PODPORA SOVENSKÝCH FIRIEM NA EXPOTE A INVESTOVANÍ V ZAHRANIČÍ

SUPPORTING SLOVAK COMPANIES IN EXPORT AND INVESTMENT ABROAD

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Abstract

This paper deals with the support of Slovak companies in their activities outside the EU. More precisely, we will identify the state and public organisations and their services offered which should be beneficial to Slovak companies and their business expansion abroad. Going global as an exporter or investor offers huge range of opportunities. However, companies without any experience could tackle some difficulties which stem from their lack of information about foreign markets. By entering new markets Slovak companies can eliminate the risk of decline in domestic market and at the same time, significantly improve their long-term growth potential.

Key words*: investment, export, Slovak companies, outward foreign direct investment;*

1. Export and investment of Slovak companies

Slovakia is one of the most open economy in the European Union, and the most open among the V4 countries (the Czech Republic, Hungary, Poland and Slovakia). Foreign trade represented 185% of GDP in 2015.

SME (small and medium-sized enterprises) are lagging behind the large companies in terms of export performance. In 2014, the number of exporting SME reached 29,284 which accounts for 96,9% of all Slovak exporters. Nevertheless, the value of SME export was only 17,292 bln EUR which represents 26,7% of the overall value of Slovak export (Strategy for external economic relations of the Slovak Republic for 2014-2020: First monitoring report). However, when speaking of internationalisation, Slovak state institutions seem to give priority to export support and only little attention is paid to ***outward foreign direct investment*** (OFDI).

Significant increase in OFDI is visible after Slovakia joined the EU in 2004. OFDI temporarily decreased in 2008, as a consequence of financial crisis. Quite steep decline occurred in 2012, with only a mild recovery taking place in 2013. More recent development of OFDI is displayed in Table 1. We can distinguish between the influence of the inward and outward FDI on trade. What are the benefits of OFDI and FDI (foreign direct investment) in general?

Fontagné (1999) underlines four situations regarding FDI:

- Inward FDI influences exports if foreign firms locate in the host economy to export back home, or provide products/services in a regional market.
- Outward FDI influences exports owing to enhanced competitiveness on foreign markets or reduces exports if the opposite applies.
- Inward FDI influences imports owing to enhanced competitiveness of foreign firms on the domestic market, but they may give rise to exports when the host country gains competitiveness.

- Outward FDI influences imports in the case of backward vertical integration and/or relocation of labour- intensive activities abroad, from a capital-intensive country.

The overview of outward foreign direct investment in the last ten years is displayed in Table 1 (Data for years 2015-16 have not been processed yet).

Table 1 Outward foreign direct investment (OFDI) of Slovak companies in years 2003-2014 (in thousand USD)

Year	Ownership interest and reinvested profit	Other capital	Overall
2003	**53 149**	**193 437**	**245 586**
2004	**161 188**	**-182 339**	**-21 152**
2005	**115 553**	**33 934**	**149 488**
2006	**477 700**	**33 207**	**510 906**
2007	**497 740**	**101 536**	**599 276**
2008	**582 198**	**-52 184**	**530 014**
2009	**811 190**	**96 999**	**908 188**
2010	**858 759**	**88 492**	**947 251**
2011	**-231 576**	**945 732**	**714 156**
2012	**40 109**	**-33 600**	**6 509**
2013	**-72 655**	**-163 007**	**-235 662**
2014	**-220 509**	**127 508**	**-93 001**

Source: National Bank of Slovakia (adapted by author)

Negative OFDI resulting from the directional principle applied to fellow enterprises relates to disinvestment by the resident ultimate controlling parent who receives funds from non-resident subsidiaries.

More recent data were published by OECD (See Chart 1).

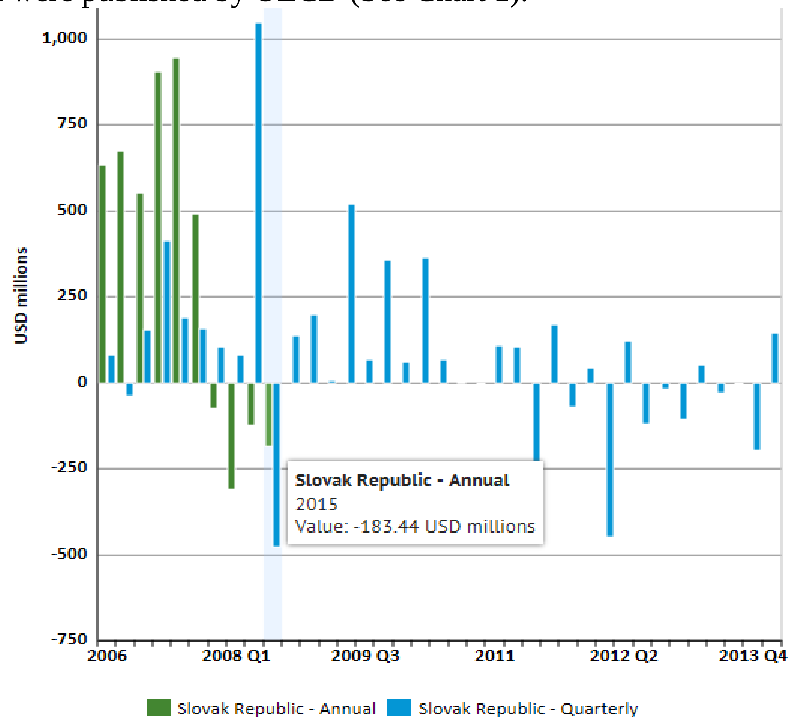

Chart 1 Foreign direct investment, Outflows
Source: OECD data

Following the methodology of the World Bank, *outward FDI includes* the net assets of resident enterprises exerting control or influence on non-resident enterprises. Outward foreign direct investment is also called *direct investment abroad*. FDI net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies (www.worldbank.org).

In Table 2 we can see the geographical allocation of outward foreign direct investments in 2014 according to countries (Note: In some cases the data were not available. This is indicated by the letter "C").

Table 2 Outward foreign direct investments (OFDI) of Slovak companies in 2014 (in thousand EUR)

Country	Ownership interest and reinvested profit	Debt instruments	Overall
World	**2 043 755**	**425 842**	**2 469 597**
Czech Rep.	**593 078**	**184 698**	**777 776**
Cyprus	**567 702**	**37 964**	**605 666**
Luxembourg	**C**	**C**	**344 276**
Poland	**144 763**	**37 900**	**182 663**
Turkey	**C**	**C**	**129 734**
Netherlands	**C**	**C**	**82 885**
France	**C**	**C**	**61 427**
Austria	**56 099**	**2 468**	**58 567**
Hungary	**35 675**	**6 703**	**42 378**
Italy	**18 054**	**14 340**	**32 394**

Source: National Bank of Slovakia (adapted by author)

The size of outward foreign direct investment (OFDI) indicates the extent of penetration of Slovak direct investors in other markets. As for OFDI, Slovak investors still prefer neighbouring countries and also the EU member countries, including Cyprus, Luxembourg, Netherland and France.

As previously mentioned, only a few studies in the international literature address the development of OFDI from Central and Eastern European countries (CEECs).

Radlo and Sass (2012) analysed so called *V4 Countries* (Slovakia, Hungary, Poland and Czech Republic). They identified three major types of investment projects in terms of location and motivation for investment: projects related to tax optimization and establishing regional headquarters, projects motivated by market seeking and improving market power (mainly of a horizontal and regional nature), and resource-seeking projects.

Damijan et al. (2014) analysed the direction and intensity of causal relationship between outward investing and growth performance of CEEs companies. They used a large sample of micro data for CEE (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia) they investigated what kind of companies, with which characteristics tend to invest abroad. They found out that companies with outward FDI tend to be larger and more productive even compared with similar companies that own domestic subsidiaries.

Albulescu and Goyeau (2016) tested four different cross relationships which emerge between the outward/inward FDI and exports/imports. They concluded that the outward FDI has a positive effect on the level of exports, proving a complementarity effect between trade and FDI. Moreover, investments in the partner countries enhanced competitiveness on the foreign markets and conducted to a vertical integration and to allocation of labour-intensive activities from a capital-intensive country.

2. Institutional framework of organisation supporting outward foreign direct investment of Slovak companies

Several state and public organisations are involved in support of Slovak companies with their export or investment activities such as follows:

The Ministry of Economy´s ***Slovak Investment and Trade Development Agency*** (SARIO) is a specialized government agency in charge of attracting foreign investments to Slovakia. SARIO counsels potential investors about the Slovak political, business and investment climate, discusses investment incentive information, provides assistance with the implementation of investment projects, and advises on business launch issues such as site location (www.sario.sk). At the same time, SARIO's services are available to all Slovak companies which have the ambition to export or invest abroad.

Another state institution which can be helpful for companies is ***Export-Import bank of the Slovak Republic*** (EXIMBANKA SR).

The main objective of this institution is to support the maximum export volume of sophisticated production to the numerous countries, while ensuring the return on investment through the minimisation of the risks arising from insurance, credit, guarantee, and financial activities. EXIMBANKA SR assists both large and small (SME) companies and is prepared to provide solutions tailored to companies´ specific needs. It is the only institution in the Slovak Republic authorized to provide export financing and pure cover backed by the government (www.eximbanka.sk).

This institution concentrates on bank and insurance products for companies in Slovakia. The product portfolio of the Insurance Division eliminates the risks of non-payment of receivables by the foreign buyers that accompany the export credits.

EXIMBANKA can help the exporter by the means of its banking products:

- to have easier access to the financing of an export contract or purchase of technologies by means of a loan from a commercial bank,
- to provide direct financing of an export contract,
- to provide financing of an investment aimed at production technology for producing goods for the international market,
- to simply acquire advance payment guarantees from the foreign customer,
- offer various other forms of guarantees (www.eximbanka.sk).

This institution offers also special loan and guarantee products exclusively for SMEs.

In years 2011-2014 Eximbanka SR supported Slovak export mainly to the EU countries. In comparison with 2014, the increase of export credit support in particular territories outside of the European Union was noted in 2015 and the significant export growth was directed to the countries such as the USA, Serbia, China, Belarus, and India (Annual Report of Eximbanka SR, 2015).

Chart 2 Structure of export credit support by banking products for the most important countries in 2011-2015 (%)
Source: Annual Report of Eximbanka SR, 2015

In spite of the effort of state institutions to support the export diversification outside the EU, companies in Slovakia still prefer the EU countries as their main export partners. The ambition of EXIMBANKA SR for the next years is to support the export intensification to new territories.

Slovak Business Agency (SBA) is the oldest specialized non-profit organisation for the support of small and medium-sized enterprises (SMEs). One of the main objectives of this organisation is to increase the competitiveness of Slovak business environment and Slovak enterprises. SBA is one of the partners of the project “BISS Slovakia 2020“. This project supports the ***Enterprise Europe Network*** in Slovakia. The main aim of this network is to help SMEs to develop their businesses in new markets and to access the EU finance and EU funding.

Slovak Chamber of Commerce and Industry (SOPK) offers wide range of services for companies including consulting, certifying of international commercial documents, or searching new potential trade partners abroad. The main role of SOPK is to promote the expansion and internationalisation of Slovak companies, in particular SMEs.

As we mentioned above, these organisations support generally export activities and investments of Slovak companies but they do not offer some special tools or services in order to promote outward foreign direct investment.

Conclusion

The aim of this paper was to identify the state and public organisations and their contribution to the development and expansion of Slovak companies, in particular SMEs. In spite of the fact that the number of exporting SMEs reached 29,284 in 2014 (which accounts for 96,9% of all Slovak exporters), the value of their export represented only 26,7% of the overall Slovak export. Many SMEs still tackle some difficulties entering new markets, including lack of information about host markets. Following the results of various studies mentioned above, OFDI in partner countries have several positive effects, including increasing competitiveness on foreign markets. Nevertheless, this type of investment is still neglected in Slovakia. By entering new markets Slovak companies can eliminate the risk of decline in domestic market and at the same time, significantly improve their long-term growth.

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