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**The Role of Foreign Direct Investor Policies  
in Creating a Knowledge – Based Economy  
in the New Member States of the European Union**

**Abstract**

*The objective of this paper is analysis and assessment of policies applied to foreign investors in the new member states of the European Union (EU) in the context of challenges ushered in by the creation of a knowledge-based economy. Foreign direct investments are considered an important factor accelerating economic modernization by these countries. European Union membership has increased the investment attractiveness of the new member states. However, the new members generally continue to occupy a humble position among the expanded European Union (EU-25) as countries accepting foreign capital in the form of foreign direct investment. All of them offer a rich set of incentives for investors, including foreign investors. Significant portions of the financial and fiscal incentives are aimed at supporting knowledge investment in their broad sense.*

**1. Introduction**

In its Lisbon Strategy of the year 2000, modified in 2005, the European Union earmarked ambitious aims in the realm of changes to the scientific and economic spheres that are to foster the development of a knowledge-based economy (Growth and Jobs 2004, Lisbon Agenda 2007) for its member states. The achieving of these targets necessitates the activating of all forces and mechanisms facilitating transformation in the economies of the member states, especially in the less developed ones. One of the factors that may turn out to be

an important stimulator of change is foreign direct investment (FDI) flowing to the new member states. These countries receive foreign direct investments applying their own policies with respect to foreign investors. This engenders the question of to what degree and with the help of what instruments the new member states can strengthen the positive impact of FDIs in striving to transform their economies into knowledge-based economies. Moreover, this paper analyzes the policies of ten new member states (excluding Romania and Bulgaria), concentrating on instruments that support research and development work, computerization, the dissemination of the Internet, and raising the qualifications of the labor force.

## **2. The Scale and Dynamics of the Foreign Direct Investment Flows into the New European Union Member States**

New European Union member states have tied and continue to tie great hopes with the influx of FDI. This particularly applies to countries that have undergone systemic transformations. The inflow of FDI into economies that are less developed is dependent on a whole range of factors, which have been analyzed in topical literature (Lecraw 1992, Witkowska 1996). An important factor influencing investment attractiveness in the case of new European Union member states is that membership and its resultant changes in legislative, institutional, and economic spheres.

Tendencies in the area of volumes of inflow and the dynamics of FDI flows entering the ten new European Union member states during pre-membership and post-accession periods are presented in Tables 1 and 2.

The total inflow of FDI was minimal over the 1989–1994 period. It amounted to an average annual level of barely USD 3.4 billion (compare with Table 1). The year 1995 proved to be a watershed as the total FDI flow rose more than 3.5 times and reached a level of USD 12 billion. The second half of the nineteen-nineties was marked by rapid growth in global FDI flows (compare with UNCTAD 2001). This brought with it increased FDI flows to the countries being analyzed. In the year 2000, just prior to the collapse of global FDI flows, the annual FDI inflow to the ten countries preparing for membership in the European Union reached a level of USD 21.7 billion – i.e. almost twice as much as in the mid-nineteen-nineties. In spite of perturbations in the world economy in 2001 and the collapse of FDI flows that was even felt by highly developed countries, the analyzed countries continued to attract FDI on a similar level (USD 19.3 billion and USD 22.6 billion in 2001 and 2002, respectively).

However, this positive trend failed to maintain itself in the face of world economic trends. In 2003, the last year before entry into the European Union, the annual FDI flows flowing into the analyzed countries amounted to barely 58% of the value of previous years, which in absolute values amounted to only USD 13.2 billion.

A radical change in the scale of FDI influx to the analyzed countries occurred in conjunction with European Union membership in 2004. In as much as the world economy and the old member states of the European Union continued to feel the negative impact of worsening world trends in 2004, new member states (with the exception of Malta) noted significantly greater inflows of FDI to their economies. In most of these countries the incoming stream of FDI increased over twofold, and even three – or fourfold in certain cases, as compared with the previous year. Most countries not only made up for losses from the previous year, but the scale of FDI inflow actually exceeded levels from prior years – i.e. better than the difficult year 2003. Successive years (2005–2006) brought further increases in the total stream of FDI flowing to the new member states in an absolute dimension, although growth was not as high as in 2004.

Table 2 contains data on the dynamics of FDI inflow to the entire extended European Union and the ten new member states over the years 2004–2006, where data from the year 2004 is assigned a value of 100. These data show that the European Union as a whole saw a significant increase in FDI flows over this period – i.e. over 2.5 times as compared with 2004, while for the new member states, growth as a group was only by 30%.

The new member states of the European Union are not a homogeneous group with respect to the dynamics of inflowing FDI. This is depicted by the data in Tables 1 and 2. The Baltic states-Latvia, Lithuania, and Estonia – registered the greatest growth during the initial period of European Union membership, 167%, 125%, and 70%, respectively. However, it should be remembered that these are small countries where the annual FDI inflow did not achieve USD 2 billion (the exception is Estonia, where the inflow was USD 2.9 billion in the year 2005).

The countries of Central Europe – i.e. the Czech Republic, Poland, Slovakia, and Hungary – a second group, had an annual inflow ranging from USD 4 billion (Slovakia in 2006) to almost USD 14 billion (Poland in 2006). They noted lesser growth in inflows – i.e. in the area of from 8% to 40% over three years of membership. Moreover, relatively large fluctuations in annual, absolute volumes of the FDI flows are visible in all those countries.

The third group of new member states – Slovenia, Malta, and Cyprus – demonstrates variable tendencies. The most spectacular increase in FDI flows

was noted by Malta – 4.5 times. Cyprus is seeing a systematic, but not as sudden an increase in FDI flows. Slovenia, for its part, is experiencing a yearly decrease in FDI inflow as compared with its first year of membership, where the volume is less by one-half.

Table 3 contains data on the geographic structure of FDI flowing into the European Union by recipient countries, with special attention called to the share of new member states in the FDI flows coming into the European Union. The data from Table No. 3 demonstrate that in their first year of membership, when the old member states noted a drop in FDI inflow, the new member states became attractive for direct investors. It was then that the share of the ten new member states in FDI inflow in the total for inflow to the European Union amounted to a total of 14.7%. Over successive years, when global FDI flows increased, as did FDI into the European Union, the relative position of the new members states worsened as FDI recipient countries. In spite of growth in absolute values, where the annual FDI streams flowing to the new member states reached a level of USD 39 billion in 2006, this was only 7.3% of total FDI flows flowing into the EU-25.

In terms of volumes of FDI flows, the countries of Central Europe – the Czech Republic, Poland, Slovakia, and Hungary – have the greatest share in total FDI flows flowing into the European Union among all member states. This share amounted to 12.4% in 2004, but fell to 5.6% in 2006. The shares of the remaining countries were in the 0.2%–0.5% range in 2004, and subsequently fell to 0.1%–0.3%. These data clearly show that in the extended European Union (EU-25), the new member states occupy an overall humble position as countries taking in foreign capital in the form of foreign direct investments.

Assessments relating to perspectives for the influx of FDI to these countries are positive because together with European Union membership, the operation of many factors influencing direct and indirect FDI flows has been animated (Kalotay 2006). Estimates of average annual FDI flows on a world scale and in individual regions over the years 2007–2011 as made by The Economist Intelligence Unit and the Columbia Program on International Investment demonstrate that the new European Union member states have a chance of maintaining inflowing FDI streams at a level similar to the present one. In rankings prepared for most of the countries of the world, from among new European Union member states Poland occupies 24th place, where its projected annual FDI inflow is USD 12.6 billion. The next relatively high 30th position is occupied by Romania (a new member state of the European Union as of January 1, 2007, together with Bulgaria) with an expected inflow of USD 7.7 billion a year. The Czech Republic and Hungary occupy 43rd and 44th place, respectively, with estimated inflows of USD 5.4 billion and USD 5.1 billion.

The average annual FDI stream flowing into Bulgaria and Slovakia does not exceed USD 3 billion, where the figure for the remaining new member states is USD 2 billion (The Economist Intelligence Unit 2007, p. 9).

### **3. The Importance of Foreign Direct Investments for the Economies of the New Member States**

From the point of view of the European Union as a whole, the relative weight of FDIs flowing into the new member states is not large, but it plays an important role in the economies of those countries, especially in the case of the small member states. This is borne out by data on the ratio of FDI flows to domestic outlay on investment activities as well as FDI stocks to the GDP of individual countries. These data are presented in Table 4.

FDI inflows as a percentage of gross fixed capital formation for the whole extended European Union (EU-25) was at a level of 18.1% in 2006. For most of the new member states this indicator was higher than the average for the EU-25 and ranged from 20.5% for Poland to 145.3% for Malta. The Czech Republic and Slovenia had indicators below the EU-25 average. However, the level of this indicator changes from year to year. Particularly large changes may be noted over the years 2005–2006 in the case of Estonia, the Czech Republic, and Malta. Indicator fluctuations clearly dependent on the volume of FDI flows coming into the given country confirm the importance of foreign capital in the form of FDI for the economies of those countries. Domestic outlay for investment activity in these countries is growing, but the weight of foreign investment as compared with domestic investment is sufficiently large for every decrease or increase in the inflowing FDI stream to be reflected in the level of the indicator.

Analysis of the second indicator – FDI stocks as a percentage of gross domestic product—also confirms the major importance of foreign capital for most new European Union member states (compare with Table 4). At a European Union average for the year 2006 of 38%, six new member states achieved a significantly higher level of this indicator. It was in the 55% to 92% range. The highest indicator level was achieved by Malta (92.1%), followed by Estonia and Hungary (77.2% and 73%, respectively). In the case of the next three countries – i.e. Cyprus, Slovakia, and the Czech Republic—the ratio of FDI stocks to GDP amounted to about 55%. Such a high level for this indicator bears witness to a relatively high dependence of the development of the specified countries on foreign capital in the form of foreign direct investment. The remaining new European Union member states noted indicators smaller than

the average for the whole of the European Union. Two Baltic states – Latvia and Lithuania – were only slightly below the European Union average, while Poland (20%) and Slovenia (30.6%) were clearly below that average. As stems from its structure, the level of this indicator is influenced by changes in the volume of FDI flows as this results in greater or lesser growth in the FDI stocks as well as economic growth processes in the country receiving the FDI translated into GDP level. At the same time it should be noted that this indicator as calculated by UNCTAD for other countries of the world achieves a high level in the case of small, highly developed countries with an open economy, developing countries that implement development strategies based on foreign capital in the form of FDI, and city-states as well as countries deemed to be tax havens (UNCTAD 2007).

The above two indicators only provide a synthetic picture of the importance of foreign direct investments flowing into new member states. A detailed analysis of their role should also encompass such matters as the impact of structural and spatial changes in the economy of the recipient states, taking into account the development of modern services, the transfer of technology, as well as the animation of innovation, the creation of jobs, bearing in mind their quality, and changes in foreign trade. These aspects are not the topic of this paper, but are subject to analysis in other articles in this special issue.

#### **4. The Policies of New European Union Member States Towards Foreign Investors and the Creation of a Knowledge-Based Economy**

Accession treaties designate the frameworks within which new member states conduct their policies, including with respect to the free flow of capital. This freedom was accepted and implemented by the new member states in the sense in which this is described by the Treaty on European Union. Pursuant to the provisions of the Treaty, “all restrictions on the movement of capital between Member States and between Member States and third countries shall be prohibited” (Consolidated Version, [www.europa.eu.int](http://www.europa.eu.int), Art. 56). However, the member states maintain their freedom to mold their policies with respect to foreign investors, while respecting the principles of national treatment, as there is no common European Union policy in this field.

New European Union member states have undergone a far-reaching policy evolution with respect to foreign investors over the period of systemic transformation (this applies to eight of the ten analyzed new member states). In

the first half of the nineteen–nineties the policies were autonomous and unrestrained by international obligations. It was already then that the countries offered foreign investors basic guaranties and various privileges. Subsequently, these policies passed through a deregulation phase and the implementation of national treatment guarantying foreign investors the same treatment as domestic investors. During the pre–membership period, these countries offered investors, including foreign investors, numerous enticements of financial and fiscal character. Following entry into the European Union, they adapted the offered investment incentives schemes to rules governing state assistance as in force in the European Union. Prerequisites to benefiting from incentives presently include the creation and maintenance of jobs, employee training, and investments in poorly developed regions (Witkowska 2007).

New European Union member states also apply investment incentives that impact directly or indirectly on the creation of a knowledge – based economy. Table 5 contains a specification of investment incentives in the ten new member states, which are directed at supporting the transfer of technology, research and development work, innovation, knowledge–based service development, machine and equipment modernization as well as computerization, training, and the development of qualifications.

Conclusions that may be formulated on the basis of analysis of the applied incentives are as follows:

1. All of the analyzed new European Union member states used incentives aimed at supporting a knowledge–based economy. These countries provide support for three basic components of investment in knowledge, specifically:
  - Research and development work as well as innovation–oriented activities.
  - Modernization of machines and equipment serving communications and facilitating the flow of information, acceleration of computer equipment and software replacement.
  - Improving labor force qualifications through training.
2. Although all countries apply certain incentives aimed at supporting a knowledge–based economy, what is visible is that some of them, e.g. Estonia, Hungary, Slovenia, Cyprus, and Malta, offer a more developed and richer set of incentives strongly targeted at the development of a knowledge–based economy than the remaining countries.
3. Some of these countries have identified sectors and industries that are desirable and supported from the point of view of the development of a knowledge–based economy. In Estonia these include ICT, biotech, and

material technologies. In the case of Malta it is also information and communication technology, but health, medical equipment and pharmaceuticals, and knowledge-based services, including aviation, education and training, and research and development as well. Such an approach may be considered as a modern and acceptable sectoral approach to investment policies, including foreign investment.

4. The analyzed countries apply both financial incentives (grants and subsidies) and fiscal incentives. They also utilize such specific instruments as technology parks, industrial parks, and high technology and business incubators. However, there is no clearly observable tendency to move away from subsidies, which is noted in OECD research on the member states of that organization (OECD 2007).
5. Pursuant to the national treatment rule, incentives are directed towards all entities meeting conditions defined by law. However, some conditions allow the supposition that they are mainly directed at foreign investors. For example, the required volume of invested capital is set so high that foreign investors can only meet this condition.
6. In utilizing European Union Structural Funds, the analyzed countries implement special programs supporting innovativeness, and provide access to Internet links and lifelong education and training. These resources are accessible on an equal basis to foreign entities.

## **5. Conclusions**

Foreign direct investments are perceived by the new European Union member states as a factor that can play a role in the modernization of their economies. At the same time they may aid them in achieving of objectives identified within the framework of the Lisbon Strategy, especially transformation into a knowledge – based economy. This approach to FDI by the new member states is reflected in their policies, through which they offer a broad gamut of investment incentives supporting knowledge investment in their broad sense. Incentives are directed at all investors, but certain conditions indicate that their main addressees are foreign investors. These countries support three basic components of investment in knowledge – i.e. research and development work as well as innovation, modernization of machines and equipment serving communications and facilitating the flow of information, acceleration of computer equipment and software replacement, and improving labor force qualifications through training.

Such a rich and varied incentives offer demonstrates that in spite of the growing investment attractiveness of the new European Union member states, they are rivals vying for increased capital influx in the form of FDI. At the same time, they are undertaking efforts to direct that inflow to the more modern fields of the economy as well as for support of investor operations that result in the modernization of traditional areas.

**Table 1. FDI Inflow Volume and Dynamics in the New European Union Member States over the Years 1990–2006, in billions USD, % (prior year=100)**

Country/Year	1989–1994 <sup>a)</sup>		1995 <sup>b)</sup>		2000		2001		2002		2003		2004 <sup>c)</sup>		2005		2006	
	USD	%	USD	%	USD	%	USD	%	USD	%	USD	%	USD	%	USD	%	USD	%
EU-25	71,6	-	113,5	158,5	671,4	591,5	357,4	53,2	397,1	111,1	240,6	60,6	204,2	84,9	486,4	238,2	531,0	109,2
UE "10"	3,4	-	12,0	352,9	21,7	180,8	19,3	88,9	22,6	117,1	13,2	58,4	30,1	228,0	37,9	125,9	39,0	102,9
Estonia	0,2 <sup>d)</sup>	-	0,2	100,0	0,4	200,0	0,5	176,3	0,3	60,0	0,9	300,0	1,0	111,1	2,9	290,0	1,7	58,6
Lithuania	0,02 <sup>d)</sup>	-	0,1	500,0	0,4	400,0	0,4	100,0	0,7	175,0	0,2	28,6	0,8	400,0	1,0	125,0	1,8	180,0
Latvia	0,1 <sup>d)</sup>	--	0,2	200,0	0,4	200,0	0,2	50,0	0,3	150,0	0,3	100,0	0,6	200,0	0,7	116,7	1,6	228,6
The Czech Rep.	0,6	-	2,6	433,3	5,0	192,3	5,6	112,0	8,5	151,8	2,1	24,7	5,0	238,0	11,7	234,0	6,0	51,3
Poland	0,9	-	3,7	411,1	9,3	251,4	5,7	61,3	4,1	71,9	4,6	112,2	12,9	280,4	9,6	74,4	13,9	144,8
Hungary	1,2	-	4,6	383,3	2,8	60,9	3,9	139,3	2,2	56,4	2,1	95,5	4,5	214,3	7,6	168,9	6,1	80,3
Slovakia	0,1 <sup>e)</sup>	-	0,2	200,0	1,9	950,0	1,6	84,2	4,1	256,3	0,8	19,5	3,0	375,0	2,1	70,0	4,2	200,0
Slovenia	0,07	-	0,2	285,7	0,1	50,0	0,4	400,0	1,7	425,0	0,3	17,6	0,8	266,7	0,5	62,5	0,4	80,0
Cyprus	0,1	-	0,1	100,0	0,8	800,0	0,7	87,5	1,1	157,1	0,9	81,8	1,1	122,2	1,2	109,1	1,5	125,0
Malta	0,07	-	0,1	142,9	0,6	600,0	0,3	50,0	-0,4	-133,3	1,0	250,0	0,4	40,0	0,6	150,0	1,8	300,0

<sup>a)</sup> Annual average for the European Union consisting of twelve member states; <sup>b)</sup> The European Union consisting of fifteen member states; <sup>c)</sup> The European Union consisting of twenty-five member states; <sup>d)</sup> Annual average for the years 1992–1994; <sup>e)</sup> Annual average for the years 1990–1994.

**Table 2. FDI Inflow Volume and Dynamics in the New European Union Member States over the Years 2004–2006, in billions USD, % (the year 2004 = 100)**

Country/Year	2004		2005		2006	
	USD	%	USD	%	USD	%
UE – ogółem	204,2	100	486,4	238,2	531,0	260,3
UE „10”	30,1	100	37,9	125,9	39,0	129,5
Estonia	1,0	100	2,9	290,0	1,7	170,0
Lithuania	0,8	100	1,0	125,0	1,8	225,0
Latvia	0,6	100	0,7	116,7	1,6	266,7
The Czech Rep.	5,0	100	11,7	234,0	6,0	120,0
Poland	12,9	100	9,6	74,4	13,9	107,8
Hungary	4,5	100	7,6	168,9	6,1	135,6
Slovakia	3,0	100	2,1	70,0	4,2	140,0
Slovenia	0,8	100	0,5	62,5	0,4	50,0
Cyprus	1,1	100	1,2	109,1	1,5	136,4
Malta	0,4	100	0,6	150,0	1,8	450,0

Source: UNCTAD and own calculations.

**Table 3. Geographical Structure of FDI Flows into the European Union over the Years 2004–2006 (%)**

EU/Member countries	2004	2005	2006
UE „25”	100,0	100,0	100,0
UE „15”	85,3	92,2	92,7
UE „10”	14,7	7,8	7,3
Estonia	0,5	0,6	0,3
Lithuania	0,4	0,2	0,3
Latvia	0,3	0,1	0,3
The Czech Rep.	2,4	2,4	1,1
Poland	6,3	2,0	2,6
Hungary	2,2	1,6	1,1
Slovakia	1,5	0,4	0,8
Slovenia	0,4	0,1	0,1
Cyprus	0,5	0,2	0,3
Malta	0,2	0,1	0,3

Source: UNCTAD and own calculations.

**Table 4. FDI Inward Flows as a Percentage of Gross Fixed Capital Formation in the New Member States, 2004-2006 and FDI Stocks as Percentage of Gross Domestic Product, 1990, 2000, 2006, %**

Country/Year	FDI inward flows as a percentage of gross fixed capital formation			FDI stocks as a percentage of gross domestic product		
	2004	2005	2006	1990	2000	2006
EU-25	8,1	18,2	18,1	10,5	26,0	38,0
Estonia	30,5	79,8	30,1	..	48,3	77,2
Lithuania	15,8	18,7	26,3	..	20,4	36,7
Latvia	16,9	15,9	23,7	..	27,0	37,5
The Czech Rep.	17,2	36,1	16,8	..	38,9	54,8
Poland	29,3	18,1	20,5	0,2	20,5	30,6
Hungary	19,7	30,1	24,8	1,6	48,6	73,0
Slovakia	29,9	17,1	28,6	..	23,4	55,0
Slovenia	10,6	5,9	3,8	..	15,1	20,0
Cyprus	36,9	37,9	42,5	..	31,3	56,0
Malta	36,5	48,3	145,3	18,9	62,9	92,1

Source: UNCTAD (2007).

Table 5. Investment incentives supporting the knowledge – based economy in the EU New Member States

Country	Investment incentives	Regulations
Hungary	<ol style="list-style-type: none"> <li>1. <u>Special package for strategic investors</u> in manufacturing industry and in case of establishing regional corporate service centers– <u>the Hungarian government</u> may decide on granting a customized incentive package ('tailor-made' incentive) and VIP treatment. Project evaluation criteria are related to: size of investment, number of newly created jobs, proportion of Hungarian suppliers to be employed, <b>level of technology and innovation, proportion of training costs, skills level of employed labor force</b>, environmental impacts of the investment, and financial impact of the investment on the Hungarian economy.</li> <li>2. <u>Tax incentives deductible from corporation tax base:</u> development reserves, <b>incentive for research and experimental development</b>, capital gains, <b>practical training of vocational school students</b>, social security contribution because of employment and unemployment individuals, local business tax.</li> <li>3. <u>Smart Hungary</u>–the government's primary investment incentive program designed to induce companies already established in Hungary to continue operations, foster profit reinvestment, accelerate the growth of manufacturing investment and increase the ratio of strategic services; to promote Hungary's regional role, strengthen the capital-attracting potential of underdeveloped regions, <b>drive utilization of R&amp;D and innovation skills in the entrepreneurial sector.</b></li> </ol>	<p>Introduced in 2003</p> <p>Valid from 2006</p> <p>Managed by the Ministry of Economy and Transport. This program is compliant with the EU regulations on competition and state aid.</p>
The Czech Republic	<ol style="list-style-type: none"> <li>1. <b>Financial support for training and re-training employees</b> in manufacturing – up to 35% of training costs in the regions – maximum 30 thousand CZK per employee.</li> <li>2. <b>Business support services and technology centers:</b> <ul style="list-style-type: none"> <li>• <b>Subsidy for business activities</b> up to 50% of the eligible costs, which are investment into tangible and intangible fixed assets purchased within the first 5 years or two-year salaries of employees employed within the first 3 years</li> <li>• <b>subsidy for training and re-training</b> up to 35% of the specific training costs and 60%.</li> </ul> </li> </ol>	<p><u>The Framework Program</u> of the Ministry of Industry and Trade of the Czech Republic for Support of Technology Centers and Centers of Business Support Services announced in accordance with <u>Government Resolution No. 1238/2003</u></p>

Slovakia	<ol style="list-style-type: none"> <li>1. <b>Subsidies for retraining staff</b> hired to newly created jobs granted pursuant to special legislation. Subsidies for employee training/qualification are given in amounts of up to 10,000 SKK (approximately USD 340) per worker.</li> <li>2. <b>Subsidies for municipal authorities establishing industrial parks.</b></li> </ol>	Act No. 193/2001 Coll. on Support for the Establishment of Industrial Parks and Amendment of Act of National Council of the Slovak Republic No. 180/1995 Coll.
Poland	<ol style="list-style-type: none"> <li>1. <b>A subsidy</b> for investors that meet the following conditions: <ul style="list-style-type: none"> <li>• the value the new investment is at least €500,000 and it results in the <b>development and modernization of an existing business</b>, and maintains at least 100 jobs (or 50 jobs if the investment is made in one of the priority locations) for at least five years;</li> <li>• <b>the new investment involves technological innovation</b></li> <li>• the new investment introduces <b>modern, environmentally-friendly technologies.</b></li> </ul> </li> <li>2. Partial <b>cancellation</b> of so called <b>technological loans.</b></li> <li>3. A subsidy for investors for <b>training workers</b>; a subsidy for training does not exceed € 1,150 per employee.</li> </ol>	Act of March 20, 2002 on financial support for investment and its amendments in 2003-2006. Act of July 27, 2002 on state aid for entrepreneurs, amended in 2004. Act of July 29, 2005 on some forms of support for innovation activities. The Structural Funds priorities 2007-2013: Innovative Economy (12,3% of financial sources).
Latvia	<ol style="list-style-type: none"> <li>1. <b>A tax credit</b> of 30% for the developers of <b>hi-tech products and computer programs.</b> Condition: the producer must be certified according to the requirements of ISO 9001 or ISO 14001 standards; high-tech medical equipment must be certified under provisions of local law and comply with good manufacturing practice standards; high-tech products or computer programs must account for 75% of annual turnover.</li> <li>2. The concession for enterprises in the Free Ports and Special Economic Zones: 80% <b>rebate</b> on the applicable withholding tax for dividends; management fee and <b>payments for use of intellectual property.</b></li> <li>3. <b>A double declining-balance method of depreciation for tax purposes:</b> computers and their appliances, including printing devices, information systems, software products and data storage equipment, communication means, copying machines and their appliances (40%).</li> </ol>	Law of January 1, 2002: 'On application of taxes in Free Ports and Special Economic Zones'

Lithuania	<ol style="list-style-type: none"> <li>1. <b>Science and technology parks;</b></li> <li>2. Financing within the EU Structural Funds: <b>companies' research and technological development projects.</b></li> </ol>	The Structural Funds priorities 2007-2013: knowledge society (16% of financial sources).
Estonia	<ol style="list-style-type: none"> <li>1. All reinvested profits are exempted from corporate income tax; any redistributed profits, for example dividends, are taxed; <b>no special deductions ('no hidden extras');</b></li> <li>2. <b>Tax and duty relief in free zones;</b> foreign investors with minimum of 25% stake in a company are exempted from withholding tax on dividends;</li> <li>3. <b>Innovation products: ICT, biotech, material technologies</b> are one of target sectors for Investment Promotion of the Foreign Investment and Export Service of Enterprise Estonia;</li> <li>4. <b>R&amp;D financing Programme:</b> <ul style="list-style-type: none"> <li>• <b>Feasibility study for applied research,</b> which aim is to develop new products, technologies and services in enterprises; Enterprise Estonia provides up to 75% of the expenses of a feasibility study for applied research and up to 50% of the expenses of a feasibility study for product development;</li> <li>• <b>Applied research grants,</b> designed for the purpose of research and studies, the results of which can be used in <b>the development of new or existing products, technologies or services;</b> Enterprise Estonia provides 60-75% of the total costs related to a project;</li> <li>• <b>Product development grants</b> for substantial improvement of existing products, technologies or services; Enterprise Estonia provides 35-50% of the total costs related to a project;</li> </ul> </li> <li>5. <b>Competence Centre Programme:</b> Enterprise Estonia supports the establishment of small R&amp;D institutions consisting of companies and universities; they are focused on applied research, which is needed for the product development of the founders of these centres; existing competence centres: Competence Centre of Electronics, Info and Communication Technologies, Competence Centre of Food and Fermentation Technologies, Competence Centre of Healthy Dairy Products, Estonian Nanotechnologies Competence Centre and Competence Centre of Cancer Research;</li> <li>6. <b>Innovation Awareness Programme:</b> entrepreneurs, investors and top management of the enterprises are one of the target groups;</li> <li>7. <b>Grants for training of the workforce</b> – financial support is available for the following training programmes: <ul style="list-style-type: none"> <li>• improving the qualifications for employees</li> <li>• professional training of new employees in connection with the expansion of a company</li> <li>• acquisition of new specialties and skills required for modernizing production activities.</li> </ul> <p>The rate of grant depends on the size and location of a company, the nature of the training, and can be no more than 70% of the cost of the training project.</p> </li> </ol>	Programme initiated by Ministry of Economic Affairs and Communications in 2003.

<p><b>Slovenia</b></p>	<ol style="list-style-type: none"> <li>1. <b>Tax incentives for research and development activities:</b> an investor can deduct from the tax base a general investment incentive amounting to 20 percent of the amount invested in internal R&amp;D activities or spent on the purchase of R&amp;D services.</li> <li>2. <b>Depreciation allowance on computer and computer equipment</b> (hardware and software) and <b>on equipment and parts of equipment for research activities;</b> depreciation may not exceed the maximum annual depreciation rate of 50% and 33,3% respectively.</li> <li>3. <b>Financial incentives</b> in the form of grants for <b>investment in R&amp;D;</b>  <b>Conditions:</b> <ul style="list-style-type: none"> <li>• the value of investment - 0,5EUR,</li> <li>• the number of new jobs created in 3 years' time – 5</li> <li>• the investment projects and new jobs shall remain in Slovenia for no less than 5 years for large-sized companies and no less than 3 years for small- and medium-sized companies.  The estimated grant per new job created – 7,500 EUR -20 000EUR.</li> </ul> </li> <li>4. <b>Free training and retraining</b> – employers who intend to hire unemployed persons may apply for free training and retraining provided by local employment offices;</li> <li>5. <b>Tax relief for carrying out traineeships</b> - taxable person taking on a trainee to perform practical work within professional education has the right to decrease the tax base in the amount of the payment to such a person, however only up to a maximum of 20% of the average monthly salary of people employed in Slovenia.</li> </ol>	<p>Corporate Income Tax Act of January 1, 2007.</p> <p>Government FDI Cost-Sharing Scheme of May 4, 2007.</p>
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Cyprus	<ol style="list-style-type: none"> <li>1. <b>High Technology –Business Incubators:</b> an incubating programme for the creation of new enterprises of high-technology and innovation; it provides for a grant up to CY £120,000 covering a period of two years, provided that an inventor and/or associate will deposit an amount of at least CY £10,000 as own capital.</li> <li>2. <b>The Cyprus Entrepreneurship Competition (CyEC)</b> has been carried out for every two consecutive years; the aim is to motivate young scientists and researchers in capitalizing on their innovative ideas and launching high- tech ventures.</li> <li>3. <b>Government guarantees for loans granted to SMEs</b> for establishment of a new manufacturing unit preferably engaged in the production of <b>new and/or high technology products</b>; the maximum amount of CY£100,000.</li> <li>4. <b>Government grants</b> for the promotion of the competitiveness and <b>technological upgrading of SMEs</b>; preferred activities are as follows: <ul style="list-style-type: none"> <li>• Studies on the implementation of Quality Control Standards</li> <li>• Purchase/ development of specialised software</li> <li>• Market research studies on foreign markets</li> <li>• Utilization of the Internet</li> <li>• The provision of consultancy services on issues directly related to competitiveness of the enterprise as improvement of product quality, energy saving, technological issues etc.</li> </ul> </li> <li>5. <b>State grants for technological upgrading</b> of existing and newly established <b>manufacturing enterprises investing in new machinery, new equipment and know-how</b>; the minimum investment amount is CY£10.000 per annum; the government support accounts for 20-30% of investment costs.</li> <li>6. <b>State grants for manufacturing of agricultural products</b> provided to existing and newly established manufacturing enterprises investing in <b>new machinery, new equipment and know-how</b>.</li> <li>7. <b>State grants for encouragement, strengthening, and reinforcement of entrepreneurship</b>; the scheme encourages the creation of new modern viable enterprises, the exploitation of <b>innovative projects concerning new technologies, new products, as well as the provision of innovative services</b>.</li> <li>8. <b>Labour skills improvement, professional training</b> through above mentioned programmes.</li> </ol>	<p>The Technology–Incubating Programme;</p> <p>The Research Promotion Foundation</p>
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Malta	<ol style="list-style-type: none"> <li>1. <b>Reduced rates of income tax</b> for investment in priority sectors, i.e. <b>information and communication technology, health, medical equipment and pharmaceuticals, knowledge-based services</b>, including <b>aviation, education and training, research and development</b>; these incentives are offered till the end of 2008.</li> <li>2. <b>Investment tax credits</b> for companies entitled to the benefit of reduced rates of income tax; these incentives will be available after 2008;</li> <li>3. <b>Investment allowances</b>: tax deductions in addition to normal tax depreciation are provided for plant and machinery – 50% of the investment.</li> <li>4. <b>Training assistance</b>; depending upon whether a company is classified as a large or an SME, such assistance may vary from 35% to 80% of costs incurred on training.</li> </ol>	Business Promotion Act, 2001
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