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

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Theoretical background – combination of two literatures (1)

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**

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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**

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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

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Eastern European EU members: a case for observing transnational industrial policy

Fierce competition for foreign capital

Greatest beneficiaries of EU funds

Dependent market economies

Deep integration mode (external capacity building)

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

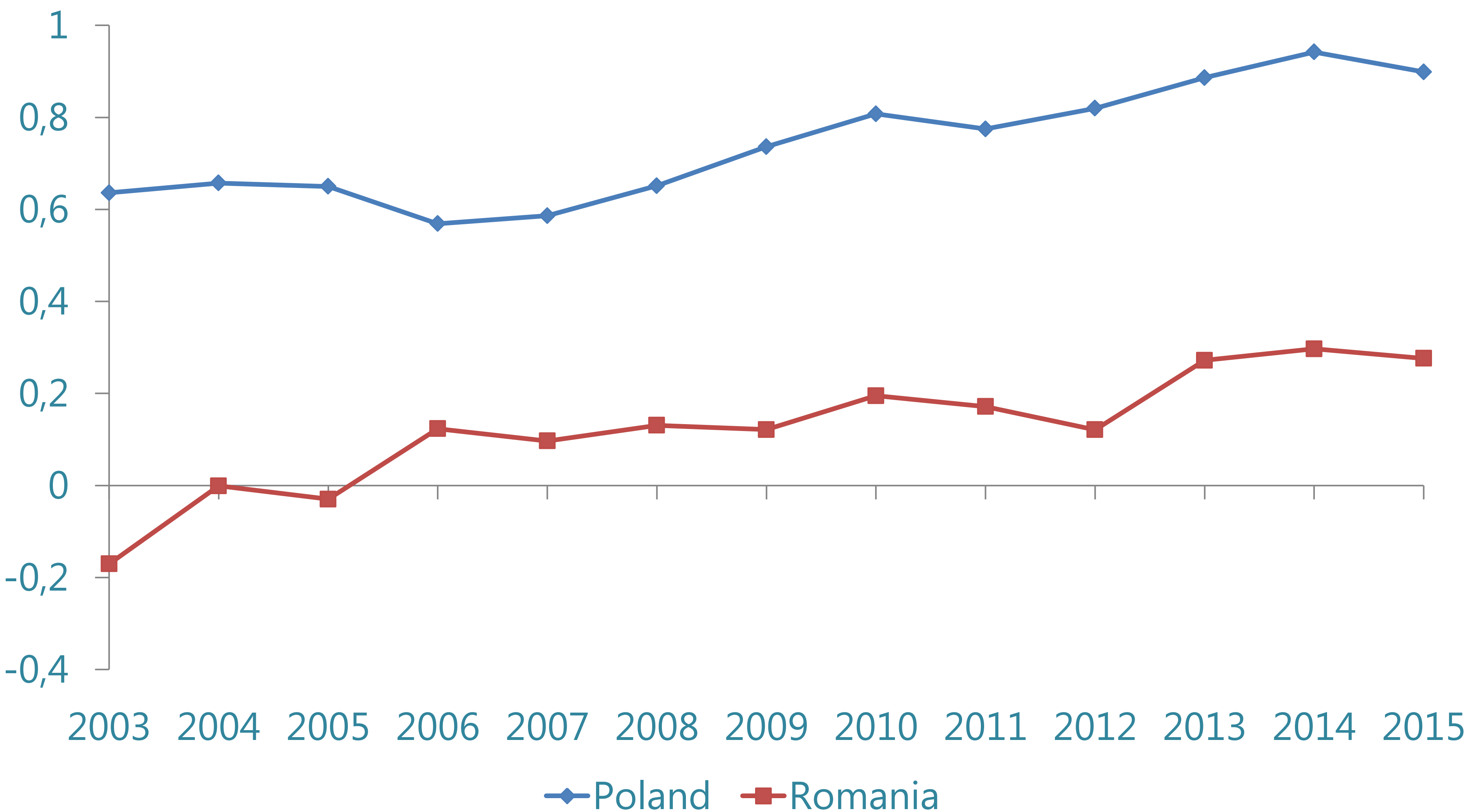
Romania

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

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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 → greater ability to resist pressure from foreign investors → 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)

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Key characteristics of the Polish and Romanian automotive industry

Country	Type of ownership	Number of firms	Employees	Share (%) from total employees	Total operating revenue (mn EUR)	Share (%) from total operating revenue	Operating revenue /employee (mn EUR)
Poland	foreign	346	200,927	81.03	38,569	90.40	.192
	domestic	856	47,033	18.97	4,098	9.60	.095
Total		***1202***	***247,960***		***42,666***		***.175***
Romania	foreign	224	193,171	86.38	19,222	92.41	.100
	domestic	554	30,460	13.62	1,579	7.59	.057
Total		***778***	***223,631***		***20,802***		***.094***

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)

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

Source: the authors' own calculation based on the automotive dataset

RENAULT

Continental

PIRELLI

DELPHI Automotive Systems

LEAR CORPORATION

MICHELIN

Ford

GM General Motors

Volkswagen

KIRCHHOFF AUTOMOTIVE

BRIDGESTONE

MAN

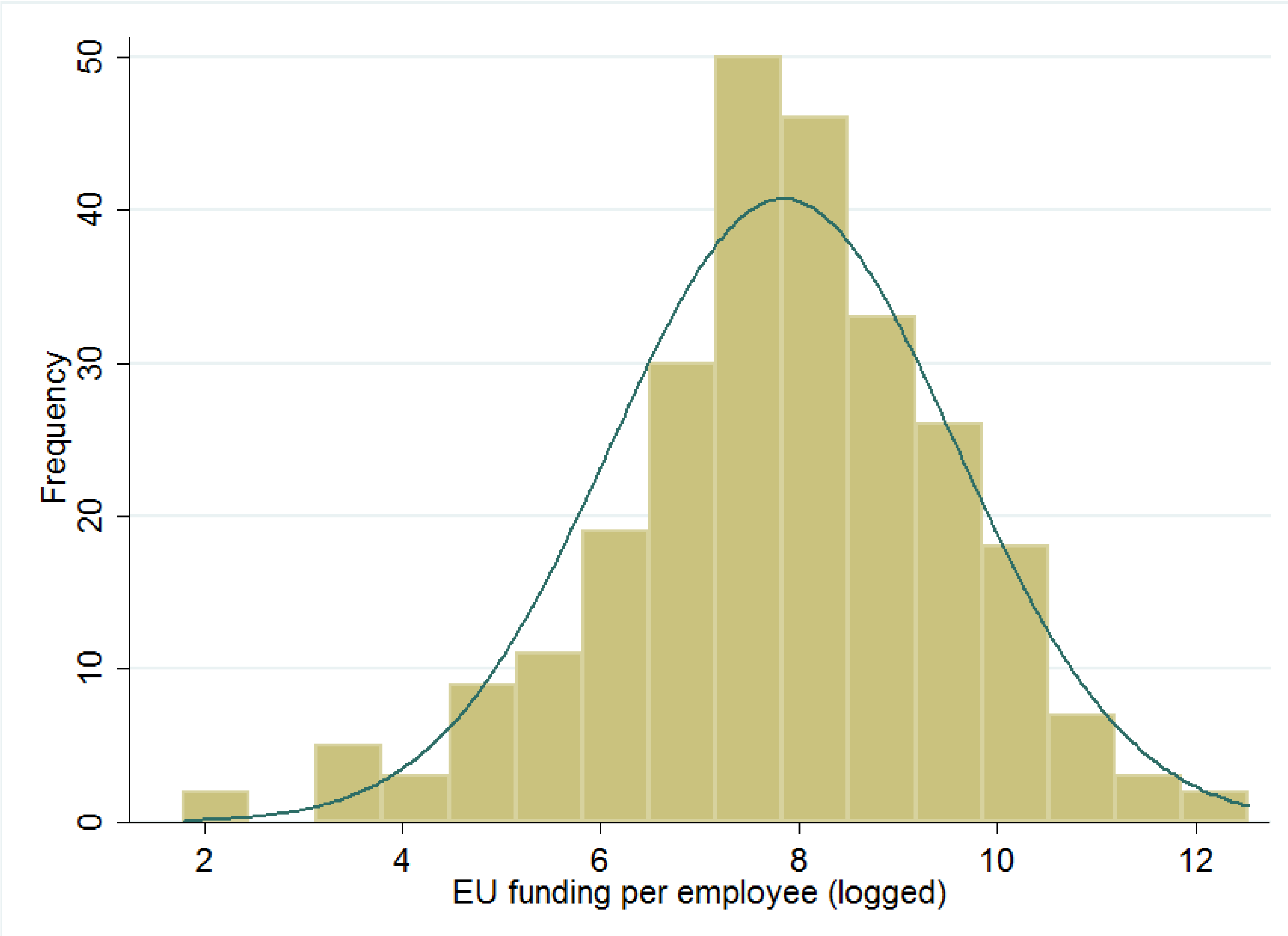
faurecia inspiring mobility

SANDEN

BorgWarner

Panasonic

Distribution of total EU funding per employee (logged)



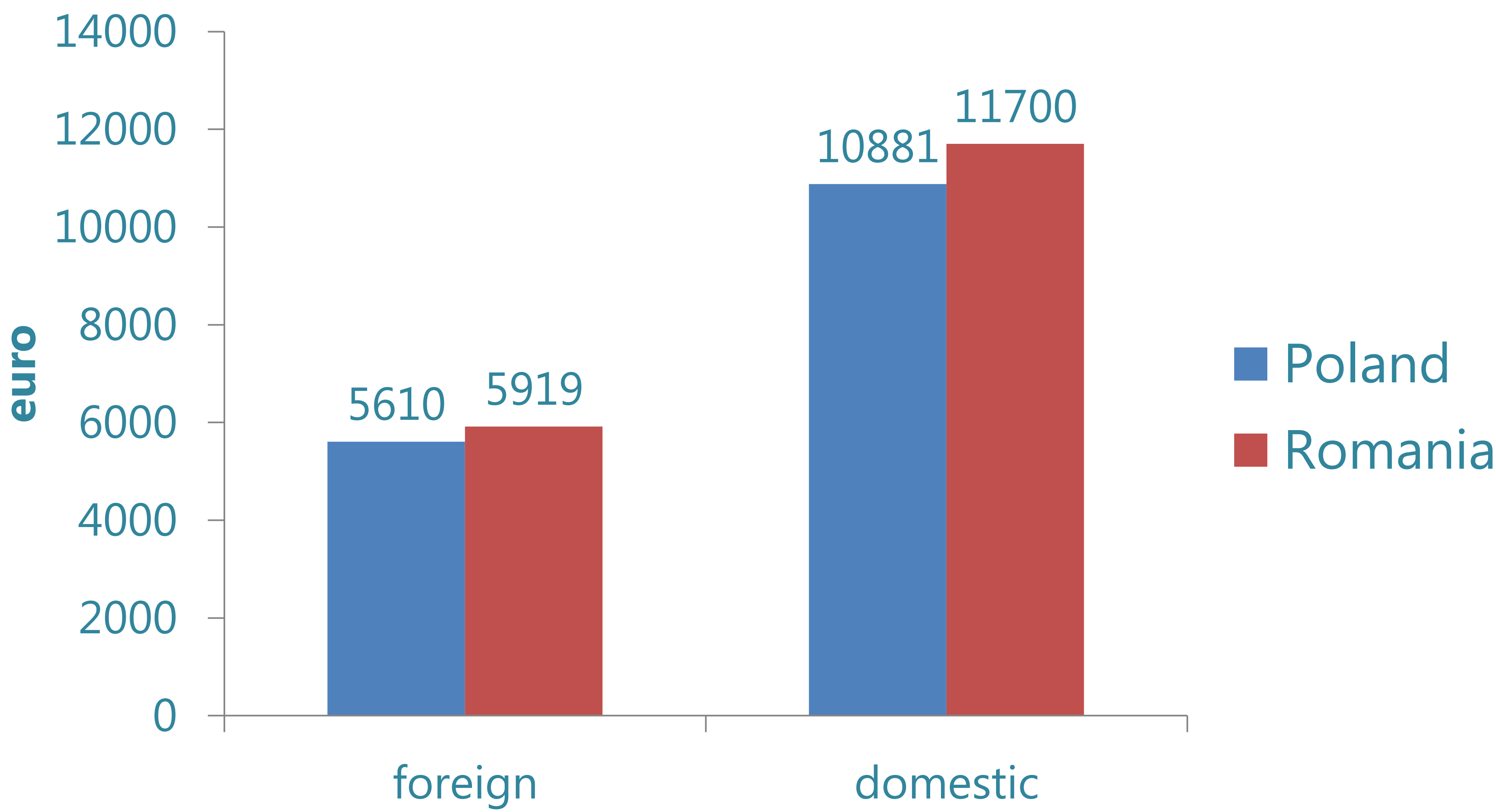
Logistic regression (DV: received EU funds or not)

Firm size (Operating revenue or employees)	**+**
Productivity (Operating revenue per employee)	Ø
Age of firm (Year of incorporation)	Ø
Supplier	**-**
Foreign firm	**-**
Country	Ø
Country * foreign firm	Ø

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

Firm size (Operating revenue or employees)	**-**
Productivity (Operating revenue per employee)	**+**
Age of firm (Year of incorporation)	Ø
Supplier	Ø
Foreign firm	Ø
Country	Ø
Country * foreign firm	Ø

Mean company funding per employee by type of ownership



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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!

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