Stavros S. Niarchos Research Fellowships 2005-6

Grants for Field Research on Post-Classical Greece

Research Report

Theodore Papageorgiou

The purpose of my research project is to analyze the impact the introduction of the euro had on both foreign direct investment (FDI) outflows and inflows of Greece. However published databases on international FDI flows (OECD, UNCTAD) contain surprisingly few observations on FDI flows to and from Greece. In order to complete this project I traveled to Greece this summer in order to collect data on the missing observations. The Hellenic Studies Research Fellowship was instrumental in the completion of this project by covering my travel expenses, as well as living expenses, while I visited various institutions and talked to several specialists.

My search for these observations began at the Ministry of Economics, where I believed I had the best chance of success. However after going through several offices, departments and buildings I was informed that the Ministry did not collect such data, but only data pertinent to the investments of Greek firms in the Balkan area. I was advised however to inquire at the Hellenic Center for Investment (ELKE).

ELKE is the Greece's agency that is responsible for promoting, attracting and supporting foreign direct investment into Greece. It also conducts its own research and has its own dataset. However the data I was looking for is not available online. After a couple of visits to ELKE's offices I was able to get in touch with the center's Research and Analysis Manager, Dr. Ioannis Sartzis. He proved to be very helpful and was able to provide me with data on Greece's inward and outward stocks of FDI from 1997-2003. This data is not exactly what I was looking for, since my main project is concerned with FDI flows rather than stocks, but in principle one could back out flows from stocks. However, as Dr. Sartzis pointed out, it is not clear what an appropriate depreciation rate should be, since the data refers to all types of investment, from buildings to computers and moreover some of the movement in FDI stocks reflects changes in the company's stock price, rather than changes in the flows.

I then decided to continue my search at the Bank of Greece. Indeed as Dr. Sartzis and others informed me, the Bank is the most extensive source of data on Greece's economic activity. I sought out to find an old contact of mine at the Bank, Dr. Gibson who is the Head of Special Studies Division at the Economic Research Department and she informed me that the Bank's experts on FDI are Dr. Andreas Karapappas and Dr. Evangelos Pantelidis, who I was able to contact after several attempts. Especially Dr. Karapappas was extremely helpful: he ran several searches in the Bank's database and compiled a dataset that contained observations on Greece's FDI outflows, from 2000 to 2004 to 32 developed countries. He also informed me that observations for years prior to 2000 were either unavailable or contained considerable measurement error and thus were not reliable. Although I am not able to apply some of the methods developed in my research to this dataset due to its lack of time variation (too few observations before the euro was introduced), it does contain considerable cross country variation (several countries both within and outside the euro zone).

Indeed there does seem to be some effect of the euro's introduction on FDI outflows. Although total FDI flows decreased significantly after 2000, this is mainly due to the large outflow of investment to the United Kingdom in that year (almost 80% of the total). Investment in the UK falls by an order of magnitude in the following years and part of it is diverted to countries that did adopt the common currency (France, Germany and the Netherlands). Investment to other countries outside the euro zone also declined significantly, as is the case for investment to the US, which fell by almost half by 2004.

The results so far seem promising and more formal analysis is warranted. Moreover the experience I acquired while talking to several experts in the field is invaluable in my future research endeavors in this area. I would like to thank the Stavros S. Niarchos Foundation for its generosity, which made this project possible.