Promoting foreign investments through EU funds in the European peripheries: the case of the automotive sector

Gergő Medve-Bálint
Center for Social Sciences - Hungarian Academy of Sciences
Corvinus University of Budapest

Vera Šćepanović
European University Institute

Annual Conference of the
Hungarian Regional Science Association

20 October 2017

Mosonmagyaróvár, István Széchenyi University
1) Domestic developmental agency vs. globalization

**Economic globalization**

- Growing economic and political significance of transnational capital
- Increased bargaining power of transnational investors over peripheral and semi-peripheral states
- Limited domestic policy space for pursuing autonomous development/industrial policy

Also opens new opportunities for autonomous development policies but those depend on domestic **state capacities**
Theoretical background – combination of two literatures (2)

2) Domestic developmental agency vs. Transnational integration regimes

Transnational integration regimes
(like the European Union)

- Setting common regulatory frameworks for members
- Limiting domestic policy space
- Limit transnational economic pressures
- Provide additional resources for member states
- Create new opportunities of which utilization depends on domestic state capacities
Translating the theory to empirics – transnational industrial policy

Transnational’ industrial policy in the European Union

- Competition policy applies uniform state aid rules
  - Limits investment competition among member states

Common legal framework raises national governments’ bargaining power against foreign investors

Funds from **cohesion policy**: external resources for member states to spend on domestic development objectives

State capacity may determine how these opportunities are utilized
Eastern European EU members: a case for observing transnational industrial policy

**Automotive industry**
- Key in the recent economic development of Eastern Europe
- Strongly dominated by foreign investors
- Foreign firms are the main target of investment incentives

**Case selection – most similar cases:**

**Poland**
- *Medium-strong state capacity*
- Key role of automotive industry in the domestic economy
- Generous incentive schemes

**Romania**
- *Low state capacity*
- Key role of automotive industry in the domestic economy
- Generous incentive schemes
Government effectiveness and regulatory quality in Poland and Romania (2003-2015)

Source: authors’ own calculation, based on WGI data
General research question:
How does state capacity affect transnational industrial policy in the EU’s Eastern periphery?

Specific research question:
How do differences in state capacity influence the use of EU funds in promoting automotive investments in Poland and Romania?

Hypothesis:
Higher state capacity $\rightarrow$ greater ability to resist pressure from foreign investors $\rightarrow$ more diversified and inclusive industrial policy (domestically owned companies receive more EU grants than foreign ones)

We expect variation in fund distribution by firm ownership according to level of state capacity

Data sources:
Automotive firms’ financial data combined with EU fund beneficiaries in Poland and Romania (2007-13 funding period)
### Key characteristics of the Polish and Romanian automotive industry

<table>
<thead>
<tr>
<th>Country</th>
<th>Type of ownership</th>
<th>Number of firms</th>
<th>Employees</th>
<th>Share (%) from total employees</th>
<th>Total operating revenue (mn EUR)</th>
<th>Share (%) from total operating revenue</th>
<th>Operating revenue/employee (mn EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Poland</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>foreign</td>
<td>346</td>
<td>200,927</td>
<td>81.03</td>
<td>38,569</td>
<td>90.40</td>
<td>0.192</td>
</tr>
<tr>
<td></td>
<td>domestic</td>
<td>856</td>
<td>47,033</td>
<td>18.97</td>
<td>4,098</td>
<td>9.60</td>
<td>0.095</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>1,202</td>
<td>247,960</td>
<td></td>
<td>42,666</td>
<td></td>
<td>0.175</td>
</tr>
<tr>
<td><strong>Romania</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>foreign</td>
<td>224</td>
<td>193,171</td>
<td>86.38</td>
<td>19,222</td>
<td>92.41</td>
<td>0.100</td>
</tr>
<tr>
<td></td>
<td>domestic</td>
<td>554</td>
<td>30,460</td>
<td>13.62</td>
<td>1,579</td>
<td>7.59</td>
<td>0.057</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>778</td>
<td>223,631</td>
<td></td>
<td>20,802</td>
<td></td>
<td>0.094</td>
</tr>
</tbody>
</table>

Source: the authors’ own calculation from EMIS and D&B databases
### EU funding for the automotive industry in Poland and Romania (2007-13 budget period)

<table>
<thead>
<tr>
<th>Country</th>
<th>Type of ownership</th>
<th>Number of automotive firms receiving EU funds</th>
<th>Share of firms (%) from total</th>
<th>Number of employees in funded firms</th>
<th>Number of funding contracts</th>
<th>Total EU funding (mn EUR)</th>
<th>EU funding per contract (mn EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Poland</strong></td>
<td>foreign</td>
<td>52</td>
<td>15.03</td>
<td>54,937</td>
<td>81</td>
<td>196.86</td>
<td>2.43</td>
</tr>
<tr>
<td></td>
<td>domestic</td>
<td>128</td>
<td>14.95</td>
<td>20,330</td>
<td>326</td>
<td>67.34</td>
<td>.21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>180</strong></td>
<td><strong>14.98</strong></td>
<td><strong>75,267</strong></td>
<td><strong>407</strong></td>
<td><strong>264.20</strong></td>
<td><strong>.65</strong></td>
</tr>
<tr>
<td><strong>Romania</strong></td>
<td>foreign</td>
<td>33</td>
<td>14.73</td>
<td>47,361</td>
<td>46</td>
<td>66.99</td>
<td>1.46</td>
</tr>
<tr>
<td></td>
<td>domestic</td>
<td>54</td>
<td>9.75</td>
<td>17,006</td>
<td>87</td>
<td>80.29</td>
<td>.92</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>87</strong></td>
<td><strong>11.18</strong></td>
<td><strong>64,367</strong></td>
<td><strong>133</strong></td>
<td><strong>147.28</strong></td>
<td><strong>1.11</strong></td>
</tr>
</tbody>
</table>

Source: the authors’ own calculation based on the automotive dataset
Some of the funded companies:

- RENAULT
- Continental
- PIRELLI
- DELPHI
- LEAR CORPORATION
- MICHELIN
- Ford
- General Motors
- Bridgestone
- MAN
- SANDEN
- Panasonic
- Volkswagen
- Faurecia
- BorgWarner

MRTT Conference
20 October 2017
Distribution of total EU funding per employee (logged)
### Logistic regression (DV: received EU funds or not)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm size (Operating revenue or employees)</td>
<td>+</td>
</tr>
<tr>
<td>Productivity (Operating revenue per employee)</td>
<td>Ø</td>
</tr>
<tr>
<td>Age of firm (Year of incorporation)</td>
<td>Ø</td>
</tr>
<tr>
<td>Supplier</td>
<td>-</td>
</tr>
<tr>
<td>Foreign firm</td>
<td>-</td>
</tr>
<tr>
<td>Country</td>
<td>Ø</td>
</tr>
<tr>
<td>Country * foreign firm</td>
<td>Ø</td>
</tr>
</tbody>
</table>

### Selection model, second stage (DV: EU funds per employee)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm size (Operating revenue or employees)</td>
<td>-</td>
</tr>
<tr>
<td>Productivity (Operating revenue per employee)</td>
<td>+</td>
</tr>
<tr>
<td>Age of firm (Year of incorporation)</td>
<td>Ø</td>
</tr>
<tr>
<td>Supplier</td>
<td>Ø</td>
</tr>
<tr>
<td>Foreign firm</td>
<td>Ø</td>
</tr>
<tr>
<td>Country</td>
<td>Ø</td>
</tr>
<tr>
<td>Country * foreign firm</td>
<td>Ø</td>
</tr>
</tbody>
</table>
Mean company funding per employee by type of ownership

- **Foreign**
  - Poland: 5610 euro
  - Romania: 5919 euro

- **Domestic**
  - Poland: 10881 euro
  - Romania: 11700 euro
Conclusions

- Both countries demonstrate empirical evidence for a transnational industrial policy practiced through EU funds:
  - domestic firms are more likely to receive funding
  - mean company funding per employee is higher for domestic firms (although statistically not different from the mean of foreign firms)
  - lack of preferential treatment of foreign firms in the size of funds

- There is also some evidence for foreign firms’ influence in both countries:
  - firm size is positively related to the likelihood of getting funded
  - funding per project is higher in the case of foreign firms

- Lack of empirical support for the hypothesis on state capacity

Puzzle: Romania channels more than half of automotive EU funds to domestic companies while Poland gives 75% to foreign firms. Why?
Thank you for your attention!

Medve-Balint.Gergo@tk.mta.hu
Vera.Scepanovic@eui.eu