

“Foreign Direct Investments and Financial Crisis: Spotlight on Italy-Balkan Countries Flows”

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The Adriatic-Balkan Area From Transition to Integration
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Key points of the presentation

1. FDI flows and financial crisis: Main trends worldwide
2. An overview of Balkan Countries FDI inflows
 - **Italy-Balkan Countries Flows**
 - **Recent trends**
3. Investments of “the Marche Region” in the Balkans
 - **Companies investing in the Balkans**
 - **Some case studies**

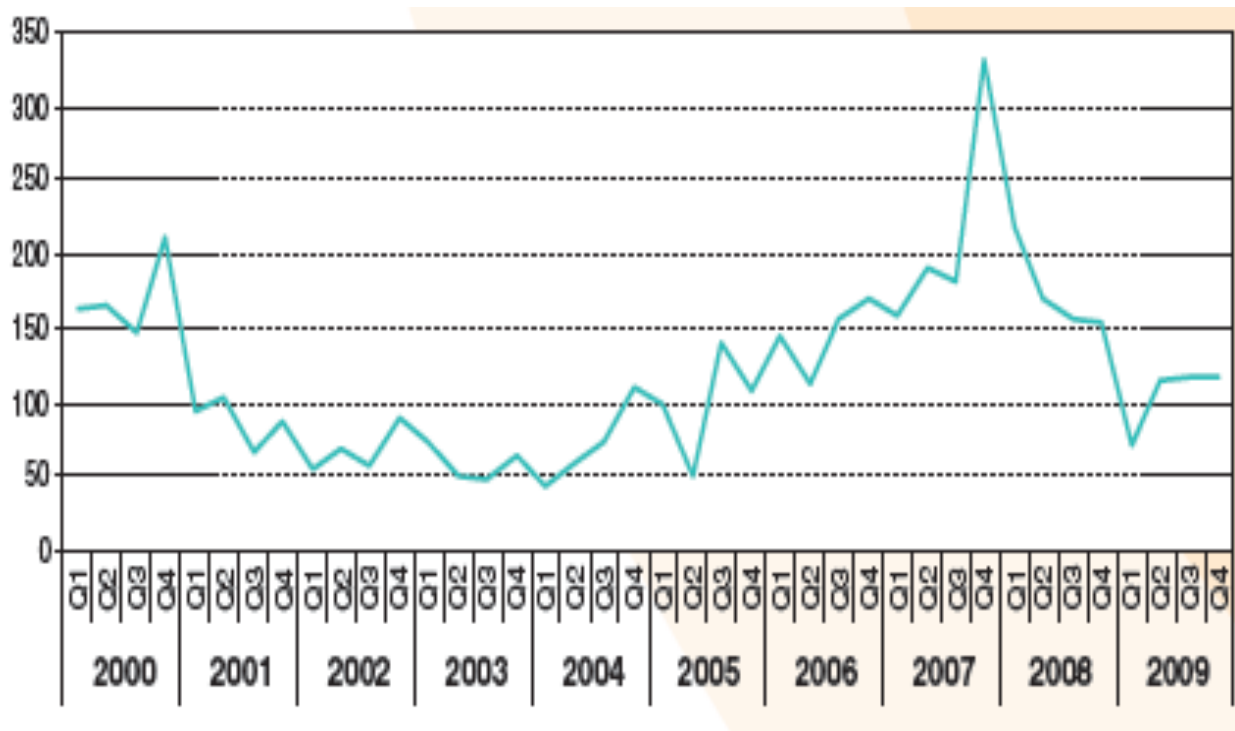
Financial crisis affected the fundamental drivers of
FDI

- Worst investment landscape
- Lower corporate profitability
- Scarce liquidity and credit crunch
- Uncertainty and risk aversion
- Recession and demand fall

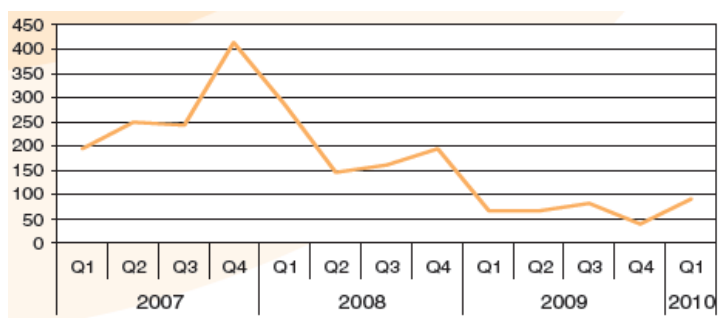
To be noted

- Structural situation at the onset of the crisis
- Different FDI reaction with respect to portfolio investment

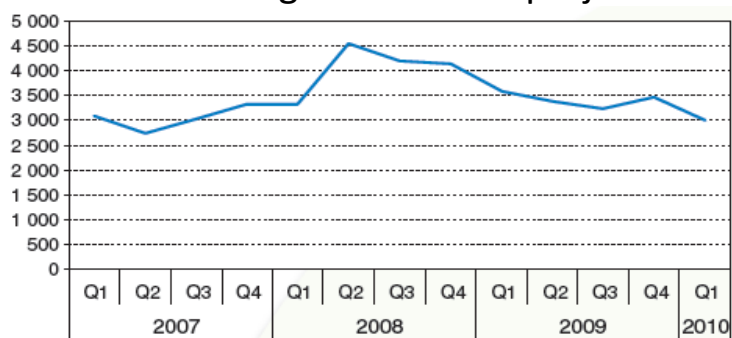
Global FDI Quarterly Index - Unctad



Value of cross-border M&A sales (billions US dollars)



Number of greenfield FDI projects



Source:
UNCTAT

- Different FDI reaction for the main economic areas
- Focus on Central and Eastern European countries

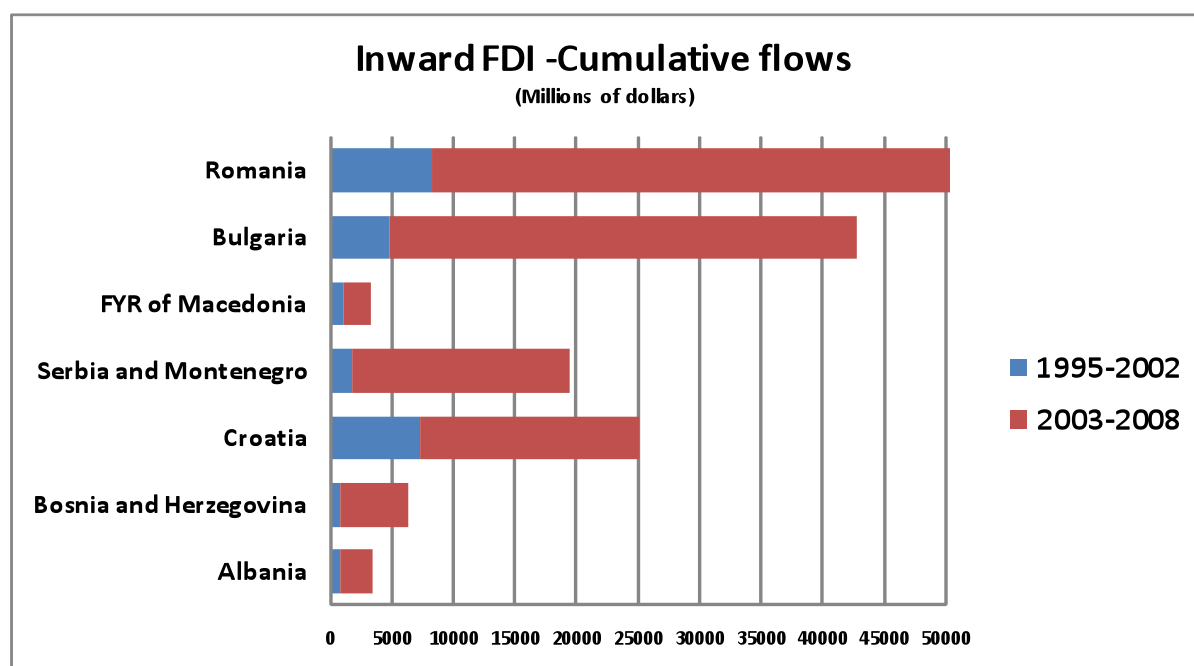
Part II:

An overview of Balcan Countries FDI inflows

Italy-Balkan Countries Flows

An overview of Balcan Countries FDI inflows

An overview of Balcan Countries FDI inflows: geographical distribution



Source: Unctad

An overview of Balcan Countries FDI inflows: recent trends in the context of the woldwide financial crisis

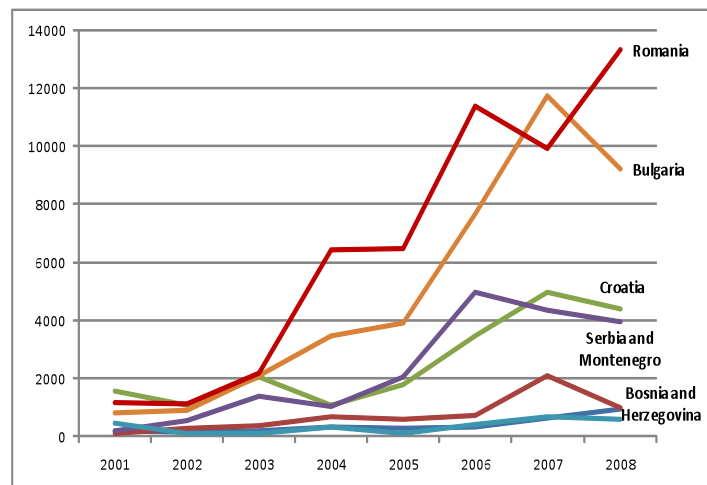
Overall FDI inflows in Balkan countries decreased by 14% in 2008

Role played by the different stage of the privatization process in each country

- In Bosnia and Herzegovina, privatization-related FDI were exceptionally large in 2006 and 2007 but few in 2008

- In Albania, inward FDI increased by 45% in 2008 as a result of the privatization of large State-owned companies

Total FDI inflows, 2001-2008, millions of dollars



Source: Unctad data

An overview of Balcan Countries FDI inflows: main source countries

	Main source countries
Albania	Italy (1°) , Greece
Bosnia and Herzegovina	Austria, Serbia, Croatia, Slovenia, Switzerland, Germany, Russia, Netherlands, Italy (9°)
Croatia	Austria (26,5%), Netherlands (18%), Germany (11%), Hungary (9%), France (6%), Luxembourg (4%), Italy (4°) (8°)
Serbia	Austria, Greece, Norway, Germany, Italy (5°)
Montenegro	Greece, Slovenia, Russia, Italy (4°)
FYR of Macedonia	
Bulgaria	Netherlands (36%), Austria (11%), Germany (11%)
Romania	Netherlands, Austria, Germany, France, ... Italy (7°)

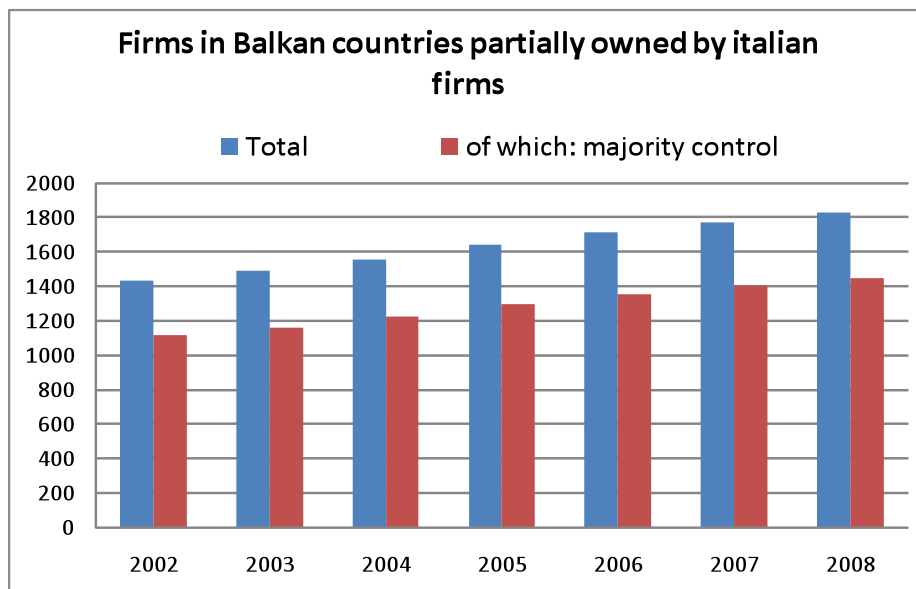
Source: Simest report 2010, ICE country reports, 2009

- EU member countries continued to account for the bulk of FDI in the region, also in 2008

- Italy ranks high among the main countries of origin

Italy-Balkan Countries FDI

The presence of Italian firms in Balkan countries has increased



Source: Reprint database, ICE

A. Relative attractiveness of each Balkan country for Italian investors and firms

The index is constructed as follows:

$$I = \frac{FDI_{Italy}^C / FDI_{Italy}}{FDI_{World}^C / FDI_{World}} - 1$$

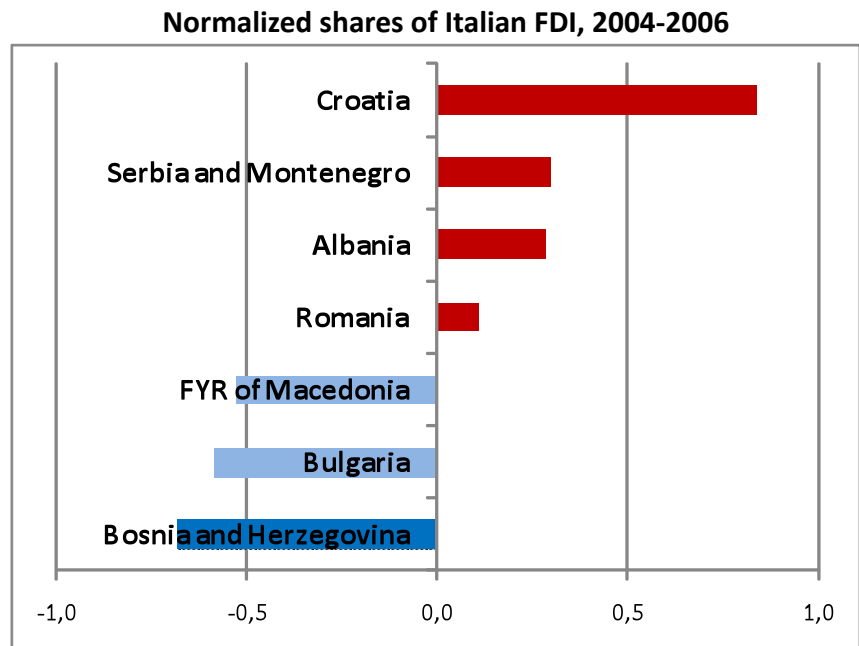
Where:

FDI_{Italy}^C = Italian FDI toward each Balkan country

FDI_{Italy} = Italian FDI toward the whole Balkan area

FDI_{World}^C = World FDI toward each Balkan country

FDI_{World} = World FDI toward the whole Balkan area



Italian investments in the Western Balkan countries during the last decade: a summary

FINANCIAL INTERMEDIATION AND INSURANCE

- Unicredit and Intesa San Paolo: Croatia (50%*), Bosnia and Herzegovina (30%*), Serbia (25%*), Albania

(*share of the national credit market)

- Assicurazioni Generali: Croatia and Serbia

PUBLIC UTILITIES

- Mainly gas distribution, electricity
- Italian firms have been particularly important in the privatization occurred in Serbia

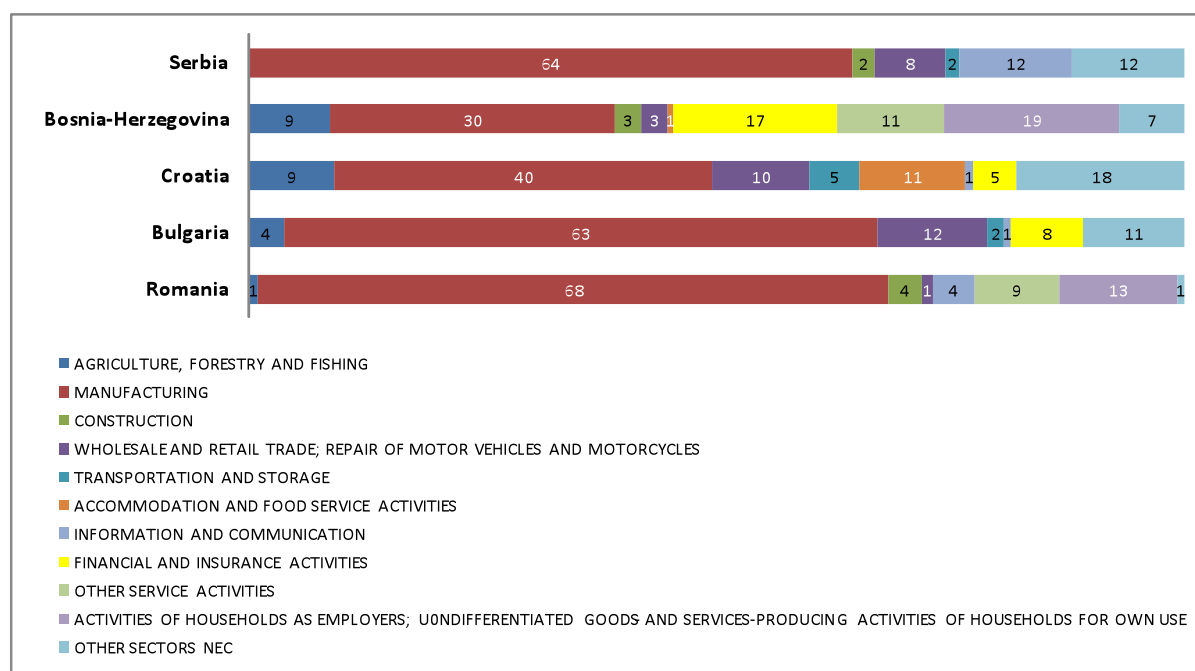
MANUFACTURING

- mainly traditional industries: textiles, clothing, footwear, furniture; Albania, Bosnia-Herzegovina, Croatia, Serbia, Macedonia
- Outward processing mode of production (revealed also by data on merchandise trade)

Recent trends (2007-2009)

- A. Which are the main countries of destination of Italian FDI?
- B. Recently, Italian FDI towards Balkan countries has been directed towards the manufacturing sectors of the main partner countries
- C. Which are the main manufacturing industries of interest for Italian firms? Is outward processing mode of production important?

B. Sectoral composition of Italian FDI, by receiving country 2007-09 (%)

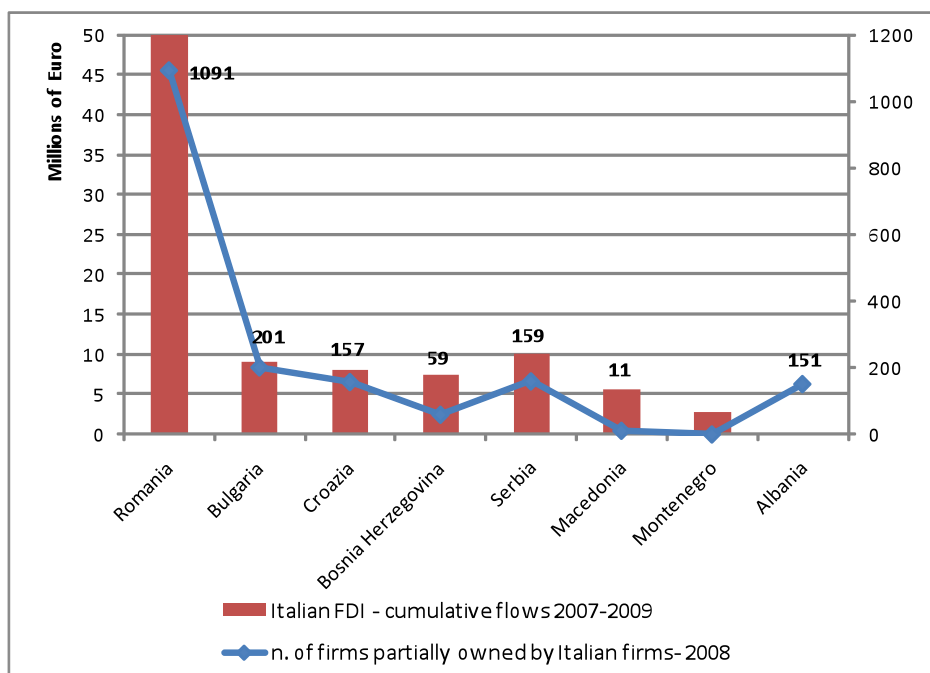


Source: External Trade Statistical Division, Bank of Italy

Recent trends in Italian manufacturing FDI towards Balkan countries

- Two main patterns of economic integration through manufacturing FDI
 - A basic integration related to delocalization of labour-intensive tasks (*first tier*):
 - Western Balkan countries such as Bosnia-Herzegovina, Macedonia, Albania
 - Traditional industries: textiles, clothing, footwear, furniture
 - A second, more complex one (*second tier*):
 - Romania, Croatia, Bulgaria
 - Traditional industries but also some high-tech industries

A. Italian FDI and firms in Balkan countries: Geographical distribution

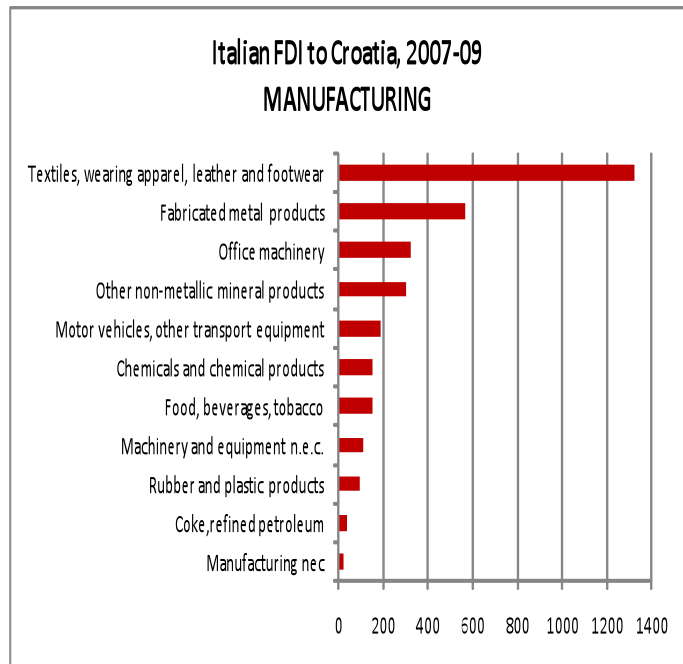


Sources: Italian flows, Bank of Italy (External Trade Statistics Division); Number of firms are taken from the Reprint database, ICE

C. Main characteristics of Italian manufacturing FDI towards Western Balkan countries: CROATIA

•Main manufacturing industries in which Italian firms have been investing during the last decade

- Food
 - Agip
 - Edison
- Refined petroleum and gas production
 - Benetton (delocalization)
 - Calzedonia (greenfield investment)
 - Extensive international subcontracting of Italian SMEs
- Textiles-clothing
- Furniture
- Machinery
- High-tech industries (electronics, high-tech glasses)



Source: External Trade Statistical Division, Bank of Italy

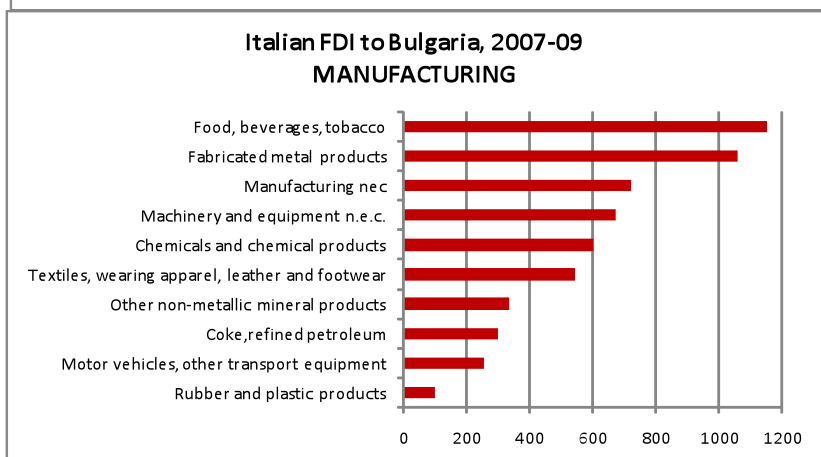
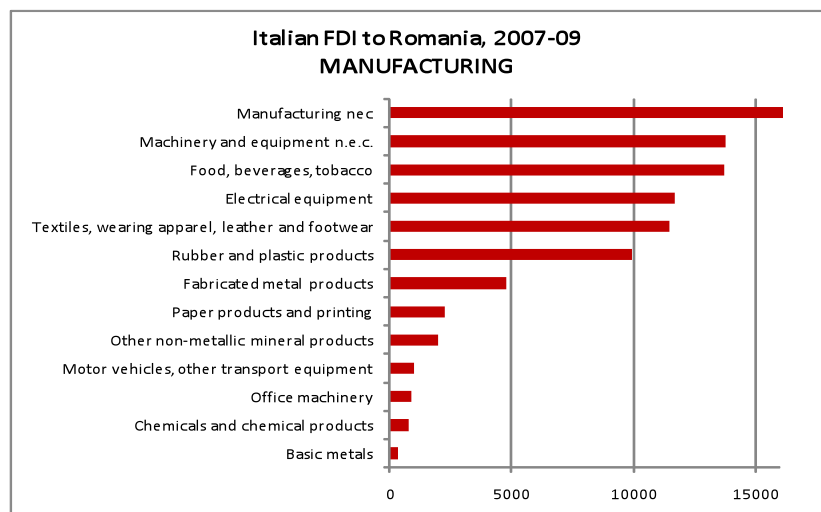
•Recent investments are consistent with the pattern of FDI already emerged in the past with both traditional and high-tech industries involved

C. Main characteristics of Italian manufacturing FDI towards Romania and Bulgaria

•High diversification of Italian manufacturing FDI during the period 2007-09

•Not just traditional industries

•Presence of both SME and large companies

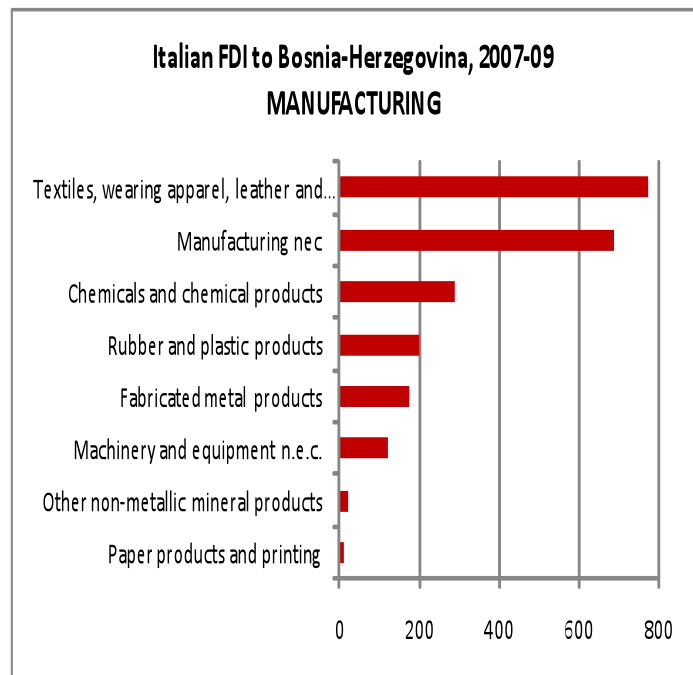


C. Main characteristics of Italian manufacturing FDI towards Western Balkan countries: BOSNIA-HERZEGOVINA

•Main manufacturing industries in which Italian firms have been investing during the last decade

- Textiles (Golden Lady)
- Footwear (Olip Italia)
- Furniture and wood processing (Top Sedia, Corà Spa)
- Fabricated metal products

***Industrial Park in Brčko (Veneto Region and entrepreneurs association)-2008**



Source: External Trade Statistical Division, Bank of Italy

C. Main characteristics of Italian manufacturing FDI towards Western Balkan countries: ALBANIA and MACEDONIA

ALBANIA

- Clothing
- Footwear

MACEDONIA

- Footwear (outward processing mode of production , REGIA (upper-stitching production, 2000 workers)
- Metal products (DUFERCO)

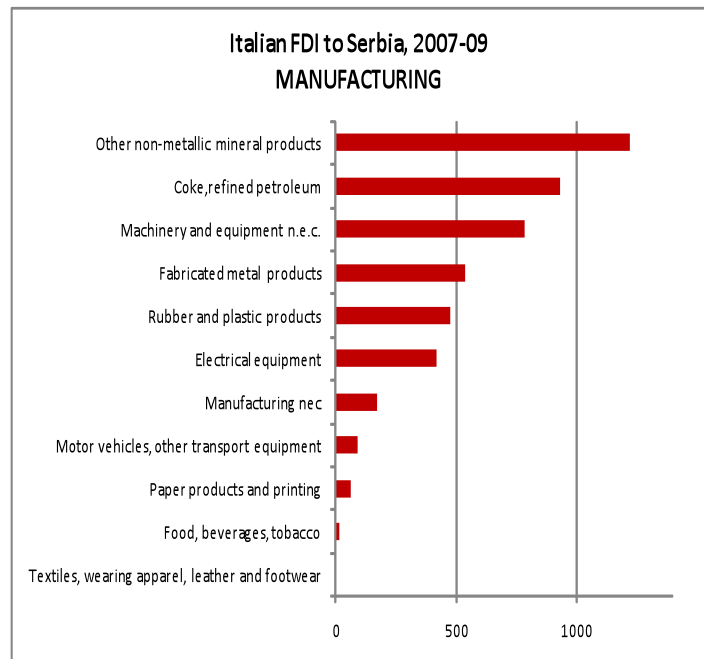
C. Main characteristics of Italian manufacturing FDI towards Western Balkan countries: SERBIA

- Main manufacturing industries in which Italian firms have been investing during the last decade

- Clothing and footwear (outward processing trade)

- Automotive industry: **Fiat investment in 2008** in partnership with the Serbian government

- Furniture industry



Source: External Trade Statistical Division, Bank of Italy

Part III:

Investments of “the Marche Region” in the Balkans

Investments in the Balkans: the Marche Region

Sources:

- 1.** Fondazione Merloni DB
211 companies from the Marche Region, the biggest in terms of sales (universe of companies with turnover more than 30 mln €)
Analysis based on Financial statements
- 2.** Case studies (4 companies: 3 in the DB and 1 out of DB)
Analysis based on direct interviews

Investments in the Balkans: the Marche Region

Fondazione Merloni DB

Main trends:

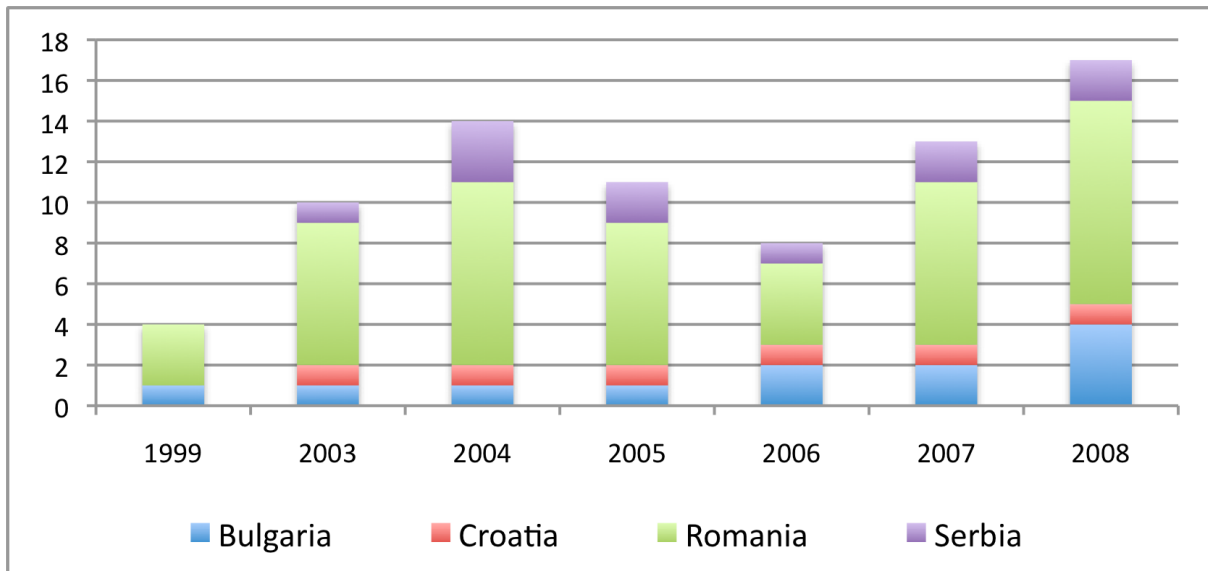
- Increasing interest in the area
- High Volatility in investments in Romania
- High volatility in shoes sector

Main common features of the subsidiaries:

- mostly greenfield initiatives
- high control of invested capital
- production units of the parent company

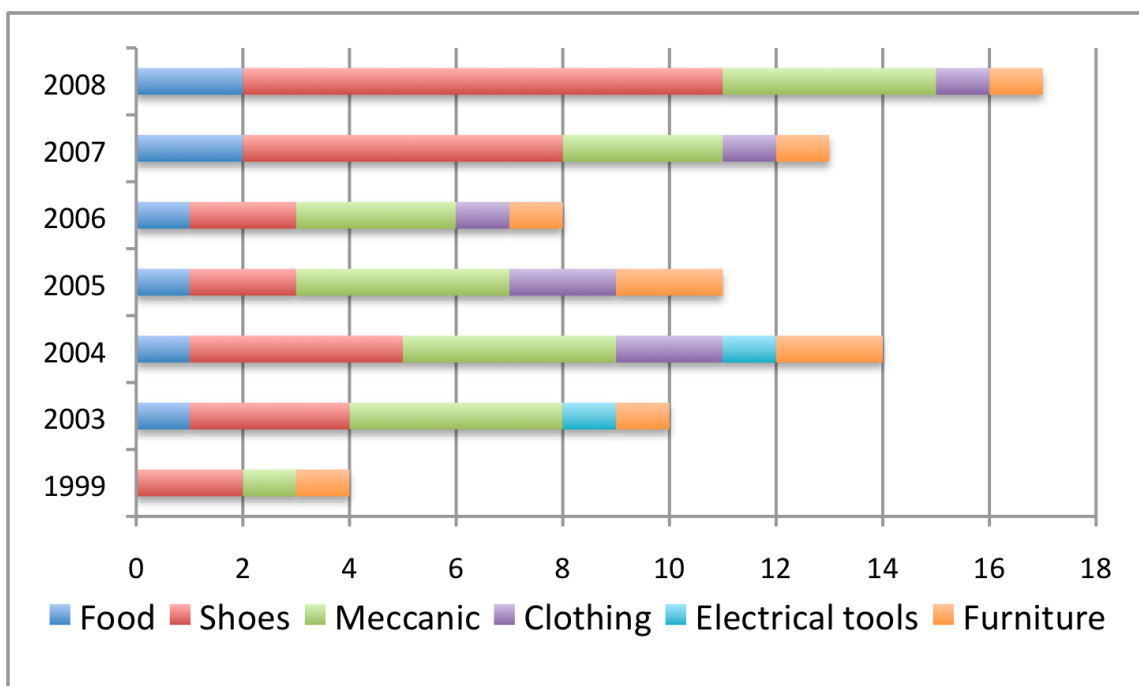
Investments in the Balkans: the Marche Region

Italian-owned enterprises in the Balkans: The Case of The Marche Region
(n. of companies) in 1999; 2003-2008. **Geographical focus**



Investments in the Balkans: the Marche Region

Italian-owned enterprises in the Balkans: The Case of The Marche Region
(n. of companies) in 1999; 2003-2008. **Sectorial focus**



Investments in the Balkans: the Marche Region

Italian-owned enterprises in the Balkans: The Case of The Marche Region (n. of companies) in 2008

	Food	Shoes	Mechanics	Clothing	Furniture
Bulgaria		3	1		
Croatia			1		
Romania	2	4	2	1	1
Serbia		2			
Total	2	9	4	1	1

The Case Studies

- ✓ shoes sector (B2C) – efficiency and strategic asset seeking in **Serbia**
- ✓ mechanics (B2C and B2B) – market seeking in **Croatia** and **Romania**
- ✓ clothing (B2B) – efficiency seeking in **Romania**
- ✓ mechanics (B2B) – efficiency and market seeking in **Romania**

Some first “results”

1. The phenomenon is broader than official statistics say
2. When the investment is driven by only efficiency seeking reasons, It is not worthwhile
3. Balkans can offer a strategic logistic platform, as well as a promising market
4. Usually, the Italian investment creates a business culture in the area and a sort of “cluster”/district emerges
5. No use of the support of public agencies/bodies
6. The financial crisis has not affected the investment strategy

Critical aspects:

- higher costs of services (utilities) and rentals counterbalance the lower wages
- reduced economic (administration and management) culture
- relationship with banks

Future steps in the research project

Complete the overview of Balkan Countries FDI inflows

Focus on The Marche Region:

- complete the case study analysis
- analyse exporting and importing flows
- define some best practice and identify key problems/difficulties of SMEs investing in the area
- suggest some policy intervention to smooth investment flows