Regional institutional capacities and embeddedness to transnational markets in the European peripheries

Gergő Medve-Bálint
Centre for Social Sciences - Hungarian Academy of Sciences

EUSA International Biennial Conference
Sheraton Denver Downtown Hotel, Denver (CO)
9 May 2019

This research has been funded by the Hungarian Academy of Sciences Premium postdoctoral research grant (PPD-028/2017)
Problem: persistent regional economic disparities in the EU (GDP per capita in PPS, 2015)

Source: 7th Cohesion Report (2017)
Change in GDP per head (2008-2015)*

Suggests that South is diverging while the East is converging with the most prosperous members.

* shows the level of regional GDP per head compared to the EU average (EU = 100%)

Source: 7th Cohesion Report (2017)
Foreign investment (FDI) is an important driver of regional economic development in the EU’s periphery.

But FDI location patterns are uneven → FDI contributes to territorial disparities.

Key aspect for sustained regional development is to attract quality FDI.

**Research question:**
How does the quality of regional institutions (QoI) affect the quality of foreign investment (DV) in the European peripheries?

**What is quality FDI?**
Represents high value added activities – high value creation within the value chain – also indicates the investors’ long-term commitment to the location.

**Why regional quality of institutions?**
Besides regional economic endowments (infrastructure, human capital, natural resources etc.) higher regional QoI may be attractive to quality FDI.
Variation in regional institutional quality (2017)

Source: 7th Cohesion Report (2017)
Selection of cases

<table>
<thead>
<tr>
<th>Centralized territorial system</th>
<th>Eastern member</th>
<th>Southern member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary; Romania</td>
<td>Portugal</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Decentralized territorial system</th>
<th>Eastern member</th>
<th>Southern member</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>Spain</td>
<td></td>
</tr>
</tbody>
</table>

Time line: 2003-2015

Units of analysis: NUTS 2 regions

- Hungary: 8
- Poland: 16
- Portugal: 5+2
- Romania: 8
- Spain: 19
How to measure quality of foreign investments?

Value added/created

Value chain functions

- Headquarter services (5)
- R&D (3)
- Production (1)
- Logistics and retail (3)
- Support services (5)

Adapted from Stöllinger (2019)

Data source:
- Coding investments (12048 projects altogether) based on their value chain function

Quality of investment index: \[
\frac{\sum \text{value chain scores of investment projects}}{\sum \text{number of investment projects}}
\]
How to measure quality of regional institutions? (very challenging...)

- Regional Quality of Government Index (only 2010, 2013 and 2017)
- Worldwide Governance Indicators – annual but only country-level
- Potential use of European Social Survey (ESS) bi-annual data waves?

Regional Quality of Government Index:
Survey data on regional level governance within the EU

„Focuses on both perceptions and experiences with public sector corruption, along with the extent to which citizens believe various public sector services are impartially allocated and of good quality.” (Source: Quality of Government Institute)

Other control variables:
- Regional Competitiveness Index (2010, 2013) /source: European Commission/
- Dummy indicating Eastern members

Method of analysis: OLS regression (DV: Regional quality of investment index)
Variation in the dependent variable: quality of investment index
Results of the OLS regression models* (DV: quality of foreign investment index)

Note: 95 % confidence intervals
* Country dummies included, standard errors clustered on countries, models tested for influential observations
Conclusion

All else being equal:

- Quality foreign investments tend to prefer more developed regions in the Eastern and Southern periphery

- More competitive regions tend to secure higher quality foreign investments

- On average, lower quality foreign investments enter the Eastern regions than the Southern ones

- Quality of regional institutions is negatively related to the quality of foreign investments (how to explain this? measurement problem?)
Kind invitation to panel no. 11D on
Reforming EU Market Governance - A Core-Periphery Perspective
Saturday, 11 May, 13:45 – 15:15, Tower Court D

Papers:
(1) The Effectiveness of European Market-Correcting Instruments: Reinforcing the Unlevel Playing Field by Laszlo Bruszt, Dora Piroska, and Gergo Medve-Balint
(2) EU Competition Policy, Uneven Development and the Politics of “Economic Patriotism” by Nicole Lindstrom
(3) European Central Bank and non-Eurozone Central and Eastern Europe: Unforeseen Consequence of “One-Size-Fits-All” Policies and Autonomous Central Banks by Juliet Johnson and Dora Piroska

Thank you for your attention!

Medve-Balint.Gergo@tk.mta.hu
## Classification of value chain functions

<table>
<thead>
<tr>
<th>Value chain function in the database</th>
<th>Code for the quality of investment index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headquarters</td>
<td>Headquarter services</td>
</tr>
<tr>
<td>ICT &amp; Internet Infrastructure</td>
<td>Headquarter services</td>
</tr>
<tr>
<td>Design, Development &amp; Testing</td>
<td>R&amp;D &amp; related services</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>R&amp;D &amp; related services</td>
</tr>
<tr>
<td>Education &amp; Training</td>
<td>R&amp;D &amp; related services</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Production</td>
</tr>
<tr>
<td>Construction</td>
<td>Production</td>
</tr>
<tr>
<td>Electricity</td>
<td>Production</td>
</tr>
<tr>
<td>Extraction</td>
<td>Production</td>
</tr>
<tr>
<td>Recycling</td>
<td>Production</td>
</tr>
<tr>
<td>Logistics, Distribution &amp; Transportation</td>
<td>Logistics &amp; retail services</td>
</tr>
<tr>
<td>Retail</td>
<td>Logistics &amp; retail services</td>
</tr>
<tr>
<td>Business Services</td>
<td>Support services</td>
</tr>
<tr>
<td>Sales, Marketing &amp; Support</td>
<td>Support services</td>
</tr>
<tr>
<td>Maintenance &amp; Servicing</td>
<td>Support services</td>
</tr>
<tr>
<td>Shared Services Centre</td>
<td>Support services</td>
</tr>
<tr>
<td>Customer Contact Centre</td>
<td>Support services</td>
</tr>
<tr>
<td>Technical Support Centre</td>
<td>Support services</td>
</tr>
</tbody>
</table>

Adapted from Stöllinger (2019)