The impact of FDI attraction policies on the economic recovery in Greece

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Financial growth and consistent pandemic control are fundamental goals of the southern Mediterranean countries. Both development and increased productivity are primary and ultimate policy goals due to international trade competition, especially in Greece. Globalization has led to the liberalisation of the market, the creation of stable international conditions and the creation of necessary reserves in various countries by multinational companies. The continuous demand of the study of economics and international trade provide countries with adaptive and appropriate policies and various ways to manage and handle their needs of investment in the new era.

The shift from traditional forms of trade to FDI is an inevitable consequence of globalisation and internationalisation of trade, which is most evident in developed countries. FDI represents a means of economic, environmental and technological development of a country. Based on this assumption, this research offers insights into the impact of FDI attraction policies on Greece's economic recovery, both in terms of economic geography and urban planning policies.

The main routes of penetration of a multinational market into a foreign are four: a) International Trade - exports b) licensing, c) franchising and d) FDI. According to the Treaty on the Functioning of the EU (Lisbon Treaty), the policy of attracting investment is integrated as a new aspect in common commercial policy. The integration of FDI into the common commercial policy (Article 207) has led to an exclusive competence of the EU in the FDI field. The EU is now empowered to explore possible ways to develop an international investment policy that enhances EU competitiveness and contributes to the objectives of the Europe 2020 strategy. It examines the main directions for future EU investment policy and the main parameters for action in this area. It reaffirms the Union's commitment to an open investment environment, which has been fundamental to its prosperity, to continue to promote investment - both FDI and portfolio investments - as a tool for economic growth.

A decade of deep economic recession on the European continent has been characterized by volatility and imbalances. There is a vertical decline in FDI inflows reflected in the economies and capital flows at the international level over the period 2008 - 2019, globally, in OECD and EU countries. In 2019, Regulation 2019/452 was adopted to establish a control framework for FDI in the Union, which is the first minimal step toward establishing a strong central mechanism at the Community level. From the data examined, countries holding more than 50% of the total EU FDI in 2019, on the one hand, are France, the United Kingdom and Germany. Significantly, the figures for the annual percentage change in GDP for Germany remain relatively stable, compared to the Mediterranean countries of Greece, Italy, Spain, Portugal and Cyprus, which are in constant decline.

Undoubtedly, the subsequent pandemic emergencies also affected all FDI indices and capital flows, as a significant decline of more than 30% of FDI in Europe is estimated by 2020, with

the most affected sectors being agri-food, transport and storage and manufacturing, compared to health and information and communication, which increased.
The attraction of investment and, in particular, foreign direct investment in Greece is done through incentives institutionalised in the respective development/investment laws. The institutionalisation and modification of these over the last decade demonstrate continuous efforts to attract FDI through tax incentives. Now, the current investment development law in Greece speeds up and simplifies approval procedures, increases transparency and control over private investments, removes barriers and disincentives for strategic investors and improves liquidity and financial flexibility. Legislative initiatives and investment policies in general appear to have achieved the goal of attracting investment, as foreign capital inflows have increased even during economic downturns. Recently, the Development Plan for the Greek Economy (Pissaridis Report) (2020) pointed out that although trade balance advantages over time from the contribution of tourism and shipping, the participation of manufacturing and new technologies, which are primarily internationally traded goods and can incorporate innovation, is insignificant.
In this context, Greece is trying to consolidate its position in the European and even more in the international market and trade community. The "National Strategy for Sustainable and Equitable Development 2030", as a set of measures and policies that will increase the productivity of Greek enterprises, places great emphasis on FDI intending to make the country an attractive destination for FDI, as it is recognised as an important source of financing for the economy and a valuable tool for improving overall productivity through technology transfer and modern management and corporate governance practices.
Looking at the profile of FDI in Greece, according to available data from the Bank of Greece, OECD and other bodies, the sectors that attract investor interest and have been preferred over others for at least the last decade are business services, the agri-food sector, transport and logistics, digital technology and finance. The countries of origin of this FDI for the three years 2017–2019 are the USA, the United Kingdom, Germany, Denmark and the Netherlands.

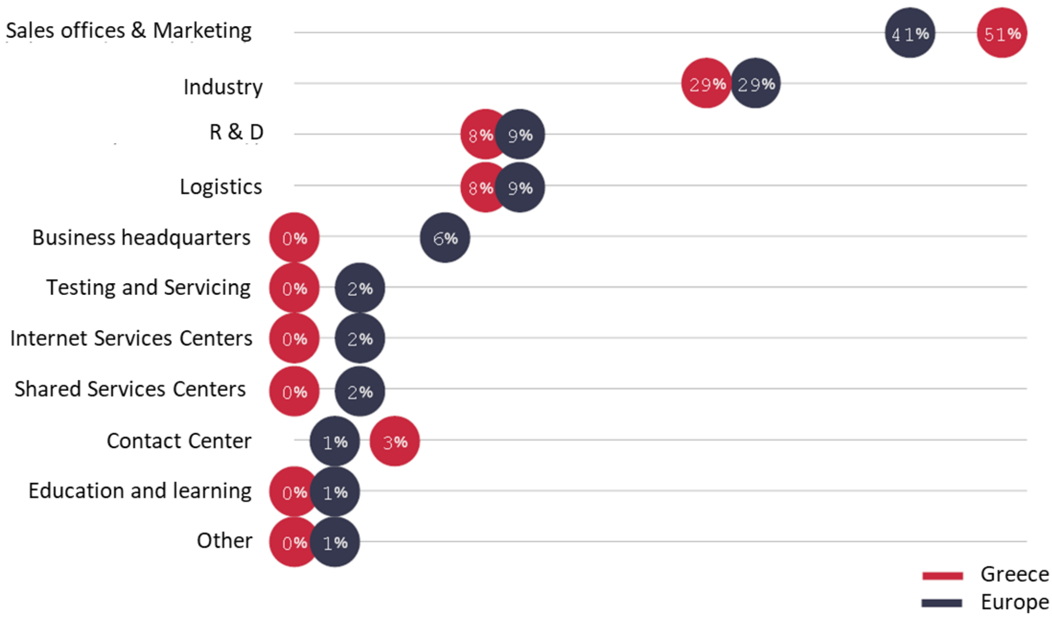
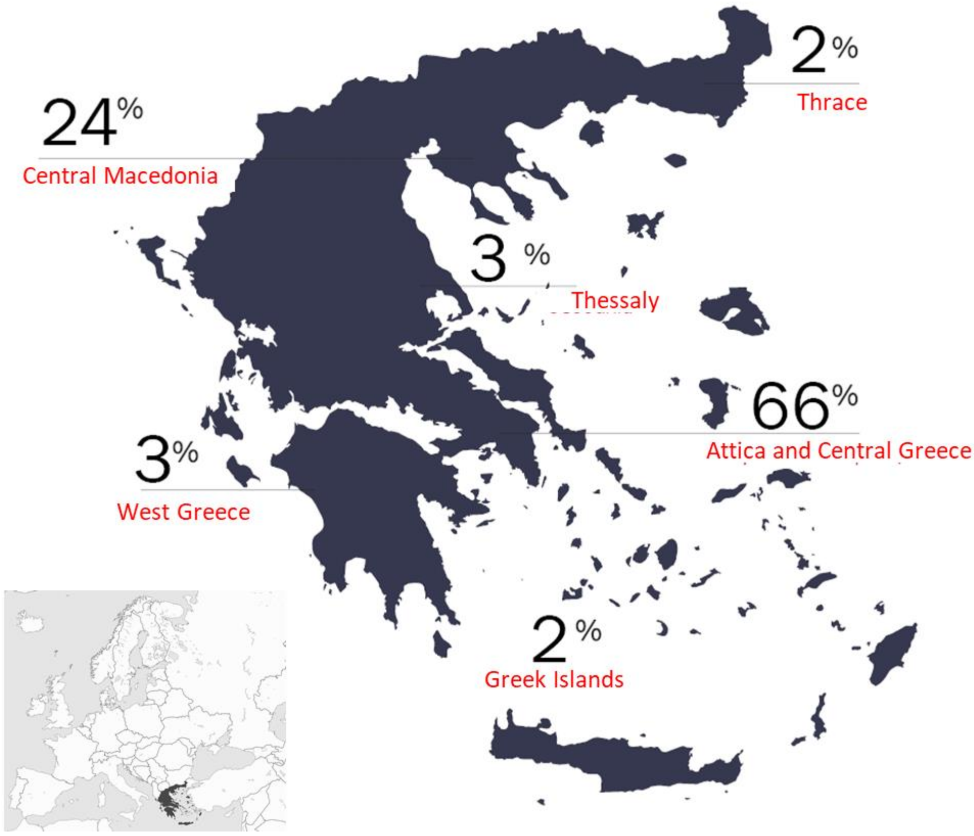


Chart 1: Investments' sectors 2017-2019
Source: EY Attractiveness Survey Greece (2020)

For the two years 2017-2019 (Chart 1), in particular, more than half of the investments in the country (51%), concern sales and marketing offices, a percentage 10 points higher than the European average. The high percentage of investments in the industry is encouraging in terms of value added and contribution to employment. As regards to the number of FDI in Europe in 2019, Greece has risen to the 29th position, compared to the 32nd it occupied in 2018. The majority of FDI inflows were related to the tertiary sector with 68% and the secondary sector with 31% in the period 2009-2014. In the global community as well as within a country, there is a tendency to concentrate investments in the service sector. For the period 2009-2018, the first five positions are occupied by business services (19%), the agri-food sector (14%), transport and logistics (13%), digital technology (12%) and finance (10%). In contrast, the sectors that attracted a relatively lower share of investments in Greece compared to other European countries are mainly related to the heavy industry or new technologies, such as transport equipment production (2% vs. 8%), mechanical equipment (1% vs. 7%), electronic equipment & IT (2% vs. 5%). However, to further increase the attraction of FDI, the FDI sectors of health, research and innovation, digital transformation and new technologies can be expanded in the medium term. The scale of FDI, i.e. its exile, is broad, with differentiation also in the type of investor, which can be either a private entrepreneur or a foreign state-owned enterprise, etc. The spatial distribution of these investments within the country reinforces regional imbalances, as more than 60% of the investments are located in the Attica region and Central Greece, 24% in the Central Macedonia region and essentially in the Thessaloniki metropolitan area. Overall, these two areas absorb more than 90% of FDI, which underlines the need for even stronger incentives to decentralise investment.



Map 1: Regional FDI structure in Greece in the period 2017-2019
Source: EY Attractiveness Survey Greece (2020).

Economic growth and increase in productivity and entrepreneurship intensified competition between states, which of course has spatial manifestations. Regions, cities and urban areas, which are now receptors for economic activity and investment, must adapt to the ever-increasing changes that are taking place. To mitigate this competition, the European Union was called upon to provide a solution by introducing a social and economic cohesion policy, which was later transformed into the policy of the EU Territorial Cohesion with a clear spatial focus, as it strengthens economic and social cohesion by reducing differences in the level of development between regions.

Regional policy, which essentially lies in the equalisation of spatial disparities, combined with the optimisation of locational efficiency, thus constitutes the spatial development policy for the entire European continent, implemented through planning. The approaches of spatial and regional planning, development and investment policies, as well as governance processes in terms of vertical and horizontal coordination of public participation, are a direct function of the spatial planning systems of each country and have an indirect role in the development of productive activities.

The most common tool for attracting FDI worldwide is the Special Economic Zone, which, however, originates from economic policy and is defined as a geographically delimited area within which there are certain tax and development incentives to strengthen industry and investment. Special Economic Zones are widely used in most developing and developed economies, while their whole approach is based on theories of economic and spatial agglomeration, clustering and urbanisation economics. In Greece, although they have been discussed and proposed several times, especially in border areas, they have never been institutionalised. Instead, investment planning is pursued through spatial planning instruments that include development targeting since the years of the economic crisis.

In Greece, the circumstances are different, as specific spatial plans were established for attracting investments, mainly through memorandum checks, which were later maintained, as recipients of business and production activities. Over time, some of them have been put into practice as new ones have been introduced that are more flexible in terms of stakeholders and faster in terms of approval procedures. However, a notable differentiation of the previous spatial planning system and the strong vertical hierarchical link that characterises it is the fact that these institutional instruments (i.e. Special Urban Plan, ECHASE, ESCADA) can change the land use and construction restrictions of existing plans at the same level to increase investment activity.

The FDI profile and trends, as well as the institutional framework, are used to examine whether the FDI sites and their urban planning follow a spatial pattern to prevent regions from degrading. This inability to prioritize areas for development and/or priority areas spatially identified by the spatial planning strategy and plans shows that until recently there was no political intention to combine spatial planning and development planning to meet and improve the productive needs of the economy and society. Nowadays, however, a new spatial planning model seems to be emerging that is more entrepreneurial, flexible and adapted to market needs, approaching what is called "growth-oriented spatial planning" in other European countries and aiming at active investment promotion.

The conclusions are properly drawn by applying spatial planning tools for existing and proposed FDI based on specific criteria weighted differently depending on the type of investment.

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