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ASPECTS OF LOCAL AND REGIONAL DEVELOPMENT

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FOREIGN DIRECT INVESTMENTS IN OSIJEK-BARANJA COUNTY AS PREREQUISITE FOR REGIONAL DEVELOPMENT

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INTRODUCTION

Where to invest?

There are different factors that influence the investor's decision such as proximity of the market, educated and relatively cheap labour force, investment friendly environment, etc.

Osijek-Baranja County also strives towards becoming an encouraging environment for FDIs.



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INTRODUCTION

The paper emphasizes the effects of FDIs on regional development and Osijek-Baranja County.

Key part of the paper are the obstacles and potential to attract FDIs into the Osijek-Baranja County with a short overview of the County's and Osijek's potential to attract FDIs.



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REVIEW OF FDI_s

IMF's definition of FDI: FDI_s are all those investments in the domestic business (residents) where the foreign investor (non-resident) acquires ownership of 10% or more in regular shares or the equivalent of voting rights.

Categories of FDI_s according to their characteristics: greenfield investments (create new production assets), mergers and acquisitions (invest in already existing production assets in order to take over the business), brownfield investments (in crease efficiency or are the result of privatization process).





REVIEW OF FDI_s

FDIs can be encouraged by different measures:

Fiscal measures include subsidized tax measures such as lowering the corporate taxes for FDI ventures, tax holiday, agreeing on avoiding double taxation, etc.

Financial measures include granting of funds in form of government subsidies up to a certain amount, subsidized state loans, etc.

Other measures include increasing profitability by non-financial means such as low-cost electricity or subsidizing other services (telecommunication).





REVIEW OF FDI*s*

The recipient countries have direct and indirect benefits from FDI*s*.

Direct benefits are: increased gross investments in the national economy, increased employment, etc.

Indirect benefits are so called spillover effects: transfer of knowledge and experience in production organization, substitution of imported goods with domestic products, etc.





EFFECT OF FDI_s ON THE NATIONAL ECONOMY

The effects of FDI_s can be multiple such as economic growth, foreign trade and spillover effects.

On the other hand, there are also dangers, because the objective of FDI_s is not the development of the recipient country, but the profit for the investor as with all other types of investments.

In spite of a relatively high level of FDI_s in Croatia, the usual positive effect for the domestic economy like employment, production and exports growth is absent due to unfavourable investment structure, since very few FDI_s are greenfield investments.





EFFECT OF FDI_s ON THE NATIONAL ECONOMY

The lack of expected effects of FDI_s in Croatia is the result of unfavourable entrepreneurial climate.

At the local authority level leads to backing out of investments – reason are: large and inefficient administration, corruption at all levels, land registry in chaos, non-tax fees, etc.



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THE ROLE OF FDI IN REGIONAL DEVELOPMENT

Every FDI is by definition an interesting mixture of global and local. FDI influence economic growth, contribute to employment of the local population and transfer of technology, skills and knowledge.

The local communities are especially limited when it comes to fiscal incentives dictated by the state.



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THE ROLE OF FDI IN REGIONAL DEVELOPMENT

The approach to potential foreign investors needs to be direct based on a clearly defined marketing strategy.

According to Sense Consulting's analysis as key obstacles are the lack of understanding by the national institution and as a result of that, the lack of systematic information.



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THE ROLE OF FDI_s IN THE DEVELOPMENT OF OSIJEK-BARANJA COUNTY

FDIs into Croatia amounts to 26,75 billion €.

Excessive irregularity and fluctuation are the main characteristics of FDI inflow in the County (53,5 million €).

Such movements show that there are connections between local and national flows and that there is a lack of consistent policy of promotion and encouragement of investment at the national and local level.





THE ROLE OF FDI_s IN THE DEVELOPMENT OF OSIJEK-BARANJA COUNTY

Economic profile of Osijek-Baranja County

It makes up 7,3% of the total territory of Croatia, 51% is agricultural land and 24% are forests, since this is a mainly flatland area, it is highly apt for the development of agriculture and agriculture-based industry (especially food industry), also chemical, machine industry, etc.



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THE ROLE OF FDI_s IN THE DEVELOPMENT OF OSIJEK-BARANJA COUNTY

Economic profile of Osijek-Baranja County

Ranks 13th according to the Regional Competitiveness Index; 3,8% of the total number of active companies in Croatia; 61% of foreign exchange with the EU; according to economic activities in County, the processing industry makes up 27,1% which is the biggest percentage of the total revenue, followed by sales with 24%, agriculture 22,4%, etc.; Work force of 123,471 able-to-work citizens, out of which 85,250 are employed and 38,221 unemployed; the rate of registered unemployment is increasing – 31%.



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BARRIERS AND OPORTUNITIES FOR ATTRACTING FDI_s IN THE OSIJEK-BARANJA COUNTY

Potential are reflected in the following: 4th largest economy in Croatia, half of the County's export is made by foreign-owned companies, highly educated workforce, the best County in Croatia in absorption of EU funds in the pre-accession period etc. Also included city of Osijek – business and industrial zone.

What is missing? Strategy for attracting FDI_s and it is necessary to develop a marketing plan.



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BARRIERS AND OPORTUNITIES FOR ATTRACTING FDI_s IN THE OSIJEK-BARANJA COUNTY

There is still the lack of a strategic approach and a special focus on the sectors. Financial support and incentives is available to all companies – it is not support to FDI. Tourism is emphasized as the key sector and potential to attract new investment - tourism industry is essential to the development of the whole country, and eco-tourism is insufficiently attractive to FDI_s.



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BARRIERS AND OPORTUNITIES FOR ATTRACTING FDI_s IN THE OSIJEK-BARANJA COUNTY

Big obstacles lie in the fact that Croatia is a centralized state and the state administration is still inefficient and corrupt, the judicial system is slow and thus the protection of property rights is insufficient and the legislative framework for the promotion of investment then leaves plenty of room for discretionary measures. All of this increases uncertainty for potential investors.



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BARRIERS AND OPORTUNITIES FOR ATTRACTING FDI_s IN THE OSIJEK-BARANJA COUNTY

We must make sure to encourage only those FDI_s that have growth potential. With not only short-term but also on long-term benefits (those that will not distort the natural balance, pollute the environment, reduce the regenerative capabilities and capacity of the County's renewable resources and irreversibly degrade its non-renewable resources).



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RECOMMENDATION AS FINAL REMARKS

Osijek-Baranja County regardless of its advantages and disadvantages needs to find the ways to make its competitive advantages more appealing to potential investors.

1) to develop concrete programs and measures and to devise an action plan to attract FDIs



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RECOMMENDATION AS FINAL REMARKS

- 2) take opportunity of offices in Brussels and to lobby for attracting FDIs
- 3) try to solve or at least reduce the adverse effects of the administration
- 4) continue to brand positioning of business zones and strive towards specialization zone





Thank you for your attention!!!



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