

Role of FDI Policy in the Location of Greenfield FDI – a Comparison of Poland, Hungary and Romania

Presentation based on the paper prepared in the framework of the FP7 project GRICOH: ‚Regional Policy and FDI Location – an Overview of the Larger New EU Member States‘, wiiw Research Reports 393 - forthcoming

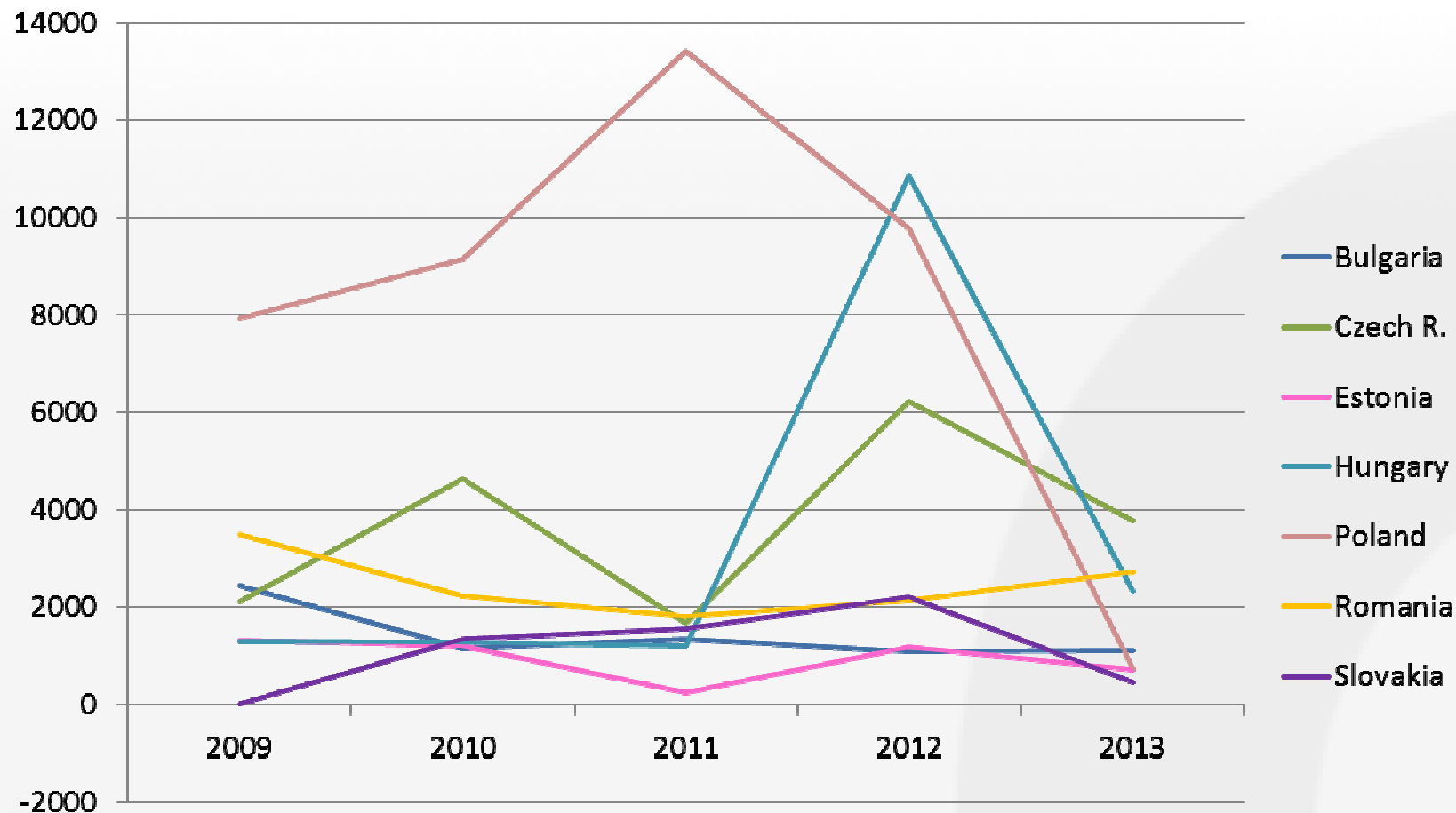
Gábor Hunya, wiiw
hunya@wiiw.ac.at

Investment and FDI policy in the NMS

- Weak investment and FDI activity is a major impediment for growth
- Investment stimulation/incentives in place for R&D, employment and regional objectives
- No differentiation between foreign and domestic owners except for information asymmetry (promotion)
- Differentiation of policy by firm size – support for SMEs
- Investment policy tools for large job creation, advanced industries (manufacturing and shared service centres), large R&D – mainly foreign firms
- Regional aid ceilings higher for less developed regions (10-50%)
- Descriptive presentation of recent FDI trends and investment policy tools
- Coincidence of greenfield projects with aid ceilings and policy

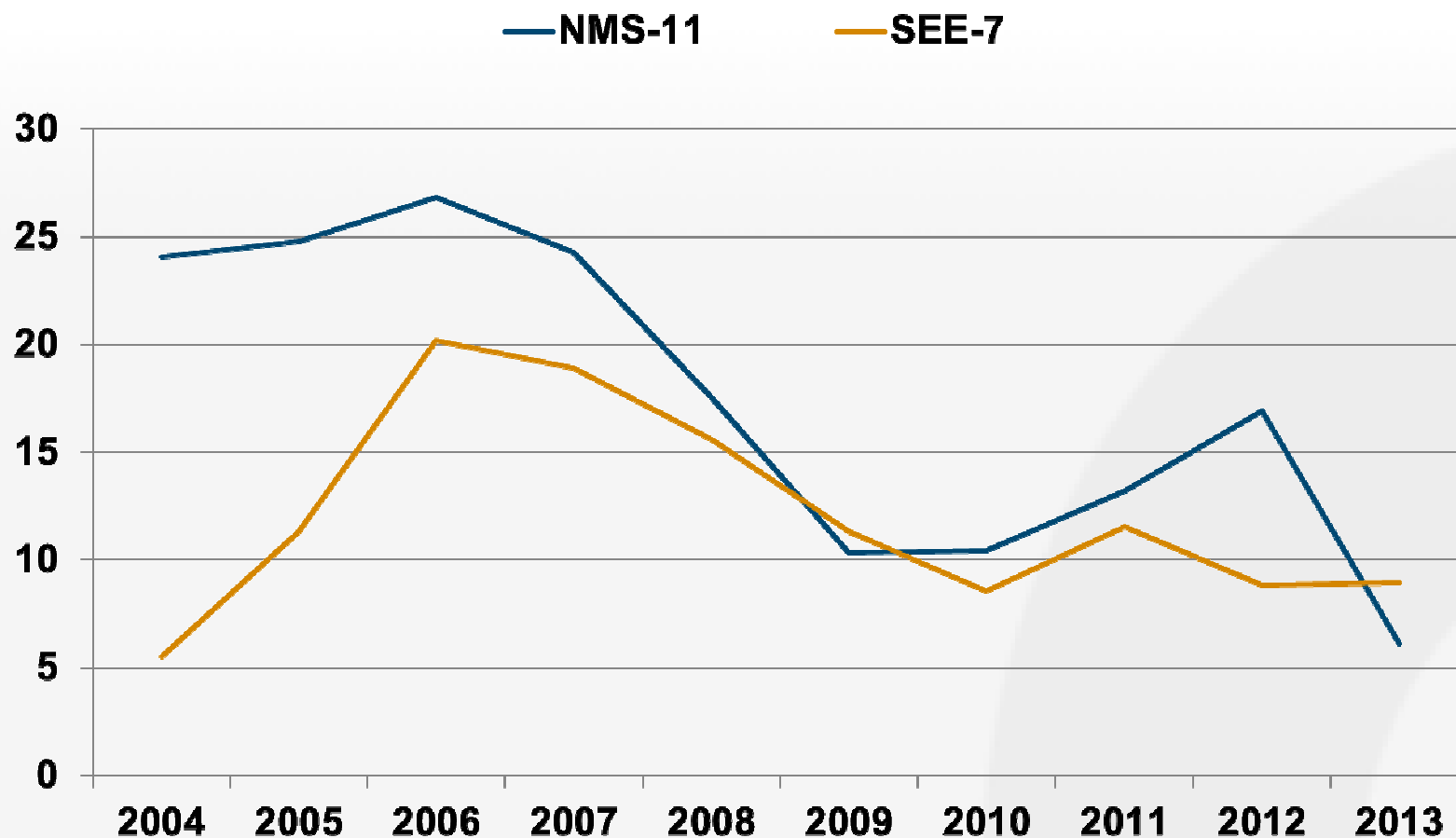
FDI inflow, EUR million

(BOP, excl. SPEs)



FDI inflow in % of gross fixed capital formation

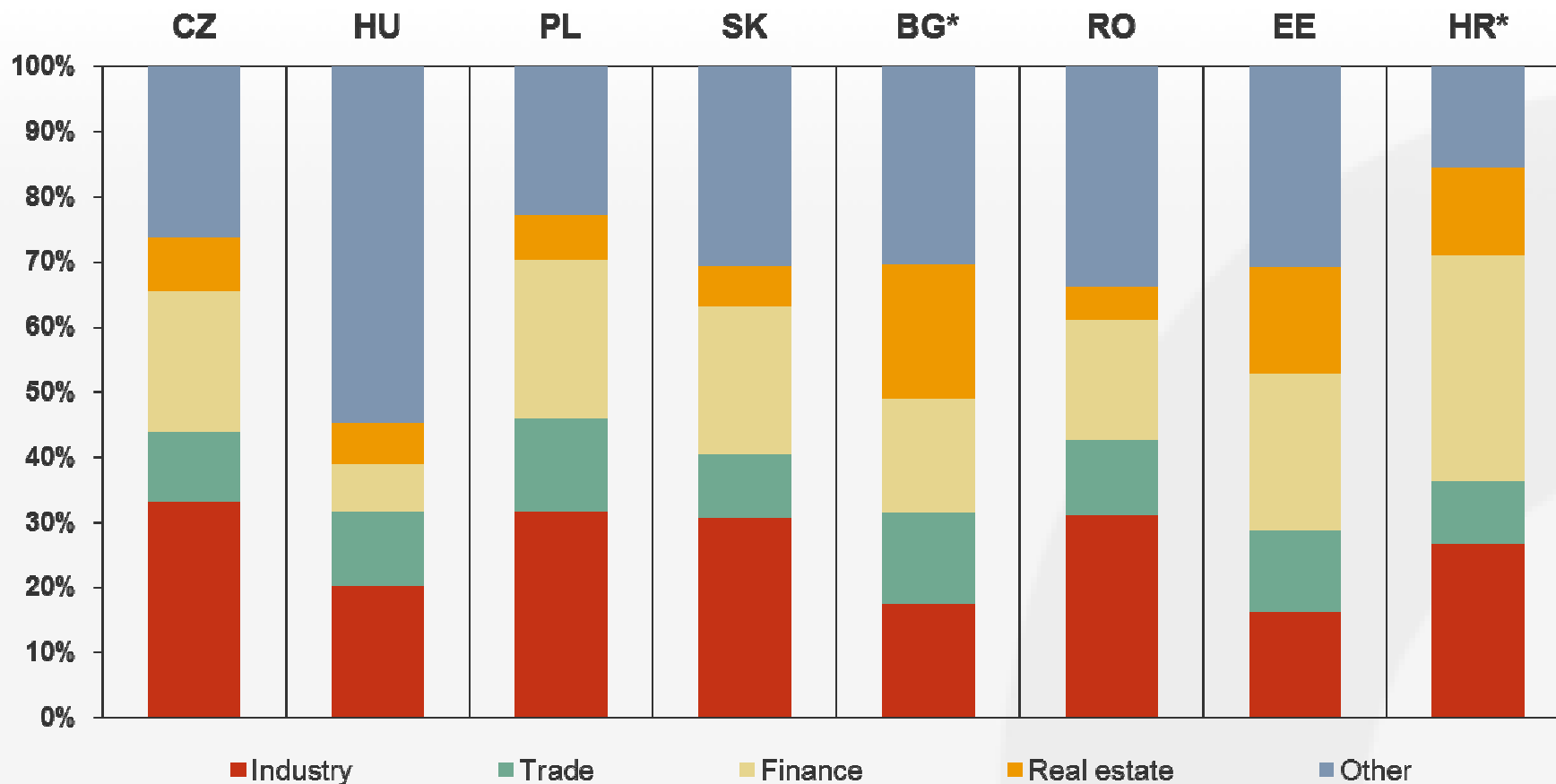
2004-2013



Quelle: wiiw FDI Database und wiiw Annual Database.

FDI stock by economic activity

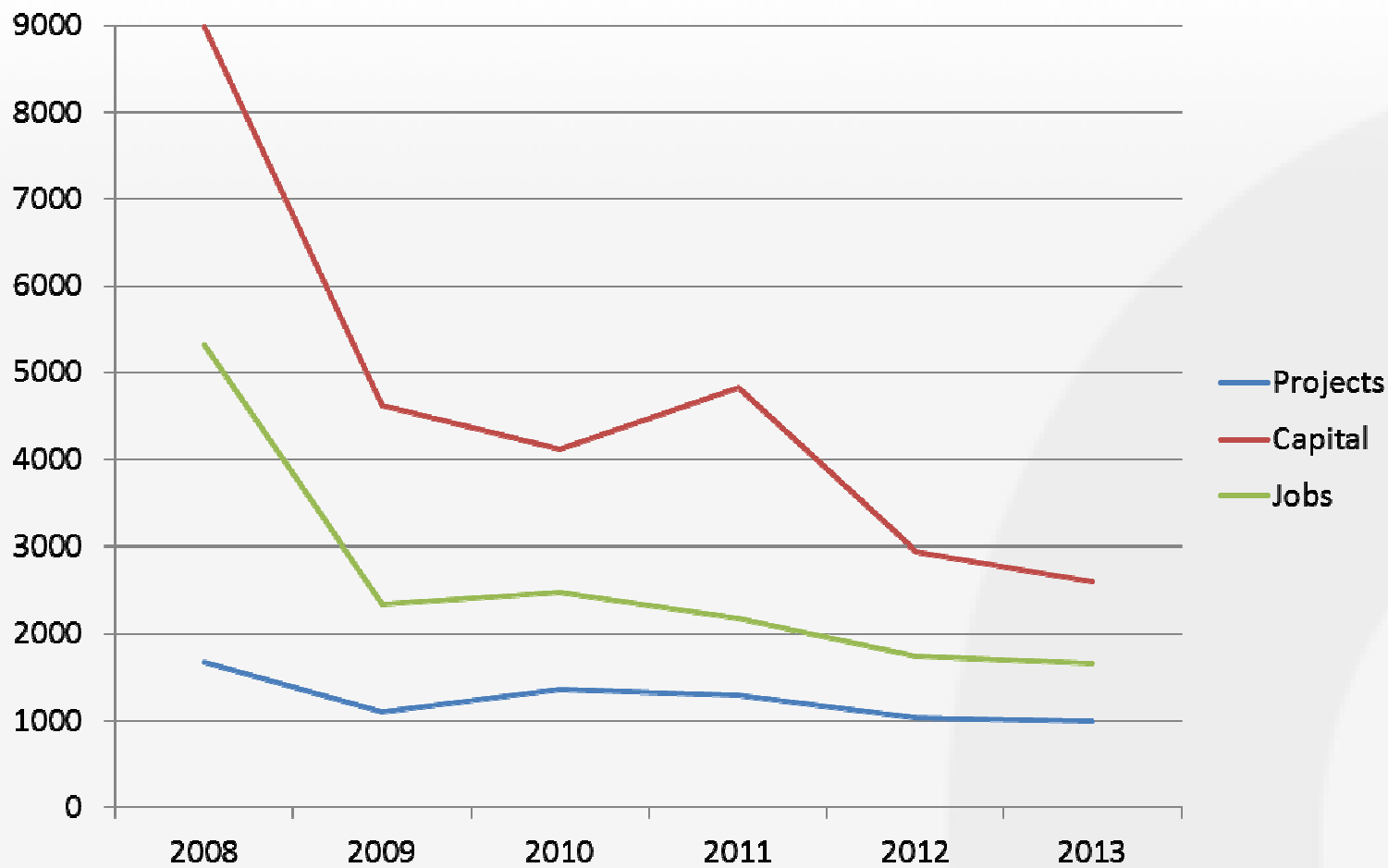
NACE Rev. 2, 2012



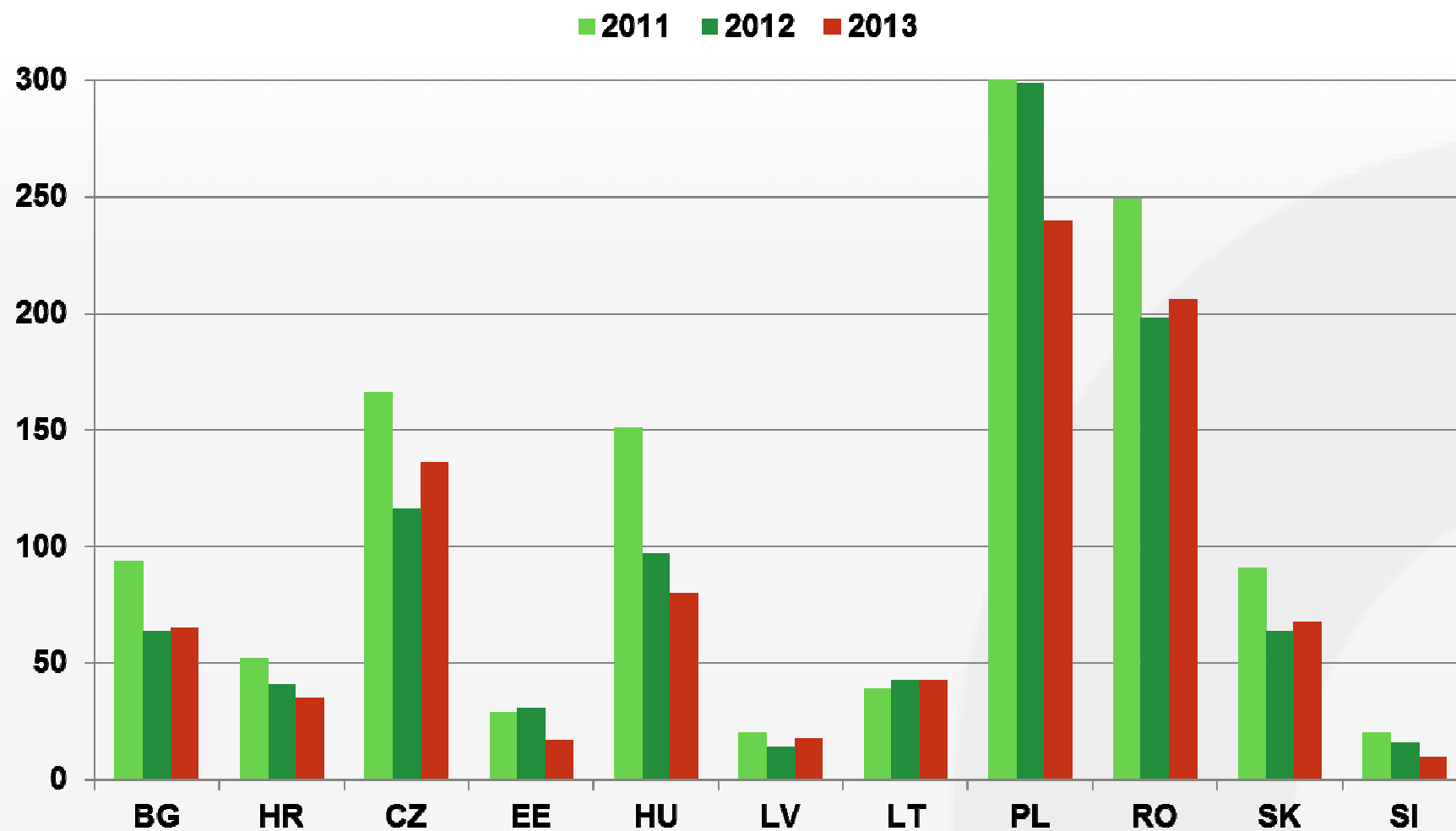
* BG und HR nach NACE Rev. 1 (D Industrie, G Handel, J Finanzwesen, K Realitätenwesen).

Greenfield investments in the NMS, (fdimarkets.com)

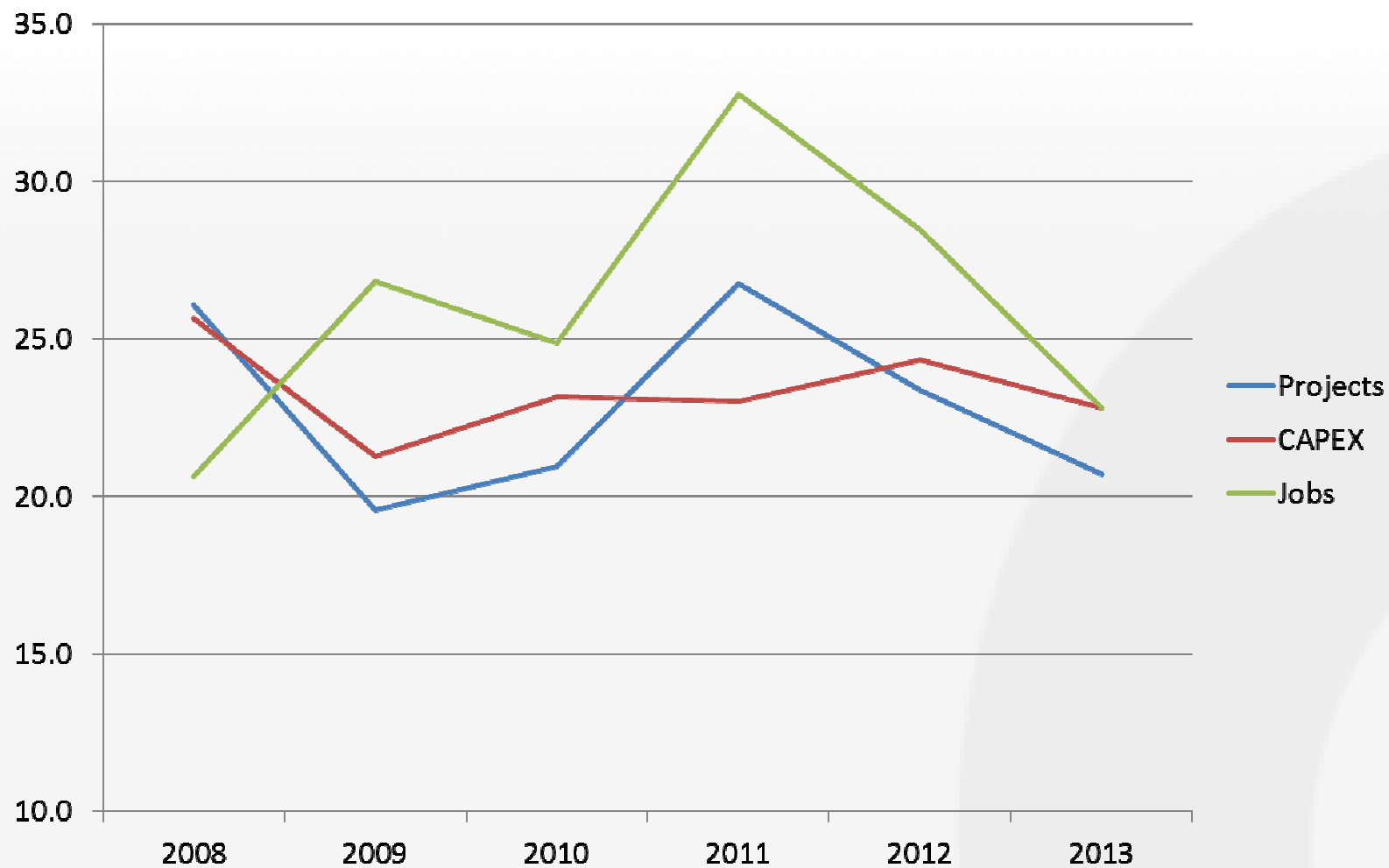
Number of projects, Capital investment in EUR 10 million, Job creation in 100 jobs



Number of greenfield projects, 2011-2013

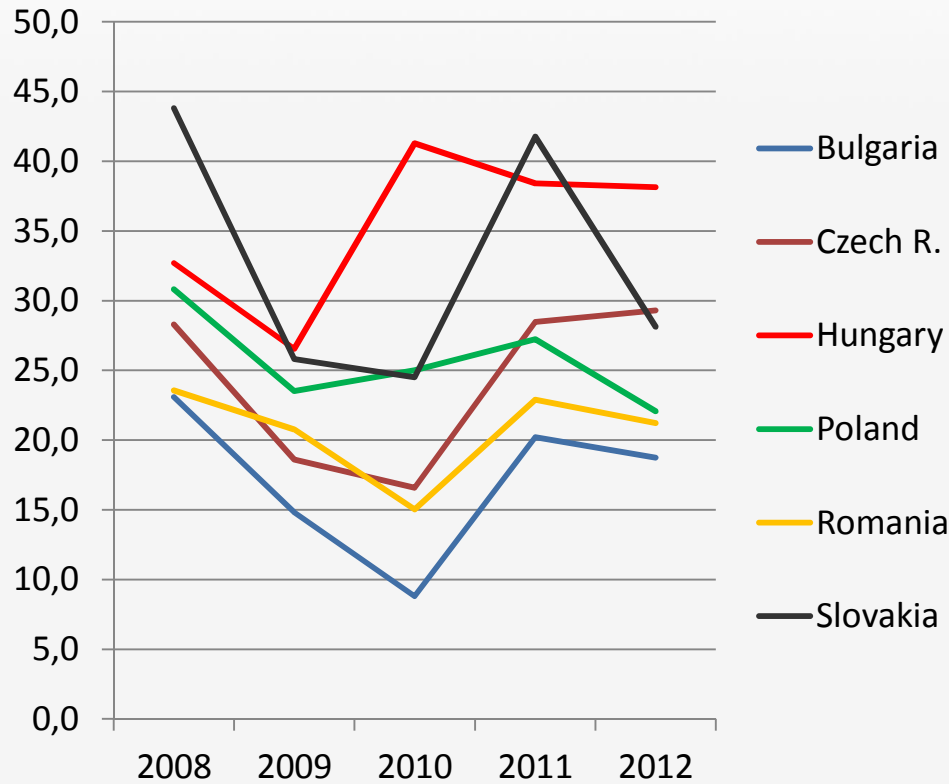


Share of manufacturing in greenfield FDI, in the NMS %

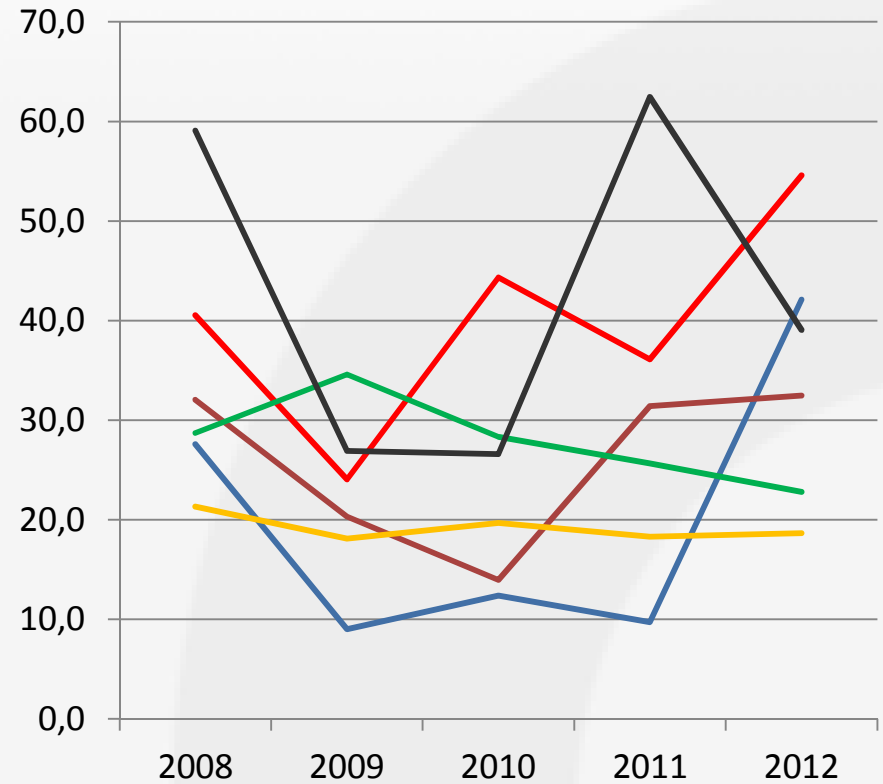


Share of manufacturing in greenfield FDI in selected countries in %

Project number



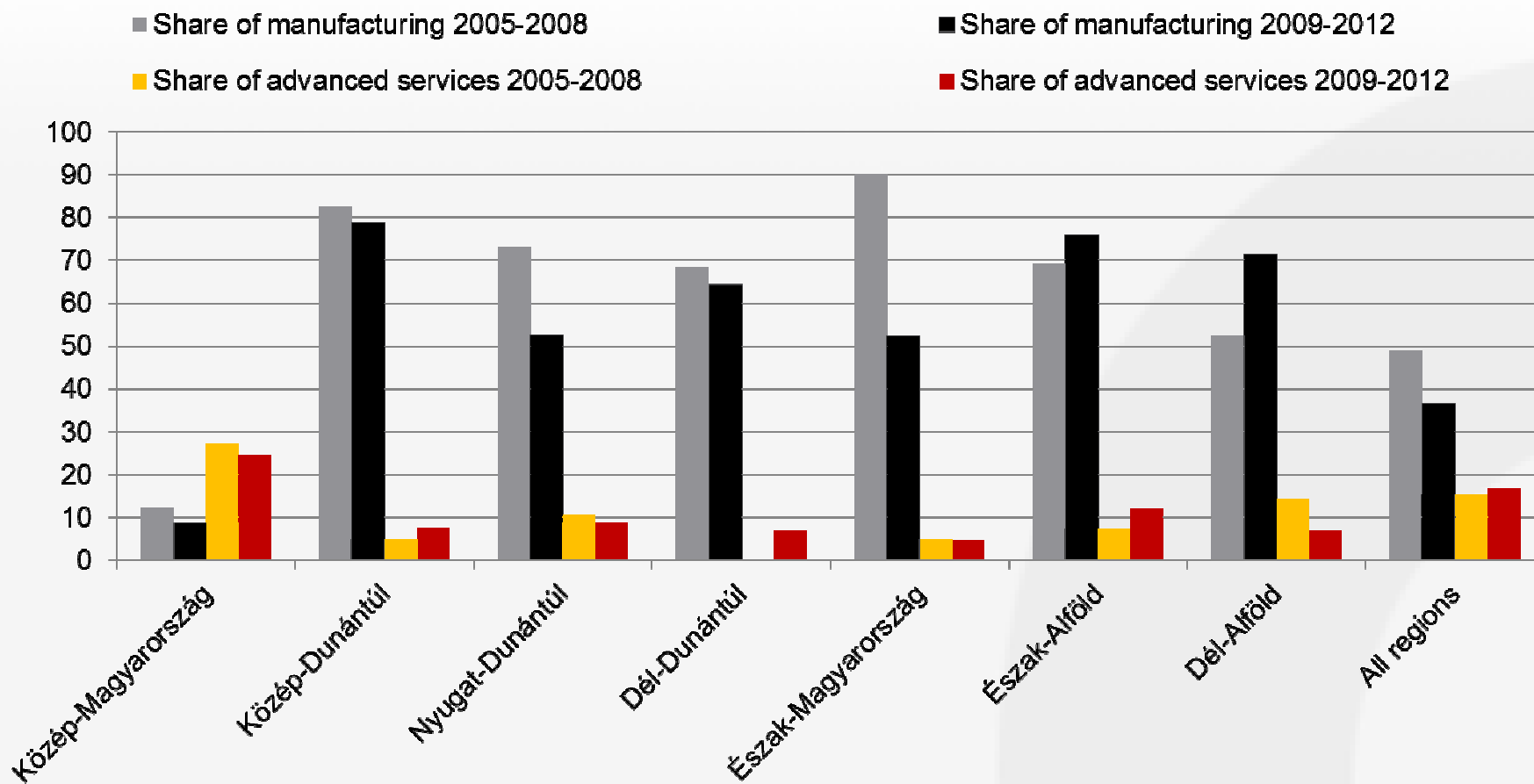
Capital investment



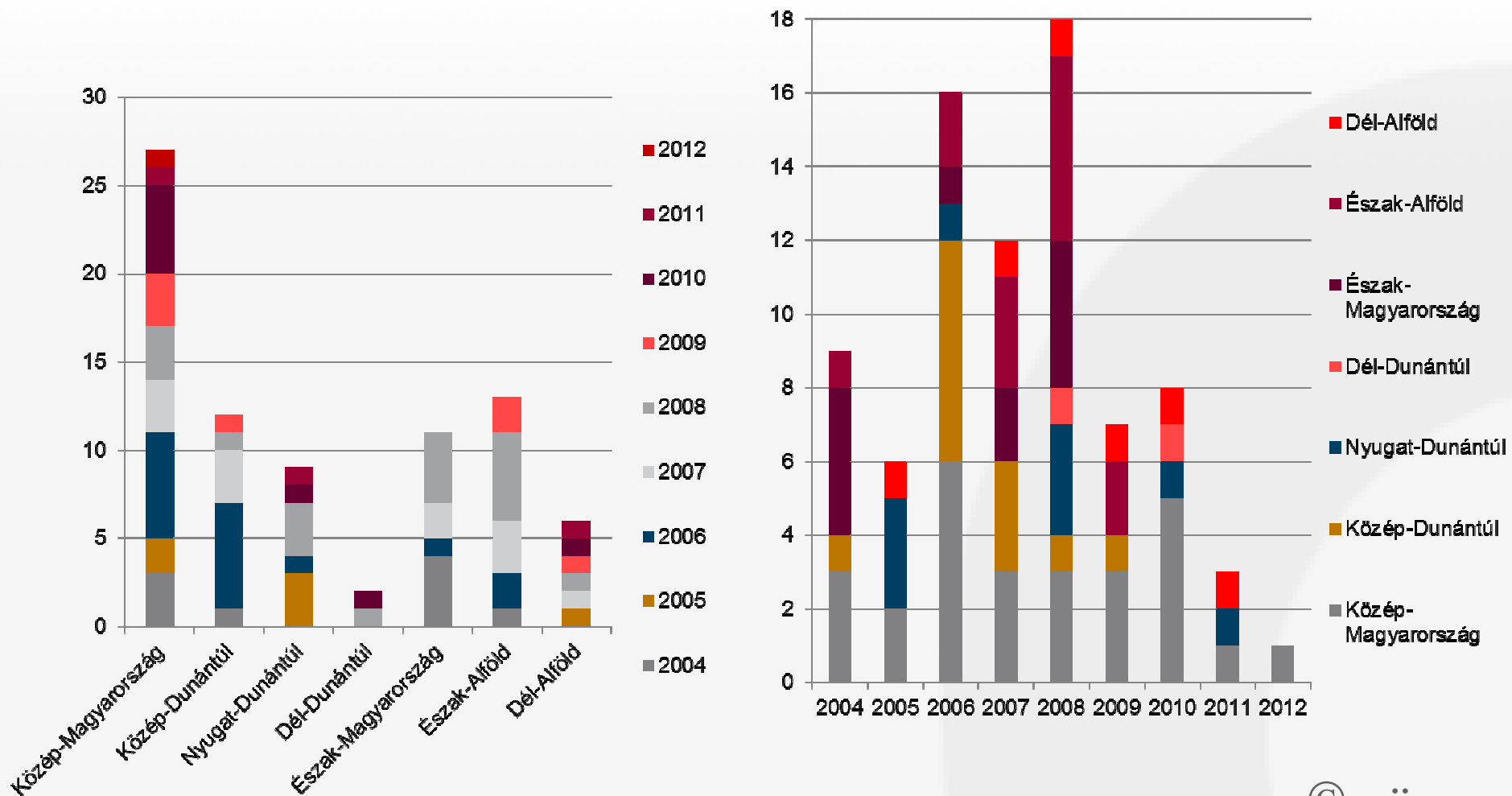
Maximum regional intensity



Share of manufacturing and advanced services projects in Hungarian regions

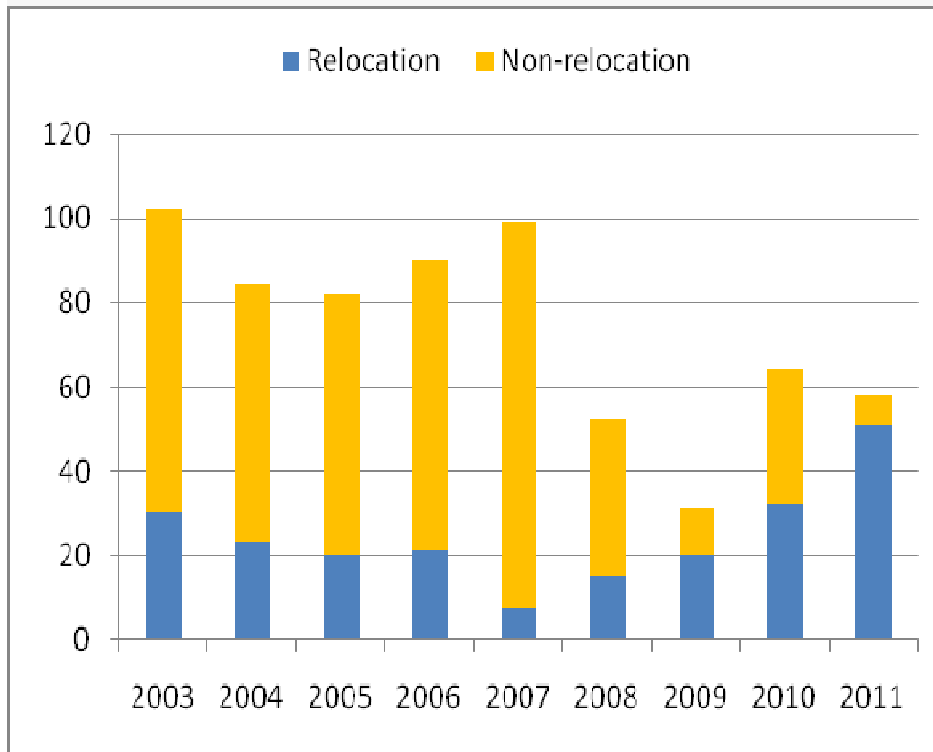


Number of large investment projects supported by “individual government decision”

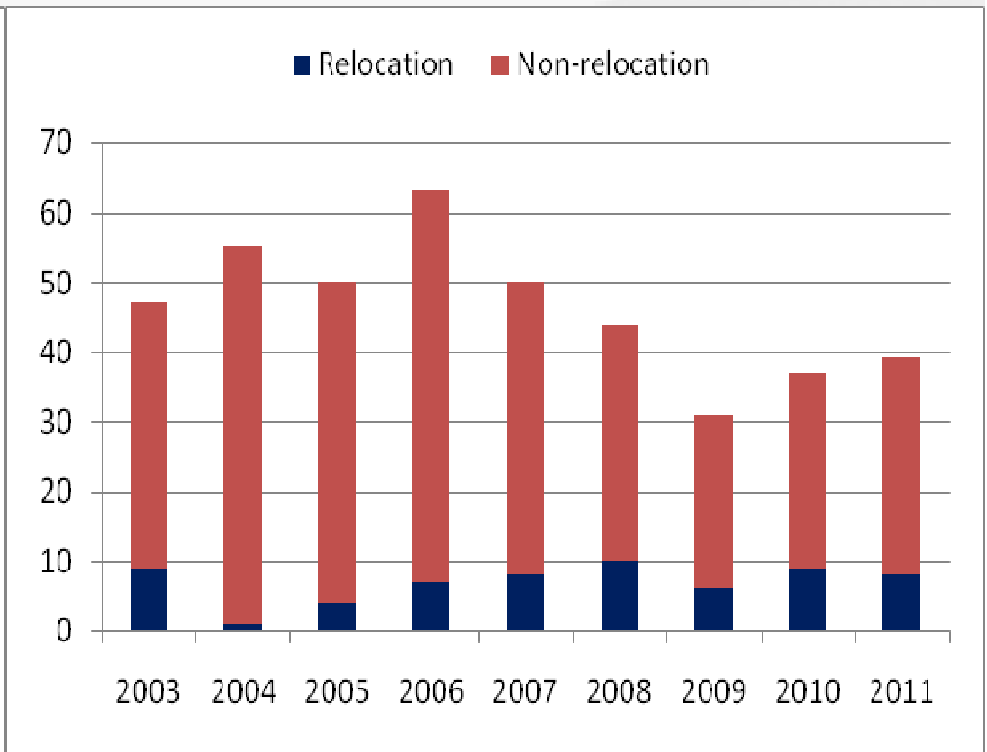


Hungary: Number of relocation and non-relocation greenfield projects (Sass & Hunya 2014)

Manufacturing



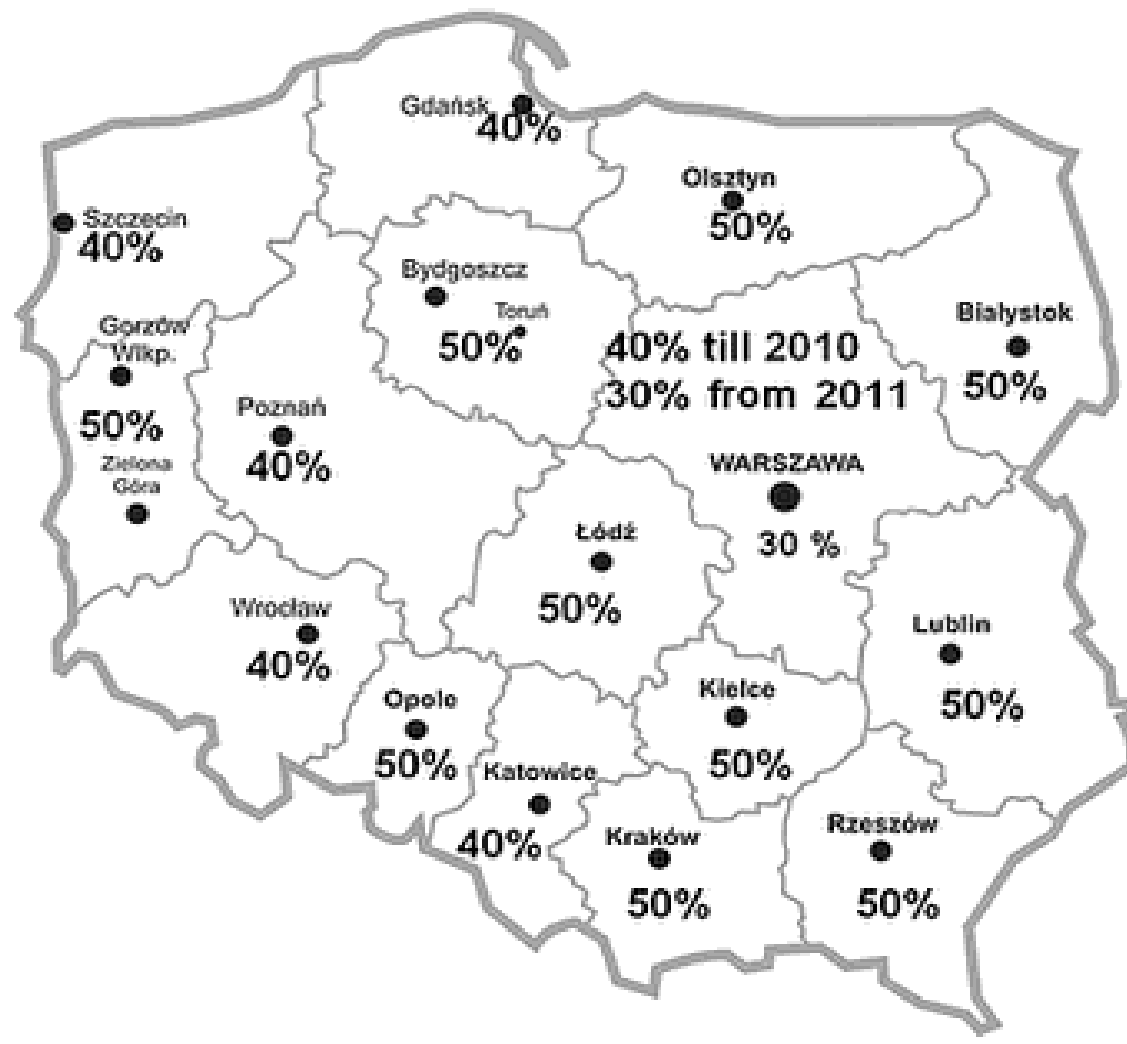
Tradable services



Hungary: regional investment policy results

- Share of manufacturing projects 2005-2008: 49%; 2009-2012: 36%
- Share of advanced services from 15% to 17% (like in Poland)
- Capital city lowest manufacturing, highest services share
- Manufacturing highest share but decline in the advanced West
- Most gain in underdeveloped East and North
- Government subsidy to large investment projects
 - Similar in all NMS, but higher ceilings in Poland; ceiling lowered recently
 - Higher eligibility ceilings in low support regions
 - HU: EUR 25 million investment and 25 jobs in the regions with 50% subsidy ceiling
- Despite low subsidy rate two thirds of the large projects in Budapest
- Catching up regions are the high subsidy regions in the North

Regional aid intensity in Poland



Poland: FDI projects by regions and aid ceiling for large investments in per cent
Low: 30% and 40% of the eligible cost; High: 50% of the eligible cost

	2005-2008	2009-1012	Change in number, %
Total number of projects			
Low-aid regions	72.2	69.4	-21
High-aid regions	27.8	30.6	-9
Total job creation			
Low-aid regions	62.2	57.5	-68
High-aid regions	37.8	42.5	-62
Number of manufacturing projects			
Low-aid regions	64.6	56.3	-55
High-aid regions	35.4	43.7	-34
Number of advanced services projects			
Low-aid regions	83.6	79.6	6
High-aid regions	16.4	20.4	38

Regional investment policy results in Poland

- New FDI projects shift from more developed to the less developed regions, where aid ceiling is higher
- Higher aid attracted more manufacturing projects
- Divide by settlement size often more important than by region
- Special economic zones (subsidies and infrastructure) contributed to the shift of investment to the North and the South-East of Poland

Regional FDI in Romania

- Except Bucharest, all regions with 50% ceiling
- Low fiscal capacity – low amounts of subsidy, no impact on location
- No regional catching up; advance of Bucharest strengthened in terms of GDP; but declined in terms of FDI and greenfield projects
- Best performance: Western border regions, sea port, agglomerations
- More developed regions have better access to cluster and incubator support

Need for more business investment in general – Better conditions of doing business, access to financing and markets, cooperation/clustering