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Foreign Direct Investments, Regional Incentives and Regional Attractiveness in Greece

**Paper submitted for the
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Abstract: The aim of this paper is to analyze the Foreign Direct Investment (FDI) activity in Greece. The paper starts with defining the main FDI terms and giving a general literature review corresponding to the FDI allocation. Then, there is a description of recent trends in FDI activity both worldwide and Greece. Especially FDI investments in Greece are analyzed presenting the magnitudes of inflows, outflows, inward stock, outward stock, as well as foreign mergers and acquisitions, in terms of sales and purchases.

The second part of the paper describes the regional and sectoral allocation of FDI in Greece, emphasizing whether the investment incentive scheme contributes to the attraction of FDI in specific regions, or the growth rate of each region is the main motive for locating foreign investment capital.

The analysis is based on the most recent statistical data covering magnitudes until 2002.

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1. Definition of Terms and Literature Review³

Foreign direct investment (FDI) is a category of international investment involving a long-term relationship and reflecting a lasting interest in and control by a resident entity in one economy (foreign direct investor or parent enterprise) of an enterprise resident in a different economy (FDI enterprise or affiliate enterprise or foreign affiliate)⁴.

Foreign direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated⁵. FDI definition may involve either creating an entirely new enterprise (“greenfield” investment) or, more typically, changing the ownership of existing enterprises (via mergers and acquisitions). Other types of financial transactions between related enterprises, like reinvesting the earnings of the FDI enterprise or other capital transfers, are also defined as foreign direct investment.

FDI may be undertaken by individuals or business entities. The benefits that direct investors expect to derive from a voice in management are different from those anticipated by portfolio investors, who have no significant influence over the operations of enterprises. Direct investors are in a position to obtain benefits in addition to investment income, such as management fees opportunities or similar types of income (in contrast to portfolio investors, whose primary concerns are capital safety and returns generated). Dunning (1993) describes broadly the motives which induce Foreign Direct Investment undertaking and lead to cross-border investment activity. According to McDonald (1995), multinational firms arise as a result of the following attributes:

- Possession of ownership advantages, such as patent rights and expertise, which are to be exploited in foreign markets
- Locational considerations, such as existing tariffs and transport costs
- Internalization of production process

On the other hand, Chakrabarti (2003) distinguishes FDI process as a response to market imperfections and failures and imperfect competition in an economy.

Helpman and Krugman (1985), as well as Markusen and Venables (1998) provide the theoretical background of FDI undertaking. Under the theoretical perception, FDI can play an important role in the development process. Bosworth and Collins (1999) provide also a broad analysis of the FDI effects upon an economy. Lall (2000) gives a general review of the benefits and costs of FDI to economic development and growth, incorporating the market failures existence, which affect the FDI impact on developing host economies. Capital transferred from the parent firms add to local stock and contribute to increase the host country’s production base and productivity

3 More detailed information on concepts presented in this paper are referred to the IMF Balance of Payments Manual (BPM 5, 1993) and to UNCTAD's World Investment Report 2003: FDI Policies for Development: National and International Perspectives.

4 This definition is based on the FDI concept as presented in the IMF Balance of Payments Manual (BPM 5, 1993)

5 This definition is presented in the second edition of the OECD Detailed Benchmark Definition of FDI.

through a more efficient use of existing resources. Foreign investments promote the diffusion of new technologies, know-how and managerial and marketing skills through direct linkages or spillovers to domestic firms. Finally FDI may also contribute to improve external imbalances due to their greater propensity to export with respect to domestic firms (Altomonte and Guagliano, 2003)⁶.

The main aspects of the benefits that FDI confers on the host country can be summarised to the following points⁷:

- FDI brings in financial resources, which are more stable and easier to service than commercial debt or portfolio investments.
- FDI can attract and support the transfer of managerial skills and advanced technical expertise (know-how).
- FDI introduces improved and adaptable skills and new organisational techniques and management practices in the host economy. These attributes can yield competitive advantages for the host country as well as help sustain employment as economic and technological conditions change.
- FDI bring in modern technologies, which could contribute in raising the efficiency with which existing technologies are used and may initiate the establishment of local Research and Development facilities.
- FDI trans-national activities may provide improved access to export markets both for goods and services, helping the host country switch from domestic-oriented production to international markets. Export expansion offers multiple benefits in terms of technological learning, economies of scale, competitive motivation and market intelligence.
- Foreign companies investing in host countries are usually leaders in the development of new technologies and modern environmental management systems. Spillovers of technologies and management experience and skills can augment environmental management in local companies within the industries where foreign investment is present.

Foreign direct investment is considered to be an important feature of economic growth in the world economy. This is because the internationalization of production helps to better utilize the advantages of enterprises and stimulate technology transfer and innovative activity. Foreign direct investment can play an important role in raising a country's technological level, creating employment, and promoting economic growth. Increasingly, FDI has been acknowledged as an influential and major medium to achieve development, growth and global cohesion process. Many countries are therefore actively trying to attract foreign investors in order to advance their economic development⁸.

⁶ See Dunning (1992, 1998) for a general presentation of the theory of multinational enterprises, Caves (1996) for an application to developing countries, and Markusen (1995, 2002) for some hints on the relationships between the theory of MNEs and the new international trade theory. Altomonte (2000) provides a survey of the literature on MNEs in the Central and Eastern European Countries, while Resmini (2002) does the same for the Mediteranean region.

⁷ Vitalis (2002)

⁸ Modern growth theory emphasizes endogenous technological change as the engine of growth. A policy implication for developing countries that has been drawn from this theory is that foreign direct investment increases growth. However, welfare assessments must recognize that investment returns

FDI is considered to be an important element in their strategy for economic development because FDI is widely regarded as an amalgamation of capital, technology, marketing, and management. The position towards inward foreign direct investment has changed significantly over the last decades, as most countries have liberalised their policies to attract investment capital from multinational corporations. Expecting that FDI will raise employment, exports, tax revenue, and knowledge spillovers in the host country, many governments have also introduced various forms of investment incentives, to encourage foreign owned companies to invest in their economy.

Based on the argument that foreign firms can endorse economic development and growth, many countries have introduced various investment incentives to persuade foreign corporations to invest in their market. In recent years, capital controls and foreign exchange restrictions have been reduced or completely removed in many countries, while non-tax costs of transferring capital have fallen worldwide⁹. This has left the existence of corporate tax differentials amongst nations as one of the few remaining forms of distortion to the free flow of international capital. As a result, these differentials are now widely seen as assuming an increasingly important role in determining the level and destination of foreign direct investment. These developments, coupled with the recently increased importance of FDI to the economic health of individual nations, have encouraged many national governments to incorporate an aggressive incentive policy to attract this kind of investment (Simmons, 2003).

According to UNCTAD (2001), the main traditional factors driving FDI location around the world, such as the large markets, the tenure of natural resources, and the access to low-cost labour, are diminishing in importance. Instead, other factors are increasingly affecting the setting of transnational corporations, such as policy liberalisation (i.e. favourable regulatory changes), technical progress (i.e. local conditions facilitating efficient operation of multinational corporations' technologies), and managerial and organisational factors (i.e. efficient management practices). Lucas (1993) and Jun and Singh (1996) claim that the overall stability of the general economic and social environment of a country determines, to a large extent, the attractiveness of a country as a Foreign Direct Investment host country.

Cheng and Kwan (2000) found that large regional market, good infrastructure, and preferential policy had a positive effect but wage cost had a negative effect on FDI. The effect of education was positive but not statistically significant. In addition, there was also a strong self-reinforcing effect of FDI on itself. Specifically, according to Cheng and Kwan (2000), there is a set of five variables:

may be repatriated. In this paper we show that foreign investment may decrease national welfare due to the transfer of capital returns to foreigners. Taking into account all the relevant effects, we show that welfare does not change monotonously with FDI and we characterize the conditions that imply a positive or a negative welfare effect of foreign investment (Reis, 2001).

⁹ Bosworth and Collins (1999) investigate the positive impact of free capital movement to investment and economic growth.

- access to national and regional markets
- wage costs adjusted for the quality of workers or labor productivity, and other labor market conditions such as unemployment and the degree of
- unionization
- policy toward FDI including tax rates
- availability and quality of infrastructure, and
- economies of agglomeration

The political, economic and legal environment is also identified as a key factor for foreign investors. Lankes and Venables (1996) and Bevan and Estrin (2000) confirm the importance of institutional determinants and suggest that announcement of progress toward EU membership has a positive and significant influence on FDI inflows. Disdier and Mayer (2004) point out that location decisions are influenced significantly and positively by the institutional quality of the host country. Location choices are overviewed by Fujita et al. (1999), Neary (2001) and Fujita and Thisse (2002). Furthermore, Chakrabarti (2003) develops a theory of the spatial distribution of FDI and the related determinants. Among the major FDI allocation determinants, Chakrabarti distinguishes the following:

- market size
- labour cost
- tariffs
- exchange rates
- political stability
- transportation costs
- the analogous economic and political features of potential rival host economies

More recently, Redding and Venables (2004) examine the situation under which individual firms choose their location. This decision seems to be associated negatively with production costs and positively with market access. Moreover, according to Disdier and Mayer (2004), location decisions are influenced significantly and positively by the institutional quality of the host country. Disdier and Mayer (2004) assert that the location choice of individual firms is determined also by market access and production costs. Investors avoid areas in which the cost of production is high and locate in central places that guarantee good access to the markets targeted. This market access effect is summarized in the market potential of firms' profits presented by Head and Mayer (2004).

Globerman and Shapiro (2002) argue that a country's economic performance over time is determined to a great extent by its political, institutional and legal environment and they refer to these institutions and policies as the governance infrastructure of a country. They also examine the role of other forms of infrastructure including human capital and the environment and they conclude that governance infrastructure is an important determinant of both FDI inflows and outflows. Investments in governance infrastructure not only attract capital, but also create the conditions under which domestic multinational corporations emerge and invest abroad.

The potential relevance of governance to explaining FDI flows across countries has been also indirectly suggested by Lucas (1990). Moreover, empirical evidence tends to confirm the hypothesis that cross-country differences in growth and productivity are related to differences in governance infrastructure (Mody & Srinivasan, 1998;

Hall & Jones, 1999; Altomonte, 2000; Bevan & Estrin, 2000; Morisset, 2000; Stevens, 2000; Roll & Talbott, 2001).

Attracting Foreign Direct Investment capital is one of the major development activities of economies worldwide. World economies make extensive use of investment incentives in order to influence the location decisions of foreign investors. The competition for new firm investment by state and local governments seems to be increasing. The amount and variety of region and local incentives to attract firms have progressed to include local property tax relief, free land, job tax credits, benefits to enterprises for locating in economically depressed areas, and major infrastructure improvements. Beyond these incentives, competing regions also spend significant resources tailoring specialized incentive packages for potentially large investments. This competition has led to questioning whether the competitive bidding for investment by local communities is actually harmful. The main concern is that various regions may end up in a bidding war that benefits the firm at the expense of the winning region and the welfare of the entire country. In fact, to the extent that regions have a common valuation of the plant located in their area, even the local community that receives the investment may suffer because it bid too much (Figlio and Blonigen, 2000).

On the other hand, beyond the potential adverse welfare effects described above from competition, foreign firms' gains from the incentives accrue to capital owners that likely reside primarily outside the host country. In addition, foreign plants may be less involved in the local community than domestic ones, which could lessen local benefits from the investment (Figlio and Blonigen, 2000).

2. Recent trends of Foreign Direct Investments worldwide¹⁰

The analysis of the international development of Foreign Direct Investments during the last decade, records two main trends:

- a significant increase until 2000 equal to 328% compared to 1995
- a spatial redistribution characterized by an increase of the FDI inflows towards the OECD member states.

As far as the first trend is concerned, FDI presented a notable augment until the end of the 90's decade (Braunerhjelm and Oxelheim 2000). Global capital flows remained relatively constant for much of the 1990s and they experienced very distinct shifts towards the end of the decade. In that period, the private component of these flows (foreign direct investment, portfolio investment, and commercial bank lending) has reached new records. Technological change and policy reforms have increased global competition and firms have responded by expanding internationally and investing in new technologies. Since 1993, the flow of foreign direct investment expanded rapidly across the world. This trend is connected with the rapid boost of the cross-border mergers and acquisitions during 1995 – 2000. In that period, more than 70% of the FDI magnitude involved mergers and acquisitions between USA, Japan and EU. This growth was also caused by extended policy initiatives aimed at deepening regional

¹⁰ Source: OECD, Directorate For Financial, Fiscal And Enterprise Affairs, *Trends And Recent Developments In Foreign Direct Investment*, June 2003

development and cohesion. The internationalisation of production hence increased significantly during the 1990s, approximately doubling the average real inward FDI position on OECD countries from USD 81 billion to USD 158 billion over the 1990-2000 period¹¹.

Foreign direct investment in the OECD area has decreased considerably since the investment boom of the late 1990s. In 2001 FDI inflows decreased significantly compared to 2000 levels. FDI inflows had a major decrease by 42%, which affected mostly the developed countries (-47%) and less the developing economies (-15%). FDI to and from the OECD countries continued declining in 2002 by -22%, because of the decline in mergers and acquisitions activity and the recession of the world economic activity. FDI inflows into the OECD area dropped from 614 billion USD in 2001 to 490 billion USD in 2002, a decline of more than 20%. FDI outflows also declined, although at a vaguely more reserved rate. In 2002, they stood at 607 billion USD, compared with 690 billion USD the year before, a fall of 12 per cent. OECD countries' traditional role as net providers of direct investment to the rest of the world was strengthened. Net FDI flows to non-Member economies reached 117 billion USD in 2002, up from 76 billion USD in 2001 and 4 billion USD in 2000. The next table presents the FDI inflows distributed by country groups all over the world. Developed countries and EU member – states are those which have the leading positions in the FDI activity.

Table 1: Cumulative FDI flows in OECD countries, 1993-2002
(billions of dollars)

Inflows		Outflows		Net flows	
U.S.A.	1284.5	U.S.A.	1220.8	United Kingdom	407.0
Belgium-Luxembourg	682.4	United Kingdom	891.5	France	312.0
United Kingdom	484.5	France	634.4	Japan	208.8
Germany	393.8	Belgium-Luxembourg	680.3	Switzerland	118.2
France	322.4	Germany	489.7	Germany	95.8
Netherlands	272.5	Netherlands	346.8	Netherlands	74.4
Canada	206.1	Japan	253.2	Spain	44.2
Sweden	167.9	Canada	223.5	Italy	37.2
Spain	152.7	Spain	196.9	Finland	38.3
Mexico	128.6	Switzerland	191.5	Canada	17.4
Ireland	97.2	Sweden	141.3	Norway	3.6
Denmark	88.9	Italy	110.5	Portugal	0.7
Italy	73.3	Finland	83.6	Iceland	0.3
Australia	74.9	Denmark	79.4	Greece	-5.6
Switzerland	73.3	Australia	44.0	Korea	-2.4
Poland	49.4	Norway	38.7	Turkey	-7.6
Finland	45.2	Korea	35.5	Austria	-8.1
Japan	44.3	Portugal	29.4	Denmark	-9.5
Korea	37.9	Austria	28.2	Slovak Republic	-9.6
Austria	36.3	Ireland	26.4	New Zealand	-19.2
Czech Republic	35.9	Mexico	5.4	Hungary	-20.1
Norway	35.1	Turkey	3.1	Belgium-Luxembourg	-2.1
Portugal	28.7	New Zealand	2.7	Sweden	-26.5
Hungary	22.7	Hungary	2.5	Australia	-30.9
New Zealand	21.9	Iceland	1.3	Czech Republic	-34.9
Turkey	10.7	Czech Republic	1.1	Poland	-48.6

¹¹ The sums are measured in constant 1996 purchasing power parities

Slovak Republic	9.6	Poland	0.8	U.S.A.	-63.8
Greece	9.3	Greece	3.7	Ireland	-70.8
Iceland	1.0	Slovak Republic	0.1	Mexico	-123.2
Total OECD	4891.1	Total OECD	5766.2	Total OECD	875.1

Source: *OECD, International Direct Investment Database*

As far as the second trend is concerned, there was an intense geographic redistribution. Even though OECD countries are traditionally open to foreign direct investment inflows, during 90's FDI inflows increased disproportionately within OECD area compared to the rest of the world. OECD countries, especially the United States and the EU countries, accounted for over 80% of global outward FDI, with most of the activity consisting of mergers and acquisitions (including privatization deals) of existing businesses (OECD, 2002) as compared with greenfield investment.

On the other hand, while the developing world is receiving an increasing share of these investments, the distribution of FDI in the developing countries is very uneven: three quarters of the inflows go to only eleven economies. From the inflows in the developing world, Asia and Latin America receive about one half and one third respectively, while Africa receives less than 5% (UNCTAD, 2000). These tendencies were shaped by the rapid rise of cross-border mergers and acquisitions actions mainly in USA, Japan and EU. Supplementary role was also played by the development of regional cohesion programs within EU (liberalization of markets, privatisations, single market). It is worthwhile to mention that in the period 1980-2002 FDI inward stock in the EU recorded a substantial rise equal to 1.107%.

The United States and United Kingdom accounted for the decline in OECD-wide inflows between 2001 and 2002. These two countries, customarily the largest recipients of FDI within the OECD area, saw their inflows fall by 138 billion USD. Inflows into the United States in 2002 presented a decline of 77% compared to 2001. This development excluded United States from the place of the fourth-largest FDI recipient after having dominated for a decade. Inflows into the United Kingdom fell from 62 billion USD in 2001 to 25 billion USD in 2002, decline by 60 %.

On the contrary, FDI outflows from the United States have held up rather well. In 2002, total outflows stood at 123.5 billion USD, down by only 4 billion USD compared to 2001. As a result, the United States' previous role as a net importer of FDI was inverted, with the country exporting net direct investment to the rest of the world more than 90 billion USD. OECD countries other than the United States and United Kingdom recorded an augment in FDI inflows of 14 billion USD (increase by 3%) in 2002. Nevertheless, the role of OECD countries as the world's prime provider of direct investment funds is well established. Net outflows from the OECD area reached 876 billion USD over the last decade (1993 to 2002). The United Kingdom, France, Japan, Switzerland and Germany have been the OECD's main net exporters of FDI. On the other hand, United States has been among the main net recipients in the OECD area, second only to Ireland.

The continued slowness of the global economy, combined with low equity prices has already affected FDI flows for the last year. However, a number of other factors seem to press cross-border investment downwards. An increasing number of financial

market agencies have expressed fears of deflationary pressures in some of the largest OECD economies, contributing to rising ambiguity about the macroeconomic prospects and the future route of monetary policy. The feeling of uncertainty was further intensified in the first months of 2003 by the unsettled international political and security environment.

In this case, there are also significant country differences underlying this decrease. The countries that saw the largest comparative decline in direct investment inflows in 2002 were New Zealand (93%), Austria (73%), Hungary, Norway and Turkey (all three more than 60%) and Denmark, Korea and Mexico (between 40 and 50%). Some countries attracted more investments in 2002 than they did at the height of the FDI boom 2000 (when total inflows into the OECD area reached an all time high of 1.273 trillion USD). For example, inflows to Australia rose to 14 billion USD, the highest level on record since the early 1990s. Likewise, inflows rose significantly in 2002 into the Czech Republic (to 8 billion USD), the Slovak Republic (to 4 billion USD) and Finland (to 10 billion USD).

As far as European Union is concerned, the integration process has been characterised in the last decade by a two-fold dimension: an internal one, devoted to the creation of a truly single market operating with a single currency, the euro, and a renewed attention to the external dimension of such an integration process. The success of these political operations is linked to the ability of economic agents to support integration with appropriate levels of productive investments. Among others, the emphasis was put on the ability of these countries to attract foreign direct investment. The importance of structural reforms leading to a stable and working market economy, the implementation of an appropriate and transparent legal framework for the business environment, the restructuring of the industrial base through privatisation programmes are all issues stressed by the European Union, since these factors are all likely to lead to an increased volume of foreign investments, and hence to rapid integration (Altomonte and Guagliano, 2003). Bevan and Estrin (2000) confirm the importance of institutional determinants and suggest that announcement of progress toward EU membership has a positive and significant influence on FDI inflows.

Since 1980's and during 1990's, within European Union, the liberalization policies as well as the privatization procedures of a large number of public corporations played a significant role towards the attraction of FDI. Furthermore, the EU Common Market encouraged the intra-regional FDI flows, as it multiplied the opportunities of the multinational companies and the choices concerning their location and the exploitation of the competitive advantages of each European region. In EU, FDI inflows raised by 498% during 1995 – 2000, compared with 449% and 114% increase in developed and developing countries, respectively.

There are, however, significant differences between countries. Since 1992, intra-EU FDI flows are almost completely unrestricted. Furthermore, a number of EU countries have minimal restrictions on inflows from non-EU countries. Of the EU countries, the United Kingdom, Germany and France were the largest suppliers and receivers of FDI. The Netherlands was also a notably large investor, while Belgium/Luxembourg was a relatively big host to foreign businesses. Nonetheless, there are some important differences in restrictions imposed by EU countries on non-EU investors and, therefore, even the European Union is not a completely integrated group in terms of

policies towards inward FDI. The countries with the highest levels of overall restrictions are Iceland, Canada, Turkey, Mexico, Australia, Austria, Korea and Japan. The United States is slightly below the OECD mean.

3. Recent trends of Foreign Direct Investments in Greece

As far as the Greek FDI policy is concerned, the post-war period in Greece, especially after 1952, was characterized by a series of investment laws, the aim of which was mainly the creation of business incentives, in order to assist the economic reconstruction and the regional development of the country. The main goals of the post-war development policy were:

- The orientation of the business units towards investments and capital accumulation
- The attraction of foreign direct investments
- The development of modern product units
- The decentralization of the industry

In order to deal with the arising changes and pursue the investment and regional development of the country, the Greek state reformed the development laws, comprising the need to attract foreign investment capital. The investment laws in Greece posed, in fact, the regional development issue and helped the investors to extract capital through significant fiscal and financial provisions introduced by the government incentive policy.

Even though Greece realized very early the need of configuration of incentive policy, in the first postwar decade, the developmental incentives until 1960s were mainly fiscal. During the 70's decade, FDI inflows presented a constant and raising trend by 22% average annual growth rate, compared to 19% in the 60's. This increase was a result of the investment activity in manufacturing sector stimulated by the anticipated entry to the European Economic Community, which raised the expectations of foreign investors. In 1981, following the entry of the country in the European Economic Community, there was a shift in the scopes of the investment laws, bringing changes towards simplification and attractiveness, such as the division of the country into incentive areas and the provision of fiscal and financial incentives under economic and social criteria with government participation to the capital of large investments. The main target of the incentive policy was to create viable business units capable of promoting the economic and regional development of the country and dealing with international competition

Until the late 1980s, the financial package was the most important, whereas, in 1990s, the fiscal package has strengthened its position. Today, regional development policy is mainly driven by the development and implementation of the Structural Fund programs for the 2000 – 2006 programming period through the Community Support Framework (November 2000) and the Operational Programs (March-April 2001) covering certain regions and activity areas in Greece.

Law 2601/1998, is the valid incentive law today. The legislation provides for 5 types of incentives:

- Investment Capital Grant
- Interest Rate Subsidy to medium- and long-term loans
- Leasing Subsidy for lease installments payment
- Tax Allowance covering a percentage of the value of the aided investment expenditure or the leased value of equipment
- Special incentives for industrial, extractive or tourism investments

Under this law, national investment policy framework aims at providing an encouraging background for FDI activities. Investment incentives are offered to both foreign and domestic investors on an equal basis. The main focus lies on investment activities which are expected to stimulate regional development, job creation, competitiveness, industrial restructuring, environmental protection and energy saving. The kinds of activity qualified to join these schemes include most manufacturing industries, mining, energy, research laboratories and software development. Foreign firms are also allowed to take part in government financed or subsidized research and development programs. The majority of industrial sectors are open to foreign investors. Government has liberalized the telecommunications market and gradually liberalizes the energy industry. Ownership restrictions apply in a few industries, including television, ships, and mining sectors. There are no mandatory performance requirements, even though some performance requirements are imposed as conditions for incentives provision. There are also limitations concerning purchases of land in border regions and certain islands. Foreign investors are granted national treatment with respect to business operations including licenses and supplies. Capital inflows are allowed freely into the country. Finally, repatriation of investment is permitted.

3.1 Foreign Direct Investment in Greece – Analysis of Inflows

The turning points in the Greek economic history, as the entry of the country in European Economic Community (EEC) and in European Monetary Union (EMU), did not influence as positively as expected the FDI attractiveness¹². The entry of Greece in the EEC in 1981 led to a short-term rise of FDI (rise by 37,9% in 1980). This percentage fell in early 80's, because the socialistic government in this period had a conservative approach towards foreign investors (Mardas and Varsakelis (1994)). However, the combination of policies followed by the Greek governments, along with the weak economic environment, kept the country away from the international developments, with direct result to the attraction of FDI inflows¹³.

During 1985 – 1988 this attitude change, mostly due to European Economic Community directives. Greek government adopted policies towards the liberalization

¹² Katseli (1994), Karafotakis (1994), and Babanasis (1997) give a historical review of FDI policy and activity in Greece. A more recent review is given by Palaskas and Stoforos (2003).

¹³ On the other hand, the competitive regional economies of EU, as Spain and Portugal, took advantaged of their entry in the EEC and to the Economic Monetary Union in order to improve their attractiveness as a host country, developing at the same time their economic environment utilizing the granded Community Support Frames. During 1980-2002 FDI inflows of Portugal and Spain recorded rapid increases at 1100% and 4136% respectively.

of the banking and funding system and it tried to decrease the inflation and the public debt of the country. These policies contributed to the FDI inflows decrease by 27.4% annually. The government change in 1990 contributed to a significant improvement of the FDI inflows, 40.8% raise compared to previous year level. Foreign investors formed the hope that the new liberal government would follow a more tolerant policy, accompanied by a wide range of privatization and deregulation acts.

FDI inflows in 1990's, except the first two years of the decade, declined gradually until 1998, when it suddenly fell rapidly in one of the lowest levels since 1970. In 1999 – 2000, there was a dynamic raise by 91%. The FDI inflows in 2000 reached the magnitude of 1.1 billion USD. This rise was also preserved in 2001, despite the recession in the international FDI acts. However, Greece could not avoid the consequences of the overall negative world economic climate. In 2002, FDI inflows fell dramatically by 96.9%, at the magnitude of 50 million USD, the lowest level since 1970. These trends are shown in the table which follows:

Table 2: FDI inflows in Greece

FDI Inflows in Greece			FDI Inflows in Greece		
Year	FDI	% Change	Year	FDI	% Change
1970	76.2				
1971	83.6	9.7	1987	391.1	27.9
1972	90.2	7.9	1988	599.2	53.2
1973	145.1	60.9	1989	639.4	6.7
1974	189.3	30.5	1990	900.5	40.8
1975	199.1	5.2	1991	1,135.0	26
1976	221.2	11.1	1992	1,144.0	0.8
1977	273.4	23.6	1993	977.0	-14.6
1978	325.3	19	1994	981.0	0.4
1979	364.2	12	1995	1,053.0	7.3
1980	502.4	37.9	1996	1,058.0	0.5
1981	409.8	-18.4	1997	984.0	-7
1982	304.1	-25.8	1998	85.0	-91.4
1983	313.4	3.1	1999	571.0	571.8
1984	246.1	-21.5	2000	1,089.0	90.7
1985	289.6	17.7	2001	1,589.0	45.9
1986	305.9	5.6	2002	50.0	-96.9

Source: *Greece in the international investment market, IOBE, Greece 2004*

Table 3: FDI inflows as a percentage of GDP

FDI inflows as a Percentage of GDP					
	1985 - 1995	1999	2000	2001	2002
Greece	5,9	2,1	4,2	6,0	0,2
Turkey	1,7	1,9	2,2	12,4...	
United Kingdom	10,3	33,9	54,2	26,2	10,1
European Union	5,0	27,5	42,2	24,5	22,5
Developed Countries	3,8	17,1	22,9	12,7	12,3
World	3,9	16,5	20,8	12,8	11,2

Source: *UNCTAD, 2003*

3.2 Foreign Direct Investment in Greece – Analysis of Outflows

As far as the FDI outflows are concerned, Greece presents a more positive trend. Greece is the most developed country of the Southern – Eastern Europe. Moreover, until recently, it used to be the only EU member country in the South Balkan region. These two attributes provided Greece with a significant competitive advantage, which allowed it to play an important role in the Balkan region.

The last ten years have seen an unprecedented wave of Greek entrepreneurial activity, in both trade and outward foreign direct investment (FDI), in the countries of Central, Eastern and South-Eastern Europe, as well as those of the Black Sea basin (Petrochilos, 1997, 1999; Salavrakos, 1997), as Greece is the most advanced economically country in the general area of south-eastern Europe and the Black Sea basin. An increasing number of Greek firms have acquired in recent years firm-specific advantages in the form of patents, own technology, etc., which have enabled them to upgrade their operations and enhance their productivity. In addition, the rapid changes brought about by the end of the Cold War and the break-up of the former Soviet Union have helped to create the conditions for extending the influence of the free enterprise system throughout the former command economies. In addition, the peoples and governments of the countries of southeastern Europe and the Black Sea basin welcome the Greek presence and see it as a useful means towards achieving their aims of a closer economic integration of their economies with Western economic structures (Salavrakos and Petrochilos, 2003).

Until today, more than 3.500 Greek interest corporations have embedded their activities in Balkans, with investments more than 6 billion USD during the last decade. The main host countries of the Greek FDI outflows are Romania, Bulgaria, Albania and FYROM. There are also significant investments in USA and Egypt. In 2000, for the first time, the value of Greek FDI outflows exceeded inflows. However, in 2001, there was a decline in outflows by 71.1%. In 2002, FDI outflows raised by 7.9% compared to 2001, and Greece was a net FDI exporter.

Table 4: FDI outflows in Greece

FDI outflows in Greece			FDI outflows in Greece		
Year	FDI	% Change	Year	FDI	% Change
1970	76.2				
1971	83.6		1987	391.1	27.9
1972	90.2		1988	599.2	53.2
1973	145.1		1989	639.4	6.7
1974	189.3		1990	900.5	40.8
1975	199.1		1991	1135	26
1976	221.2		1992	1144	0.8
1977	273.4		1993	977	-14.6
1978	325.3		1994	981	0.4
1979	364.2		1995	1053	7.3
1980	502.4		1996	1058	0.5
1981	409.8		1997	984	-7
1982	304.1		1998	85	-91.4
1983	313.4		1999	571	571.8

1984	246.1	-21.5	2000	1089	90.7
1985	289.6	17.7	2001	1589	45.9
1986	305.9	5.6	2002	50	-96.9

Source: *Greece in the international investment market, IOBE, Greece 2004*

The following table shows the FDI outflows of Greece as a percentage of GDP.

Table 5: FDI outflows as a percentage of GDP

FDI flows outward as a Percentage of GDP					
	1985 - 1995	1999	2000	2001	2002
Greece	0,1	2,0	8,2	2,3	2,1
Turkey	0,1	1,6	2,0	1,9 ...	
United Kingdom	16,7	83,3	103,9	28,8	16,1
European Union	7,5	42,3	50,5	28,4	23,8
Developed Countries	5,3	21,1	22,4	14,3	15,6
World	4,6	16,9	18,3	11,3	13,6

Source: *UNCTAD, 2003*

While total Greek outward FDI is tiny in terms of global standards, nevertheless, it represents a significant inflow for most of the Balkan countries receiving it. It has to be remembered that the bulk of FDI directed to Central and Eastern and South-Eastern European countries is accounted for by Poland, the Czech Republic, Hungary, Slovakia, Slovenia, etc., rather than the Balkans. The latter, mostly because of their political instability, have not attracted large sums of foreign capital so far. Thus, Greek FDI in these countries represents, in most cases, an important source of much needed capital and expertise, and places (Rizopoulos 2001, Salavrakos and Petrochilos, 2003).

Salavrakos and Petrochilos (2003) reviewed Greek entrepreneurial activity, mainly foreign direct investment (FDI), in the Black Sea Economic Co-operation Area during the period 1989–2000 and assessed the determinants and prospects of such activity, regarding firm-specific motives, firm-strategic motives and home- and host-specific advantages. They confirmed that Greek outward FDI is explained by the same set of factors that have been found to explain such activity elsewhere, and that for Greek firms holding a competitive advantage future prospects seem secure.

3.3 Foreign Direct Investment in Greece – Analysis of Inward Stock

In the decade of 1990's, Greece had a small degree of participation in the international capital mobility, as it is confirmed by the limited rise of FDI inflows stock. As far as the FDI inward stock is concerned, Greece presents stock, which, on average, equals almost 9% of the country's GDP, which is the lowest rate in the EU area. Even though the FDI stock presented a considerable raise during 1990 and 1995, it has remained almost the same since then.

Table 6: FDI Inward Stock

FDI Inward Stock 1980 - 2002		
Year	Stock (Mill. USD)	% of GDP
1980	4,500	9.0
1990	5,600	7.0
1995	10,900	9.0
2000	12,500	11.0
2001	12,000	10.0
2002	12,100	9.0

Source: *Greece in the international investment market, IOBE, Greece 2004*

Table 7: FDI inward stock as a percentage of GDP

FDI inward Stock as a percentage of GDP					
	1985 - 1995	1999	2000	2001	2002
Greece	9,3	6,7	11,2	10,2	9,0
Turkey	12,9	7,4	9,6	11,9	10,2
United Kingdom	11,8	20,6	30,5	38,6	40,8
European Union	6,1	10,9	28,5	30,5	31,4
Developed Countries	4,9	8,2	16,5	17,9	18,7
World	6,7	9,3	19,6	21,2	22,3

Source: *UNCTAD, 2003*

3.4 Foreign Direct Investment in Greece – Analysis of Outward Stock

Table 8: FDI stock outward as a percentage of GDP

FDI Stocks outward as a percentage of GDP					
	1985 - 1995	1999	2000	2001	2002
Greece	6,0	3,5	5,2	5,4	5,3
Turkey	...	0,8	1,8	2,6	2,2
United Kingdom	15,0	23,2	63,1	63,4	66,1
European Union	6,1	11,6	37,9	40,0	41,0
Developed Countries	6,2	9,6	21,4	23,0	24,4
World	5,8	8,6	19,3	20,4	21,6

Source: *UNCTAD, 2003*

One third of the FDI outflows are referred to the commercial goods manufacturing sector (food – beverages, tobacco, and textiles). The second third is dedicated to the sectors of chemicals, machinery and equipment. The other third is distributed especially to the sectors of banking activity and high technology.

3.5 Foreign Direct Investment in Greece – Analysis of Mergers and Acquisitions

What is more, Greece could not take advantage of the world mergers and acquisitions activity. This delay can be mostly credited to the refraining of Greece from the blast

of Mergers and Acquisitions which took place worldwide during the 90's. At that time, Greek domestic programs of privatizations did not encourage the attraction of strategic investors. On the contrary, the preferred policy was the sale of shares of the privatized companies in foreign institutional investors. The corresponding legal framework in Greece was basically focused on attracting foreign institutional, rather than strategic investors. The low Mergers and Acquisitions activity of the country can be clearly be seen on the following tables, each of which shows a comparative picture of the lagging Greek position.

Table 9: Mergers and acquisitions, cross – border sales

M&A cross-border Sales								
	1995	1996	1997	1998	1999	2000	2001	2002
Greece	50	493	99	21	191	245	1.854	65
Turkey	188	370	144	71	68	182	1.019	427
United Kingdom	36.392	31.271	39.706	91.081	132.534	108.029	68.558	52.958
European Union	75.143	81.895	114.591	187.853	357.311	586.521	212.960	193.942
Developed Countries	163.950	187.616	232.085	443.200	679.481	1.056.059	496.159	307.793
World	186.593	227.023	304.848	531.648	766.044	1.143.816	593.960	369.789

Source: *UNCTAD, 2003*

Table 10: Mergers and acquisitions, cross – border purchases

M&A cross-border Purchases								
	1995	1996	1997	1998	1999	2000	2001	2002
Greece	...	2	2.018	1.439	287	3.937	1.267	139
Turkey	19	356	43	4	88	48	...	38
United Kingdom	29.641	36.109	58.371	95.099	214.109	382.422	111.764	69.220
European Union	81.417	96.674	142.108	284.373	517.155	801.746	327.252	213.860
Developed Countries	173.139	196.735	269.276	508.916	700.808	1.087.638	534.151	341.116
World	186.593	227.023	304.848	531.648	766.044	1.143.816	593.960	369.789

Source: *UNCTAD, 2003*

4. Hellenic Center of Investments (ELKE)

In order to strengthen the FDI attraction ability, Greece, in agreement with the European Union, founded the Hellenic Center of Investments (ELKE) aiming at the effective attracting and supporting of direct investments in the country as well as the assistance of growth of collaborations of Greek enterprises with international corporations and enterprises.

The Hellenic Center of Investment is the national investment agency responsible for seeking, promoting and supporting foreign direct investment in Greece. ELKE operates as a one-stop investment shop where investors may get information, guidance and support on the wide range of investment opportunities in Greece. ELKE's investment project managers present the advantages of Greece as a business location, make known the existing investment opportunities and provide reliable, up-to-date information on the regulatory and institutional framework in Greece. The

Center also supports investors during the implementation stage of their projects. This includes assistance in securing necessary licenses and support during all stages of the investment. Moreover, ELKE counsels investors on investment incentives on offer from both the Greek Government and the EU to guarantee utilization of cash grants, interest rate subsidies, tax allowances and other incentives. ELKE participates in the development of the national, institutional and regulatory framework on investment. It also handles applications on behalf of investors for incentives on offer by the Greek Government. ELKE is empowered to receive and handle cash grant applications for projects with total cost exceeding €9 million or €3 million if at least 50% of the equity is in foreign capital. The activities of ELKE could be summarized into the following areas:

- Presentation of Greece as an investment host country
- Promotion of collaborations between Greek and international enterprises
- Support of investment projects until their final completion
- Submission of proposals for the improvement of the legislative framework concerning investment attraction
- Exploitation of investment possibilities and opportunities of the Greek regions.
- Evaluation of investment proposals submitted under the Incentive Law 2601/98.

ELKE refers to existing and potential investors providing information, guidance and support regarding a wide range of investment opportunities and possibilities in Greece. The process of support for potential investors begins with the initial evaluation of potential investment sectors and regions and ends with the completion of the investment. In order to achieve its goals ELKE collaborates closely with all the institutions that contribute in the increase of foreign investments in the country, namely public authorities, local and regional agencies, institutions and institutional partners, as well as the Greek and foreign embassies in Greece and abroad.

Foreign direct investments which are undertaken via ELKE originate mainly from USA and Germany. However, the percentages of FDI are rather small compared to the Greek investments supported by ELKE.

Table 11: Foreign direct investments undertaken via ELKE in 1996-2002, per country of origin (million Euro)

Country	Percentage	Value of FDI
Greece	70.45	1312.7
USA	6.57	122.46
Germany	5.28	98.41
Belgium	5.22	97.2
Danemark	3.07	57.28
Holland	2.5	46.66
Cyprus	1.85	34.52
Italy	1.4	26.1
France	1.38	25.65
Great Britain	0.76	14.09
Other countries	1.52	28.33

Source: *ELKE, 2003*

5. Regional Allocation of Foreign Direct Investment in Greece

The following table shows the allocation of FDI expenditure activity per region in Greece. Foreign investments in Greece are mainly located in Eastern Macedonia – Thrace, due to proximity to the other Balkan countries and Europe, as well as in Central Greece and Attica, due to proximity to the capital city. A significant percentage of FDI capital is also invested in Central Macedonia region.

Table 12: Foreign direct investments undertaken via ELKE in 1996-2002, per host region

Region	Percentage of FDI via ELKE
Eastern Macedonia - Thrace	20.8
Central Greece	20.1
Attica	18.8
Central Macedonia	12.8
Thesally	9.4
Western Greece	6
Peloponnese	5.4
South Aegean	3.4
Crete	1.3
Western Macedonia	0.7
Ionian islands	0.7
Ipirus	0.7

Source: *ELKE, 2003*

The following table shows the development of the regional GDP per capita as a percentage of the average GDP per capita in the European Union (15). Regions as Central Greece, South Aegean, Attica and Western Macedonia, even though they have a low GDP per capita rate compared to the EU average, they are the regions with the highest rate in Greece.

Table 13: GDP per region in 1995-2001

Regions	2001	2000	1999	1998	1997	1996	1995
European Union (15)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Eastern Macedonia - Thrace	53.4	52.0	53.2	53.4	53.9	54.4	55.0
Central Macedonia	67.1	66.3	66.1	66.9	68.1	66.9	63.7
Western Macedonia	68.7	70.1	65.7	65.4	65.5	61.5	62.4
Thesally	60.2	62.2	59.0	58.1	57.2	56.3	56.5
Ipirus	54.0	53.3	45.2	44.8	44.7	41.5	42.6
Ionian islands	59.9	58.6	58.0	58.5	60.3	55.5	55.6
Western Greece	52.7	52.9	49.7	49.9	50.5	51.9	52.2
Central Greece	94.9	91.4	76.1	78.6	80.8	82.4	81.9
Peloponnese	63.9	65.3	55.4	54.6	53.7	50.3	51.2
Attica	71.2	69.2	73.6	72.7	72.3	72.3	75.0
North Aegean	62.0	60.0	63.4	62.8	62.8	59.3	58.3
South Aegean	76.5	74.8	78.5	79.0	80.6	76.1	73.2
Crete	64.4	63.8	64.7	64.9	65.7	65.8	64.5

Source: *Eurostat*

The same picture holds for year 2002, in which the aforementioned four regions represent the top regions in terms of GDP per capita and equal or exceed the corresponding average rate of the country.

Table 14: GDP per region in 2002

Region	GDP per capita (mil. Euro)	Average rate Greece=100	Average rate E.U.(25) =100	Rating among the 13 regions
Central Greece	18.4	144	104	1
South Aegean	14.4	112	84	2
Attica	13.6	106	78.1	3
Western Macedonia	13.3	104	75.4	4
Central Macedonia	12.8	100	73.6	5
Crete	12.3	96	71	6
Peloponnese	12.0	94	70	7
North Aegean	11.7	92	68	8
Ionian islands	11.5	90	66	9
Thesally	11.4	89	66	10
Ipirus	10.3	80	59	11
Eastern Macedonia - Thrace	10.2	79	58.6	12
Western Greece	10.1	79	58	13

Source: www.economics.gr 2004

Comparing the tables above, we may extract a relationship between the top FDI host regions and the regions with the highest GDP per capita, which may be assumed to represent the growth rate of each region. The four Greek regions which attract the bulk of the FDI investment programs are those of Eastern Macedonia – Thrace, Central Greece, Attica and Central Macedonia. On the other hand, the four regions with the highest GDP per capita are Central Greece, South Aegean, Attica, Western Macedonia and Central Macedonia.

The conclusion which can be drawn is that FDI tend to locate in regions which have a relatively high growth rate compared with rival regions. This can be explained considering that these regions have consequently higher rate of infrastructure, business activity and market potential related with their GDP rate. More specifically, these regions present several general economic and social characteristics which make them a FDI location more attractive than the rival regions¹⁴.

Central Greece is the region with the highest GDP per capita in Greece. It is known for the high quality of its agricultural production and for its good infrastructure. The region has a good road and railway network linking it with the populous region of Attica and its easy access to Attica and the capital of Athens is one of its main advantages. Primary industries are biological agriculture followed by foods and drinks manufacture, production of metal, chemical and non-metal products. Current investment potential lies in biological agriculture, where there are opportunities to restructure cultivation. Opportunities also exist in the industrial sector in foods, energy and non-metal products. The tourism sector offers much investment potential

¹⁴ The regional analysis is provided by ELKE in its website www.elke.gr

for the development of agro-tourism, winter tourism, and sport and conference tourism.

South Aegean presents a high GDP per capita rate due to the development in tourism and leisure sector. The sector is mainly dominated by Greek hotel corporations and it not related with FDI projects. On the other hand, regions of Attica, Western and Central Macedonia are largely related to this kind of investment.

Attica region represents 34 percent of the country's population and contributing 36 percent to the GDP and it is known for its superior infrastructure. The region has a new international airport that provides worldwide connections. There is a good road network in all local areas and national highways linking it with northern and southern Greece and the port of Piraeus is one of the world's busiest and has a complete maritime infrastructure. There is also a direct and continuous supply of humid fuels as well as natural gas. Primary industries are biological agriculture followed by foods and drinks industry, production of coke, oil refining, manufacture of equipment and appliances, broadcasting, television and communications and production of chemical products. Current investment potential lies in biological agriculture, where there are opportunities to restructure cultivation. Opportunities also exist in food and drink manufacture, production of coke, oil refining, manufacture of equipment and appliances, broadcasting, television and communications and production of chemical products and in the sector of new technologies. The tourism sector offers much investment potential in the services sector.

Western and Central Macedonia is located in northern Greece with borders on Bulgaria, Albania and the Former Yugoslav Republic of Macedonia and is the largest prefecture in Greece. The region provides easy access to the Balkans through good road and railway networks. Large ports connect to Greek and foreign harbours for easy transfer of goods and people. This region is characterized by fertile plains lying between the coast and the mountains, and well-developed industrial area supported by good infrastructure. Primary industries are biological agriculture followed by foods and drinks manufacture, clothing, fur and textile manufacture, production of chemical products, and the manufacture of vehicles. Currently investment opportunities lie in biological agriculture (cereals, cotton) and livestock farming, along with food and drink manufacture, clothing and textile manufacture, metal products, chemical products and the manufacture of vehicles. In the mining industry, there are exploitable deposits of bauxite, nickel, lead, manganese, gold and copper. The tourism sector is also highly developed.

It may be asserted that foreign investors tend to locate their activities in regions which are already developed, in order to take advantage of their economic features, to exploit economies of scale and concentration and agglomeration effects of business. Consequently, foreign investors do not seem to depend on the Greek Incentive Law, as described above, to choose their business location, since the above three top FDI host regions do not belong to the top priority regions of the Incentive Law support.

The only region which attracts FDI investment projects without being among the top regions in terms of GDP per capita is Eastern Macedonia – Thrace. This area has a low GDP rate and is included among the regions connected with the more intense investment motives under the Incentive Law. Even though its growth rate is low, as

approximated by GDP magnitude, the region attracts FDI investments, which may lead us to suppose that it is the Incentive Law, rather than the growth of the region, which promotes FDI attraction.

As far as the region is concerned, Eastern Macedonia and Thrace is located in the northeastern region of Greece with borders on Bulgaria and Turkey. The region provides easy access to Bulgaria and Turkey through broad road and railway networks. The region has two airports, two harbours and an extensive rail network of passenger and commercial trains, which connect the region to mainland Greece, the Greek islands and Turkey. In addition to electrical power, there is also a supply of natural gas as Thrace is the Greek gate of entry for this fuel. Primary industries are biological agriculture followed by foods and drinks manufacture, clothing and textile manufacture, metal products and timber furniture, and the region's tourism sector. Currently investment opportunities lie in biological agriculture and livestock farming, along with food and drink manufacture, clothing and textile manufacture, metal products and timber furniture. In the mining industry, there are exploitable deposits of lead, gold, perlite, zeolite, granite and marble. In the tourism sector, alternative forms such as agro-tourism, golf and winter tourism can be developed.

Foreign investors try to exploit these characteristics, as well as the incentives provided by the corresponding Law, which results to a significant amount of foreign investment capital located in this region.

6. Sectoral Allocation of Foreign Direct Investment in Greece

As far as the sectoral distribution of FDI stock, the foreign capital has been mostly invested in the industrial sector, followed by the services sector. Agriculture in Greece has not attracted any investment capital from foreign direct investors. Foreign capital via ELKE is distributed especially in the economic sectors of pharmaceuticals and chemicals, energy, and mining operations:

Table 15: Foreign direct investments undertaken via ELKE in 1996-2002, per economic sector

Sector	Investment (million Euro)	Percentage
Pharmaceuticals - Chemicals	338.42	18.16
Energy	299.01	16.05
Mining - Metal	270.87	14.54
Textile	204.38	10.97
Food - Beverages	185.41	9.95
Extractions	89.57	4.81
Hotels	70.71	3.79
High Technology	66.32	3.56
Tourism (other than hotels)	46.02	2.47
Publications	41.68	2.24
Paper	32.1	1.72
Plastic	17.34	0.93
Wood	15.3	0.82
Electric equipment	14.85	0.8
Other sectors	171.41	9.2

Source: *ELKE, 2003*

7. Conclusion

Investment incentive policies should be able to provide investors with an environment in which they can perform their operations profitably and without incurring unnecessary risk. Since attracting foreign investments has been regarded as an intensively competitive activity in international level among states and regions, there is a shift in reforming the political and economic environment in order to attract the investment capital.

Greece has not benefited from the international investment course and it had only a small degree of participation in the international distribution of investments. It has lagged behind in terms of pursuing policies and institutions advantageous to its incorporation in the world economy.

The low attractiveness of Greece as an investment host country is a result of the complicated tax system, the bureaucracy, as well as the corruption incident within the public administration sector. Moreover, Greek regions still lag in developing factors capable of attracting investments, since there is not a strong relation between investments, production, employment, human capital and specialized factors of production. Greek economy continues being mainly directed in activities of low added value, where the quality, the planning, the innovation and the know-how of products (goods and services) are in relatively low levels.

In order to attract foreign investment capital, Greece should make sure that foreign and domestic investment policies and national investment policies remain mutually supportive and compatible. It seems no longer sufficient for a country simply to loosen its restrictions or to offer expensive tax and other incentives. Rather, attention should be given to a broader set of policies and institutions, starting with the provision of national treatment, reduction of bureaucratic procedures and a predictable tax system. Moreover, a general policy reform is needed, including such areas as investments in education, public and corporate governance, trustworthy rule of law, anti-corruption, lack of cumbersome administrative procedures, competition policy, property rights, sanctity of contracts, property rights, safeguard of intellectual property rights, and any other measures to ensure the potential investors that the host country will treat them in a fair and determined way, focusing on legal protection, dispute settlement and liberalisation commitments.

Moreover, incentive policies should include macroeconomic, political and social stability, economic liberalisation, competition conditions, amenable investment environment, people, improved infrastructure, strategic location, strong competition, linkage creation, and technical networks. In addition, government, enterprises, and society as a whole can favour FDI flows and their positive impact on the economy through public and corporate governance.

Greece should focus on improving the micro- and macro-economic functioning of the economy, and strengthening commercial and judicial institutions that provide stability to investors, domestic as well as foreign. The incentives should not be of an *ex ante* type that is granted prior to the investment, but they should instead promote those activities that create a potential for spillovers. In particular, these include education, training, and R&D activities, as well as linkages between foreign and local firms. It

should also be noted that the country's industrial policies in general are important determinants of FDI inflows and effects of FDI. By enhancing the local supply of human capital and modern infrastructure and by improving other fundamentals for economic growth, a country does not only become a more attractive site for multinational firms, but there is increased likelihood that its private sector benefits from the foreign participation through spillover benefits. In addition to those investment incentives, governments should also consider efforts to modernise infrastructure, raise the level of education and labour skills, and improve the overall business climate as parts of their investment policy.

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