FDI AS A FACTOR FOR REGIONAL DEVELOPMENT WITHIN THE EU

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Abstract: Foreign direct investment (FDI) is an economic phenomenon that has been widely examined by numerous authors in a variety of different aspects. They are considered to be a key factor for generating economic growth in different countries or in specific regions. They could also be of significant importance to the processes of convergence between different countries, or regions within a country. At the same time there are cases where studies show they have negative influence on the processes of generating growth or convergence. One of the core ideas of the European Union (EU) is to correct imbalances between its regions. The concept of convergence is related to the regional development, assisted by purposeful steering of capitals in different countries and regions in order to generate growth there. The following paper aims to examine the role of FDI in the regional development within the EU. The methodology included consists of conceptual analysis of the FDI potential to influence the regional development processes within the EU, backed up by empirical data for the inward FDI flows and the funds provided by the European structural investment funds, focusing on the European regional development fund. The methods used for the purposes of the analysis are correlation analysis, historical and comparative analysis, inductive and deductive approach. Result of the conducted analysis show that despite the proven potential of FDI to have positive influence on the regional development (and respectively convergence) processes, within the EU, there is evidence that they don't work as effective. Correlation analysis finds that there is even inverse correlation between the inward FDI flows and the distributed capitals via the fund for regional development. We can conclude that despite the fact FDI does bring positive influence regarding regional development, convergence and growth in general, it could actually have minor, or even negative effect on these processes for some of the participants in them. The logical explanation for it is the lag in time, on the one hand, due to the long-term character of the FDI and related to them effects on the economies in the recipient countries, but also the level of development and specific characteristics of the economies of these countries, on the other. All this comes to show the fact that EU institutions and policy makers have future work and efforts to put in this direction, in order to accomplish the goals, set in the future time frames for regional development and convergence within the community. All of the above presented matter, shapes guidelines for future work of scientific character as well as the one on institutional level, underlining the importance and necessity of such studies at a national and supranational level among the member-states of the Union.
Keywords: FDI, regional development, EU, convergence

1. INTRODUCTION

Recent global events of economic, political and social character have shown that despite the presence of various supranational institutions responsible for dealing with different crisis situations in this regard, practically most countries are still quite vulnerable. What is worth mentioning is the fact that different countries (economies) handle these situations differently, and the main reason for that is the inequality in their development level. The European Union and its member states are not an exception from this trend. Despite all policies and efforts put in order to promote regional development and thus accomplish convergence between countries and regions within the community, we can still observe the inequality among the EU members (core and periphery).

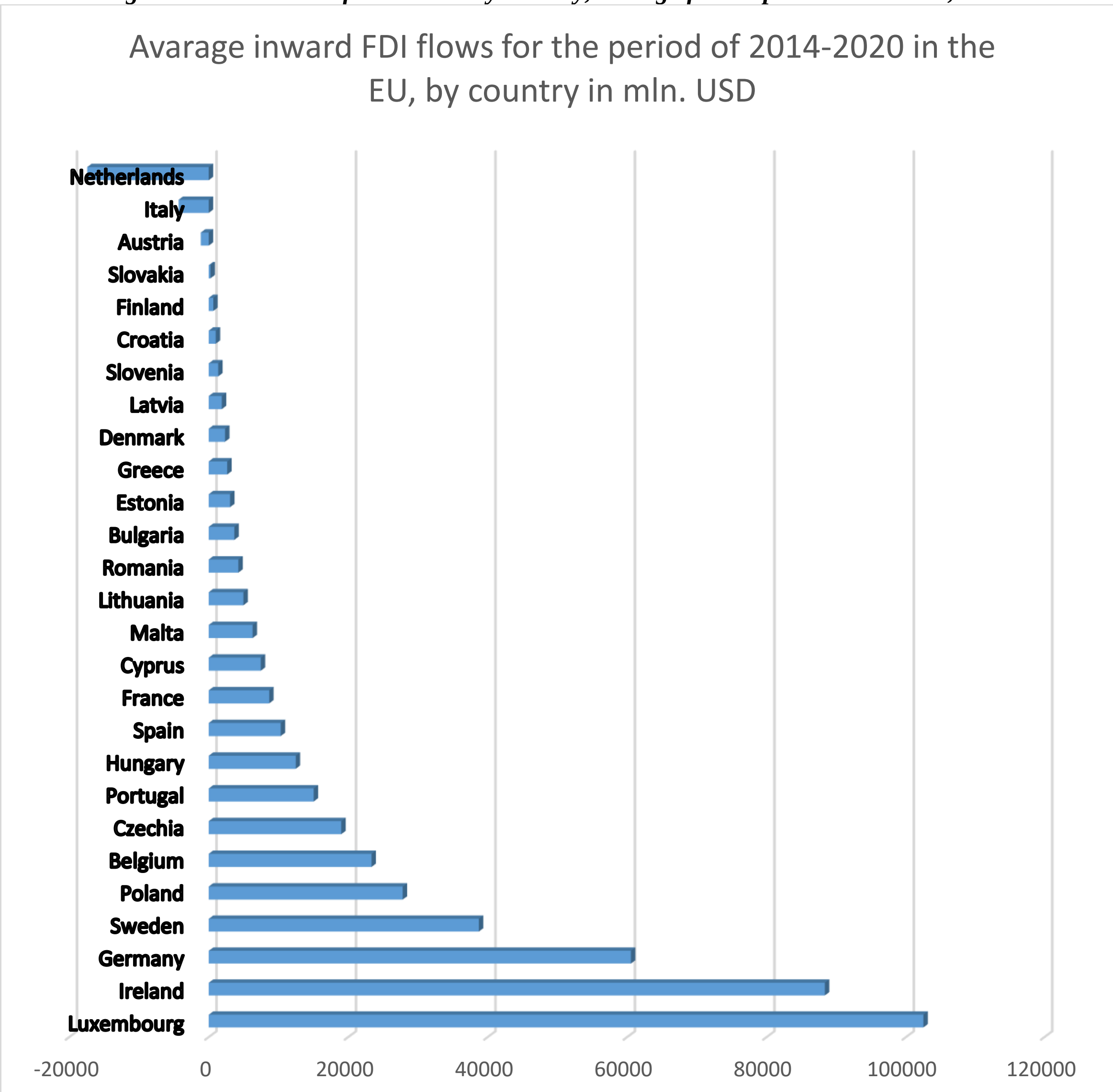
At the same time foreign direct investment are known to be one of the key factors for generating growth, especially in developing countries, whose characteristics are typical for countries that stay behind economically within the EU. Various studies have shown that FDI can bring positive effects on the economies of recipient countries, thus generating convergence between different regions within a country, or between different countries.

The two aforementioned moments shape up the core idea of the current paper – examining FDI as a factor for regional development within the EU. Considering the fact that regardless of the conceptional statements regarding FDI, EU regional development policies, EU funds and convergence processes, we still observe inequality among member-states and ineffective policies to attract FDI and gain positives from it.

2. MATERIALS AND METHODS

In order to examine the role of FDI regarding regional development within the EU, we use the following methods and instruments – conceptual analysis, historical and comparative analysis, inductive and deductive approach and linear correlation analysis (Nesselroade Jr., Grimm, 2018).

Figure 1: Inward FDI flows in EU by country, average for the period 2014-2020, USD million

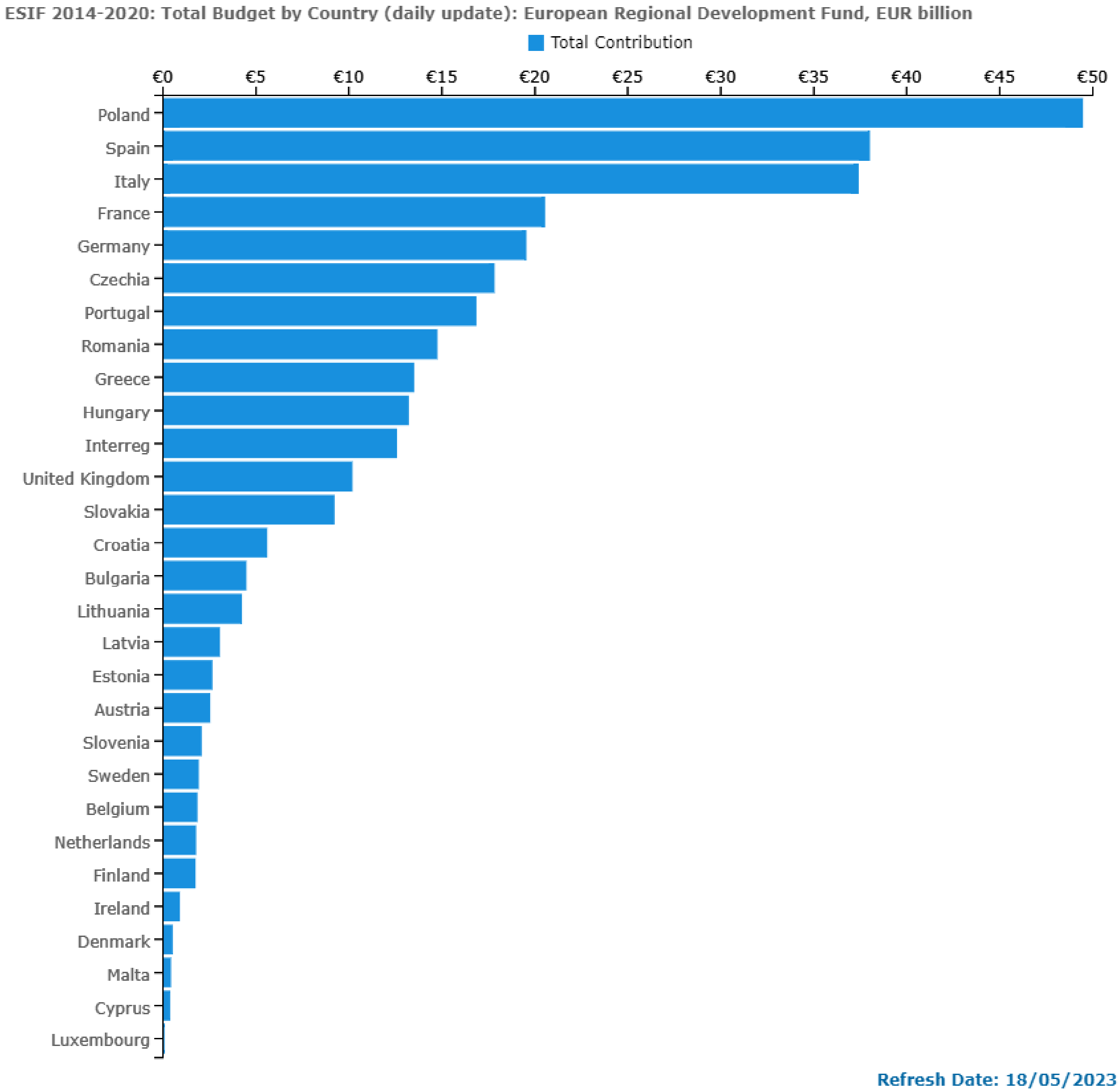


Source: Author's figure based on data of UNCTAD: https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx, 19.05.2023.

The data on Figure 1 shows the average FDI inflows in the EU countries for the period 2014-2020. We can observe that most of the capitals flow towards countries with grater development level, qualified labor force, good transport and communication infrastructure, stable business and political environment. Countries like Italy, Austria and the Netherlands tough, show outflow of FDI. We can explain that mainly as a result of the negative effects that came along with the measures countries took to counter the COVID-19, as well as other factors with political and economic character. However, the reasons for the FDI distribution among EU countries are peripheral to the study. We put the focus on the relation between the FDI flows and the capitals distributed by the ERDF mechanisms for the same time period.

The displayed data in Figure 2, shows the funds distribution by the European regional development fund (ERDF) for the period 2014-2020. The numbers show that countries like Poland, Spain, Italy and France are most efficient in funds absorption, while others like Luxemburg, Cyprus, Malta and Denmark are not doing good work in this regard and are at the bottom of the ranking. Here we can also consider the degree of anti-COVID measures affect, as well as the maturing war conflict between Russia and Ukraine, that took place roughly a year later, taking into account the fact that Poland is a "hot spot" being in the role of border between the EU and the conflict area.

Figure 2: ESIF 2014-2020: Total Budget by Country European Regional Development Fund, EUR billion



Source: Cohesion open data platform: https://cohesiondata.ec.europa.eu/funds/erdf/14-20, 18.05.2023.

The displayed data in Figure 2, above, shows the funds distribution by the European regional development fund (ERDF) for the period 2014-2020. The numbers show that countries like Poland, Spain, Italy and France are most efficient in funds absorption, while others like Luxemburg, Cyprus, Malta and Denmark are not doing good work in this regard and are at the bottom of the ranking. Here we can also consider the degree of anti-COVID measures affect, as well as the maturing war conflict between Russia and Ukraine, that took place roughly a year later, taking into account the fact that Poland is a "hot spot" being in the role of border between the EU and the conflict area.
The thing we put the stress tough, is the fact that there is no clear proportional dependence between the inward FDI flows and the absorbed funds via the ERDF. While some countries do lead the rankings in both (inward FDI and absorbed funds), such as Poland, Germany, Czech Republic, Portugal, at the same time, other countries are at the top on the one ranking and at the bottom of the other – Luxemburg, Ireland, Belgium. Other economies reveal values close to the average for both indicators, such as Estonia, Bulgaria, Latvia. The linear correlation coefficient between the two indicators even testifies for weak negative (reverse) correlation. The linear correlation coefficient between

the inward FDI and ERDF absorbed capitals is equal to -0.012, which even testifies for weak, negative correlation between the two magnitudes.

One the one hand, we can explain that with the fact that it is logical for the EU to steer funds to countries that are behind economically due to crisis situations or other reasons. We could explain the reverse correlation between the inward FDI and the absorbed ERDF funds to a great extend with that fact. At the same time though, this should lead to the desired convergence as a result of the development of the regions that assimilate more of the funds. It's logical for such trend to have lag in time due to the fact that regional development is a continues process, and also considering the long-term character of FDI. Of course, we should take into account the variety of factors influencing the processes of international capitals distribution. The choice of destination for FDI realization remains a very complex process, influenced by a variety of factors such as macroeconomic, political, cultural, including effects that are a result of actions with purely speculative character.

3. RESULTS AND DISCUSSIONS

Despite the fact that in the theoretical models for FDI, the stress is put on the growth of the company (the investor), they also include the concept of generating growth in the recipient country. FDI also are studied as a significant factor in the economic growth theories. Investments are a key factor of the economic growth, identified from the neoclassical model, as well as the endogenous growth model (Petrakos, 2008).

Besides the purely financial part FDI, expressed in the inward capital flows, they bring other growth and development factors which can be as important as the capital itself. Such factors are new technologies, managerial skills, qualified labor force, access to big markets and established brands (UNCTAD, 1999). These assets often have key role for the development of the national economy of the recipient country.

The discussion on the effects of FDI on the regional development and integration processes remains unsolved. Numerous authors analyze their influence based on case studies and different countries or regions. On the one side is the statement that FDI could lead to divergence in certain regions, and on the other, the opposite – they are the potential key factor for fixing inequalities in the development and welfare levels.

Empirical researches show that FDI could influence regional development and integration processes both positive and negative. Some authors argue that even if they have positive effect on the growth, FDI could still lead to divergence between different regions and economic sectors in a country (Basu, Guargila, 2007). At the same time other studies find that FDI do not relate to the differences in the income levels in different regions and do not generate divergence in countries with lower level of development, while generating growth at the same time (Sylwester, 2005). Comparative analysis of the EU member states finds that as a result of the technological transfer as an FDI effect, specific region or the entire country increases its competitiveness which leads to convergence (Copenhagen Economics, 2006).

We should take into consideration the factors that define the positive, or respectively the negative effects on the upper mentioned process, as a result of FDI. As a key factor could be listed the specific characteristics of a given region (Resmini, Casi, 2012). Some of the most important determinants for FDI attractiveness are the presence of good infrastructure, high qualified workforce, developed communication technologies. Other authors find that the regional dispersion of FDI is strongly influenced by the human capital and the economic stability (Dornean, Oania, 2015). This shows that the successful absorption of capitals trough the ERDF in a given region, could increase its attractiveness for FDI.

Taking into account the role and character of the ERDF on the one side, and the above-mentioned specifics of the FDI on the other, we should consider the two-way influence between them. On the one hand ERDF could increase the attractiveness of a country (region) for foreign investment. On the other, the afore mentioned effects of FDI cold improve the environment for better assimilation of the funds, distributed via the EU institutions. This gives ground to study the potential synergetic effect between the two factors of growth and integration within the EU.

The results of the current study show that there is a lack of proportional dependence between the funds, distributed via the ERDF and the inward FDI for the 2014-2020 time period within the EU. This trend rises additional questions in regard of time lag, and effectiveness of the policies held by the EU institutions and of local governments as well. IF we accept the idea for potential synergetic effect between the afore mentioned factors of growth and convergence, in the path of European integration processes, we have to underline the need of additional work policy makers have to put in this direction. We believe that neither the current study, nor the above-mentioned researches, as part of the discussions, can confirm or deny completely the interdependence and effects of FDI and EU funds for regional development.

4. CONCLUSION

We can outline at least a few moments of key importance in conclusion, as a result of the above presented matter. FDI are an economic phenomenon that brings the potential for growth generation and convergences among countries all over the world, including the EU member-states. At the same time the attraction of foreign capitals that could have the wanted positive effects in this regard remains an uneasy task, as the study shows. There are cases they can even lead to divergence in some countries or regions.

The analysis performed in this study, found that there is negative correlation between the inward FDI and the capitals absorbed by the ERDF. Despite that fact, we can assume that sealing the potential for synergetic effect between the two factors could lead to better results in the context of regional development in the European Union. For the moment though, this remains a challenge, presenting numerous obstacles, shaping up guidelines for future work of scientific and institutional character within the EU.

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