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FOREIGN DIRECT INVESTMENT IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

(2019)

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Preface

FDI plays an important role in the economic growth of the countries in Central and Eastern Europe. This book is providing a brief analysis on the FDI in Central and Eastern Europe. What are the measures the countries are promoting to attract FDI, where the FDI comes from, which sector FDI prefers to invest, what are the contributions to the national economy and social development, how is about the technology development with the help of FDI. These are the questions the book is trying to answer.

The book is based on a collection of reports by the associate researchers of the China-CEE Institute. The reports are originated from the Weekly Briefings, a core product by the China-CEE Institute. The views in the book are represented by the individual authors instead of the China-CEE Institute.

The China-CEE Institute is established by the Chinese Academy of Social Sciences (CASS), registered as a non-profit limited company in Budapest, Hungary in April 2017. The China-CEE Institute is building ties and strengthen partnerships with academic institutions and think tanks in Hungary, Central and Eastern European countries, as well as other parts of Europe. The China-CEE Institute aims to encourage scholars and researchers to carry out joint researches, field studies, to organize seminars and lecture series, to hold some training programs for younger students, and make publication, etc.

I hope this book will help enriching the knowledge of the FDI in the region and promoting the bilateral relations between China and CEE countries.

Prof. Dr. CHEN Xin
Executive President and Managing Director, China-CEE Institute
Deputy Director General, Institute of European Studies, CAS

An Overview of FDI in Albania

Marsela Musabelliu

Albanian economy has grown to heavily rely on Foreign Direct Investments (FDI) since its opening up to foreign markets and the world economy. The transition from a centralized/closed economy to a free market one has not been smooth. In fact, in the early years of the 1990s, foreign investors were reluctant to approach the country; the situations started to ameliorate in the late 1990s and early 2000s.

With a reestablished internal political order, the confidence of foreigners and their will to invest had the first signs unveiled after 1998. From that year on Albania has been receiving consistent injections of foreign funds into its economy as to arrive at latest data available demonstrating that the FDI stock in the country accounts for 57.5% of the total GDP.

Methodology

For the purpose of this briefing the definition of FDI will be based on the theoretical framework of the OECD Benchmark definition describing the phenomenon as an activity which provides means for creating direct, stable and long-lasting links between economies. Under the right policy environment, it can serve as an important vehicle for local enterprise development, and it may also help improve the competitive position of both the recipient ("host") and the investing ("home") economy. It also provides an opportunity for the host economy to promote its products more widely in international markets. FDI, in addition to its positive effect on the development of international trade, is an important source of capital for a range of host and home economies. [1]

For the data available, the latest releases of Bank of Albania on International Investments Position (IIP) were consulted. The IIP is a subset of the national balance sheet. The net IIP plus the value of nonfinancial assets equals the net worth of the economy, which is the balancing item of the national balance sheet.[2]

Albania and FDI

As the governmental agency for promoting investments in the country, Albanian Investments Development Agency (AIDA) claims, the focus for the future development of the Albanian economy will remain on attracting FDIs with a clear targets on sectors where the Albanian economy has unexploited potential both in terms of natural resources as well as in developing sectors that are not yet performing to their full potential, such as renewable energy, tourism, agribusiness, infrastructure and services. Albania has adopted a liberal framework, which has been designed to create a favorable investment climate for foreign investors.[3]

The main attractive points of comparative advantage remain:

1. Liberal and reformist investment climate
2. Competitive Labor cost
3. Young and well-educated population
4. Competitive taxation and incentives
5. Optimal geographic location
6. Strong growth potential
7. Free economic zones

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[1] OECD Benchmark Definition of Foreign Direct Investment FOURTH EDITION. Available at: https://www.oecd.org/daf /inv/investmentstatisticsandanalysis/40193734.pdf 2008 p.16.

[2] Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (*BPM6*). Available at: https://www.imf.org/external/pubs/ft/bop/2007/pdf/chap7.pdf

[3] Available at: http://aida.gov.al/home

8. Free access to large markets
9. Macroeconomic stability

With a liberal legislation where domestic and foreign investors have the same obligations and rights, it is given a special priority of the sectors with high development potential such as, Renewable Energy, Mining, Tourism, Manufacturing, Agriculture, Transportation & Logistics, as well as the ICT Services.

Albania and FDI in 2019

As two major energy projects (the Trans-Atlantic Pipeline and the Devolli hydropower plant) neared completion, established foreign investors began expanding their presence in renewable energy projects (including Austrian Verbund Company's participation in the Ashta hydropower plant and Turkish Ayen Enerji's investment in the Pocem hydropower project). Although the bulk of inflows came from European countries, Chinese firms also began to invest, in banking, aviation and tourism.[1]

In order to analyze a more detailed presence of FDI in Albania, the Stock and Flows by country of origin are showcased initially for a better understating of where the foreign capital generates from.

Table 1 Aggregate, Quarterly stock of direct investment (Unit: Million Euros)

Index description	**Q IV 2014**	**Q IV 2015**	**Q IV 2016**	**Q IV 2017**	**Q IV 2018**	**Q I 2019**
Total DI-liabilities	4,564	4,982	5,677	6,453	7,661	7,771
Switzerland	79	121	550	894	1,326	1,375
Greece	1,180	1,205	1,233	1,217	1,220	1,145
Netherland	506	703	718	827	1,043	1,106
Canada	725	691	740	884	951	976

[1] United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2018. Available at: https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf

Italy	524	547	604	610	686	693
Turkey	413	411	513	501	604	578
Austria	358	387	360	447	525	546
France	71	75	88	178	297	243
Cyprus	117	140	142	145	158	158
Other for confidential purposes	40	57	104	129	133	139
Germany	130	137	123	111	136	137
United States of America	88	94	81	79	97	103
International Organizations	116	128	117	109	110	100
Hungary	0	0	0	1	2	75
Kosovo	26	29	42	45	69	71
Lebanon	46	59	58	59	69	70
United Kingdom	21	24	38	51	64	69
North Macedonia	22	36	41	41	32	32
Slovenia	18	25	16	26	28	31
Bulgaria	13	15	18	22	26	28
United Arab Emirates	17	19	19	19	24	25
Serbia	4	5	17	20	21	21
Croatia	15	14	13	13	17	19
Panama	2	2	2	4	16	17
Luxembourg	13	14	3	5	13	13
Norway	1	3	3	3	5	10
China	-2	4	6	8	8	8
Egypt		4	4	4	5	5
Montenegro	1	1	2	3	3	4
Poland		2	2	2	4	4

Belgium	0	0	1	1	2	3
Israel	-1	1	1	1	2	2
Virgin Islands (British)	1	1	1	1	2	2
Czech Republic	1	1	0	1	1	1
Spain	1	1	-1	1	1	1
Romania	0	0	0	0	1	1
Bosnia and Herzegovina	0	0	-1	0	0	0
Japan	0	0	0	0	0	0
Kuwait	-8	-2	-4	-10	-12	-11
Cayman Islands	26	27	23	1	-27	-28

Source: Bank of Albania (External Sector Statistics / International Investment Position)

Table 2 Aggregate, yearly flow of FDI (Unit: Million Euros)

Index description	**2014**	**2015**	**2016**	**2017**	**2018**	**QI 2019**
Total DI-liabilities	869	890	943	899	1022	286
Netherland	82	65	120	128	181	77
Switzerland	74	146	433	338	364	67
Other for confidential purposes	392	410	142	161	109	48
Austria	-11	23	23	55	58	25
Turkey	63	86	77	45	101	19
Italy	38	11	46	62	39	15
France	-3	16	20	83	90	12
United Kingdom	5	12	6	9	10	6
Norway	0	1	-1	0	2	6
United States of America	35	3	11	4	14	6

Kosovo	0	3	6	9	17	5
Slovenia	1	4	-10	9	1	3
Bulgaria	1	0	3	4	4	2
Germany	23	8	19	-21	18	2
Croatia	2	6	1	2	6	2
United Arab Emirates	0	0	1	0	3	1
Kuwait	0	-7	-2	-3	4	1
Lebanon	1	2	4	4	6	1
Panama	0	0	0	-3	0	1
China	0	5	1	1	0	0
Luxembourg	0	0	-1	-14	8	0
North Macedonia	2	13	5	0	1	0
Sweden	0	0	0	1	3	0
Serbia	0	2	8	2	0	0
International Organizations	12	16	23	1	2	0
Cyprus	13	5	1	2	8	-1
Cayman Islands	19	22	-2	-9	-29	-2
Greece	119	41	9	27	6	-10

Source: Bank of Albania (External Sector Statistics / International Investment Position)

From the above data, it can be realized that Switzerland, Greece, the Netherlands, Canada, Italy, Turkey and Austria are the more active nations from which investments are flowing, standing and growing in Albania.

Sectorial distribution of FDI in Albania

Dunning (1977, 1993) encapsulates the motifs of investments in another country by suggesting four basic motivations: foreign market seeking, efficiency seeking, resource seeking and strategic assets seeking. While observing the sectors where the FDI are more focused in Albania it appears that resource seeking and efficiency seeking are the main motifs driving foreigners to invest in the country. With electricity, steam, gas and mining being the highlight of the economic presence as well as services, communication and manufacturing entrepreneurs are attracted by the cheap labor cost of the country. With regards to the sectorial distribution in the Albanian economy the situation specifically unfolds as follows:

Table 3 Quarterly stock of FDI-liabilities by economic activity (Unit: Million Euros)

Index description	Q IV 2014	Q IV 2015	Q IV 2016	Q IV 2017	Q IV 2018	Q I 2019
Total DI-liabilities	4,564	4,982	5,677	6,453	7,661	7,771
Electricity, gas, steam and air conditioning supply	400	626	1,106	1,507	2,097	2,204
Information and communication	1,179	1,217	1,215	1,170	1,185	1,172
Mining and quarrying	643	635	652	865	1,021	1,062
Financial and insurance activities	772	857	937	1,006	1,081	999
Manufacturing	555	574	607	591	648	652
Professional, scientific and technical activities	259	244	264	320	420	428
Real estate activities	126	151	174	253	388	410
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	191	236	267	264	296	308
Construction	120	84	97	118	142	152
Administrative and support service activities	28	29	36	64	113	119
Transportation and accommodation	152	158	164	127	103	106

Activities of extraterritorial organizations and bodies	52	95	85	75	73	64
Arts, entertainment and recreation	30	27	28	37	40	45
Human health and social work activities	37	35	35	30	25	22
Education	13	15	15	16	17	17
Agriculture, forestry and fishing	2	5	5	10	10	10
Water supply, sewerage, waste management and remediation activities	4	3	3	2	3	3
Other service activities	1	-10	-11	0	0	0

Source: Bank of Albania (External Sector Statistics / International Investment Position)

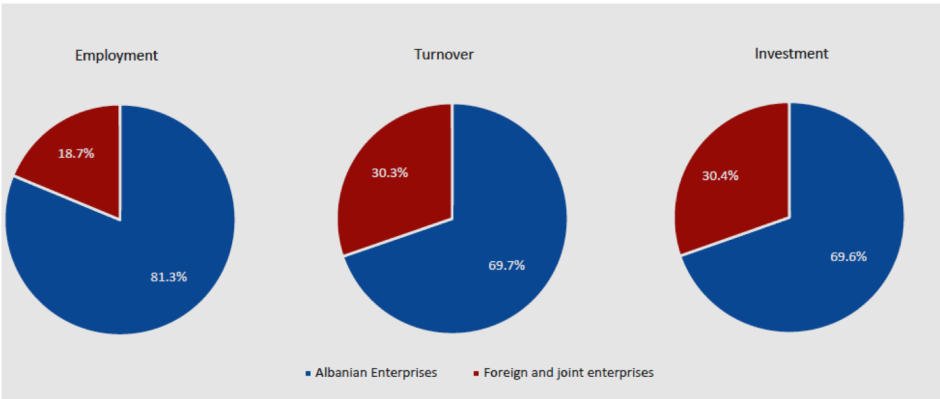
How FDI affect the local economy

The latest official/sectorial data of FDI affecting the local economy, jobs and growth are retrieved from the Albanian Institute of Statistics (INSTAT) and state that the main share of foreign and joint enterprises is from Italy and Greece by 54 % of enterprises, at the same time Italy and Greece have the major share of locals employed in foreign enterprises 58.7 % out of total. The enterprises from these countries realized 59.5 % of exports and 50.8 % of imports from the total imports/exports of foreign and joint enterprises. Enterprises with 100% foreign dominance cover 58.8% of the total foreign and joint enterprises, while the enterprises with foreign dominance cover 17.7 % of them. Foreign enterprises from EU countries account for approximately 66.7% of foreign and joint ventures. Enterprises from Western Balkan countries represent 11.8% and enterprises from other countries represent 21.5% of foreign and joint ventures.[1]

[1] Full information available at: http://www.instat.gov.al

According to the same INSTAT, main economic indicators of foreign and joint enterprises demonstrate that foreign and joint enterprises have employed 18.7 % of total employment. Turnover realized by foreign and joint enterprises comprises 30.3% of total turnover of resident enterprises. The percentage of the investments of the foreign enterprises was 30.4 %.

Fig. 1 Share of the main indicators of foreign and joint enterprises in total



Source: INSTAT

As of the statistics of trade in goods by enterprises, national data demonstrate that the share of exports value of foreign and joint enterprises was 49.2%. FDI stock has increased by 13.7% from 2016 to 2017 and by 15.2% from 2017 to 2018.

Conclusions

This brief overview of FDI in Albania demonstrates the crucial importance of foreign investments into the country's overall economy. For decades it has been a promoter of growth, employment and fiscal stability. As the data demonstrate however, there is no diversification of investments sources; the same countries Italy, Greece and Turkey (in the data analyzed Swiss investments are tied to the Trans-Adriatic Pipeline TAP, a project about to be terminated and the Dutch investments are usually coming from offshore accounts of islands belonging to the Kingdom of the Netherlands) are present and are intensifying their investments. On one hand, this is a very positive circumstance because it makes these three countries steady and reliable partners, on the other, it might backlash because Albanian economy is heavily depended on their investments. So, *diversifying base, typology and country of origin* of foreign investors should become an important target for the long-term economic strategies.

Facilitating FDIs: A Story of Estonia

E-MAP Foundation MTÜ, Tallinn, Estonia

Be it a success story of Auckland, Brisbane, Pusan, or Shenzhen, not much can be stated without mentioning on a substantial volume of Foreign Direct Investment (FDI), which evidently helped to convert those relatively simplistic localities into major economic hubs of the Asia-Pacific. Europe is no exception, and the European continent has plenty to add on how effective an FDI can be in the process of transforming the mediocrity into the success. To prove the point, it would be enough to ‘drive’ a time-machine 30 years back to see how, for example, Warsaw or Batumi looked like then – only to quickly return back to 2019 and be astonished by the actual change. The same is very much applicable to Tallinn and the whole Estonia – in a single generation’s life-span, the Republic of Estonia has managed to significantly modernise its ‘appearance’, while having comfortably entered the league of “the largest net beneficiaries from FDI in the EU”[1]. What is the current *status quo*?

In general economic terms and thus far, the country’s economy is considered well-balanced and “has expanded above its potential for three years in a row”, enjoying plenty of support from “stronger foreign and domestic demand” and having its growth dominated by the construction sector[2]. Intriguingly, a substantial growth is noted in the number of foreigners “who have received temporary and short-term permission to work in Estonia”, but, as reported, it “has only partially alleviated the

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[1] ‘The Estonian Economy’ in *Swedbank*. 15 May 2017. Available from [https://www.swedbank-research.com/english/estonian_economy/2017/may/the_estonian_economy-fdi_may2017.pdf].

[2] ‘Baltic countries – unfazed by external woes’ in ‘Swedbank Economic Outlook’. *Swedbank*. January 2019. Available from [https://www.swedbank-research.com/english/swedbank_economic_outlook/2018/q4/seo_jan_2019_eng_ver1.1.pdf].

labour shortage for enterprises”[1]. Keeping this trend in mind, there are some concrete as well as most recent examples of investing in Estonia – in 2018, the Estonian Investment Agency was pleased to facilitate EUR 324 million of investments in the Estonian economy, assisting the investors in the process of creating 1,472 jobs[2]. Some specifics are shown in *Table 1*.

Investment	**Content**
EUR 50 million: HHLA / Transiidikeskuse AS	German logistics and port company *Hamburger Hafen* und *Logistik AG* (HHLA) obtained the biggest container terminal operator in Estonia, *Transiidikeskuse AS*.
EUR 43 million: Hangxin / Magnetic MRO	*Hangxin*, a Chinese enterprise, obtained the aircraft maintenance company *Magnetic MRO* that received Estonia’s Company of the Year and Exporter of the Year titles in 2017. Brussels Airlines, airBaltic, Austrian Airlines, FedEx − those are some of the examples of companies that have their aircrafts serviced in Estonia at the hangars of Magnetic MRO.
EUR 34.8 million: TransferWise	*TransferWise* obtained VC investments from the USA (a EUR 34.8 million part of which is counted as investments facilitated by the Estonian Investment Agency).
EUR 22 million: MPG AgroProduction	*MPG AgroProduction OÜ*, a company with Cyprus-linked roots, announced investing in building a logistics centre and an oilseed factory at the Port of Muuga. MPG will construct a plant for processing oilseeds, a superstructure for loading and unloading raw material and end products on the quays, as well as loading facilities for transporting raw material and end products to and from Muuga using the railway and road network.

[1] ‘Baltic countries – unfazed by external woes’.

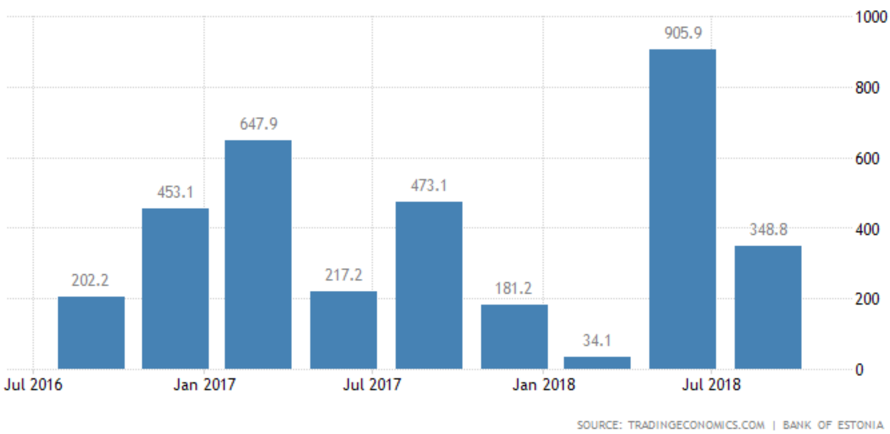
[2] ‘Top 5 investments in Estonia: from logistics to ICT and industry’ in *Invest in Estonia*. May 2019. Available from [https://investinestonia.com/top-investments/].

EUR 21.84 million: CMA CGM Group / APL Agencies Estonia	Logistics company *APL Agencies Estonia* (a part of *CMA CGM Group*) expanded its service centre in Estonia. By now, the shared services centre has come to the central position of delivering first class service to CMA CGM and APL customers.

Table 1 The top investments, based on investment amount, 2018
Source: Invest in Estonia

A report indicates that, in Estonia, FDI increased by EUR 348.80 million in the third quarter of 2018, while, historically, the indicator averaged EUR 195.45 million from 1993 until 2018 (it managed to reach an all-time high of EUR 1,057.90 million in the second quarter of 2005 and a record low of EUR -437.50 million in the second quarter of 2015)[1]. *Figure 1* provides with some historic data on the subject and for the last three years.

Figure 1 The FDI indicator, Estonia



Source: Tradingeconomics.com and Eesti Pank.

Back in May 2017, Swedbank, the Republic of Estonia's biggest universal banking institution with 40% of the market share on the year,

[1] 'Estonia Foreign Direct Investment – net inflows' in *Trading Economics*. Available from [https://tradingeconomics.com/estonia/foreign-direct-investment].

specified that "Sweden has been a major contributor to […] FDI from the beginning of independence, and it still is today, although the importance of Sweden is continuously decreasing"[1]. There is also a noticeable factor of the Russian aggression in Ukraine, which played a role in decreasing the FDI market share of Russia in Estonia; having this as a background, both Latvia- and Lithuania-originated investments grow on the annual basis, solidifying the FDI basis in the country – "more than 80% of inward FDI in Estonia originates from the EU"[2]. Intriguingly, as noted by the Foreign Investors' Council in Estonia (FICE), the seven countries represented in the organisation (namely, Austria, Denmark, Finland, Germany, Norway, the Netherlands, and Sweden) are factually those, which account for almost 80% of the total FDI in Estonia[3], and only one of the seven nations (Norway) is not an EU Member State.

When it comes to the country's grand-account, the Eesti Pank was pleased to report that the "net total of the current and capital accounts […] saw a surplus of EUR 155 million in the second quarter of 2018", meaning that "the Estonian economy was again a net lender to other countries" and underscoring the fact that "[t]he financial account of the balance of payments shows that investment abroad from Estonia was EUR 36 million larger in the second quarter of 2018 than investment in Estonia from abroad"[4]. At the same time, the press-release noted that "[t]he net international investment position at the end of the second quarter of 2018 showed that the external liabilities of Estonian residents exceeded their external assets by EUR 7.2 billion, or 29% of GDP for four quarters", and this factor is for the current Estonian Government to monitor with full attention. Sectors wise, it is for 'Financial and insurance activities' to

[1] 'The Estonian Economy'.
[2] 'The Estonian Economy'.
[3] 'About' in *Foreign Investors Council in Estonia*. Available from [https://fice.ee/about/].
[4] 'Growth in exports of services brought the current account back into surplus' in *Eesti Pank*. 6 September 2018. Available from [https://www.eestipank.ee/en/press/growth-exports-services-brought-current-account-back-surplus-06092018].

comfortably occupy the largest share of FDI in Estonia[1]. However, this is not to forget that the same sector has experienced an astonishing drop from 50% in 2005 to the current level[2]. *Table 2* gives more details on the matter.

Table 2 FDI by sectors, Estonia

Sector/Year	**2017**
Financial and insurance activities	29%
Real estate activities	18%
Manufacturing	13%
Wholesale and retail trade	13%
Professional, scientific and technical activities	8%
Information and communication, Transport and storage, Administrative and support service activities, and Others	19%

Source: Invest in Estonia

As for the FDI's origin in 2017, the lion share unsurprisingly belongs to the Swedish companies (28%), which are followed by investors from Finland (22%), the Netherlands (8%), Lithuania (5%), and Russia (4%)[3]. There is no surprise that the Sweden-Finland tandem is literally in charge of the FDI-related process in Estonia, but it is required to be noticed the presence of Lithuania in the list of the top investors. Most probably, the relatively small size of the Estonian market prevents big investors from the United States, China, the Republic of Korea, and Japan to consider completing any big-scale investment-related exercises in Estonia. There is also an interesting fact that may jeopardise the country's economic advancement – for years, it was private consumption that was pushing the Estonian economy to grow, but, as reported, "[t]he amount of shopping-centre space per capita in Estonia is 1.36 square meters, which is more than

[1] 'Foreign direct investment' in *Invest in Estonia*. Available from [https://investinestonia.com/business-in-estonia/estonian-economy/fdi/].

[2] 'The Estonian Economy'.

[3] 'The Estonian Economy'.

the EU average, even though Estonia’s purchasing power is about 75% of the EU average”[1]. It is clear that the FDI-associated palette in Estonia will be experiencing a number of significant adjustments in the nearest future.

[1] ‘The Estonian Economy’.

Bulgaria and Its Current State of FDI

Evgeniy Kandilarov

Foreign direct investment in Bulgaria and other countries reflects the foreign ownership of production facilities. To be classified as foreign direct investment, the share of the foreign ownership has to be equal to at least 10 percent of the value of the company. The investment could be in manufacturing, services, agriculture, or other sectors. It could have originated as green field investment (building something new), as acquisition (buying an existing company) or joint venture (partnership).

Foreign direct investment (FDI) has been regarded as an important driver of economic development in Bulgaria since the very start of market transition, which determined the establishment of a liberal foreign investment regime. However, the impressively large FDI stock, which was accumulated during the period of growth before the global crisis in 2008, has quite unfavorable sectoral and regional structure. After the crisis we can see the substantial drop of FDI reaching very low levels in the following years.

It is quite difficult to explain that tendency since, with one of the lowest corporate tax rates in the area (10%) and its low labor costs, Bulgaria is relatively well-placed for foreign investments, which are not subject to screening from the government. There are no legal limits on foreign ownership or control of firms, and foreign entities are formally granted the same treatment as national companies. However, according to the Offshore Company Act, firms with foreign participation of more than 10% cannot do business in 28 specific sectors (including government procurement, exploitation of natural resource, banking and insurance services, though there are certain exemptions). The Bulgarian Foreign Investment Agency (FIA) is the government's FDIs coordinating body which provides information, administrative services and incentive assessments to potential foreign investors. The revival of foreign investment depends nonetheless on the improvement of the economic situation in other EU countries, particularly that of Bulgaria's closest neighbors. Among the challenges investors have to face, there is a shortage of skilled labor, corruption, unpredictability of the regulatory and legislative framework which is often amended, and concerns about the rule of law. Furthermore, the judicial system is slow and intellectual property rights are not always enforced. Bulgaria ranked 59th out of 190 economies in the World Bank's 2019 Doing Business report, losing 9 positions compared to the previous year (and 20 compared to the 2017 edition).

There are two institutions in Bulgaria responsible for collecting and maintaining data on FDI inflows as follows: The Bulgarian National Bank (BNB) and the Foreign Investment Agency (FIA). The BNB maintains the database available for the purposes of the balance of payments statistics, and the FIA for the purposes of government policies as regards foreign investments.

According to this data analyses the current situation shows that recently Foreign Direct Investment in Bulgaria decreased by -93.20 EUR million in April of 2019. Foreign Direct Investment in Bulgaria averaged 180.17 EUR million from 1996 until 2019, reaching an all-time high of 1018.40 EUR million in December of 2007 and a record low of -414 EUR million in September of 2010.

The statistics from the Bulgarian National Bank (BNB) showed that Foreign Direct Investment in Bulgaria in the first four months of 2019 recorded an outflow of 54.9 million euro, the equivalent of 0.1 per cent of the gross domestic product (GDP). During the same period of 2018, FDI showed a net inflow of 10.7 million euro, but the original amount reported by BNB last year was 113 million euro, which was revised downward later. Up to that date the preliminary data from the Bulgarian National Bank (BNB) shows that the Foreign Direct Investments in Bulgarian industry reached 217.2 million EUR in the first quarter of this year. The amount is higher than reported in the same period in 2018 - 124.5 million BGN (62 million EUR).

The data is still preliminary and will be revised with the National Statistical Institute annual data and additional reports of the foreign-owned enterprises. Usually the changes are upward. Nevertheless, the amount of foreign investment in Bulgaria remains at a minus of EUR 254.4 million at the end of March, according to preliminary data of the Bulgarian National Bank (BNB). According to statistics for the same period last year, the amount was again negative, but only 52.6 million euros. There are two possible causes for those statistical results. One is that the flow of external capital is less than the foreign capital withdrawn from the country. The other reason could be the completion of the deal with the Hungarian bank OTP Bank Plc. and the acquisition of 99.74% of SG Express bank AD (SGEB), the Bulgarian subsidiary of SG and other local subsidiaries. The finalization of the transaction in January 2019 led to the payment of nearly EUR 600 million by the Bulgarian subsidiary of the French Societe Generale.

Only in March 2019 the net flow of direct investments in the country amounts to 53 million euros, according to the BNB data. Expectedly, the real estate investments are most preferred. For the period January-March 2019, in Bulgaria have been invested EUR 2.2 million in real estate. A year earlier, however, Bulgaria entered 7.1 million BGN in the first quarter in the form of real estate investments. By country, Kazakhstan (EUR 0.5 million), the Netherlands (EUR 0.5 million) and Latvia (EUR 0.4 million) have the largest share in real estate investment.

Debt instruments (the funds provided by foreign companies in the form of a loan to their subsidiaries in Bulgaria) amounted to EUR 380.9 million, against EUR 66.7 million in January-March 2018. These are loan funds granted by the parent companies of their subsidiaries in Bulgaria. This is recorded as the change in the net liabilities of Bulgarian companies towards their foreign investor owners, compared to the first four months of last year. Such financial flows include financial loans, suppliers' credits and debt securities.

For the first four months of this year, foreign direct investment (FDI) in Bulgaria was negative at EUR 55 million, which means that more foreign capital has left the country than it has infused. The largest leak is in equity and to a lesser extent in reinvested earnings. Loans from parent companies to some extent offset the negative statistics, but overall the structure of the investment is not good.

The largest net flows of direct investment in the country in January-April 2019 are from the Netherlands (EUR 260.2 million), the UK (EUR 86.5 million) and Ireland (EUR 65.2 million). Notable net outflows were recorded towards Germany (-45 million euro).

The number of projects created by foreign direct investment (FDI) in Bulgaria in 2018 has risen against the backdrop of a decline in Europe as a whole. The data show that last year the projects in Bulgaria were 43, while in 2017 they were 33. The new jobs created as a result of this realization are 7398 - 37% more than in 2017 when the new jobs are only 2739.

Traditionally, the largest investors in Bulgaria are Germany, which creates 5375 jobs, the US with 618 jobs and the UK, which has 195 jobs. They are mainly in the sphere of business services, information technology, transport and logistics. According to the analysis, Foreign Direct Investments in the digital sector are 15. In this sector of Investments Bulgaria is ahead of some member states of the European Union, such as Denmark, Italy and the Czech Republic. However, statistics show that in Greece, Bulgaria and Romania, education and qualifications in the digital industry are the least developed, compared to Finland, the Netherlands and Sweden, which are Europe's leaders in this respect.

Table 1 FDI flows in Bulgaria, by economic activity groupings
(Million EUR)

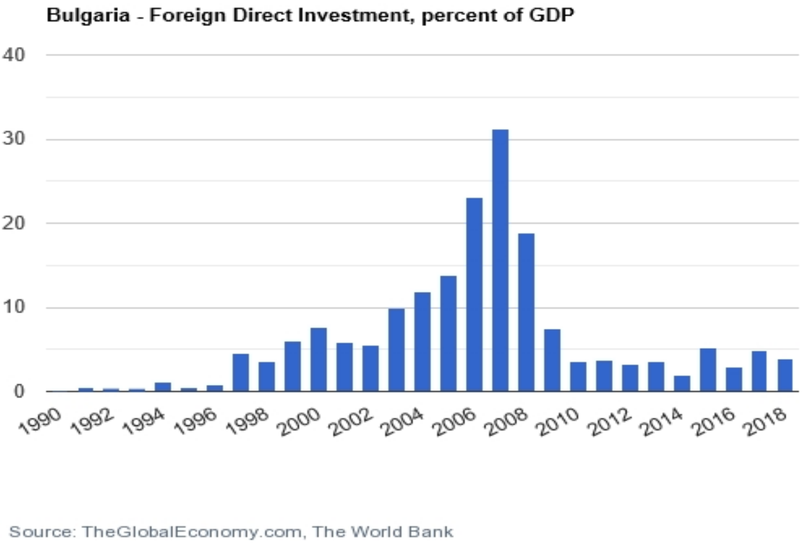
Economic activity groupings	2015	2016	2017	2018
All FDI activities	**2399.1**	**1003.3**	**2314.1**	**1744.2**
Wholesale and retail trade; repair of motor vehicles and motorcycles	435.3	477.5	339.6	135.6
Financial and insurance activities	460.3	179.2	294.6	583.5
Manufacturing	551.9	236.9	1099.5	1281.8
Construction	178.9	23.2	175.9	-96.3
Electricity, gas, steam and air conditioning supply	74.8	15.0	-206.9	-109.9
Not allocated	477.8	79.3	380.8	12.6
Real estate activities	-41.6	-41.9	345.7	-148.9
Information and communication	84.6	19.4	-243.1	45.5
Administrative and support service Activities	11.6	82.1	45.7	48.5
Transportation and storage	53.8	8.0	5.5	10.4
Mining and quarrying	-67.4	-22.6	-21.4	11.2
Arts, entertainment and recreation	14.2	6.1	22.1	-3.8
Education	1.8	11.6	4.7	0.1
Human health and social work activities	1.4	0.9	3.3	1.2
Other service activities	0.6	0.8	0.3	5.5
Water supply; sewerage, waste management and remediation activities	11.6	-34.8	34.2	-37.5
Accommodation and food service activities	12.1	24.9	-18.3	-14.1
Professional, scientific and technical activities	160.6	-49.1	56.8	14.1
Agriculture, forestry and fishing	-22.9	-13.2	-4.9	4.8

Source: Bulgarian National Bank. Preliminary data as of March 22, 2019.

In Europe, the drop in foreign direct investment is 4% for the first time in six years. However, their levels remain at the second highest level since 2000. Despite positive results showing growth in projects over the past year, Bulgaria is lagging behind some of its neighboring countries as well as a number of countries in the region. Poland, Turkey, as Serbia and Romania are more attractive to foreign investors.

In conclusion, it is more than clear that Foreign Direct Investment is a paramount indicator of the economic health of a country. Indeed, international investors enjoy an important freedom of choice, and are the first to leave a country not going in a healthy economic direction. The statistics show that FDI inflows to Bulgaria had maintained a steady course in the early 2000s and reached an all-time high in 2007, at USD 12.4 billion (UNCTAD). Inflows have been generally on the decline since then and dropped to USD 2.05 billion in 2018, from USD 2.6 billion the previous year (UNCTAD's 2019 World Investment Report). The total stock of FDI stood at USD 49.2 billion (75.9% of GDP) at the end of 2018. According to preliminary data by the Bulgarian National Bank, the net inflows of FDI in the country over January-November 2018 amounted to EUR 795.4 million. The main investing countries are the Netherlands (17.3%), Austria (9.6%), Germany (6.8%) and Italy (6%). FDI are directed chiefly to the real estate (24%), manufacturing (17.3%) and financial and insurance activities (16.7%) sectors.

Between 2008 and 2018, foreign direct investment in Bulgaria collapsed, dropping from 28% to 2% of GDP, from $9 billion to just $1.13 billion.



One of the reasons this is happening is that the oligarchic system which includes the key government officials do not support fully foreign investors – they are seen as troublemakers, because they complain to their capitals, and to the European Commission. It’s easier with Bulgarian companies – they accept “suffering in silence”.

The only reason for an investment is the return on this investment. Therefore, there are two type of investment – there is the risky investment which yield high returns but can lead to loses, and there is the safe investment which only yields a low profit but carries very little risk. Unfortunately, up to that moment Bulgaria is making an astounding demonstration of strength by proposing an environment yielding low profits with high risks. This has led to dramatic fall in foreign direct investment in recent years.

This led to the paradox, given that following its 2007 EU accession, Bulgaria was seen by investors as having a favorable foreign investment regime that included government incentives for new investment and low or flat corporate and income taxes. Bulgaria also still offers some of the least expensive qualified labor in Europe. One of the reasons for the fall in investment could be the bad image of the country's judicial system. The lack of a stable legislative framework is also a problem for investors. The third issue affecting foreign investment in Bulgaria is the corruption plaguing the country.

Bulgaria is currently ranked as the most corrupt EU member state according to the assessment of the Transparency International. The report is based on the polling of experts from around the world on topics such as press freedom, integrity, and independent judiciaries.

This is how Bulgaria has managed to achieve an extraordinary feat. Despite its natural beauty, despite having talented and educated people, and despite a favorable tax climate, it is likely to stay as the poorest in the EU, and to continue losing its population. The only hope for change of this tendency is change in the trend of the general socio-economic development and the living standard which includes also change in the policy making regarding the mentioned problematic issues as the judicial system, the legislation stability and the corruption issue as well. Otherwise less FDI will flow into the economy and will take even less part of the GDP of the country which will give a priority of Bulgaria's neighbor countries for the foreign investors leaving the Bulgarian great potential in this field not used but lost.

FDI in North Macedonia: Discourse and Reality

Anastas Vangeli

Introduction

Foreign Direct Investments (FDI) is one of the central concepts when it comes to the economic development and economic governance of North Macedonia (hereinafter Macedonia). FDI matter both in terms of the real inflows of foreign capital (actual investments) in the country, but also as a discursive construct in the policy and political debates. In material terms, FDI have gradually become one of the core features of Macedonia's economy, especially in the last two decades. Discursively, increasing the amount of FDI has been the key objective of all governments starting from 1998 (some would argue that this trend dates back to 1992). The frustration with the inability to attract FDI has been one of the key factors in the build-up of dissatisfaction among the policy circles and the mass public. This paper discusses the two aspects of FDI in Macedonia, first focusing on the discursive aspect, and later on the material one.

FDI in Macedonia: A Conceptual Framework

After the crisis of state socialism, by the end of the 1980s and the early 1990s, Yugoslavia embarked on a trajectory of comprehensive economic reform that ultimately aimed to liberalize the economy and integrate it in global capitalism. This trend was continued by the newly independent states that emerged after the dissolution of Yugoslavia, including Macedonia. The goal of the post-socialist reforms was to significantly privatize the economy, and transfer much of the capital from the hands of the public ownership (and the workers, since Yugoslavia had a system of workers' self-management, i.e. initially workers were also shareholders in companies) to the hands of private owners, via the state (in that sense, the early years of the transition, paradoxically, foresaw an important role of the state in the economy, but not with the goal of managing it, but rather privatizing it). Foreign Direct Investments (FDI) were seen as a crucial element of the process of privatization.

FDI were introduced as a result in the change of the normative framework, as foreign capital – whose effects were now considered to be extremely positive – started to become seen as particularly desirable. The idea was that increased inflow of international capital will help offset the costs that arose from the decay of the common Yugoslav market, and in general the economic crises that shook Yugoslavia from the 80s onward and continued well into the Macedonian independence – but also, in general terms, help combat the relative economic backwardness of the country by bringing not only money, but also know-how from the West. FDI were expected to come in many forms, but the most preferred ones were greenfield investments that would help set up new production capacities in technologically advanced industries, and brownfield investments that would help revitalize the numerous failing companies. Of course, much of the FDI were expected to also come in the form of mergers and acquisitions of existing companies and production capacities, with the goal to modernize them, increase their output and integrate them in the global supply chains and markets.

Due to the negative perceptions of the domestic actors, and the somewhat idealized image of external, and in particular Western economic actors in the 1990s, and the enthusiastic attitude towards neoliberal globalization, the popular rhetoric surrounding FDI often implied that foreign investors are more desirable and perceived as more reliable and competent than domestic ones. Of course, the material condition that enabled this rhetoric was the fact that foreign investors had much more capital and know-how compared to domestic actors who just entered the world of wild capitalism.

The desirability of FDI was so strong that it emerged as one of the key political narratives during Macedonia's transition. It was particularly championed by VMRO-DPMNE in the 1990s, who criticized the SDSM-led governments (1992-1998) for the inability to attract significant FDI and integrate the country in global capitalism. One of the reasons for why VMRO-DPMNE won the 1998 elections was their promise to massively attract FDI. Similarly, after the mediocre economic performance of the SDSM government 2002-2006, VMRO-DPMNE developed an FDI-centered discourse to win the elections in 2006. Nevertheless, by this time, SDSM also adopted a fully pro-FDI rhetoric and in the subsequent years started criticizing VMRO-DPMNE for their own inability to attract FDI. Today, the pledge of increasing the level of FDI is one of the core elements of the economic discourse of Zaev's government.

To attract FDI, Macedonian policymakers (in the first place the governments of VMRO-DPMNE, but also the more recent ones of SDSM) have gone to great lengths and taken a number of policy measures to optimize the economy and facilitate capital inflows. They have opened special economic zones (e.g. the country even though one of Europe's smallest, has 15 special economic zones), offered a number of incentives such as tax cuts and subventions, and deregulated the labor relations with the goal to muzzle the workers and the labor unions, and allowed foreign businesses to have a substantial say in the process of economic reforms. They have also invested in promotional campaigns, hired economic promoters and organized so called “road shows” to showcase Macedonia and attract investors. These efforts have yielded some recognition among the global business community (i.e. Macedonia has soared in a number of rankings such as World Bank's Doing Business report); however in practice, Macedonia for a long time has under-performed in terms of attracted volume, capital retention rate and the overall benefits drawn from FDI; this trends however may be undergoing a change as latest data by UNCTAD shows that 2018 may have been a game-changing year for FDI in the Balkans and in Macedonia.

Assessment of the FDI in Macedonia

While overall FDI in Macedonia are considered to be below the desired level, they have been consistently on the rise – in some years they have grown more than in others. In 2018, the investment flows tripled compared to 2017, reaching record 737 million USD (there are no reports on the FDI stock). Cumulatively, FDI play a crucial role for Macedonia's economic growth. According some of the claims, especially during the years of the protracted political crisis (2015-2017), foreign owned companies have sustained Macedonia's economy and prevented it to slide into a recession. The majority of the largest, most profitable and most innovative companies in Macedonia are foreign-owned. In terms of origin, a significant number of FDI originate from Germany and other Western European countries, as well as Greece and Turkey. In the last decade, there have been also some investments made by companies originating from offshore tax havens, such as Belize, which are believed to be money laundered by the Macedonian political elite.

The first batch of major FDI have come in the form of acquisitions of three of the largest companies in the strategic sectors, such as oil refining, telecommunications and electric power distribution. The oil refinery Okta was privatized in 1999, bought by Hellenic Petroleum from Greece. The publicly owned Macedonian telecommunication company was privatized in 2001. It was bought by Magyar Telekom from Hungary, a subsidiary of Deutsche Telekom from Germany. The national electric power distribution company ESM was privatized in 2006, bought by the Austrian company EVN. All of these deals had attracted a fair amount of controversy, as the public officials in charge of the privatization process had been rumored to be involved in corruption deals, and there have been some legal processes related to that. Another particular downside of privatizing these companies has been the rise of utilities costs. Nevertheless, today Okta, Telekom and EVN remain among the largest and most profitable companies in the country. In addition to those, there have been other significant acquisitions (some of which have also been marred by controversy), such as the one of Feni Industry (the largest steel mill in the country, which has been going through crisis in the last several years) or the acquisition of the smaller telecommunications operator VIP owned by Austrian Telekom; while at the same time, a number of other high-performing companies have been at least partially acquired by foreign companies (for instance, most of the commercial banks operating in the country).

In the last ten years, however, the most significant FDI targeted the manufacturing sector, and most significantly in automotive components production. Several plants for the manufacturing of various car parts have been built in different parts of the country, predominantly by German companies: Draexlmaier in Kavadarci, Kromberg & Schubert in Bitola, Adient Seating in Shtip and Adient Automotive in Strumica, Gentherm in Prilep, and so on. There have been other large investors in other sectors, and from other countries, i.e. Johnson Matthey (chemical industry) from the UK, Amphenol (electronics) from the US, and so on. These were all greenfield FDI, often benefiting greatly form the policy measures undertaken by the Macedonian government in order to attract foreign investors in the country. These FDI are parts of global supply chains and therefore play a significant role in terms of Macedonia's exports, and in particular in terms of the exports of intermediate goods, which have been on the rise in the last few years. Thus, it is no surprise that, for example, thanks to the production of German automotive parts in the country, Macedonia is now one of the rare countries that has a trade surplus with Germany. At the same time, these companies are also major employers in the country. Some companies employ thousands of workers, which changes the landscape of whole communities. Draexlmaier employs more than 6.000 workers, and Kromberg & Schubert employs more than 4.000. Companies who operate in the special economic zones employ more than 12.000 workers. There have been also a number of other smaller scale investments in particular in textile trade processing.

However, despite the seemingly positive impact of the FDI in the country, there are also a number of arguments on their net effect. For instance, while they do create significant economic activity in the country, foreign owned companies repatriate the profits to the country of origin and do not reinvest in Macedonia. Some investors use the benefits provided by the government, and after making most out of the opportunity, leave the country with no regard for the negative consequences. Another line of criticism is that the investments in Macedonia still predominantly come in the labor-intensive industries, with very little coming into IT and advanced technology. The production of automotive components and textile, for instance, offers limited possibilities for innovation and upgrade up the value chain. The impression is that Macedonia is so far missing the arrival of the digital era and the industry 4.0.

Furthermore, even though they employ thousands of people, foreign companies are perceived as major contributors to the deterioration of labor standards (both in terms of their practices, but also in how the government optimizes the regulations so as to cater to their interests). One of the most significant reports on the labor conditions in Macedonia published by movement Solidarity called the country "a paradise for investors which is workers' hell." Many of the employees in foreign owned companies work for extremely low salary, while also having temporary contracts with no protection or security.

Finally, there is a growing awareness about the detrimental environmental impact of some FDIs. This has been particularly visible in the recent cases of the so called "mines of death." A Canadian company is set to build several gold mines in Southeastern Macedonia. However, a number of studies have shown that these mines could have detrimental impact on the environment of the area – which pertains both to the quality of life of the residents, but also the agricultural outputs as agriculture is one of the main activities in the areas in which the mines are supposed to be built (furthermore, that area provides a significant share of the total agricultural output of the country). These mines have been a subject of mass protests, petitions and political controversy since 2017, and have seen a renewed contention in the summer of 2019, opening a discussion on the sustainability not only of the mines themselves, but also other FDI in the country.

All in all, FDI are a core part of Macedonia's economy. They are still below the expectations of Macedonia's public and policymakers, but seem to be on the rise. They have contributed to the economic growth, exports, and employment, but have not brought significant upgrade of the economy, and have contributed to the deterioration of labor standards and environmental degradation. While it is impossible to develop Macedonia's economy in isolation from the global economy (which means that FDI are in fact necessary), after two and a half decades of a rather clumsy "catch all" approach towards foreign capital that has come at a certain cost, Macedonian policymakers need to formulate a strategy of attracting and utilizing FDI for greater benefit of the national economy, the workers and the population of the country.

FDI and Its Contribution to BiH Economy

Ivica Bakota

According to the last available data (August 2018) published by the Central Bank of Bosnia and Herzegovina (CBBiH), on December 31 2017, the total amount of foreign direct investment in BiH was BAM 13,449 billion (EUR 6.9 billion). This is total registered investment stock which places BiH, according to the UNCTAD Annual Report on Global Foreign Investments, on the second position among the countries of South-Eastern Europe.

Direct foreign investments in 2017 amounted to KM 777.7 million (EUR 397.6 million), where the data indicate an increase in foreign investments by 37.9% compared to the amount in 2016, or by 28.8% compared to the five-year average (2012-2016 period).

The official data for FDI in 2018 are expected to be published by the CBBiH at the end of August 2019, but BiH Agency for Foreign Investment Promotion holds that based on the first preliminary data for the period January - December 2018, a positive growth trend can be expected in terms of total direct foreign investments. According to the balance of payments (with estimated retained earnings), direct foreign investments for 2018 amounted to KM 800 million (EUR 409 million).

FDI in Bosnia and Herzegovina – a short historical overview

In 2007, Bosnia and Herzegovina had the largest registered inflow of foreign direct investments of KM 2.6 billion, mainly thanks to the privatization of large state-owned companies. In 2008, the inflow of foreign investments to BiH in total amount of KM 1.3 billion was still confirming positive trend, especially since it was realized without significant privatization transactions and with a fair share of investment in the manufacturing sector and realization of greenfield investment.

The global economic crisis has affected BiH in more or less the same level as other regional dependent market economies with significant decline in investments in 2009 and positive trend of foreign direct investment in 2010 and 2011. However, despite promising estimates, investment flows in 2012 and 2013 did not maintain a positive trend.

The amount of foreign direct investment peaked in 2014 when a total of KM 811 million was registered, an increase of 99.2% compared to the previous year. According to CBBiH data, in 2015 inward FDI decreased for 21.5% to KM 637 million and negative trend continued in 2016 (KM 564 million registered or -11.5%).

In 2017 inward FDI again increased by 37.9% stopping a negative trend from the post-recession period and there are general expectations that the growth of FDI and investment rate in general will continue in 2018 (pending the publication of official data) as well as in the current year. From an incomplete data (excluding the amount of retained earnings) for the first three quarters of 2018, in January-September 2018 period, the amount of direct foreign investments was at the level of the same period of the previous year (2017). Although it is still early to confirm a stable trend on FDI growth, projections remain generally optimistic for the previous and the current year. Explanations for positive trend are different. While the most opinions hold that FDI growth reflects positive trends in the region, some also argue in favor of reform agenda carried out in the last four years that decreased red tape and enhanced coordination of BiH institutions.

Regarding the total foreign investment stock from 1994 to December 2017, the biggest investor (country) was Austria (KM 2.6 billion or 1.3 billion euros) followed by Croatia, Serbia and Slovenia, while other significant investor-countries include: Switzerland, Austria, Turkey and the United Kingdom.

The data from BiH Agency for Foreign Investment Promotion shows the most significant amount of foreign direct investment was registered in the manufacturing sector (32%) and the banking sector (26%). A share of the total inflow of the former is untypically lower than in the manufacture due to flawed privatizations of BiH banks and also, as argued, strong industrial tradition of BiH.

Structure of FDI (at the end of December 2017)

The total foreign direct investment in BiH (KM 13,449 million) is divided into equity holdings and retained earnings in the amount of KM 9,993 million (EUR 5,109 million) and other equities KM 3,456 million (EUR 1,767 million).

According to the CBBiH official data, direct foreign investments in 2017 amounted to KM 777.7 million or EUR 397.6 million in 2017. In the structure of foreign direct investment in 2017, the shareholdings amounted to KM 362.1 million (or EUR 185.1 million), the retained earnings amounted to KM 420.8 million (EUR 215.2 million), while the remaining capital was negative and amounted to KM -5.3 million (EUR-2.7 million). Foreign direct investment in 2017 was 37.9% higher than in 2016. Registered shareholdings were higher in relation to the previous year (KM 290.8 million in 2016), retained earnings also increased significantly (KM 163.3 million in 2016), while other capital recorded a decrease compared to 2016 (KM 110.0 million in 2016). In 2017, ownership shares accounted for 47% of total foreign direct investment in BiH.

The countries-investors with the biggest share in outward FDI in 2017 were Austria (KM 187 million), Croatia (KM 102.0 million) and Slovenia (KM 101.7 million). The following countries registered significant increases in FDI capital (over KM 20 million): Switzerland (KM 59 million), Serbia (KM 53.9 million), Germany (KM 53.5 million), Italy (KM 45 million), Luxembourg (KM 41 million), Saudi Arabia (KM 39 million), United Arab Emirates (KM 27 million) and Kuwait (KM 24 million).

In 2017, the activities with the highest number of foreign investments registered (over KM 20 million) are: Financial service activities other than insurance and pension funds (KM 261.2 million), Retail trade (not incl motor vehicles and motorcycles) with KM 110.2 million, Manufacture electricity, gas, steam and air conditioning supply with KM 64.2 million, Manufacture of basic metals with KM 50.7 million, Manufacture of motor vehicles, trailers and semi-trailers with KM 46.5 million, Manufacture of tobacco products with KM 45.4 million, Real estate business with KM 40.6 million, Wholesale trade, except motor vehicles and motorcycles BAM 38.1 million, Leather and related products BAM 25.0 million and Construction of construction buildings with BAM 20.8 million.

Major issues and challenges for sustainable FDI growth

- Rule of law issues. The fact that the authorities at all (central, entity, cantonal) levels in BiH ignore or reject binding court decisions, including the decisions of the Court of BiH and the Constitutional Court of BiH, as well as the decisions of the European Court of Human Rights has been recently criticized by HR Valentin Inzko particularly because it is “not a good message for potential investors."
- Expensive, complicated and inefficient administration procedures delaying small and middle sized FDI. Here, the biggest issue is obtaining registration, building permits as well as work permits for temporary stay for foreign workers. This is especially pronounced in small-to-middle size investment and is the main obstacle that hampers horizontal FDI from neighboring countries and BiH diaspora.
- Complaints on “unadjusted” or “non-business-friendly” labor legislation. A large number of small, medium companies are complaining that a burden of employment incentives and policies falls on them, despite their overall contribution to FDI. Only large foreign funded companies are beneficiaries of special provisions and exemptions regarding labor legislation.
- Uneven distribution of FDI. As highly decentralized country, BiH has very uneven distribution of FDI on central and federal level. In RS, greater agglomeration of Banja Luka (Prijedor, Banja

Luka, Gradiska) receive the most of inward FDI. In FBIH, Sarajevo, West Herzegovina and Tuzla Canton are attracting far more FDI compared to other cantons and municipalities.

- Unfavorable investment image. Just like the rest of the Western Balkans region, BiH has a serious problem with a weak investment image in the world, mainly due to economic and political instability. While there are regional and domestic initiatives aiming to boost the investment image, there is a concern that BiH is also falling behind the region in implementing necessary policies and regulations. General perception is that Serbia and Montenegro have done more to attract foreign investors and thus increase employment and economic stability.
- Moving away from a low value-added FDI to technology-driven FDI. BiH economy relies on export of natural resources (energy, wood, metals) and had inward FDI patterns that were particularly linked to the exploitation of natural resources. Some regional (cantonal) governments made a set of policies to encourage value-added investments that come in with 'technological package'. However, while some areas do attract value-added and technology-driven FDI, BiH in general picture is still considered to be in transition from a South (FDI destination) country and lacking investment in technologies and services generating higher return for local economy.
- Dissipating labor force. Most of inward FDI in BiH was driven by cheaper labor costs. With advancing problem of labor migration and population loss BiH in the long-term might lose this advantage, or even eventually see jobs generated by European companies moving to more accessible and stable labor markets of neighboring Serbia, Bulgaria, Albania.
- Infrastructure building delays. The WB region is slowly building its road and railway network to sustain and support larger inflow of FDI. BiH is not exception to this, but its overall network of roads and railways accessible for modern transportation of goods and

services is still lagging behind the rest of the region. This may pose long-term opportunity costs for BiH in attracting FDI that is oriented to easy-to-access destination countries.

FDI in Poland

Joanna Ciesielska-Klikowska

The Polish economy has been growing continuously since 1991, which is a record among European Union countries. At the same time, it is a dynamic development - in the last 20 years GDP per capita (according to the purchasing power parity) has grown at a rate of 6% per annum. This is the best result in the Central European region, which is often assessed by investors as an attractive place to start operations. Yet, over the last years, the number of foreign direct investments (FDI) in Poland has been falling. According to the latest data, in 2018 foreign investors have announced 323 new projects in Poland - 6% less than in the year 2017. In the ranking of European countries that have attracted the highest value of FDI, Poland has dropped to 5th place. Such a change was influenced by both the economic situation and global investment trends, as well as events in Poland itself, above all the legal chaos making it difficult for international entrepreneurs to understand Polish regulations.

Inflow of foreign direct investments to Poland after 1990

In the history of FDI inflow to Poland, one can distinguish three important phases:

1. 1990-2004: the first phase began with the entry of new investors in the early 1990ies and the privatization of former state-owned enterprises. The increase in inflow followed the liberalization of capital flows after Poland's accession to the OECD in 1996. In this phase, the capital inflowed primarily through the acquisition of capital shares and subsequent recapitalization of companies. Profits of companies with foreign capital at that time were relatively small and reinvested profits were often negative. It was influenced by both the initial stage of many investments, but also by a relatively high-income tax from legal persons;

2. 2004-2013: the reduction of Corporate Income Tax (CIT) from 27% to 19% started the second phase in the inflow of foreign investments - from that moment companies with foreign capital began to show and reinvest their profits. During this time the role of debt financing and reinvested profits increased, while the inflow of capital in the form of equity shares was declining. The inflow of capital broke twice in 2008/2009 and 2013, which was a consequence of perturbations on global financial markets;
3. 2013-present: the rebound after the year 2013 opened the third phase, which is characterized by the dominant role of reinvested profits, yet the transactions on shares and debt instruments are also negative when foreign investors decide to exit their investments in Poland. High reinvested profits result largely from the entry of previously made investments into the phase in which they generate revenues.

These foreign direct investments are monitored and developed by the National Bank of Poland (Narodowy Bank Polski, NBP) and the Central Statistical Office (Główny Urząd Statystyczny, GUS). Both institutions publish relevant analyzes, and the latest - from 2019 - present data on 2017.

Data of the National Bank of Poland and Central Statistical Office for 2017

According to the figures presented by the NBP and GUS, in 2017 the net inflow of foreign direct investment to Poland amounted to EUR 8.07 billion and was 44% lower than in the previous year. This decrease resulted to a large extent from a single large disinvestment of a foreign investor in the banking sector. Due to negative values of transactions involving equity instruments (EUR -372 million) and debt instruments (EUR -442 million), the only positive component of the inflow were reinvested profits (amounted to EUR 8.86 billion). The largest inflow of investments was recorded from Germany (EUR 2.97 billion) and Luxembourg (EUR 2.88 billion), whereas most of the capital floated to Italy (EUR -1.95 billion) and the Netherlands (EUR -1.67 billion). Big inflow of capital from

Germany is to be understood as reinvested profits, and from Luxembourg as the change of the ownership of a large Polish company specializing in e-commerce. Decrease in the share of Italian capital resulted from the withdrawal of an Italian direct investor from one of the largest Polish banks. Meanwhile, the capital outflow in the form of debt instruments, mainly to France and Luxembourg, was combined with the direct investment of funds under the so-called cash-pooling by Polish national entities.

In industry, the largest inflow of direct investments concerned industrial processing (EUR 3.62 billion) and financial and insurance activities (EUR 2.88 billion). The net foreign capital outflow was recorded in trade (EUR -1.3 billion).

The NBP data suggests that attention should be paid to the outflow of capital in the banking sector (EUR -1.76 billion) related to the disinvestment. Influx to other entities in this section, in particular to holding companies and conducting financial activities for the benefit of capital groups, amounted to EUR 4.65 billion. In this sector the capital has just arrived and has been used for purchase from foreign investors entities related to commercial activities.

In 2017, the value of new investments, so-called greenfield, amounted to EUR 10.5 billion. Their level was similar to that in the years 2011-2014, but lower than in the years 2015-2016, in which new investments amounted to almost EUR 14 billion.

Analyzing the data, a negative value of the balance of mergers and acquisitions in 2017, which was EUR -2.46 billion, could be noticed. It was connected with the resale of some of the capital shares to Polish entities (among others in the banking sector) by foreign direct investors. The value of Poland's liabilities due to foreign direct investment at the end of 2017 amounted to EUR 193 billion and was higher by 5.2% compared to the balance of liabilities at the end of 2016. Liabilities from debt instruments decreased by 6%, while increase was recorded for shares and other forms of equity. The value of the action traders listed on the Warsaw Stock Exchange, whose holders were direct investors, increased by 7.6%.

In turn, the value of shares and shares of other entities increased by 4.8%, mainly due to reinvested profits.

According to geographical division of investments by the country of origin Germany was the largest investor in Poland (EUR 39 billion), followed by the United States (EUR 21.2 billion), France (EUR 18.9 billion), the Netherlands (EUR 17 billion), and the United Kingdom (EUR 11.1 billion).

FDI in 2018 - problems and challenges

Data for 2018 is still incomplete, however taking into account the newest indicators presented by fdi Markets, it should be stated that in 2018 a total of 323 foreign direct investments came to Poland - about 6% less compared to the previous year. The value of declared expenditures reached EUR 13.570 billion. Poland has therefore fallen to 5th place in terms of the value of new FDI, and is currently behind Great Britain, Spain, Russia and Turkey (in 2017 it was 3rd). Although the number of projects decreased compared to 2017, the value of expenditure on FDI increased by 7%. This was to a large extent the result of the economic situation in the European economy: the full use of means of production and the capacity of the plants meant that companies were looking for new places for their operations – for instance in Poland. Poland's main strengths were the qualifications of employees, their productivity and motivation, as well as quality and availability of local sub-suppliers - which still remain the big advantages of Polish market. Yet today the experts point out that the predictability of economic policy as well as political and social stability, which could inflate investments, are getting worse - the law is created quickly and without reconsideration, and must be constantly amended. This instability of legal regulations is the greatest enemy of new investments in Poland.

According to Sławomir Majman, vice-president of the Warsaw Fair, unless there is any doubt about the good economic situation in Poland, the question of the stability of economic policy is perceived to be getting worse. All the more so because neighbouring countries remain the strongest competition for Poland - mainly the Czech Republic, Hungary and the Baltic states, which have been conducting more and more effective activities aimed at acquiring new investors for several years. In Poland on the contrary the entrepreneurs do not know what to expect. In the meantime, they must be able to predict what financial burdens are waiting for them, such as the amount of contributions to the Social Insurance Institution (Zakład Ubezpieczeń Społecznych, ZUS). In modern industries such as IT, advanced engineering, R&D, the amount of paid health and pension contributions is a very important element affecting costs.

For this reason, Poland fell to the 3rd position in the ranking of investment attractiveness of the CEE and Baltic countries (after the Czech Republic and Estonia). According to the research of the Polish-German Chamber of Commerce and Industry, currently investors are assessing the prospects of the Polish economy to be worse than in 2017. The percentage of companies forecasting its deterioration has exceeded by half, and the number of people planning improvement has halved. The assessment of the current state of the economy is also worse. There are also significant numbers of entrepreneurs who assume a deterioration of their company's situation - the number of entrepreneurs awaiting improvements decreased from 56% to 36%.

Though the market shows a decline in direct investment, the interest of foreign investors in mergers and acquisitions of companies operating in Poland is growing. Since the entities operating in Poland are attractive, it is easier to implement the expansion plan by acquiring e.g. a blooming family business, which is in addition relatively cheap compared to global valuations. This may be indirectly the reason for the decline in the inflow of greenfield investments.

Industry structure of the FDI in Poland

The industry structure of liabilities related to foreign direct investment in Poland has not changed significantly for many years. The main source of commitments are Polish entities of direct investment dealing in broadly understood service activities (EUR 116 billion in 2017) and industrial processing (EUR 59.8 billion in 2017). As part of the service activity, the highest liabilities had entities conducting financial and insurance activities (EUR 39.5 billion) - especially entities from the banking sector (EUR 23.4 billion; increase by EUR 588 million, 12.1%, as a result of the increase in stock prices on the Warsaw Stock Exchange).

Branch structure of FDI in Poland (1991-2017)

industrial processing	EUR 630 billion
financial and insurance activity	EUR 384 billion
wholesale and retail trade, including vehicle repairs	EUR 286 billion
professional, scientific and technical activity	EUR 18 billion
real estate market services	EUR 17 billion

Source: own elaboration based on NBP data.

Direct investments in the regional system are presented according to the places of registration of foreign investments, i.e. the registered office of the reporting entity. With this division of investments, the largest net liabilities were held by the Mazowieckie voivodship (region around the capital city of Warsaw, EUR 102.2 billion, i.e. 53% of the total liabilities in 2017); then the Śląskie voivodeship (EUR 21.3 billion), Wielkopolskie voivodeship (EUR 20 billion) and Dolnośląskie voivodeship (EUR 11.6 billion). According to estimates, thanks to FDI about 23.000 new jobs were created in Poland in 2017, and the total number of employees in companies with foreign capital in 2017 was over 2 million people.

Latest changes in FDI

It can be assumed that less direct investments in Poland are a result of structural changes. In the coming years, the value of foreign direct investment coming to Poland is unlikely to return to record levels before the global financial crisis. Yet, the share of investments branches that require less capital expenditures is growing steadily - in recent years, Poland has become a regional power in the field of Business Process Outsourcing (BPO) and Shared Services Centres (SSC).

According to the data presented by ABSL Business Service Leaders Association, in the first quarter of 2019, there were over 900 foreign service centres in Poland (2013 only 459) with 247,000 employees, which means that foreign investors are today responsible for 81% employment in the sector, managing 2/3 of the total number of services centres in the country. In the period from the first quarter of 2018 until the first quarter of 2019, foreign companies generated 23.000 new jobs in the sector – meaning an employment growth at the level of 10%, and therefore similar to the value for the entire sector including Polish companies. ABSL predicts that in 2020 over 270.000 people will be employed in the foreign service centres in Poland, yet the foreign companies will employ more workers than the Polish ones (currently the average is 271 to 126 employees).

In Poland there are at present 1.400 business service centres (from Poland and 41 countries). In total, the Polish and foreign ones employ 307,000 employees in the fields of BPO, SSC/GBS, IT and R&D. USA is the greatest investor in the service sector (27%), Polish entities are responsible for 19% of jobs, and centres from the Nordic countries for 10%. Compared to last year's situation, it is worth to note a slight decrease in the share of US companies in the employment structure (by 2%) and an increase in the share of centres from Germany (by 1%).

Conclusion

In the 1990ies and in the early 2000s, as a result of the entry of international corporations into Poland, the value of foreign direct investment rose significantly, reaching a record level of 5% GDP in 2000. Since then, there has been a decline in the inflow of foreign capital. Before the outbreak of the global financial crisis, i.e. in the years 2004-2007, an average of 4% GDP of foreign direct investment was flowing to Poland. In the subsequent years, the value of direct investments decreased, reaching the level of 2% GDP. It was caused by several factors - it was the result of a general decline in the inflow of foreign capital to emerging economies after 2010; it was related to the overall life cycle of the investment; as well as involved a change in the sector structure of inflowing long-term capital.

Today more and more new foreign investments are located in service industries, in particular in the so-called modern business services (IT, financial, accounting). In general, these investments are less capital intensive than investments in industry. It is worth noting that the latest inflow of foreign capital into the services sector is related to the creation by international corporations of service centres, both for internal use of corporations and for the provision of services to external clients. High qualifications of employees and relatively low labour costs in Poland encourage to this type of investment, therefore the number of foreign shared service centres is growing at a rapid pace.

Overview of FDI Trends in Montenegro

Milika Mirkovic

During the previous decade, there was a significant inflow of Foreign Direct Investments (FDI) in Montenegro which is an important generator of economic growth. The volume of FDI inflows and outflows varied over the period and net FDI inflows ranged between 323 million EUR and 1,067 million EUR. During the period from 2010, share of FDI to GDP was 16% in average. However, in 2018, there was a decline in net FDI inflow, in comparison to 2017, but it still makes significant share in GDP. The most attractive sectors for foreign investors are tourism, banking, telecommunication and energy sector.

FDI trends in the previous period

During the period from 2010 to 2018, the average FDI inflow amounted to 635.6 million EUR, while the average net FDI inflow was 430.9 million EUR (Central Bank of Montenegro). Although the highest FDI inflow was recorded in 2018, at same time the net inflow was the lowest in 2018, amounting to 322.5 million EUR due to the high FDI outflow. Comparably, the total outflow of FDI in 2018 was 535.6 million EUR or three times higher than in 2017 and more than three times higher than the average FDI outflow in 2010-2017. The repayment of intercompany debt and equity withdrawal by foreign companies were the main reasons for the significant outflow of FDI in 2018. In comparison to neighboring countries, Montenegro was only one country from the Western Balkan region that recorded a disease of net FDI in 2018, although an increase in FDI inflows has been recorded at the region level.

In the firsts four months of 2019, total net FDI amounted to 101.2 million EUR. In comparison to the same period from the previous year, it decreased for 6.3%. Total inflow amounted to 214.0 million EUR or 3.9%

higher in comparison to January-April 2018, thanks to a significant increase in investments in companies and banks. The total outflow of FDI in the observed period was at the level of 112.8 million EUR or 15.1% higher than in the same period of the previous year.

Structure FDI inflow indicates that 96.2% is related to inflow to nonresident investments, while only 3.8% is related to resident investments abroad (Central bank of Montenegro, 2019). In relation to the total FDI inflow, the most important component are investments in companies and banks. Due to significant investments in companies and the banking sector, this share in total FDI inflow has increased in 2018-2019 compared to previous years and amounts about 40%. In the first four months of 2019, around one fifth of inflow is generated from sale of real estates in Montenegro, while one third is intercompany debt.

As noted above, a very small percentage of FDI inflows are related to resident investments abroad. Out of total FDI inflow, 0.2% is related to the sale of real estate abroad, specifically in Serbia, Croatia, Kosovo and Switzerland. Return of domestic capital that does not increase the equity capital (intercompany debt) amounted to 3.6% of total FDI inflow (Central Bank of Montenegro, 2019).

During the period 2016-2019, the most significant countries from which the largest volume of investments comes are the Russian Federation, United Arab Emirates, Serbia, Switzerland and Turkey, which accounted for one third of the total FDI inflow in observed period. In that four-year period, total amount of FDI inflow from Russian Federation was 199.6 million EUR or 8.3% of total FDI inflow, while a significant inflow was generated from United Arab Emirates (7.8%). Total FDI inflow from Serbia, Switzerland and Turkey makes 5.2%, 5% and 4.9% of total FDI inflow, respectively. The most significant EU countries with the highest FDI inflow in Montenegro are Hungary (4.1% of total FDI inflow), Germany (3.3%), United Kingdom (3.1%) and Cyprus (2.5%). In 2018, the largest inflow of investments was recorded from Azerbaijan and Italy, which are realized in the tourism and energy sector. In the first four months of 2019, the largest FDI inflows came from the Netherlands, Croatia and Germany, but Russia and the United Arab Emirates remained the most important countries, whose investments are mainly related to tourism. An important factor affecting the volume of FDI inflow is Montenegro's accession to the NATO Alliance, which has contributed to Montenegro's attractiveness as an investment destination. In 2018 FDI inflow from NATO member' countries has increased, compared to 2017. According to the Montenegrin Investment Promotion Agency, after one year of membership, each country increased investments and investors consider their investment safer in NATO countries (Jovanovic, 2019).

On the other side, one fifth total FDI outflow is related to resident investments abroad, while other four fifths of FDI outflow was related to withdrawal of foreign investors. According to the Central Bank data, in 2018, the most attractive destination for investing of Montenegrin residents are Serbia and EU countries (Cyprus, Slovenia and Netherlands).

The most attractive sectors for foreign investors

Current FDIs are the largest in the tourism sector, where about a third of total FDI inflow is related to this sector. Major capital projects, such as Porto Montenegro, Porto Novi and Lustica Bay, as well as other capital projects in tourism, foremost in the coastal region present significant foreign investments. The total value of current investments in tourism is at the level of 3 billion EUR (Montenegrin Investment Promotion Agency, 2019). In addition to tourism, significant investments have been made in banking and telecommunications, as well as in the energy sector.

Tourism and renewables will continue to be attractive sectors for investments in the coming period. In Montenegro Development Directions 2018-2021, FDIs are recognized as an important factor in increasing the growth and competitiveness of the economy. Thus, strong investment activity is expected in the period to 2021, which outlines the expectations of significant investments in tourism, energy, industry and agriculture.

FDI and economic progress

Intense investment activity and growth of FDI during the previous period presents a significant impulse for the economic growth of Montenegro. Inflow of FDI has made a significant part of GDP. During the period from 2010, FDIs has made 16% of GDP in average and FDI's share to GDP ranged from 14.3% (2013) to over 20% (2015). In 2018, FDI inflow made around 18% of GDP. On the other hand, the share of net FDI inflow in GDP decreased in 2018, where, according to estimates, net FDI/GDP ratio amounted to 7%, which is less than the average in 2010-2017 (12.7%). However, FDI still accounts for a high percentage of GDP. According to the World Bank projection, total net foreign direct investment inflows in 2019 will be 8.7% of GDP, while it will be slightly smaller in 2020 (8.4% of GDP).

Growth in FDI inflows is positively correlated with employment and export growth. Significant projects that have been implemented have created jobs and generated additional employment. The analysis of quarterly data form the period 2006-2017, for employment and FDI in Montenegro shows a positive correlation between these two variables. In the same period, a positive correlation was recorded between FDI inflow and export of services, since a significant part of FDI is in the tourism sector which generates the most export of services. Also, over the same time frame, regression analysis which has been conducted, shows that growth in inflow of FDI significantly affects the growth of service exports.

Since that there is a correlation between FDI inflow from one and GDP, employment and export, on the other side, of great importance is business environment in the country. First of all, it is necessary create business environment which will attract foreign investors, but also prevent outflow of investors which was reordered in 2018. Safety of investments is important too and it has been improved in Montenegro by its entry into NATO Alliance. In order to improve the business climate and promote Montenegro to foreign investors, many state institutions conduct certain activities. Montenegrin Investment Promotion Agency is in charge of promotion investment opportunities, while association of leading foreign investors - Montenegrin Foreign Investors Council prepares publication the White Book with key information about the business environment and the obstacles to doing business, experienced by foreign investors in Montenegro. Through these activities, recommendations and proposals are prepared for removing business barriers, aimed at increasing the attractiveness of the Montenegrin economy for investments. In this case, an important segment is the assessment of the business environment by foreign investors. Eight times so far, this Council has been calculating an MFIC index based on the perceptions of foreign investors in Montenegro about business environment. In 2018, the index amounted to 6.49 (on a scale of 1 to 10), which presented the highest value since 2011. However, a slight increase in the index in comparison to previous period does not mean a significant improvement in the overall business environment in country. Also, value of index, which is close to medium value, gives plenty of room for further improvement of the overall environment for foreign investments.

Croatia and Its Need for a New FDI Strategy

Rolando Andrade Matamoro

Summary

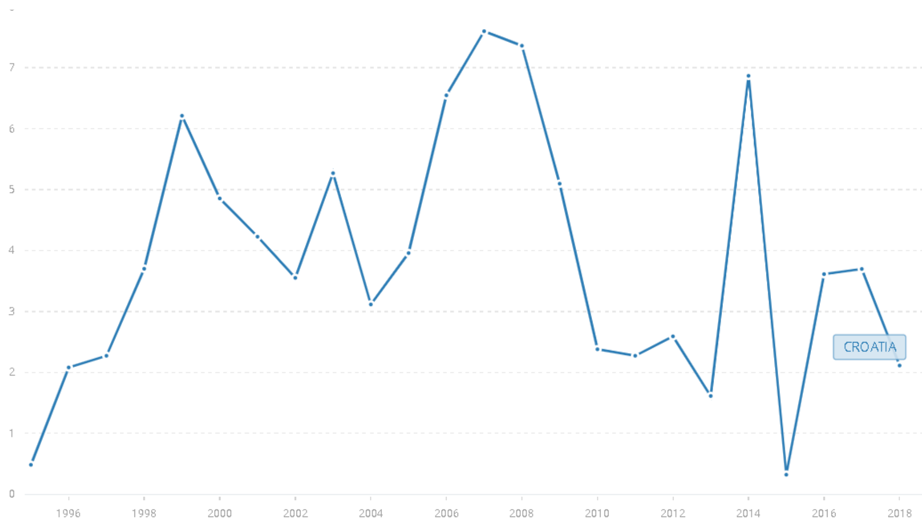
The Foreign Direct Investment (FDI) is seen as one of key factors that contribute to development and economic growth of a country. And indeed, in most cases, it is. However, while analysing the case of Croatia, we observe that if it is not done in a proper way, its consequences might be null or even negative. The creation of a new FDI attraction strategy in coherence with authentic needs of the country is fundamental not only to promote Croatia as a destination country for investment, but also to help develop its economy in a comprehensive way.

1. The importance of FDI and its evolution in Croatia

The process of globalization has been key in the worldwide spread of Foreign Direct Investment (FDI). In present, multinational companies are more aggressive than ever trying to get in the global markets and take advantage of the opportunities that emerge. On the other hand, countries also know well that FDI can be really beneficial. The arrival of new technology and financial capital as well as the creation of new jobs are the main drivers that make FDI contribute to the economic growth of a country by increasing the competitiveness of its companies. That is why several countries create new economic policies oriented to encourage FDI. Croatia is not an exception.

But, what is exactly FDI? Foreign Direct Investments are investments that are associated with the movement of production of goods and services across the border. Those are real asset investments in which the investor´s role is active, having the right to control the company in which they invest. There exist two basic types of investing: in existing companies or *Brownfield*, and creating new enterprises or *Greenfield*. To guarantee the creation of an adequate environment for FDI, a good infrastructure, connectivity with other countries and political stability are some of the basic factors.

Table 1: Historical evolution of FDI in Croatia (%GDP)



Source: The World Bank

To be able to understand properly the historical evolution of FDI in Croatia (see table 1), it is necessary to go back to the past and give some background. In the nineties, and during the transition to a free market economy, the government sold state enterprises to domestic investors, which provoked in some occasions the ruin for many enterprises because of the lack of knowledge or lack of genuine interest to sustain the company's production. As a result, the workers were fired and the companies sold assets, causing a fall in industrial production, GDP and employment. However, after 1995, there was a significant growth of FDI in Croatia, contributing to the growth of the GDP of the country. The privatization of large companies such as the Croatian Telecom and several relevant banks caused the figures to dramatically rise on a few occasions after 1999. Later, the global financial crisis in 2008 or the entrance of

Croatia in the EU in 2013 were the reasons of some of the biggest variations.

2. Relevance of FDI for the Croatian economy

The purpose of this paper is to analyse the impact of FDI in Croatia´s economic growth, employment and exports. However, first we have to understand the current situation of FDI. After a period of growth between 2005 and 2008, the global financial crisis caused a huge collapse of FDI inflows, particularly affecting the tourist sector. Since then, the inflows were irregular, never reaching the pre-crisis numbers. According to UNCTAD, in 2018, total FDI inflows in Croatia reached USD 1.15 million, and decreased slightly compared to the year before, USD 2 million. Furthermore, following the data of the Croatian Bureau of Statistics, the sectors that receive most FDI are financial services (29.4%), wholesale (8.7%), real estate (6.4%) and telecommunications (6.1%). We can also observe the main investing countries (see table 2), which are the Netherlands (20.35% of total FDI between 1993 and 2018), Austria (12.9%), Italy (9.95%) and Germany (9.82%).

Table 2: TOP 10 foreign investors in Croatia by country of origin.

Country	2013	2014	2015	2016	2017	2018[2)]	TOTAL (1993-2018)	TOTAL %
NETHERLANDS	198,0	2.408,1	108,3	546,3	206,1	88,4	**6.853,7**	**20,35%**
AUSTRIA	87,2	-206,2	-861,2	-1.353,8	437,7	333,8	**4.345,3**	**12,90%**
ITALY	44,0	15,4	7,9	1.916,0	49,4	-31,9	**3.350,2**	**9,95%**
GERMANY	130,7	-808,9	191,2	170,0	231,9	191,3	**3.306,8**	**9,82%**
LUXEMBOURG	48,5	22,8	286,1	272,3	448,8	92,6	**2.827,4**	**8,40%**
HUNGARY	-169,6	-89,9	-109,0	51,0	534,7	76,1	**2.723,2**	**8,09%**
SLOVENIA	55,5	27,0	91,3	48,6	98,4	-82,3	**1.365,1**	**4,05%**
UNITED KINGDOM	41,6	25,0	579,1	59,6	65,1	-88,6	**1.101,5**	**3,27%**
FRANCE	26,3	37,4	19,4	48,9	-468,9	4,0	**977,1**	**2,90%**
SWITZERLAND	51,5	504,0	-146,9	-164,0	36,2	79,7	**901,1**	**2,68%**
OTHER COUNTRIES	188,3	304,4	69,2	172,7	105,2	439,2	**5.721,7**	**16%**
TOTAL	**739,2**	**2.299,7**	**191,8**	**1.762,6**	**1.781,9**	**1.057,8**	**33.675,8**	**100%**

Source: Croatian Bureau of Statistics

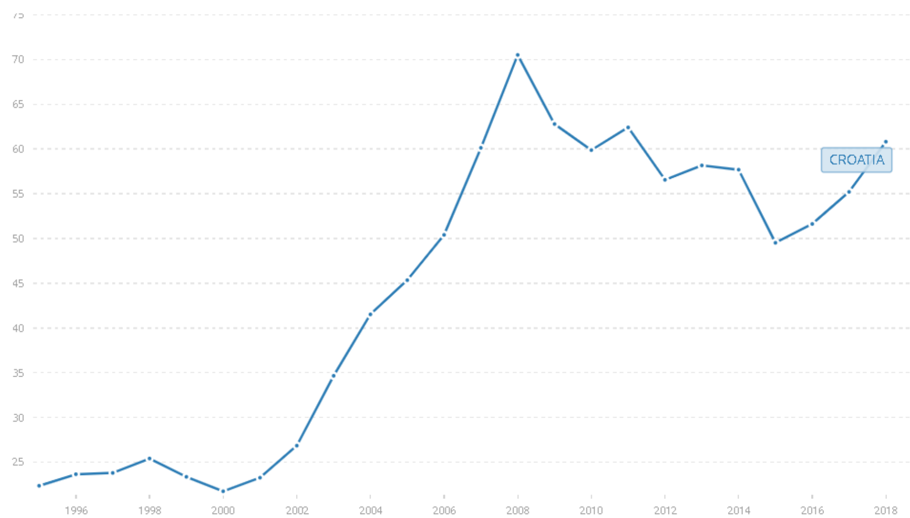
A positive co-relation of FDI with **exports** is usually the case. Exporters try to enter foreign markets through increasing competition based on innovation and technology, and FDI provide necessary funds to invest in their products or services. Recently, however, many researchers are pointing out that FDI might not have positive effect on exports, or might even have a negative impact. And that is what is happening in Croatia. The problem of the country is not only about the ups and downs of the FDI inflows, but about the nature of them.

FDI in Croatia presents a structural problem that should not be measured only in terms of quantity, but also in terms of quality. Most FDI went to infrastructure, which is good and had positive effects on tourism; but in the situation of high unemployment and stagnating exports that Croatia was living, the priority should have been the investment in the industrial structure as it has a bigger effect on overall economic growth. That is another reason why Croatia has a non-competitive deindustrialized economy which, at the same time, has another consequence on exports. As there has been very little FDI in the industrial sector, there was hardly any investment in technology or a transfer of the know-how or skills. Thus, Croatian industry is still quantity-based and not quality-based, which has a direct effect on its offer, with a low share of technologically advanced products.

Let us now look at the nature of the relation of FDI to job creation and **employment**. Last March, during the international conference *InvestCro: Investment Opportunities in Croatia*, the president Grabar Kitarović highlighted that the majority of FDI were *Brownfield* investments in non-tradable sectors, provoking results that are not in line with the desired projections of the country. In her words, "*Croatia lacks Greenfield investments — investments in the production of goods and services that will create quality jobs and be more export-oriented*". For that reason, she proposed five specific guidelines trying to attract foreign investment oriented to the real needs of the country: modernise and increase the competitiveness of the industry to make it more export-oriented and create new quality jobs.

As we can see, all the variables are necessarily interrelated. By observing all of them in a comprehensive way, we can analyse properly the growth of the country. If the structure of the FDI is not oriented to the real needs of the country, its effect on **economic growth** will not be the desirable. If we consult data, in table 1 we can see the evolution of FDI in terms of GDP. As the GDP is one of the most relevant indicators to measure the economic growth of a country, it is interesting to see the evolution of GDP in the same years trying to compare them and see the correlation. Looking at table 3, we see indeed a similar tendency to table 1. Of course, GDP is a complex indicator that takes into account much more elements but, as a general view, we observe that both move in the same direction. However, if the nature of Foreign Direct Investments had been the adequate, we might observe a stronger relation between them and, probably, a higher growth of GDP.

Table 3: Evolution of GDP in Croatia



Source: The World Bank

3. Conclusion: What is necessary to take into account while investing in Croatia?

There are factors that contribute to create proper conditions so that investors are encouraged to put their money in the country. Has the Croatia´s government been able to create this favourable climate? In some aspects, they have. Croatia is a member of the EU and can offer advantageous geographical location and good quality transport infrastructure. Besides, there is a positive budget surplus since 2013, conditions of low inflation, multilingual well-trained workforce and a successfully reformed tax system. However, this the basis from which Croatia should build up. If it wants to increase its competitiveness and attract more FDI, Croatia should, as the first step, address the following challenges - dependence on the economic situation of the EU, the slow administrative and judicial system, the high level of public debt and some structural weaknesses such as the imbalance in current payments or a trade deficit.

The Croatian government is strongly committed to bringing FDI by creating an investment attraction strategy that should be in line with other economic strategies, such as the new industrial strategy based on innovation. It should be focused on new models and soft investment incentives as well as on improving the image of Croatia, promoting the country as an investment destination. Some of the measures that the government has implemented to this purpose are: tax reductions and employment incentives for manufacturing, equal treatment of nationals and foreigners, low company administrative fees and laws protecting intellectual property.

In conclusion, the effects of FDI on exports, employment and thus on economic growth will depend not only on the amount of funds but on the nature of them. Here resides the main problem of Croatia, that is working hard in creating this new strategy to attract investment that, united to other reforms that are being implemented, will help the country to develop and grow in a comprehensive way. To sum up, what Croatia needs now is big foreign investors that are willing to make *Greenfield* investments focused on industry, contributing to the development of this sector, increasing the exports, creating quality jobs and, finally, enhancing the economic growth.

FDI in Romania and Its Impact

Oana Cristina Popovici

FDI stocks in Romania reached almost EUR 80 billion in 2018, following a recovery period after the economic crisis. Multinational companies in Romania employ almost one quarter of the total employees whose productivity is twice as high as in domestic companies and conduct over 70% of the total goods exports. FDI are seen as a tool for bridging the development gap with Western EU countries, as in their absence Romanian GDP would shrink by 30%. The most important sector where foreign companies are predominant is the manufacture of transport vehicles. About 90% of FDI flows in Romania are originating in the EU, which makes the economic development to be dependent on the EU evolutions.

Foreign direct investments (FDI) had a massive contribution in favouring Romania's path on its way to a developed economy, after the fall of the communism in 1990. FDI had an important role in transforming a resource-intensive and inefficient industry into a modern one, and to integrate it in the European economy and in the international production chains due to the infusion of financial capital, technology, know-how, skills, revenues to the state budget and social involvement.

Romania started to be an attractive location for foreign investors once with the EU adhesion, due to several favourable factors: a large and growing market, low cost but skilled labour force, the integration into the European Internal market, the favourable geographical positioning of the country. The main obstacles, especially in the last period, were related to the high unpredictability of the fiscal legislation and poor transport infrastructure. In general, FDI could be seen as an important tool in bridging the economic development, skills and wage gaps as compared to the Western EU countries.

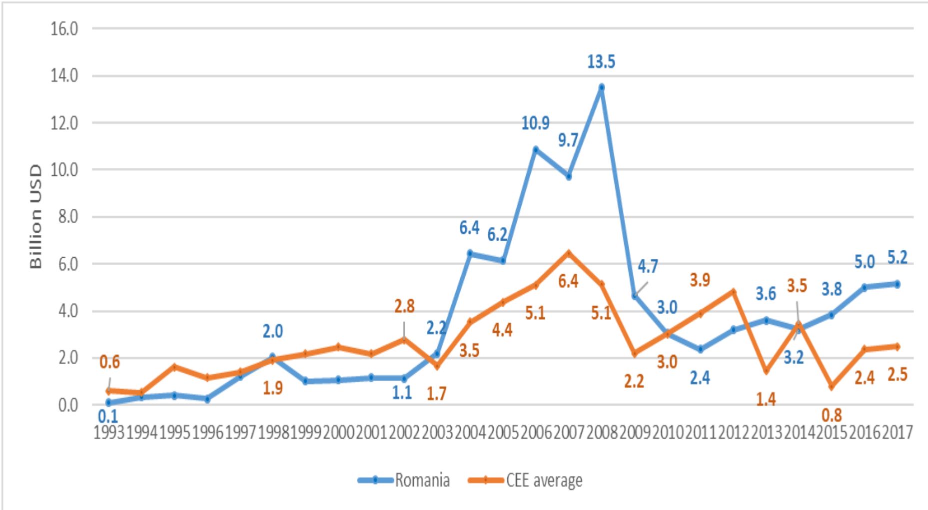
Contribution to the economic development

At the beginning of 2000, the performance in attracting FDI was still low, following an unstable legislative and institutional framework and a reduced privatization offer. The preparations for the EU adhesion, which implied the adoption of important reform measures and the guarantee of improving competitiveness, represented a turning point in FDI attraction for all of the countries in Central and Eastern Europe (CEE). Therefore, the FDI expansion period began after 2003: investment flows increased 6.1 times, from USD 2.2 billion in 2003 to USD 13.5 billion in 2008 in Romania and 3.1 times in CEE, according to UNCTAD data (see Figure 1).

Since 2003, Romania became generally more attractive to foreign investors than the rest of CEE countries. Thus, FDI inflows into Romania exceed those received by a CEE[1] country on average (Figure 1). The crisis gave a massive bump to FDI inflows in all of the CEE countries and especially in Romania, which saw a 65.4% reduction in FDI flows in 2009. Although the flows started to increase again in 2012, they never reached the performance before the crisis. Following this evolution, FDI stocks hit 42% of GDP in 2017, the 9th lowest amount in EU, according to UNCTAD data. There is still room for investments, especially that Romania has a strategic geographical position.

[1] We include Bulgaria, Croatia, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia in the group of CEE countries.

Figure 1 FDI inflows in Romania and CEE countries, 1993-2017



Source of data: UNCTAD

The total amount of FDI in Romania (the value of FDI stocks) reached EUR 80.85 billion in 2018, based on provisional data. In the last year, following the decreasing trend of global FDI, the growth of FDI inflows slowed down in Romania, too. Provisional data indicate an increase of only 2.9% in 2018, while in 2019, FDI inflows decreased by almost 17% in the first four months of this year, as compared with the same period of 2018, reaching EUR 1.3 billion. However, despite the evolution of the investments' amount, the number of newly established foreign capital companies increased by 6.3%, totalling 223,299. The European Attractiveness Survey report developed by Ernst & Young Global Limited points that Romania ranks 13th in Europe, with 109 FDI projects attracted in 2018 and a 13% decrease over the previous year.

The largest amount of FDI are directed towards manufacturing (almost one third of the total FDI stock), followed by construction and real estate (15.3%), trade (13.8%) and financial intermediation and insurance (12.4%). An important volume of FDI is focused in the area of electricity, gas and water (8.5% of FDI stocks) and in the automotive industry (7.5%).

Information technology and communication (ITC) also draws a large amount of FDI stocks, reaching 4.1% in 2017, according to the National Bank of Romania's statistics. Eurostat data indicate that the share of gross added value of multinational companies exceeds 60% in industries like automotive and ITC.

A study of the Local Investors Union points that there are 29 economic sectors where foreign capital is dominant, having a share of over 52%, out of which 20 are industrial sectors: tobacco, beverage, paper, wood and cork, clothing and motor vehicle manufacturing, electrical equipment, rubber products, chemicals and pharmaceuticals. Foreign firms are concentrated in several sectors. They own more than 80% of the businesses concerning tobacco products, crude oil processing, automotive and electrical equipment, telecommunications, metallurgy, beverage production and machinery and equipment. The most important sector of activity where foreign companies are predominant is the manufacture of transport vehicles. In addition, foreign capital holds 63% of the activities with the highest added value in the Romanian economy: production and software services.

The Netherlands is the main source of FDI in Romania, as 29% of total investments originate there, followed by Germany and Austria, both with 14%. This is why a slowdown in the EU economies could negatively affect the situation in Romania. In fact, 90% of total FDI inflows are coming from the EU and 10% from outside the European community.

In terms of profitability, domestic capital performs better than foreign capital: while the net profit accounted for 6.7% of the turnover in domestic companies, for the foreign ones it reached only 3.7%, according to the latest data of the Syndex company from 2017, a trend that persistent in the last years. According to analysts, almost half of the total turnover belongs to foreign companies. In addition, without the contribution of the multinational companies, Romania's exports would drop by 70%, while the GDP would shrink by 30% in 2018.

Impact on exports, employment and society

FDI contributed to an increased presence of Romania on the international markets. FDI companies have a large impact in Romania's foreign trade, as they are responsible for 73.4% of total goods exports and 66% of imports, and 53% of services exports and 48% of imports, according to the statistics in 2017.

Foreign companies in Romania employ 1.3 million people, about 25% of the number of employees, which is almost similar with the number of people in the public sector. In 2017, the number of employees in foreign companies grew by 3%, as compared with 1.2% in domestic companies.

However, the data for the productivity is in the favour of foreign companies. Employee's productivity grew by 11% for foreign capital companies and by 6% for domestic capital companies, measured as the turnover per employee. The result is a consequence of the much faster growth of the turnover in foreign companies. A general conclusion is that the turnover of foreign companies is higher than that of Romanian companies, and is obtained with half employees, due to their presence primarily in the equipment, machinery, cement, beverage or cigarette production sector.

Foreign companies have also played an important role in raising wage earnings. On average, the net wage in a foreign company is almost 35% higher than the national average wage. In addition, although wages had a larger grown in Romanian firms, with an average increase of 16.2% in 2017 as compared to 12.4% in foreign companies, the net average wage in foreign companies is still twice as high as in domestic companies.

Besides the capital invested in developing new businesses, the impact of FDI could also be seen in the transfers of technology and innovation or in the infusion of managing and entrepreneurial skills and abilities. One of the success stories is that of the automotive company Dacia, which was taken over by Renault in 1999, which managed to transform an almost bankrupt company into a competitive one at international level. Renault Romania Group has been the leader of the Romanian car market for many years and besides the investments, there is a large involvement in measures for protecting the environment, in developing the relationship with civil society and in implementing the human resources policy. Orange Romania is the leader of the telecommunication market and made significant investments in telecom equipment, data and voice networks until present. In addition, the company develops programmes for pupils and provide help for those with visual or hearing impairment. The largest supermarket chain in Romania, Mega Image, has over 500 own stores and a total of over 9,000 employees. The company also invests in the green energy for its own stores and warehouses, in recycling packaging or in the development of local agriculture, by promoting traditional Romanian products and by supporting a healthy diet for the general public.

FDI in Serbia: Characteristics and Effects

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Abstract: FDI inflows and stock have a growing trend so that FDI accounts for a third of total investments in Serbia. Significant development potentials from the presence of FDI in Serbia have been partially exploited, so we analyze their impact on economic growth, exports, employment and spillover of technology and knowledge.

Key Words: FDI, economic growth, employment, exports, spillover

Foreign Direct Investment (FDI) are one form of the movement of international investment capital. According to the directional principle or direction of investment capital movements on the line: country of origin - destination country, FDI are divided into two groups: Inward FDI (IFDI), or foreign direct investment in the observed economy, or foreigners' investment in resident companies; and Outward FDI (OFDI), or foreign direct investment abroad, or investment of residents in branch offices abroad. In our analysis we will mainly deal with IFDI, and neglect other numerous classifications and forms.

The impact of FDI on the host country's economy has been established in numerous theoretical and empirical research based on international experiences. It has been asserted that FDI have a strong development potential, and their effects can be diverse. It has also been found that taking advantage of the available positive effects of FDI depends to a large extent on the ability of the national economy itself. To mention that there may also be negative effects that FDI can bring to domestic companies and the environment.

As economic growth is tied to new investments, FDI represent a desirable additional inflow of investment capital from abroad, especially for countries that are not abundant of investment capital. It should be borne in mind that the main stock of investment capital is based on domestic savings.

The FDI in the political life of Serbia and the media is almost everyday issue, which is caused by the activities of the President and the Government of Serbia on attracting FDI and the results that have been achieved in that regard. Numerical data will help us to better understand things.

In its Working Paper 19/01 of March 2019 entitled: Why Serbia's economic growth is lagging behind, the Fiscal Council notes several facts: Serbia's economic growth is structurally 1.5–2% lower, ie, “that it should realize long-term economic growth rates of around 5% instead of the current 3.5%”; the biggest impact on the slowdown in Serbia's economic growth (almost 1%) are corruption and low level of the rule of law, than insufficient participation of investment in GDP and a poor education system.

Serbia's economic growth rates for the period 2014–2019 were the following: -1.6% (2014), 1.8% (2015), 3.3% (2016), 2.0% (2017), 4.3% (2018), 3.5% (2019 - estimated). Oscillations in growth rates are explained by different agricultural seasons.

Here we will highlight the issue of investment as the main driving force of economic growth. Total investment (public investment, public enterprise investment, domestic private sector investment and foreign investment) in Serbia were: 17.1% (2015–2017) and 18% (2018), while in Western Europe 20.4%, and CEEC 21% (as share of GDP). It is estimated that only foreign investment were at a satisfactory level. The net inflows of the FDI is about 5–6% of GDP (one-third of total investment), while domestic private investment are only 7% of GDP.

FDI flows make new investments realized during the observed period (a year). They are the positions of the financial (capital) account of the balance of payments. According to the World Investment Report 2019, FDI flows to/from Serbia were (US$mil): 1) FDI inflows: 2,053 (2013), 1,996 (2014), 2,347 (2015), 2,350 (2016), 2,871 (2017), 4,126 (2018); 2)

FDI outflows: 329 (2013), 356 (2014), 346 (2015), 250 (2016), 146 (2017), and 363 (2018). FDI stocks or positions makes the value of existing investments at the end of the period (year). In the balance of payments, OFDI are assets, while IFDI are the liabilities for the observed country. Serbian FDI stocks were: FDI Inward stock (US$mil): 22,299 (2010), 39,833 (2018); FDI Outward stock (US$mil): 1,960 (2010), 3,805 (2018).

The above data show that the FDI Inflow is constant and increasing and that the FDI Inward stock is significantly increased. Numerous new factories have been established and the existing ones have been taken.

The Serbian Government, along with local authorities, has made significant efforts and funds to attract FDI (provided from the budget). In its Regulation on conditions and method of attracting direct investments, Serbian Government has set priorities. They are: development degree of investment location, minimum investments from €100,000–500,000, minimum number of new employees from 10–50, maximum amount of financial incentives for newly opened work place of €3000–7000. The Government financially supports investment in manufacturing, ICT export service centers, and the food production. In addition, local authorities usually donate or lease locations, arrange infrastructure, access roads, etc.

In addition to the incentives and conditions that the Serbian Government has provided for foreign investors, there are several other factors that attract FDI: significant areas of fertile arable land, FTA with the Russian Federation, and transport costs.

What are the effects of implementing this Government strategy? By selling two large state-owned corporations, Serbia has resolved a decade-long budget burden: Zijin Mining Group Co has taken over 63% of Mining Smelter Basin Bor (RTB Bor), and HBIS Group has taken over Smederevo Steel Works.

According to the balance of payments data for 2010–2017 (National Bank of Serbia), FDI were directed to the following sectors: manufacturing, wholesale, construction, and financial services. On this occasion, we can highlight several typical FDI trends in Serbia: 3 large investments of

Chinese companies (mining and metallurgy), numerous investments linked to the automotive industry (Fiat, wiring, tires), Arab investments in agriculture.

Beside Zijin and HBIS, Shandong Linglong Tire started construction of the factory in Zrenjanin and the value of the investment is €1 billion. Michelin tires factory have been successfully running in Pirot for years.

FCA's business in Kragujevac has certainly attracted related investments. Five foreign wiring companies for the automotive industry have used perhaps most of the financial incentives: Yura Corporation (Leskovac), Leoni (Prokuplje, Malošište, Niš, Kraljevo), Delphi (Novi Sad), Lear Corporation (Novi Sad), and PKC Wiring Systems (Smederevo). The main characteristics of the production of these companies are: minimal investment in equipment, employment of unqualified manual labor, predominantly women. Something technologically more serious is the auto parts factory Mei Ta in Barič. In early 2017, a new Continental-Contitech factory was opened near Subotica.

We can also mention significant investments in the agricultural sector of Al Dahra from UAE: the acquisition of Rudnap (orchards in Rivica, Irig) and PKB.

In recent years, the investment of Turkish companies in the south of Serbia in the textile and shoe sector, which was previously very developed, is noticeable.

In the field of transport, it was significant investment by Etihad from UAE to Air Serbia and takeover of Port Novi Sad by P&O Port Dubai from UAE. On the production side, at the beginning of 2018, Siemens took over Milanović Engineering from Kragujevac. The owner of that factory bought 70 hectares in the new industrial zone of Sobovica, where Siemens has built a new factory for the production of aluminum bodywork for passenger wagons, and will also start production of trams. Siemens already has a factory in Subotica that produces generators for wind power plants.

There are no serious professional and scientific analyzes of the effects of the Government's policy of attracting and directing FDI. One of the reasons is certain lack of accurate or any precise data on individual investments. Analysis of the effects of approved incentives for attracting investments from 2006 to 2016 by Milorad Filipović and Miroslav Nikolić is not available! According to the press, authors noted that 140 projects were subsidized in the most developed regions and 30 in the least developed regions.

Serbia used the most frequent effect of FDI inflows: employment growth, which was obviously the goal of the Government. The increase in employment in foreign companies in Serbia in the period 2010–2018 is estimated at more than 80,000, so that unemployment rate in the first quarter of 2019 was 12.1%. From the point of view of the labor force in foreign companies, the picture is not always so glittering. Labor legislation has already been adapted to the needs of private companies, trade unions have been reduced to an insignificant negotiating factor, so the state has done all that foreign investors have preferential treatment. Even the cases of drastic violation of elementary human rights of employees in foreign companies remained only news stories. Promotion of dual education is also considered in certain circles as a service to foreign companies. In this respect, Serbia is not an exception, so we can see a similar situation in many developing countries.

Another positive effect is the contribution to economic growth, as FDI make up one third of total investments. Although one part of FDI production is dedicated to the local market, the majority of them have the character of export platforms. The logical consequence is the contribution to the growth of exports. Multi-year experience shows that the biggest exporters from Serbia are the biggest importers at the same time (for example, HBIS has to import iron ore and coke to produce and export steel; the same goes for the Fiat in Kragujevac). In addition, a large part of foreign companies' production has the assembling character. It may be more accurate to conclude that FDI increase the volume of trade.

If we take into account the sectoral structure of FDI in Serbia, they can not contribute to the catching-up of developed countries. Spillover of technology and knowledge, as well as managerial skills can exist only in several technologically advanced companies (Siemens, Continental, for example). Formation of clusters and establishment of upstream and downstream linkages between local suppliers and the main (foreign) company exist in the beginnings. Nevertheless, the attractive influence of already established foreign companies can be noticed, because it is a practice for foreign investors to like to be located close to similar ones.

There are several encouraging facts about the technological level of future FDI. They could be targeted to the mining and related industries, as well as ICT. There are realistic bases for such expectations. Now dozens of foreign companies are conducting geological explorations in Serbia, and Rio Tinto discovered a new mineral kryptonite near Loznica (called Jadarit). Estimates are that the site contains 135,000 million tons, and can settle over 20% of the world's demand for lithium. The opening of the mine was planned in 2023. Another perspective sector is ICT. Exports of ICT services have for a few years exceeded corn exports, without any help of the state. The presence of Huawei and several other hi-tech companies, as well as the planning of the construction of a scientific park in Borča with Chinese support will certainly contribute significantly to the expansion of the domestic ICT sector.

Conclusion

The main driving force of economic growth in each country are investments. Their main source is domestic savings and an additional source is foreign investment capital. Therefore, countries abundant with capital seek to attract additional foreign investment, and countries lacking investment capital have an additional motive. The Serbian Government has made great efforts to attract FDI: legal, administrative, financial and political. It has achieved certain goals as employment growth, economic activity growth and trade volume growth. The more complex and dynamic effects of FDI presence exist at the outset. Is it realistic to expect more when domestic savings and investments are at the present, low level?

FDI in Slovakia

Martin Grešš

Overview

Since 1993, Slovakia has been one of the most sought-after investment destinations in the Central and Eastern Europe (CEE) region. Many major investors from the US, Asia (China, Taiwan, South Korea, Japan) and Europe (Germany, Austria, France, Italy) chose Slovakia as a suitable destination for their investments, mainly in the automotive, electrical and IT sectors. Top reasons for investing in Slovakia are presented in table 1. The fact that investors from abroad are interested in Slovakia is also reflected in 70 opened investment projects for 2019 with a total value of 2.7 billion EUR. These projects, if implemented, would bring 24 thousand new job opportunities mainly in eastern regions of Slovakia which are less developed than western and central parts of Slovakia (Finweb, 2019).

According to SARIO (2018), easy implementation and investment security are key factors in considering any investment. Based on this, Slovakia has achieved one of the highest scores in CEE region in terms of property rights security and business simplicity. Slovak labor force is often viewed by foreign investors operating in the country as educated, motivated, adaptable to various types of managerial styles with good language skills and a positive approach to work. Another strength is that Slovakia is one of the leaders in CEE region in labor productivity and freedom of investment (SARIO, 2018).

Table 1 Top reasons for investing in Slovakia

Safe investment environment regarding political and economic stability
Central European hub and favorable geographic location with great export potential
Fastest growing Eurozone member within the last 10 years
10-Year CEE Leadership in Doing Business 2002 - 2013
CEE leader in physical property rights security
CEE leader in labor productivity
High adaptability of labor force to different culture management styles
Number 9 worldwide in adapting to new technologies and high innovation potential
Using EURO as an official currency as one of a few countries in CEE
Large selection of industrial land and offices
Steadily growing infrastructure network
Attractive investment incentives

Source: SARIO, 2018.

Regarding the stock and inflow of FDI, table 2 presents the data for the past eight years. We observe a positive pattern in the stock FDI which was growing continually (except 2014) and reached 43 billion EUR in the first quarter of 2019 (26.5% growth since 2012 or 3.3% annually). However, the highest year-on-year growth in stock FDI was recorded in 2016 (40 billion EUR) at 11% compared to the stock of 36 billion EUR in 2015. Unlike the development of the stock FDI, inflow of the FDI was not so smooth recording a decline of 158 million EUR in 2014. On the other hand, the record inflow was recorded in 2016 (1.68 billion EUR) due to new investment projects especially in automotive sector, shared services, technology centers, mechanical engineering and chemical industries.

The growth in overall FDI stock in Slovakia is less significant compared to years 2004-2009. In 2004 Slovakia, together with other countries in the CEE region, joined the EU. The stock of equity capital and reinvested earnings stood at 571 billion SKK or 14.3 billion EUR (average exchange rate for 2004 between SKK and EUR of 39.9375 was used) (ECB, 2019). In 2009, when Slovakia joined the Eurozone, the stock stood at 30.5 billion EUR meaning more than doubling the stock of FDI in Slovakia over the course of only 5 years with an average annual growth rate of 23% compared to total growth rate of 26.5% during 2012-Q1 2019. After joining the Eurozone, the inflow of stock equity capital and reinvested earnings slowed down caused by the global financial crisis and regained momentum again in 2016. Even though the growth in the FDI stock was slower during the second decade than in the first decade of the 21st century, the absolute volume was rather high (change in stock of approximately 9 billion EUR during 2012-Q1 2019.

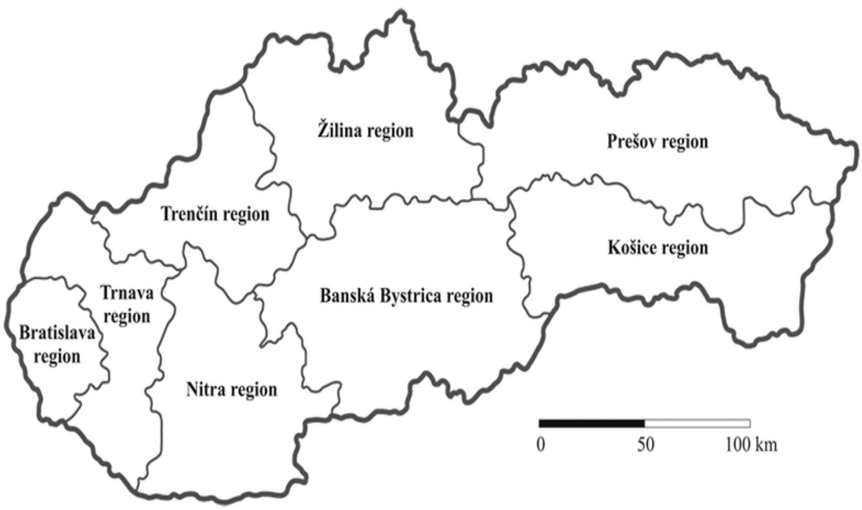
Table 2 Stock and inflow of FDI 2012-Q1 2019

	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Q1 2019**
Stock (EUR billion)	34	35	34	36	40	41	42	43
Inflow (EUR million)	623	455	-158	306	1683	1417	623	875

Note: Equity capital and reinvested earnings; 2017-2019 preliminary data.
Source: NBS, 2019.

Regional structure of FDI stock and flow

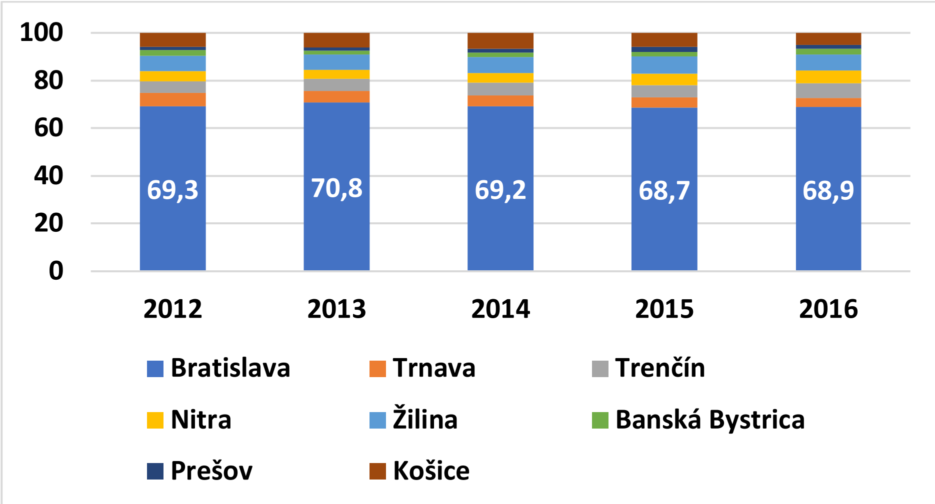
Figure 1 Map of Slovak regions



Source: ResearchGate, 2019.

Slovakia is administratively structured into eight regions as shown in figure 1. Bratislava region, located in the south-western part of the country is the most developed region based on macroeconomic indicators and a host of capital of Slovakia – Bratislava. Since many state bodies and administrative capacities as well as private companies in various economic sectors reside in Bratislava, it is not surprising that many foreign direct investment inflows end in this region.

Figure 2 Share of regions on the FDI stock, %



Note: Data available from 2012 – 2016, data for 2017 – 2018 not compiled yet; equity capital, reinvested earnings and debt instruments.

Source: NBS, 2019.

Figure 2 presents the share of the regions on the FDI stock in Slovakia in 2012 – 2016. We observe dominance of Bratislava region in all the years with a share on total FDI stock at around 70%. Even though the data for 2017-2018 are not yet compiled, we assume the same composition of regional shares also in these two years, as well as in 2019. The second ranked region with a share of 6.8% in 2016 was Žilina region. Košice region with the second largest city in Slovakia – Košice – ranked fifth with a share of only 5%. Even though the development in stock FDI was uneven during the observed period in almost all the regions with rising and declining share on total FDI stock, Trnava region was the only region in Slovakia, where the share on total FDI stock continually decreased from 5.7% in 2012 to 3.9% in 2016. On the other hand, the highest increase in the share was recorded in Nitra (from 4.1% in 2012 to 5.4% in 2016) and Trenčín region (from 4.8% in 2012 to 6% in 2016).

Regarding the flow of FDI in the observed period, data are shown in table 3. Trenčín and Prešov regions were only two regions with continuous positive inflow of FDI with Trenčín ranked number one in 2016 with a total inflow of 445 million EUR, followed by Banská Bystrica region with 422.6 million EUR. Overall, the long-term tendency for inflow of the FDI to individual Slovak regions is in favor of Bratislava region because of the favorable conditions regarding the highly qualified and flexible labor force, its location (closeness of Vienna, Prague and Budapest) and developed infrastructure comparing to regions in the eastern part. However, there is a notion to address the poorer region of Slovakia and make them more attractive for foreign investors mainly through state incentives regarding FDI.

Table 3 FDI inflow to regions, million EUR

	2012	2013	2014	2015	2016
Bratislava	1489,7	373,4	-433,9	-537,5	-107,1
Trnava	602,2	-428,2	-154,9	110,1	33,9
Trenčín	106,1	65,3	51,2	86,9	445,0
Nitra	180,7	57,6	-1,8	293,2	67,5
Žilina	25,9	-46,7	29,8	185,5	-101,7
Banská Bystrica	9,7	-377,0	96,9	28,6	422,6
Prešov	71,2	70,4	15,1	204,8	97,6
Košice	-164,8	-169,7	11,5	-275,8	-129,7

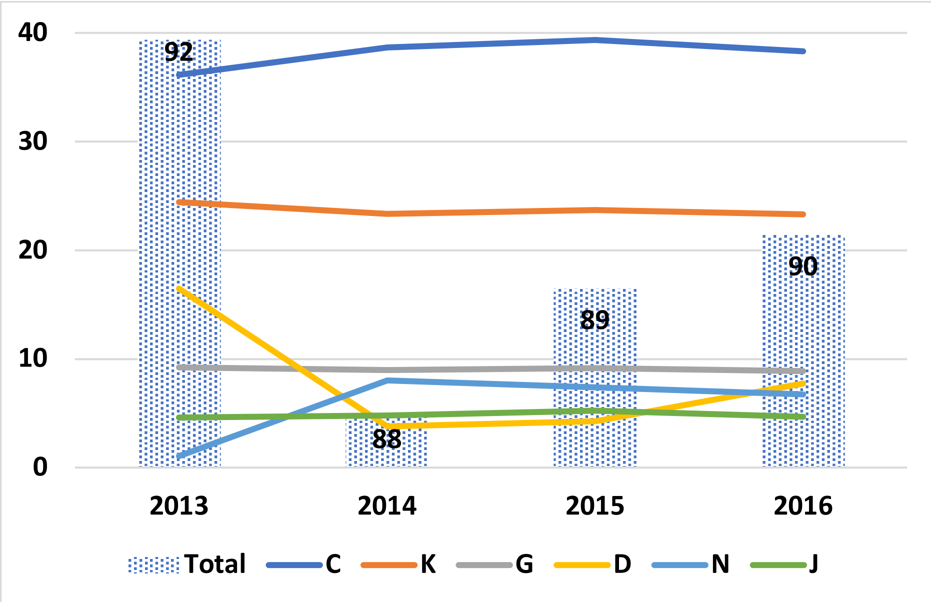
Note: Equity capital, reinvested earnings and debt instruments.

Source: NBS, 2019.

Sectoral structure of FDI stock

This part uses the statistical classification of economic activities in the EU – NACE (Nomenclature statistique des activités économiques dans la Communauté européenne) Revision 2. Broad structure of NACE Rev. 2 is available in NACE (2008, p. 57), detailed structure in NACE (2008, pp. 61-90).

Figure 3 Sectoral distribution of FDI stock, %



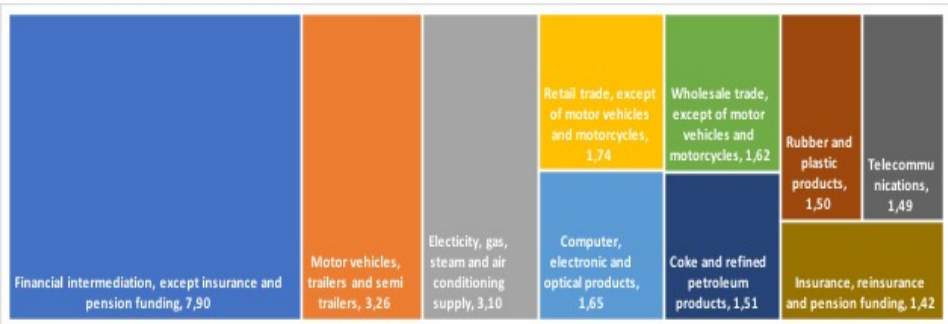
Note: Equity capital and reinvested earnings.

Source: NBS, 2019.

Figure 3 shows the share of major NACE activities on total FDI stock (equity capital and reinvested earnings) as well as their share on overall FDI stock. Since 2013, share of activities C (Manufacturing), K (Financial and insurance activities), G (Wholesale and retail trade), D (Electricity, gas, steam and air conditioning supply), N (Administrative and support service activities) and J (Information and communication) on total FDI stock in Slovakia reached approximately 90% (blue columns). From these, the highest share of approximately 40% goes for NACE activities C, followed by K. We note more or less the same share in the observed period for all the above-mentioned activities with the exception of activities D and N. While D lost its share from 16.5% in 2013 to 7.7% in 2016 (with a significant decline between 2013 and 2014 from 5.81 billion EUR to 1.3 billion EUR respectively), activities N recorded an increase from 1.05% in 2013 to 6.8% in 2016 with a notable increase also between 2013 and 2014 from 0.4 billion EUR to 2.7 billion EUR respectively.

Figure 4 presents top 10 FDI stocks based on NACE Rev. 2 2-digit activities in 2016. Even though C activities have greatest overall share of FDI stock (38.3% in 2016), based on further decomposition to subcategories of NACE activities, activity K64 (Financial intermediation, except insurance and pension funding) had a stock of 7.9 billion EUR in 2016 (reaching almost 20% of total FDI stock for 2016).

Figure 4 Top 10 FDI stocks in 2016, billion EUR



Note: Equity capital and reinvested earnings.

Source: NBS, 2019.

Conclusion

Slovakia is one of the most important investment destinations in the CEE region with many major investors from the North America, Asia and Europe. Most of the FDI inflows are allocated into a small number of activities, especially manufacturing (automotive, electrical, chemical sectors), financial and insurance sector and IT sector. Since joining the EU in 2004, the total FDI stock (including equity capital and reinvested earnings) has risen substantially by almost 30 billion EUR (from 14.3 billion EUR in 2004 to 43 billion EUR in Q1 2019). Regarding the regional distribution of FDI stock, we conclude and note rather uneven distribution among the Slovak regions with the greatest share of FDI stock in Bratislava region of almost 70% in the observed period. Sectoral distribution of FDI stock is also asymmetrical with only a small number of NACE activities representing around 90% of total FDI stock in the observed period. Majority of the FDI stock is comprised only in two activities – Manufacturing (C) and Financial and insurance activities (K) with an overall share of 62% on the FDI stock in 2016.

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FDI in Slovenia

Helena Motoh

Summary

The importance of foreign direct investment for Slovenian economy is growing and more attention is paid on the national level to stimulate FDI and maximize the positive local impacts of those investments. The development and trends in FDI in Slovenia is being analysed and monitored regularly by institutions such as the SPIRIT (Public Agency for Entrepreneurship, Internationalization, Foreign Investments and Technology) and the Bank of Slovenia. In 2018 a new legal act was passed, Investment Promotion Act, replacing the previous legislation on the promotion of foreign direct investment.

Statistical overview of FDI in Slovenia compared to EU

The stock of inward FDI in Slovenia at the end of 2017 was 13.7 billion euros at the end of 2017, with an inflow of 842.5 million euros of equity in the same year. According to the data analysis of FDI in Slovenia, done by the Bank of Slovenia for 2017 (and published in 2018), the stock of inward FDI represents 32% of Slovenian GDP. This figure is considerably lower compared to the aggregate figures for European Union, where the stock of inward FDI is 25 percentage points higher. Among EU members the highest inward FDI is present in the Czech Republic (72 %) and Hungary (67 %). The trends of growth of inward FDI stock in Slovenia in the last decade are comparable to other countries, the growth of 9 % puts Slovenia in comparable position as Austria and Hungary, while still surpassed considerably by Czech Republic, where the increase in the last decade was 24 percentage points.

As for the outward Slovenian FDI, the stock amounted to EUR 5.9 billion at the end of 2017, 2.9 % higher than the previous year. Slovenia outward FDI recorded 14 % of GDP, which puts the country considerably lower than the figure for EU (60 %). The figure of 14 % of GDP for Slovenian outward FDI is a 2 % decrease in the last decade, with only Slovakia also experiencing a decrease and all other countries having an increase of outward FDI with the EU aggregate increase of 27 %.

The net FDI position according to the Bank of Slovenia analysis puts Slovenia in the net recipient position with 19 % of GDP (for 2017). The stock of inward FDI increase in the last decade was faster than the (almost no) increase stock of outward FDI for the same period. Compared to Visegrad Group Countries where net recipient position is at 40 %, Slovenia has a much lower net FDI position (Czech Republic records 61 %, Slovakia 51 %).

FDI by origin countries

According to the cumulative data of the Bank of Slovenia for 2017, the great majority of the FDI value in Slovenia came from EU member countries, together representing 84.3 % of inward FDI. Among these, Austria was the most prominent, accounting for 25.6 % of inward FDI. Austrian investors' stock at the end of 2017 was at 3,504.4 million euros, an almost 10 % increase compared to 2016. The largest investments by Austrian investors were in wholesale and retail trade and repair of motor vehicles and motorcycles (26.2 %), financial and insurance activities (24.2 %), manufacturing (23.3 %), professional, scientific and technical activities (6.9 %), information and communication (6.5 %), real estate activities (5.7 %), and electricity, gas, steam and air conditioning supply (2.2 %). The second investor country according to FDI value was Luxembourg, reaching the total FDI value of 1,558.9 million euros by the end of 2017, exhibiting an increase of 8 % compared to 2016. The great majority of investment was done by financial and insurance companies (53.4 %), followed by information and communication (21.3 %), manufacturing (10.0 %), and real estate activities (5.9 %). The third country among the biggest FDI investors in Slovenia was Switzerland, representing 10.4 % of the total FDI. The stock of inward FDI by Swiss investors was 1,425 million euros by the end of 2017, a 3.2 % increase compared to 2016. Swiss investors mostly invested in manufacturing (73.5 %), followed by wholesale and retail trade and repair of motor vehicles and motorcycles (17.9 %), real estate activities (3.9 %), and construction (1.4 %). The fourth investor country according to the Bank of Slovenia data, was Germany with 8.4 % of total inward FDI value in Slovenia. German investors recorded 1,151.9 million of investments by the end of 2017, a 4 % increase compared to 2016. Largest investments were in manufacturing (47.0 %), wholesale and retail trade and repair of motor vehicles and motorcycles (24.9 %), transportation and storage (16.0 %), real estate activities (2.7 %), water supply; sewerage, waste management and remediation activities (2.1 %), and administrative and support service activities (1.3 %). The fifth most important investor country was Italy, with 8.3 % of the total inward FDI by value. Total FDI of Italian investors amounted to 1.129,6 million euros, a 1.5 % decrease from the values in 2016. Largest investments by Italian investors were in financial and insurance activities (42.3 %), manufacturing (28.7 %), wholesale and retail trade and repair of motor vehicles and motorcycles (10.9 %), and electricity, gas, steam and air conditioning supply (3.1 %).

FDI by other criteria

According to the analysis of the Bank of Slovenia, the FDI was more present in three types of economic activities. These were manufacturing (32.9 % of total FDI), financial and insurance activities (22.3 %), and wholesale and retail trade and repair of motor vehicles and motorcycles (17.6 %). According to the absolute increase of FDI for 2017, the most prominent activity was manufacturing with an increase of 6.5 %. A large increase of 41.1 % was also recorded in professional, scientific and technical activities. In financial and insurance activities it increased by 4 %. Picking up after several worse years, for the last two years there was a prominent increase also in construction, where FDI grew by 40.7 % in 2017.

In the analysis of FDI according to the statistical region, there is a great imbalance in favour of the Central Slovenia, which received 61 % of the total FDI, followed by Drava Region (9.6 %), Coastal-Karst region (5.9 %) and Upper Carniola (5.8 %), with all other nine regions together representing the 17.7 % of the total FDI. Regions with lowest FDI are Littoral – Inner Carniola (0.5 %) and Carinthia (0.6 %).

In the analysis according to the institutional sector, the most prominent part is taken by the recipients from non-financial corporations (76.9 %), followed by financial corporations (20.9 %). Firms with FDI only represented 1.5 % of the total number of Slovenian firms. But regardless of the low percentage, their overall role in the Slovenian economy is comparably more important. In 2017 they represented 23.9 % of capital in Slovenian corporate sector and employed 23.6 % of the employees. The net sales revenue generated by their capital and workforces generated of 27,434 million euros, being prominent in merchandise trade with the rest of the world, with 40.3 % of exports and 44.2 % of imports by the Slovenian

corporate sector.

As of 2017, workers in firms with FDI received wages above the average. The average annual gross wage per employee in firms with FDI was 20,868 euros, which is 10.1 % higher than the Slovenian average of 18,952 euros. Differences between the average and FDI firms varies according to the type of activity, being the most prominent in human health and social work activities, where wages in firms with FDI were 78.2 % higher from the activity average.

Investment Promotion Act

On July 1, 2018 a new legal regulation was adopted, aimed at promoting investment, including the stimulations of foreign direct investment, which was previously regulated by a separate Act. The intention behind the new Act was to unify the system of investment incentive measures and policies for foreign and domestic investors alike.

It provides the framework for investment incentives in the form of subventions, loans, guarantees and interest rate subsidies. In addition it also provides the possibility of a special-contract purchase of real estate, owned by municipalities, at prices which are lower than market prices. Apart from investment motivations, the new Law also determines the conditions, criteria and the procedure of eligibility for these incentives. The Act also regulates the criteria for an investment to be considered a strategic investment and regulates the expropriation procedures in the case of strategic investments. Further, it regulates the overall activities of investment incentives and established the registry of firms with high added value and a registry of innovative start-up firms to provide an updated list of firms with special national importance.

Conclusion

Inward FDI plays an important role in Slovenian economy. Despite a rather small percentage of companies receiving the inward FDI, the role of these companies is important. The overall distribution of FDI in Slovenia is nevertheless far from balanced, especially when regions or economic sectors are compared. A more comprehensive strategy of managing FDI on the national level was emphasized by the new legal regulation, the Investment Promotion Act of 2018 and the establishment of different institutions to manage these strategies.

Outward and Inward Investment in Hungary

Csaba Moldicz

This briefing focuses on outward and inward foreign direct investment flows in Hungary. The FDI has been a significant element of the modernization of the Hungarian economy since 1990, and the established firms have become the backbone of the Hungarian economy. However, after more than thirty years of inward internationalization, the time seems to be ripe to speed up the outward internationalization of large Hungarian firms as well. As we can see later, the Hungarian government tries to bolter this process too. Though, this analysis starts with the 90s – utilizing a temporal approach – it mainly centers on recent developments pointing out the main trends and sectors attractive for foreign direct investment. The briefing partly discusses recent changes in the legislation related to foreign direct investment too and it touches upon the question how the country's FDI strategy is embedded in the broader economic development policies of Hungary.

1. The past development

After the transformation of the Hungarian economy in the 90s, the country became a hub of foreign direct investment in the region, in particular, Germany, the US and Austria invested heavily in the Hungarian economy and today these three countries are the main foreign investors in the Hungarian economy (See table 1)

Table 1. The share in net FDI stock of Hungary (%, excluding special purpose vehicles, 2017)	
Germany	29.0
United States	15.3
Austria	7.9
France	5.4
Italy	3.7
United Kingdom	3.3
Japan	3.1
Netherlands	2.9
India	2.7
China	2.4
Switzerland	2.2
Source: MNB. The Central Bank of Hungary	

After the first wave of investments in the early 90s, that focused on the privatization of the state-owned enterprises, Hungary was able to attract green-field investments that significantly contributed to the modernization of the economy by channeling new technology, capital into the Hungarian economy and creating jobs. Hungary took advantage of a change in direction of FDI from low-value textile and food-processing sectors to wholesale, retail trade and repair of vehicles in recent years. Consequently, there are whole branches in the manufacturing industry that are almost exclusively created and owned by foreigners. The best example is the automotive industry that did not exist in before 1990 and is now the most important branch in the manufacturing in terms of contribution to export, GDP and employment. After the global financial crisis, inward FDI flows have been lower, however, after 2017 the FDI inflow again picked up in Hungary.

2. FDI and ODI in Hungary – now

In 2018 foreign direct investment amounted to 1097 billion USD globally. The report of the OECD pointed out that the world FDI was 1.3

percent in terms of GDP, which is the lowest figure since 1999. FDI into the EU plummeted by 20 percent too, while inward FDI to Hungary was 6.3 billion HUF, which is almost the twice of the 2017 figure.

The number of FDI transactions reached 116 last year. According to the date of HIPA (Hungarian Investment Promotion Agency), foreign direct investments created around 17 thousand jobs in excess in 2018. The inward FDI stock swell to 88 billion USD in 2018, which is 56.51 percent of the GDP. One of the biggest projects in 2018 was the decision by the BMW to develop a factory in Hungary. The electronics industry with 10 projects, business services center industry with 10 projects and the ICT sector with 9 projects can be highlighted in 2018. (See table 2!) Outward FDI increased significantly too, the amount rose from 1.1 billion (2017) to 1.9 billion (2018).

Table 2. Sectoral breakdown of 2018 transactions in numbers

By sector	Number of transactions	By country	Number of transactions
Automotive industry	18	Germany	28
Electronics	10	US	15
BSC	10	Four Asian countries*	17
ICT	9		
Others	51		

Source: Hungarian Investment Promotion Agency. * China, India, Japan, South Korea

As for the sectorial distribution, we can clearly see that manufacturing and services make up the bulk of foreign investments in Hungary. It is no surprise that agriculture's share is really low, but we can also add, that this low share reflects the sector's relatively weak proportion in the GDP and employment as well. (See table 3!)

Within manufacturing, the following sub-sectors can be highlighted as especially important and attractive ones: the total vehicle and other transport vehicle sub-sector[1] attracted 14.81 percent of the total FDI in Hungary. The sectors a) basic pharmaceutical products and b) rubber plastic products made up 4.27, respective 3.39 percent of the total FDI in 2017.

As for the services sector, the significance of the wholesale and retail trade; repair of vehicles (10.80 percent), information and communication (5.47 percent), financial and insurance activities (8.72 percent), real estate activities (7.65 percent), and professional, scientific and technical activities (6.93 percent) must be emphasized.

Table 3. Sectoral breakdown of the foreign direct investment in Hungary (2017, %)	
Agriculture, hunting and forestry	0,7
Mining and quarrying	0,4
Manufacturing	43,3
Electricity, gas, stem and air-conditioning supply	2,5
Water supply, sewerage, waste management and remediation activities	0,1
Construction	1,2
Services	49,5
Total	100
Source: MNB. The Central Bank of Hungary	

3. The future of FDI and ODI

The Prime Minister signaled a new period in the country's investment strategy in early 2019, when he underlined the significance of an outward investment strategy too. It must be added that usually inward investment period precedes outward investment period in the case of emerging markets. (The distinction between inward and outward internationalization

[1] In other words, the car making industry.

is often made in the literature, referring to the significance of sequencing in the investments.)

In the case of Hungary, it is extremely important to balance the process, since the invested capital – sooner or later – will be repatriated enriching the country of origin and making the target country vulnerable and exposed to sudden changes in the world economy. Around 50 billion euro is being repatriated from the Visegrad 4 countries (Poland, Czechia, Slovakia, and Hungary) to Western European countries every year. This is one of the reasons why EU transfers can be considered as compensation for the transferred profits, Central European politics often argue in political debates. The gap between the GDP and GNP is extremely large, this number was 4.0 percent in terms of GDP, showing the disproportion between the added value of foreign firms' investment in Hungary and domestic firms' abroad investment. (Around 100 billion euro inward direct investment stock can be contrasted to circa 50 billion outward direct investment stock in the case of Hungary.)

The above-mentioned asymmetry has prompted Hungarian decision-makers to speed up the diversification of the investments relations over the course of the last years. Along with the diversification of the origin of the investment, emphasis is put more on technology, than ever before. The Hungarian Minister of Foreign Affairs and Trade said there is a new dimension emerging in the Hungarian economy, since the "made in Hungary" period is to be replaced by the "invented in Hungary" period. He argues due to full employment in Hungary, not the number of newly created jobs, but the share of new technologies gets more and more important.

In order to boost the attraction of the economy, Hungary introduced the most competitive corporate income tax in the EU with 9 percent flat rate, it reduced taxes on employment, and made working law more flexible, and it also reduced the requirements necessary to start a business in Hungary. (On average, 7 days are needed now to register a company in Hungary, while the same average number of days is 9 in the Czech

Republic, 12.5 in Slovakia and 37 days in Poland!) In early 2019, the Hungarian government adopted an investment screening law too which is in line with the EU regulation on establishing a framework for screening of foreign direct investments into the European Union.[1]

4. Summary

As we could see in the briefing, the approach to foreign directs investments in Hungary has been changing over the course of the past years, the direction of the change reveals a more conscious approach to FDI and a more detailed interpretation of foreign direct investments' significance regarding economic development. On the one side, the need for diversification of the capital's origin seems to go hand in hand with the requirements to move up in the added value chain and attract cutting edge technology investment. On the other side, it is also clear, that security concerns have been more and more apparent in the thinking of economy policy decision makers in Hungary, which given the growing tensions and debates in the world economy seems to be justified to some extent.[2]

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[1] The law basically focuses on FDI related to manufacture of weapons, parts of weapons, munition, military tools; secret service tools; data processing by a financial institution, areas important for the maintenance of vital societal functions, such as healthcare, safety of life and property of the citizens, provision of economic and social public services.

[2] At this point it is worth pointing out that adopted legislation aimed at implementing FDI screening mechanisms, applies to acquisitions of non-EU-EEA investors. EEA means European Economic Area including Norway, Switzerland, Iceland and Lichtenstein.

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