" GREECE'S INDUSTRIAL DEVELOPMENT AND CHALLENGES FOR THE FUTURE "

ADDRESS BY MR. THEODORE PAPALEXOPOULOS
PRESIDENT OF THE FEDERATION OF GREEK INDUSTRIES

INVESTMENT AND TRADE IN GREECE CONFERENCE
May 12 and 13, 1986

Ladies and Gentlemen,

It is both an honour and a pleasure to address this Conference as the sole - I believe - representative of the private sector of our Economy. In my short address I shall try to sketch a profile of the Greek Industry, to analyse recent trends and to outline future prospects and opportunities as we in Industry see them.

Greek Industry, as it stands today, was shaped in an environment of rapid development and relative price stability which prevailed from the late 50's to the early 70's. Much of today's industry, in this country, is the result of developments of that period. So may be we should start from the beginning.

Following World War II and the Civil War, the Greek economy entered a period of rapid reconstruction and fast rates of growth. During the 1950's, the Marshall Plan and the determination of Greek governments to stabilize and stimulate the economy, provided a good start and favourable conditions for the subsequent achievements.

During the 1960's and the first half of the 1970's, Gross Domestic Product, at constant prices, rose at an average annual rate of 7%, the highest rate recorded in the OECD area for that period, with the exception of Japan.

The most important factor behind this fast rate of development was the industrial expansion: During that same period, the manufacturing product increased by almost 10% annually, compared with 4,5% in agriculture and 6,5% in the services sector. This brought about substantial changes in the composition of our GDP with manufacturing accounting for a constantly increasing share. Today, the secondary sector which, besides manufacturing also includes mining, electricity and construction, represents 35% of total GDP compared with less than 15% in the 1950's. Exports of manufactured goods expanded along similar lines and rose from a mere 12,4% of total Greek exports in 1960 to over 73% in 1984.

The driving factor behind this rapid industrial expansion in the 1960's and the first half of the 1970's was investment. Gross fixed asset formation in manufacturing rose during that period at an annual average rate of almost 11% while overall net capital stock increased by a factor of 3.5. Investment activity in manufacturing was particularly brisk in the sixties, when the annual rate approached 20% in the first half of the decade and 7.5% in the second half. In fact, that was the period when most of modern, well-organized, relatively large and export-oriented industrial firms were founded. It was also the period of substantial direct foreign investment in our country, that resulted in the creation of important firms in key manufacturing sectors.

The mid-seventies and the second energy crisis seem to have marked the end of continuous and rapid development.

The annual growth rate of GDP, from 7% in the preceding decade, fell to less than 3% in the period 1975-85.

The change of pace was especially pronounced in manufacturing investment, that started decreasing in 1975 and has still not recovered. In 1985, industrial investment, at constant prices, was still 13% lower than its 1974 level.

Another factor of instability that appeared in the last decade was the loss of price stability and the persistence of two-digit inflation rates. In 1985 inflation approached the 20% mark.

Finally, Greek exports, pressed by a continuous erosion of their competitiveness, stopped growing and trade deficits thus reached unprecedented heights.

Obviously the central objectives of Greek economic policy, at present, are the drastic reduction of inflation, the improvement of external balances and the recovery of investment.

The stabilisation measures introduced in October 1985 clearly aim at the first two objectives. But even if they fully succeed, what are the prospects of investment? On this last issue I wish to focus our attention.

It is interesting to reflect on the relative positions of Greek Industry and of potential foreign investors towards investment in this country.

Investment in industry, during recent years, has been weak. Yet what little investment we had, originated in existing firms to a greater extent than in previous years. In other words, outsiders, new-comers, were particularly hesitant to embark on new industrial projects. Clearly, conditions were not favourable.

Industry's attitude - in simplified form - was as follows:

If Government creates those conditions and prerequisites that are necessary for a powerful flow of investment by new investors - whether from home or abroad- then it is highly likely that, by the same token, the problems of existing Industry will have also been taken care of.

Conversely, we often hear foreign prospective investors ask: "Why don't Greeks invest in their industry? When they do so, convincingly, then we might well follow suit". In other words, both sides need more tangible evidence that the conditions for investment are right.

Let us take a closer look at the roots of this hesitancy, the basic reasons for this lack of decisiveness.

Investment, as we all well know, besides being determined by profitability considerations, is ultimately connected with the general socio-economic conditions prevailing in a country. Greece, in spite of the colonels'regime, avoided tumultuous events but followed instead a course of profound evolution, starting in 1974, right up to this day. In the course of this evolution, socio-political developments - new to our country - suddenly caught up with the economy which thus, belatedly, ran out of steam. On the other hand, the institutional framework, which had failed to evolve in previous years, was unable to adapt fast enough and became a hindrance. This period of profound and accelerated evolution, however, appears to be drawing to an end and some attitudes have already started to change: Under the pressure of the crisis, a new pattern of views and opinions is emerging.

This last development, to my mind, is an encouraging sign. For, it reveals that individuals and groups - both social and political - now realize that they have to give up their illusions and squarely face up to reality, that our country has lost ground to world competition and that wealth cannot be distributed before it is earned. This development, coupled with the low levels of dollar rates and oil prices, is causing new attitudes to prevail - even in political circles. A new opportunity for recovery appears to be arising. Therefore, although this is obviously not the moment to seek smooth sailing or windfall profits, this <u>is</u> the moment to analyze market evolutions, to ponder over strategy, to plan for the future.

The moment may not be far away when conditions are right for the launching of a new and convincing investment drive that will provide attractive investment opportunities while substantially contributing to our technological and productivity improvement. When the moment comes, we must be ready. For if we miss this opportunity, we will run the risk of becoming the European Community's "parent pauvre". But you might ask: All this is easier said than done: How do you suggest going about it?

The answer, I believe, lies in adopting entrepreneurial attitudes and a practical approach.

We have often heard it said in this country - or should I say: ourselves complained - that the main stumbling blocks to investment are:

a) State interventionism in business decision-making and rigid and arbitrary price controls.

b) Labour legislation, particularly with regard to the rights of the unions.

c) The overall public-sector bureaucracy - particularly in the banking system - and the difficulty in obtaining working capital.

d) The underlying fear of socialization or of unfair competition by the public sector or cooperatives.

Clearly a prospective investor should avoid the sectors and products most likely to come under this last category, such as weaponry, pharmaceuticals and products for agriculture.

But were he to choose a product or range of products or services that can be produced competitively and are in high demand or low supply on the world market, in other words exportable goods and services, then, to a considerable extent, he could hope to avoid both domestic price controls and banking bureaucracy and apply for working capital with western-world banking criteria, if not terms. Even the recent labour legislation, which back-fired mainly in the public sector, has lost much of its original punch and has proved manageable in most well-run companies. Therefore prospects at the microeconomic level, under circumstances, could be considered acceptable or even favourable.

In general, however, at the macroeconomic level, there still are difficulties and hurdles. And in all fairness, one should not fail to mention a profound and continuing shift of profitability away from manufacturing towards other activities. This shift has left Greek Industry, taken as a whole, with losses exceeding profits and a negative return on own capital for the last three years in a row.

But if a consistent policy for recovery is implemented in the near future, the overall picture could change fast. Because ours is a shallow economy - not yet vertically integrated. It is therefore easily influenced by negative external factors but also quick to recover when conditions improve.

Under present circumstances, Greek Industry will not delay in responding to such a policy for recovery. Greek Industry fully realises that it badly needs to invest in order to catch up with technological developments and to improve its competitiveness which is lagging. Proof of this attitude is the current, forceful response by Industry to the Integrated Mediterranean Programs of the EEC.

But if we were to take, instead, the viewpoint of a foreign investor who has an established position abroad and therefore easier access to the world market, Greece's advantages are not negligeable:

First and foremost, Greece has a vast pool of capable, talented, high-power, achievement-oriented enterpreneurs with an impressive track-record, both at home and worldwide. This is a first-rate asset for any firm looking for "managerial timber" or for SMEs, either for partnerships or for sub-contracting of goods and services. However, Greece also has other strong points: a fairly advanced industrial infrastructure, increasing numbers of skilled workers, costs which, though rising fast, are still lower than in the other EEC countries.

But one should also underline the country's strategic geopolitical position as a link between the EEC, the Middle East and Africa, its substantial experience with - and an inherent understanding of - business and trading practices in these markets that are bound to grow in importance for European products and services.

* * *

Foreign investment, on the other hand, has important positive effects on the Greek economy. The inflow of foreign capital in the '60s contributed greatly to the growth of the Greek economy and to its outward-looking orientation. Besides, recognition should also be given to the indirect advantages and fringe benefits that in the past have accrued to our economy from the activities of foreign national or multinational companies: Management development and techniques, specialized expertise, know-how, technology, innovative attitudes have flown to our country through foreign investment in a convincing, broad-based and effective manner and in a relatively short time-span, that would not have been possible in any other way.

There are, of course, arguments against foreign investment. Most of them are political and are usually based on the assumption that the decision-making is done outside our national boundaries, regardless of our national economic targets or aspirations. But if this argument was valid some time ago, today it is probably less so: Today's trend in Europe, an irreversible trend, is towards a truly integrated Community market - a market of 320 million inhabitants - and towards a corresponding decline of the importance of the individual national markets. Decision-making, therefore, is becoming more and more complex and systems-oriented and is increasingly influenced by transnational considerations.

Let me now come to our Federation's position on the question of foreign investment in Greece, before reverting to what I called entrepreneurial attitudes and a practical approach. It is certainly the Government's duty to set the rules and criteria governing foreign investment in our country. And, from what we have heard today, foreign investment is welcome as long as it is consistent with the longer-term objectives and provided there are mutual benefits. We, in the Federation of Greek Industries, fully agree with this position. Obviously, in an open economy, foreign investment should be accepted and is highly desirable, especially in times of scarce capital, low productivity and increasing unemployment. But, of course, an "open economy" also means fair competition. Equal terms, equal for all investors, domestic and foreign. If this condition of paramount importance for Greek industry is satisfied, we firmly believe that foreign investment will be an asset for our country, both in the short- and in the long-run. Obviously, such investment can take various forms, as it did in the past. But we have learned from experience that joint ventures of every type have the more lasting and satisfactory results for both sides and for the economy as a whole.

Now, if we link up the rational or practical viewpoints of the Greek and of the foreign prospective investors and if we add the notion of joint ventures, I believe we can be led to a host of possibilities and interesting opportunities. I wish to refer particularly to the EEC market which, as I said, is quickly becoming a really unified market. Scores of large industrial concerns, whether European, American or other, have decentralized their operations and now increasingly rely on sub-contracting and on sub-suppliers. The general trend in international competition in manufacturing is towards the assembly of the best and the cheapest components, purchased on a worldwide basis.

Joint ventures in Greece aiming at supplying large industrial concerns - primarily, but not only, in the EEC - could well hold favourable prospects for the future.

I am not suggesting that all this will happen easily. It requires vision and daring from the prospective investors and a consistent and continuous effort by all concerned to create an environment conducive to investment and growth. Much will, of course, depend on the economic policy for recovery and on the consistent implementation of a steady strategy. But there are objective reasons to believe that the worst of the crisis is drawing to an end. Greek industry has shown great dynamism in the past, fast growth rates and an ability to recover, even after a prolonged downturn of the cycle. It can repeat this impressive performance, thereby leading the way for the Greek Economy as a whole. This is both a necessity and a challenge.
