



26th International Scientific Conference
**Strategic Management and Decision Support Systems
in Strategic Management**

21st May, 2021, Subotica, Republic of Serbia

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GREENFIELD FDI INFLOWS IN SELECTED EMERGING EUROPEAN ECONOMIES WITH REFLECTIONS ON EXTERNAL BALANCE

Abstract: The research objective is to identify the main locations for greenfield FDI inflows as well as to analyze related external balance in selected Emerging European Economies (EEEs) in order to suggest useful implications towards economic policy creators in Western Balkans. The authors conducted original descriptive statistical analysis on the data available in UNCTAD, FDI/MNE and World Bank database in the time period 2008-2019. The analysis of average greenfield FDI inflows and trading balance in GDP includes following country groups: Visegrad States, Baltic States, Western Balkans and eleven new EU member states in the period after the structural break of Global Financial Crisis (GFC). The results suggest that the Visegrad States (particularly Poland) were the most attractive locations for greenfield investments in the analyzed time period. Also, analyzed group of countries had the strongest improvements in external balance with surplus position since 2013. Having in mind the results of this study and the positive effects of significant greenfield FDI inflows given in the existing literature, we suggest that Western Balkan countries should implement adequate measures to attract greater greenfield FDI inflows in order to stimulate export oriented production, sustainable development and real convergence towards developed European economies. The suggested connection implies further research and verification using panel data analysis in selected EEEs.

Keywords: Greenfield FDI, external balance, Emerging European Economies

1. INTRODUCTION

The Western Balkan countries have continuous problem of insufficient level of total investments (both domestic and foreign capital accumulation) and substantial deficit of current account. Zuk, Polgar, Savelin, Diaz del Hoyo & Koning (2018) come to the conclusion that Western Balkans still have a slow development pace compared to the real convergence of new EU member states, especially to Poland, Slovak Republic and Baltic States, due to very low level of total factor productivity and insufficient capital accumulation. Ercegovac & Živkov (2018) underline that greater FDI inflow in tradable sector along with improvements in national competitiveness indicators can contribute to the more balanced external position. Becer Pucar & Glavaški (2020) find that FDI could bust the real convergence process in emerging economies as a less volatile source of financing the current account deficits.

The objective of this paper is to analyze the greenfield FDI inflows together with external balance on goods and services in GDP in selected Emerging European Economies (EEEs) in the time period after the structural break of Global Financial Crisis (GFC), 2008-2019. The descriptive analysis is performed with regard to four country groups: Visegrad States, Baltic States, Western Balkans and eleven new EU member states. On the basis of descriptive analysis results authors point out the potential link between greater greenfield FDI inflows and better external position in research sample. Authors cover the recent findings in existing literature and contribute to the field of transmission effects literature with descriptive statistical analysis and comparative discussion of current research results. Analyzed subject is relevant to the economic policy creators of Western Balkans in order to consider the positive effects of larger

volume of greenfield and export oriented FDI inflows on external balance and further economic development. Sustainable development strategy of Western Balkan countries should include the adequate incentives to attract favorable efficiency seeking and export oriented foreign investors that will bring new employment and decrease the trade balance deficit. Also, government incentives for import substitution with local supply of materials should be added in national strategy for attracting FDI. This is important because foreign companies with vertical FDI and production specialization process often import the necessary materials and intermediary goods and then have influence on the raise of total imports and unbalanced trade position. Also, FDI inflows in non-tradable sectors are directed in local market, increase of consumption and growth of imports without beneficial raise of exports.

2. LITERATURE REVIEW

In the analyzed literature there are many potential positive transmission effects of substantial FDI inflows on host country economy e.g. capital accumulation, new employment, raise of competitiveness, technology transfer, better access on foreign markets and larger exports with consequential economic development (see e.g. Noorbakhsh, Paloni & Youseff, 2001; Durham, 2004; Crespo & Fontura, 2007; Denisia, 2010). The relevant researchers who come to the empirical findings that FDI inflows had positive effect on the economic growth are Li & Liu, 2015; Pegkas, 2015; Iamsiraroj & Ulubasoglu, 2015; and Iamsiraroj, 2016. The evidence of positive effect of greenfield FDI inflows on the real economy is shown in studies Wang & Wong, 2009; Neto, Brandao & Cerqueira, 2010; Harms & Meon, 2014; Luu, 2016; and Bayar, 2017.

Blomstrom and Kokko (1997) find that FDI have potential to stimulate economic development in host country through the contribution on productivity and exports growth. However, FDI transmission effects on the host country economy differ due to different characteristics of local industry and business environment. Also, significant FDI outflows and profit repatriation have negative implications on the current account deficit of host country. Economies that are dependent from foreign capital with substantial share of international companies on national market with structural current account deficits are especially vulnerable to external shocks, abrupt capital escape and consequential restrictive adjustments of real economy (Beker Pucar & Srdić, 2018).

Kurtishi-Kastrati (2013) argues that potential positive effects of FDI inflows on external equilibrium (balance of payments) of host country are dependent from the motivation of foreign investors. FDI motivated with higher efficiency can contribute to economic growth through the support of exports increase and import substitution with supply of local companies. The channels of positive FDI impact on balance of payments are following:

1. Short term effect of initial capital inflow in the capital account;
2. FDI inflows motivated with higher efficiency with goal to export components and final products in home country and wider markets;
3. Import substitution through the MNEs orientation to buy materials from local firms with following production for exports. The import substitution is crucial to achieve double positive effect on trade balance, because if MNEs import the intermediary products and materials from their subsidiaries, FDI have influence on the raise of imports and greater external disequilibrium.

Sohn & Lee (2010) showed that there is significant link between exports, FDI, trade liberalization and economic growth, where trade liberalization and free trade agreements contributed to the greater exports, but also to raise of imports. Hanousek, Kočenda & Vozarova (2020) claim that FDI inflows have influence on domestic firms through the competition and productivity channels and export spillovers. Nevertheless, FDI impact isn't always beneficial due to the crowding-out effect on local suppliers and strong competition. The potential negative FDI transmission effects on host country economy are decrease of employment (Iamsiraroj & Ulubasoglu, 2015), an absence of technology and knowledge transfer (Oetzel & Doh, 2009), decrease of total factor productivity (De Mello, 1999), crowding-out of national companies (Agosin & Mayer, 2000) and raise of income inequalities and skill differences (Popescu, 2010; Hanousek, Kočenda & Maurel, 2011).

Akbas, Senturk and Sancar (2013) conclude that there is unidirectional link between FDI and current account deficit in G7 countries in analyzed time period (1990-2011). Bucevska (2017) come to the results that indicate that FDI had positive, but in the majority of the estimated models, insignificant impact on the current account in countries that are candidates and potential candidates for EU membership in time period Q12005-Q42015 (Albania, Croatia, North Macedonia, Serbia and Turkey). Author presented evidence of positive and significant impact in the two estimated models with conclusion that FDI contribute to the increase of capital stock and raise in exports industries along with the low contribution in domestic production. Savičević & Kostić (2020) emphasized a positive statistically significant effect of FDI on export growth in Western Balkans with limitations considered representativeness of the estimated model. Also, authors pointed out that main reason for the low impact of FDI on Western Balkans exports can be poor sector structure of FDI inflows, dominantly directed in services and non-tradable sectors. Ercegovac (2021) find that in the Western Balkan countries in post-crisis period is present a negative and significant link between FDI inflows and trade

balance in GDP. The consistent problem of trade deficit in Western Balkans is related with increased need for external financing with FDI.

Tubić (2016) underlined that CEE countries achieved a substantial FDI inflow in tradable sectors with positive effects on volume, structure and competitiveness of exports. The research findings of Boljanović (2013) showed that in countries of Central and Eastern Europe (CEE) the 1% change of FDI level indicates an increase of exports by 1.83%. This is in line with Đurić, Ristić & Đurić (2016), that highlight the example of transition countries who entered the EU in 2004 (Poland, Czech Republic, Slovak Republic and Hungary) which transformed their exports structure from the traditional exports of raw materials and products of lower finalization phase to the substantial exports of products of higher finalization phase like machines and transportation equipment.

3. DATA AND METHODOLOGY

The existing literature concerning motivation and transmission effects of FDI opened an interesting research problem that is considered in this paper: are the greenfield FDI inflows connected with better external position in EEEs in the post-crisis period. Methodology used in this paper is comparative and descriptive analysis, with focus on inductive conclusions and government recommendations. In order to give some insights concerning raised question, the authors conduct original descriptive statistical analysis on yearly data of greenfield FDI inflows in millions USD and external balance of goods and services in GDP in the time period (2008-2019). The main goal of this descriptive analysis is to suggest helpful recommendation to the less developed transition countries, namely Western Balkan countries.

The research sample comprises from sixteen EEEs: Western Balkans with ex-transition economies that entered the EU in 2004, 2007 and 2013. Authors compare the examined parameters in regard to the four country groups: Visegrad States, Baltic States, Western Balkans and eleven new EU member states. The greenfield FDI inflows are investigated in order to stress the main focus of foreign investors after the crisis. This is useful because previous capital inflows are relevant factor of decision making process of new investors interested in emerging markets. Also, authors compare the external position of individual countries by an average and volatility level with standard deviation in order to estimate the progress of achieving the external equilibrium. The data for this research is obtained from UNCTAD, WIR2020 and World Bank database.

4. RESEARCH RESULTS

4.1 The analysis of greenfield FDI inflows in selected EEEs

Ercegovic & Beker Pucar (2021) in previous research concluded that in the analyzed sample of EEEs, Visegrad States, especially Poland and also Romania received the most FDI inflows, which were positively correlated with substantial economic growth. In this section authors compare the average greenfield FDI inflows in time period (2008-2019) by individual countries as well as to country groups: Visegrad States, Baltic States, eleven EU member states and Western Balkans in Table 1. The received FDI inflows are relevant factor in decision making process for new investments because foreign investors monitor the macroeconomic conditions, business environment and investment trends in considered investment markets. Also, achieved investment volumes play the crucial role in process of government decisions on economic policy and measures for attracting foreign investments.

Table 1: Descriptive statistics of Greenfield FDI inflows in millions USD in selected EEEs (2008-2019)

Countries	Mean	Median	Minimum	Maximum
Poland	13.818,44	10.772,89	6.238,53	28.257,06
Czech Republic	3.673,00	3.405,87	2.115,38	6.180,37
Hungary	4.506,05	3.717,47	2.220,14	9.172,84
Slovak Republic	2.654,73	2.314,83	1.198,19	5.372,72
Visegrad States	6.163,05	3.821,16	1.198,19	28.257,06
Estonia	676,54	660,95	176,20	1.299,80
Latvia	753,88	588,86	249,55	2.477,61
Lithuania	1.116,25	1.064,99	526,44	2.034,39
Baltic States	848,89	779,46	176,20	2.477,61
Slovenia	406,17	422,93	136,71	643,11
Romania	9.365,87	6.872,71	3.876,78	29.113,14
Bulgaria	3.231,34	2.426,82	1.080,88	10.554,53
Croatia	1.266,00	895,23	381,49	2.849,44
11 new EU member states	3.769,84	2.051,16	136,71	29.113,14
Albania	419,48	127,07	12,03	3.457,48
Bosnia and Herzegovina	1.148,84	955,16	290,75	3.140,49

Montenegro	634,39	546,07	43,50	1.987,95
Serbia	4.038,67	3.923,76	1.976,53	6.699,13
North Macedonia	739,52	665,03	110,53	2.661,53
Western Balkans	1.396,18	793,13	12,03	6.699,13

Source: Authors calculation on the basis of yearly data from the UNCTAD, WIR2020
<https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>.

If we analyze average greenfield FDI inflows by individual countries we can observe that Poland had the highest average in analyzed sample of EEEs. Besides Poland, high levels of average greenfield FDI inflows, over 3 billion USD was recorded in Romania, Hungary, Serbia, Czech Republic and Bulgaria. The highest maximum level of received greenfield FDI inflows for the new EU member countries was placed in 2008 (e.g. see Romania, Poland and Bulgaria). In Western Balkan region, Serbia received the maximum level of greenfield FDI inflows in 2018, over 6.6 billion USD.

However, in analyzed sample there are countries that received a very small amount of average greenfield FDI inflows, less than 1 billion USD, like Estonia, Latvia, Slovenia, Albania, Montenegro and North Macedonia. In addition, Baltic States had the smallest average of greenfield FDI inflows, only 849 million USD. Western Balkans achieved better average compared to the Baltic States due to the received inflows in Serbia and Bosnia and Herzegovina. In investigated sample, Visegrad States raised the highest level of greenfield FDI inflows with average of 6 billion USD. The group of new EU member states had two times less average compared to the Visegrad group because of low levels of received investments in Baltic States, Slovenia and Croatia. In the next section authors analyze the related position of trading balance in GDP in selected sample.

4.2 The analysis of trade balance in GDP in selected EEEs

In the second part of the descriptive analysis (Table 2), the authors compare average external position along with standard deviation in selected EEEs for the time period (2008-2019). In previous section it was observed that Visegrad group had the highest level of received greenfield FDI inflows. On the basis of the descriptive results it can be emphasized that Visegrad States had average level of external balance in surplus (3.27%) in the period after the GFC. In particular, all countries in Visegrad group achieved positive level of average external balance over 1% GDP. Also, maximum level of external balance of countries in Visegrad group is very high 4-10%. On the basis of data obtained from the World Bank, authors find that maximum level of external position was recorded in Hungary in 2016 (10.08%), secondly in Czech Republic in 2016 (7.48%) and in Poland in 2019 (4.71%). Standard deviation, as the measure of volatility of observed variables compared to mean, gives relevant findings concerning instability of trade position by individual countries and country groups. Visegrad States had a very low percent of standard deviation that implies that external position of the group is stable, without major fluctuations.

Table 2: Descriptive statistics of trade balance in GDP in selected EEEs (2008-2019)

Countries	Mean	Standard deviation	Median	Minimum	Maximum
Poland	1,00	2,91	1,69	-5,04	4,71
Czech Republic	5,21	1,59	5,85	2,16	7,48
Hungary	5,85	2,52	6,24	0,37	10,08
Slovak Republic	1,29	2,36	1,75	-2,83	4,23
Visegrad States	3,27	3,46	3,75	-5,04	10,08
Estonia	3,27	2,53	3,93	-3,93	6,36
Latvia	-2,75	3,47	-1,46	-12,92	0,90
Lithuania	-0,30	3,97	1,06	-11,57	5,21
Baltic States	-0,31	4,37	0,19	-12,92	6,36
Slovenia	5,39	3,67	6,48	-1,93	9,66
Romania	-4,06	3,45	-3,64	-12,91	-0,44
Bulgaria	-1,76	6,39	-0,13	-19,76	4,31
Croatia	-0,29	2,90	0,11	-8,04	2,79
11 new EU member states	0,89	4,94	1,44	-19,76	10,08
Albania	-18,92	3,98	-18,34	-26,85	-13,67
Bosnia and Herzegovina	-20,88	4,74	-21,01	-32,47	-14,98
Montenegro	-25,45	8,95	-22,96	-53,30	-18,45
Serbia	-12,85	4,77	-10,78	-25,02	-7,45
North Macedonia	-17,69	3,55	-17,64	-25,12	-12,46
Western Balkans	-19,16	6,90	-18,51	-53,30	-7,45

Source: Authors calculation on the basis of yearly data from the World Bank database
<https://data.worldbank.org/country/>.

If we analyze the group of all new EU member states the average is substantially lower (only 0.89%, but still surplus) due to the weaker average external position of Baltic States that is in deficit (especially Latvia -2.75%), but also the average of Romania (-4.06%). The Western Balkan group of countries have continuous problem of current account deficit so the presented results are as anticipated. The average external position of Western Balkans is -19.16% with high standard deviation 6.9% that implies high volatility and relevant problem of trade imbalance. If we compare the external positions of Western Balkan countries it is evident that Serbia has the lowest trading deficit (-12.85%) with a lower standard deviation (4.77%) and considerable trend of decreasing the external disequilibrium. In 2016, Serbia's deficit was only -7.45%, while in 2019 it was slightly bigger -9.98%. This improvement in external position in Serbia might be linked with higher levels of received greenfield FDI compared to the other countries in Western Balkans. On the base of presented results it can be argued that high levels of received greenfield FDI could be related with a better trade balance in selected EEEs. This research question should be subject of the broader analysis with panel data techniques on the sample of EEEs.

5. CONCLUSION

The research goal of this paper was to identify the main locations for greenfield FDI inflows as well as to analyze related external balance in selected Emerging European Economies (EEEs) in order to suggest some implications towards economic policy creators in Western Balkans. The descriptive analysis results confirmed that Visegrad group had the highest level of received greenfield FDI inflows (6 billion USD) with the average level of external balance in surplus (3.27%) in the period after the GFC (2008-2019). In analyzed sample of EEEs, Poland had the highest average level of greenfield FDI inflows and was the most attractive location for foreign investors. Besides Poland, high volume of average greenfield FDI inflows (over 3 billion USD) was placed in Romania, Hungary, Serbia, Czech Republic and Bulgaria. All countries in Visegrad group had strong improvement and achieved positive level of average external balance over 1% GDP. Moreover, Visegrad States had a very low percent of standard deviation that implies a stable external position of the group, without significant oscillations. Western Balkan countries had significantly lower volumes of received greenfield FDI inflows with continuous problem of external balance deficit. Research results indicate that Serbia had the highest average level of greenfield FDI in Western Balkan group with gradually decreasing and less volatile trade balance deficit. On the base of presented findings it can be concluded that greater greenfield FDI inflows could be related with a favorable trade balance in selected EEEs. The suggested connection implies further research and verification using panel data approach in selected EEEs.

The received FDI inflows are relevant factor in decision making process for new investments because foreign investors consider the macroeconomic conditions, business environment and investment trends in interested markets. Also, achieved investment volumes plays the significant role in policy makers decisions over suitable measures for attracting foreign investments. Having in mind presented results and positive effects of significant greenfield FDI inflows given in the existing literature, we suggest that Western Balkan countries should implement adequate measures to attract greater greenfield FDI inflows in order to stimulate export oriented production, sustainable development and real convergence towards developed European economies. Also, adequate incentives for foreign investors to substitute imports with local suppliers should be an important part of a national development strategy.

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