

## The Business Cooperation in the Serres-Bulgaria Region and Consequences of Bulgaria's Accession to the EU

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**Abstract:** This paper refers to business cooperation in the cross-border region of Serres (Greece)-Bulgaria and the impact of the integration of Bulgaria to the EU in the region. Based on literature results on the impact of EU enlargement, especially in border areas, we present results of a primary research held on companies in the Serres Prefecture, designed to assess cross-border business cooperation and the impact on the region from the accession of Bulgaria to the EU. A low degree of extroversion and international orientation of business from Serres is found, although Bulgaria's accession to the EU had a positive impact in their decision for making business in the neighbouring country. A positive effect is recorded in financial results of enterprises, which explains the high degree of satisfaction. An assessment of the significance of obstacles on behalf of the businesses shows that competitiveness, at least for now, operates stronger to the benefit of the Bulgarian side and less towards the side of Serres. A gap is recorded when assessing the impact on Serres from the EU-Bulgaria integration and the opportunities created in the area, respectively.

**Key words:** business cooperation; Serres; Bulgaria; EU enlargement

**JEL codes:** F02, F59

### 1. Introduction

This paper considers inter-border business cooperation in the area of Serres (Greece)-Bulgaria and the consequences from the EU-Bulgarian accession to the region. Based on literature results on the impact of EU enlargement, especially for border regions, we analyze secondary data from the economic cooperation between Greece and Bulgaria and in particular on the business cooperation in the border area of Serres-Bulgaria. We present the results of a primary research in businesses from the area of Serres Prefecture. More specifically we investigate: characteristics of businesses from Serres, inter-border business cooperation and how it was affected by the Bulgarian integration to the EU, sectors of cooperation, opportunities and obstacles faced by businesses, level of satisfaction from this cooperation so far and general consequences on the region after the EU-Bulgarian accession.

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## 2. Theoretical Framework—Literature Review

Regarding the issue of eastward enlargement of European Union (EU), a series of literature reports focus on possible gains and losses. A number of older member states have been raising the view that such an enlargement would mean high costs for the EU. Many old Member States raise directly the view that the expansion would mean high costs for the EU. There was a fear, mainly from receivers of transfer payments, that their share from Community funds and agricultural subsidies would be highly reduced after the accession of new countries. Those fears were reinforced after the position of net payers, who through Agenda 2000 limited the EU budget raise (EU-Commission, 1999). Given the frozen community subsidies, net receivers faced important cuts in community fund inflows but nevertheless agreed to EU enlargement.

The actual cost of the enlargement does not only come through difficulties from the limited budget. Since this enlargement would result in a differentiation on the decision making manner, small member states expressed reservations since they were losing a strong weapon on forming majorities in the EU institutions (Baldwin, 1995, pp. 474-481; Hosli, 1993, pp. 629-643; Johnston, 1995, pp. 245-288; Widgren, 1994, pp. 1153-1170). Some states would not accept the political heterogeneity within the EU, which would be further increased so they would lose an important part of their political-state autonomy (Alesina et al., 2001; Ruta, 2005, pp. 1-21). The above costs were gradually equilibrated, since the new Member States were stabilized politically and economically and thus contributed to the creation of conditions of stability and security in Europe. Economic benefits would be derived for the old members through the growth of the common market. Potential gains would also come by the fact that the enlargement would reduce exterior adverse effects, increase the political influence of old members to new members (Brou & Ruta, 2004, p. 8) and will contribute to the dissemination of international regulations and values (Fierke & Wiener, 1999, pp. 721-742; Sjurson, 2002, pp. 491-513).

According to the first intermediate report from the European Commission on the effects of the enlargement to EU policies, the first consequence will be the expansion of the single market from 370 to about 455 million consumers. As seen in the second progress report on economic and social cohesion, the average being of prosper in Central-East European Countries (CEEC), expressed in gross domestic product (GDP), still stands well below the respective one of current Member States. The area and population of the EU will increase by one third, while the GDP by only 5%. On 105 million people living in these countries, more than 98 million are in regions with GDP per capita lower than 75% of the EU average in the enlarged EU (European Commission, [http://www.europa.eu/legislation\\_summaries/enlargement](http://www.europa.eu/legislation_summaries/enlargement), 2004; 2007).

Some studies addressing the effects of European enlargement to the CEEC, revealed the following findings. Gasiorsek, Smith and Venables (1994) showed that the enlargement of the EU will lead to a growth of the European economy by 0.5%-0.8% of GDP. Baldwin, Francois and Portes (1997) studying the impact of EU enlargement with seven countries (Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia), assessed the net benefits of income growth in the new Member States by 18%, while for the EU-15 only by 0.2%. Brown et al. (1997) found that the final result of the integration will be positive for all CEEC (Hungary, Poland, Czech Republic, Slovakia) and will lead to higher economic growth of 5.6%-7.3%, while the benefits to old EU Member States will be minimal (0.1%-0.2%). Lejour, de Mooij, Nahuis (2001) concluded that trade would increase from 34% to 249% as a result of European integration, but without this having a positive impact on all sectors. The same researchers (2002) attempted to assess the impact of EU enlargement with the CEEC (Poland, Hungary, Czech Republic, Slovakia, Slovenia, Bulgaria, Romania) and concluded that these countries benefit

from trade liberalization by 6.7%, while the EU-15 benefits only by 0.6%. Keuschnigg and Kohler (1997; 2000) showed that the enlargement will reduce the actual cost of trade by 5% to 10%. The European Commission (2001) hoped that positive results would be of the order of 0.5%-0.7% of GDP for the existing EU countries and from 1.3% to 2.1% for new entrants per annum (Siokorelis B., 2011, pp. 9-15).

A paper that addresses the issue of economic integration and spatial inequalities in the international distribution of production, reports that low cost of setting up and easy entry of businesses seems to be determinant of entrepreneurial dynamism in international spatial decisions and the financial performance generally. A "business deficit" because of complicated and expensive procedures for entry, can be a major disadvantage for a country, destroying in the long-term economic growth (Kristian Behrens, Jacques Francois Thisse, 2006, pp. 868, 878-879).

Regarding internal market and cross-border trade, enlargement has the potential to stimulate the internal market to a much greater extent than any benefits which might come from the removal of existing obstacles. Transactions between current and future Member States have already risen rapidly, recording more than eightfold increase between 1995 and 2000. However, economic models suggest that despite these increases, exports from the future Member States could almost double, even at current levels of development. In a proposal of directive by the European Commission (2004) regarding services in the internal market (IP/04/37 and MEMO/04/3), it is noted that reducing bureaucracy, encouraging cross-border economic activity and boosting competition, enlargement will increase choice, improve quality and reduce prices for consumers and for businesses that use services. The European Commission launched the Action Plan on "Modernising Company Law and Enhancing Corporate Governance in the EU" (IP/03/716 and MEMO/03/112). This initiative, will help companies to operate effectively in the internal market and boost confidence in the capital markets, the recent corporate scandals (European Commission, 21/01/2004).

Trade liberalization between the EU and the CEEC has promoted the intensification of bilateral relations. From the results of a gravity model, developed in order to investigate the factors that affect global and sectoral trade flows between CEEC and between the CEEC and EU countries, it is shown that geographical and economic factors must be taken into consideration when forecasting process of trade after the impact of enlargement. Another conclusion is that in time depth, despite the strengthening of the EU-CEEC, empirical analysis suggests the existence of potential for further improvement of trade relations, mainly because of economic growth in the new Member States. It is possible to conclude that trade within the CEEC will continue to grow faster than between the EU and the new members. This can be mainly seen as a consequence of industrial strategic positioning of Western multinationals, which have led to the emergence of flows between CEECs. Trade flow will tend to increase as income levels converge, the structures of demand will be similar and international production networks will be extended (Caetano José, Galego Aurora, 2006, pp. 83-84).

A research aiming to compare the countries of SE Balkans and highlight the business climate, intra-regional trade and investment, shows that: (1) Despite significant differences in socio-political developments in the last 100 years, Bulgaria, Greece, FYROM, Romania, Serbia and Turkey seem to compose in many aspects a common economic space in the level of overall economic development, in the similar problems they face in their economy and substantially similar development levels of competitiveness. (2) In intra-regional trade and investment activities, the potential for regional integration and economic development are under-used at best. (3) Regarding future enlargement of the EU, intensified regional cooperation will certainly boost competition and improve the overall competitiveness of the region as a whole (Zashev Peter, 2008, pp. 16-17).

Reasons that advocate for the development of regional trade in the Balkans are associated with the geographical proximity of the countries and minimal transportation costs, the impact of regional multipliers of exchanges, the certain development of internal and external economies of scale, the sectoral composition of the exchanges, and the need for cultivation and consolidation of a climate of stability, security and cooperation (Petrakos G., 2000, pp. 100-102).

Greece is among the small and peripheral countries of the OECD, which have had many advantages of open markets of Eastern Europe and Greek businesses have evolved in dynamic foreign investors in the region (Demos A., Filippaios F. et al., 2004, pp. 330, 342). The reasons that attracted Greek companies in the Balkan countries are: Low labour costs, compared with that of Greece and other developed countries of the EU, geographical proximity and reduced transport costs, lower tax rates in host countries, in relation to those existing in Greece, opening of new markets and lower-intensity competition compared with the mature and developed markets, etc.

Together with the expansion of Greek business in the Balkans, a discussion was simultaneously launched on implications for the economy and employment. It has been suggested that the transfer of production activities to neighbouring countries is not destruction. It can become the basis for strengthening of the economy and that the choice is not between whether these activities will stay in Greece or transferred abroad, but between whether to discontinue altogether or transferred to a neighbouring country. Positive effects could be reported as strengthening business migrate, their survival through the restructuring of production and the exploitation of economies of scale (Thomopoulos P., Bank of Greece, 2004). It is also argued that despite the loss of jobs from businesses suspending their operation in Greece, the Greek inter-border expansion of business has many positive aspects. It is a healthy business growth, generate profits that to a high proportion are reinvested in Greece and abroad and increase the employment of skilled Greeks. It therefore leads to the restructuring of employment in high productivity jobs and has long-term benefit for the Greek economy (Eurobank, 2006). At the same time negative consequences of the transfer of productive activities and investments in the Balkan countries are highlighted, particularly those from trade unions of workers. They support that productive investments in Greece are significantly reduced, job offers are shrunk more and more and the level and quality of life in the country is negatively affected.

The up to now dominant view on positive results for the countries of origin of investment, is faced with scepticism and emphasis given to multiple rather unambiguous consequences for countries of origin. More specifically, multiple consequences on the balance of payments are reported (substitution of investment or consumer spending inland, reduced foreign exchange reserves of the country of origin, but also future potential income stream, etc.) and employment (increase of unemployment, particularly in the sectors affected, but creation of new jobs in related industries and support services). In this more general problem of multiple effects business characteristics of the country of origin should be taken into account, which in the case of Greece these are firms with low added value and, for this reason, there is a questioning on the view that Greek investments in the Balkans will automatically favour the Greek economy (Labrianidis L., 2000, pp. 374-376).

Having 2008 the starting year of the economic crisis as a reference point, Greek exports goods to Balkan Countries (BC) note a decrease in 2009 in almost all countries. In 2010, compared to 2007, Greek exports fall more toward BCs and less to the EU and to the world. During the same period, the decline of Greek imports from the EU and the world goes on, while the BC imports appear slightly increased. The trade balance of Greece with more BCs, including Bulgaria, is in surplus, while since 2008 there is a decrease in this surplus. The volume of Greek trade with most BCs is reduced, but to a lower degree than the corresponding one with the EU and the rest of the world. The lower degree of reduction in the volume of trade with the BCs, compared to the EU seems to be

due to geographical proximity and the lower degree of trade integration between Greece and BCs than with the EU. The terms of trade between Greece and most BCs, although deteriorated, remained favourable for Greece, while the terms of trade between Greece and the EU and the world as a whole are unfavourable for Greece and deteriorated further (Magoulios G., Chouliaras V., 2012).

During the period of the last thirteen (13) years, the amount of total Foreign Direct Investments in Bulgaria (FDI) is estimated at €35.9 billion. EU countries participate with 84.7% of total investments and 87.9% in FDI inflows in 2010. The first four countries to invest, the Netherlands (€7.4 billion), Austria (€5.4 billion), Greece (€3.2 billion) and the United Kingdom (€2.7 billion), contributed more than 50% of the total capital invested in the country. According to data from Invest Bulgaria (State Agency for Investments), Greece is second after Russia in direct investment in the country since an important part of the influx of investment capital Greek business comes from Luxembourg (where they are established). During the decade 2000-2009 Greek investments in Bulgaria amounted to 3,387.4 million Euros. After 2005 and in view of the accession of Bulgaria to the EU, there is a significant growth in Greek, with the largest increases occurring in 2007, the year of Bulgaria's accession to the EU. In 2009 there is a significant decline due to the economic crisis (Central Bank of Bulgaria, BNB).

With respect to tourism, the dynamics of arrivals of Bulgarian nationals in Greece are generally formed in a similar manner as trends over time in total arrivals of foreigners in Greece, but also show some interesting differences. After 2004 and until 2007 there is a continuing upward trend in arrivals of foreigners generally (32%), more pronounced especially for Bulgarian nationals (150%). During the period of 2008-2010 the total arrivals of foreign and Bulgarian nationals in Greece gradually reduced, mainly due to the economic crisis. In the following period of 2009-2011, a gradual increase of the Bulgarian visitors reappears, in contrast to the observed downward trend in total international tourist arrivals. The above substantiates the conclusion that a consolidated steady upward trend in mobility of Bulgarian nationals to Greece exists, with a peak in visits in the year of the accession of Bulgaria to the EU. The cross spatial and economic dependencies, which began to be created between Greece and Bulgaria from the beginning of the 2000s, continue to deepen and seem to resist the negative effects of the economic crisis. The above conclusions are reinforced in the relations between Bulgaria and Serres. The spatial proximity and interaction is more intense, communication through the border of the Promahon and the vertical axis of Egnatia become more direct. The geographical triangle Serres-Sandanski-Petrich is a growing financial, business and tourist border region, with the notable contribution of Greek investors and visitors (Magoulios G., Notopoulos P., Papayannakis A., 2012).

### **3. The Business-investment Environment of Bulgaria and Business Cooperation in the Cross-border Region of Serres**

In Bulgaria, after the tax reform of 2007 the target of boosting entrepreneurship and ensuring a transparent and workable tax system was set, in accordance with Community law. The progressive tax scale for individuals was replaced by a single rate (flat tax) of 10%, which applies to the taxation of companies. Moreover, further tax exemptions for businesses were applied, for companies who have invested in deprived locations (where unemployment is significantly greater than the average term in the country) like: up to 100% exemption of the corporate tax, reduction in the corporate tax on the value of fixed investment, deduction from of wage and employer contributions earnings (12 months) for businesses that recruit unemployed, exemption of corporate tax for business executing technical cooperation programs, funded by Community programs PHARE and ISPA.

According to current investment legislation, investments in Bulgaria are divided into two categories, according to their budget. The first category includes investments: over 32 million leva (€16 million), or over 16 million leva (€8 million) in an area where unemployment exceeds the national average or in connection with high technology in the industrial sector and over 11 million leva (€5.6 million) for high technology in services. The second category includes investments: over 16 million leva (€8 million) or more than 8 million leva in areas where unemployment is higher than the national average or in connection with high technology in the industry and over 5.5 million in high technology in services. Investment incentives include: shortening procedural formalities, privileged administrative approach, privileged treatment for obtaining public and municipal property, financial assistance for infrastructure projects and financial assistance for training of staff up to 29 years old.

During this period, three industrial zones operate in Bulgaria: Free Zone Ruse, Free Zone Vidin and Free Zone Svilengrad, the latter near the border with Greece and Turkey. These zones offer a variety of services and facilities to traders, who choose to settle in them, in order to attract foreign companies. Furthermore, six (6) Free Trade Zones operate under Holding Company Capital (Joint-Stock Companies) which lie on important for the country locations. Specifically, they operate in the Danube ports of Vidin and Rousse and in cities Dragoman (near the Bulgarian-Serbian border), Svilengrad (near the Bulgarian-Turkish and the Greek-Bulgarian border), Plovdiv (Bulgaria's second city) and Bourgas (important port on the Black Sea). As a general rule the input products in FTZ are excluded from taxes and VAT. Facilities and services related to general commercial activities are also provided with, such as storage, packaging, re-export, customs clearance etc.

Regarding the wage system, the minimum monthly salary, after the latest increases (from 01.01.2009 with a renewable effect from 01.01.2010), is levelled at 240 leva or €23. According to comparative data by Eurostat, wages in Bulgaria represent only 36% of the national GDP (among the lowest in Europe), and the average monthly household income falls by 8 times the average of the EU Member States (Greece Embassy in Sofia, 2011, pp. 5-11, 14-15).

The main economic agreements signed between Greece and Bulgaria are: Agreement for the avoidance of double taxation with respect to taxes on income and capital (Athens 15.2.1991, law 2255/1994); Agreement on the waters of river Nestos (Sofia, 22.12.1995, law 2402/1996); Agreement for the opening of three new border crossings and connecting roads between the two countries (Sofia, 22.12.1995, law 2428/1996); Cooperation Agreement in the field of tourism (Sofia, 14.05.1999 law 2851/2000); Agreement for cooperation in the postal and telecommunications services (Sofia, 17.07.2001, law 3042/2002); Protocol of Scientific and Technological Cooperation (Athens, 01.12.2002); Agreement on five-year development cooperation program (Sofia, 28.08.2008, law 3095/2005); Agreement in the field of environmental protection (Athens, 01.11.2002, law 3367/2005); A series of bilateral agreements were signed within the Supreme Council of Cooperation between Greece-Bulgaria (Sofia 27.07.2010), including transportation, energy, tourism, agriculture and economic cooperation (Embassy of Greece in Sofia, 2011, p. 30). The Greek Plan for the Economic Reconstruction of the Balkans (HIPERB) (law 2996/2002).

The Prefecture of Serres is described as a microenterprises economy. Based on human geographical and economic elements of Serres, agriculture is a fundamental activity that indirectly maintains purchasing power of almost the entire population. Moreover, local market is in worsening recession due to the reform of the Common Agricultural Policy (CAP) and the relocation of craft enterprises in Bulgaria. Local businesses are generally not considered as high technology units or expertise, have a low level of innovativeness and low added value, while the existing number of shops cannot create jobs, which could increase local income. Serres is relatively isolated,

since it lies relatively far from an airport or a port. So the city bears additional transport costs, which discourages any interested investors to come to the area. The intensification of price competition at the local level has negative effects on the local market, as many Greeks are visiting markets in Bulgaria (with controversial benefits for those mobile consumers). In this context, price competition as a factor shaping investor sentiment comes from Bulgaria. The main obstacles in the development of Greek-Bulgarian border business are: inadequate transport infrastructure, lack of decentralization mechanisms in Greece and especially in Serres, difficulties in business financing and incompatibility between the legislative systems of the two countries. Furthermore, the socio-economic difficulties faced by the local population on both sides of the Greek-Bulgarian border, do not favour the development of cross-border relations (Chamber of Serres, Interreg 2000-2006, pp. 141-144, 148-152).

According to the National Confederation of Greek Commerce (ESEE), relocation of Greek enterprises and “migration” of consumers, especially those residing in border areas, is a negative development. More than 1,500 manufacturing and services firms have already relocated to neighbouring countries, while the number of Greeks who travel every day in the border areas of neighbouring countries for their markets is alarmingly rising and is estimated to exceed 600,000 monthly. One (1) out of four (4) trade businesses in border areas has been closed. Border illegal trading and smuggling plague regions of Macedonia, Thrace, Northern Aegean and Dodecanese. According to calculations of Trade Associations remote areas, more than 500 million Euros flow annually to Bulgaria, FYROM and Turkey for purchase of consumer products (ESEE, 2011).

According to a survey from the Commerce and Industry Chamber of Serres (EVES), the shops of Serres and the surrounding area bleed. Thousands of Greek consumers opt in recent years to make their purchases in Sandanski, Petrich, Blagoevgrad and other Bulgarian cities, due to short distance and low prices in the neighbouring country. This development has resulted in steadily declining turnover of stores of Serres, while many of them have closed in Serres and the broader region. According to a relevant research at Promahon Customs, the average trips are about 11,000 people per week and 572,000 people per year. In particular, annual movements of residents of the broader Serres area is estimated at 448,705. According to the same survey, the average consumption per person is 186 Euros, so the total annual turnover of Bulgarian companies from selling goods to customers in the wider area of Serres, stands at about 83 million Euros (EVES).

A relevant research is examining the export activity of businesses (23) of Serres, having export activity in the Balkans, reports, among others, the following findings. Regarding the sector, most firms (39.1%), are active in food and beverages, followed by trading (23.1%), agricultural products (13%) and machinery (13%). Regarding the countries of destination of exports, 65.2% export to Bulgaria due to proximity small distances to this specific country. Regarding the time period of the start up of exports, most (30.4%) started in 2005, considering the prospect of accession of Bulgaria to the EU. The reasons why companies choose the country of export are ranked as follows: geographical proximity (39%), transport costs (35%), low levels of competition on export markets (30.45%), etc. (Anastasiadou A., 2011, pp. 73-80).

## **4. Empirical Research-Results**

### **4.1 Methodology-sample Characteristics**

Our empirical research regards a primary research on a sample of four hundred (400) companies in Serres Prefecture, representative regarding sectors and based on the registry of members of Commerce and Industry Chamber of Serres. Regarding the method of data collection we used a structured questionnaire, supplemented

with personal interviews of representatives of businesses (01.11-20.12/2012). The questionnaire consisted of three sections, the first include generic company data and respondent questions (11 questions), the second section included cross-border business cooperation (15 questions) and the third section included sections on the impact of the accession of Bulgaria to the EU (13 questions), to a total of 39 questions. Statistical analysis of quantitative survey data was done with SPSS software.

On the legal form of companies surveyed, the majority (77%) are sole proprietorships, 12.5% are general partnerships, 8% SA's and few have the form of Limited Partnerships (1.3%) and LTDs (0.8%). Trade and services are the two most important sectors in which the domestic market is active with the majority of enterprises with percentages 38% and 33% respectively, followed by manufacturing (20%) and constructions (9%). Most companies (84%) were founded after 1985 and the founding years are divided almost equally into three periods 1985-1994, 1995-2004 and 2005-present, with rates 27%, 28% and 29% respectively. Regarding the characteristics of the respondents, business representatives were overwhelmingly males (72%), while only 28% were females. The interviewees are mainly secondary school graduates (41%) and tertiary let education (38%), followed by primary school graduates (17%), while very few hold postgraduate degrees or PhDs (5%). One third of business representatives surveyed are 36-45 years old (34%) and one third is 46-55 years old (33%). The other age groups represent the remaining third of the sample, while 21% are under the age of 35 years old and 12% are older than 55 years old.

## 4.2 Results of the Empirical Research

Out of the total of four hundred (400) companies surveyed, only fifty-five (55), approximately 14% have taken action so far in the market of Bulgaria, while approximately 86% have not yet developed any business activity in the neighbouring country (Table 1). A low degree of international orientation and openness and a deficit in exploiting potential for business activity in the Bulgarian market by enterprises of Serres is evident. This fact seems to confirm relevant results in the literature, according to which in intraregional trade and investment activities in SE Europe, the potential for regional integration and growth is under-used, at best.

**Table 1 Has Your Company Been Active in Bulgaria So Far?**

	Count	Percentage
Yes	55	13.7
No	345	86.3
Total	400	100.0

Source: all tables come from the findings of the primary research.

The most intense business activity in Bulgaria is seen during the seven years period of 2006-2012, with a 53% of businesses stating that their activities began during that period, apparently due to the inclusion of the neighbouring country in the EU, but also because of the recent economic crisis. It is worth noting however, that the activity begins to develop during the five years period of 2000-2005 for a 20% of companies, probably because of the accession of Greece to the Eurozone. The remaining 27% of companies maintains business relations with Bulgaria from the decade of 1990 to 1999 (Table 2). It seems that the accession of Bulgaria to the EU had a positive impact on business decision for activity in the region, since the majority of them started this activity during the period just before and after accession.



**Table 2 If Yes, Your Activity Began during the Time Period**

	Count	Percentage
2006-2012	29	52.7
2000-2005	11	20.0
1995-1999	7	12.7
1990-1994	8	14.5
Total	55	100.0

As part of the investigation we requested by the fifty-five (55) companies active in Bulgaria to rank seven (7) specific reasons that encourage business development in the neighbouring country, in order of priority. From the results of this ranking, depending on the rates of preference of enterprises in the grading scale 1-7 and based on the Weighted Average (WA), it seems that the main reasons in order of importance are the following: market expansion and proximity, followed by low taxes and low labour costs. Of minor comes the low level of competition, while similar consumption patterns and cultural ties are of secondary importance (Table 3). The reasons that favour the development of business activities of Serres companies in the neighbouring country, confirmed the main reasons that in general have attracted large Greek companies in the Balkan countries, i.e., low labour cost, geographical proximity, reduced transportation costs and lower tax rates.

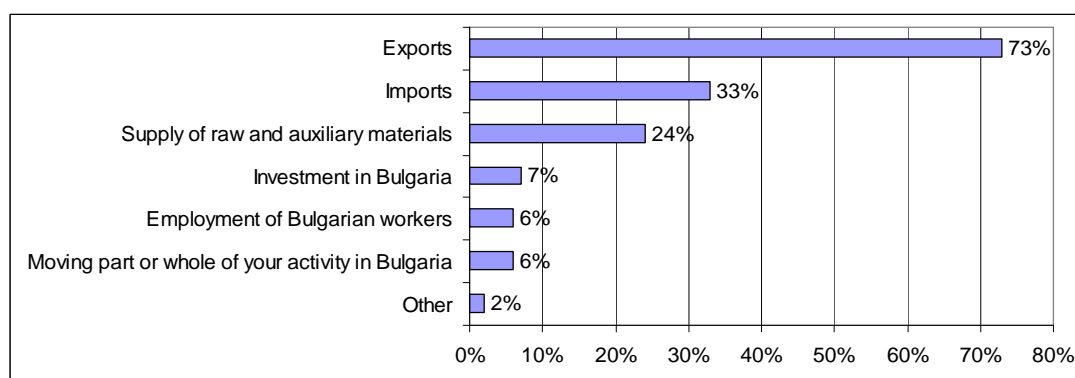
**Table 3 Reasons for Involvement in Bulgaria**

	1	2	3	4	5	6	7	N/C <sup>1</sup>	Total	WA <sup>2</sup>
Market expansion	41.8	10.9	7.3	7.3	3.6	3.6	1.8	23.6	100	3.6
Short distance	7.3	23.6	20	3.6	3.6	-	-	41.8	100	4.8
Low taxation	12.7	14.5	10.9	5.5	-	-	-	56.4	100	5.5
Low labor costs	16.4	10.9	7.3	1.8	3.6	3.6	-	56.4	100	5.6
Low level of competition	3.6	3.6	7.3	12.7	10.9	-	-	61.8	100	6.3
Similar consumption patterns	1.8	3.6		1.8	7.3	14.5	3.6	67.3	100	7.0
Cultural ties	-	-	1.8	-	-	5.5	21.8	70.9	100	7.6

Note: N/C<sup>1</sup>: not classified in 1-7 range; WA<sup>2</sup>: Weighted Average of the rankings.

A percentage of 91% of enterprises, having relations with the Bulgarian market operate in the trade sector, 13% in services and 11% in manufacturing. Very little activity in the neighbouring market is found in the sectors of employment (3.6%), research and technology (1.8%), tourism (1.8%) and construction (1.8%) (some of the 55 companies operate in more than one area, 66 sectors were declared).

Regarding the object of activity of the 55 enterprises in n Bulgarian market, 73% engage in commodity exports, followed by imports of goods from Bulgaria (33%) and the supply of raw and auxiliary materials (24%). In other business objects, such as investment in Bulgaria, Bulgarian workers employment and transport activity in Bulgaria accounts for 7%, 6% and 6% of businesses (Figure 1). It seems that the priority in trade (exports, imports), among others, is associated with the domestic sector in the majority (trade and services), as well as with trade liberalization and intensification of bilateral relations, which is therefore implied, as reported in the literature. Furthermore, trade cooperation bears lower business and capital risk compared with other sectors, such as investments. This priority is also interpreted from the literature, were it is noted that low costs of establishing and easy entry of businesses, seems to be determinant of entrepreneurial dynamism in international location decisions and economic performance overall.



**Figure 1 Business Activity in Bulgaria**

Only two (2) out of 55 companies (3.6%) have integrated their activities in Bulgaria in a co-funded program and said that they would have developed such an activity even if they did not receive funding. Businesses in the Serres region have lower utilization of national and Community programs, which may be due to their inability to meet the criteria set or to lack of awareness and expertise.

A percentage of 71% of businesses are satisfied or very satisfied with their involvement in the Bulgarian market, 11% are neutral (not express either positive or negative evaluation), while slightly satisfied are 18% of the business. There is no business stating not at all satisfied with the activity (Table 4).

**Table 4 Satisfaction Level from Their Activity in Bulgaria**

	Count	Percentage
Small satisfaction	10	18.2
Neutral	6	10.9
Satisfied	32	58.2
Very satisfied	7	12.7
Total	55	100.0

The most important of the problems faced by most businesses, during the course of their activities in Bulgaria is the language-communication problem (28%), while a striking percentage (20%) of the sample said that they have had no problem at all. Besides linguistic communication, lack of expertise and bureaucracy are two more problems met by 15% and 13% of businesses respectively. Remaining problems reported are illegal trading and smuggling differences in the level of administration and processes, financial resources and funding, corruption, cultural differences, etc. (Table 5). These data coincide with those of other investigations, regarding the obstacles developed during Greek-Bulgarian border businesses.

According to the majority of businesses, their activity in Bulgaria had a positive or very positive impact on exports (71%), in turnover (66%), profitability (65%) and image-reputation (55%). On the contrary percentages of positive and very positive effects appear smaller on the clientele (45%), cost (44%), imports (44%), investments (34%) and employment (33%). On these indicators, most businesses express neutrality, i.e., express neither positive nor negative effects, with 49%, 50%, 50%, 62% and 64% respectively (Table 6). Positive and very positive effects in exports, turnover and profitability correlates directly with the object of activity, since the largest proportion of firms engage in exports and also explains the high degree of satisfaction with their activities in the Bulgarian market.

**Table 5 Which of the Following Problems-obstacles Was Encountered during Your Activity in Bulgaria**

	Count	Percentage
Language - communication	15	27.8%
Bureaucracy	7	13.0%
Lack of decentralization	2	3.7%
Financial Resources-Financing	3	5.6%
Differences in objectives	2	3.7%
Differences in administration and procedures	4	7.4%
Lack of expertise	8	14.8%
Limited experience of local authorities	5	9.3%
Cultural differences	3	5.6%
Legal Restrictions	5	9.3%
Corruption	3	5.6%
Illegal trading - Smuggling	4	7.4%
None	11	20.4%
Other	7	13.0%
Total of businesses	54	146.3%

**Table 6 Your Activity in Bulgaria Had a Positive or Negative Effect Regarding the Following Indicators**

	5 = very positive	4 = Positive	3 = Neutral	2 = Negative	1 = Very negative	Total
Exports	5.9	64.7	29.4	-	-	100
Turnover	5.7	60.4	34	-	-	100
Profitability	1.9	63.5	30.8	3.8	-	100
Image - fame	6.1	49	40.8	-	4.1	100
Customers	3.8	41.5	49.1	3.8	1.9	100
Cost	2	42	50	6	-	100
Imports	6.5	37	50	4.3	2.2	100
Investments	2.1	31.9	61.7	4.3	-	100
Employment	-	34	63.8	2.1	-	100

Fifty four (54) of the 55 businesses, with market presence in Bulgaria, are wishing to continue their activity in this market. Furthermore, from 345 firms that do not have a presence in Bulgaria, 60 (17%) are interested in developing such an activity in the future in the neighbouring market. Consequently, out of the 400 enterprises of the sample, 14% has market presence in Bulgaria and wish to continue, 15% not operating in Bulgaria report that they are interested to develop this activity in the future, while about 71% are not interested in developing activities in Bulgaria. Only one firm (0.2%) wishes to terminate its activities in Bulgaria. In conclusion, 29% of the sample firms already has or wants to develop cooperation with the neighbouring Bulgarian market, an element that brings up a surplus of possibilities for future development of cross-border business cooperation in the area of Serres.

Out of the total of 400 companies, 42% believe that the accession of Bulgaria to the EU is a positive and very positive development for the Prefecture of Serres. In contrast, 34% of businesses consider this integration in negative and very negative way and 25% hold neutral opinions (neither positive nor negative) (Table 7).

Furthermore, 31% of businesses consider the integration as an opportunity, while 69% as a threat (30%) or neutral evolution (39%) for the area. This attitude of business representatives can be interpreted by the possible

negative effects generated in local commerce by the “migration” of consumers to Bulgaria’s market.

All 400 companies evaluated the opportunities that can be created in their area as a result of the accession of Bulgaria to the EU (scale of 1 = important opportunity to 5 = not important opportunity). The results of the evaluation are presented in Table 8, together with the distribution of businesses in the range of 1-5.

**Table 7 In Your Opinion, Is Bulgaria’s Accession to the EU a Positive or Negative Development for Your Region and Serres?**

Development	Count	Percentage
Very positive	11	2.8
Positive	155	38.8
Neutral	99	24.8
Negative	107	26.8
Very negative	27	6.8
Total	399	100

**Table 8 After the Accession of Bulgaria to the EU, How Important Are the Following Opportunities for Your Region**

	5 = Very Important	3 = Important	4 = Quite important	2 = Small importance	1 = Not important	Total
Export of local products	21.1	32.8	24.7	11.5	9.9	100
Short distance	17.8	30.5	25.8	15	10.9	100
Arrival of Bulgarian consumers	16.9	35.7	18.5	15.9	13	100
Local development	12.3	34.6	20.7	14.7	17.6	100
Enlargement of the local market	8.8	38.7	20	18.7	13.8	100
Low labor costs in Bulgaria	13.8	35.3	17.7	15.1	18.2	100
Knowledge of neighboring market	7.5	37	20.8	23.4	11.3	100
Enhance the income of residents	11.5	35.9	16	16	20.7	100
Utilization of bilateral Community programs	8.8	33.2	13.8	24.7	19.6	100
Common consumer standards	6.1	34	14.5	24.8	20.6	100
Residence of workers from Bulgaria	6.3	31.7	13.1	22	27	100
Relocation of Greek businesses	12.2	24.1	12.7	18.5	32.5	100

Companies consider that the most significant opportunities, with rates exceeding 60% are as follows: exports of local products (79%), proximity (74%), arrival of consumers from Bulgaria (71%), local development (68%), enlargement of the local market (68%), low labour costs in Bulgaria (67%), knowledge of neighbouring market (65%) and strengthening of the residents income (63%). As of smaller importance, with rates ranging from 49-56% approximately, the following opportunities are evaluated: utilization of bilateral Community programs (56%), common consumer patterns (55%), installations of workers from Bulgaria (51%) and relocation of Greek firms (49%). It is noted that the evaluation of opportunities by firms is consistent with their priorities on trade (exports, imports). Moreover, they hope for a reverse consumer migratory flow from Greece to Bulgaria and generally to promote local development and market expansion. The above findings are interpreted by the relevant literature for reasons that support the development of regional trade in the Balkans and related to the geographical

proximity of the countries, minimizing transportation costs, the impact of regional multipliers exchanges, ensuring internal and external economies of scale etc.

The representatives of the 400 companies assessed the obstacles that may occur in their area, as a result of the accession of Bulgaria to the EU (Scale of 1 = major obstacle to 5 = not a major obstacle). The results are shown in Table 9, in connection with the distribution of enterprises in the range of 1-5.

**Table 9 After the Accession of Bulgaria to the EU, How Important Are the Following Obstacles to Your Region?**

	5 = Very important	3 = Important	4 = Quite important	2 = Small importance	1 = not important	Total
Illegal trading / smuggling	46.1	21	25.1	4.4	3.4	100
Corruption	47	20.4	21.5	6.7	4.3	100
Price competition	38.4	22.9	27.3	6.8	4.7	100
Cheap product imports	35.4	25.8	27.1	6.5	5.2	100
Move of Greek consumers	35.8	30.1	21	7.5	5.5	100
Relocation of Greek businesses	34.2	25.9	22.8	9.1	8	100
Greeks settlement in Bulgaria	24.6	30.9	24.9	11.5	8.1	100
Migrants from Bulgaria	22.8	31.8	22	13.1	10.2	100
Transport infrastructure	13.5	36.2	18	16.1	16.1	100
Relocation of Bulgarian companies	13.1	25.7	13.4	18.6	29.1	100
Language	9.4	26.6	11.5	31.6	20.9	100
Different customs	3.9	22	3.9	34.3	35.9	100

Companies consider that the most significant barriers, with rates close to or above 90%, are: illegal trading/smuggling (92%), corruption (89%), price competition (88%), imports of cheap products (88%) and movements of Greek consumers in Bulgaria (87%). Following are problems created by relocation of Greek firms (83%), migration of Greeks in Bulgaria (80%), immigration of workers from Bulgaria (77%), transport infrastructure (68%) and relocation of Bulgarian companies (52%). Language (48%) and different customs (30%) are judged as least important obstacles. By assessing the significance of obstacles, from representatives of business, it is verified that the competition, as a factor shaping investor climate, comes from Bulgaria and its sharpening locally brings negative impacts on local trade.

The views of business representatives on the impact on the Prefecture of Serres from Bulgaria's accession to the EU, are positive and very positive by 30%. In contrast, 31% consider that the inclusion of the neighboring country will have negative and very negative impact on the Prefecture of Serres, while 38% hold neutral opinion (consider that there will be neither positive nor negative effects). These results suggest that, opinions of the business community of Serres are divided on the development impact in their area, regarding Bulgaria's accession to the EU. The majority of entrepreneurs appear cautious, while the positive and negative views are evenly balanced. However, the majority of entrepreneurs believe that opportunities rather than obstacles are formed across multiple sectors. The areas mentioned as opportunities, with rates exceeding 60% are as follows: tourism (76%), sports (71%), research (68%), exports (67%), investments (64%), education/training (64%), culture (61%) and technology (61%), followed by trade (56%), local development (56%) and the environment (52%). Instead,

the only areas in which the majority considered that there will be obstacles rather than opportunities are employment and the rural sector with rates of 52% and 63%, respectively.

A clear divergence is found on the assessment of the impact on Serres from Bulgaria's accession in EU and opportunities created in the area, respectively. This divergence can be probably explained by the strong importance of the obstacles that entrepreneurs meet (illegal trading, corruption, price competition and movements of Greek consumers in Bulgaria).

On the assessments of business representatives concerning the consequences, opportunities and obstacles on business cooperation after the accession of Bulgaria to the EU, the negative effects are reflected especially in the local trade area, the non-utilization of opportunities and the failure to address threats and obstacles. Moreover, their experience confirms related estimates of the literature regarding multiple and not unambiguous consequences for countries of origin of investment. In this context of the multiple effects one should take into account businesses features in the region, which are very small companies with low added value and low extroversion. Moreover, the estimate that because of the enlargement, the intensified regional cooperation will enhance competition and improve the overall competitiveness of the region as a whole is not confirmed. Competitiveness works, for now at least, more for the benefit of the Bulgarian side and less on the side of Serres. This coincides with the findings of other researches, according to which the benefits of trade liberalization will be greater for new entrants to the EU (Bulgaria) and less for ones (Greece).

According to the Framework of Spatial Design and Sustainable Development in the Region of Central Macedonia (2004), Serres area is intended to operate as a pole of development and as a centre of Cross-Border collaboration. A percentage of 74% of companies believe that this goal is promoted not (or little) satisfaction, 21% considers that promoted satisfactorily, while only 5% reports a maximum of perfectly satisfactory.

The majority (74%) of companies say that utilization of opportunities from the accession of Bulgaria to the EU is little to no satisfactory, 24% considers that the development is satisfactory, while only 2% consider it to be very satisfactory. Within the survey, we asked those 400 companies to rank the accountability in order of priority, of four (4) specific authority actors and decision makers that may be responsible for taking or not advantage of the opportunities and addressing the problems caused by the inclusion of Bulgaria in the EU. They suggest that enterprises attach responsibilities in order of priority as follows: in the first instance, mainly in central power, in the second instance to local authorities and local organizations and finally on citizens.

The representatives of the 400 businesses assessed the necessity of improvements and interventions in specific growth sectors, policies and infrastructure, aiming for Serres to operate as a Cross-Border Collaboration area. The areas where the need for improvement is quite or very important are the following, in order of importance: Completion of the Industrial Area of Serres (69%), the zone of trade and manufacturing activities on the Serres-Sidirokastro axis (67%), structures to support extroversion of businesses and institutions (64%), upgrade of the border station of Promahon and cross-border services (64%), road network (62%), infrastructure of the trade cross-border centre of Promahon (60%), decentralization of public services (60%), railways (57%), cross border cooperation in the fields of spatial planning and infrastructure development (56%), research/technology/innovation (49%). As for the necessity for improvements and interventions in specific areas, for Serres to function as a CBC centre, business representatives seem to emphasize mainly in areas that mostly bear have local and less national or transnational dimension.

Almost half of the companies (48%) consider that the impact of the economic crisis on initiatives for Cross-Border Collaboration of businesses in the region with Bulgaria, are negative or very negative. A percentage

of 38% characterizes this impact as neutral (neither negative nor positive), while 14% felt positive or very positive any consequences of the economic crisis on border cooperation. This suggests that the economic crisis, apart from all other problems it creates, is an obstacle and a threat to initiatives of cross-border business cooperation in the area of Serres.

## 5. Conclusions

The accession of Bulgaria to the EU had a positive impact on business decisions for activity in the region, since the majority of them began this activity during the period just before and after the accession. However, a low degree of international orientation and internationalization of businesses of Serres is found and a shortfall is deduced in utilization of possible utilization for business cooperation and regional integration, which are at best under-used, in accordance with the relevant results of the literature.

Of the reasons that favour the development of activities of businesses from Serres in the neighbouring country, we have confirmed the fundamental reasons that attracted large Greek companies in the Balkans, being low labour cost compared to that of Greece, geographical proximity, reduced transportation costs, lower tax rates and low labour costs in general.

Regarding the objectives of business cooperation, the priority set in trade (exports, imports), is related, among others, to the business's domestic activities at most (trade and services), as well as to trade liberalization and intensification of bilateral relations implied, as reported in the literature. Moreover, trade cooperation bears a lower business and capital risk than other areas, such as investments.

The positive and very positive impact on exports, turnover and profitability correlates directly with the object of activity, since the largest proportion of firms engage in exports and also explains the high level of satisfaction with their activities in the Bulgarian market. The evaluations of opportunities by firms are consistent with the priorities on trade (exports, imports). When assessing the significance of obstacles, from behalf of the representatives of business, the assessment that price competition as a factor shaping investor climate comes from Bulgaria is confirmed. Its sharpening locally brings negative impacts on local trade.

A divergence is found on the assessment of the impact on Serres from Bulgaria's accession in the EU and opportunities created in the area, respectively. This divergence is possibly explained by the strong importance that entrepreneurs set on obstacles (illegal trading/smuggling, price competition, movements of Greek consumers in Bulgaria, etc.).

Assessments of business representatives concerning the consequences, opportunities and obstacles to business cooperation since the accession of Bulgaria to the EU, reflected the hitherto negative effects for the area especially in the trade, the non-utilization of opportunities and failure to address threats and obstacles. Moreover, the estimates that because of the enlargement, the intensified regional cooperation will enhance competition and improve the overall competitiveness of the region as a whole, is not confirmed. Competitiveness works, for now at least, more for the benefit of the Bulgarian side and less on the side of Serres. This result coincides with other researches' results, according to which the benefits of trade liberalization will be greater for new entrants to the EU (Bulgaria) and less for old ones (Greece).

From the number of companies that have or wish to develop cooperation with the neighbouring Bulgarian market emerges a surplus of potential for improving the future of cross-border business cooperation in the area of Serres. Factors that will contribute to this target are the exploitation of opportunities of the accession of Bulgaria

to the EU (which is not satisfactory), the proposed improvements in infrastructure and sectors of national and international dimensions, so that the Serres area to serve as a CBC (target not well promoted), with responsibility lying mainly on operators of central power, but also on local authorities.

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