OFDI and IFDI Policies Adopted by Central and Eastern European Countries after the Great Recession of 2007-2010 [1]

Marta Götz, Vistula University, Poland

Introduction

The significant decline in foreign direct investment (FDI) after the Great Recession, and the accompanying ideological shifts in the role of the state in an economy, have inspired research on the interactions between the two (Szalavetz, 2015; Evenett, 2012). In particular, the developments have called into question likely changes in internationalization policies adopted in Central and Eastern Europe (CEE). There are many "FDI in CEE" case studies on best practices and government policies, but broader analyses contrasting Outgoing FDI and Incoming FDI policies of countries in this region are lacking. I define the CEE region as the thirteen countries which have joined the European Union (EU) since 2004: Poland, Czech Republic, Slovakia, Hungary, Estonia, Latvia, Lithuania, Cyprus, Malta, Romania, Bulgaria, Slovenia, and Croatia. These countries have long been regarded as very friendly for foreign investors, but their domestic firms are much less involved in international expansion than their Western European ("old EU") counterparts. I examine if FDI policies pursued by these states changed after the Great Recession and if the CEE region became more restrictive or liberal toward foreign investors or the internationalisation processes of domestic companies. To address these questions, I map the CEE countries' approach to incoming (IFDI) and outgoing (OFDI) investment.

FDI and OFDI Policies

In empirical studies, FDI policies, defined as actions or principles adopted in the form of dedicated or even discriminatory measures, are modelled as independent variables influencing investor choices of company location. Despite a growing prominence of such policies in public debate, in particular in the CEE countries, reliable data for international comparisons continue to be sparse: "…few efforts have been undertaken to quantify and systematically compare national FDI policies" (Golub, 2009, p. 1248). While conceptual aspects seem to be well covered in the FDI literature, cross-country policy research remains significantly asymmetrical. Existing studies are profoundly biased toward incoming FDI (Casson, 2007; Buckley et al., 2010). FDI policy research deals predominantly with overall terms and conditions and general host country regimes impacting domestic and foreign investors. To evaluate and detect possible changes in FDI policies pursued by CEE countries after the Great Recession, I rely on alternative indicators that proxy for FDI policies. Compiling these and assessing tendencies in their development enables establishing the FDI policy profile of each CEE country. Table 1 summarizes data sources used.

The above indicators provide insights into the progress achieved in ongoing reforms, the degree of openness to the international community and the level of compliance with existing anti-discriminatory laws. Hence, in the light of scarcity of indicators reflecting genuine FDI policy, these selected measures provide insight into attitudes adopted in Central and Eastern Europe toward the incoming and outflowing investors. In general, the CEE countries have been classified as running rather friendly (or unfriendly) policies toward incoming investors if they were:

- assessed as positive (or negative) in the Global Trade Alert, based on the reported number of instances of discriminatory measures implemented
- posting fewer (or new and/or more) Investment State Dispute Settlement (ISDS) cases, which have concluded new BITs and whose total number of BITs is above (or below) the EU average,

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Table 1: Databases used to study and approximate IFDI and OFDI policies

FDI policy	Data Source
Inward FDI	The OECD's Investment Regulatory Restrictiveness Index (IRR)
	The existing Bilateral Investment Treaties (BITs) provided by the EU and UNCTAD
	The number of claims lodged under Investment State Dispute Settlement procedures (ISDS) reported by UNCTAD
	The attractiveness ranking provided in the Global Competitiveness Report (GCR) of the World Economic Forum
	The indicators on discriminatory measures that are "harmful to foreign commercial interests", as reported by the Global Trade Alert (GTA)
Outward FDI	The Reform Responsiveness Index (RRI)
	The Doing Business ranking of the World Bank
	The statistics on the number of OFDI support centres provided by the EU Commission
	The corporate income tax rates published by the US-based Tax Foundation
	The Index of Economic Freedom, an annual guide published by The Wall Street Journal and The Heritage Foundation

- having a low (or high) Investment Restrictiveness Index, and
- with above (below) the average EU score in GCR subindex on FDI attractiveness.

The CEE countries:

- whose Reform Responsiveness Index is below (or above) the EU average,
- who have less (more) than the EU average number of OFDI support centres,
- who have higher (lower) than the average and increasing (decreasing) corporate tax rates,
- whose Economic Freedom ranking is worsening (improving) and
- whose Doing Business ranking is decreasing (or increasing)
- have been classified as pursuing rather unfriendly (or stimulating) policies toward outward FDI.

Categorizations adopted in this paper draw on the simple division between the IFDI and OFDI policy and between investing friendly and unfriendly policy. In particular, I adopted the following simple technique. Firstly, I categorized countries according to rankings such as IRR, RRI, Doing Business, Tax rates, Freedom index, or Attractiveness as measured by GCR. The best performing countries and/or those recording the most positive changes were classified as running "pro" FDI policy, whereas the laggards and/or these with deteriorating performance were assessed as running "anti" FDI policy. For each ranking the average values were calculated to serve as benchmarks. Referring to these averages enables sorting and classifying all countries depending on the indicator (e.g., for attractiveness GCR "above" would mean "pro IFDI," for restrictiveness IRR "above" would mean "anti IFDI").

Secondly, in the case of Bilateral Investment Treaties and OFDI support institutions, categorisation reflects the total number of concluded agreements or officially registered facilities. Country averages in each case can be regarded as a reference point (above as more "pro OFDI," below as more "anti FDI").

Thirdly, for irregular signal information such as reported ISDS claims, or GTA "naming and shaming" (i.e., when some countries appear but some are not mentioned), I classified these "negative" cases as pursuing "anti" FDI policies. In the future, I hope to employ a more nuanced scale of evaluating FDI policies, which exceeds the simple dichotomy "pro/anti" or "friendly/hostile."

Aggregating each country's IFDI and OFDI policy indicators generated a simple composite index. Once I have combined a given country's approaches to IFDI and OFDI, these are suited for FDI policy classification. The applied methodology distinguishes between four FDI policy models:

1. Open: a "double positive" strategy with both types of FDI making positive contributions to the national economy ("pro" approaches dominate both OFDI and IFDI);

2. Closed: a "double negative" strategy with both types of FDI associated with losses to the national economy ("anti" approaches dominate both OFDI and IFDI);

3. Competitive: a "positive OUT, negative IN" strategy; the state encourages internationally competitive domestic companies while restricting foreign investment ("pro" approaches dominate for OFDI and "anti" approaches dominate for IFDI);

4. Capital: a "positive IN, negative OUT" strategy; the state promotes capital accumulation by attracting foreign investment while restricting outflows by domestic businesses ("pro" approaches dominate for IFDI and "anti" approaches dominate for OFDI).

Table 2: Diagnosed Models of FDI policies pursued by CEE countries

Policy towards IFDI*	Policy towards OFDI*	Country	FDI Policy Model
pro	pro	Bulgaria	**Open**
anti	pro	Croatia	**Competitive**
anti	anti	Cyprus	**Closed**
anti	pro	Czech Republic	**Competitive**
pro	anti	Estonia	**Capital**
anti	neutral	Hungary	**Closed or Competitive**
anti	pro	Latvia	**Competitive**
anti	pro	Lithuania	**Competitive**
pro	anti	Malta	**Capital**
anti	pro	Poland	**Competitive**
anti	pro	Romania	**Competitive**
anti	anti	Slovakia	**Closed**
anti	pro	Slovenia	**Competitive**

* dominating approach based on the compiled indicators

This research identified only one Open, seven Competitive, two Capital, and three Closed models. The Hungarian model could not be diagnosed due to its unclear (neutral) stance on OFDI flows. The map of the CEE countries' (post) crisis FDI policies shows that only three adopted friendly IFDI policies while eight pursued favourable OFDI policies. The most common approach was the competitive model aimed at stimulating OFDI and preventing IFDI. Though no clear homogeneity can be diagnosed with respect to the sub-regions (i.e. within the Visegrad group or among the Baltic states). The Closed strategy of Slovakia and Cyprus contrasts with the Open approach adopted apparently in Bulgaria.

I believe the identified policy-mix and our FDI policy model classifications reflect the deliberate strategy chosen by a given country, not just an unintended consequence. I speculate about the implications these policies have on policymakers and for domestic and foreign firms (Table 3). The knowledge about the pursued FDI policies, which is anchored in a broader context (i.e., showed in a more standardised fashion against the background of other countries), might enable practitioners to better formulate the firm strategies and policy makers to improve government policies. For FDI scholars, this framework might encourage more nuanced explorations.

An interesting observation from this research is that CEE countries commonly associated with an IFDI-welcoming culture and with neglectful internationalization policies seem to pursue some opposite policies. They have become less friendly towards incoming FDI but have adopted a more positive approach towards the OFDI. Based on other data, the "old EU" member states (including UK) have recently adopted policies more friendly toward incoming FDI and have a rather unfriendly attitude toward OFDI. Hence, the Competitive model seems widespread among the CEE countries, whereas the Capital model is more popular among "old EU" members.

The common trends and limited homogeneity of the preferred models may come as a surprise. Whether these results are simply influenced by the selected variables and affected by the quality of the FDI policy approximations or indeed suggest the start of new trends remains to be seen. It does not seem justified, however, to argue that this classification is a clear manifestation of the preferred policies. By combining two policy approaches, these FDI policy models provide evidence for actual strategies towards incoming and outflowing investors in (post) crisis years. In other words, if policies toward the incoming and outflowing investors are unfriendly, it does not necessarily mean that governments and policymakers view such flows as a drag on their home economies or a distortion of domestic competitiveness. Inconsistencies between policies that constitute countries' development strategies and the day-to-day policymaking has also been stressed in recent studies which suggest that bold, anti-liberal declarations fail to trickle down to the level of actual measures (Aalbers, 2013: 1083; Sellar & Pástor, 2015: 352). Nevertheless, one may not rule out the possibility that the CEE policymakers have realized they need to be more selective towards incoming foreign investors and to internationalize their domestic businesses.

There is no golden rule of what policy towards FDI should look like, and empirical evidence does not provide clear findings and recommendations as to the preferred design of such policy or desired levels of IFDI and OFDI because countries at various stages of development might require different sets of strategies. Thus, no simple advice can be forwarded with respect to the optimal FDI policy. Hence, it is not warranted to either criticize governments, or praise them based on their pursued FDI policy mix. The chosen combination usually reflects the political economy of the inward and outward FDI flows' management.

Conclusions

This classification of the CEE countries' FDI policies draws on a set of variables which, in most cases, have been fairly imperfect substitutes for FDI policy measures selected in the view of the limited availability of data and/or the sensitivity of the subject matter. Hence, the findings must be treated with caution to prevent possible misinterpretations. Future detailed research should certainly rely more on country specific first-hand data, surveys of experts, national economic press' review, and should

Table 3: Possible Implications of Chosen FDI Policy Models

Implications	Closed model	Open model	Competitive model	Capital model
Policymakers need to:	provide better incentives for channelling domestic savings into valuable investments	conduct reforms and provide conducive business environment pursue more "externally oriented" policy; closely watch other countries' incentives policies and outbid these if necessary assess risks of crowding-out (IFDI) and hollowing-out (OFDI)	only accept IFDI aligned with domestic goals pursue more "internally driven" IFDI policy – adjusted to national economic strategy safeguard business-friendly environment facilitate domestic firms to venture abroad assure supply of necessary internationalisation tools	promote and reward domestic businesses improve country attractiveness to encourage foreign investors (mainly via created assets – clusters)
Domestic companies should:	focus on strategies of diversified products, services instead of geographic expansion and diversification enjoy relative protection against foreign investors	expect internationalisation assistance from public authorities find more opportunities of foreign expansion be prepared to face increased competition from incoming FDI	pursue bold internationalisation strategies expecting significant state aid receive protection from foreign competitors	fine-tune strategies to supply local markets expect more competition from inflowing FDI learn to establish relations and benefit from new linkages with IFDI
Foreign investors should:	be prepared for new barriers erected to prevent them from investing guarantee high quality investments aligned with host country economic goals	take advantage of liberal host-countrypolicies utilize available incentives enjoy emerging cooperation possibilities along the value chains	assure the highest quality of planned investment and align it with host economy provide benefits for local economy via spillovers and building ties with local suppliers	benefit from welcoming culture expect certain concessions enjoy better negotiating position, express own requirements

build advanced models which may account for the likely policy shifts (Éltető et.al., 2015). These findings may contribute to the ongoing debate on the FDI policies adopted by the CEE countries. It should be stressed, that this research comes out in pretty unique moment. It namely captures the peculiarities of transition time—on the one hand—shortly after the Great Recession and—on the other hand—before the EU-wide common investment policy is fully operational.

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Marta Götz (m.gotz@vistula.edu.pl) is an associate professor at the Vistula University (Warsaw) at the Faculty of Business and International Relations and serves as Vice-Rector for Science. She completed her PhD in 2007 at the Poznań University of Economics and defended her habilitation at the same University at the Department of International Economy in 2015. From 2007-2015 she worked as research fellow at the Institute for Western Affairs in Poznań – a think-tank under auspices of Ministry of Foreign Affairs and the Ministry of Science and Higher Education. From 2004-2006 she was a teaching assistant at the Warsaw School of Economics.