

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

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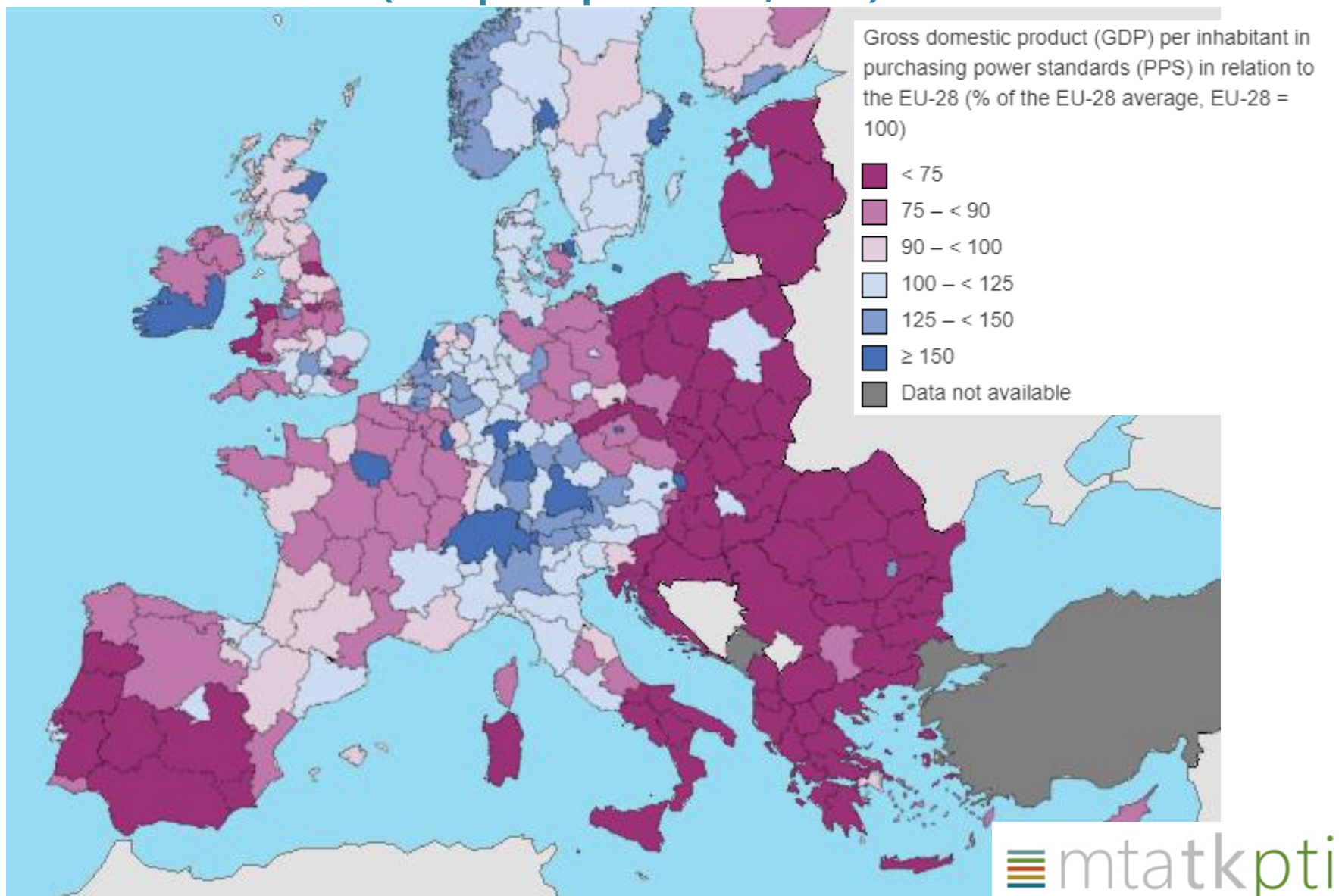
## **EUSA International Biennial Conference**

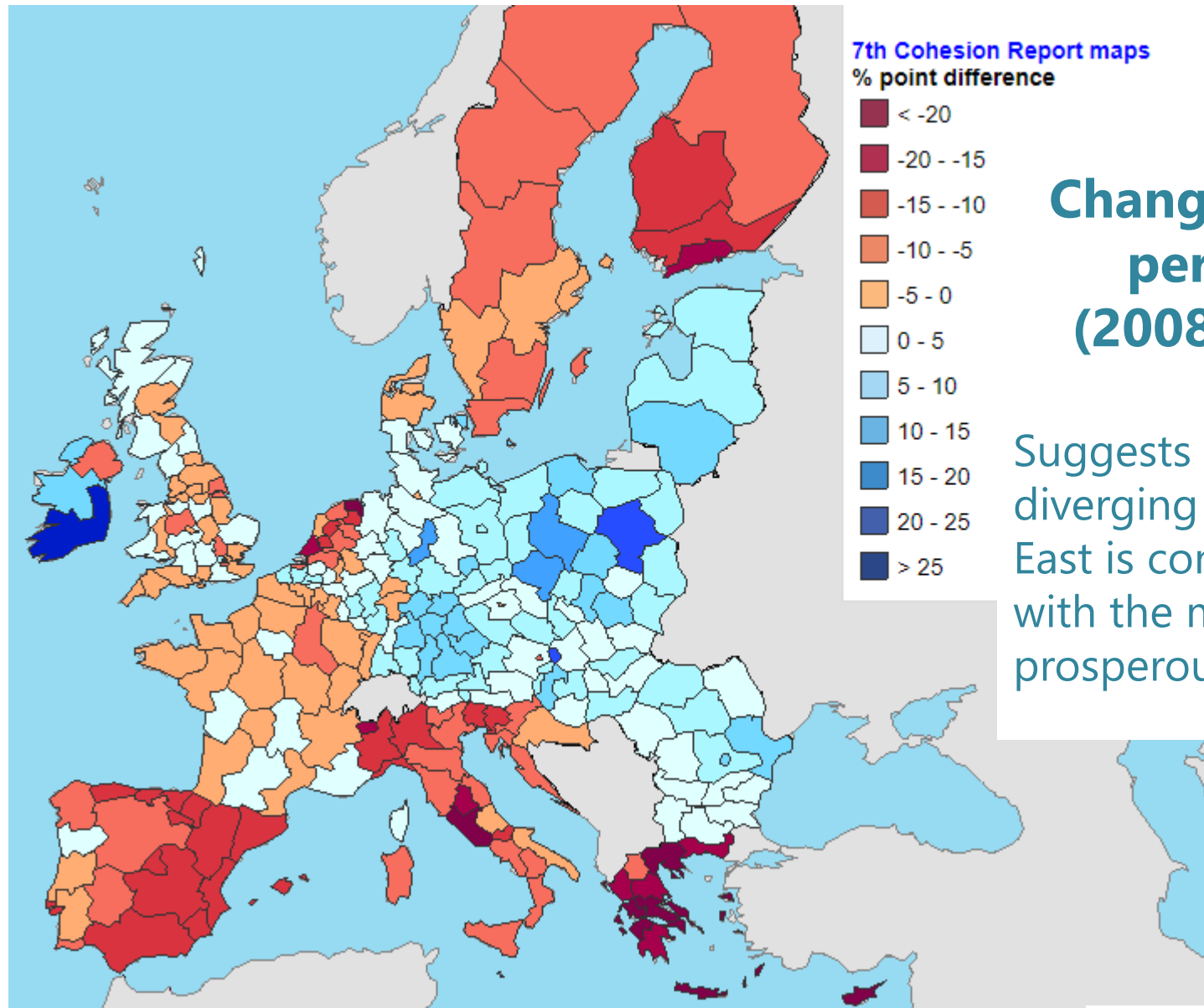
Sheraton Denver Downtown Hotel, Denver (CO)

9 May 2019

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## Problem: persistent regional economic disparities in the EU (GDP per capita in PPS, 2015)





## 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:**

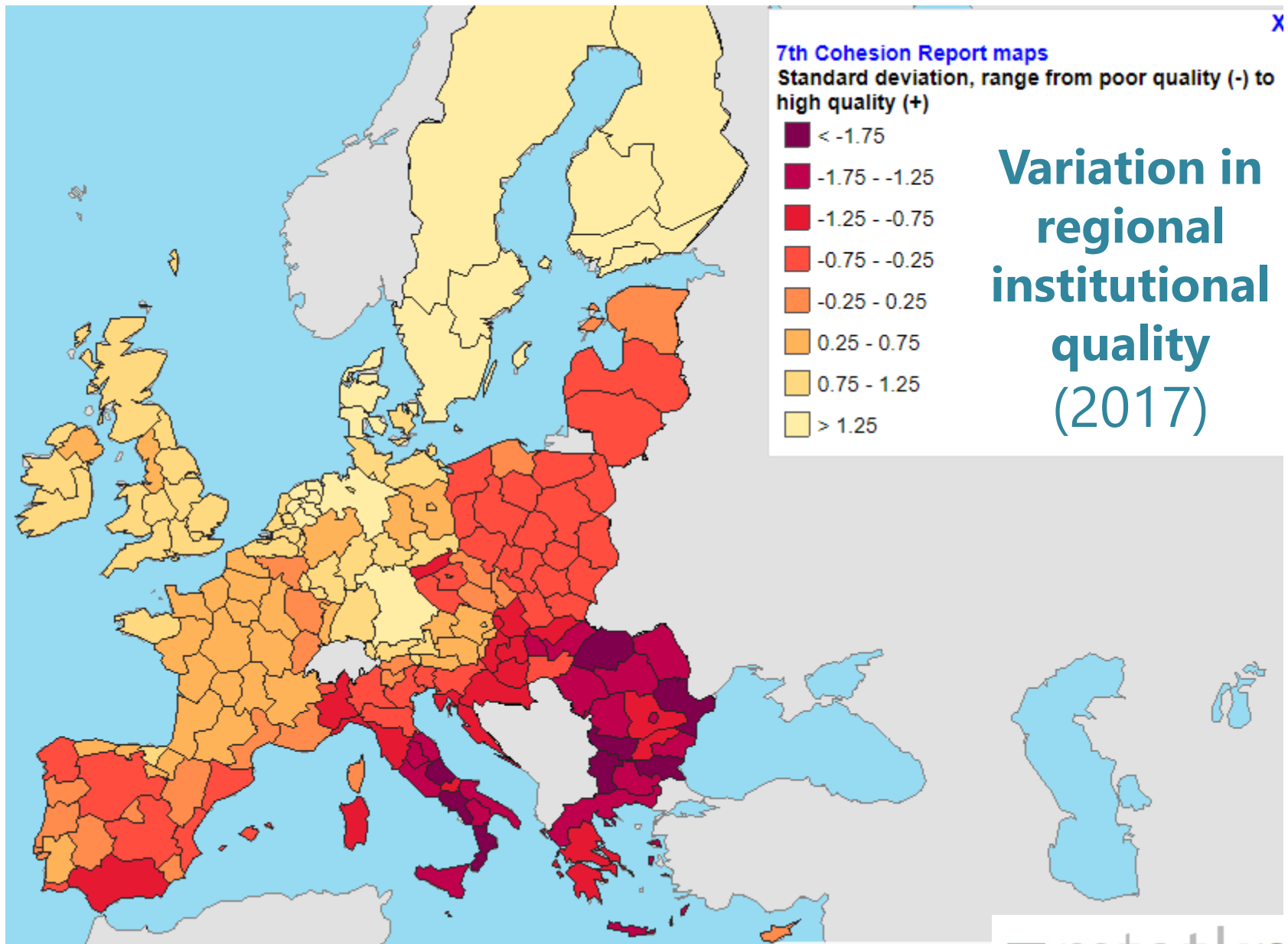
How does the quality of regional institutions (QoI) affect the quality of foreign investment (DV) in the European peripheries?

### **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





**Selection of cases**

**Eastern member**

**Southern member**

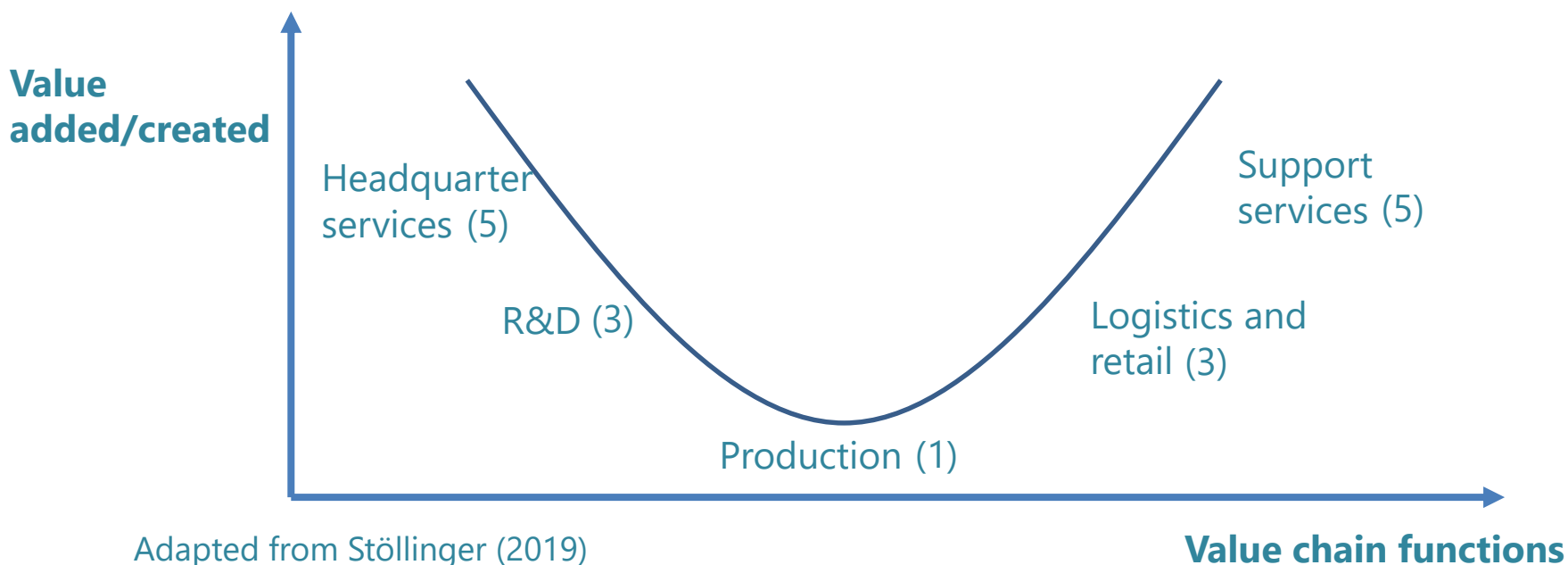
	Eastern member	Southern member
<b>Centralized territorial system</b>	Hungary; Romania	Portugal
<b>Decentralized territorial system</b>	Poland	Spain

**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?



### Data source:

- Regional investment database of FDI Markets (2003-2015)
- Coding investments (**12048 projects** altogether) based on their value chain function

**Quality of investment index:**  $\frac{\Sigma \text{value chain scores of investment projects}}{\Sigma \text{number of investment projects}}$

## 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

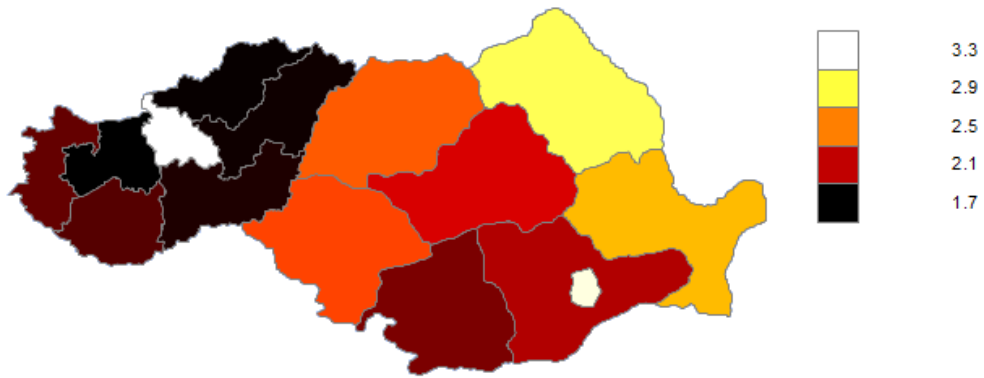
„Focuses on both perceptions and experiences with public sector corruption, along with the extent to which citizens believe various public sector services are impartially allocated and of good quality.“ (Source: [Quality of Government Institute](#))

### Other control variables:

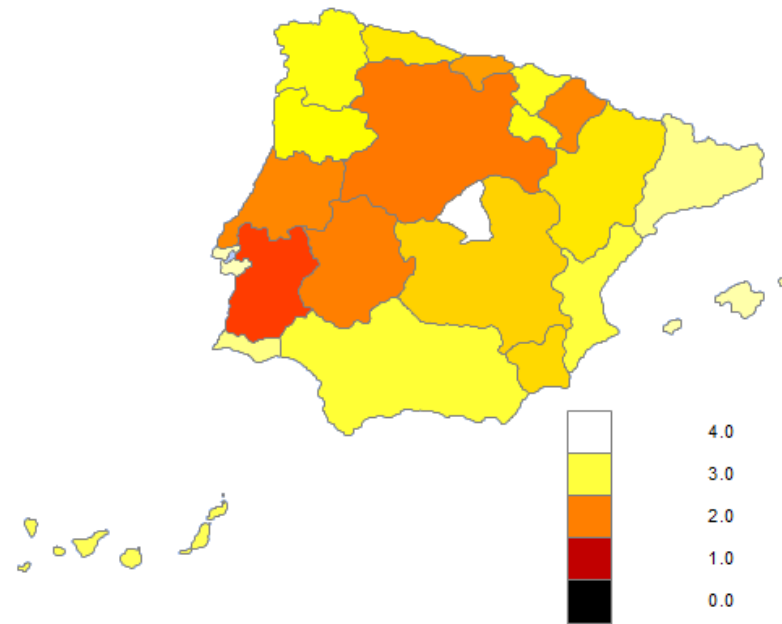
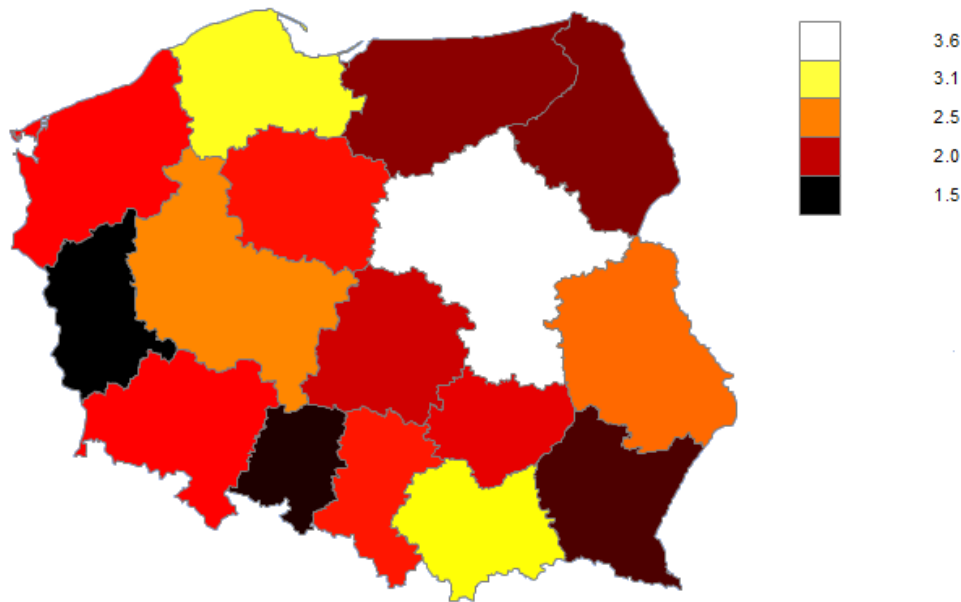
- GDP per capita in PPS (2003, 2010) /source: Eurostat/
- Regional Competitiveness Index (2010, 2013) /source: [European Commission](#)/
- Dummy indicating Eastern members

**Method of analysis:** OLS regression (DV: Regional quality of investment index)

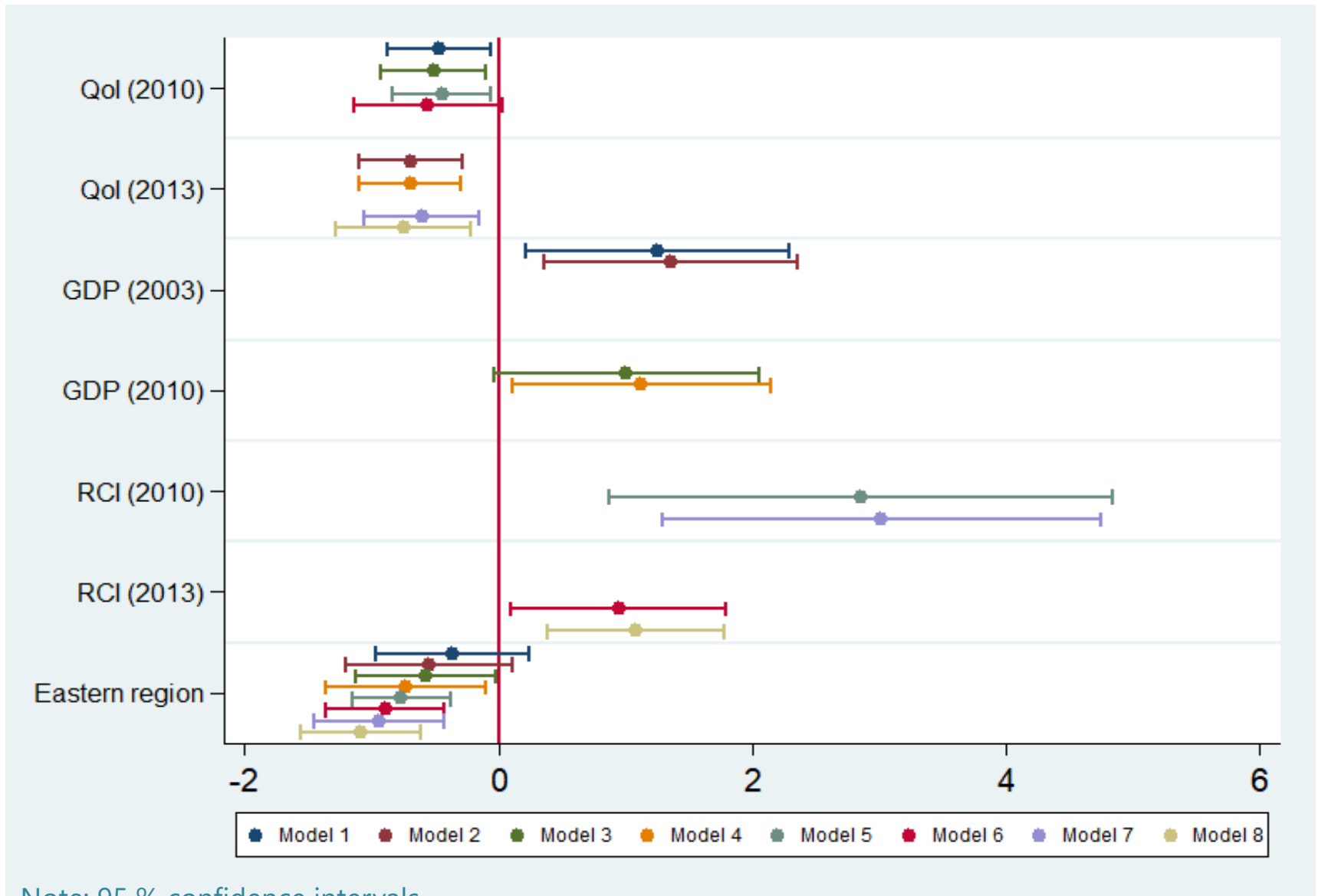




## Variation in the dependent variable: quality of investment index



## 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!

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## Classification of value chain functions

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

Adapted from Stöllinger (2019)

