THE CONTRIBUTION OF INCENTIVES POLICIES IN ATTRACTING FDI AND FOSTERING REGIONAL DEVELOPMENT IN GREECE

DOPRINOS PODSTICAJNE POLITIKE U PRIVLAČENJU DIREKTNIH STRANIH INVESTITICIJA I JACANJE REGIONALNOG RAZVOJA U GRČKOJ

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Abstract: The essay is structured in two parts. The first part includes delimitations and reflections for subjects of economic and regional development, private productive investments and developmental incentives. In the second part are mentioned, as conclusions, ascertainments, deductions and proposals. The writer's opinion is that the Greek Science has not dealt systematically with the subject of developmental/investment incentives, while the Greek Legislation approached at periods the incentives according to short time horizons and not always with particular «boldness». Furthermore, the writer claims that the incentives are proved beneficial for an economy, when their cost for the State of reception is not bigger than the profits that derives the investor. Finally, the writer proposes row of measures on Political, Legislation and Modernization of Administrative Structures of Country level, in order to, through (also) the developmental/investment incentives, be assisted the regional development of the Country.


PART A

Delimitations And Reflections

Introductive Approach

Despite the fact, that is attainable the formulation of objections about the repetition of the opinion, that all the Governments, around the world, aim at the development (economic, social, cultural) of their populations and their countries with any legitimate «means» and «tools», it is reminded here introductorily, that the Greek Governments aspired also and of course they continue to aspire to the development of the country with every convenient way at the last sixty years, just immediately with the end of the internal tragic adventure after the Second World War and even today under the regime of evolving globalization\(^1\).

The first efforts engaged, in present occasion, flesh and bones in Greece with the new constitution’s establishment, which was placed in force the first January of 1952 and that «raised» in constitutional affair the whole subject of development with relative regulation. This regulation included in article 112 of new constitution, which is result of a Government of «centrist» political ideology, it anticipated, internal tragic adventure after the Second World War and even today under the regime of evolving globalization\(^1\).

\(^1\) The delimitation of significance, its on part components, the channels of influence and interdependence, see more extensively at: Vas. DELITHEOU: Institutional frame of regional development and organization of State’s Administration. Volume B’, Athens, 2008, page. 7 – and 18, where there is also the relative bibliography.
that «law published for ever wants to regulate the imported funds' protection from abroad to placement to the country».

Result of this regulation existed the Legislative Decree 2687/1953 about the investment and the protection of abroad's funds, increased legal formal force according to the Greek legislation. The Governments that followed up to today continued at periods (and of course the not democratic Governments of Dictatorship's period too) the special strategies', policies' and measures' establishment for the general development of country, with fluctuating degree of success of relative undertakings.

At the application of these strategies, policies and measures were not absent occasionally exaggerations, refuted regulations, measures in advance condemned to failure, (on account of the lack of other parameters, components condicio sine qua non for their success) and of course the usual «illness» of Greek Public Administration: The very many laws.

Especially, according to the «developed» means of exercise of regional policy2 they are noted here indicatively the public expenses in general (particular in areas with deficiency), the infrastructures, the assistance of workforce's mobility and relative policies of human resources3, the small and intermediate enterprises' strengthening, the areas' re-composition in decline's and deindustrialization's regime, the organization of Special Support Services of Development, the dissemination of Public Services, Military Units, Academic Faculties, the (by any chance) cross-border collaborations of formal scope, the Rustic Space's Completed Programs, and of course the developmental motives.

The individual at periods relative regulations for the development's «production» with accent in the «tools» of developmental incentives for the private investments' attracting from abroad or from hinterland, they are mentioned concisely afterwards. For the best, however, comprehension of subject are affixed here relevant approaches of the significances economic development, regional development, private productive investment and developmental incentives.

A. Economic development, regional development

As from abundant, and only for the subject's development's unit, are clarified here concisely the significances of the economic and regional development.

The term economic development4 is widely used, but it being in many conceptual approaches. This term does not have one and only meaning, but with this, is declared a present situation, an aspired future situation, as also does not have one and only meaning, but with this, is determined from the beginning course, where its constitutive elements do not being all in measurement.

Certain Researchers5 underline, that according to its general definition, the economic development includes the material prosperity's improvement, the poverty's obliteration of many, the change of the composition of surges and flows and the Citizens' participation, relatively wide base, in the process of decision-making for followed (economic) directions, with the purpose of the improvement of their prosperity.

In accordance with other approaches, is recorded the opinion, that the economic development is essentially a process that is realized in order to be achieved a superior technical and industrial output's level, with the aim of the increase of productivity and occupation and final objective the achievement of a higher standard of living for the society's Members.

In term economic development it must be added apart from the economic dimension, and other, as the social and cultural dimension, that recommend essential parameters for a desirable standard of living. On the other hand, and in connection with the significance of space, the term economic development, in general, leads to the following discriminations: a. Economic development of National dimension, which includes entire a Country, b. Regional development, which includes a geographic, economic, or administrative region, and c. Local, which includes small geographic, economic, or administrative units6.

Scientifically the term is expanded to other relevant significances, as for example, the economic enlargement's significance, in the frames of which is lent accent in the Economy's quantitative characteristics. The term economic development, as it has been «delimited» previously with the long-lasting use, it is «enriched» at the last time period with new parameters, while it is observed also tendency of its replacement with other relevant terms, as for example, the terms viable development, sustainable development etc.

We meet the term viable development for first time in 1987 in a relative report with the title «Our Common Future» to the World Commission on Environment and Development of previous Prime Minister of Norway Guro Harlem BRUNDTLAND and it is defined as the development, «which satisfies the present's needs, without reducing the next generations' possibility to satisfy their own needs…».

The term has been «adopted» by the Organism of United Nations in 1992, connected indeed to issues relevant to the protection of the environment and later from European Union too, conditions of which, as for example that of Amsterdam, elected the significance of viable development as an important element of general policy of Union.

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The term sustainable development informally in use from the decade of 1990 has been «adopted» by the Council of European Union’s Heads of States at the Session of Gothenburg on April 2001, in the frames of its Statement for the «A’ European Strategy for the Sustainable Developments», (among the objectives from which are included the management of natural resources, the evasion of damage’s challenge on the biodiversity etc.).

B. The significance of private productive investment

It is not met commonly admissible approach of the term in Greece, (but also and in other Countries), so much on scientific, as on legislative level. On scientific level private (productive) investment is that, which aims at the creation of a new constant capital (for instance, new installations, new mechanical equipment etc.), with the additional indication, that on economic level as investment is considered (also) the capital’s conversation to capitalist productive means. For others, investment recommends the material good that is acquired by the purchasing force’s availability, by that is expected the income’s realization, while, according to various criteria they are distinguished different kinds of investments.

On legislative level, regarding to Greece, the things are getting «complicated», since the approach of breadth of term’s content leads to multiple directions, associated with the at periods statutes, beginning from year 1953, when the Legislative Decree 2687/1953 determined as productive private investments, those that aim at the national production’s development, or those that contribute in the economic progress of Country, in the significance of economic progress, which includes also the local accommodation’s development.

The statutes that followed, admittedly much more than those logically should be published, occasionally refuted and reversed from one another, «definite» the significance of private productive direct investment, with different at periods political mainly criteria, extending or, rarely, shrinking the relative significance.

Apart from these, Greek legislative production has «derives» also, the significance of special private productive investment, which anticipated bigger supports for certain investments, under certain conditions.


Moreover, comparatively to the direct foreigner private productive investments, Greece has accepted these that are in force relatively on international level, as they have been determined by the International Monetary Fund and the Organism of Economic Cooperation and Development (OECD).

In proportion to these approaches a foreign direct investment is the one that contains long-term relation, which reflects continuous interest of a company or of an individual person to a financial activity established in different country (from that where it has invested).

C. About developmental incentives

As it has already been reported the developmental incentives are one from the «tools», which are used by the different Governments for the development’s «production» of means for example of attracting of private investments. The developmental incentives are used in order to limit those factors that function negatively to the intentions of private investors to undertake a new enterprising initiative. Factors of this form are the lack of sufficient capital, the lack of completed infrastructures in an area, the lack of specialized workforce, fears about small efficiency of capital, which will be invested etc.

According to other approach the developmental incentives, without degrading the mechanisms of free market, they aim at the strengthening or even potentially at its orientation to desirable directions, as for example to the agriculture, to the industry etc., either through them with the reduction of the installation’s cost, or the good’s production, or through them with the minimization of enterprising danger etc.

The theory classifies the developmental incentives into various categories, as:

Macro-incentives as privileges, which are enacted to more than one section, or to a lot of enterprises of the same sections etc.

Micro-incentives, as exemptions, for example, by taxes or other (economic) facilitations, which are granted in one and only enterprise.

Incentives for the attracting of foreigner investors.

Incentives for the investors’ removal from area to area inside that country.

Incentives for the exports’ assistance.

Incentives of workforce’s mobility.

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12 Profitability is considered to be, here, the relation between the capital that uses the enterprise and the profit that arises from this. See relative subjects to: Ge. KAPOUS: Analysis of balancesheets. B’ edition. Athens, 1989, page 63.
Tax incentives, that is to say exemptions from income taxes, new investments, investments in new technologies' sectors etc. (The cost of these incentives can be calculated only indirectly).

Financing motives, that is to say coverage from the State part of investment's expense, or part of the aggravation from loans' rates that are related to the investment etc. (The budgetary cost of these motives is known per every moment, but it is recorded as their negative parameter the fact, that these are usually developed by capital intensity enterprises).

It is obvious, that the incentives that were reported above are usually developed for private investments inside the Country under which they are enacted without excluding the case certain from them, as for example the financing incentives, to aim at the incentive for investments to other Countries too.

Regarding Greece, such characteristic case constitutes Law 3299/2004 and Law 3522/2006, which include special regulations for the aid of Greek's enterprising activities out of Greece and for whose becomes report afterwards.

Apart from the positive dimension of incentives, it must be also reported here the negative, that is to say the disincentives, which are enacted in order to discourage the investors to undertake concrete investment initiatives in specific time periods, either in certain sectors, or in certain areas etc.

The disincentives can have the form of additional special installation's taxes in certain areas of a Country, special installation's authorization in certain areas of Country etc.

Disincentives' «father» is considered to be United Kingdom, which from 1948 controls for instance, the industrial enterprises' installation's place through an Industrial Development's Certificates' System etc.

Where in this work becomes report about developmental incentives are implied mainly the tax and financing incentives as «tool» for the production of private productive investments generally and for economic, social, cultural development.

PART B’

Ascertainties/Deductions/Proposals

According to the elements which have been mentioned, but also in accordance with other, which are not published here due to the lack of space, but they emanate from official sources (for example Ministries, Chambers, Associations of Industries, Inquiring Centers etc.) or from regular personal research, are formulated the following thoughts result so much ascertainties and conclusions, as also proposals that concern what is to be done.

The Greek Science has not dealt systematically with the investigation of subject of developmental or investment incentives: the published relative important Monographs have not enlightened all the sides of subject relative to the necessity of incentives' enactment, of their form, of their repercussions in development and in the regional development of Country, of their by any chance side effects, of their unequal distribution, of their by any chance contribution in the alteration of terms of noble rivalry, of budgetary cost of motives etc.

The Greek Legislation, moreover, «approached» the subject of incentives at periods according to short time horizons, another time «dared» for the reception of necessary measures, another time «maintained» simply existing situations and another time it «has been left» in the application of these regulations for a long time.

However, (theoretically), the incentives are a situation «in movements» (proportionally to the conditions) and each regulations that concerned these faced up the relevant dilemmas, as for instance policies of infrastructure, or policies of concrete short-terms actions, policies of support with new activities in areas with big population or in frontiers areas etc., without selecting always the most advisable, for different reasons (for example political cost etc.).

Indicatively it is reported here the Legislative Decree 2687/1953, according to that the provided facilitations of each form (for instance preferential import of capital, (re)export of capital, interests and profits, possibility of foreigners' occupation, tax facilities, choice of currency for the formation of balance-sheets, application of more specific favourable clauses, prohibition of expropriation and occupation of property elements, special regulations that concern the arbitration etc.), were intended for widest activities without restrictions, since as capital of abroad was considered to be the under any form imported capital from abroad, even though machinery, materials, inventions, technical methods, industrial and commercial signals, ships reg-

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14 Many times the State in order to stimulate the interest of investors for areas which deprive economically, grants subsides of cost or subsides of prices that affect artificially in the increase of percentage of profit or in the increase of enterprises' income. See relevant subjects to: N. KONSOLOAS: Regional Economic Policy: General regard. Athens, 1993, page 339 next.

15 See also: Ge. PETRAKOS, John PSYCHARIS: Regional Development in Greece. Athens, 2004, page 228 next.
istered by Greek flag, and as productive investment even though the development of local accommodation.17

A more complete approach of significances of private productive investment and turned incentives that concern this resulted with many years delay with the regulations of Law 1116/1981, which imported the first completed system of investment incentives of regional development in Greece. Under the spirit of disparate approaches they are moved also the statutes that followed up to today.18

Every Government materialized through its responsible Ministers potential pre-election promises for development or «thoughts» in certain cases «thoughts» by representatives of constituted economic structures, as for instance the Contact of Greek Industries, the Institute of Economic and Industrial Researches etc.

Thus, the significance of incentives for the attracting of private productive investments19 aiming at the regional development it was delimited by way legitimate of course, but usually «arbitrary» to the direction, which is supposed to service completely developmental objectives and it would function as enticement for investors, physical or legal people, their co-operative societies, Greeks or Foreigners etc.

This tactic had as result the significance and the categories of incentives to be «expanded», to be «contracted», to be «shrinking» depending on each political choices or the running needs or problems, since main care of any Government was the «production» of private investments and the «development» of Country, with enticement incentives, of which the cost was sometimes unspecified or other times «painful» for the State’s fund possibilities.20

At the import of this disparate «crowd» of incentives neither the need of relative policies’ co-ordination, nor the possibility of challenge of competition’s unequal terms between that who was profited again and that who not from the by case applied incentives, nor their effectiveness, (the relative studies are minimal), nor the value of benefit’s cost, nor the possibilities in cross-correlation with their similar or other disadvantages, did not always be taken into account, but «erroneously» functioned with these practices «the continuous» renewal of content of motives’ coffins.

Especially for the effectiveness of incentives, element which is the most important issue in this occasion, it is classified, that except for other approaches, this can be valued by many ways and parameters. A form of approach of effectiveness is the estimate if how much the any applied incentives in a given time period contribute or not to the new investments’ attracting to a Country or to its on part areas or only an area and in which size exactly, taken into to consideration, that in the attracting of private productive investment in a Country contribute also other factors (for instance raw material, workforce, political situation).

Obviously, the calculation of this contribution is not always an unencumbered affair, even if all are disputed, that is to say, if at the estimate of the investment activity the exploitation of these incentives did not taken into account by the investor.

The available empirical researches do not consolidate with certainty concrete conclusions and in a lot of cases reserves the one the other, even if the continuous and systematic policy of many States to aim at the attracting of investments through incentives it «prompts» to the admission of the acceptance of the incentives’ positive dimension.

Apart from these, concerning to the effectiveness of incentives in given time and space for the investments’ production and development, another form of approach recommends the comparison of incentives’ cost with the final profit from the, through them, «produced» investments. Of course, the final profit from an investment in an area of a country, especially if its capital emanates from abroad, is not always easily measurable, because, apart from the given surge of capital, the (foreign) investment involves import of new technology, positions of occupation in the same or in satellite activities, «social», «demographic», «cultural» upgrade of the area of the establishment’s place etc.21

However, it must not be overlooked the fact, that sometimes the offered incentives can function also negatively at the expense of the national or local economy, as for example in those cases at which the investment will be realized without fail, and without taking into account the incentives, because it was profitable for the investor or when they are offered at periods of economic closeness resources for subsidies of investments and no for infrastructures, or when the generosity of incentives of a concrete time period «produces» corresponding future policies and «cultivates» immoderate expectations to likely investors.

Finally, it is possible to be said, that the incentives are proved beneficial for an economy, when their cost for the State of reception is not bigger than the profits that it draws the one that invests: This relation, however, is not achieved always and many times, it is almost impossible the calculation of its dimensions, taking into consideration the on part parameters and dangers, that includes so much the incentives, as the private investment activities22.

Apart from these it is marked, that this relation it is possible to be «disturbed» or to be ignored by way conscientious from the Country of reception of an investment in

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19 It is clarified, that here becomes report always on private productive investments and no on government owned investment capital «moved» from Country to Country. About last ones the International Monetary Fund «draws up» Code of Equitable Behavior of government owed investment capital’s operation (SWF) (not binding character), while the Commission of European Union has already prescribed relative specifications. It is clarified, that certain Countries (France, U.S.A., Italy, China, and Russia) have already placed in force relative regulations about SWF.
that case at which it «functions» not healthy international competition and each State is allocated to enact motives for the reason, that these have already been adopted by other Countries, without calculating the cost, that involves their application.

The enactment of such incentives it is possible to aim at the attracting of, either solitary concrete investments in a concrete time period, or to «functions as counterpart» in enacted generous motives by other Countries. In every case the competition in the sector of incentives among the States, it is possible to turn out energetic occasionally for all that they have been involved, given, that it leads to «more rational» distribution of capital out of national borders of its origin, to the wealth's «transportation», to increase of income through taxes, to the creation of new positions of occupation, to reduction of the influence of teams of interests, especially in similar activities etc.23

These beneficial repercussions however, maybe in certain cases, cannot «eliminate» negative consequences, as «ailes» and «represses» from the view of Governments at the incentives’ establishment for investments’ attracting in the protection of the environment of their place of installation, in their «viability», in the consolation of trade-union and labour rights.24 If these that were reported previously give a picture, about the whole network of developmental interventions and investments motives, no explicit or no desirable, the thing appears that it has its expectation:

The international economic coincidence, but also the internal situation of Country at period 1952 up to today it «imposed» policies of high or disproportionate incentives and benefits to the expected profits, for the attracting of investments from abroad or inside the Country.25

The relative regulations, which are in effect at periods until today, confirm completely this opinion.

Thus, under «imported» unfavourable coincidences, apart from the innate weaknesses, the policy, that was followed finally for a lot of years in the subject of incentives, has not been distinguished for its consequence, and its boldness, if indeed, «seeds» measures be taken, they recommend luminous exceptions.

If it placed rhetorically the question, which it would be «another» approach of subject of incentives and of connected with them parameters for the «production» of development, the answer perhaps should have been recommended by the following thoughts:

Firstly it must be manufactured common conscience, so much on in those that regulate, as those that accept the relative regulations, that the development generally, (in national, regional, local scale, economic, social, cultural), depends mainly on «internal dynamic» and on the collective will «breaking» the circle of underdevelopment of a given area at a concrete period.

On the other hand, on Political level it must disappear recantations in crucial choices and dilemmas, as wide or small public sector, privatizations, protection of work, state interventionism or economy of market etc.

On legislation’s level26 it must disappear the phenomenon of having many laws as also the frequent change of laws. The any regulations must be rational and reliable to themselves and to the served objectives.

On Public Administration’s level the modernization of its structures is considered to be urgent.27 Indicatively it is recommended here, that an investment in order to be submitted the regulations of relative incentives, it must have the relative approvals of twelve Ministries, while on the other hand it must rendered explicit, that the well functioned Public Administration recommends condition sine qua non for the achievement of developmental motives.

The «function»28 of Public Administration «has moved» even National Organisations. Indicatively it is reported, that OECD has dealt a lot of times with the subject, it has proceeded in concrete indications, while at the year of writing of the present, it negotiates with Greek Government for line of radical sections and changes about the subject of Public Administration, which are programmed to be placed in force in 2009.

Finally, the national experience on the subject of incentives must be developed in measure of feasible as soon as possible, for the goodness of all: State, Society, and those that acting enterprisingly.

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23 Relative regulations, not especially many, «confirm» this estimate, without however assisting the consolidation of the opinion, that the things are always in this way. From the relevant researches, it is reported as the most reliable that of OCDE. See Andr. CHARLTON: Investment bidding for mobile investments: Economic consequences and potential responses. OCDE. Paris, 2003.


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