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

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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).

Quelle: wiiw FDI Database.
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

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Maximum regional intensity
Share of manufacturing and advanced services projects in Hungarian regions

- Share of manufacturing 2005-2008
- Share of advanced services 2005-2008
- Share of manufacturing 2009-2012
- Share of advanced services 2009-2012

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Number of large investment projects supported by “individual government decision”
Hungary: Number of relocation and non-relocation greenfield projects (Sass & Hunya 2014)
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

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### 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

<table>
<thead>
<tr>
<th></th>
<th>2005-2008</th>
<th>2009-1012</th>
<th>Change in number, %</th>
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<tbody>
<tr>
<td><strong>Total number of projects</strong></td>
<td></td>
<td></td>
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<tr>
<td>Low-aid regions</td>
<td>72.2</td>
<td>69.4</td>
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<td>High-aid regions</td>
<td>27.8</td>
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<td><strong>Total job creation</strong></td>
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<tr>
<td>Low-aid regions</td>
<td>62.2</td>
<td>57.5</td>
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<tr>
<td>High-aid regions</td>
<td>37.8</td>
<td>42.5</td>
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<tr>
<td><strong>Number of manufacturing projects</strong></td>
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<tr>
<td>Low-aid regions</td>
<td>64.6</td>
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<td>High-aid regions</td>
<td>35.4</td>
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<td><strong>Number of advanced services projects</strong></td>
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<tr>
<td>Low-aid regions</td>
<td>83.6</td>
<td>79.6</td>
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<tr>
<td>High-aid regions</td>
<td>16.4</td>
<td>20.4</td>
<td>38</td>
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</tbody>
</table>
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.