FOREIGN CAPITAL INVESTMENT IN GREECE*

I believe that our help should be primarily through economic and financial aid which is essential to economic stability and orderly political process."

Harry S. Truman

With these inspiring words the President of the United States of America responded on March 12, 1947 to the appeal of the Greek Government for assistance.

Greece was very sick from the political, economic and social points of view; and the remedy proved the most effective, because both political instability and social unrest had emanated mainly from the economic ills of the country.

World War II and the German, Italian and Bulgarian occupation had left Greece in a state of complete economic desolation. All major ports were demolished and 95% of the railroad system was destroyed. There was practically no vehicular transportation and of 755 merchant marine vessels and 733 caiques (small coastal craft), only 138 ships of all kinds were left. Greek industry had come to a virtual standstill as a result of the Axis invasion. During the occupation, entire industrial plants were dismantled and shipped to enemy countries, other industrial equipment was damaged or destroyed; and what remained untouched was made up of antiquated machinery. Furthermore, Greece lacked many of the fundamental requirements for an industrial complex, such as trained craftsmen, managerial skills, power, ports, communications that are mainly known as basic infrastructure. National income was 41% and industrial production was 35% of prewar levels. Inflation was rampant. Despite this disastrous state of the country's economy, the main attention was focused toward putting down the flames of internal strife, restoring order, organizing and equipping the national armed forces, bulld-

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ing roads and port facilities, importing essential for life and rehabilitating about 2.5 million refugees.

It was only late in 1949 that a four-year development program could be put into effect. The program provided for substantial investments in agriculture, forestry and fisheries, mining, transportation facilities, power, etc., including the private sector of industrial development.

One hundred and fifty-two industrial enterprises received loans financed through a joint Greek-American Central Loan Committee which was capitalized with American aid and counterpart funds and was empowered to make and service such loans as shown in the following table:

Companies	Number of Loans		$ million	Drachmae Equivalent in $ million
25	56	Chemicals	8.27	5.58
54	87	Metal working	3.14	3.86
2	4	Steel plants	2.08	1.17
40	48	Building materials	0.25	0.72
1	3	Steel sheets	0.76	0.66
2	7	Cement	4.57	1.82
1	1	Munition production	2.60	—
3	4	Textiles	0.12	0.12
9	10	Miscellaneous	0.38	0.67
15	32	Guerrilla stricken	2.60	1.38
Total 152	252		24.77	15.98

Other loans were subsequently granted under the aegis of the joint American-Greek endeavor based on U.S. aid funds which brought the total financing of the private industry to about $ 90 million.

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The beneficial multiple effect of the investments, both on the basic infrastructure as well as on private industry, are reflected in the following indices of industrial production expressed in terms of percentage of the 1939 prewar base year.

	1947	1948	1949	1950	1951	1952	1953
Capital Goods	49	58	69	88	107	104	123
Consumer Goods	76	81	97	120	133	134	141

The cumulative effect upon the national economy of the industrial development created or aided by American human and material resources is best measured by the development of the value of the industrial production of Greece, which went from $ 131 million in 1948 to $ 206.7 million in 1953 at 1951 prices.

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The Economic Reforms

However impressive, this assistance was nonetheless devoured by the galloping inflation. By the end of 1952, it became apparent that pouring in aid alone would not solve the problem of the economic ills of the country. Indeed the dislocation of the national economy left Greece at the beginning of the 1950's with inadequate domestic production to meet the demands of the time, a chaotic state of public finances, a paralysis of the money and credit structure, and an internal price level above that of the rest of the world. Monetary instability was reflected in an acute balance of payments deficit which was kept under control by a rigid management of import and foreign exchange regulations, and by assistance from the United States.

Following extensive basic work by a team of Greek and American experts, in cooperation with the International Monetary Fund, on April 9, 1953, the Government of Greece unfolded the monetary and other economic reforms which involved the devaluation of the drachma from 15.000 to a U.S. dollar to 30.000 drachmas (and subsequently to 30 drachmas for reasons of convenience), liberalized trade, revamped the tax system and reorganized the state budget, thus giving an unprecedented solid basis for future development.

Early in the nineteen fifties, it became apparent that economic assistance could neither continue indefinitely nor could it solve the pressing need for large private capital investment in Greece. The measures taken were sound and prudent but not sufficient to inspire security to private capital.

That is why the Greek political parties got together and instituted in 1953 a constitutional law for the protection of foreign capital invested in Greece, known as PL 2687. It is a unique law as it is referred to in Article 112 of the Constitution. It has reinforced validity inasmuch as its provisions cannot be amended by any subsequent ordinary law but by an amendment of the Constitution itself. This is the maximum legal protection that can be afforded to a foreign investor and, in this constitutional form at least, has not been improved upon anywhere in the world.

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In this connection I would like to underline an important provision in Law 2687 guaranteeing the irrevocability of the terms under which a foreign investment is approved by the Greek Ministry of Coordination. This provision stipulates the following:

> "Such approval for the importation of foreign capital granted by administrative acts is irrevocable as regards the terms and conditions under which it is granted in each case and constitutes the guarantee of the Greek State to the investor that his investment will henceforth be unalterably governed by the present enactment.
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> A modification of such terms and conditions may be effected only with the consent of the investor and is effected by an amendment or supplementation of the said administrative acts."

Therefore no foreign investment contract can be revised except only with the consent of the investor himself.

Law 2687 serves as the basic legal framework for foreign capital investment in Greece. Capital entering Greece for investment purposes falls under the procedure stipulated in this law. However, if the investment concerned is large and of exceptional importance to the Greek economy, foreign capital may be imported on the basis of "special agreements" with the Greek State subject to ratification by the Greek Parliament.

Law 2687 aims at the protection of: (1) long-term investments of capital from abroad in the form of foreign exchange, machinery or patents; (2) ships entered in the Greek Registry; (3) long-term deposits of capital in foreign exchange with the Greek banks, and (4) credit to Greek enterprises.

Whereas Law 2687 defines the general framework of the protection provided to foreign capital, the specific details and arrangements are matters for negotiation in each case. The final terms agreed upon are formalized in the form of a decree or a ministerial decision.

The law is based on the following principles: (1) Guarantees against any kind of compulsory acquisition or government interference with foreign ownership enjoying the protection of the law; (2) The "unchangeability" of the terms and conditions agreed upon; (3) The fixing of terms for the repatriation of capital, profits and interest in foreign exchange; and (4) creation of an especially advantageous system of taxation in favor of protected foreign capital.

Repatriation of imported capital may be effected at a rate of up to 10 percent annually, beginning one year after the commencement of the enterprise's production and in no case earlier than one year after the original import of the capital concerned. It is also permissible to export profits up to 12 percent of the amount of imported capital and obtain foreign currency for the servicing of loans contracted abroad and for the payment of interest up to 10 percent annually. Export of accumulated profits and interest is also permitted if in the previous year such exports have been less than the maximum permitted percentages.

Export of exchange is also permitted for the payment of rent of foreign machinery or dues payable on any other form of capital (inventions, technical processes, etc.) or for the payment abroad of salaries to foreign technical and administrative personnel.

Foreign exchange for the repatriation of capital or profits may be exported at rates higher than that mentioned above, but not exceeding (in total) 70 percent of the total foreign exchange proceeds from exports. Foreign loans of exporting enterprises may be repaid at an annual rate of up to 20 percent provided the ratio of the total amount of loans of the enterprise to their equity is not more than two to one.

The amount of income tax or fixed percentages on gross or net profits, to be determined by special approval, can be consolidated for a maximum ten-year period. These percentages can be fixed at rates below those provided by existing law.

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Greece's association on favorable terms with the European Common Market in November 1962 was a milestone in the nation's modern history. This association represents an occasion both of necessity and opportunity for continued future growth.

The terms of association provide that Greece receives the full benefit of all tariff reductions within the Common Market. Thus Greek exports can enter the Common Market countries burdened by duties which are now only 20 percent of the rates effective at the initiation of the Common Market in 1957. At the same time, a period of seven to seventeen years remains for the gradual reduction of Greeces' own import duties. This period of adjustment is provided to afford Greek industry time to develop, modernize and become competitive.

Investment in Greece thus allows non-members of the European Economic Community, such as the United States, advantageous entry into the Common Market. Because of the great size of the Common Market, Greek-based industries have the potential of expanding to optimum economic size instead of being limited by the size of the Greek internal market and purchasing power.

Greece's geographic position, combined with its good relations with its neighboring countries, make it an excellent base from which to trade with Eastern Europe, the Middle East, and the new African nations. In many of the Middle Eastern and African states, Greek business communities have long existed and the conduct of much of the trade and commerce is in the hands of Greek businessmen. As the importing capacity of these countries increases, imports from Greece should increase more than proportionately.

The total volume of Greece's visible trade with the Eastern European countries increased from $115 million in 1962 to $227 million in 1965. Trade with these countries has in recent years been one of the fastest-growing sectors of Greece's foreign commerce and it is government policy to encourage this trade still further through the inclusion of an increasing variety of items in the existing bilateral trade agreements. Exporting from Greece should prove an expeditious way for U. S. companies to penetrate these markets.

Labor in Greece is in less plentiful supply now than in the recent past because of large-scale emigration to Germany and other Western European countries. It is expected that, as the economy expands, the great majority of these emigrants will return to Greece; in fact a substantial number already have. The net movement is still outward, however.

Even so, the labor force is still relatively ample, and Greek workers are widely acknowledged to be efficient, intelligent, and resourceful. Average wage rates paid by industrial enterprises in the Athens-Piraeus area in 1966 were the equivalent of $3.46 per day for male workers and $2.17 per day for female workers. To these amounts should be added approximately 60 percent to cover cost of social security and payroll taxes, paid cavations, bonuses, etc.

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Increased economic activity in both the public and private sector, the demand for flexibility in economic management of new private enterprises, the urgent need for capital risks and guarantees, led to the creation of new private and public banking institutions to carry on the burden of the investment demands of the present time. In the private sector, we mention the National Investment Bank Development and the Investment Bank. But the creation of the Hellenic Industrial Development Bank in 1964 had far-reaching effect.

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The Hellenic Industrial Development Bank (ETBA) was founded in 1964 as the central state agency for investment in Greece through the merging of three organizations: The Industrial Development Corporation, the Economic Development Financing Organization and the Tourist Credit Organization. With its own funds amounting to $190 million —which is more than the total capital and reserves of all other Greek banks put together— the Bank's activities extend to industry, mining, shipping, deep-sea fishing, tourism, transport, as well as the organization of industrial estates. Although fully state-owned, ETBA operates as a private enterprise.

This bank aims at attracting foreign capital for productive investment in Greece, provides medium —and long— term loans as well as equity financing to new or existing enterprises, assists in the development of a capital market and cooperates in the application of the government's public investment program. It has established fully-owned companies for mineral prospecting, industrial estates and deep-sea fishing, owns and administers a number of industrial enterprises transferred to it by the State and participates in the share capital of a score of other industrial enterprises.

In considering applications from industrial enterprises for loans or equity financing, ETBA uses the following criteria: The viability and productivity of the enterprises in question must be ensured; the investment must aim at attaining production costs which are internationally competitive, particularly in the Common Market; there must be definite prospect of an increase in exports or a substitution of imports without recourse to customs protection. In addition, the following criteria are taken into consideration: The enterprise's ability to absorb idle labor; the plant's location, with a view to promoting regional development; and the plant's effect on productivity increase.

The results of all these measures have been very impressive. From 1953 to 1965 a total of 962 foreign investment applications were submitted to the Greek Ministry of Coordination, involving $1,139.9 mill. Of this total, the Greek Government has approved 594 applications representing approx. $711.5 mill. A full analysis is to be found in the table A; The breakdown of the approved investments per country of origin is indicated in the table B:

TABLE A: FOREIGN INVESTMENTS IN GREECE UNDER LAW 2687 OF 1953

Year	Investment (Number)	Applications (Sums in $ million)	Application (Number)	Approvals (Sums in $ million)	Amounts Imported (in $ million)
1953	1	0.2	—	—	—
1954	30	13.0	2	1.1	—
1955	33	36.9	10	2.9	3.0
1956	43	15.9	19	19.7	1.9
1957	34	15.3	16	4.7	6.7
1958	39	29.8	18	6.3	8.2
1959	64	100.7	35	21.2	8.3
1960	64	81.9	41	74.3	11.7
1961	69	88.4	43	30.7	13.5
1962	97	176.3	66	184.2	16.8
1963	131	70.1	84	44.3	40.1
1964	121	125.5	91	61.1	59.7
1965	123	200.1	74	66.7	111.6
1966	113	185.8	95	194.3	(not available)
Total	962	1.139.9	594	711.5	281.5 (end 1965)

TABLE B: FOREIGN INVESTMENTS IN GREECE
BY COUNTRY OF ORIGIN AND ECONOMIC SECTOR
(in $ million)

Sector	U.S.A.	France	Switzerland	West Germany	United Kingdom	Others	Total
Industry	173.8	167.7	32.4	16.5	3.1	150.8	544.3
Shipyards	1.1	—	—	—	—	49.9	51.0
Mining	21.5	1.9	1.1	7.9	8.2	9.1	49.7
Hotels Tourism	0.3	1.6	3.6	2.1	0.6	12.4	20.6
Airlines	—	—	—	—	—	4.5	4.5
Deep-sea Fishing	—	—	1.3	0.6	0.5	1.1	3.5
Miscellaneous	32.3	0.9	0.2	—	0.8	3.7	37.9
	229.0	172.1	38.6	27.1	13.2	231.5	711.5

It will be seen that out of a total of $711.5 million, $229.0 million represent U. S. investments, $172.1 represent French investments, $38.6 Swiss, $27.1 West German, $13.2 United Kingdom, and $231.5 represent investments originating from other European countries.

Capital formation was vastly facilitated and since 1953, when a stabilization program culminated in the restoration of confidence and the stabilization of the drachma, Greece has been one of the world's fastest-growing economies. During that period, the Greek economy has emerged from a disrupted, underdeveloped state into a condition of rapid and balanced development characterized by vitality and resilience.

The postwar internal changes in the Greek economy, plus the joining of that economy to Western Europe through Greece's associate membership in the European Economic Community, have transformed Greece's situation as far as private foreign investment is concerned. Foreign investors can now view Greece as a dynamic and growing economy which has proved its ability to maintain monetary and financial stability and to sustain a high rate of economic growth over a prolonged period. Moreover, Greece need no longer be viewed as a small market of less than nine million people with still relatively low per capita income and purchasing power. Associate membership on favorable terms with the EEC has made Greece an excellent base for access to this large and prosperous market of 180 million Europeans. Greece's additional advantages of (a) its intelligent and ample labor force, (b) its relatively low labor costs, (c) its geographic position, and (d) the incentives it offers to foreign capital, all combine to make the Greek economy an excellent site for foreign private investment.

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The Greek economy has sustained a high growth rate from 1953 to the present time and has simultaneously maintained relatively stable prices and a strong exchange rate. The economy has more than doubled in size during this period. In the last seven years, the gross national product has increased by an average of 7.5 percent per year in real terms, reaching about $5.5 billion equivalent in 1965. Per capita income in real terms has risen by an average of more than 6 percent per year in the last ten years. These are among highest growth rates in the world. Over the same period, industrial production has increased by an average of 8 percent per year. During the first seven months of 1966, industrial production averaged about 15 percent higher than during the same months of 1965.

Both the consumer and wholesale price indices have risen about 15 percent since mid-1959, or by an average of less than 2 percent per year. This price stability has been reflected in an increased propensity to save on the part of the public. Since the drachma was stabilized in April 1953, the medium of savings has shifted from the gold sovereign to savings deposits. The volume of savings deposits with the banking system has increased from 5. 3 billion drachmas at the end of 1956 to about 48 billion drachmas at the present time. During 1966, the Bank of Greece had been a substantial purchaser of gold sovereigns from the public.

Greece's foreign exchange position has remained strong and the drachma, with an exchange rate of 30 drachmas to the dollar, is recognized as one of Europe's most stable currencies.

The physical structure of the economy has improved radically. A new and modern nationwide power system has been developed since 1950 and is being rapidly and steadily expanded. A modern national highway system has been constructed. The same is true of the telecommunications network. Airports and seaports have been built and / or greatly improved.

To assure continuation of the exceptional economic progress experienced during the last fifteen years, the Greek Government has drawn up a new five-year development program covering the year 1966-1970. It projects an annual average increase in gross national product of 7-8 percent per year in constant prices. Per capita income is projected as increasing from $505 to $800 in 1970. In the light of Greece's actual growth achievements in recent years, the targets of the new five-year program seem reasonable.

Between 1960 and 1965 the per capita gross domestic product in Greece, at constant (1958) prices, increased by 40.7 percent, which corresponds to an average annual rate of increase of 7.1 percent. This rate of increase has been one of the highest among both developed countries such as the United States, France, Italy and West Germany and developing countries such as Portugal, Turkey and Mexico.

As a result of this high rate of increase, per capita gross domestic product in Greece at factor cost and 1958 prices rose from $327 in 1960 to $460 in 1965. The corresponding figure for 1965 at current prices is $545.

This rate of increase has been higher than the corresponding average rate of the European Economic Community. As a consequence, per capita gross domestic product in Greece, expressed as a percentage of that of the EEC, rose from 35 percent to about 41 percent. It is worth noting, however, that despite this relative improvement the absolute difference between the two magnitudes has shown a small increase in the period under review.

Thus, it becomes necessary for Greece to intensify her efforts for economic development so that, until she becomes fully integrated in the EEC, this gap is sufficiently narrowed.

The gross national income of Greece, valued at 1958 prices, rose from 83.6 billion drachmas in 1960 to 123.7 billion drachmas in 1965, i. e. it increased at an average annual rate of 8.2 percent.

This high rate of growth was accompanied by a notable improvement in the composition of gross national output. The output of the sector of secondary production rose at a faster rate than that of other sectors with the result that its percentage share in total national income increased from 27.3 percent in 1960 to 28.4 percent in 1965. On the other hand, income from primary production —which includes agriculture, livestock production, fishing etc.— fell from 27 percent of the total in 1960 to 24. 5 percent in 1965.

The small increase in the percentage share of income from services reflects the internationally observed trend of increasing demand for services which accompanies the rise in per capita income.

Industrial output contributed substantially to the rapid increase in income from secondary production in the period 1960-1965 as mentioned before. Between 1960 and 1965 industrial production increased by 41 percent, i.e. at an average annual rate of about 7 percent.

The rise in industrial output is largely due to the substantial increase in productivity and the coming into operation of new industrial units of a large size (e. g. blast furnace, nitrogen plant, Pirelli, Thessaliki Paper Pulp, etc.). It should also be noted that the increased demand, resulted in fuller utilization of existing capacity and has contributed to the expansion of industrial output in the period under review.

Thus, within a period of twenty years the pronouncement of the great American President justified his decision to respond to the desperate appeals of the Greek nation which said:

"Give me but one firm spot on which to stand, and I will move the earth."

And the Hellenes, like one person, restored order, repaired completely the ravages of the war, and prepared the solid groundwork which permits them to pursue their peaceful endeavors.

POSTSCRIPTUM

The National Government of Greece in their first statement on April 21, 1967, made the solemn declaration that they consider the creation and maintenance of suitable conditions for the attraction of foreign capital, as well as the full participation of local capital, to be basic factors for the acceleration of Greece's economic development. The Government has also pledged to seek national prosperity within the framework of currency stability. There has been no change in economic or commercial legislation. Constitutional Law 2687 of 1953 concerning investment and protection of foreign capital remains in full force. The National Government has formally pledged to adhere to the principle of the United Nations Charter and to fulfill its obligations towards EEC, NATO and the Western world.

In a major policy speech last May, the Minister of Coordination further stated: "The Government believes in a free economy and the principle that the individual, so much as a production unit as well as a consumption unit, must act freely and with a basis of the willful enlargement of the benefits accruing from such an activity. Thus, any deviation from the theory of free business initiative is opposed."

The National Government further stated that it will respect all oustanding economic and financial commitments of the State and will further encourage foreign private investment in Creece. For this purpose, the Government decreed that all applications for the establishment of new production enterprises by investors, Greek and/or foreign, should be processed promptly and applications will be receiving a " 'yes' or 'no' answer" within fifteen days from the date the application is filed with the Greek Ministry of Coordination.

The Government followed this declaration with an immediate change of personnel in the Private Investment Division of the Ministry of Coordination and reorganized the Foreign Investment Committee by pumping into it new blood so badly needed for quick action.

These measures were further stregthened by emergency Law No. 89. This exceedingly liberal legislative measure supplementing earlier legislation permits foreign commercial and industrial enterprises, operating lawfully in their home country under any form of business organization, that engage exclusively in trade or business pursuits outside of Greece, to have a permanent establishment in Greece by decision of the Minister of Coordination.

This measure permits two-year residence to foreign personnel in Greece with a visa for multiple entries; a tax clearance valid for one year; exemption from import duties and taxes of office equipment; exemptions from taxes of earnings outside Greece, etc., thus making Greece one of the most attractive centers of overseas operations.

The National Government in keeping with the policy declaration of April 21, announced recenty a five-year Economic Development Plan which will encourage private investment toward desirable avenues rather than chart detailed control of private initiative as is the case with most long-term development plans of less developed countries.

Thus the experience gained during the last five years in the international field of private investment is put into effective application in Greece.

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