

Jože Perić  
Suzana Marković\*

UDK 338.984.4(4):397(497.5)

Izvorni znanstveni rad

## **ACCESSION TO THE EU AND CAPITAL INFLOW - EXPERIENCE FOR CROATIA**

*Analiza autorova rada i zaključak o iskustvu odabranih zemalja mogli bi biti podesan putokaz za Hrvatsku. Specifične osobine i rezultati promatranih ekonomija mogu biti relevantne komponente i ciljevi hrvatskog koncepta i strategije u odnosu na pristupanje Europskoj uniji i priljevu stranog izravnog ulaganja.*

### **EU MEMBERS (SELECTED COUNTRIES) AND FDI INFLOW**

In the context of this paper selected countries are Greece (EU member since 1981), Ireland (1973), Portugal (1986) and Spain (1986). There is a number of reasons (criteria) to this selection, such as: flow of GDP and GDP<sub>pc</sub>, structure of economy (tourism for example), problems of developing country and their transition to the system of developed economic integration (European Community = EU) etc. Regarding the focus of this paper the FDI flow can be the starting point of analysis.

---

\* J. Perić, docent Fakulteta za turistički i hotelski menadžment, Opatija. S. Marković, magistar znanosti, asistentica Fakulteta za turistički i hotelski menadžment, Opatija. Članak primljen u uredništvu: 05. 04. 2001.

Table 1

FOREIGN DIRECT CAPITAL STOCK 1975 - 1994 IN SELECTED  
COUNTRIES - EU MEMBERS

(Mln US \$)

Country	1975	1982	1990	1994
Greece	1039	4401	14016	18257
Ireland	2953	3392	4974	5358
Portugal	302	389	5132	5472
Spain	2909	4538	66274	113310

*Source:* For 1975, 1987, Dunning, I., Cantwell, I. (1987) IRM Directory of Statistics of International Investment and Production, New York University Press, New York, p. 790.  
For 1990, 1994, World Investment Report (1995), United Nations, New York, p. 401.

Table 2

GROWTH OF FOREIGN DIRECT CAPITAL STOCK 1975-1994 IN SELECTED  
COUNTRIES - EU MEMBERS

In %

Country /year	1982		1990		1994	
	1975=100	1975=100	1982=100	1982=100	1982=100	1990=100
Greece	423	1 348	318	417	131	
Ireland	114	168	144	157	108	
Portugal	128	1 699	1 319	1 406	107	
Spain	154	2 278	1 460	2 496	171	

*Source:* Table 1.

From the data stated and calculated in tables 1 and 2 it is evident how stimulating for FDI inflow was the accession to EC. It is interesting that Ireland realised the small increase of FDI stock in 1975, which is little higher than the stock in Spain. It leads to conclusion that enlargement in Ireland had been realised in previous years (member since 1973). The same trend is evident in Greece (member since 1981) with additional explanation that the huge increase was realised before 1981, in years when the decision about accession was final. Generally interesting is the FDI in Spain. The FDI growth is over the trends in other countries and it shows the

importance of other factors in foreign capital flow, by the EU membership. It comes out that EU membership of selected countries is not the only impulse for the FDI growth. There are other preconditions, too (market and resource factors, employment and financial efficiency factors, Investment climate factors...). On the other hand, regarding the investment climate the most important is the overall stability of the host country to FDI. There is no need for arguments about contribution of being EU member to investment climate.

The contribution of the EC (EU) memberships to the changes of intra-extra FDI structure can be illustrated in following Table 3.

Table 3

EU INFLOWS FROM ALL COUNTRIES

	Mln. ECUS							
	1984	%	1987	%	1990	%	1992	%
Intra EU	4213	41	12344	49	39295	55	28373	63
Extra EU	6152	59	12991	51	32753	45	22551	37
Intra+Extra	10265	100	25335	100	72048	100	60924	100

Source: Eurostat and Commission Services, in: European Economy (1996), European Commission, Directorate - General for Economic and Financial Affairs, Brussels, No 4, p. 89.

Table 3 suggests that 1987 is the last year of extra inflows dominance. Next year shows the permanent enlargement of the intra EU share of total FDI flow. Such trend is the result of the new members accession (Portugal and Spain since 1986) and general policy of the EU - specially in directing the public sources (funds) of capital and public/private capital combinations and interdependence in enlargement of investments. Considering the changes in the value and structure of FDI inflows to the EU it is obvious that EU, with its advantages (market, technology, stability...) strongly motivates: the enlargement of the FDI inflows from all the countries, the accelerated growth of intra FDI inflows.

The best indicator of significance of stated FDI trends and accession to the EU is the GDP<sub>pc</sub> flow.

Table 4

GDP<sub>pc</sub> IN SELECTED COUNTRIES - EU MEMBERS 1985-1995

Country	GDP <sub>pc</sub> 1995	Growth rate 1985-1995	Growth rate 1990-1995
Greece	8210	1,2	1,2
Ireland	14710	5,2	4,9
Portugal	9740	3,7	1,1
Spain	13580	2,6	1,4

Source: GDP<sub>pc</sub> and Growth rate 1985-1995, World Bank Atlas 1997, The World Bank, Washington, D.C., pp. 11-12

Growth rate 1990-1995, European Economy (1996), No 60, pp. 210-225.

Analysing the considerable level of GDP<sub>pc</sub> and its growth in 1985-1995 period it is relevant to stress that those years were characterised with difficulties and restructuring of the economies in Europe and North America. Therefore, the GDP<sub>pc</sub> growth and its positive trend is the envious result for the stated countries. By the importance of being the EU member the significance of the FDI inflow (as shown in Table 5) is one of the leading factors that contributed to the GDP<sub>pc</sub> growth.

Table 5

SIGNIFICANCE OF THE EU'S INFLOWS TO GDP BY MEMBER STATUS  
(SELECTED COUNTRIES), 1986 AND 1990-1993 RATIO OF TOTAL FDI TO GDP

Country	1986	1990-1993
Greece	0,86	0,64
Ireland	0,25	9,41
Portugal	0,65	2,64
Spain	1,20	1,75
EU 12	0,49	1,17

Source: Eurostat and Commission Services, in: European Economy (1996). European Commission, Directorate - General for Economic and Financial Affairs, Brussels, No 4, p. 90.

Brief analysis stated above and cognition that comes out of it, lead to conclusion that there is positive correlation between EU memberships and FDI inflow. This correlation is stressed in the years before and the first years after accession. The

fact of being member of the EU has positive influence to FDI inflow from all countries, especially from the EU members. The mutual effects of EU membership and FDI inflow give the great part of contribution to the GDP growth.

### Selected Countries in Transition and FDI Inflow

FDI inflow in selected countries in transition can be of more interest for the Croatian determinations. The only criteria for the selection of the countries and the following analysis is based on the Agreement of relation between EU and selected countries and dynamic plane (first group) of accession of selected countries to EU.

From the very start of the transition years the analysed countries were attractive host countries for the foreign investments.

Table 6

#### CUMULATED NUMBER OF REGISTERED INVESTMENT PROJECTS WITH FOREIGN PARTICIPATION

	CSFR	Hungary	Poland
1985	0	44	0
1987	7	102	13
1989	60	1000	90
1990	1600	5693	2799
1991	4000	9117	4796
1992	5995	13218	5740

Source: European Economy Commission Directorate - General for Economic and Financial Affairs, Brussels, No 6, p. 135.

The origin of investments in stated years as a percentage of number of projects was in European Community about 40% (CSFR and Hungary) and 52% (Poland); as a percentage of value of projects EC participated with 53% (CSFR and Hungary) and 63% (Poland).<sup>1</sup> As the result of foreign capital interest for direct engagement in this countries already in 1991 the importance of FDI inflow relative to GNP was 5,7% (CSFR), 10,4% (Hungary), and 2,0% (Poland)<sup>2</sup>.

Interest and inflow of FDI has continued in the following years.

<sup>1</sup> European Economy (1994), European Commission, Directorate General for Economic and Financial Affairs, Brussels, No 6, p. 139.

<sup>2</sup> European Economy (1994), No 4, p. 137.

Table 7

## FDI IN SELECTED COUNTRIES IN TRANSITION (CUMULATIVE)

Country	Bln US \$	US \$ pc
Czech Republic	7,8 (III 98)	757,3
Hungary	17,5 (XII 97)	1715,7
Poland	2,1 (III 98)	572,5

Source: Business Central Europe, July/August 1998, p. 57.

As a comparison it can be interesting that the level of FDI pc in selected transition countries in 1997/98 corresponds to level in Greece (496 US\$ pc) and Ireland (974 US\$ pc) - but in 1982.<sup>3</sup>

Regarding the origin of FDI, European Union has the great role in all selected countries. As an illustration, in greenfield investments in Hungary Germany participates twith 38% (US 35%, Japan 11%); in total FDI in Hungary, Germany participates 23%, France 16%, Italy 5%, Austria 10% (USA 28%).<sup>4</sup>

While the FDI inflow in selected market economies had positive influence to GDP growth (and other indicators) FDI inflow in countries of transition has specific importance for privatisation and transformation of institutions from old (socialist) to new (market) system.

Table 8

PRIVATISATION IN SELECTED COUNTRIES IN TRANSITION 1988-1994  
(REVENUES, NUMBER, FDI)

Country	Mln US\$.			
	Privatisation revenues	Number of privatisations	FDI from privatisation	FDI/revenues %
Czech Republic	652	33	486	74,5
Hungary	4704	186	4034	85,7
Poland	2015	201	1019	50,5

Source: World Bank Privatisation Database, in: Trends in Private Investment in Developing Countries, IFC, December 1996, The World Bank, Washington, D.C., pp. 11 -12.

<sup>3</sup> Dunning, L, Cantwell, I. (1987), IRM Directory of Statistics of International Investment and Production, New York University Press, New York, p. 802.

<sup>4</sup> Privredni vjesnik (1998), 7 September, pp. 6-7.

Together with enlargement of FDI inflow (and not only because of it) the selected countries were developing other economic relations with EU. In 1997 Czech Republic realised 55% of export and 56% of import with EU, Hungary 63% and 62%, Poland 70% and 65%.<sup>5</sup> Furthermore, the financial inflow upon special programmes (such as PHARE) might be good example.

Table 9

PHARE PROGRAM INVESTMENTS IN SELECTED COUNTRIES IN TRANSITION  
 1990 - 1999

Country	Mln ECUS	
	1990-1996	1997-1999
Czech Republic	433	81
Hungary	683	325
Poland	1295	630

Source: Privredni vjesnik (1998), 16 February, p. 15.

Obviously, the value of PHARE investment is correlated with total inflow of FDI and with the process of accession to EU.

Figures and trends related to FDI inflow, foreign trade and other components of connecting with EU influenced to GDP flow, too.

Table 10

GDP AND GDP<sub>pc</sub> IN SELECTED COUNTRIES IN TRANSITION

Country	Real GDP 1996		Real GDP <sub>pc</sub>	
	bln US \$	1989=100	1995 US \$	1989=100
Czech Republic	53	90	3870	(3364) 115
Hungary	44	90	4120	(2759) 149
Poland	132	110	2790	(2107) 132

Source: GDP, Privredni Vjesnik (1998), 12 January, (1997) 24 November

GDP<sub>pc</sub>: 1995: World Bank Atlas 1997, the World Bank, Washington, D.C. pp. 36-37

1989: Statistical Yearbook 1995, United Nations, New York, p. 153.

<sup>5</sup> Privredni vjesnik (1988), 16 February, p. 15.

Considering the difficulties of transition and characteristics of economies in selected countries at the beginning of transition (state ownership, “socialist mastodons”, efficiency, market institutions. . . ) the recovery is considerable and accelerated. There is no doubt that the relations with EU, specially FDI inflow, gave a good deal of contribution to GDP growth, recovery and transition as a whole.

### **Croatian Orientation to EU and Foreign Direct Investment (Foundation)**

There is no need (in the context of this paper) for explications about historic, present days and future determination of Croatia toward the West European countries or present EU integration. Therefore, to stress the positive preconditions and necessity of approaching to the EU follows the brief analysis of: (1) Balance of trade. (2) FDI inflow. (3) General importance of FDI inflow and approaching to the EU.

#### ***Balance of trade***

The former (socialist) system by it's essence could not offer the logic frame for higher degree of Croatia - EU linking. There were no preconditions for the connections based on the direct capital engagement. The absence of the classic market institutions (capital markets, the institutions of ownership,...), legislative and politic system were the key barriers for the foreign private capital inflow. On the other hand, as shown in graph 1 the trade relations had solid level excepting the years of debt crisis in former Yugoslavia.

*Table 11*

#### CROATIAN FOREIGN TRADE WITH EUROPEAN UNION 1991-1998

	Bln US\$, % of total				
	1991	1993	1995	1997	1998 (I-IX)
Export to EU	2,16	2,24	2,67	2,30	1,58
% of total export	66	57	58	55	47
Import From EU	2,14	2,63	4,64	4,62	3,03
% of total import	56	56	62	51	58

*Source:* Statistical Yearbook 1996 (1991, 1993, 1995)

State Institute for Statistics (1997, 1998) in: Privredni vjesnik (1998), Special Issue, December

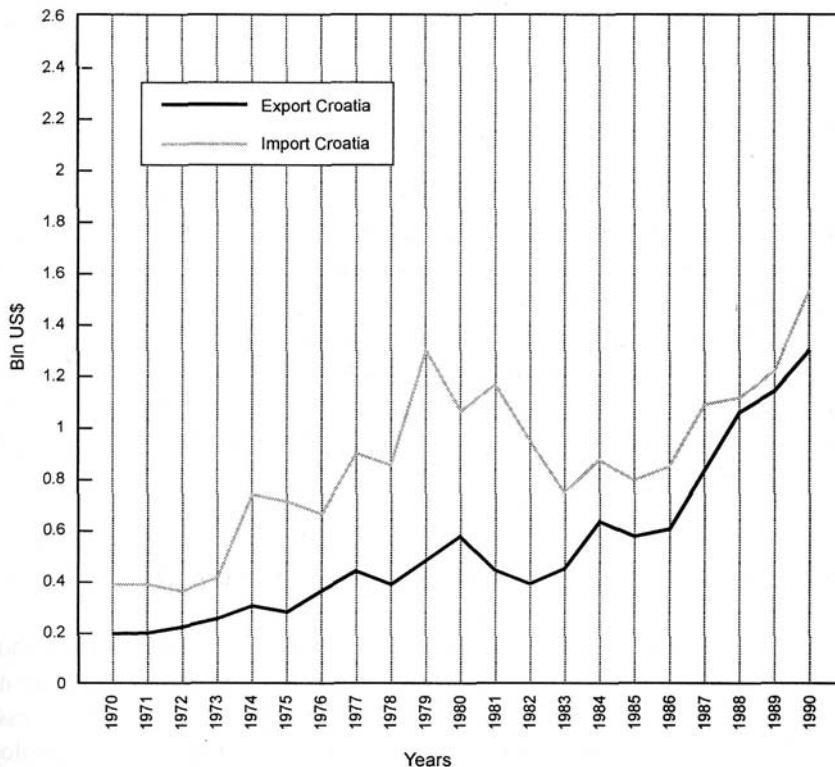


From the value and structure of Croatian foreign trade in transition years it comes out that: (a) the export to the EU stagnates; portion of EU in the export as a whole diminishes, (b) the import from the EU grows (as the import as a whole); portion of the EU is constant, (c) negative export/import difference becomes the serious problem for the Croatian economy.

War situation influenced the foreign trade flow as a whole, some aspects of economic policy (exchange rate) and difficulties of transition, too. However, in comparison with some other countries in transition the Croatian results in foreign trade are far from satisfactory. Conclusion has to point up the necessity of numerous steps if the change in foreign trade with the EU is wanted. The restructuring in foreign trade is necessary and related to FDI inflow and accelerated approaching to the EU.

Figure 1

CROATIAN FOREIGN TRADE WITH EUROPEAN COMMUNITY 1970-1990 BLN US \$



Source: Sabolović, D. (1992), *Gospodarski izgledi Hrvatske (Croatian economic prospects)*, Privredni vjesnik, No 27929, p.15.

More important is that Croatian export/import to/from EU participated about 40% in total Croatian export/import. In the years of transition (since 1991) the trade relations with EU have grown, as shown in Table 11.

### *FDI inflow*

Croatia had long experience with capital inflow from European countries, but almost exclusively on the loan base (profit forms of foreign capital engagement were strongly discouraged in former system). There were examples of joint ventures (limited wrights for owners of foreign capital); but total value and related effects were in level of minimal importance for economy.

The cumulative (1991-1998) value of FDI inflow in Croatia is 2,5 bln USA\$. This amount is far from expectations. In the context of this analysis the structure of FDI by origin countries is interesting:<sup>6</sup>

- Austria	16,87%
- Germany	7,48%
- UK	6,47%
- Italy	2,85%
- EBRD	6,70%

The structure shows that, by the small amount, the share of EU countries is small, too (33,67% for the stated countries). It is interesting the EBRD direct engagement. It suggests that in the circumstances of insufficient interest of private capital, the public capital (EBRD) supports the capital linking with Croatia. This specific channel of FDI inflow leads to very important conclusion. The reasons for the FDI inflow from EU are on the hand of Croatia. By the war risk in the first years there are other politic and economic reasons for the results above. On the hand of the EU, there is desire to improve the relations and to support the climate for enlargement of the private investments.

### *The importance of FDI inflow and approaching to the EU*

Insufficiency of domestic accumulation will characterise Croatian economy for many years. Therefore, the orientation to foreign sources of accumulation (investments) is necessary, especially to FDI inflow. Such an orientation is necessary because of the other components of accelerated development (technology;

---

<sup>6</sup> Croatian National Bank, 1997, December.

knowledge, export of goods...) too. Usually, the FDI inflow has positive influence to stated and other factors of growth (organisation, management. . . ).

The European experience and practice confirm the effects of FDI inflow, and more, effects of FDI inflow related to EU membership.

Table 12

FDI CONTRIBUTION TO GDP GROWTH 1994 AND GDP GROWTH 1985-1995  
 IN SELECTED EU COUNTRIES

Country	1994			Real GDP rate 1990-1995
	FDI bln US \$	FDI contribution to GDP growth	Efficiency of FDI	
Greece	1,085	8,18	7,54	1,2
Ireland	0,096	9,92	9,58	4,9
Portugal	1,260	4,97	3,96	1,1
Spain	8,220	35,89	4,37	1,4
EU	59,911	430,45	7,18	1,4 EU (15)

Source: For FDI contribution to GDP growth, Bezić, H.: Inozemne direktive investicije u Europskoj uniji (FDI in EU) (1996), doctoral dissertation, Faculty of Economics, Rijeka, p. 186.

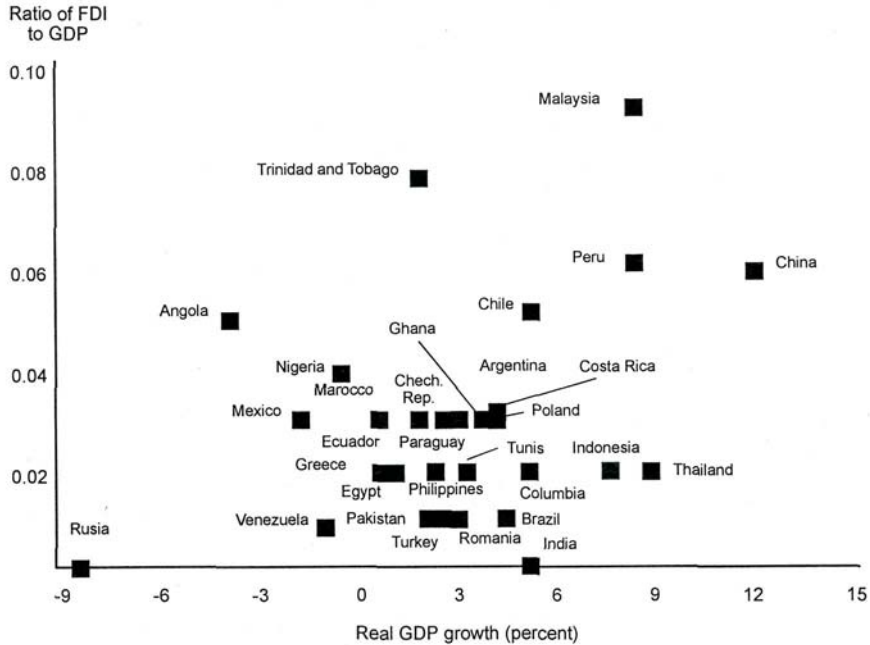
For GDP Growth rate, European Economy (1996), No 60, pp. 210-225

The FDI contribution to GDP growth is evident. Efficiency of FDI is different, in Greece and Ireland it is over the EU indicator, in Portugal and Spain below it. The reason for differences in efficiency of FDI mostly comes out from the period necessary for adaptation to integrated system and the sectoral structure of investments.

Figure 2 might be more confirmative argument for the positive impact of FDI inflow.

Figure 2

## FDI - GROWTH CORRELATION



Note: Calculations are based on averages for 1993-95.

Source: Global Development Finance 1997, Volume 1, The World Bank. Washington, D.C., p. 31.

Position of number of countries confirms the FDI - GDP growth interdependence. Some of countries, their experience and policy can be the good example to follow.

Regarding importance of accession to the EU there are confirmative researches in Croatia, too. So, Hađina and Kandžija concluded that in the case of Croatia positive effects of accession in GDP growth should be 1,5 bln US\$ in 1999 and 2000.<sup>7</sup> Kersan calculated that in the long term, Croatian membership in the EU would effect with 141,60% increase of export and 42,7% of import.<sup>8</sup>

<sup>7</sup> Hađina, B., Kandžija, V. (1997), Effects of Accession of the Republic Croatia to the European Union, Economic System of EU and Adjustment of the Republic of Croatia, Faculty of economics, Rijeka, p. 15.

<sup>8</sup> Kersan, I. (1998), Trgovinske implikacije pridruživanja Hrvatske i Slovenije Europskoj Uniji, (Trade Implications of accession of Croatia and Slovenia to EU), Ekonomski pregled.

The analysed European and world experience about FDI impact to growth and EU membership to FDI inflow can be the good reason for researches on EU - FDI - Growth interdependence. For Croatia, it leads to necessity of evaluation of results and policy to FDI inflow and to approaching the EU. With proper methods and policy this two components of development (EU, FDI) should be the key factors of Croatian long-term strategy.

## **Conclusion**

Croatian long term development (concept and strategy) is oriented to enlargement of FDI inflow and accession to the EU. Both components are the result of the historic experience and present time/future preconditions for accelerated growth and development.

Within various factors the interdependence between FDI and EU - membership is of the great importance.

Analysis of the selected EU countries (Ireland, Greece, Portugal, Spain) shows the evident correlation between accession to the EU and FDI increasing. Selected countries had the strong growth of FDI, with origin in EU, and from other countries, too. It comes out that accession to the EU had great contribution to the capital inflow and to the growth of the economy as a whole. The experience of selected countries in transition (first group) confirms the positive relation between FDI inflow and the grade of connections with the EU. FDI flow in Czech Republic, Hungary and Poland had the crucial impact to recovery of economy. The structure of FDI by origin stresses the leading role of the EU countries.

In the context of this paper, examples of the selected countries lead to the conclusion that the enlargement of FDI inflow is in a great part related to the process of the accession to the EU. Furthermore, FDI inflow and the impact of relations to the EU have great positive influence to the economic recovery. Croatian policy and strategy of development should respect and affirm the experience and practice of analysed economies.

## LITERATURE:

1. Bezić, H.: "Inozemne direktne investicije u Europskoj Uniji (FDI in EU), doctoral dissertation, Faculty of Economics, Rijeka, 1996.
2. Business Central Europe, July/August 1998.
3. Croatian National Bank, 1997, December.
4. *Dunning, L, Cantwell, I.*: "IRM Directory of Statistics of International investment and Production", New York University, Press, New York, 1987.
5. *Ethier, W. I.*: "Modern International Economics", Second Edition, W. W. Northon and Co, New York - London, 1988.
6. Eurostat and Commission Services, in: European Economy (1996), European Commission, Directorate General for Economic and Financial Affairs, Brussels, No. 4, No. 60, No. 6, 1994.
7. Global Development Finance 1997, Volume 1, The World Bank, Washington, D.C., 1997.
8. *Hađina, B. Kandžija, V.*: "Effects of Accession of the Republic of Croatia to the European Union, Economic System of EU and Adjustment of the Republic of Croatia", Faculty of Economics, Rijeka, 1997.
9. *Kersan, I.*: "Trgovinske implikacije pridruživanja Hrvatske i Slovenije Europskoj Uniji", (Trade Implications of Accession of Croatia and Slovenia to EU), *Ekonomski pregled*, 49, (1), 1998.
10. *Privredni vjesnik*(1998), 16 February,.7 September, 12 January, (1997) 24 November
11. *Sabolović, D.*: *Gospodarski izgledi Hrvatske*, *Privredni vjesnik*, br. 2729, 1992.
12. Trends in Private Investments in Developing Countries (1996), IFC, December, The World Bank, Washington.
13. World Bank Atlas 1997, The World Bank, Washington, D.C.
14. World Investment Report 1995, United Nations, New York.

## PRISTUPANJE EUROPSKOJ UNIJI I PRILJEV KAPITALA - ISKUSTVO HRVATSKE

### Sažetak

Koncept i strategija ekonomskog razvitka Hrvatske nesumnjivo uključuju pristupanje Europskoj uniji i priljev stranog kapitala, naročito strana izravna ulaganja.

Obje komponente proizlaze iz prošlih povijesnih, religijskih, ekonomskih, institucionalnih odnosa i preduvjeta za ubrzani razvoj i povezivanje s vodećim trendovima europskog razvitka.

Članak analizira povijesno iskustvo odabranih zemalja;

- sadašnje članice Europske unije (Grčka, Irska, Portugal, Španjolska)
- tranzicijske zemlje (Češka, Mađarska, Poljska),

te međuovisnost između priljeva stranih izravnih ulaganja i odnosa s Europskom unijom. U oba slučaja (grupa zemalja) očite su korelacije priljeva stranih izravnih ulaganja i statuta Europske unije i izravnog utjecaja i doprinosa na rast GDP i oporavak ekonomije.

Analiza i zaključak o iskustvu odabranih zemalja mogli bi biti podesan putokaz za Hrvatsku. Specifične osobine i rezultati navedenih ekonomija mogu biti relevantne komponente i ciljevi hrvatskog gospodarstva i strategije u odnosu na pristupanje Europskoj uniji i priljevu stranog izravnog ulaganja.