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THE IMPACT OF STATE INVESTOR SUPPORT PROGRAMS ON THE COUNTRIES' INVESTMENT ATTRACTIVENESS[6]

The study analyses the impact of state investor support programs on the countries' investment attractiveness. The aim of the work is to determine the effectiveness of the programs, analyse their impact on foreign direct investment (FDI), and establish success factors in developed economies. The research employed a mixed approach combining quantitative analysis of economic indicators (methods of systematisation and classification, econometric and graphical methods) and the case study method. Different types of support programs and their application in different economic contexts are analysed. The quantitative analysis is based on data from 15 countries that are members of the Organisation for Economic Co-operation and Development (OECD), including effective corporate tax rates, the International Tax Competitiveness Index (ITCI), and the FDI Regulatory Restrictiveness Index (FDI Index). The qualitative analysis examines the experience of Poland, Sweden and Australia. The results show that the effectiveness of support programs depends on their design, implementation and alignment with broader economic development strategies. Tax incentives remain a powerful tool for attracting FDI, but the overall quality of the business environment also plays a crucial role. Successful strategies typically combine targeted incentives with broader improvements to the investment climate. The study emphasises the importance of policy consistency and predictability in building long-term investor confidence. Further research should focus on the long-term impact of sustainable economic development programs and innovative approaches to promoting investment in the context of global economic change and technological progress.

Keywords: state support; programs; investment attractiveness; foreign direct investment; economic development
JEL: E22; F21

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1. Introduction

In an increasingly globalised economy, countries are intensifying competition to attract foreign direct investment (FDI) as a means of stimulating economic growth, creating jobs and promoting technological innovation. State investor support programs have become a critical tool for increasing competition as countries implement a wide range of policies and incentives to increase their investment attractiveness. These programs can take many forms, including tax incentives, grants, subsidies, regulatory reforms, and infrastructure development.

The effectiveness of government intervention in attracting FDI and promoting economic development is a subject of constant debate among academics. While proponents argue that existing programs are essential for creating a favourable investment climate (Appiah-Kubi et al., 2021; Tørsløv et al., 2022), critics argue that they can lead to complications in terms of regulatory standards and tax revenues (Erokhin, 2023).

The research aims to analyse the impact of state investor support programs on the countries' investment attractiveness. The aim determined the following research objectives:

1. Determine the effective types of state investor support programs to increase the country's investment attractiveness.
2. Analyse the impact of individual state programs on FDI inflows.
3. Establish the success factors of state initiatives to support investors in certain developed economies.

The objectives were fulfilled by using a mixed approach, combining a quantitative analysis of economic indicators with a qualitative case study of the experience of specific countries. The study relies on a wide range of sources, including academic literature, reports from global institutions and international economic databases.

2. Literature Review

The theoretical foundations of state intervention in attracting foreign investment can be traced to the approaches of different economic schools. Limited government intervention is stated, and the market forces are believed to determine the allocation of resources, including foreign investment (Astroulakis, 2019). In contrast, proponents of the developmental state model advocate a more active role for the state in shaping economic outcomes, including FDI attraction (Kyle, 2017).

More recent theoretical developments, such as New Institutional Economics, emphasise the importance of institutions and public policies in shaping economic incentives and reducing transaction costs for investors (Alston et al., 2023). This perspective provides a rationale for state intervention aimed at improving the institutional environment for investment.

The impact of taxation on FDI is significant, which is confirmed by separate studies. Tax preferences play a key role in global financial flows. They accumulate about 40% of the profits of international corporations, which indicates a significant concentration of capital in low-tax countries (Tørsløv et al., 2022). The level of foreign direct investment is negatively affected by the bilateral effective average tax rate. This indicates that investors tend to modify their investment strategy rather than give up their investment intentions completely when they are faced with a high tax burden (Erokhin, 2023).

The researchers estimated the prospective effective corporate income tax rates for 21 countries in Latin America and the Caribbean (LAC), which turned out to be quite high. This does not stimulate the inflow of investments into countries. Researchers note that countries may consider reforming corporate taxation with the development of fiscal consolidation programs and international taxation rules in order to promote increased investment and growth of economic activity in the respective region (Hanappi et al., 2023).

Some practical studies (Abille et al., 2020; Appiah-Kubi et al., 2021) found a significant impact of direct tax benefits on increasing the foreign capital inflow. In particular, lower corporate tax rates significantly encourage foreign companies to invest in economies with certain market deficiencies.

A study conducted by scholars (Carvalho, Nogueira, 2023) examines the level of China's government support for FDI projects. The results indicate that the combination of government support and regulation significantly affects the investment process. In particular, the factors of liberalisation significantly increase the chances of FDI inflow to the host country.

Empirical studies demonstrate the influence of tax incentives on the dynamics of FDI. On the one hand, such measures may restrain the inflow of foreign investments in the short term. However, there is a positive effect of tax incentives on investors' FDI decisions in the long run (Abille et al., 2020; Etim et al., 2019).

An analysis of economic data (Appiah-Kubi et al., 2021) established a significant relationship between tax policy and the amount of foreign direct investment in African countries. In particular, it was found that a decrease in the corporate tax rate correlates with an increase in the inflow of FDI into Africa. The study also highlighted the effectiveness of long-term fiscal stimulus. Countries that offer long tax holidays show higher rates of FDI attraction compared to countries where such measures are less widespread or absent. Unlike other fiscal instruments, tax incentives have not shown a significant impact on the FDI volume in African economies. It was proved that an increased corporate tax rate has a negative effect on the net inflow of FDI. This pattern is observed in all analysed models, which refutes the assumption that high taxes can compensate for weak macroeconomic indicators (Abille & Mumuni, 2023).

A study of the East African region shows that expanding the system of tax preferences can stimulate the FDI inflow. There is intense competition in regional markets for FDI between countries that offer similar favourable conditions for investment. In an effort to activate and increase the volume of foreign capital, governments resort to widening the spectrum and strengthening the effectiveness of tax incentives aimed at foreign investors (Kinyua & Wanjala, 2020; Koliadenko et al., 2022).

Over the past decades, the tax systems of the OECD member countries have undergone significant transformations. The most notable trend has been the significant reduction in top tax rates for both corporations and individuals (Bunn & Perez, 2023).

The concept of the investment climate involves implementing an investor support program as an element of public management to reduce transaction costs, investment risks and create a favourable environment for investors. In the process, a comprehensive environment is formed (legal guarantees, regulatory transparency, institutions, infrastructure, and stable state policy) (OECD, 2023). The concept of investment climate envisages the implementation of an investor support program as an element of public administration to reduce transaction costs, investment risks and create a favourable environment for investors. In the process, a comprehensive environment is formed (legal guarantees, regulatory transparency, institutions, infrastructure and stable public policy) (Tørsløv et al., 2022). Successful initiatives are comprehensive and include measures to reduce investor costs, improve market access and strengthen the state's institutional capacity (Heilbron, Aranda-Larrey, 2021).

The literature identifies several key determinants of the success of state investor support programs:

- policy consistency and predictability (stable and predictable political environment for investors) (Polzin et al., 2019);
- institutional quality (stable institutions and effective management increase the effectiveness of support programs) (World Bank, 2019);
- complementary policies (broad economic policies and conditions that favour the success of stimulus programs) (Taghiyev, 2023).
- targeting (more effective programs aimed at specific sectors or types of investments) (Kersan-Skabic, Barisic, 2023).

So, a complex and multifaceted relationship between state investor support programs and investment attractiveness is observed. Although there is evidence that such programs can be effective, their success depends on a number of context-specific factors and conditions.

3. Methods

A mixed approach was used to comprehensively fulfil the research objectives, which combines the quantitative analysis of economic indicators (methods of systematisation and classification, econometric and graphic methods) with qualitative practical examples (the case study method). The methodology involves the coverage of trends in different countries and features of the experience of individual countries in the implementation of investor support programs. The overall design of the study included: (1) identifying different types of investor support programs and their potential impact; (2) determining the impact of effective corporate tax rates and FDI inflows; (3) determining the relationship between the International Tax Competitiveness Index and FDI inflows; (4) establishing the impact of the

FDI Index and FDI inflows; (5) analysis of the impact of government support programs for investors in individual countries.

Quantitative analysis is focused on studying the relationship between various indicators of state support for investors and investment attractiveness indicators. The study uses data from various sources, including: World Bank data on net FDI inflows as a percentage of GDP (World Bank, 2022a); effective corporate tax rates (OECD, 2022); the ITCI (Tax Foundation, 2023); and the FDI Index (OECD, 2020).

The data covering 15 OECD countries (Canada, Australia, Korea, USA, Switzerland, Poland, Sweden, Japan, Italy, France, Ireland, Great Britain, Germany, Spain and the Netherlands) are used, representing different regions of the world and models for stimulating the attraction of investors. These countries have stable political systems and developed economies, which create favourable conditions for investors and offer tax incentives to attract foreign investment. In addition, the selected countries have developed banking and financial sectors, as well as special agencies and programs to attract and support foreign investors.

Case studies of three countries with developed economies – Poland, Sweden, and Australia – were conducted in order to supplement the quantitative analysis and gain a deeper understanding of the individual mechanisms by which investor support programs affect investment attractiveness. For each specific study, attention is focused on individual implemented programs and initiatives and their features (Cieślik, 2020; Hellmann et al., 2019; Blomquist, Waldo, 2022; Barkoczy, Wilkinson, 2019; Rafidi, Verikios, 2022).

The combination of the results of quantitative analysis and case studies identified general models, best practices and key success factors in the implementation of state investor support programs. The comparative analysis gave grounds to draw generalised conclusions about the effectiveness of different types of support programs and their applicability in different economic contexts.

4. Results

State investor support programs can take many forms, each with potential advantages and disadvantages. The researchers divide these programs into three main types: fiscal incentives, financial incentives and other incentives. Table 1 presents different types of investor support programs and their potential impact.

Table 1. Types of investor support programs and their potential impact

Program type	Potential benefits	Potential disadvantages
Tax holidays, reduced tax rates	Direct cost reduction for investors	Loss of revenue for the state, potential tax competition
Subsidies, grants, loans	Reduction of initial investment costs	Burden on the state budget, risk of market distortion
Regulatory reforms, provision of infrastructure, special economic zones	Improved business environment, reduction of operating costs	Implementation issues, long-term commitment required

Source: Created on the basis of (Brada et al., 2021).

We will focus on separate quantitative approaches to identify the dependence between the results of FDI inflows and elements of investor support programs. Figure 1 shows the corresponding relationship based on OECD data on effective corporate tax rates (OECD, 2022) and World Bank data on net FDI inflows as a percentage of GDP (World Bank, 2022a).

Figure 1. Effective corporate tax rates and FDI inflows (OECD, 2022; World Bank, 2022a)

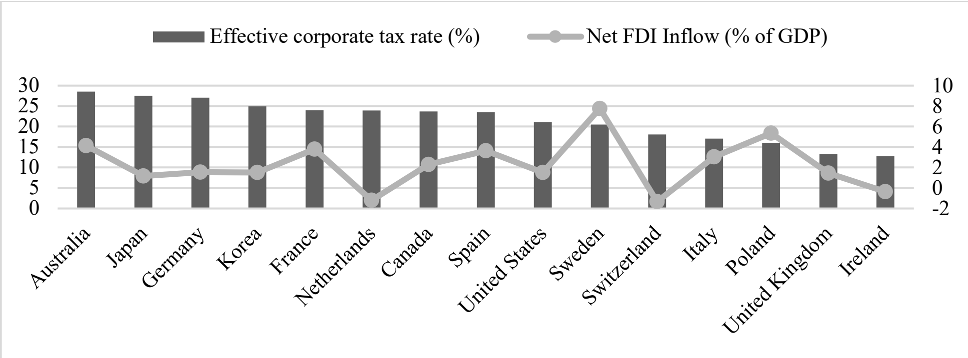

Figure 1 shows that effective corporate tax rates range from 12.76% (Ireland) to 28.53% (France). Countries with lower effective tax rates (Sweden, Poland) have the highest rate of FDI inflows relative to GDP. Most developed economies (the USA, Japan and Germany) have relatively high effective tax rates and moderate FDI inflows. Some countries, such as Ireland, have relatively low tax rates and low FDI inflows, which may indicate other attractiveness factors for investors. The largest economies (USA, Japan) have a relatively low FDI inflow as a percentage of GDP, which can be related to the size of their economies.

The International Tax Competitiveness Index (ITCI) evaluates the efficiency of a country's fiscal system according to two key criteria: attractiveness for business and fairness of taxation. An attractive tax regime for business is characterised by moderate marginal rates. Investors are naturally attracted to jurisdictions with a lower tax burden. Excessive fiscal pressure in a certain country encourages capital to seek more favourable conditions abroad. An optimal tax policy stimulates stable economic growth and investment inflow while providing sufficient revenues for the implementation of government programs (Tax Foundation, 2023).

Excessive taxation of corporate profits often has a negative impact on the economic development of the state. When a business faces high tax rates, it can severely limit its ability to reinvest and expand, and, as a result, a country's economic growth slows down (OECD, 2010). OECD countries with above-average corporate taxes generally receive lower economic efficiency scores. Instead, countries with more moderate business tax rates demonstrate better indicators of competitiveness in the international arena (Tax Foundation, 2023). Figure 2 shows data on net FDI inflows and the ITCI.

Figure 2. The ITCI and FDI inflows (Tax Foundation, 2023; World Bank, 2022a).

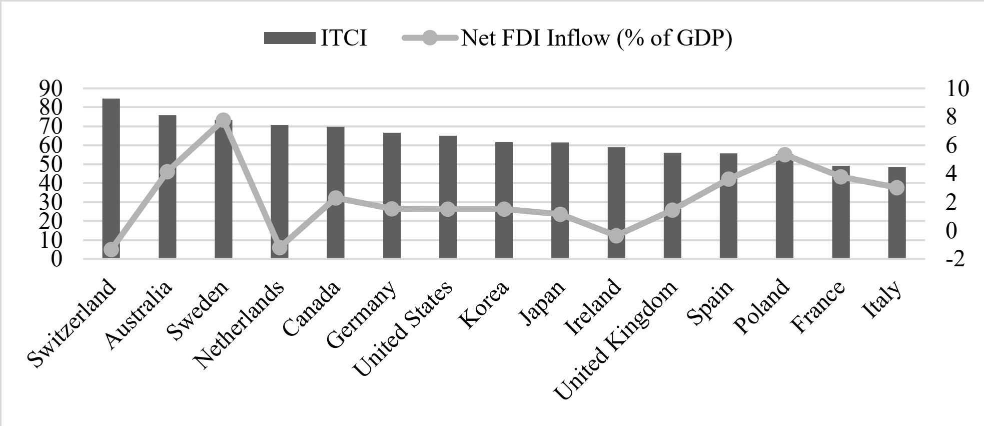

Figure 2 shows that the ITCI ranges from 48.4 (Italy) to 84.7 (Switzerland) with an average value of approximately 63.5. There is no clear correlation between the ITCI and FDI inflows – countries with a high index do not necessarily have high FDI inflows.

The FDI Regulatory Restrictiveness Index (FDI Index) is an OECD Index that measures the restrictions of a country's rules on foreign direct investment (FDI) by looking at four main types of restrictions: restrictions on foreign capital; discriminatory verification or approval mechanisms; restrictions on key foreign personnel and operational restrictions (OECD, 2020). Figure 3 shows data on the FDI Index and FDI inflows.

Figure 3. FDI Index and FDI inflows (OECD, 2020; World Bank, 2022a)

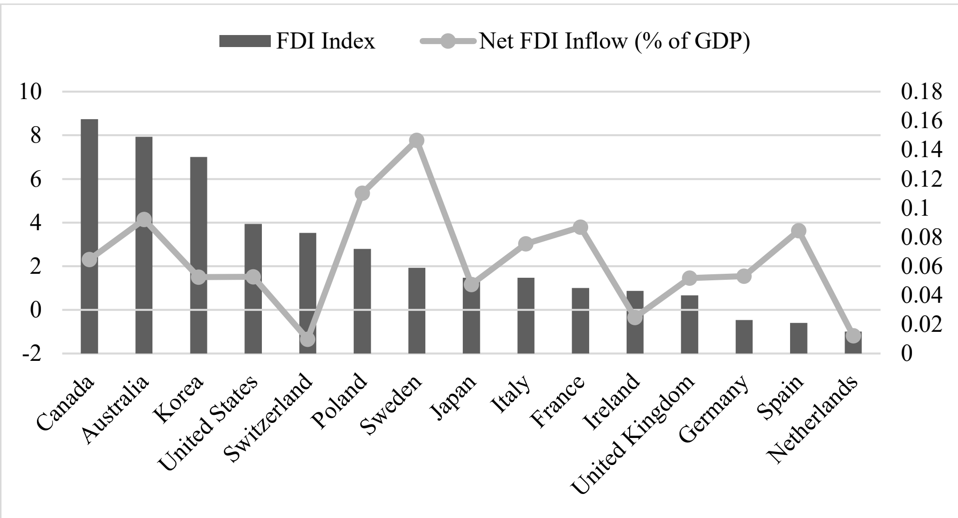

Figure 3 shows that the FDI Index ranges from 0.161 (Canada) to 0.015 (Netherlands). There is not always a direct correlation between the FDI Index and FDI inflows. For example, Australia has a high FDI Index but also a high FDI inflow. Sweden has a low FDI Index (0.059) and the highest FDI inflow (7.77%), which may indicate a favourable investment environment. Most European countries have lower restriction indices compared to the non-European countries on the list. FDI inflows vary significantly between countries, which may reflect different economic conditions and investment attractiveness.

An econometric analysis using the Gretl software of the three above-mentioned models based on the least squares method (Table 2) revealed a low significance of the dependence between various indicators of the implementation of state programs and FDI inflows.

Table 2. Comparison of quality indicators of econometric models

Model quality indicators	Model 1 $Y_1 = 1.39+0.0417x_1$	Model 2 $Y_2 = 5.56-0.051x_2$	Model 3 $Y_3 = 1.81+6.92x_3$
Mean dependent variable	2.286667	2.286667	2.286667
Sum of sq. remainders	82.83027	79.61263	82.00715
R-squared	0.007359	0.045919	0.017223
F(1, 13)	0.096375	0.625681	0.227826
Likelihood logarithm	-34.09965	-33.80250	-34.02475
Schwarz criterion	73.61541	73.02110	73.46560
Standard deviation of dependent variables	2.441375	2.441375	2.441375
Root mean square error of the regression	2.524195	2.474682	2.511621
Adjusted R-squared	-0.068998	-0.027472	-0.058375
P-value (F)	0.761144	0.443136	0.641065
Akaike criterion	72.19931	71.60499	72.04950
Hannan–Quinn criterion	72.18422	71.58991	72.03442

So, with this set of data, there is no significant impact of individual state programs on the FDI inflow, which may indicate more complex interrelationships of state policy approaches in this area in individual OECD countries.

Qualitative analysis provides a deeper understanding of the implementation and impact of state investor support programs in individual OECD countries (Poland, Sweden and Australia). Over the past 20 years, Poland has turned into a key centre for attracting capital from abroad, with a significant share of investments coming from economically developed countries in Europe. The analysis shows that transnational giants from the OECD countries, investing in the Polish economy, are primarily guided by the strategy of vertical integration. Statistics collected from 1996 to 2015 show that the main driver for investing in Poland is not so much the desire to conquer a new sales market but the desire to optimise production processes and increase their efficiency. This trend clearly indicates the dominance of the model of pure vertical integration of international corporations over alternative approaches such as the model of intellectual capital or purely horizontal expansion. This emphasises the unique positioning of Poland in global production chains and its attractiveness as a platform for increasing the competitiveness of international business.

The influx of American capital into the Swedish market stimulates the creation of jobs and contributes to the flourishing of the start-up ecosystem, without restraining the organic development of domestic enterprises in Sweden. US venture funds, investing in Swedish innovation projects, enhance the economic revival, which expands employment opportunities for the local population. It is noteworthy that this dynamic does not lead to the displacement or suppression of Swedish enterprises, which continue their path of growth and expansion. Sweden experiences a significant revival of investment activity in the aquaculture and fish processing industries thanks to targeted financial support. The EU plays a key role in stimulating capital investments in the specified sectors of the Swedish economy, providing systematic assistance. The effectiveness of such support varies by sector: 65% of investment in the aquaculture sector is a direct result of aid, while in the fish processing sector, this figure is 23%. Such data indicate the varying degree of dependence of these industries on external financial support and their ability to invest independently.

Australia is taking a comprehensive approach to encourage inflows of foreign direct investment. Key factors forming an attractive investment environment are a well-balanced monetary strategy, high economic performance, competitive taxation, adaptability of the labour market and optimised trade and investment expenditures. The country's government has introduced a number of fiscal initiatives to boost investment activity. They include tax incentive programs aimed at encouraging venture financing. Preferences for the reinvestment of profits have also been introduced, which stimulates long-term investment. Special attention is paid to the expansion of tax benefits for business agents who invest in enterprises at the later stages of development. This multifaceted approach demonstrates Australia's commitment to creating a favourable environment for investors, providing support for businesses at various stages of development and stimulating the country's long-term economic growth.

The state uses investor support programs (provided the economic environment is equally favourable) as an additional tool to stimulate certain types of investment. For example, Poland focuses on foreign corporations and implements vertical integration programs, while Australia encourages start-ups in high-tech industries through tax incentives. The use of various government programs enhances the attractiveness of an economy when underlying economic conditions are stable. Government support programs can be targeted at both foreign and domestic enterprises, depending on the policy. In Sweden, the government supports both local and international projects by providing government grants and venture capital funding, while Polish programs aim to attract foreign investors through preferential taxation and special economic zones.

Summarising the results of the quantitative analysis and examples, several key factors that contribute to the effectiveness of state investor support programs are identified: policy consistency and predictability; a targeted approach focused on specific sectors or types of investments; a strong institutional framework and effective management; combining tax incentives with broader economic development strategies. So, although individual support measures can be effective, their impact is enhanced if they are implemented as part of a comprehensive and consistent investment attraction strategy.

5. Discussion

Although the study provides important results, it is important to identify its key limitations. Data from individual OECD countries were used for the analysis. The availability and quality of data for some developing countries limit the ability to generalise the findings more broadly. The ambiguity and complexity of investment decisions mean that not all factors affecting investment attractiveness can be fully covered by quantitative models. There may be unobserved variables affecting both public policy approaches and programs, as well as investment flows. Case studies, although they provide valuable information, cannot be fully generalised to all country contexts.

Despite the limitations, the mixed-methods approach provides a comprehensive framework for analysing the impact of government investor support programs on a country's investment attractiveness. The effectiveness of state investor support programs in attracting FDI and promoting economic development is the subject of numerous studies. However, the data remain mixed: some studies find positive effects, while others report limited or even negative effects.

The obtained results are confirmed in the existing literature. Reforming the tax system and implementing fiscal incentives play a key role in attracting FDI. Researchers in this field often emphasise the effectiveness of reducing tax rates as the most straightforward method of stimulating investment activity. However, tax policy is not the only determining factor in attracting FDI. The investment climate is created under the influence of a complex of interrelated factors: political stability, the development of the financial sector and access to capital, the quality of public administration, and the legal system. Therefore, an effective FDI attraction strategy requires a comprehensive approach that takes into account all these aspects of the investment environment (Shafiq et al., 2021; Rahman et al., 2022).

The results are also consistent with the statement that countries with a stronger contract enforcement system and more effective international trade rules attract more FDI, and multinational corporations are ready to exchange worse institutional parameters for stronger ones (Contractor et al., 2020).

In the context of the obtained results, the analysis of empirical studies conducted by Munongo et al. (2017) and Tapang et al. (2018) established a significant positive impact of tax incentives on FDI. However, significant heterogeneity of research results is noted, emphasising the complex relationship between tax incentives and investment flows. Tax incentives show the strongest relationship with FDI inflows and new investment projects.

Other researchers also found these arguments. Quantitative analysis shows that all considered types of support measures (tax incentives, financial incentives and quality of regulation) have a positive effect on investment attractiveness, which is confirmed by other researchers (Islam, Beloucif, 2024; Celani et al., 2022). However, the relative importance of these measures is different. Regulatory quality also shows a significant positive effect, emphasising the importance of the overall business environment in attracting investment. Financial incentives have a comparatively smaller effect, indicating that direct financial support is less important than creating a favourable environment through tax, regulatory, and other measures.

The analysis and case studies emphasise the importance of context in determining the effectiveness of investor support programs. Over the past 20 years, Poland has become an important centre for attracting foreign investment, and its main investment strategy is the vertical integration of transnational enterprises. The goal of investments is to optimise production, not just develop a new market. Foreign venture capital in Sweden stimulates the labour market and the development of start-ups; at the same time, this does not hinder the development of local enterprises. There is an increase in investment in aquaculture and fish processing thanks to EU support. Australia takes a comprehensive approach to attracting foreign direct investment. Key factors of attractiveness are monetary policy, economic efficiency, competitive taxation, a flexible labour market and introduced tax incentives to stimulate venture financing and reinvestment.

Each of the considered countries has its own unique approaches to attracting foreign investment, taking into account the peculiarities of its economy and strategic development goals, which demonstrates the importance of adapting the investment policy to the specific conditions and needs of each country. So, while individual measures can be effective, the most successful countries implement integrated strategies that address many aspects of the investment environment, confirming the approaches identified in World Bank (2022b). The importance of predictability and coherence of tax and regulatory policies is a key issue. Authorities should strive to create a stable political environment that will strengthen investor confidence over time.

While investor support programs provide direct incentives, creating a stable, predictable and favourable investment climate is a key challenge. A successful strategy should combine personal incentives with reforms that strengthen institutions, improve the regulatory environment and build infrastructure. An analysis of the examples of Sweden, Poland and Australia shows that a balanced combination of these approaches by countries increases investment attractiveness in the long run. Countries can benefit from targeting support programs to specific sectors or types of investment that match their development goals and comparative advantages. The effectiveness of investor support programs increases in conjunction with investments in infrastructure and institutional quality, which can create a more attractive overall environment for investors. Given the potential cost of stimulus programs, it is critical for states to implement reliable monitoring and evaluation mechanisms to assess the effectiveness of their support measures and adjust them as needed.

6. Conclusion

An analysis of individual state investor support programs shows their significant potential for increasing the countries' investment attractiveness. However, the effectiveness of programs must use a comprehensive approach that involves consistency, predictability, quality institutions, targeting measures to specific goals (sectors, regions, types of investments), implementation, and alignment with broader economic development strategies.

Tax incentives, despite the controversy, remain a powerful tool for attracting FDI. The overall quality of the business environment, including the regulatory framework, plays a decisive role in attracting investment. Successful investor support strategies typically involve a combination of targeted incentives and broader improvements to the investment climate. Consistency and predictability of policy are important for building long-term investor confidence.

The development and implementation of effective investor support programs will remain a critical challenge as countries continue to compete for foreign investment in an increasingly complex global economy. Public policy should form a holistic approach, combining targeted incentives with broader efforts to improve the overall investment environment. Further research in this area should focus on understanding the long-term impact of programs on sustainable economic development, as well as exploring innovative approaches to investment promotion in the context of developing global economic norms and technological progress.

Contribution of individual authors

Yevhenii Yaskov: statistical analysis, admin, drafting manuscript
Nataliia Krasnostanova: supervision, technical or material support,
Nadiia Ivanchenko: final approval, data analysis/interpretation
Oleksandr Podskrebko: concept and design, critical revision of manuscript
Oleksii Mukhin: data acquisition, admin

Conflict of Interests

The authors declare no conflict of interest.

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