



✦ **Changing geographies of production in times of crisis. Evidence from Greek SMEs' relocation to Bulgaria, 2007-2014.**

Nikos Kapitsinis

PhD candidate, School of Geographical Sciences, University of Bristol

Supervisors: Wendy Larner, Adam Dixon



Firm relocation

Research of economic geographers

- The conditions
- Opportunity (incentive) for higher profits
- Consensus on conditions that affect firm relocation



The current crisis

Changing conditions under which firm decisions are made

Firm relocation

- Decisions
- Incentives
- components of the economies that are taken as significant for these decisions

→ should neither be predicted nor presupposed

Open investigation of the conditions of the economic and institutional environment



Contribution

How firm relocation develops under the unique conditions of the current crisis in the context of differentiated national Political Economies

Claims

The diversified evolution and confrontation of the crisis →

- Firm exit increases from the most affected places
- Changing components of economic and institutional environment affecting relocation
- Not so much opportunity-driven firm movements

Engagement with debates

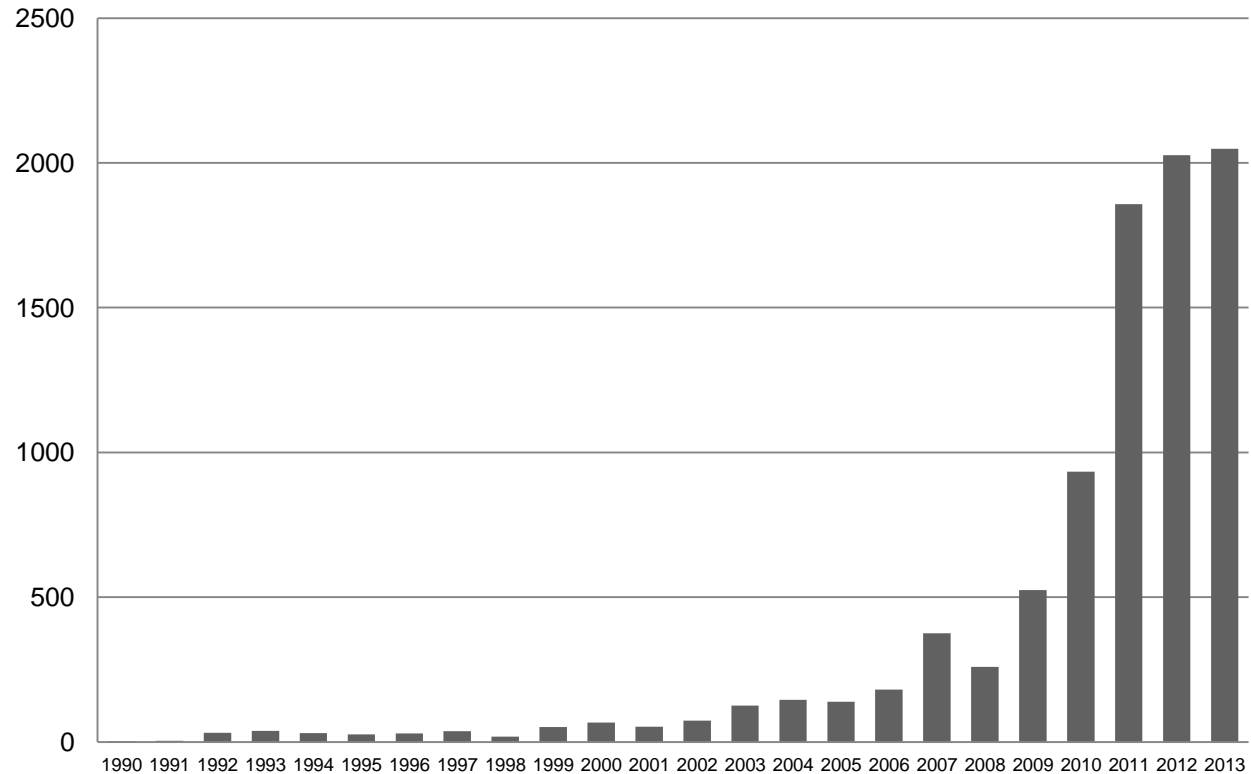
1. impact of the crisis and austerity and the changing economic geographies
2. institutional arrangements and their engagement with geographies of production
3. connection between the economic and the cultural



🌿 Greek SMEs' exit to Bulgaria

- 308,000 SMEs' (35%) bankruptcies
- Several thousands relocated:
2006: 1,000 → 2013: 3,000
- Not new → in the past as an opportunity
- Taxes, labour cost and competition level significant conditions

Annual registration of new Greek firms in Bulgaria



A political economy approach

Firms react to falling profit rate and economic decline by changing location

Seeking for 'spatial fixes' → relocation towards more profitable territories

Important role of Institutions in spatial fix → securing various of its components

Firms make efforts to take advantage of **economic and institutional spatial differentiation**



Why is it produced in this way?

Structures: Profit rate, crisis

Higher level of abstraction

The crisis-ridden capitalist process

How is it produced?

Institutions → interaction between society (formal) & community (informal): State, norms

Meso level of abstraction

How different forms of practices develop

What and where is produced?

Economic and human practices

Lower level of abstraction

Different social formations and practices

Methodology

In-depth and detailed analysis → different processes may develop in different ways in different places

Qualitative method

SMEs relocated after 2007: 103 structured questionnaires and 68 semi-structured interviews

Accounting companies and Chambers of Commerce: 11 interviews



The post-crisis Greek Political Economy

Until 2010 the initial impact of the crisis → quite significant

After 2010 → deterioration

Policy/political change → at the expense of SMEs

Transition of policy focus

All these are interpreted in:

- austerity
- budget cuts

→ Very risky and pressing economic and institutional context



The economic context of Greece under crisis

Components of the Greek economic and institutional environment that firms did not favour	Score
1. High taxation and low return rate of VAT	4,54
2. High level of bureaucracy	4,30
3. Market instability and huge fall of sales	4,13
4. Difficult access to external finance/credit	3,86
5. Deposits' seizure of the state without notice beforehand	3,41
6. Difficult access/expensive energy and raw materials	3,38
7. High labour cost	3,22
8. Inability to use the post-dated checks due to the complete loss of trust in the Greek market	3,10
9. High level of rent prices	2,92
10. The impact of Greece's membership in the Eurozone	2,81
11. Intensive competition in the Greek market	2,53
12. High transportation cost	2,43

The post-crisis Greek economic & institutional environment I

Taxation:

High tax rate
Delayed VAT return
exceptional taxes



'Last year I paid 70% of the revenues for taxes. They are hunting me! The State had become major partner-shareholder of my firm'
(entrepreneur No8, Petrich)

Drop of demand

-Unemployment rate increase (190%)
-Household income decline (30%)
-Bank checks → became useless

Difficult access to external finance

-bank illiquidity
-banks' recapitalisation
-bad firm economic performance
-non-performing business loans



'When the bank does not provide even small loans I cannot run my business. If I had access to credit I would not have left' (entrepreneur No36, Blagoevgrad)

Wages' cuts → 35%



However, thousands of firms have relocated as production was not profitable

✦ The post-crisis Greek economic & institutional environment II

Changing institutional forms:

- The crisis
- High speed of change

Low level of community development → connection between the economic and the cultural

Medium level of society development

Interaction between them



negative impact on economy

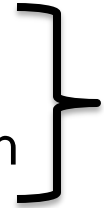
The relocation

Despite:

1. Improvement of 'doing business' and bureaucratic aspects
2. Firm internal decisions

-lack of trust

-no profitable production



necessity-oriented relocation

Greek SMEs → did neither favour nor stand the economic and institutional context and relocated to survive and restore their profits

No significant constraints to relocate.

Relocation costs → managed easily

'In one night, I put all the stuff in a van and I moved to Bulgaria' (entrepreneur No39, Blagoevgrad)

The broader incentives

Firm relocation incentives

What was the broader incentive of relocation/expansion of your firm?

Market expansion

Lower production cost

Firm survival and improvement of its economic situation

Other

Overall

13

9

61

17

0-9

9

7

65

19

10-49

20

12

56

12

50-249

30

20

30

20

Would you have been obliged to close your firm if you had not moved/expanded your firm to Bulgaria?

Yes

No

Overall

72

28

0-9

77

23

10-49

75

25

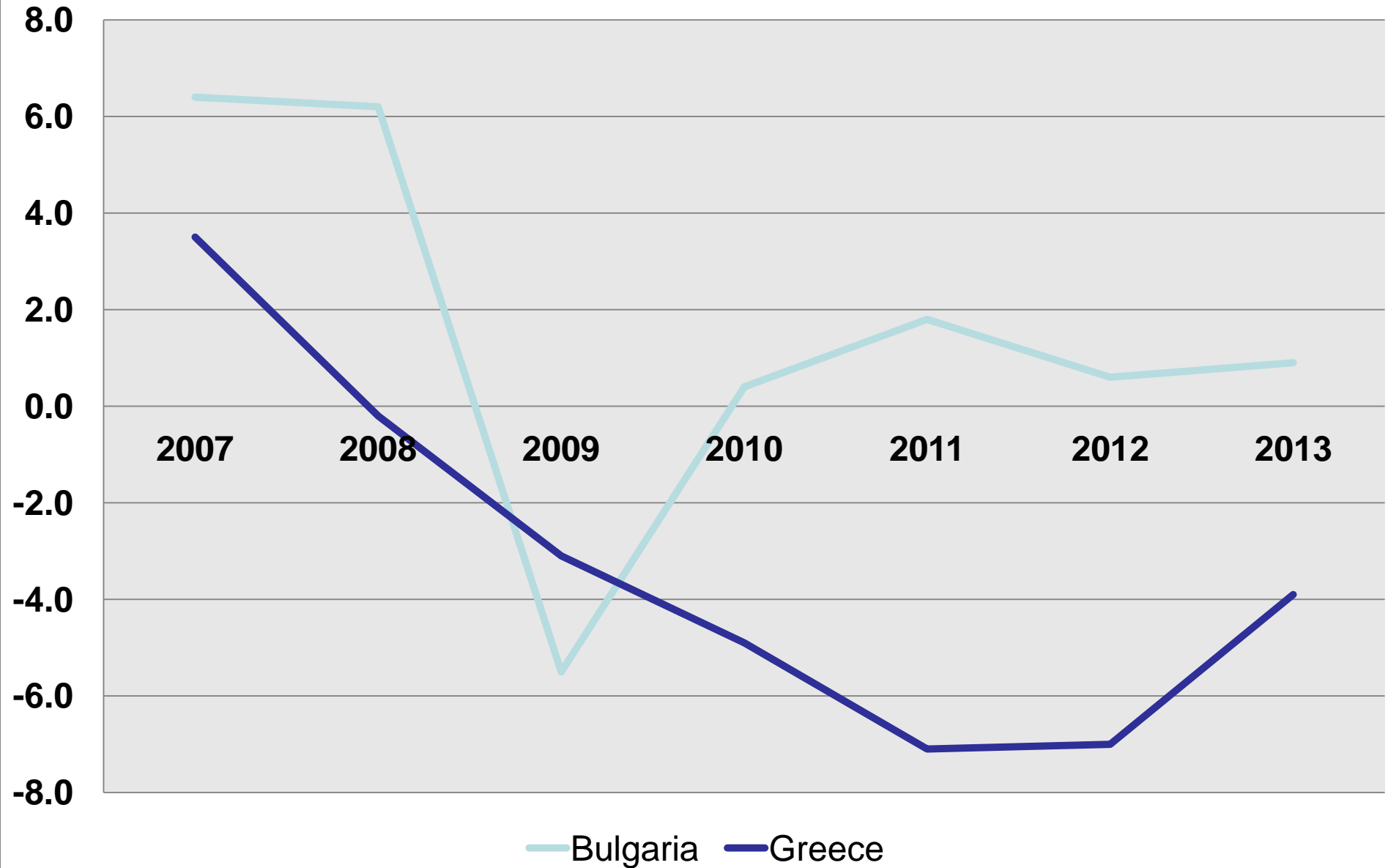
50-249

33

66

'Profits and revenues largely dropped. The customers did not pay. The impact of the crisis was determinant' (businesswoman No53, Sofia)

GDP growth



The Bulgarian Political Economy of crisis

National State → “Active agents”

Bulgaria → taxation, regulated labour market

Less affected by the crisis

2009 → cuts of government expenditures

2012 → important austerity policies

Different evolution and confrontation of the crisis + previous conditions



Different (better) economic and institutional environment



The attractiveness of Bulgarian economy

Conditions that attracted Greek firms in Bulgaria	Score
1. Geographical proximity with Greece	4,57
2. Low taxation and high return rate of VAT	4,52
3. Low level of bureaucracy	3,94
4. Low labour cost	3,71
5. Easy access/cheap energy and raw materials	3,53
6. The Bulgarian State did not have many financial requirements (in general)	3,50
7. Market stability and stable overall economic environment	3,42
8. Low level of competition in the Bulgarian market	3,27
9. Low level of rent prices	3,27
10. Low transportation cost	3,15
11. Strong ties between private firms in Bulgaria and Greece	2,79
12. Size of the Bulgarian market	2,63
13. Presence of Greek firms in Bulgaria	2,63
14. The impact of Bulgaria's non-membership in the Eurozone	2,50
15. Cultural connections with Greece	2,43
16. Easy access to finance/credit	2,22

The Bulgarian economic and institutional context

Geographical proximity:
-facilitating trade with Greece
-stay close to customers and staff

-social dimension of Greek SMEs' owners as family members

Taxation & VAT return

Wages' difference:
1:12 1995
1:4 2012

Market and economic stability

*'Here customers pay, you feel **secure** that you will receive your money'* (entrepreneur No31, Blagoevgrad).

*'The Bulgarian **institutional** environment is more business-friendly'* (Vice-President of Chambers of Thessaloniki)

'In 1990s and early 2000s the firms tended to move equally to Bulgaria and to FYROM, but since 2007 a significant preference for Bulgaria has been observed'

Discussion

Firm relocation role in resolving the crisis

Seeking a spatial fix (metaphorically)

'I moved to Bulgaria to escape from decline as well as maintain my firm and increase the profits' (entrepreneur No63, Plovdiv).

Spatial fix (literally)

Conclusions I

Economic and institutional spatial differentiation, enhanced by the differentiated evolution and confrontation of the crisis

→ Interpreted as diversified business climate between Greece and Bulgaria

→ accelerates capital flows

No trust to the institutions and no profitable production in Greece: necessity oriented relocation

Scale: → affecting the whole countries

→ more intensive differentiation at national level

Risky Greek economic context: taxation, lack of demand, lack of external finance, lack of trust to the institutions. Downgrade of labour cost

-Behind the conditions there are causal forces → Crisis, State, Norms



🔥 Conclusions II

