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FDI Blessing — How Is It Recognized by Local Communities? — A Comparative Study of Slovenia and Serbia

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Additional information is available at the end of the chapter

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Abstract

Foreign direct investments play a vital role in generating economic growth. National governments as well as local communities therefore need an appropriate strategy for attracting foreign direct investments on the one hand and maximizing their benefits on the other.

In the proposed chapter, authors discuss the development and effects of foreign direct investments on local communities of Slovenia and Serbia. Based on data gathered through a questionnaire, a comparative statistical analysis was used to find stylized facts, which could be a sign of a different stage of transition in both countries. The study was conducted at the end of 2014, and the sample consists of 66 communities from Slovenia and 61 communities from Serbia. The study proves that the more progressive path of transition in Slovenia was not offset by a significantly higher level of foreign direct investment activities. In both countries, however, foreign direct investments proved to have mostly positive effects on the economic development of the local communities concerned.

Keywords: FDI, local communities, transition

1. Introduction

Despite several issues and European governments' reluctance to follow it, the EU Directive on takeovers (see [1]) by now has been somehow embedded into real policy. It has become clear

that industry consolidation encompasses technical development requires capital liberalization. In this respect, it is no wonder that the literature dealing with pros and cons of the FDI and especially C-B M&A has become less frequent.

When local communities are concerned, the FDI economic effect in principle should not differ from the national economy. Despite the threats, they should mostly represent the chance for the economy's competitiveness and technological development in the sectors concerned (see [2-6]). Due to the fact that local communities usually possess only few instruments to steer the FDI and control its effects, the outcomes of foreign investment can very much differ between the regions. It is the fact that here regions orientated toward basic industries (raw materials, energy) can be subject to excessive degradation of the environment and social structure. On the other hand, the regions with sectors that are subject to industry consolidation can mostly expect positive effects similar to those valid for national economy. Evaluated for the USA, the effects of FDI at the local level proved quite differentiated (in [7]). While country wages have grown essentially, the effects on spending were not one-sided: foreign employment led to declines in per capita revenues and expenditures at the country level. At the same time, there was a considerable redistribution of the country's expenditures away from public school funding and toward transportation and public safety.

The following chapter first presents main transition features that are connected to FDI and FDI environment in both countries serving as an example (Slovenia and Serbia). The third part brings methodology and data used for analysis also presenting the sample as well as the poll conducted by the authors in responding local municipalities in Slovenia and Serbia. The conclusions offer a summary of results and concluding remarks.

2. Main transitional features of Slovenia and Serbia

Reaching 82% of the EU GDP per capita level according to PPS in 2002, Slovenia was by far the most developed former communist country in Europe, as well as in the world. This was firstly a consequence of relatively favorable economic history that this country had experienced. Here we first mean the fact that until the outbreak of World War I, Slovenia shared the central European model as a part of Austria. This economic tradition has remained an advantage in ante- and postbellum Yugoslavia, where Slovenia maintained its leading position having a rather large internal market offering stable demand and at the same time offering weak competition. Namely, through the centuries, the other former republics of former Yugoslavia shared less efficient models of economic development such as Hungarian model (Croatia) or the Ottoman model (other parts of former Yugoslavia).

Slovenia succeeded in avoiding the Balkan conflict in the 1990s, and since the decay of Yugoslavia, it has exercised a gradualist approach to transition. A lack of political will for change and half-hearted reforms, however, together with the financial and economic crisis, which actually lasted from 2009 to 2013, has gradually dethroned Slovenia as the leader of the pack of transition countries. In 2013, it was eventually caught by Czech Republic, with Slovakia and the Baltic countries clearly converging.

	2002	2007	2013	2014	Index 2014 2002 = 100
Czech Republic	74	84	82	83	112
Estonia	48	69	73	74	154
Lithuania	43	61	73	75	174
Hungary	60	61	66	68	113
Poland	47	69	67	70	149
Slovakia	53	67	75	76	143
Slovenia	82	87	82	84	102

Source: (in [8]).

Table 1. Catching up with the EU 28 (2002–2014)—indexes, average EU = 100

Table 1 shows that in 2014, Slovenia somehow recuperated its leading position, although the developments in the past 12 years demonstrate the negative consequences of gradualism and a lack of political will for developing a full-fledged market economy. On the other side, a remarkable progress has been made by Lithuania and Estonia, followed by Poland and Slovakia. These developments in a way also demonstrate the obvious presence of a “middle income trap,” especially when considering developments in Slovenia and Czech Republic. Nevertheless, as seen from the Czech example, the arrears that Slovenia has been heading to are a consequence of less appropriate transitional measures as described above.

Following the topic of this chapter, it is relevant to check the FDI inflow compared with select transition countries. As seen in Table 2, the Slovenian art of transition also consisted of a reluctant opening toward foreign capital, thus also indirectly explaining the arrears that Slovenia has demonstrated after a favorable start in the nineties.

Czech Republic	Croatia	Estonia	Serbia	Slovakia	Slovenia
32.2	38.9	79.8	59.9	31.0	12.4

Source: (in [8]).

Table 2. FDI, net inflows (% of GDP), average 2005–2014

Soon after the beginning of the 1990s Balkan conflict, Serbia became a constituting part of the Federal Republic of Yugoslavia (founded in 1992), consisting also of Montenegro, which, however, declared independence in 2006. For the first part of this period, Serbia was subject to political and economic sanctions (lifted in 1995 after the Dayton Accords, peace agreement, was signed). These sanctions have influenced trade flows, FDI, bank transfers, access to international financial markets, membership in international organizations, general inflow of information, and free travel abroad. A sharp decrease in economic activity was marked in 1992

with an inflation rate expressed in trillions of index points. Numerous restrictive measures and sanctions toward the FRY are brought by the EU came in force again in 1998 following the crisis, which arose in Kosovo and Metohia, and were gradually abolished only after political changes in October 2000. In such an environment, it is not surprising that the transition in Serbia is still in its decisive phase. This can also be seen from select comparative data presented in Table 3 below.

	Czech Republic	Croatia	Estonia	Serbia	Slovakia	Slovenia
GDP/capita PPS, EU = 100 (2013)	82	61	73	37	75	82
Unemployment 2014	6.1	17.0	7.4	16.8*	13.2	9.8
Trade balance as % GDP (2008–2013)	–0.85	–16.9	–5.2	–16.1**	1.0	–1.6
Gross fixed capital formation, % GDP 2008–2013	28.2	22.3	25.8	20.0	22.6	22.4

Sources: (in [9–10]).

Table 3. Recent economic developments in chosen transition countries

The EU Agreement on Stabilization and Association with Serbia was signed in April 2008 together with the Interim Agreement on Trade and Trade Related Matters. The Serbian Government adopted the National Programme for Integration with the EU for the period 2008–2012, in October 2008, with the aim of coordinating its legislation with the legal attainments of the EU. Taking into consideration the significant progress toward fulfilling the Copenhagen criteria, as well as conditions from the *Process of Stabilization and Association*, the European Council decided in March 2012 that Serbia would be awarded candidate status for EU membership. In this way, the investment risks that are considered conflict areas by investing companies (see [11]) were substantially reduced.

3. Method, data, and sample

Our study analyzed the acceptance of the FDI in Slovenian and Serbian communities. In the study conducted at the end of 2014, a questionnaire was used.

The sample included 127 communities: 66 (of a total of 212) from Slovenia and 61 (of a total of 168) from Serbia. The directors of the municipalities' management formed the target audience for the study. We chose these state institutions because they should play an important role in creating an environment conducive to business, generating employment, FDI attraction, and sustainable economic development. Our aim was to find out the intensity of the efforts that

were made by municipalities in order to attract FDI. On the other hand, we tried to research their perceptions on the most important threats and benefits that accompany this form of international capital flow.

The questionnaire for the ongoing study consists of 16 questions on inward FDI in communities. Basic differences have been spotted and analyzed in this phase of research, so this chapter presents answers to the following questions:

1. Is attracting investments within the strategic goals of your community?
2. Rank the benefits of FDI by their importance from 1 (at least benefit) to 6 (maximum benefit).
3. Rank the threats of FDI by their importance from 1 (at least threats) to 7 (maximum threat).
4. Is it useful for your community to open up to FDI?
5. In which industry your community is the most flexible toward FDI?
6. Rank the countries from where you want the most foreign investors 1 (at least welcomed) to 9 (the most welcomed).

We used descriptive statistics in analyzing all questions to show the general picture about these processes.

4. Analysis

Using the data gathered through the poll among local communities in both countries, make it possible to draw several conclusions and also explain some expected differences between local communities in Slovenia and in Serbia. The expectations of differences in the positive effects of FDI as well as threats obviously go back to a different level of development. On the other side, the difference in the transitional experience is felt less than someone would expect. This probably is an inheritance of the pattern of governance and development that both countries shared for more than 70 years.

As the first one, we will explain the differences that can be seen between the local communities in both countries. The question referring to FDI attraction as a local community's strategic goal actually shows the clearest discrepancy between two countries' local communities' attitude toward FDI, although in a surprising way.

Although Slovenia is clearly more integrated in the international community — at least by being a full-fledged EU member — Serbian local communities seem to have clearer picture that their growth also depends on their engagement with foreign savings. The picture could also be seen as a reason and a consequence of Slovenian closed approach when FDI is concerned and has been presented in Table 2 above.

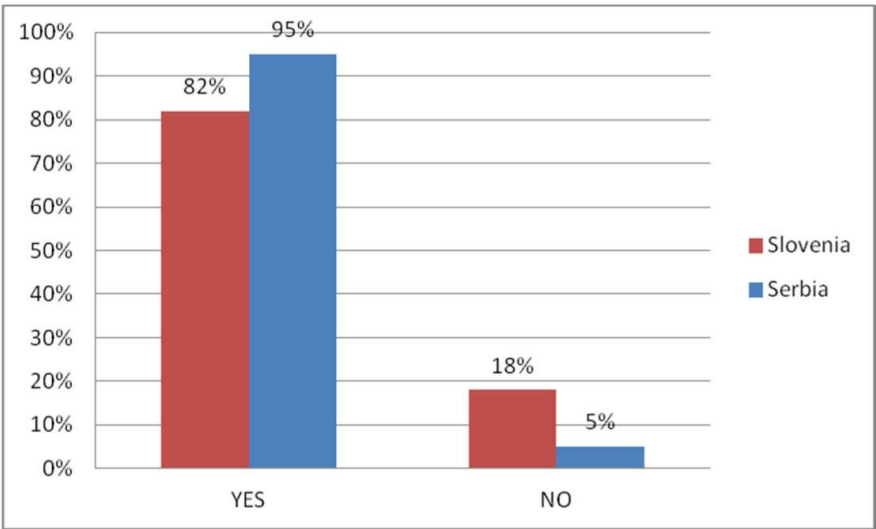


Figure 1. Attracting FDI as a local community’s strategic goal

When discussing experienced and expected benefits of FDI in local communities, the poll results are closer to those that one knowing the transitional path in both countries would expect.

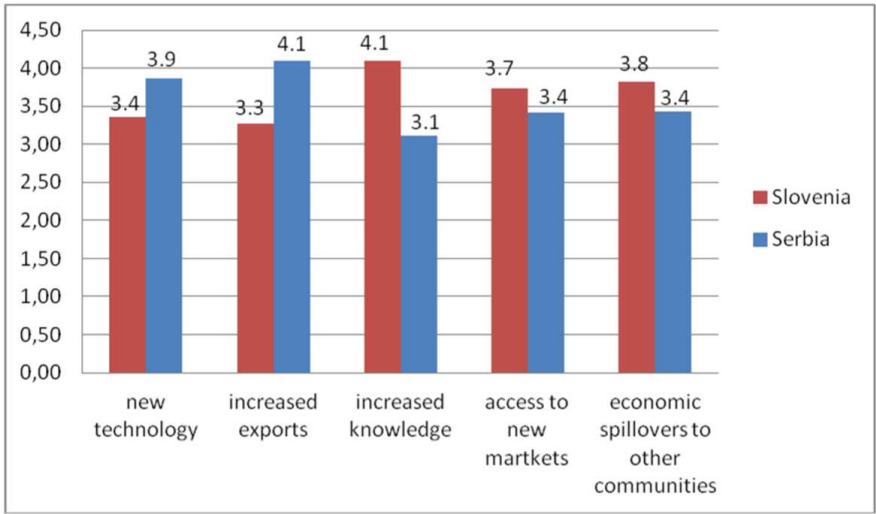


Figure 2. Benefits of FDI

Expectedly, Serbian local communities have a stronger hope for more direct benefits of FDI—new technology and increased exports—although one could expect that benefits from increased knowledge should also join this group. The deviation (the biggest of them all) probably goes back to more ambitious self-estimation in the region that has physically less contact with western (business) knowledge and so up to now could not fully recognize the gap.

Also, one would expect that indirect benefits due to its higher level in transition process would be better rated in Slovenia. Stronger positive expectations of better access to new markets as a consequence of FDI are supported by traditionally greater international trade openness of Slovenia. Also with economic spillovers into other communities, better experience with integrated markets in Slovenia (EU membership) will be recognized.

Also with the next criteria (Threats of FDI—figure 3), one could observe the differences in the transitional stage between the two countries, which are offset in the local community governments' imagination of FDI effects. Here clear difference between Slovenia and Serbia can be seen, especially with direct threats. Although there has been active debate and also opposition to privatization through FDI in Slovenia, the threat of too-low prices achieved, the growth of foreign influence, and reducing wages still are judged as less likely outcomes of FDI. Otherwise, other possible risks are seen quite as expected—demonstrating typical differences in the transition experience of both countries. When the threat that new owner would remove companies' development departments is concerned, the judgment in local communities in both countries is actually equally strong.

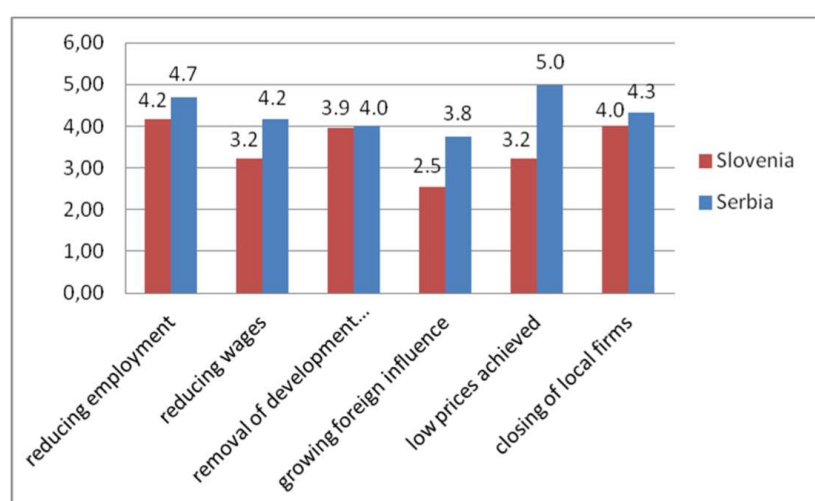


Figure 3. Threats of FDI

The difference in the transitional stages of the two countries is clearly seen also from local communities' flexibility toward FDI in different industries. A generally poor experience with banking can be spotted in both countries—the banking industry receives by far the lowest acceptance—and thus the readiness of local communities to act flexibly in the case of FDI in banking.

Relatively close is also the readiness for flexibility in the fields of green energy production and infrastructure. A bit surprising is that the need of infrastructure development is stronger in Slovenian local communities, knowing that the infrastructure there is in considerably better shape than that in Serbia. On the other hand, as expected, the willingness of Serbian local communities when agriculture and industry are concerned is higher. These two sectors

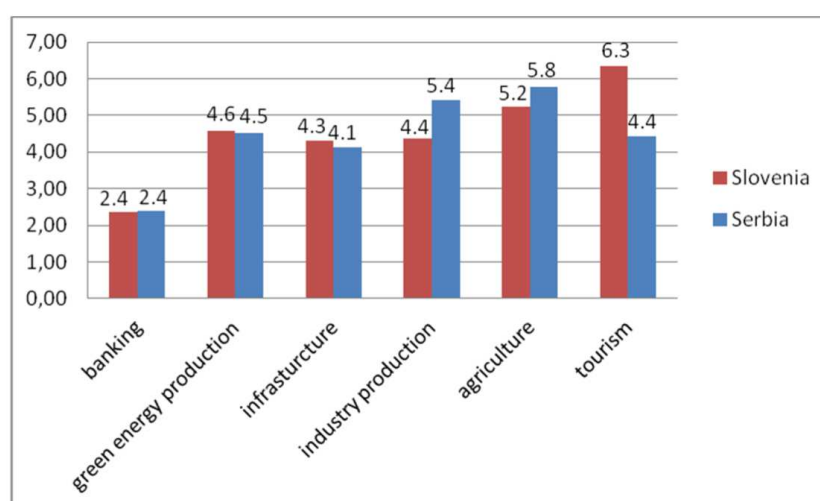


Figure 4. The flexibility of the local community toward FDI

(especially agriculture) namely contribute a considerably greater share to the nation's GDP in Serbia than in Slovenia.

	Slovenia	Serbia
Agriculture	2.8	7.9
Industry	28.9	31.8
Services	68.3	60.3
Tourism (2012)	2.45	1.13

Source: (see [12-13]).

Table 4. Comparative GDP structure in Slovenia and in Serbia in 2013 (%)

The total percentage (100%) in the above Table 4 does not hold since tourism is a part of services. As presented in figure 4, expectedly the bigger difference in readiness for flexibility toward FDI between local communities of both countries refers to tourism. Being relatively more involved in international tourism flows, as offset in its share in national GDP, Slovenian local communities are substantially much ready to be flexible when FDI in tourism is concerned.

Next is the comparison between local communities with respect to the regions that are most popular providers of FDI. To make the results transparent, we used separate graphs for both countries, as presented in Pictures 5 and 6.

One would expect that Germany would gain the most support as the source country of the FDI entering local communities in the region. This is also proven by our results; although in Slovenia, the top country would be Austria. This refers to good experience with Austrian FDI

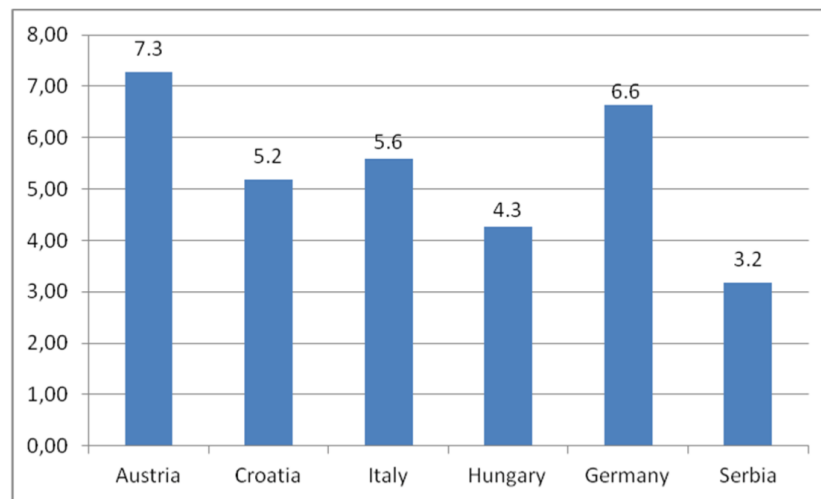


Figure 5. Regions most popular as providers of FDI—Slovenia

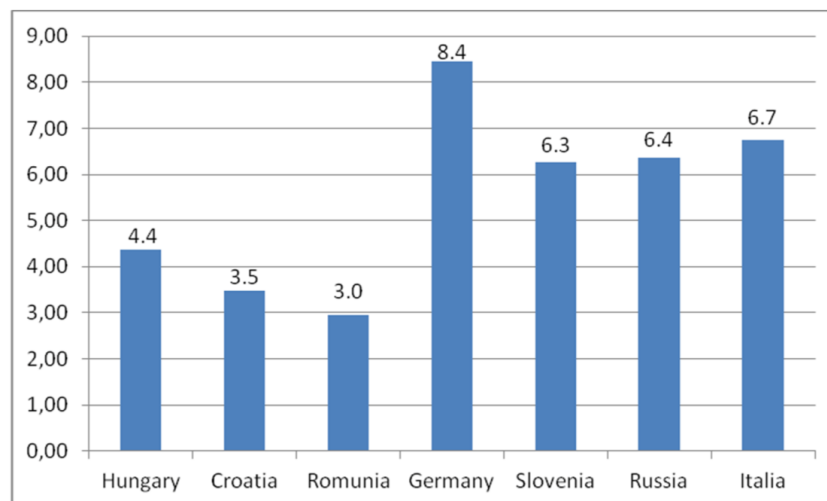


Figure 6. Regions most popular as providers of FDI—Serbia

and of course to Austria's vicinity. Also both countries were ranked in both samples, which indicate a positive common experience. There is a difference in the strength of these expectations though: logically, as an EU member and with more highly developed economic and industrial structures, Slovenia earns more attention as a possible investor than opposite. Italy is also very popular as a source country. With Slovenia, this again has to do with its vicinity, while in Serbia, a substantial FDI of FIAT in Kragujevac (2008) wakes expectations also in other local communities. It is also expectable that in Serbia, Russia has also achieved quite an important rank.

5. Concluding remarks

Despite a temporary contraction during the global financial and economic crisis, international capital flows have increased dramatically over time. Gross cross-border capital flows rose from about three times faster than world trade flows from 1990 to 2013. In transition countries, Central and Eastern Europe planned and conducted foreign direct investments well, which helped not only national economies but also provided the tipping point in the development of many local communities.

Foreign direct investments are important for communities' economic development and are an effective instrument for transferring know-how, technology, and skills. International capital investments also bring other positive effects, most frequently in the form of increased employment, but because of the threats and challenges they also bring to the host countries, international investments are not always welcome.

Our study proved that FDI have been entering decision makers' perspective in local communities in Slovenia and in Serbia. Despite a reluctant opening in this field in Slovenia, local governments believe that foreign saving could substantially support their development goals. A similar perspective is also seen in local communities in Serbia, although it is expectedly partly influenced by Serbia's stance on the transition process. The differences between local communities in both countries are most striking when preferences regarding sectors of investment are concerned. The differences in transition phases between the countries are, however, most recognizable in the judgment of the benefits and threats of FDI. Here one could also clearly see the difference in openness—here probably concerned with the fact that it was only Balkan conflict resolution when Serbia's transition toward a full-fledged economy started.

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