to EU coincided with the global economic crisis, which changed once again the shares of the country's trade partners. Almost a decade after the outbreak of the crisis, the share of European trade partners increased slightly, while the share of post communist countries decreased excessively. Regional trade with Romania and Turkey remained in high levels, but trade with Greece exhibited a noticeable reduction. The fact that China became one of Bulgaria's major partners of imports indicates that Bulgaria's trade started to show some signs of world integration.

3.2 Trade of Greece and Bulgaria with Balkan countries

The transition to a free market economy gave the opportunity to the post communist Balkan countries to expand their trade relations. The new democratic states created a larger space for economic activities in the Balkan region and the Europe, in general. The prospect of EU membership was the main factor that accelerated the Balkans' process of transition in order to integrate to the European market. Initiatives, which would promote peace and regional cooperation in the area, were formed. Such initiatives were the Southeast European Cooperative Initiative (SECI), the Royaumont Initiative and the Southeast European Cooperation Process (SEECP).

Chart 5: Greek share of exports in the Balkans as % of total exports to the Balkans in 2016



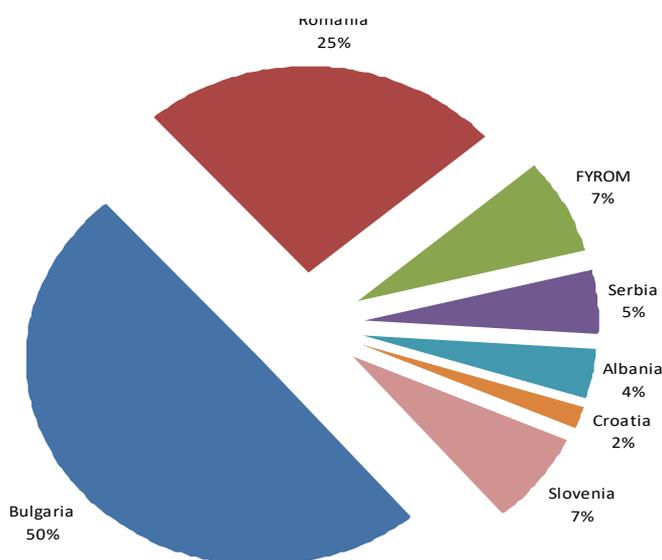
Source: WB

The new and accessible Balkan market that emerged created many opportunities for Greece, which had the advantage of proximity, to reorient its

trade relations²⁹. Greek products would be more competitive in the Balkan market than in the European market. Also, for the Balkans, Greece represented a significant EU partner that would help them with their transition process. So, the expansion of the Greek trade to the Balkan region would be profitable for both³⁰. In Charts 5 and 6, the evolution of the Greek exports and imports with the Balkan region is presented respectively.

In the first years, Greece developed its trade relations with the most Balkan countries. Until 2007, an increasing trend is observed for both exports and imports in the most cases. Bulgaria and Romania became the main export partners of Greece in the region, followed by FYROM and Albania, while exports from the rest countries were increasing with an extremely low pace. The region's import shares apart from Bulgaria and Romania, which presented some evolution, remained at excessively low levels.

Chart 6: Greek share of imports of the Balkans as % of total imports of the Balkans in 2016



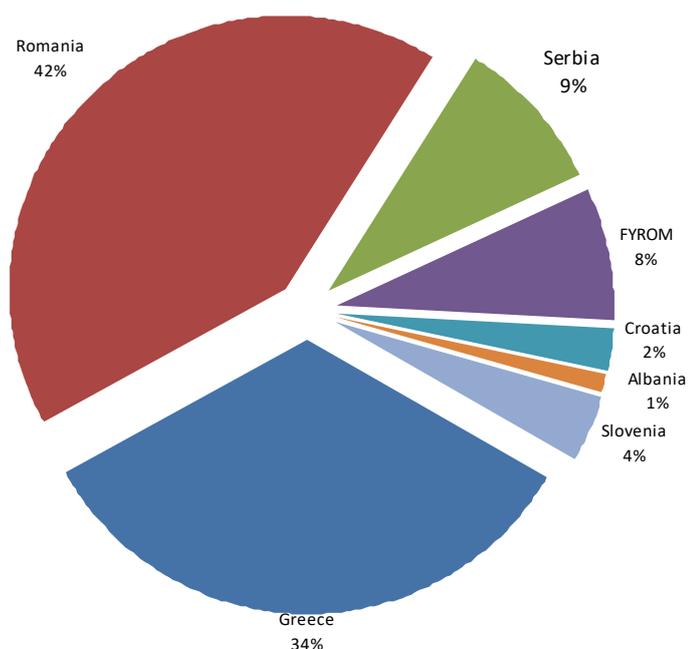
Source: WB

²⁹ Petrakos, G. C. (1997) A European macro-region in the making? The Balkan trade relations of Greece, *European Planning Studies*, 5(4), p. 516

³⁰ Chionis, D. et al. (2002) Greece's Trade With the Balkan Countries: Is It Too Little?, *Journal of Economic Integration*, 17(3), September 2002, p. 610

The Greek recession did not allow the trade relations with the Balkans to improve. On the contrary, exports to Bulgaria, Romania and Albania declined, while exports to the rest countries remained unchangeable. Although imports from Bulgaria and Romania increased, reflecting the raised demand for imports in Greece, the shares of imports of the rest countries did not modify at all. Exports to the Balkans represent the 14,60% of the total Greek exports and imports from the region represent the 6,93% of the total imports of Greece.

Chart 7: Bulgarian share of exports in the Balkans as % of total exports to the Balkans in 2016



Source: WB

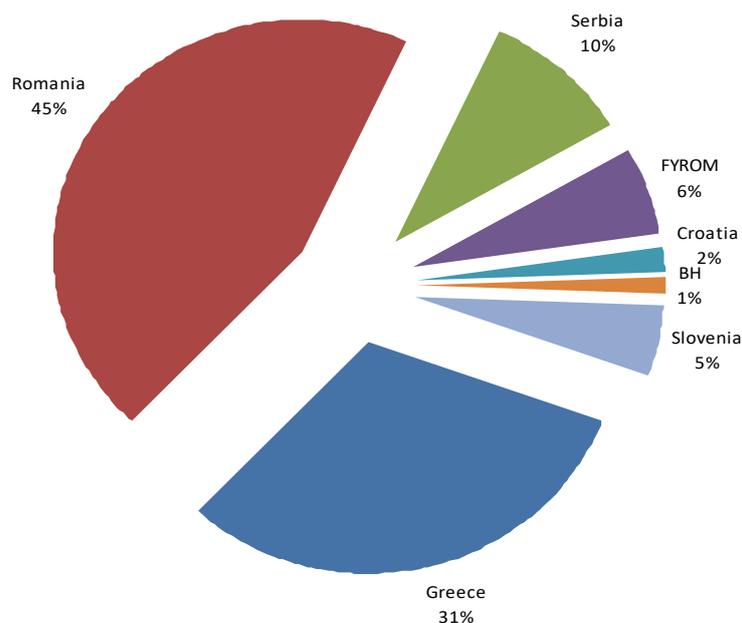
During its transition to free market, Bulgaria underwent fundamental restructuring that gradually reduced the involvement of government in trade. Additionally, compared to its neighbors, Bulgarian economy was more open and integrated to world and European economy³¹, so, EU membership came

³¹ Shivarov, A. (2014) Diversity in Bulgarian foreign trade, СЕРИЯ „ИКОНОМИЧЕСКИ НАУКИ”, ИЗВЕСТИЯ НА СЪЮЗА НА УЧЕНИТЕ – ВАРНА, January 2014, p.65

earlier for Bulgaria than them. But, this openness made Bulgarian economy more vulnerable to external shocks that would origin from its trade partners. In Charts 7 and 8, the exports and imports of Bulgaria with the Balkans are illustrated respectively.

When the first negotiations for accession to the EU started, Bulgaria had already developed trade relations with its EU neighbor, Greece. Serbia and Montenegro and FYROM had a noticeable share of Bulgarian exports, but not imports, while the share of trade with the rest Balkan countries was inconsiderable. During the years that followed, Bulgaria was on the process to become an EU member together with Romania. Until to 2007 that they finally accessed EU, they had already increased their trade relations. Additionally, Bulgaria increased its trade relations with Greece, which became Bulgaria's major trade partner in the region, while exports to Serbia and Montenegro and FYROM decreased. The rest shares were constant or, in some cases, they were characterized by an increasing trend.

Chart 8: Bulgarian share of imports of the Balkans as % of total imports from the Balkans in 2016



Source: WB

In the years that followed the accession to EU, Bulgaria's trade relation was once again altered. Romania became the major trade partner of Bulgaria in the Balkan region, while the share of Greece declined. Export shares of the rest of the Balkan countries almost returned to 1990's levels, while import shares remained, in general, stable to 2007's levels, except from Serbia's import share that presented a slight increase. In recent years, Balkan countries receive the 21,24% of the total Bulgarian exports, while they possess the 15,46% of the total imports of Bulgaria.

Trade levels of Greece and Bulgaria in the Balkan region are so low, that in some cases they are not worth mentioning. European member states are more important trade partners than the Balkan countries. However, Greece and Bulgaria developed more decent trade relations between them and Romania than with the rest. It seems that geographical proximity did not lead to trade relations. On the contrary, the communist period, which was characterized by low trade integration in the region, left the economic and political divisions in the area³². The transition from central-planned to free market created reduced trade potential between the Balkans³³. Although Greek and Bulgarian products were competitive enough in the Balkan market, these countries faced so many economic difficulties, that they were not able to develop an effective trade performance. Additionally, the feeling of security in the region remained low due to the old conflicts, while the low output and income of the most Balkan countries could not generate trade with the more developed³⁴.

³² Gligorov, V. (1997) Trade in the Balkans, *WIIW*, Monthly Report no. 3, Vienna, p.3-5

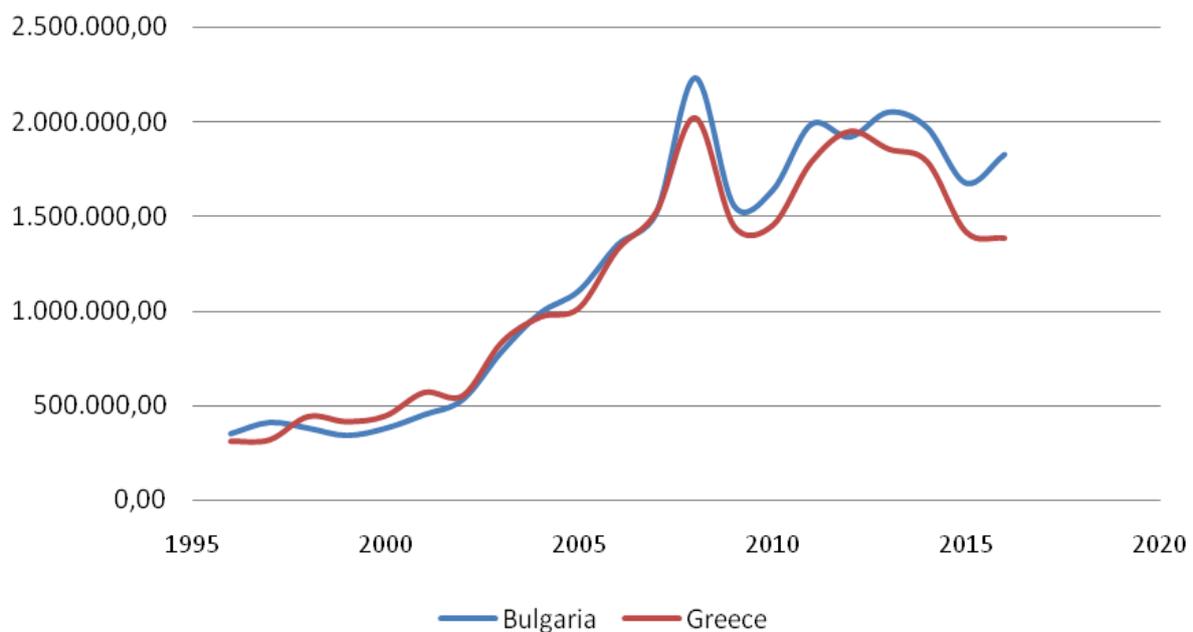
³³ Chionis, D. et al. (2002) Greece's Trade With the Balkan Countries: Is It Too Little?, *Journal of Economic Integration*, 17(3), September 2002, p. 614

³⁴ Petrakos, G. C. (1997) A European macro-region in the making? The Balkan trade relations of Greece, *European Planning Studies*, 5(4), p. 521

3.3 Trade between Greece and Bulgaria

As the shares of trade partners illustrate, Bulgaria is one of the Greece's major export partners, while Greece is one of Bulgaria's both major export and import partners. Also, they are significant trade partners in the Balkan region. The structural reforms that were implemented in Bulgaria during the transition period resulted in the considerable improvement of the economy and the increased trade competitiveness. Geographical proximity explains the high trade shares between the two countries, while the market size and capacity accounts for the early emergence of their trade relations.

Graph 3: Total value of exports of Greece to Bulgaria and Bulgaria to Greece in million USD



Source: WB

The prospect of EU membership of Bulgaria in combination with the cultural and religious ties between Greece and Bulgaria led to the positive evolution of their trade interaction³⁵. Cooperation of Bulgaria with the Greek local authorities enhanced and the cross-border operations between the two

³⁵ Petrakos, G. C. (1997) A European macro-region in the making? The Balkan trade relations of Greece, *European Planning Studies*, 5(4), p. 517

countries increased³⁶. In Graph 3, the total value of Greek exports to Bulgaria and otherwise are presented.

The value of exports of Greece to Bulgaria and otherwise followed the same evolution. Until 2002, they both developed with a slow growth rate, while, in 2008, they improved significantly. It seems that when Bulgaria signed the EU accession treaty, it obtained a dynamic for exports and became a more competitive country. Greek exports to Bulgaria increased too, because Greek products were more competitive in Bulgarian market than EU market. The turning point for the trade between them was in 2007, when Bulgaria joined the EU. In the next year, both exports rose extremely, though Bulgarian exports overtook Greek exports. However, the global economic crisis, impeded trade to flourish further, since both exports of Greece and Bulgaria decreased due to the impact of the crisis. In 2011, a remarkable growth appeared, only to decline again. In recent years, exports of Bulgaria to Greece are improving, but exports of Greece to Bulgaria are falling, pointing that Bulgaria has totally overcome the consequences of the global economic crisis, while Greece has sunk in its debt crisis.

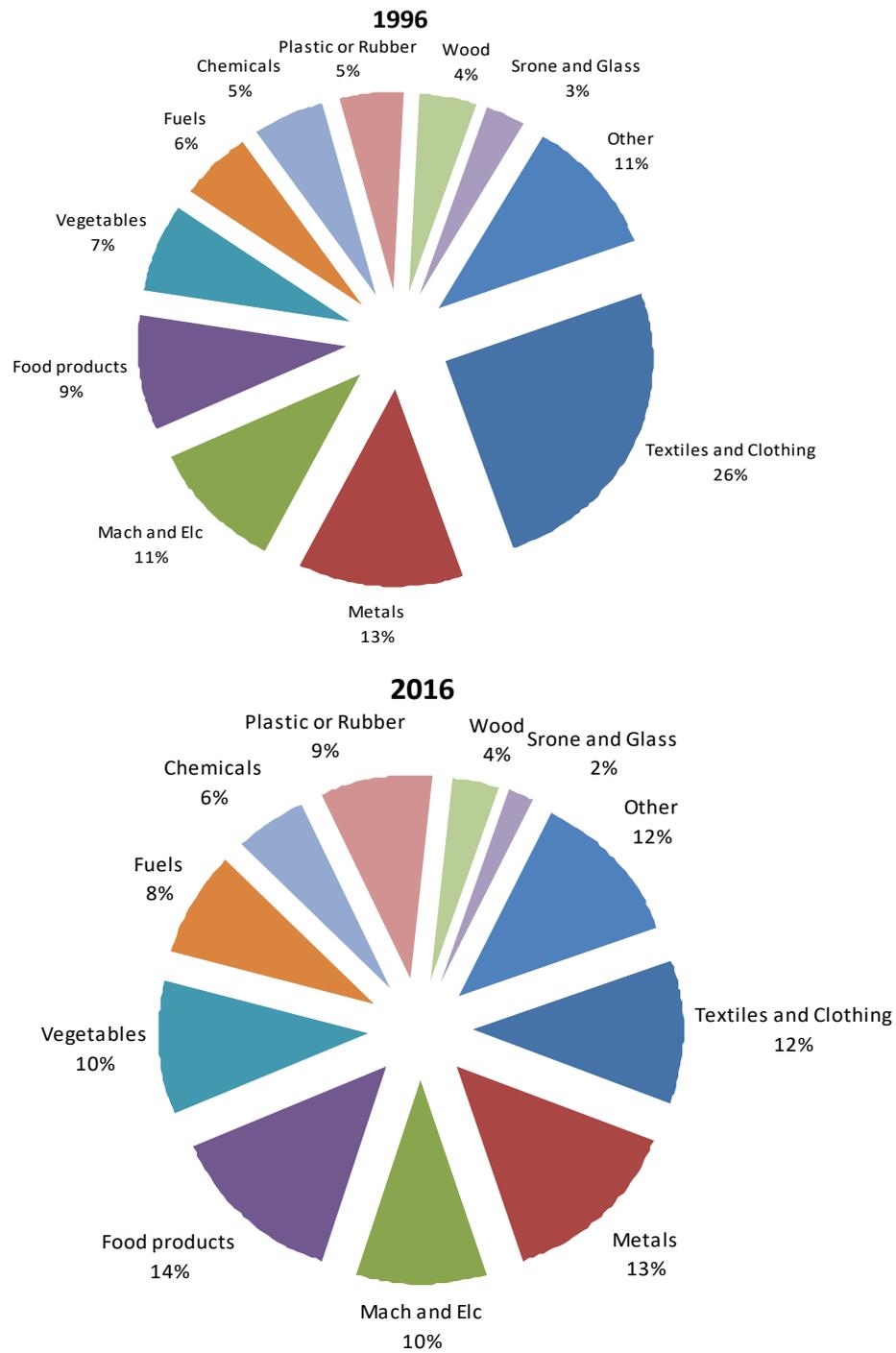
The question is whether trade between the two countries has been proved effective for their economic growth. The answer can be found in the theory of inter-industry and intra-industry trade³⁷. In the first case, a developed and a developing country are specialized in different products and exchange them. The developing country specializes in labor-intensive or resource-intensive products and misses the chance to industrialize and develop. In the second case, two countries with same levels of development trade similar products in order to offer a greater selection to consumers. In Charts 9 and 10, the shares

³⁶ Magoulios, G. et al. (2013) Inter-Border Cooperation In The Area Of Serres Prefecture And Consequences Of The EU Bulgaria Accession – An Empirical Research. In: Karrasavoglou, A. G. et al. (2014) *The Economies of the Balkan and Eastern Europe Countries in the Changed World*, Procedia Economics and Finance 9, p.6

³⁷ See: Menon, J. and Dixon, P. B. (1997) Intra-industry versus inter-industry trade: Relevance for adjustment costs, *Weltwirtschaftliches Archiv*, 133(1), p 164–169

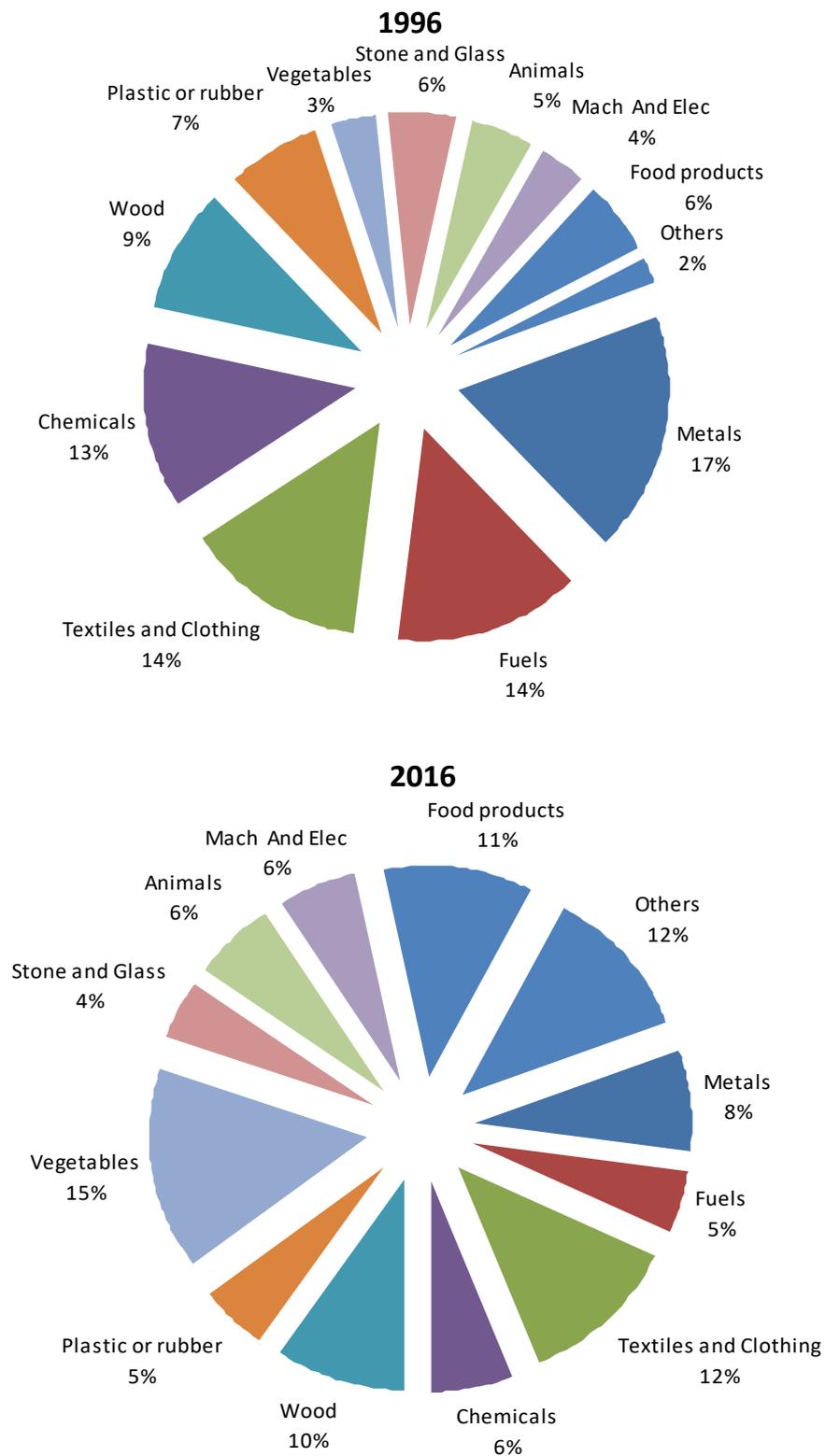
of product categories exported from Greece to Bulgaria and otherwise are presented respectively.

Chart 9: Greek exports of goods to Bulgaria as % of total exports of goods in 1996 and 2016



Source: WB

Chart 10: Bulgarian exports of goods to Greece as % of total exports of goods in 1996 and 2016



Source: WB

Greece started its trade relations with Bulgaria, with a comparative advantage in some sectors that did not exist in the trade with the EU countries. Trade had the form of inter-industry trade. During the first years, Greece was more specialized in Textiles and Clothing, Machinery and Electrical equipment, Food products and Miscellaneous, while Bulgaria was more specialized in Metals, Fuels, Chemicals and Animals. Although Greece was already an EU member state, it did not develop its trade to such an extent to specialize in heavy industrial products. In the case of Bulgaria, its close trade relations with Russia, especially with USSR during the communist period, helped the country to specialize in industrial products.

In the next years, trade of products between the two countries changed completely. Greece lost its comparative advantage in Textiles and Clothing, Vegetables and Food products, once Bulgaria obtained great specialization in these. Bulgaria lost its comparative advantage in the exports of Metals, Fuels and Chemicals, but it maintained the specialization in Animals, while Greece continued to be specialized in Miscellaneous. In recent years, the share of other products increased significantly, indicating that trade expanded to other sectors.

Trade between Greece and Bulgaria changed to a large extent during the transition period. It was affected by the impact of the Greek debt crisis too. Moreover, the expansion of trade to other sectors and the harmonization of the shares of the already existed sectors transformed trade between them into intra-industry trade. Overall, trade with Greece has been proved constructive for the economic growth of Bulgaria, while trade with Bulgaria helped Greece to improve its competitiveness.

4. Foreign Direct Investments

Technological improvements have boosted the process of globalization, which created a new level of competition of countries. FDI has become a substantial element in state development through the increase of capital, productivity and welfare. In general, investors choose a country with high margin of profit, which they evaluate according to the specific characteristics of each region separately. Afterwards, the new investment transfers new technologies and knowledge in the host country improving its competitiveness.

After the fall of communism in the Southeastern Europe, FDI became one of the most important components for economic interaction between multinational corporations and the new democratic states. Privatization process appealed to investors increasing FDI inflows to the region³⁸. However, transition economies did not have the same impact on foreign investors. Some countries had a favorable area for FDI inflows and they, finally, enjoyed high economic growth, while other countries attracted less FDI inflows, so, they remained back in the process of transition³⁹. Ricardo's theory⁴⁰ of comparative advantage partly explains how international entrepreneurs choose a country to invest. Other theories consider the country's market structure and potential as measure of national competitiveness which is closely related to FDI⁴¹.

³⁸ Metaxas, T. and Tsavdaridou, M. (2011) Shaping the Image of Bulgaria as FDI Destination in Southeastern Europe: The course after 1989, *Applied Econometrics and International Development*, 11(2), p. 53

³⁹ Bevan, A.A., Estrin, S. (2004) The determinants of foreign direct investment into European transition economies, *Journal of Comparative Economics* 32, p. 776

⁴⁰ For Ricardo's theory about comparative advantage see: Costinot, A. and Donaldson, D. (2012) Ricardo's Theory of Comparative Advantage: Old Idea, New Evidence, *American Economic Review*, Papers & Proceedings, 102(3), p. 453–458

⁴¹ Djarova, J. (2001) Challenges to Investing in Bulgaria's Market, *Journal of East-West Business*, 6(3), p.48

Foreign investment accelerated the transition to free market through innovation, new business practices and further exploitation of resources. Additionally, FDI inflows brought substantial reforms, such as privatizations of former governmental enterprises and new legislation of the market. The FDI flows to transition economies were market seeking, but efficiency seeking as well. Sufficient market size and macroeconomic stability of the host economy were determining factors for investors' decisions. Moreover, transaction and unit labor costs played a crucial role in the placement of foreign investments in transition economies. A country that was involved in free trade agreements or customs unions and had low labor cost was more attractive destination for FDIs. In general, FDI had a positive impact on economic growth of the transition economies and on home countries' trade, productivity and financial reorganization⁴².

⁴² Iammarin, S.; Pitelis, C. (1999) Foreign Direct Investment and "Less Favoured Regions". Greek FDI in Bulgaria and Romania, *39th Congress of the European Regional Science Association: "Regional Cohesion and Competitiveness in 21st Century Europe"*, August 23 - 27, 1999, Dublin, Ireland, European Regional Science Association (ERSA), Louvain-la-Neuve, p. 2-3

4.1 FDI inflows to Bulgaria

From the beginning of the transition period, Bulgaria was and remained a destination of foreign investments, while outflows of FDI never developed. Like most post communist countries, Bulgaria looked for ways to attract more investments improving its economic performance. The prospect of EU membership⁴³ a few years after the fall of communism increased the investors' interest⁴⁴. The access to a large market and the improvements in financial and political system through the adjustment with the EU standards enhanced FDI's attractiveness. Also, determining factors that helped to attract investors were the country's unexploited natural resources, the low productivity cost and the lack of competition in domestic market⁴⁵. The geographical position of the country next to European countries and close to post Soviet states, especially those of the Black Sea region, was an important element for the attractiveness of FDI.

However, the flow of investments was constraint by bureaucracy, low level of infrastructure, language difficulties, corruption and the unreliable economic climate and banking system. Transition of Bulgaria was characterized by slow economic reform, which was the outcome of the unfulfilled challenges that the country had to overpass in order to complete the process⁴⁶. In Graph 4, the evolution of Bulgarian FDI inflows after the fall of the communist regime is depicted.

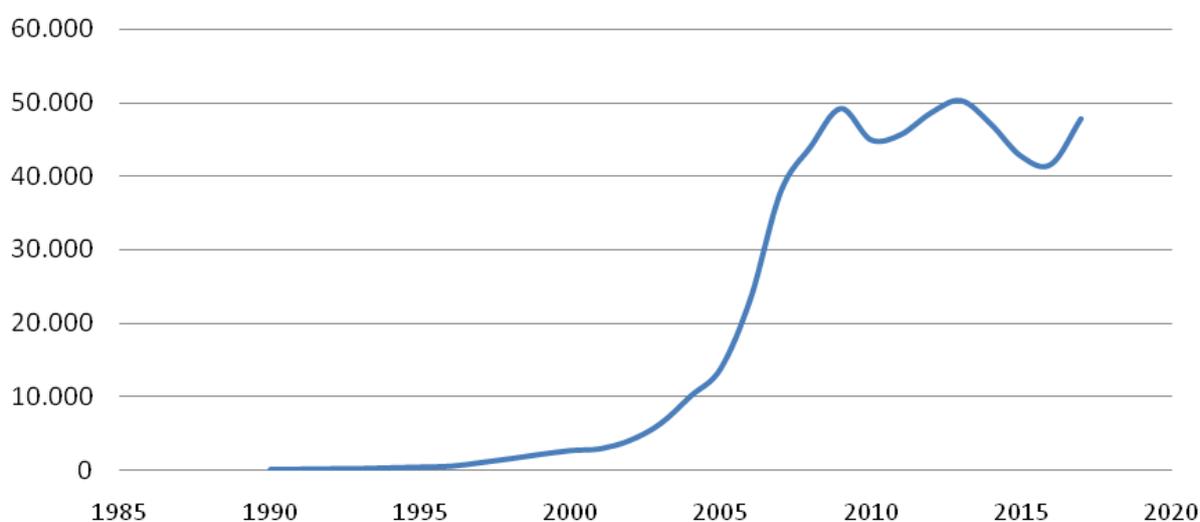
⁴³ Bulgaria applied for EU accession in 1995

⁴⁴ Bevan, A.A., Estrin, S. (2004) The determinants of foreign direct investment into European transition economies, *Journal of Comparative Economics* 32, p. 779

⁴⁵ Sakali, C. (2013) Determinants Of Foreign Direct Investment (FDI) In Bulgaria: An econometric analysis using panel data, *East-West Journal of Economics and Business*, 16(1), p. 82

⁴⁶ Iammarin, S.; Pitelis, C. (1999) Foreign Direct Investment and "Less Favoured Regions". Greek FDI in Bulgaria and Romania, *39th Congress of the European Regional Science Association: "Regional Cohesion and Competitiveness in 21st Century Europe"*, August 23 - 27, 1999, Dublin, Ireland, European Regional Science Association (ERSA), Louvain-la-Neuve, p. 11-12

Graph 4: Stock of Bulgarian FDI inflows in million USD



Source: UNCTAD

Until 1997, investors' interest for Bulgaria was rather low. The country was characterized by economic and political instability, bad economic performance, low pace in privatization process and high bureaucracy. All these confined FDI inflows to the country. The limited investments that existed were only provoked by expansion strategies of international enterprises and were mainly related to privatizations⁴⁷. The reduced purchasing power of the domestic market and the absence of a clear legislation on foreign investments made Bulgaria attractive only for a limited spectrum of consumer products, that is, labor-intensive sectors.

Soon, Bulgaria presented an impressive transformation into a market economy through economic reforms and developments in the legal system and responded to perspectives of foreign investors. In the beginning of the 2000's, the stable economic growth, the revived political stability together with the low labor cost, the low corporate tax and the improved business environment provoked a reaction of international investors who increased their investments to Bulgaria. The most inflows were absorbed in industrial sector, followed by trade and financial, tourism and transport services. Food

⁴⁷ Metaxas, T. and Tsavdaridou, M. (2011) Shaping the Image of Bulgaria as FDI Destination in Southeastern Europe: The course after 1989, *Applied Econometrics and International Development*, 11(2), p. 57

industry, metallurgy and machine building were the industries that mostly appealed to investors. Trade relations developed immediately in all these sectors, while former profitable enterprises of other sectors, such as chemicals, plastic products and textile, did not attract FDI inflows⁴⁸. Despite the beneficial impact on the economy, neither amount nor quality of investments was enough to accelerate economic growth⁴⁹.

The next years were pointed as the period of integration of Bulgaria to EU. The country Bulgaria had to fulfill some institutional and financial requirements in order to access the EU. New legislation on the fight against corruption, the confinement of bureaucracy and the protection of private property rights was established, so the country's macroeconomic environment appeared promising to investors and investment risk declined. FDI was already increasing, but, when EU verified, in 2005, that Bulgaria had become a fully functioning economy, FDI inflows increased rapidly. The reduction of the corporate tax rate⁵⁰ and the tax exemptions in areas with high unemployment enabled more investments in the country. The prospect of accession to EU and the membership in 2007 in combination with the investment incentives from privatizations of state companies and the low labor cost are the main factors that increased Bulgaria's attractiveness to investors.

Inflows of FDI resulted in new innovation, technological improvements and human capital development that caused the increase of the country's competitiveness. In 2008, Bulgaria became the third most attractive destination of FDIs in the Southeastern Europe after Turkey and Romania⁵¹. Additionally, the country was the best performer of the Balkans regarding the ease of starting a business⁵². Nevertheless, labor cost remained low, export

⁴⁸ Djarova, J. (2001) Challenges to Investing in Bulgaria's Market, *Journal of East-West Business*, 6(3), p. 50

⁴⁹ Ganchev, D. (2010) Foreign Direct Investment in Bulgaria in the Period 1992-2008: Conclusions and New Challenges, *Economic Alternatives*, issue 1, p. 107

⁵⁰ Lowest taxation in EU

⁵¹ Southeast Europe Attractiveness Survey 2008

⁵² Doing business report 2010

specialization was not achieved and structural upgrading was not accelerated, but GDP growth rates improved to a large extent⁵³.

The rise of investments to the country was followed by the global economic crisis that struck its main investors, the West countries. As a consequence of the crisis, Western states reduced their FDI outflows, transferring the recession to their partners including Bulgaria⁵⁴. The government was unable to avoid the devastating effects of the crisis and protect market from the lack of liquidity that was provoked by the confinement of lending imposed by the majority of the foreign owned banks⁵⁵. Moreover, a share of foreign investments to Bulgaria was speculative and had a short-term form that did not absorb in the country's industrial sector.

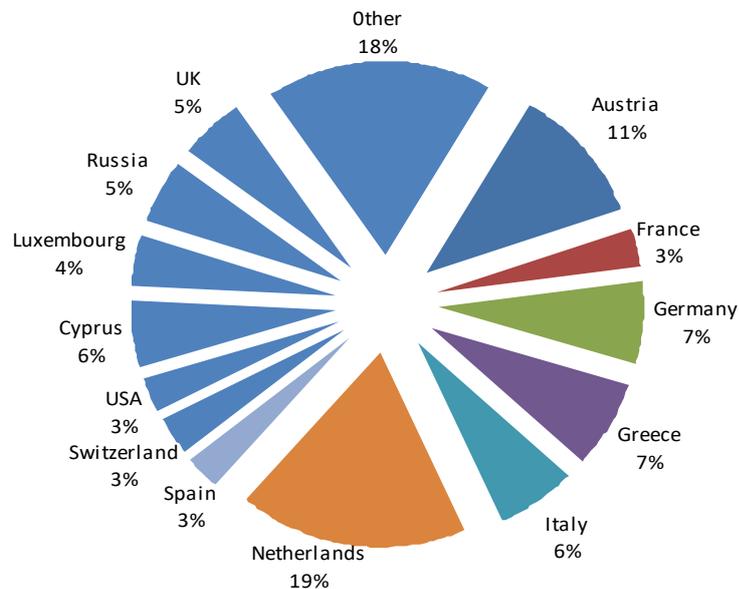
In Chart 11, the FDI inflows from the most significant partners of Bulgaria are captured. During the first years of transition, Austria, Greece and Italy were the main sources of FDI in Bulgaria. In the next years, neighbor countries increased FDI outflows to Bulgaria significantly. All the more countries began to invest in Bulgaria that in their majority were Western states. Until 2007 that Bulgaria accessed EU, the most significant FDI outflows originated from Austria, Greece and Germany, followed by post communist countries, Czech Republic and Hungary.

⁵³ Bitzenis, A. & Vlachos, V. A. (2013) Bulgaria's Inward FDI and EU Accession, *Journal of East-West Business*, 19(3), p.222-236, p. 225

⁵⁴ Sakali, C. (2013) Determinants Of Foreign Direct Investment (FDI) In Bulgaria: An econometric analysis using panel data, *East-West Journal of Economics and Business*, 16(1), p. 77

⁵⁵ Bozhilova, D. (2010) When foreign direct investment is good for development: Bulgaria's accession, industrial restructuring and regional FDI. *Hellenic Observatory papers on Greece and Southeast Europe*, GreeSE paper no. 33, London School of Economics and Political Science, p. 3

Chart 11: Stock of FDI inflows to Bulgaria by country in million USD in 2016



Source: OECD

The negative repercussions of the global economic crisis soon affected FDI outflows globally. However not all countries reacted with the same way. On the one hand, some countries interrupted their flows to Bulgaria only for a couple of years. Greece and Germany began to withdraw their FDI from Bulgaria in 2011, while most countries in 2013. On the other hand, crisis created new opportunities for some countries, like Netherlands and Italy, to invest in Bulgaria, although they did not have a significant investment activity to the country.

Bulgaria could not be characterized as an extremely attractive destination of FDI, because of significant disadvantages of the economic and political conditions. Infrastructure remains underdeveloped and lags behind the EU member states, public authorities lack the ability to cope with the economy effectively and corruption continues to be a main obstacle of further development⁵⁶. Although Bulgaria's macroeconomic environment has reached

⁵⁶ Metaxas, T. and Tsavdaridou, M. (2011) Shaping the Image of Bulgaria as FDI Destination in Southeastern Europe: The course after 1989, *Applied Econometrics and International Development*, 11(2), p. 66

that of European states, the country continues to be one of the poorest countries in EU. It seems that economy's defects prevail over the upgrade of the economic and political system.

4.2 Greek FDI outflows

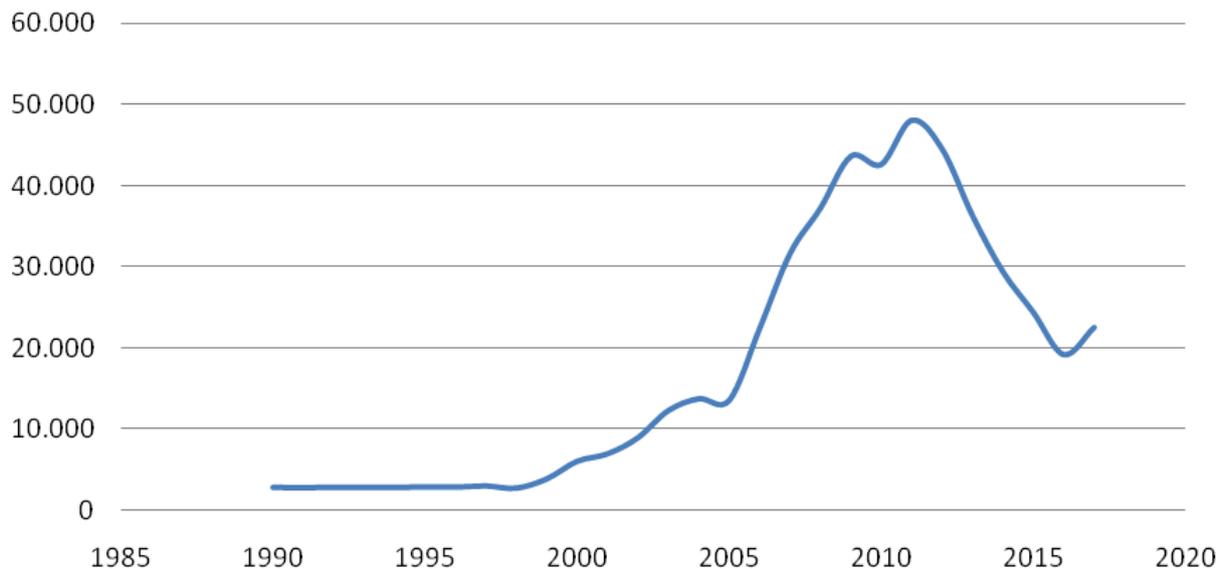
Greek governmental policy used to focus on inward investment in order to promote domestic growth. Outflows of capital were limited and they referred to shipping. However, the adequate economic performance and the new opportunities that emerged from the fall of communism in the beginning of the 1990's and the transition of the neighbor states to market economies offered a new bargain for economic development, transforming Greece to an exporter of capital to Southeastern Europe. Greek capital expanded to the neighbor economies with the support of public authorities converting Greece from a regional EU country to the center of the Balkans. This does not mean that Greek competitiveness could be improved directly by the increase of FDI outflows. On the contrary, domestic innovation could be improved and, then, economic growth and competitiveness could be enhanced.

Greek investors were motivated to invest in post communist countries mainly because of the minor labor cost, the low cost of raw materials and geographic and cultural proximity. The most important factor was the market size of the Balkans which was larger compared to that of Greece. Additionally, the absence of EU enterprises, which were discouraged by the unfavorable conditions of the region, allowed Greek firms to appear more competitive in the area. However, Greek outflows to the Balkan region could be higher, but the adverse economic and political conditions, the weak infrastructure, belated reforms, bureaucracy and corruption restricted further investments.

In Graph 5, the evolution of the Greek FDI outflows is presented. Greek banks vigorously initiated capital outflows in the financial sector of neighboring states in the first years of transition. Several small and medium sized companies followed establishing the Greek presence in the area. The first period was characterized by modest transfer of capital and shortage of expansion strategy. The political risk that was emitted by the post communist countries and the lack of experience in FDI outflows resulted in limited profitability and aimless placement of the most cases, and many

entrepreneurs quitted their efforts. The investors remained abroad realized that the conditions in the region were not ideal. Corruption, lack of institutions, irregular operation of the market and unfavorable economic conditions became obvious and discouraged further investments⁵⁷.

Graph 5: Stock of Greek FDI outflows in million USD



Source: OECD

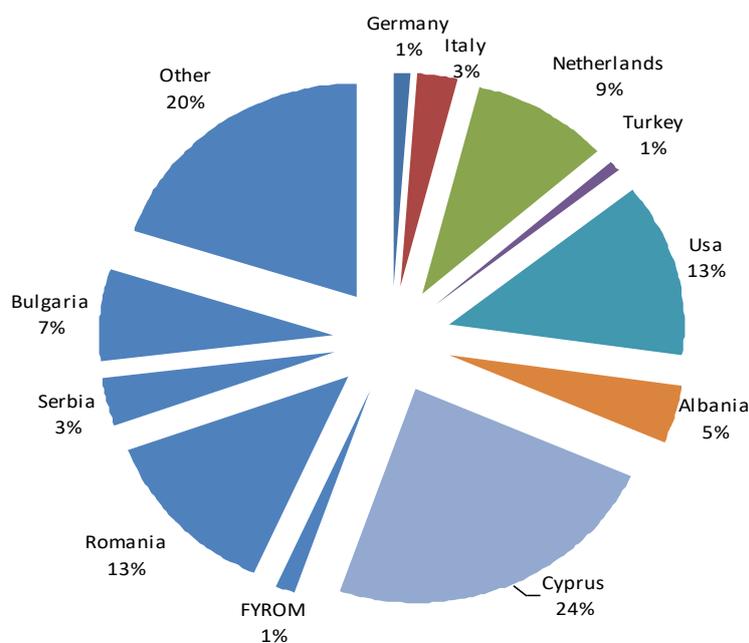
The economic and political improvements, the macroeconomic stabilization and the new legislation in the post communist countries, mainly after 1997, increased Greek FDI outflows. Greenfield investments or acquisition of local enterprises emerged in the banking sector, metal and food industries and telecommunications. The major investing companies of the period were Hellenic Telecommunications Organization (OTE), Hellenic Petroleum and the National Bank of Greece with long-term perspectives. FDI outflows continued to increase rapidly in the countries that stressed

⁵⁷ Maditinos, D. et al. (2011) Foreign Direct Investment (FDI) in the Balkans: The Role of Greece. In: Karrasavoglou, A. G. et al. (2011) *The Economies of the Balkan and Eastern Europe Countries in the Changed World*, Cambridge Scholars Publishing, p. 210

considerable progress in their transition, improved their economic environment, and adopted new policies towards FDI⁵⁸.

By 2009, the placement of Greek investments in foreign states pointed a high rise. However, the global economic crisis interrupted the expansion of the FDI outflows. Moreover, the following Greek debt crisis reduced investments enormously and spread its adverse effects to the Balkan countries. Struggling with the domestic crisis, investors confined the outflows of capital in the Balkans, while Greek banks halted their expansion and restricted their lending policy in the region⁵⁹.

Chart 12: Stock of Greek FDI outflows by country in million USD in 2016



Source: OECD

In Chart 12, the most significant destinations of the Greek FDI outflows are depicted. Cyprus used to be the most important location that Greek investors

⁵⁸ Maditinos, D. et al. (2011) Foreign Direct Investment (FDI) in the Balkans: The Role of Greece. In: Karrasavoglou, A. G. et al. (2011) *The Economies of the Balkan and Eastern Europe Countries in the Changed World*, Cambridge Scholars Publishing, p. 211-212

⁵⁹ Dimitrios Maditinos, Dimitrios Kousenidis and Dimitrios Chatzoudes (2011) Foreign Direct Investment (FDI) in the Balkans: The Role of Greece, *The Economies of the Balkan and Eastern Europe Countries in the Changed World*, p. 218

placed their capital. In the mid 2000's Balkan countries had already become considerable receivers of Greek capital. By 2011, Greek FDI reached remarkable levels in Cyprus, Netherlands, Romania and Turkey, while FDI in the rest of the Balkan countries increased too.

Greek investments presented a dynamic to develop greatly in the region, but they were interrupted by the economic crisis and its impact on Greek economy. During the years that followed, many investors withdrew their economic activities and Greek FDI outflows reduced significantly. In 2016, the most important destinations of Greek FDI were West countries together with Romania and Bulgaria, while outflows to the other Balkan states reduced extremely. Greek investments had obtained a developing trend in the Balkans, but they ended up with a tendency to disappear.

4.3 Greek FDI outflows to Bulgaria

Greece and Bulgaria are both EU member states and Balkan countries. However, their economic environments are totally different. Bulgaria's economic environment was presented as an opportunity to Greek firms in order to develop further activities and enjoy more profits. Additionally, the increased tax rates and the macroeconomic instability that emerged in Greece, because of the global economic crisis, led more investors in operating abroad so as to stay in business.

Greek FDI outflows in Bulgaria aimed mostly at serving the local market of Bulgaria rather than exporting to other countries. Investors intended mainly to address to a larger market with lower labor cost and tax rates⁶⁰. Geographical proximity to Greece and market capacity made Bulgaria the proper destination of Greek investments⁶¹. Nevertheless, the most share of the total Greek FDI outflows to Bulgaria created noticeable export capacities for both countries⁶². Both countries increased their share of exports to the other.

In Graph 6, the FDI outflows of Greece to Bulgaria are depicted. Greece was one of the main countries of FDI flows to Bulgaria right after the fall of communism with occasional activities. This followed by the reluctant entrance of Greek major companies in the Bulgarian market. The first substantial investment activity to Bulgaria was directed to food products, financial services and clothing and footwear. In 1997, Bulgaria had just overcome a severe economic crisis, after which strong ties between the two countries

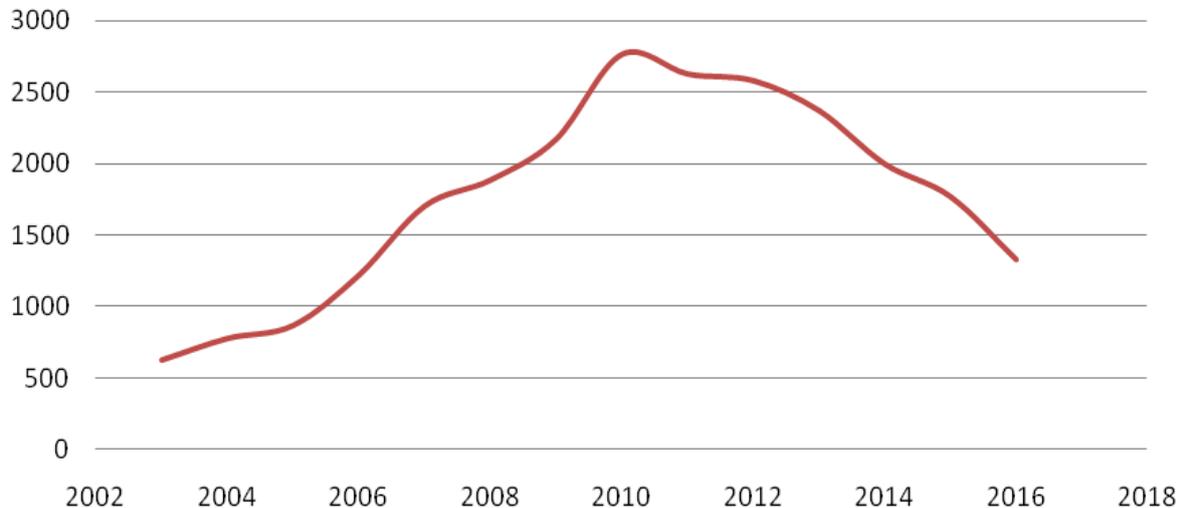
⁶⁰ Katsikis, I. et al. (2012) International and Cross Border Entrepreneurship: The Case of Greece and Bulgaria, *Business Systems and Economics*, 3(1), p. 5

⁶¹ Kapitsinis, N. (2017) Firm relocation in times of economic crisis: evidence from Greek small and medium enterprises' movement to Bulgaria, 2007–2014, *European Planning Studies*, 25(4), p. 705

⁶² Bozhilova, D. (2010) When foreign direct investment is good for development: Bulgaria's accession, industrial restructuring and regional FDI. *Hellenic Observatory papers on Greece and Southeast Europe*, GreeSE paper no. 33, London School of Economics and Political Science, UK. 32

were created. Companies were investing in Bulgaria's production of food, beverages and services.

Graph 6: Stock of Greek FDI outflows to Bulgaria in million USD



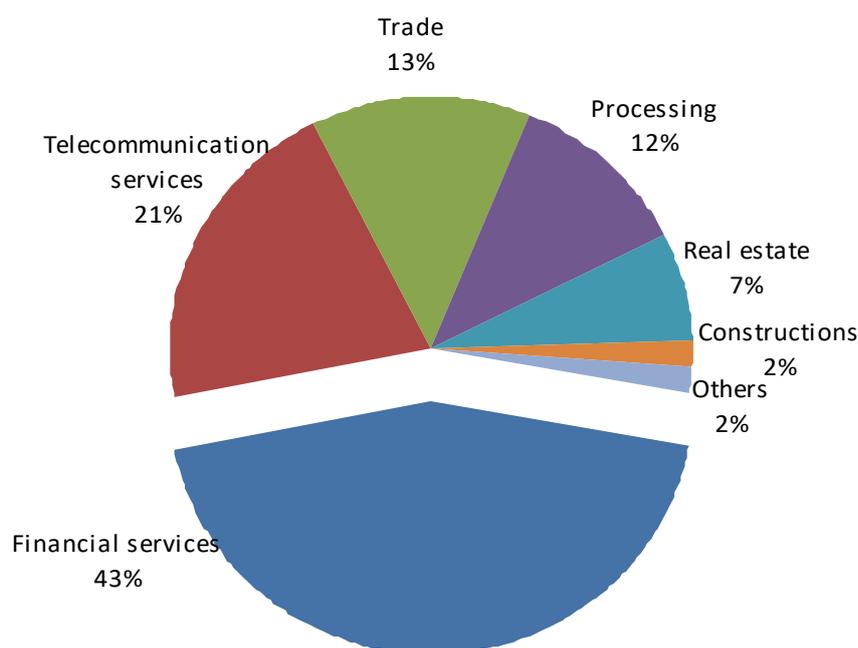
Source: OECD

When political stability was fully restored in Bulgaria and the complete transition to free market began, Greek investors participated actively in the privatization process. Banking sector and telecommunications were captured by Greek FDI. In the early 2000's, Bulgaria transformed into a reliable destination for Greek investments, so lot of SMEs started to operate in the country. Greece became one of the most important investors of Bulgaria during the transition period. Moreover, Greek market was saturated and international competition became unbearable for firms. Greek firms moved massively in Bulgaria transferring their business activity there. Interaction between the two countries increased to a great extent and economic development of both was strengthened.

Economic crisis totally changed the form of Greek FDI outflows. During the first years, investments continued to flow in Bulgaria, but the most part was speculative investments. They continued to be active in Greece, but they moved in Bulgaria in order to take advantage of the favorable Bulgarian tax system, the low labor cost and the macroeconomic stability of the

country⁶³.The deterioration of the Greek debt crisis caused excessive unemployment that reduced the market demand leading to the relocation of Greek firms to Bulgaria⁶⁴. After 2013, investment activity to Bulgaria reduced considerable. Many Greek entrepreneurs withdrew their activities from the country. Investments that remained to the country were addressed to the most sectors of the economy and depended on the market opportunities.

Chart 13: Shares of Greek FDI outflows to Bulgaria by category in 2016



Source: NSI

In Graph 13, the shares of FDI destinations in Bulgaria are presented. Financial services represent the main share of Greek investments to Bulgaria. National Bank of Greece, Alpha Bank, Eurobank, Emporiki Bank and Piraeus Bank expanded heavily their activities to the Bulgarian banking sector. Telecommunications was the second more preferable investment destination to Bulgaria which realized by Hellenic Telecommunications Organization

⁶³ Katsikis, I. et al. (2012) International and Cross Border Entrepreneurship: The Case of Greece and Bulgaria, *Business Systems and Economics*, 3(1), p. 62

⁶⁴ Kapitsinis, N. (2017) Firm relocation in times of economic crisis: evidence from Greek small and medium enterprises' movement to Bulgaria, 2007–2014, *European Planning Studies*, 25(4), p.714

(OTE) and Intracom Holdings that were among the first investors in Bulgaria. The next category concerned trade corporations that specialized in food products, beverages, chemical products, textiles and aluminum. The main investors of this category were Delta Dairy, Chipita, Coca-Cola HBC Bulgaria. Thrace paper mill, TITAN cement SA and the Public Corporation of Greece invested a considerable share of Greek FDI in Bulgaria's processing sector. In addition, several SMES were introduced in Bulgarian real estate and construction sector.

The expansion of Greek investments and the growth of Greek companies that were addressed to Bulgaria contributed to the economic growth of both countries. After 2013 that Greek FDI outflows reduced significantly, the reverse phenomenon of Bulgarian enterprises to operate in Greece is observed. Bulgarian investments address to the sectors of food and beverages and services through trading practices and not subsidiaries in order to maintain the advantage of low labor cost⁶⁵.

⁶⁵ Katsikis, I. et al. (2012) International and Cross Border Entrepreneurship: The Case of Greece and Bulgaria, *Business Systems and Economics*, 3(1), p.61

5. Immigration

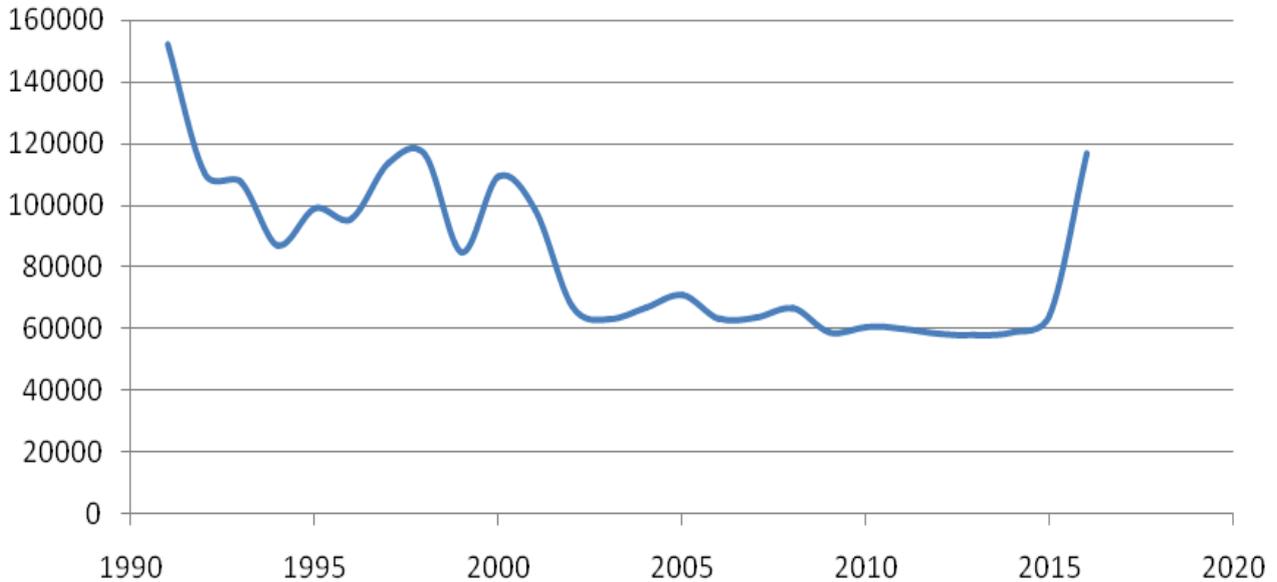
5.1 Immigration to Greece

During the postwar period, Greece used to be a sender of immigrants to international destinations of developed countries, such as Australia and USA. In the 1970's, European countries, like Germany, became the major destination of Greek immigrants. Emigration from Greece was at its most part labor migration and it was guided by the industrial labor demand, which transformed Greek peasants to industrial workers. However, in the end of the 20th century, Greece transformed into a receiver of immigrants mainly by the post communist economies.

Many European countries received flows of migrants, but Greece was the main destination of Balkan migration. Although Greece was not the most attractive EU member state in terms of economic environment, it became the most or one of the most appealing destinations of countries that they had common borders. Labor productivity and employment rates were low enough in comparison with other EU member states, but they higher than in the post communist collapsed economies.

In Graph 7, the inflows of immigrants in Greece are illustrated. The first migration flows to Greece took place in the 1980's and came from Asia, Africa and Poland. The second flow was connected directly with the fall of communism and was greater in magnitude than the first. The collapse of the Soviet Union and Albania, in the beginning of the 1990's, increased rapidly the flows of migrants to Greece. The vast majority of them came from Balkan countries that were very close to the country, followed by other ethnicities that emerged after the fall of communism.

Graph 7: Stock of migration inflows to Greece



Source: OECD

Greece was not at all prepared to receive such an amount of illegal immigrants. In 1991, the government introduced the first migration law which was judged about the strictness on employers that hired immigrants. The law confined slightly migration flows to Greece, but the deterioration of the post communist economies during the 1990's created new migration flows. As a result, new legislation was required. In 1997, the regularization program of the unauthorized immigrants was created, aiming at the control of the migration inflows to the country⁶⁶. Many illegal immigrants legalized their status increasing the official number of migrant stock in Greece.

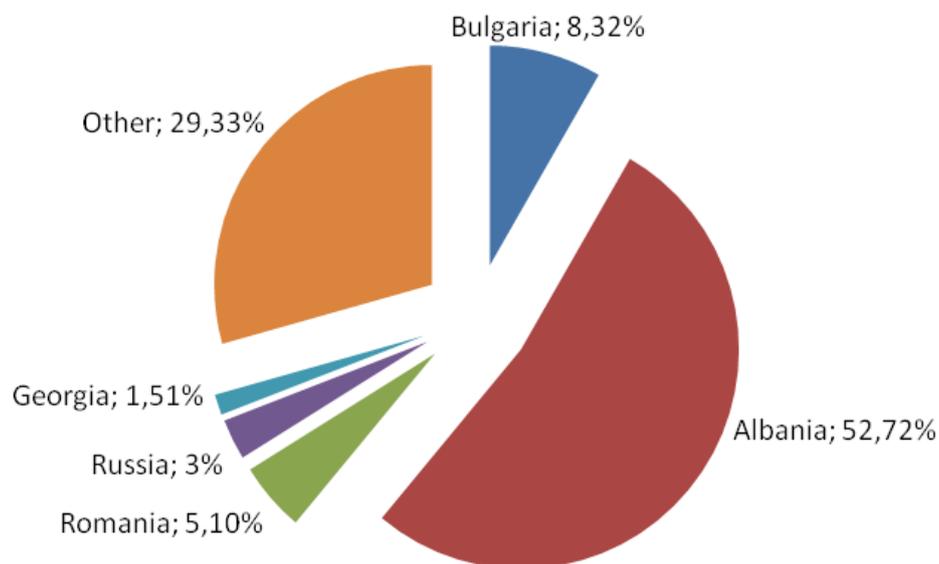
A new migration law was introduced in 2001 and intended to inhibit illegal migration to the country. This law included strict border controls and tough punishment for transport or employment of illegal immigrants. Migration inflows to Greece were, finally, reduced. A new regularization program

⁶⁶ Cavounidis, J. (2004) Migration to Greece from the Balkans, *South Eastern Europe Journal of Economics* 2, p. 37-38

followed in 2005 with the purpose to manage the inflows of migration and it, indeed, maintained inflows of immigrants in stable levels⁶⁷.

When the global economic crisis burst, inflows of migrants in Greece had already reduced rapidly. Many immigrants that already resided in Greece decided to return to their country of origin due to the unfavorable economic conditions of Greece⁶⁸. However, during the years of debt crisis, Greece was confronted with the third more severe flow of migration that came from Asia.

Chart 14: Immigration to Greece by country of origin as percentage of the total immigration to Greece



Source: HSA, Greek population census 2011

According to the last official Greek population census in 2011, the vast majority of immigrants in the country originated from post communist countries. As it is illustrated in Chart 14, Albanian immigrants are above the half of the total amount. The second country of origin is Bulgaria that has a low share compared to Albania, but, in general, it is in a high level. Romanian

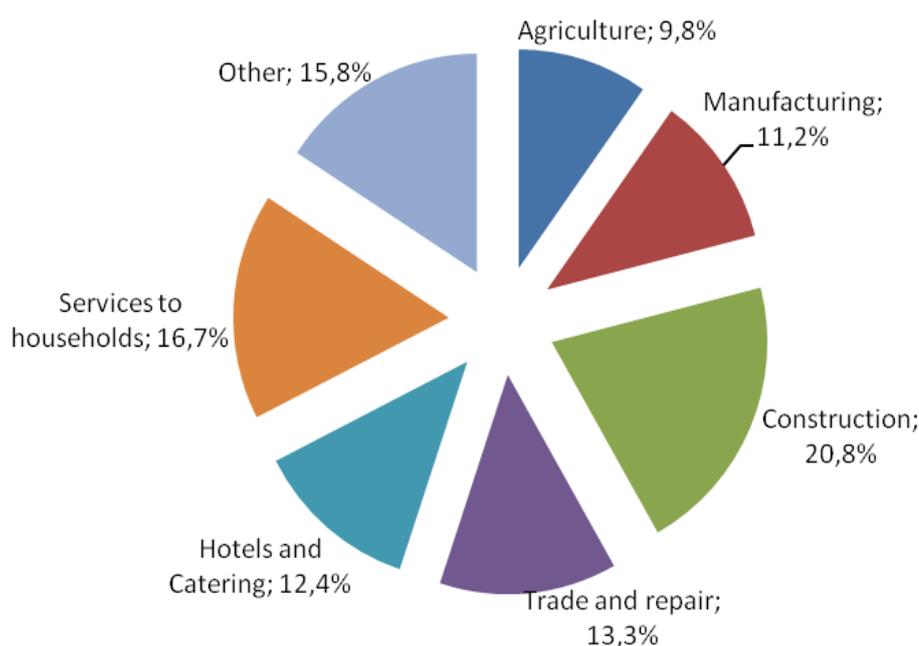
⁶⁷ For Greek migration policy see: Triandafyllidou, A. (2009) Greek Immigration Policy at the Turn of the 21st Century. Lack of Political Will or Purposeful Mismanagement?, *European Journal of Migration and Law*, 11(2), p. 159-177

⁶⁸ Triandafyllidou, A. (2013) *Migration in Greece: People, Policies and Practices*, ELIAMEP and EUI, Athens, p.10-11

and Russian immigrants also have significant shares, while Georgian immigrants used to have a higher share, but it reduced. Among the other countries of origin are several ethnicities without significant shares.

It was crucial for government to deal with the flows of migration because they were connected with the development of illegal labor in several sectors of the economy, mostly labor-intensive. The vast participation of young Greeks in high education led them to reject low-skilled and low-prestige employment, vacating occupation in several sectors of economy⁶⁹. The most part of these labor vacancies were covered by immigrants.

Chart 15: Labor of immigrants by sector of the economy as percentage of the total labor of immigrants in 2011



Source: HSA, Labor Force Survey 2011

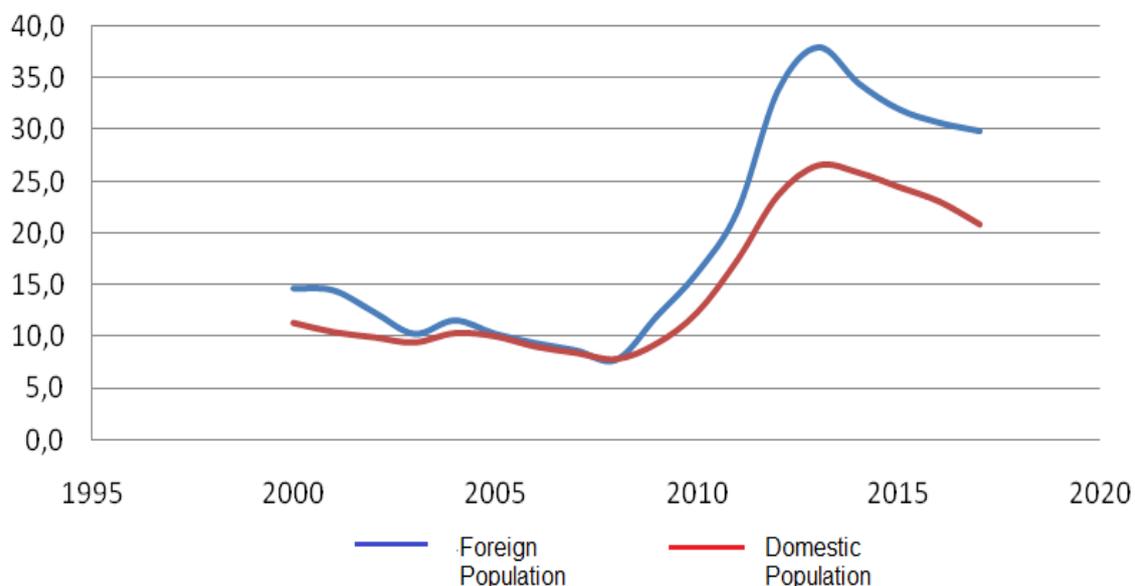
In Chart 15, the shares of immigrants' labor in 2011 are presented. In 2011, the most immigrants were occupied in the sector of construction and household services. A large share was employed in trade and repair services, while many of them were employed in the tourist sector, such as hotels and

⁶⁹ Triandafyllidou, A. (2013) *Migration in Greece: People, Policies and Practices*, ELIAMEP and EUI, Athens, p.19

catering. Manufacturing and agriculture were also two of the most popular sectors that attracted immigrants. The share of construction and manufacturing, during the previous years, were higher and the shares of the other sectors were lower. The integration of the immigrants in the Greek labor market facilitated the employment to other sectors.

Although the majority of immigrants were legalized, they kept on working illegally because many employers refused to formalize their work relationship in order to have a financial benefit paying cheap labor. Greek economy consisted of small-sized or family businesses that relied on low cost of labor in order to maintain their competitiveness. Immigrants covered a significant piece of the Greek black economy.

Graph 8: Total unemployment rates of foreign and indigenous population as percentages of the foreign and indigenous labor force respectively



Source: EUROSTAT

Greece used to have lower rates of unemployment in comparison with the collapsed post communist economies and absorbed foreign labor force sufficiently. As it appears in Graph 8, unemployment rate of foreign population was slightly greater than the rate of indigenous population and a few years before the global economic crisis they were equal. Employment of foreigners

was affected more than employment of indigenous population during the economic recession of Greece, but they followed the same trend. Both rates increased rapidly until 2013, but they, finally, began to fall.

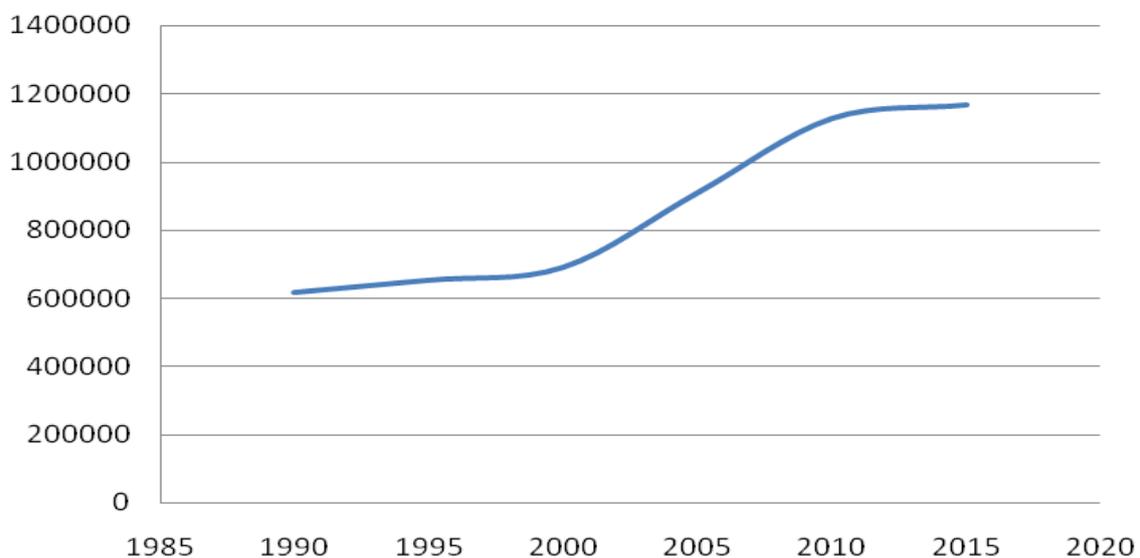
By the time of the collapse of communism in Southern and Southeastern Europe, Greece was the only EU member state of the Balkan region. The absence of a strict legal frame of migration inflows management in combination with the geographical proximity to post communist countries transformed Greece into a desirable destination for immigrants. Additionally, even though they were not optimal, the economic conditions of Greece managed to assimilate the greatest share of the inflows of immigrants.

5.2 Emigration from Bulgaria

After the World War II, migration flows from Bulgaria was observed, mainly due to political reasons. Most of them were Bulgarian Turks that migrated to Turkey, when the communist regime was established. During the communist period, short migration flows of Bulgarian emigration were noticed that were directed towards Greece, Turkey, Yugoslavia and Italy⁷⁰..

The end of the Cold War signaled a new era that brought significant changes to all communist countries. The economic and political collapse created unfavorable environment for the population. The transition to free market and the openness to global competition led Balkan countries to generate migration flows, which became a part of their liberalization.

Graph 9: Total stock of emigration from Bulgaria



Source: IOM

In Graph 9, the total emigration from Bulgaria after the regime change in the country is presented. The collapse of Bulgarian economy provoked large outflows of migration in the country in the end of the 1980's. The regime

⁷⁰ Markova, E. (2010) Effects of Migration on Sending Countries: lessons from Bulgaria, *Hellenic Observatory papers on Greece and Southeast Europe*, GreeSE paper no. 35, London School of Economics and Political Science, p. 5

change, in the beginning of the new decade, reinforced emigration too. The first results of the transition to market economy were disappointing for the population. The increased unemployment and the drop of real wages reinforced the decision of many people to emigrate. In the years that followed, emigration flows decreased, but they remained up to high levels in comparison to the other post communist countries.

The domestic economic crisis of 1997 increased the migration outflows from Bulgaria. A large share of skilled population experienced a constant restriction of prosperity and the high pay of qualified labor force in developed countries became the main motivation for migration, which continued to be led by unemployment and low income.

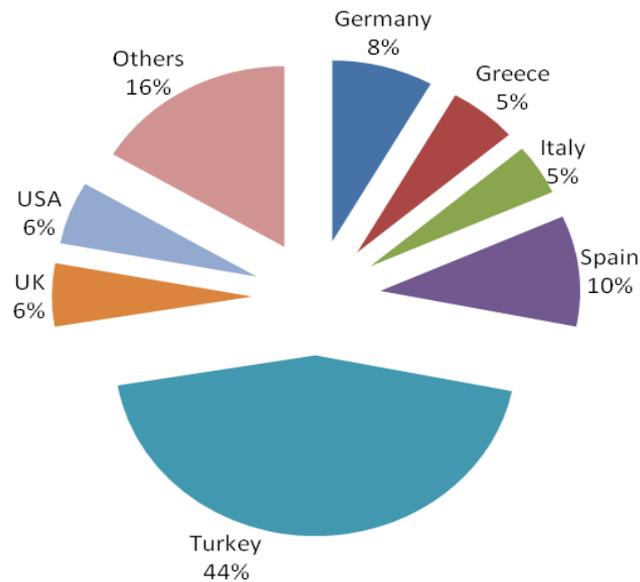
Although the prospect of accession to EU introduced the reconstruction of Bulgarian economy, emigration did not decline. Capital flows to the country and the rapid economic growth created job opportunities that reduced unemployment, but emigration from the country escalated. When the repercussions of the global economic countries caused recession to the Western countries that were the destination of Bulgarian migration, the outflows was reduced significantly.

In Chart 16, the dispersion of Bulgarian immigrants is depicted. The greatest share of Bulgarian immigrants moved towards Turkey. This share refers almost completely to Bulgarian Turks⁷¹ that moved to Turkey during the postwar period. After the fall of communism, migration to Turkey was reduced. The second most usual destination for Bulgarian immigrants was Spain, which had imposed some restrictions in their entrance to the labor market, but, finally, accepted them. Next country was Germany, which opened its labor market to Bulgarians from the beginning. Afterwards, desirable destination

⁷¹ For the migration of Bulgarian Turks see: Kutlay, M. (2017) The Turks of Bulgaria: An Outlier Case of Forced Migration and Voluntary Return, International Organization for Migration, Volume 55, Issue 5

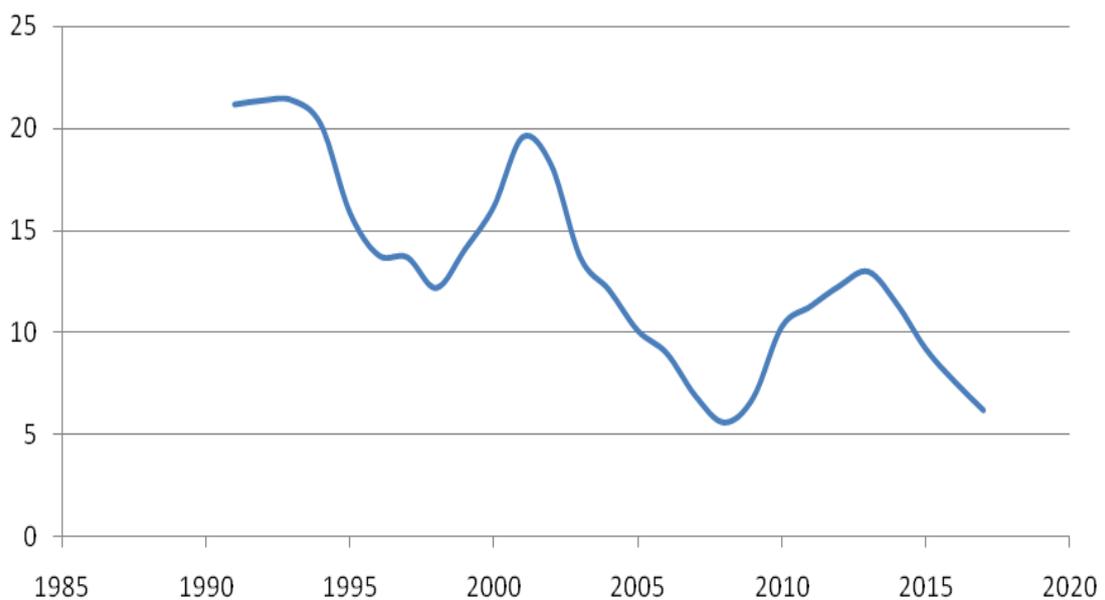
was USA and UK, followed by Greece and Italy. In the beginning of transition, migration was directed towards other post communist countries too.

Chart 16: Share of destination of Bulgarian immigrants by country as percentage of total emigration in 2017



Source: IOM

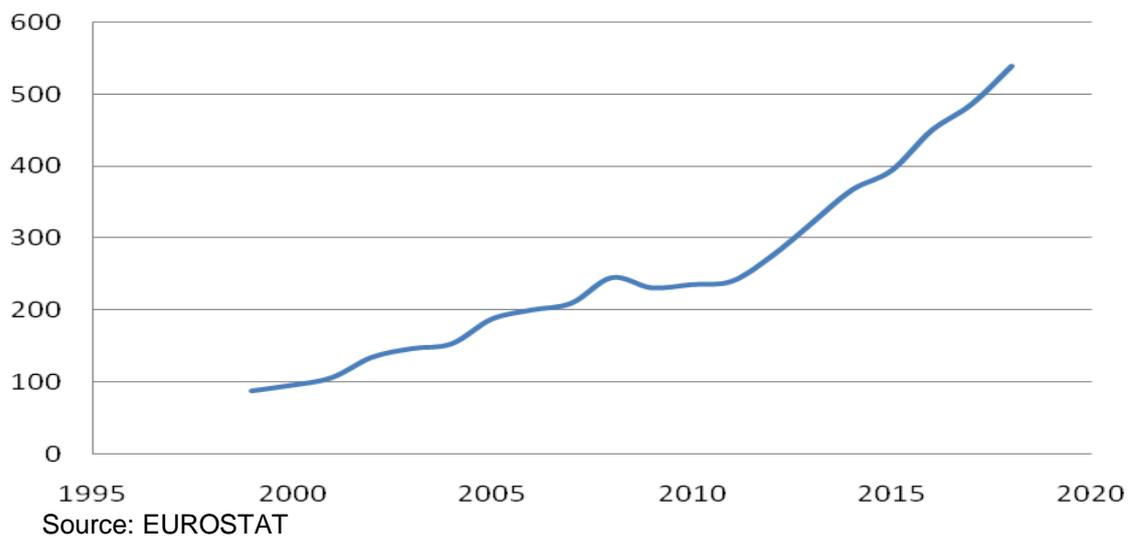
Graph 10: Total unemployment rates in Bulgaria as percentage of total labor force



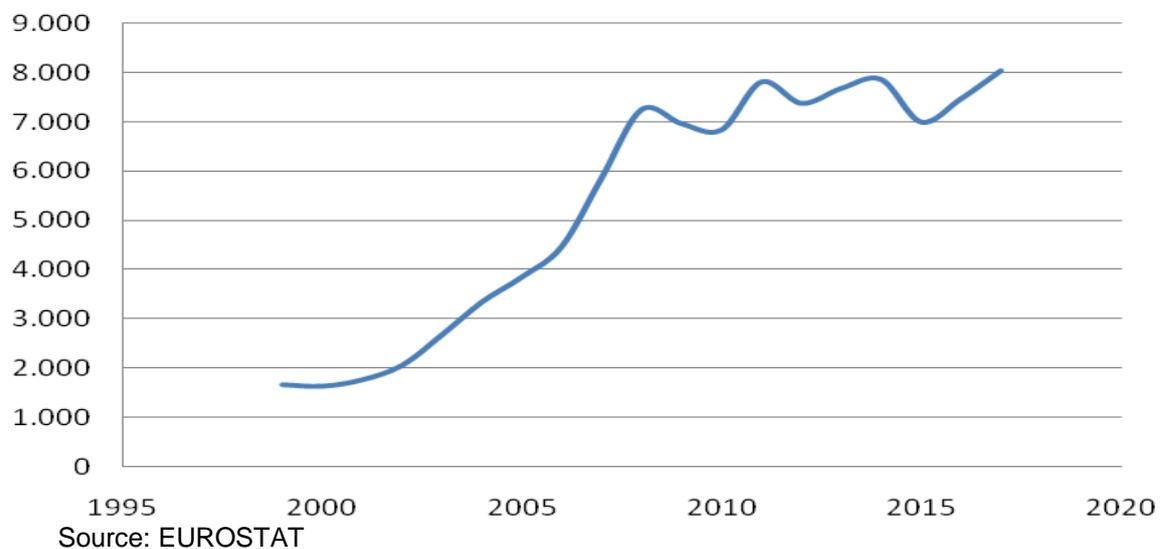
Source: EUROSTAT

As it appears in Graph 10, the fall of communism in Bulgaria provoked a dramatic increase on the level of unemployment rate in the country. However, during the first years of transition, unemployment reduced considerably. The economic crisis of the country, in 1997, retrieved unemployment to high levels, but it stressed a constant drop. Bulgaria's accession to EU was escorted with unemployment comparable to that of Western countries. During the global economic crisis, unemployment rate increased once again, but it soon returned to pro-crisis levels.

Graph 11: Bulgaria's monthly minimum wage in USD



Graph 12: GDP per capita in PPP of Bulgaria in USD



In Graphs 11 and 12, the monthly minimum wage and GDP per capita of Bulgaria are presented respectively. Minimum wage in Bulgaria followed a constant rise, which was interrupted only during the global economic crisis, but it soon continued to increase. GDP per capita was also increasing continuously, despite some fluctuations after the outbreak of the global economic crisis. The increase of monthly minimum wage and GDP per capita indicate that living standards of Bulgaria improved significantly. As a result, the country presented a positive progress to the path of integration to EU.

Notwithstanding, migration outflows remained a part of Bulgarian society. Despite the significant performance of the economy, the income differences with the EU countries promoted emigration. Only the global economic crisis managed to somehow reduce the migration outflows from Bulgaria, because of the adverse effects on the economies of countries that were the destinations of Bulgarian immigrants. But, this lasted only the first years of the crisis. Outflows of emigrants increased anew.

Labor migrants are the main source of remittances in Bulgaria, while migrants that settled in the country of destination invested their money in the specific country in houses or the education of their children. Money transfers, which increased considerably after 1998, were spent mainly on consumption contributing to the economic development of the country. Living standards and local economies were assisted significantly by remittances. In 2004, the official remittances in Bulgaria were estimated about 4,2% of GDP and, in 2006, 5,4%. It was believed that the actual remittances were about twice as much⁷², since the immigrants used to send the remittances through informal ways.

Bulgarian government respected the right of people to free movement and did not try to directly restrict migration outflows from the country. However,

⁷² Markova, E. (2010) Effects of Migration on Sending Countries: lessons from Bulgaria, *Hellenic Observatory papers on Greece and Southeast Europe*, GreeSE paper no. 35, London School of Economics and Political Science, p. 28

policies were adopted with the aim to resettle Bulgarian migrants. The main target was to cover the shortages of high-skilled employment, encouraging immigrants to return to Bulgaria or deterring people from emigrating.

5.3 Bulgarian migration to Greece

Bulgarian migration to Greece was reinforced by the common historic, religious and cultural ties between the two countries⁷³. Geographical proximity, also, played an important role in the choice of Greece as destination. Additionally, many immigrants chose Greece because they had friends or relatives that had already moved to Greece⁷⁴. In general, labor migration was the main form of relocation to Greece.

Long before the fall of the communist regime of Bulgaria, population mobility between Greece and Bulgaria was observed. Greece had accepted the largest share of Bulgarian political refugees when the communist regime was established, while Bulgaria had accepted political refugees from Greece after the end of the Greek Civil War in 1949⁷⁵. Also, many Greek students were studying in Bulgarian universities.

In Graph 13, the total amount of Bulgarians that live in Greece is presented. During the first years of transition, many Bulgarians migrated to Greece seasonally and mostly undocumented, due to the strict Greek legislation on migrants' legalization. Migration to Greece started after the liberalization of visa requirements in the post communist Bulgaria that allowed citizens to move. Outflows of immigrants were mostly illegal, since the long mountains that constitute the borders between Greece and Bulgaria became an easy path. Most of them usually entered Greece through tourist agencies,

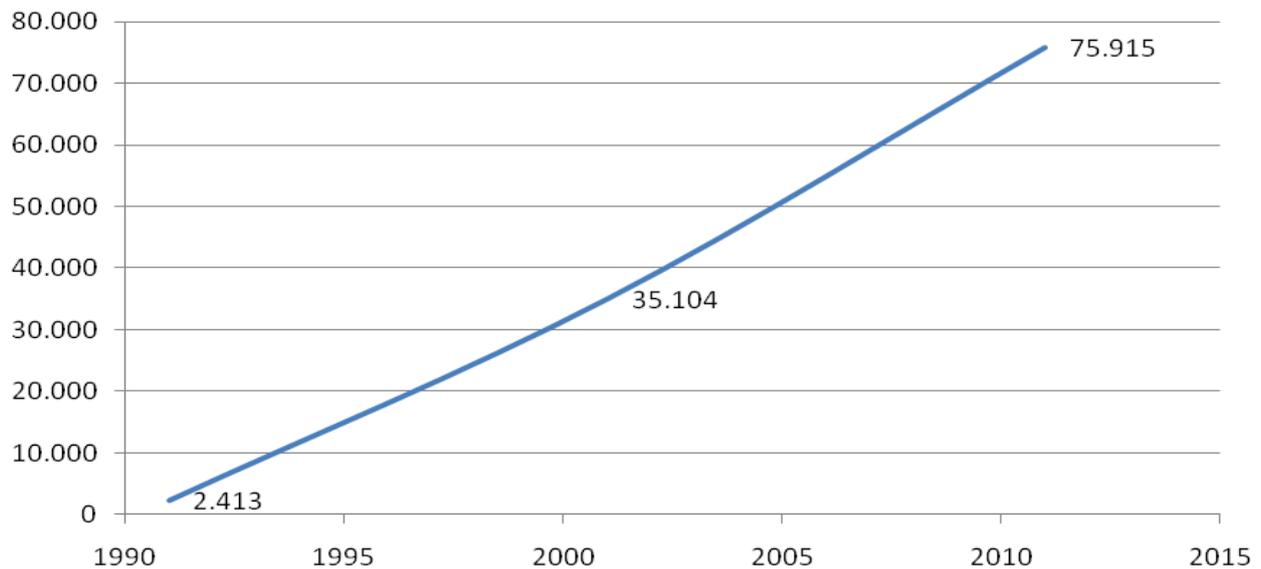
⁷³ Labrianidis, L. et al. (2004) Inflow of migrants and outflow of investment: Aspects of interdependence between Greece and the Balkans, *Journal of Ethnic and Migration Studies*, 30(6), p. 1186

⁷⁴ Cavounidis, J. (2004) Migration to Greece from the Balkans, *South Eastern Europe Journal of Economics* 2, p. 45

⁷⁵ For refugees of the Greek Civil War see: Teodorovic, A. (2007) *Refugees of the Greek Civil War: Politics and Ethnicity*, Thesis submitted to the Central European University History Department, Budapest, Hungary

but they did not comply with the time frame of accommodation and remained in Greece illegally after the expiration of the tourist visa⁷⁶.

Graph 13: Stock of Bulgarian immigrants in Greece



Source: HSA

The first major wave of Bulgarians that migrated to Greece was in 1997, when the domestic economic crisis of Bulgaria occurred and the first regularization program of illegal migrants was introduced in Greece. The second significant inflow of Bulgarian immigrants in Greece was observed in 2001, while the third coincided with the access of Bulgaria to EU in 2007 and the abolition of visa requirements for entering the Schengen area. Bulgarian official immigrants had increased significantly, while the total number including the unregistered immigrants was estimated about twice as many.

The access of Bulgaria to EU did not end the illegal migration. Moreover, the social status of Bulgarian immigrants of Greece did not improve. They kept on being among the least well-paid, mainly because of the large women share of immigrants who earned the lowest money in the country. Many Bulgarians did not obtain the permit to live and work in Greece until 2009 that

⁷⁶ Christidis, Y. et al. (2017) Greek-Bulgarian Relations: Present State and Future Challenges, *ELIAMEP*, Research report March 2017, p. 37

Greek government approved the long-term employment and residence⁷⁷. Nevertheless, the legalization of their residence in Greece did not reduce the informal and uninsured employment of many immigrants.

The free movement and employment in Greece coincided with the Greek debt crisis. Outflows of Bulgarian immigrants to Greece increased, but they soon were restricted by the unfavorable economic environment of Greece. They remained in high levels, even though many Bulgarians that resided in Greece returned to their country or they re-emigrate to other more developed countries.

The most Bulgarians were directed to the Greek urban centers. The large cities offered higher wages and a wider range of specialties in the labor market. Moreover, in urban centers it was easier for Bulgarians to meet their compatriots in order to find support. Usually, they found employment through their relatives or friends that had already settled in Greece. Some of them entered the labor market through work offices or newspaper⁷⁸.

As it is depicted in Chart 17, the vast majority of employed Bulgarian immigrants offered non-skilled or low-skilled work, so they were occupied in manual work, whatever their level of education. About 60% of Bulgarian immigrants were middle-aged women of secondary or higher education⁷⁹. Most of them were divorced or widowed and left their families behind. They were mainly occupied illegally as housekeepers or babysitters, despite the fact that back in Bulgarian they used to work as skilled employees. Most of

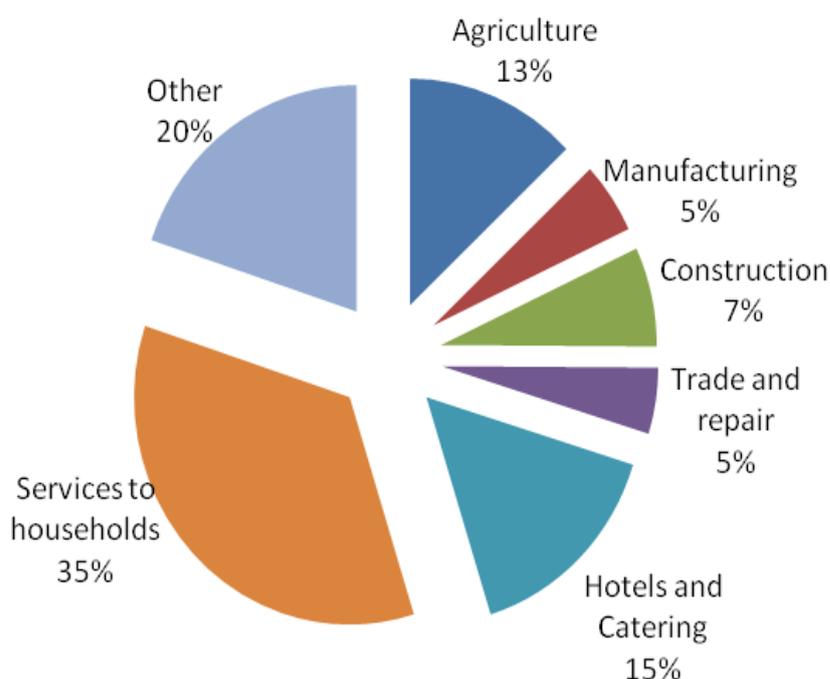
⁷⁷ Hatziprokopiou, P. and Markova, E. (2015) Labour Migration and other Forms of Mobility Between Bulgaria and Greece: The Evolution of a Cross-Border Migration System. In: Vermeulen H. et al. (eds.), *Migration in the Southern Balkans*, IMISCOE Research Series, p. 190

⁷⁸ Katsikis, I. et al. (2012) International and Cross Border Entrepreneurship: The Case of Greece and Bulgaria, *Business Systems and Economics*, 3(1), p. 9

⁷⁹ Cavounidis, J. (2004) Migration to Greece from the Balkans, *South Eastern Europe Journal of Economics* 2, p. 226

the male immigrants were young and highly-educated⁸⁰. The main sectors that they were employed were agriculture and industry, followed by construction and commercial services. On the whole, the majority of Bulgarian workers in Greece were recruited unofficially and their payment was lower than the legal minimum wage.

Chart 17: Employment of Bulgarians in Greece by sector of economy as percentage of the total employment of Bulgarians

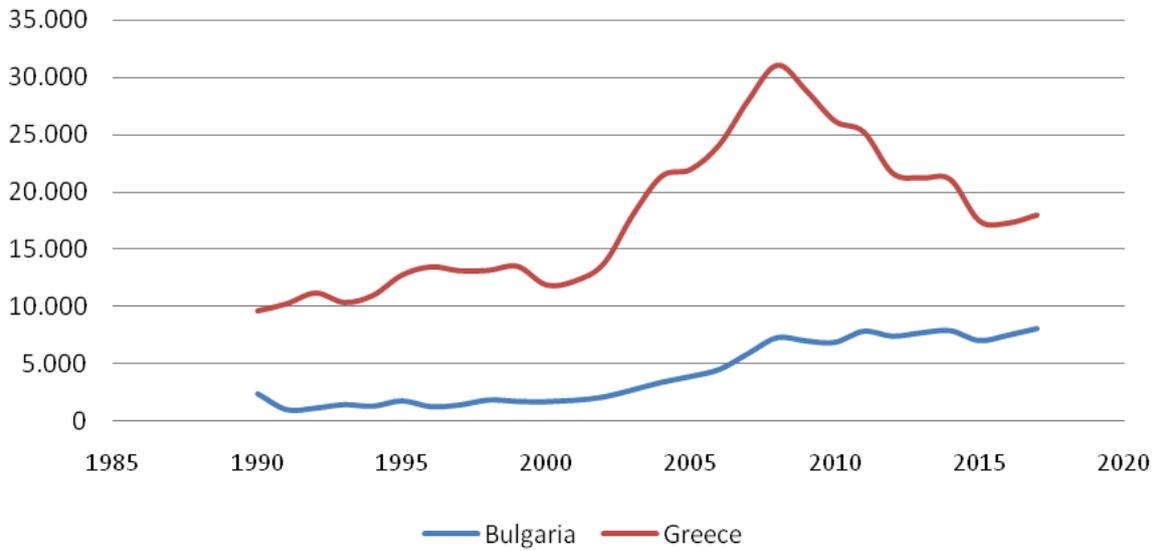


Source: HSA, Labor Force Survey 2011

In Graphs 14 and 15, the GDP per capita and the monthly minimum wage of Greece and Bulgaria are presented respectively. Since 1990, the evolution of both Greek and Bulgarian GDP per capita was growing. In the beginning of the 2000's, Greek GDP per capita pointed a remarkable growth and, by the end of the decade, it doubled. Bulgarian GDP per capita also increased significantly for its levels. During the years of the crisis, Greek GDP per capita followed a downward direction, while Bulgarian kept on growing slowly.

⁸⁰ Angelov, G. and Vankova, Z. (2011) Bulgarian Labour Migration: Do Restrictions Make Sense?, *Open Society Institute - Sofia*, Policy Brief, November 2011, p. 3

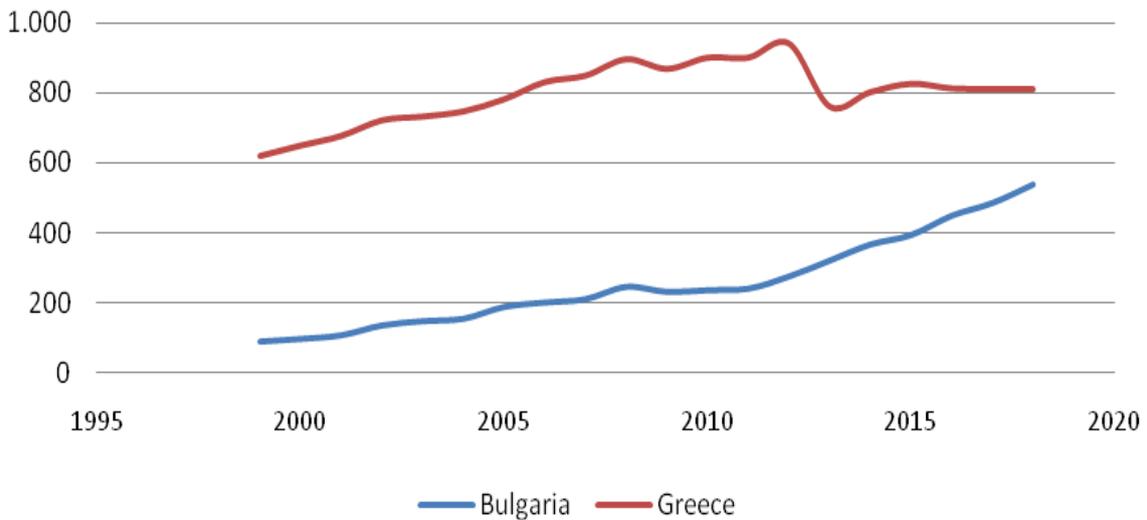
Graph 14: GDP per capita in PPP of Greece and Bulgaria in USD



Source: UNCTAD

Monthly minimum wage of both countries was growing steadily too. When the global economic crisis emerged, minimum wage remained stable for some years. In 2012, Bulgarian wage began to grow faster, while Greek wage reduced. The last years, minimum wages of the two countries present a tendency to equalize.

Graph 15: Monthly minimum wage of Greece and Bulgaria in USD



Source: EUROSTAT

As measure of living standards, GDP per capita and monthly minimum wage indicate that Greece offered a more beneficial environment to its population compared to its neighbor's. Immigrants were easily absorbed in the Greek labor market, officially and unofficially, enjoying all the economic and social advantages of Greece. Moreover, Bulgarian immigrants of Greece maintained very close relations with Bulgaria due to the geographical proximity of the two countries.

6. Conclusion

Greece and Bulgaria are two countries of the Balkan region with totally different economic and political background. Despite the substantive difference in the evolution of each economy, there are several characteristics that finally connect them. Not only they share the common heritage as protectorates of the Ottoman Empire, but now they are both EU member states.

After the independence of both countries, wars emerged that found them in opposite sides. The last was the World War II, after which Greece and Bulgaria could be characterized as would-be partners. Although they chose different paths during the years of the Cold War, they had already developed friendly ties considering economic and political issues.

Until 1990, Greece and Bulgaria were under different spheres of influence. Bulgaria followed the Soviet style of economy, while Greece imitated the model of the Western economies. The fall of communism found Greece to be the only EU member state of the Balkan region with considerable score of EU integration and extremely high economic position among its neighbors with expansionary benefits. Bulgaria, on the other side, suffered the losses of its collapsed economy.

During the transition period, more and more European countries started to develop economic relations with Bulgaria, while Greece was expanding its foreign affairs to the Balkan region. Until 2007, when Bulgaria became an EU member state and the global economic crisis occurred, a substantial form of Balkan integration of Greece and Bulgaria had appeared. Trade among Balkan states used to be non-existent, but Greek and Bulgarian commercial activities were dispersed in the area. Moreover, Greek FDI outflows spread widely in the area, while a significant amount of the immigrants of Balkan states considered Greece as a proper destination.

The prospect and, especially, the final accession of Bulgaria to the EU enhanced its economic and political environment greatly. Economic development was boosted, so partnership with Western states was rated as financially beneficial. Greek economic growth was also in high rates, accelerating its economic supremacy in the region. On the whole, the progress made by Greece and Bulgaria facilitated the accomplishment of a high level of economic partnership among them. In 2007, trade between the two countries increased to a large extent and, additionally, it was expanded to many sectors. Also, Greek FDI outflows to Bulgaria developed significantly, indicating Greece as one of the major investors in Bulgaria. Furthermore, many Bulgarian immigrants had settled in Greece and had been integrated to the labor market.

The global economic crisis altered all this advancement. Western countries were hit by the crisis and the repercussions were soon transferred to their partners, such as the Balkan states. Additionally, the outbreak of the crisis provoked the Greek debt crisis, which affected more the region, due to the intense presence of Greece as an economic fellow.

Trade among Greece and Bulgaria reduced, while the latter increased its exports to the former. However, trade between them expanded to various sectors of the economy, transforming it to intra-industry, which interprets their trade relations as trade partnership among countries with similar level of development. Moreover, the presence of Greek investors in Bulgaria declined to a large extent, even though many entrepreneurs moved their firms there. The great shortage of liquidity in the Greek economy caused many firms to close and others to move to Bulgaria boosting its economic growth. Also, Bulgarian migration to Greece increased enormously, due to the implementation of the freedom of people movement between EU member states, but, later, it was confined by the adverse effects of the crisis. Soon after the consolidation of the debt crisis on the Greek economy, a large amount of Bulgarian immigrants abandoned Greece, either repatriating either relocating to other Western countries.

In recent years, partnership among Greece and Bulgaria has presented radical alterations. Bulgarian exports to Greece have increased significantly and they rather outbalance the Greek exports to Bulgaria. Although this increase originates to a great extent from Greek firms that relocated to Bulgaria, the outcome is considered to be in favor of the Bulgarian economy. Furthermore, remarkable Bulgarian FDI outflows to Greek economy have showed up. They mostly pertain to the tourist sector or transport services. In addition, it is observed that many Greek people have moved to Bulgaria either because of the relocation of their firm to the country either due to the enlargement of the Bulgarian labor market in relation to the Greek.

In this dissertation, important assumptions about the bilateral relations among Greece and Bulgaria were drawn. The presence of Greece in Bulgarian economy was analyzed and the magnitude of this partnership was described. However, in the next years, it seems that the main focus on the research concerning the two countries is possibly going to be reversed. The issue of scholars' debate will concern the expansion of Bulgarian trade and FDI to Greece and the Greek labor migration to Bulgaria.

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