

Motives and Barriers to the Location of MNEs and the Role of the Informal Economy: The Case of Greece

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Abstract

Considering the significant decrease of investment and GDP in Greece, and the goal of achieving a V-shaped post-COVID-19 recovery, inward FDI could be regarded as a source of productive private investment. This study aims to indicate differences in the factors determining inward FDI in Greece before and after the great crisis and the role of the informal economy on Greece's inward FDI. This study explores the perceptions of multinational enterprises' upper management regarding motives of and barriers to locating their activities in Greece, the role of the informal economy and how these perceptions changed before and after the great economic crisis of late 2000s. The results indicate that the relation between inward FDI and the informal economy depends on types of entry and that tax evasion opportunities can impact positively on the motives of foreign investors.

Keywords: Foreign Direct Investment (FDI) Location; Greece; Informal Economy; Multinational Enterprises (MNEs); Global Markets

1. The Impact of the Crisis of Late 2000s on Investment

The global financial crisis of 2007-2008 which led to global recession and developed into a sovereign debt crisis (particularly) of European Union (EU) Member States had no precedent in postwar economic history (at least prior to the COVID-19 recession). Almost a decade later, in 2017, although most EU Member States recovered their loss in terms of GDP they did not reach their pre- (henceforth) great crisis levels of investment and employment¹. In addition, the impact of COVID-19 pandemic on economic activity paused the efforts of EU Member States to recover. The Greek economy bore the brunt of the great crisis by experiencing a lengthy depression (with the exception of a single annual increase of GDP in 2014), which shrunk its GDP by approximately 27 percent. Economic growth resumed in 2017 but was halted in 2020 due to the COVID-19 recession. Gross fixed capital formation (GFCF)

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decreased by approximately 66 percent over the period 2008-2019². In response to the devastating impact of the great crisis the European Commission aimed to boost investment and to support economic growth by proposed the Investment plan for Europe in late 2014. The Plan led to the establishment of the European fund for strategic investments in 2015, whose terms were extended and the investment target increased in late 2016. Despite all efforts the Greek economy did not manage to recover its loss and policymakers have to reignite the engines of growth in the post-COVID 19 era (Brondoni, 2019). The Greek Recovery and Resilience Plan aims to change the Greek growth model and institutions through 62 reforms and 105 investments. The Greek Plan will be funded mainly by the EU Recovery and Resilience Facility and its key objectives are to improve the competitiveness of the Greek economy and to boost private investment expenditure in order to achieve a V-shaped post-COVID-19 recovery³. The amount of inward FDI will be crucial for increasing private investment expenditure. Evidence on Greece's position on the Investment Development Path (Vlachos and Bitzenis, 2018), where inward FDI interact with the upgrading of the country's location advantages, indicate that inward FDI could be regarded as a source of productive private investment. Greece's inward FDI performance (in terms of GDP) has been well below its potential, however, as data from Eurostat indicate that it has been one of the lowest in the EU since 2001. Net FDI inflows are destined primarily to the tertiary sector (approximately 2/3 of total) and originate mainly from multinational enterprises (MNEs) of the EU (Germany, France and Cyprus during the period 2009-2019) and a lot less from extra EU countries, particularly from China (with Hong Kong), Canada and the United States. Policymakers have to look into the determining factors of FDI and improve the conditions for foreign investors. The size of the informal economy in Greece, which is estimated to be one of the highest in the euro area and increases during economic recessions (Bitzenis, Vlachos and Schneider (2016), may be responsible for the low levels of inward FDI. On the one hand, the size of the tax burden and the levels of corruption, which both have been found to be the primary determinants of small firms' non-compliance behavior (Vlachos and Bitzenis, 2016), have been increasing since the outbreak of the great crisis. On the other hand, economic globalization has been negatively associated with informal activity in countries of South-East Europe with large informal economies like Greece (Hudson, Williams, Orviska and Nadin, 2012). Inward FDI will be critical to the recovery of the Greek economy in the post-COVID 19 era. In addition, since FDI is considered a key driver to sustainable economic growth (Suehrer, 2019), it will also contribute to achieving the United Nations 2030 Agenda Sustainable Development Goals (SDGs): balancing the economic, environmental and social dimensions of sustainable development; leaving no one behind; and ensuring the basic requirements for the well-being of future generations (Global Sustainable Development Report, 2019). The fulfillment of the SDGs requires the reduction of Greece's large informal economy. The requirement for policies indicated by previous research (Corniani, 2014; Brondoni, 2014) that link sustainable development with actionable investment opportunities for private investors has been met with the launch of initiatives such as the OECD FDI Qualities Initiative, which provides governments with policies to encourage sustainable investment. This study aims to indicate differences in the factors determining inward FDI in Greece before and after the great crisis and the role of the informal economy on Greece's inward FDI (the effect of COVID-19 pandemic is not included in the analysis).

The objectives are to explore the perceptions of MNEs' upper management regarding motives of and barriers to locating their activities in Greece, the role of the informal economy (since Greece has one of the highest rates in the euro area, in terms of GDP), and how these perceptions changed over time (before and after the great crisis). The findings will indicate how the factors favoring FDI in Greece may be related with the achievement of SDGs.

2. Inward FDI and the Informal Economy

2.1 The Theory of FDI Determinants

The literature of FDI determinants is categorized by Faeth (2009) into 9 theoretical frameworks: early approaches (market size and growth), differences in capital returns, ownership advantages, ownership-location-internalization paradigm, horizontal (market size, transport costs and trade barriers) and vertical (factor endowment differences) FDI, knowledge-capital model, risk diversification, national policies, market size and growth and barriers to trade unrelated to previous frameworks.

The quality of institutions, both in terms of their direct impact on FDI and in terms of the institutional distance between host and source economies, determine FDI activity (Benassy-Quere, Coupet and Mayer, 2007). Institutional factors such as political stability, democracy, and rule of law attract FDI and others such as corruption, tax rates and cultural distance deter it (Bailey, 2018). A framework explaining differences in capital returns due to extreme economic conditions is the fire-sale FDI hypothesis (Krugman, 2000) that countries increase their FDI attractiveness in times of crisis by selling assets at a discount. Empirical studies in favor (Alquist, Mukherjee and Tesar, 2016) and against (Weitzel, Kling and Geritsen, 2014) the particular hypothesis indicate that it does not apply to all situations.

The Universal Model of theories determining FDI encompasses all abovementioned factors and is based on the argument that no single theory explains all aspects of FDI activity (Bitzenis, 2003; Bitzenis, 2008; Bitzenis and Papadimitriou, 2011). Empirical applications of the Universal Model are studies of the motives and barriers to the activity of MNEs carried out using questionnaires (for example see Bitzenis, Tsitouras and Vlachos, 2007; Bitzenis, Tsitouras and Vlachos, 2009).

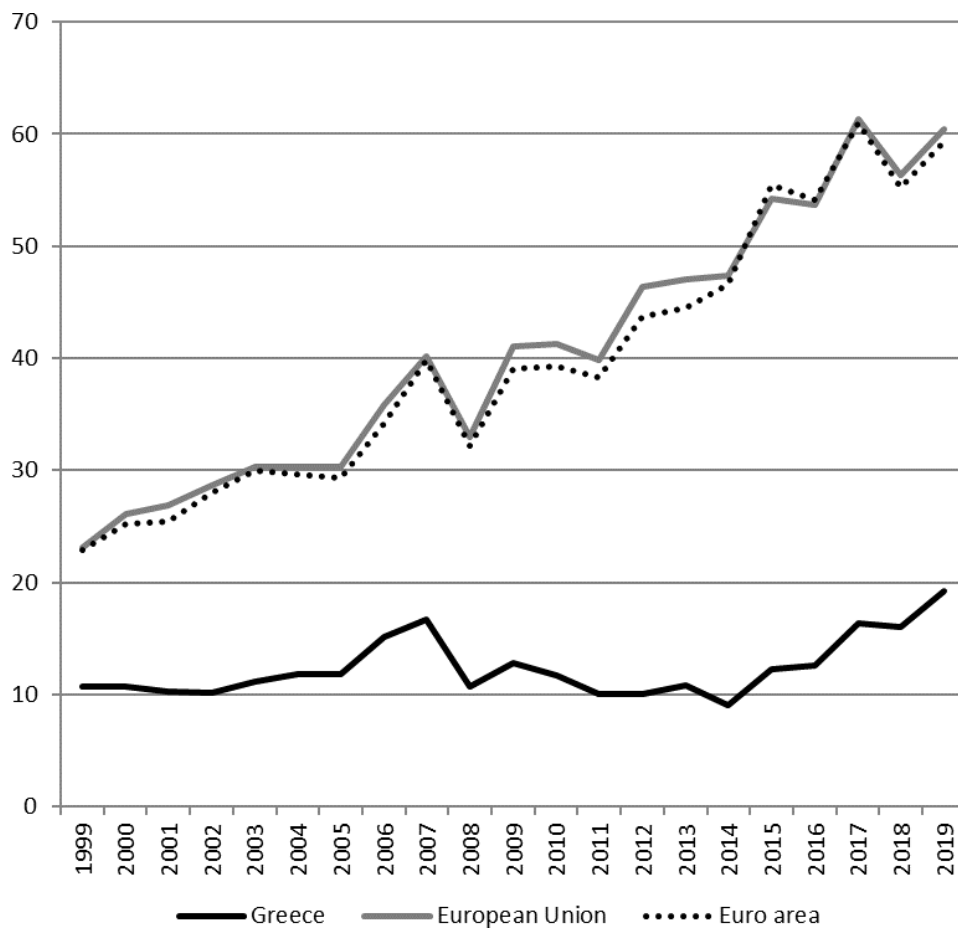
FDI gravity models have followed a different course from the above mentioned theoretical frameworks. The empirical application of the gravity model of trade (where the amount of flow between two economies is determined by their economic size and geographical distance) that is used to explain regional-level FDI flows/stocks (Zwinkels and Beugelsdijk, 2010), gained its theoretical underpinnings after it faced criticisms of weak theoretical foundations (Blonigen, 2005, p. 393). The success of FDI gravity models results from the fact that it can be derived from various theoretical models of MNEs (Kleinert and Toubal, 2010).

2.2 Greece's Inward FDI Performance

Figure 1 presents Greece's inward FDI stock performance according to data from United Nations Conference on Trade and Development (UNCTADstat) over the period of 1999-2019. Greece's inward FDI performance in terms of GDP is signified by two periods of continuously rising trends: 2002-2007 and 2014-2019 with respective peaks of 16.7 percent and 19.2 percent of GDP. EU and euro area inward FDI has been following a similar rising trend which was interrupted by the global financial crisis in 2008 and a sharp decline in 2018. Figure 1 indicates that the dif-

ference in the performance of Greece’s inward FDI performance and the respective of European counterparts has increased from being more than double in the verge of the great crisis to being approximately three times the size of Greece’s performance in 2019. Data from UNCTADstat indicate that the size of Greece’s inward FDI stock (US dollars at current prices in millions) in 2019 placed the country at the last quarter of FDI recipients (23/28) in the EU. Finally, Figure 1 implies that fire sale FDI was of insignificant size (if any) during the great crisis. Greece’s inward FDI stock in terms of GDP has been declining despite the simultaneous decrease of GDP.

Figure 1: *Inward FDI Stock (Percentage of GDP)*



Source: UNCTADstat

Notes: EU15 1995-2004, EU25 2004-2007, EU27 2007-2013 and EU28 2013-2020.

The importance of FDI as a means to increase economic growth has encouraged researchers to investigate FDI motives and barriers in Greece in order to introduce policies that would enhance the attractiveness of the country as a host. An overview of empirical studies of the Greek economy or sectors of the Greek economy as hosts follows (in cases where Greece is being part of a panel data sample group of countries, the study is included in the review if the title indicates a focus on Greece). Table 1 presents the findings of these studies.

Georgopoulos and Preusse (2006) study the impact of European Integration on

investments and divestments of foreign MNEs in Greece, from a sample of 199 foreign subsidiaries operating in Greece. The findings of the Pearson's χ^2 test suggest that the participation of Greece in the EU has not increased the attractiveness of the country as a production base for MNEs. Their study reaches the conclusion that EU accession (from 1981 onwards) did have a positive effect on Greece's export oriented and efficiency seeking FDI.

Bitzenis, Tsitouras and Vlachos (2007) investigate the motives for FDI in Greece for the period 1995-2003. The research was carried out using a questionnaire and data from 52 MNEs was retrieved. The findings of the Pearson's χ^2 test indicate that the main motives behind FDI inflows in Greece are market and efficiency-seeking.

Pantelidis and Nikolopoulos (2008) investigate FDI attractiveness in Greece with quarterly data for the period 1976-2004 and construct an index of FDI attractiveness for the years 2000, 2002 and 2004. The ordinary least squares (OLS) significant estimates of FDI equation in log-linear form indicate that economic activity, market size, human capital, technological capabilities have a positive effect and unit labour cost a negative effect on inward FDI. The index places Greece 17th (for the year 2004) among 21 European countries in terms of attractiveness of inward FDI.

Bitzenis, Tsitouras and Vlachos (2009) examine the barriers to inward FDI in Greece for the period 1995-2003. using a questionnaire, which was sent to 150 MNEs. The research was carried out using a questionnaire and data from 52 MNEs was retrieved. The findings of the Pearson's χ^2 test indicate that the main barriers to FDI are bureaucracy, taxation, corruption and the labor market structure.

Leitao (2010) applies a (dynamic) panel data approach in order to investigate Greece's FDI attractiveness for the period 1998-2007. The findings indicate market size, trade openness, and labour cost as significant explanatory variables of FDI in Greece and that macroeconomic instability discourages foreign investors.

Petrakou (2013) studies the motives for inward FDI in Greek prefectures for the year 2008, with cross-section data from 25 NUTS 3 regions and in 10 NACE 1 digit sectors. The generalized least squares significant estimates of FDI show that FDI attractiveness is determined by market size and geographic position, the quality of regional human capital and the occurrence of localisation economies.

Pantelidis and Paneta (2016) investigate the factors affecting FDI inflows in Greece with annual time series data for the period 1982-2013. The pooled OLS significant estimates indicate that inward FDI is positively affected by gross national income, the exchange rate and openness, and is negatively related to unit labour costs, the corporate tax rate and the Greek membership in the European Monetary Union.

Vogiatzoglou and Tsekeris (2016) investigate the determinants of inward FDI in Greece's manufacturing sector with sectoral data for the period 2001-2012. The significant panel fixed-effects estimates indicate that the sector's size, labour productivity, scale economies and R&D intensity have a significant impact on the attraction of FDI across manufacturing industries.

Vlachos, Mitrakos, Tsimpida, Tsitouras and Bitzenis (2019a) investigate the factors discouraging FDI in Greece after the great crisis. The research was carried out using a questionnaire and data from 235 MNEs was retrieved. Decisive barriers (whose frequencies represent more than 80% of the sample) to Greece's inward FDI are those of bureaucracy and excessive taxation. Very important barriers (> 70% of the sample) are high VAT, corruption, macroeconomic instability, lack of transparency,

unstable legal framework and lack of enforcement of the laws. The decisive and very important barriers become even more important for the cases of investors undertaking Greenfield projects. The particular group of investors is also found to be more concerned about institutional performance and stability (for example, political stability and law enforcement).

Vlachos, Mitrakos, Tsimpida, Tsitouras and Bitzenis (2019b) investigate Greece's FDI attractiveness using a questionnaire. Data was collected from 62 MNEs or their subsidiaries operating in Greece during the second and the third semesters of 2018. The results of non-parametric tests reveal that none of the advantages of the Greek economy are perceived as important. Greece's geographical proximity to the EU is more important for the group of MNEs or their subsidiaries establishing an export base. Greece's cultural similarities/closeness to the host country is more important to the group of MNEs or their subsidiaries not giving a priority either to serving the Greek market or establishing an export base.

Table 1: Motives and Barriers to Greece's Inward FDI

Study	Findings
Georgopoulos and Preusse (2006)	EU accession has not increased Greece's attractiveness as a production base for MNEs.
Bitzenis et al. (2007)	The main motives are market and efficiency-seeking.
Pantelidis and Nikolopoulos (2008)	Economic activity, market size, human capital and technological capabilities.
Leitao (2010)	Market size, trade openness, and labor cost.
Petrakou (2013)	Market size and geographic position, the quality of regional human capital and the occurrence of localisation economies.
Pantelidis and Paneta (2016)	Gross national income, the exchange rate and openness.
Vogiatzoglou and Tsekeris (2016)	Sector's size, labor productivity, scale economies and R&D intensity.
Vlachos, Mitrakos, Tsimpida, Tsitouras and Bitzenis (2019b)	Geographical proximity to the EU is more important to the group of MNEs or their subsidiaries establishing an export base. Cultural similarities/closeness to the host country is more important to the group of MNEs or their subsidiaries not giving a priority either to serving the Greek market or establishing an export base.
Tsitouras, Mitrakos, Tsimpida, Vlachos and Bitzenis (2020)	Market size, trade openness, the quality of labor, infrastructure facilities and technological skills (most of all).

Barriers	Pantelidis and Nikolopoulos (2008)	Unit labor cost.
	Bitzenis et al. (2009)	Bureaucracy, taxation, corruption and the labor market structure.
	Leitao (2010)	Macroeconomic instability.
	Pantelidis and Paneta (2016)	Unit labor costs, corporate tax rate and euro adoption.
	Vlachos, Mitrakos, Tsimpida, Tsitouras and Bitzenis (2019a)	Decisive barriers are bureaucracy and excessive taxation. Very important barriers are the high VAT, corruption, macroeconomic instability, lack of transparency, the unstable legal framework and the lack of enforcement of the laws. The results indicate a difference between Greenfield projects and other modes of entry.

Tsitouras, Mitrakos, Tsimpida, Vlachos and Bitzenis (2020) investigate long-run relationships between inward FDI and its key determinants for the period 1980-2016. The results of Granger causality test indicate that market size, trade openness, quality of labor, infrastructure facilities and technological skills (most of all) stimulate the size of inward FDI in Greece, and confirm a long run relationship.

The findings of the abovementioned studies are presented in Table 1. The findings of these studies reach a consensus regarding some variables (for example, market size in the case of motives and taxation in the case of barriers). Only two of these studies (Vlachos et. al, 2019a; Vlachos et. al., 2019b) analyze data concerning the time period that the Greek economy started to recover from the great crisis (2017-2019). A research question arising from the findings of these studies is:

- Are there any differences regarding the motives of and barriers to Greece’s inward FDI before and after the great crisis?

2.3 Does the Informal Economy Have an Impact on FDI?

According to EU documents (Bitzenis, Vlachos and Skiadas, 2016, p. 132), the informal economy includes illegal activities involved in the production and supply of both legal and illegal products and services. The illegal activities involved in the production and supply of legal products and services (termed as the shadow economy) are mainly actions of income concealment, such as informal employment, which could under certain conditions be reported (and thus transferred to and consequently regarded) as an activity of the official economy. The particular transfer is part of the EU goal to improve living standards and social cohesion. The literature on the relation between the informal economy and FDI is very limited. Ali and Bohara (2017) and Cuong, Luu and Tuan (2021) investigate the strength of the informal economy as a determinant of FDI. Ali and Bohara (2017) focus on data from 1999 to 2007 for Organization for Economic Co-operation and Development countries and investigate whether the size of the informal economy in the host economy relative to the investor economy can play a significant role in attracting FDI.

The informal economy differentials are investigated as one of the independent variables of an FDI gravity model and treated as a proxy for tax evasion. The construction of this variable is based on the estimated sizes of the shadow economy by Schneider, Buehn and Montenegro (2010). The results indicate that an increase in the shadow economy rate of the host economy relative to the investor economy increases FDI and implicate that MNEs are motivated to take advantage of these differences. Cuong, Luu and Tuan (2021) cover 158 countries in the period from 2003 to 2015. The construction of the informal economy variable is also based on estimates of the shadow economy. The authors report results for three models where the informal economy is tested with other control variables considered to affect FDI, cross-border Greenfield investments and cross-border M&As. The results depend on types of entry: the informal economy has a positive effect on Greenfield investments and a negative effect on cross-border M&As. Two research questions arise from the findings of these studies (continuing from the previous section):

- Is there a positive relationship between the size of the informal economy and FDI and thus opportunities for tax evasion can have an impact on the location of MNEs (Ali and Bohara, 2017)?
- Is the impact of the informal economy on FDI depended on types of entry (Cuong et al., 2021)?

Another strand of the literature on the relation between the informal economy and FDI investigates the effect of FDI and institutional quality on the size of the informal economy. Goel, Ram, Schneider and Potempa (2020) use panel data for more than 100 countries and for the years 2006, 2007, 2011 and 2012 to investigate the effect of FDI (one of the independent variables of interest) on the informal economy (independent). The construction of the informal economy variable is based on shadow economy estimates and the results indicate that FDI increases the informal economy. Canh, Schinckus and Thanh (2020) investigate the influence of institutional quality and economic integration on the informal economy in 112 economies between 2005 and 2015. The measurement of the informal economy is also based on shadow economy estimates and the results indicate a strong negative impact of institutional quality and inward FDI on the informal economy. Huynh, Nguyen V., Nguyen H., and Nguyen, P. (2020) investigate the three-way linkages amongst FDI, informal economy and institutional quality in 19 developing Asian countries over the period of 2002-2015. The measurement of the informal economy is also based on shadow economy estimates and the results indicate that institutional quality (being not only the cause but also the consequence of the informal economy) and inward FDI help reduce informal economies through the channel of institutional improvement.

A third research question arising from the findings of these studies:

- is whether low institutional quality (for example high levels of corruption or lack of law enforcement) is necessary to maintain the opportunities for tax evasion (and the size of the informal economy)⁴.

3. Data, Hypotheses and Method

This paper investigates Greece's inward FDI determinants before and after the great crisis, and the role of the informal economy on Greece's FDI attractiveness after the Greek economy started to recover from the aforementioned crisis.

Data collected directly from MNEs operating in Greece via a questionnaire are used to achieve this aim. The questionnaire was based on the theoretical considerations of the Universal Model of FDI activity (Bitzenis and Papadimitriou, 2011) to meet this aim and was completed by upper management personnel during 2018-2019 (they were contacted by email/telephone and completed the questionnaire online). The questions concern the nature, performance, and goals of MNEs/subsidiaries and the factors favoring/discouraging inward FDI and the survey was administered in both English and Greek⁵. The factors ratings are according to a 5-point Likert-type scale, where 1 denotes not important, 3 means indifference, and 5 indicates that the factor is very important. The construction of the data sample was based on specific characteristics of MNEs or their subsidiaries to achieve representation and coverage. MNEs or their subsidiaries were selected from different types of industries according to their total investment size and number of employees.

The four hypotheses to be tested are based on the research questions arising from the literature review:

- 1) No differences in the perception of MNEs before and after the great crisis regarding motives of and barriers to invest in Greece.
- 2) There is a positive association between perceptions of MNEs about the size of the informal economy and main motives to invest in Greece.
- 3) The association between perceptions of MNEs about the size of the informal economy and main motives to invest in Greece is depended on types of entry.
- 4) The perceptions of MNEs about institutional quality are positively linked with perceptions of MNEs about the size of the informal economy.

Considering the positive macroeconomic trends of the Greek economy during 2017-2019 (before COVID-19 recession), it is interesting to appraise whether the impact of the great crisis in terms of economic adjustment has been perceived by MNEs upper management as a turning point in terms of inward FDI determinants and barriers. In pursuit of this objective, we display the findings of two previous studies on FDI determinants and barriers (Bitzenis et al., 2007; Bitzenis et al., 2009) conducted before the particular crisis, and compare them with the results from this study. The rationale for choosing to appraise hypothesis (1) through this comparison is based on the facts that:

- a) Bitzenis, Tsitouras and Vlachos (2007; 2009) evaluate primary collected data gathered from a questionnaire based on the theoretical considerations of (an earlier version of) the Universal Model of FDI activity (Bitzenis, 2003).
- b) The application of the Universal Model allows the observation of the role of variables not included in the analysis of other FDI frameworks (e.g. institutional, cultural, and political variables) and offers a common background layer for identifying differences and similarities.

With regard to hypothesis (2) the existence and sign of the association between perceptions of MNEs about the size of the informal economy and main motives to invest in Greece will be the criteria for testing it. The existence and sign of the association between perceptions of MNEs about the size of the informal economy and main motives to invest in Greece will be the criteria for testing hypothesis (3) in the cases of M&As and Greenfield projects respectively. The existence and sign of the association between the perceptions of MNEs about institutional quality and the size of the informal economy will be the criteria for testing hypothesis (4) in the cases of rule of law and corruption respectively⁶.

4. Results and Discussion

Table 2 presents the motives of MNEs operating in Greece. The first segment reports the results of Bitzenis, Tsitouras and Vlachos (2007): the perceptions of upper management personnel of 52 MNEs that had invested in Greece during 1995-2003.

The second segment presents the data collected from the questionnaire completed by upper management personnel of 243 MNEs located in Greece during 2018-2019. The findings of Bitzenis et al. (2007) confirm overall that before the great crisis, market and locational-seeking were first-order motives and were represented in the sample of 52 MNEs from determinants such as the expected economic growth, domestic household consumption, the Athens 2004 Summer Olympics, and economic relations with neighboring countries. Considering the magnitude of the Greek internal market vis-a-vis the country's euro area counterparts, the expectations for market expansion as a significant motive was primarily attributable to the preparation of the Olympic

Games. Excessive infrastructure investments materialized before the Athens 2004 Olympics provided a solid basis for future market growth. FDI in Greece during the pre-crisis period was also consumer-oriented (horizontal), particularly as a result of the hosting of the Olympics 2004, which formed a conducive business environment for augmenting final consumption. The perceptions of strong political and economic stability are the result of Greece joining the euro area at its initial stage and successfully organizing the 2004 Olympics. Greece was the most advanced economy of the South-East Europe and Balkans regions before the great crisis and endured extensive reforms, enough to achieve, at most, a nominal convergence with several EU members.

Resource-seeking were third-order determinants during the pre- great crisis period as denoted from the determinant of cost-competitive skilled labor which received merely 28.8 percent of positive responses.

A comparison between the two parts of Table 2 indicates that several key motives weakened significantly throughout the prolonged impact of the great crisis. The perceptions about the influence of motives before the great crisis, such as expectations for market expansion, stable governance, sound domestic macroeconomics policies, domestic household consumption, and domestic social cohesion have faded significantly. It is apparent that the 2004 Olympiad had solely an instant and temporary positive influence on Greece's economic growth and business environment. In fact, the 2004 Summer Olympics in Athens created an artificial euphoria both to government authorities and citizens which resulted to the absence for the need the regulatory improvement to be firmly on the Greek policy dogma, in order to inculcate to their citizens, the benefits of establishing efficient institutions in enhancing long-run economic development and the appeal of the Greek economy to foreign investors.

Most significant, Greece throughout the economic crisis endured deep social, political, and economic hardships because of disciplinary austerity measures, in order for the Greek economy to avoid bankruptcy, but all of those ultimately resulted in fading any chance of significant institutional change and is evident to manager responses that indicate a weakened confidence on institutional aspects, in terms of steadiness in the economy, politics, and society. Remarkably, in Greece, the extended economic crisis has not affected significantly the motive of "expected economic growth" to being important for FDI in Greece.

In general, this result seems quite reasonable attributable to the following observations:

- Firstly, most of the industries of the Greek economy have revealed chronically

robust signs of oligopolistic performance (Rezitis and Kalantzi, 2011) and is also evident in the sample from the motive “high-profit margins” that received 35.27 percent of positive responses;

- Secondly, over time the main bulk of FDI have been focused in introvert sectors, mainly in retail trade industry and in industries covering the flourishing regional market.

The findings similarly suggest that the prolonged impact of the great crisis triggered the exaggeration of the importance of the company’s ownership advantages as the primary motives of foreign investors in Greece. These ownership advantages and the search for competence and strategic resources are represented in the sample from motives such as “strong corporate identity in country of origin”, “competence of following existing clients into new markets”, “exploiting know-how and expertise”, “ability in shaping competition” and “high level of global presence”. It is interesting to note that the results for the post-crisis period locational factors attached to “geographical (physical) closeness to the European Union”, “strong corporate identity in country of origin”, “competence of following existing clients into new markets” and “economic relations of Greece with neighboring countries” has emerged as the primary motives for FDIs in Greece mainly due to the downgrading of the rest of determinants promoting FDI projects in Greece. Finally, the results imply that in the post- great crisis epoch, resource-seeking motives in terms of “accessibility to trained human resources” and “cost-competitive skilled labor” has slightly gained a momentum as factors promoting successful FDI projects in the Greek economy mainly to the labor market reforms of the recent years. The order of motives presented in Table 2 and the relevant preceding discussion, indicate significant differences in the perception of MNEs before and after the great crisis regarding motives to invest in Greece. This implication is against hypothesis (1). Regarding the factors discouraging FDI in Greece, the first segment of Table 3 reports the perceptions of upper management personnel of 52 MNEs that had invested in Greece during 1995-2003 (Bitzenis, Tsitouras and Vlachos, 2009). The second segment presents the data collected from the questionnaire completed by upper management personnel of 243 MNEs located in Greece during 2018-2019. Table 3 reveals that bureaucracy, the Greek taxation system, and corruption have been significant barriers to inward FDI in Greece, as well as instability of the legal system, and altogether form an unfavorable post- great crisis business environment in Greece. The great crisis result to the significance of barriers to inward FDI such as macroeconomic instability, downgraded credit rating of the Greek economy and political instability. Accordingly, the lack of financial resources reflects the effect of the imposition of capital controls on attracting foreign investors and the little progress that Greek banks have made in tackling non-performing loans. Other important factors indicating a hostile and uncompetitive business environment and the entrepreneurial culture operating in it are the business mentality of local people, the extensive size of informal economic activity, and the lack or the underdevelopment of infrastructure. In addition, rising unemployment rates – especially in the case of young people – registered extraordinary levels that gave rise to a ‘brain drain’ of Greek scientists and other professionals. That points to the augmentation of the significance of other barriers to inward FDI such as the lack of entrepreneurship and managerial skills which are evident mainly in the post- great crisis epoch.

Table 2: Motives of MNEs Operating in Greece

Before the great crisis (52 cases)			After the great crisis (243 cases)		
Description	%	Type of FDI Determinants	Description	%	Type of FDI Determinants
Prospects for Market Growth	86.50	Advantages of the Greek Market Market hunters	Geographical proximity to EU	59.34	Advantages of the Greek Market Locational Hunters
Political Stability	78.80	Advantages of the Greek Market Locational Hunters	Strong brand name in home country	56.43	Ownership advantages Exploiting the Ownership advantages
Economic Stability	76.90	Advantages of the Greek Market Locational Hunters	Ability of following the clients	53.53	Ownership advantages Market hunters from a strategic point of view
Market Size	61.50	Advantages of the Greek Market Market hunters	Links of Greece to other neighboring countries	50.21	Advantages of the Greek Market Locational Hunters
Social Stability	59.60	Advantages of the Greek Market Locational Hunters	Greek Climate	49.79	Advantages of the Greek Market Locational Hunters
Olympic Games 2004	57.70	Advantages of the Greek Market Locational Hunters	Expected economic growth	47.30	Advantages of the Greek Market Market hunters
Link to Other Neighboring Countries	55.80	Advantages of the Greek Market Locational Hunters	Exploiting Know-how and expertise	46.89	Ownership advantages Exploiting the Ownership advantages
International Pressures from Competition - Physical Presence in Different Countries	53.80	Ownership advantages Market hunters from a strategic point of view	Cultural similarities /closeness	44.40	Advantages of the Greek Market Locational Hunters
Any favorable regional trade agreements for surrounding countries (Setting up an export base)	42.30	Advantages of the Greek Market Hunters of Financial aspects	Ability in shaping competition	43.98	Ownership advantages Market hunters from a strategic point of view
Economies of Scale	40.40	Ownership advantages Efficiency hunters	High level of global presence	41.49	Ownership advantages Exploiting the Ownership advantages
To Avoid Double Taxation	38.50	Incentives Offered By The Greek Government Hunters of Financial aspects	Enforcement of the laws	39.42	Incentives Offered By The Greek Government Locational Hunters
Brand Name	34.60	Ownership advantages Exploiting the Ownership advantages	Availability of skilled workers	39.00	Advantages of the Greek Market Factor hunters
Low Cultural Distance	32.70	Advantages of the Greek Market Locational Hunters	Ability of following the suppliers	38.59	Ownership advantages Market hunters from a strategic point of view

Skilled Low-cost Labour cost	28.80	Advantages of the Greek Market Factor hunters	Stable legal framework	38.59	Incentives Offered By The Greek Government Locational Hunters
Follow The Clients	28.80	Ownership advantages Market hunters from a strategic point of view	Economies of scale	37.76	Ownership advantages Efficiency hunters
Existing Business Links	23.10	Ownership advantages Exploiting the Ownership advantages	Double-taxation avoidance, bilateral treaties, lower tariffs, elimination of quotas.	37.76	Incentives Offered By The Greek Government Hunters of Financial aspects
Risk Diversification (product, location sites)	23.10	Ownership advantages Efficiency hunters	Multinational experiences	36.93	Ownership advantages Exploiting the Ownership advantages
Acquiring the assets of an existing foreign corporation - Globalization	21.20	Ownership advantages Market hunters from a strategic point of view	Existing business links – Past trade experience	36.51	Ownership advantages Exploiting the Ownership advantages
Availability Of Finance	21.20	Incentives Offered By The Greek Government Hunters of Financial aspects	Low taxation rates	36.10	Incentives Offered By The Greek Government Hunters of Financial aspects
Investment Incentives of Law 2601/98	21.20	Hunters of Financial aspects Hunters of Financial aspects	Macroeconomic stability	35.68	Advantages of the Greek Market Locational Hunters
Free Trade Zones	19.20	Incentives Offered By The Greek Government Hunters of Financial aspects	High profit margins	35.27	Ownership advantages Market hunters
Follow the Competition	17.30	Ownership advantages Market hunters from a strategic point of view	Government stability	34.85	Incentives Offered By The Greek Government Locational Hunters
Cultural similarities /closeness	17.30	Ownership advantages Locational Hunters	Political stability	34.02	Advantages of the Greek Market Locational Hunters
			Favorable business climate	34.02	Advantages of the Greek Market Locational Hunters
			Potential for export activity	34.02	Advantages of the Greek Market Hunters of Financial aspects
			Availability of labor force	34.02	Advantages of the Greek Market Factor hunters
			Tax incentives	34.02	Incentives Offered By The Greek Government Hunters of Financial aspects
			Low cost of skilled labor	33.20	Advantages of the Greek Market Factor hunters
			Investment incentives	31.12	Incentives Offered By The Greek Government Hunters of Financial aspects

Note: Type of FDI determinants are categories of motives from Bitzenis (2003) and Bitzenis and Papadimitriou (2011).

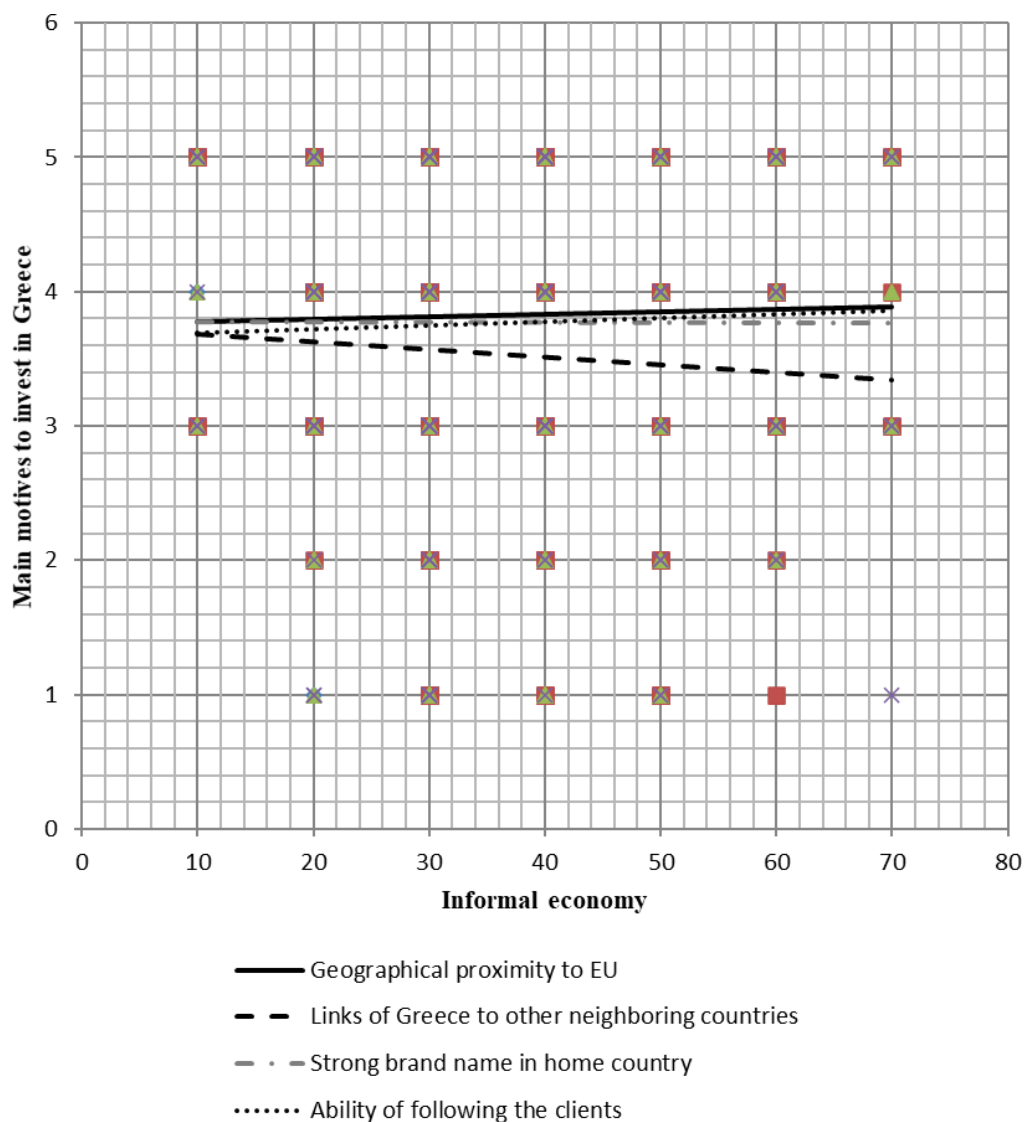
The order of barriers presented in Table 3 and the relevant preceding discussion, indicate differences in the perception of MNEs before and after the great crisis regarding barriers to invest in Greece (rising importance of several barriers). This implication is also against hypothesis (1). Policy makers should support trust and confidence by increasing incentives and lowering barriers to FDI in order to the level of doing business and attract substantial inward FDI.

Table 3: Barriers faced by MNEs Operating in Greece

Before the great crisis (52 cases)		After the great crisis (243 cases)	
Description	%	Description	%
Bureaucracy	86.53	Bureaucracy	81.74
Taxation System	71.15	Excessive taxation	80.91
Corruption	65.78	High Value Added Tax (VAT)	68.88
Corporate Tax 35%	63.46	Corruptive / Criminal practices	68.46
Labor Market Structure	61.53	Macroeconomic instability	68.46
Unstable Legal System	55.76	Lack of transparency	67.63
Poor Development Of Tecnology	38.46	Unstable legal framework	67.63
Lack Of Infrustructure	36.53	Lack of enforcement of the laws	66.80
Creation Of Jobs & Subsidies	26.92	Low credit rating of the country	61.41
Macroeconomic Instability	19.23	Political instability	58.09
Banking System	17.3	Underdeveloped business infrastructure	57.68
Poor Liberalisation	17.3	Lack of financial resources	56.43
Political Violence	17.3	No sound banking system	53.11
		Lack of entrepreneurship	51.87
		Business mentality of local people	48.13
		Negative attitude to foreign investors	46.89
		Slow pace / progress in the transition to EU	46.06
		Blackmarket / Informal economy	45.64
		Technological backwardness	45.23
		Low per capita income	43.57
		Lack of managerial skills	42.32
		Lack of infrastructure (telecoms, roads, networks, internet, etc.)	40.25
		Custom tariffs	38.17
		Social Instability	36.93
		Low labor productivity	32.37
		Repatriation of profits	32.37
		Uncertain or imprecise property rights	29.46
		Saturation of the Greek market	29.46
		Negative attitude of people towards privatization	28.63
		High level of unitization	24.90
		Cultural consideration constraints	23.24
		High crime rate (also high economic crime)	22.41
		Increase of limitations on the imports	22.41
		Problems in co-operation with locals (problematic joint ventures)	21.16
		Increasing inflation	19.92
		Preferences of locals to buy from local companies	18.67
		Lack of raw materials	18.67
		Undervalued/overvalued local currency	17.01
		Exchange rate volatility	13.69
		Other	3.73

The interrelatedness between the extensive size of informal economic activity and Greece's inward FDI is presented in Figure 2. The four main motives to invest in Greece representing over 50 percent of the 243 cases of MNEs or their affiliates operating in the Greek market are geographical proximity to EU, strong brand name in country of origin, competence of following existing clients into a new market and economic relations of Greece with neighboring countries. The main motives do not have a clear positive connection with the conceptions of MNEs about the magnitude of the informal economy. As such, hypothesis (2) is rejected.

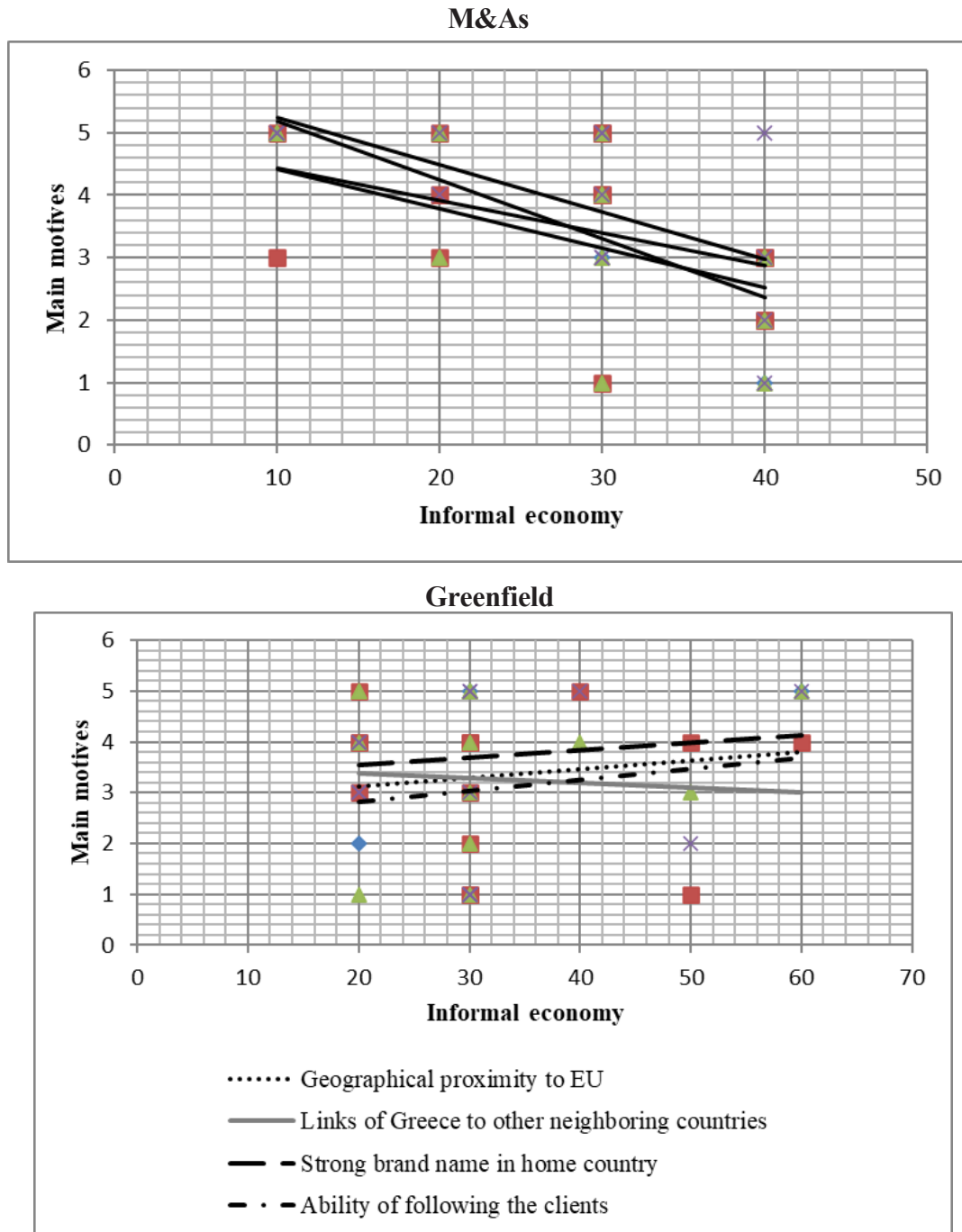
Figure 2: *Main Motives to Invest in Greece and the Informal Economy*



By looking into the relation between the four main motives to invest in Greece by types of entry and the perceptions about the size of the informal economy, a different outcome emerges for the case of Greenfield projects. Figure 3 indicates that for three main motives concerning Greenfield FDI there is a positive relation with (perceptions about)

the size of the informal economy. Thus, except from Greenfield FDI whose main motive concern links of Greece to other neighboring countries, the relation between FDI and the informal economy is differentiated for two types of entry, M&As and Greenfield.

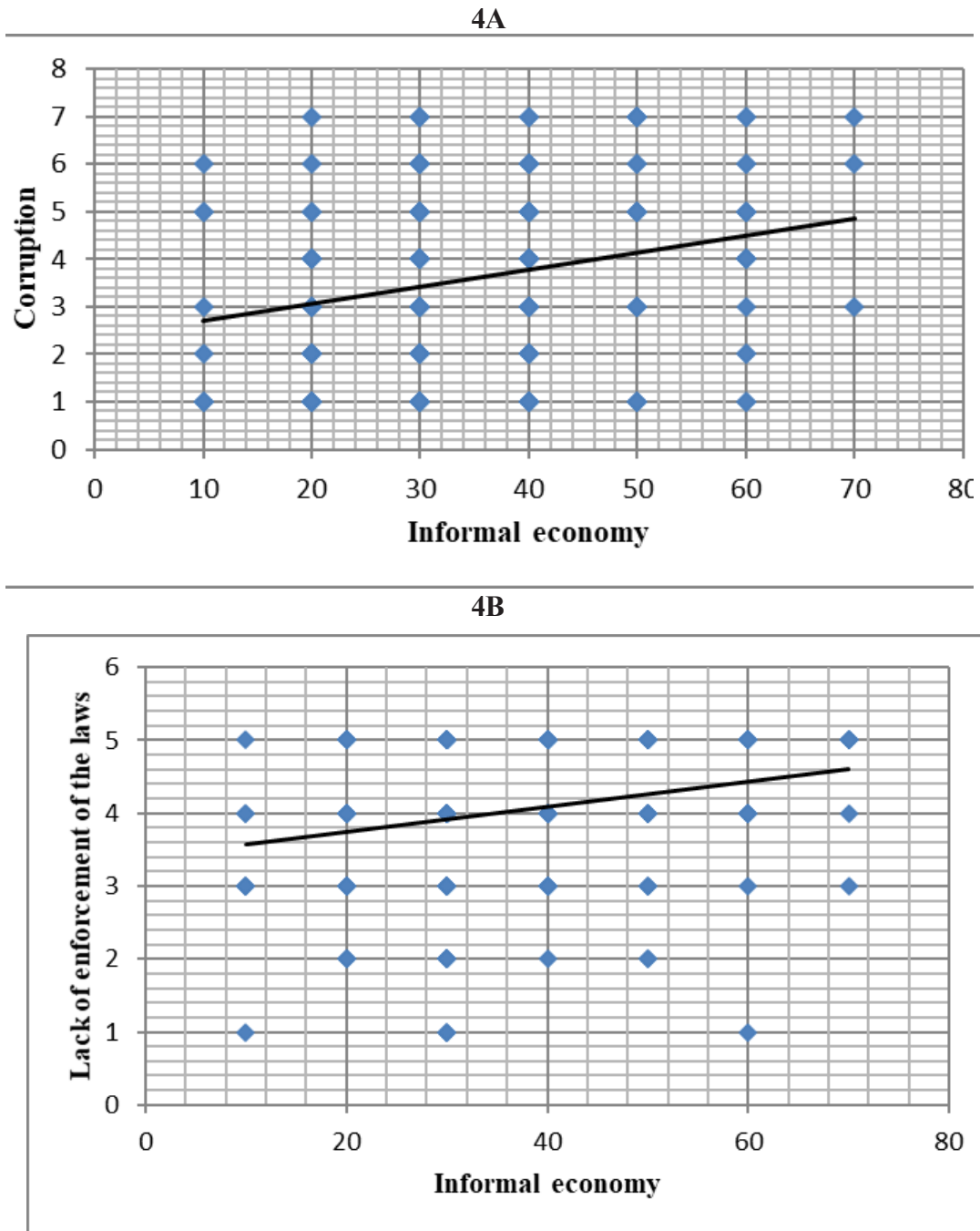
Figure 3: Main Motives to Invest in Greece by Types of Entry and Informal Economy



With regard to hypothesis (4), Figure 4 (A and B) presents that low institutional quality is positively linked with the extent of the informal economy. The findings are consistent with the conclusions of previous research on the positive relation about institutional quality and the extent of the informal economy. The acceptance of

hypothesis (4) and the finding that inward FDI is strongly correlated with the extent of the informal economy for certain types of entry, provide indications that tax avoidance possibilities does have an influence on the operations of MNEs operating in Greece.

Figure 4: *Institutional Quality and the Informal Economy*



5. Conclusion

The effects of the great crisis have been devastating across all Member States of the EU in terms of GDP, investment and employment, and even worst for Greece, which suffered from an unprecedented economic depression. Greece's return on the path of economic recovery in 2017 has been halted by the economic crisis caused by the COVID-19 pandemic. The significant decrease of investment and GDP in Greece caused by the economic crisis of late 2000s requires for immediate flows of productive investment in order to achieve strong economic recovery. The Greek recovery plan aims to improve competitiveness and boost private investment in order to achieve a V-shaped post-COVID-19 recovery. Evidence on Greece's position on the Investment Development Path indicate that inward FDI could be regarded as a source of productive private investment. Policymakers have to look into the factors determining or having deterrent effects on inward FDI and improve the conditions for foreign investors.

This study indicates differences in motives of and barriers to inward FDI in Greece before and after the great crisis and the role of the informal economy on Greece's inward FDI. It explores two unique samples of primary data on perceptions of upper management of MNEs (or their subsidiaries) operating in Greece. Data comparison reveals that only a few of the factors that favored inward FDI in Greece before the great crisis are considered important by the majority of cases post-crisis. This indication leads to the conclusion that there is no improvement made regarding the factors that boost FDI attractiveness. Nevertheless, there are still advantages that constitute motives for MNEs to invest in Greece (e.g. geographical proximity to EU, links of Greece to other neighboring countries, Greek climate and expected economic growth). The perceived location advantages indicated by this study may well be the value-added activities gained from the geographical expansion of MNEs in Greece.

The post-crisis role of the informal economy to Greece's inward FDI performance, as indicated by the main motives of foreign investors, depends on type of entry. The relation between inward FDI and the informal economy is differentiated for two types of entry, M&As and Greenfield, the latter indicating a positive relation. Moreover, the positive association of low institutional quality with the size of the informal sector indicates that tax evasion opportunities can impact positively on the activities of MNEs operating in Greece. Greece's low inward FDI performance and large size of the informal economy compared to

EU counterparts implies that MNEs operating in Greece either tolerate a hostile business environment (as far as the market imperfections occurring from the informal economy are concerned) or gain from their ability to operate in it. The findings on the relation between inward FDI and the informal economy in Greece could be related with the FDI Qualities Indicators measuring the sustainable development impacts of investment. Greece's inward FDI relates to employment and job quality, since MNEs tend to rely relatively more on temporary workers and have a higher prevalence of temporary workers compared to domestic businesses.

In addition, there is a negative association between inward FDI concentration and wages in manufacturing and the association is positive once services inward FDI is included (OECD, 2019, p. 91, p. 95). Temporary and informal employment is usually associated with income instability, lower wages, lack of social security, and social exclusion (Karabchuk and Soboleva, 2020). In addition, the segmented landscape of the Greek labor market, which has become more complex during the economic crisis,

links temporary with agency-mediated precarious employment (Maroukis, 2016). Policymakers should aim on the improvement of the social impact of inward FDI by prioritizing policies that aim to reduce undeclared work and promote inclusive growth.

Inward FDI also affects aggregate productivity and innovation capacity in Greece (OECD, 2019, p. 59-60). Greece has seen a positive shift in the relationship between inward FDI and innovation (the growth rate of business expenditure on R&D as % of value added), reflecting the presence of FDI in more productive and innovative sectors (e.g. transport equipment, chemicals, finance, communications). Greece has seen a negative shift in the relationship between inward FDI and the growth rate of labor productivity (value added per hour worked), reflecting the presence of FDI in lower-value added sectors (e.g. food, garments, healthcare, hospitality services).

Policymakers should aim on the improvement of the competitiveness of the Greek economy in order to attract inward FDI that would increase aggregate productivity.

Based on the evidence of this study, policymakers need to concentrate their efforts towards the improvement of Greece's investment attractiveness. Policies should be towards accommodating the key strengths of the Greek economy (as perceived by foreign investors): geographical (physical) closeness to EU, strong corporate identity in country of origin, competence of following existing clients into new markets, economic relations of Greece with neighboring countries. Policies should also be towards improving the key weaknesses of the Greek economy: battling bureaucracy and corruption, decreasing the burden of taxation, and improving the level of institutional quality. In that sense, the Greek recovery plan should be seen as the opportunity to adopt a strategy which endorses reforms towards building a sustainable and competitive Greek economy.

Policymakers should, along with developing anti-corruption tools, encourage citizens to report corruption to specialized authorities and support programs and public awareness campaigns that aim to create a culture of integrity and zero tolerance for corruption. The reduction of corruption in Greece can lead to increased FDI attraction, while strengthening its GDP. Greece has many investment opportunities to offer as far as geographical expansion strategy of MNEs is concerned. It offers green investment opportunities because of its climate and geographical position. Furthermore, a foreign investor could deploy the highly skilled workforce that Greece provides at a lower cost comparatively with other EU countries.

Limitations of this study concern features of its sample, which accounts only for the perceptions of foreign investors, and perceptions of upper management of MNEs (not actual observations/data). Further research should be on the investigation of micro-level data regarding the relation between inward FDI and the size of the informal economy. In addition, further research should be on FDI attractiveness of the Greek economy via the lens of the Uppsala model (Forsgren and Johanson, 1975): Whether the more experienced are also the more distant (in physical and cultural terms) MNEs that expand to Greece, and accordingly, the less experienced are also the less distant MNEs that expand to Greece. Further research through the lens of the Uppsala model could clarify the role of cultural distance found in this study.

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Notes

¹ For a discussion see Vlachos and Bitzenis (2019).

² Own calculations from Eurostat data on Greek GDP loss (chain linked volumes) during the period 2008-2016 (in terms of GDP in 2007) and on GFCF loss (chain linked volumes) during the period 2008-2019 (in terms of GFCF in 2007). The reader may refer to the work of Bitzenis et al. (2013) for a review of the causes, expansion and impact of the triple (economic-banking-sovereign debt) crisis in Greece.

³ The objectives and strategy of the Greek Recovery and Resilience Plan are available at https://primeminister.gr/wp-content/uploads/2021/03/Greece-2_0-April-2021.pdf (accessed on 25 May 2021). For a discussion on Greece's competitiveness-led economic growth see Vlachos and Bitzenis (2022). Recovery through inward FDI flows is falsely perceived to be hindered by labor costs (Bitzenis and Vlachos, 2016). In view of the merits of Public-Private Partnerships (PPPs) in financing sustainable development (Sergi, Popkova, Borzenko and Przhedetskaya, 2019) and the critical role of clusters and technological parks in economic growth (Sergi, Popkova, Bogoviz and Ragulina, 2019), the Greek Plan intends to mobilize private sector resources through PPPs and link important economic clusters.

⁴ The findings of previous research indicate a negative effect of low institutional quality on direct investment in Greece. For example, corruption has a negative impact on R&D investment (Vlachos, 2022) and farmers' participation in Rural Development Schemes (Micha, Areal, Tranter and Bailey, 2015).

⁵ The questionnaire is available at https://docs.google.com/forms/d/e/1FAIpQLSfUSBbI_8AnVdLzEU6GFJLuo3dj1RHMy1N3qGOMOkbA5wRuhg/viewform (accessed 31 August 2020).

⁶ The reader should note that the data collected reflect the perceptions of upper management. It is not possible to perform a regression analysis because inward FDI cannot be treated as a dependent variable (for example, only the perceptions of foreign investors are recorded) and the degrees of freedom (for example, number of cases is 243 and number of variables > 60).