

ATTRACTING DIRECT FOREIGN INVESTMENTS TO THE CITY – THE CASE OF BJELOVAR, CROATIA

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Abstract. The article aims to deepen the understanding of the role that foreign direct investments play in the development of cities, successful strategies for attracting such investments, and the challenges they face in this process. A quantitative research method was used to achieve the set goals. Data were collected through an online questionnaire survey with predetermined answers. The sample included representatives of the local government of Bjelovar and the local population aged 18-50. The main discoveries based on the research are that direct foreign investments have a deep and broad impact on the development of cities, contribute to economic growth, bring technological progress, create new infrastructure, create new jobs, and create a favorable business climate in the environment. Foreign investments can contribute to the diversification of the local economy, reduce dependencies in specific sectors, and increase resistance to economic shocks. This work can influence young, ambitious people to become interested in attracting and using foreign funds in their companies and opening new start-up companies. Given the poor demographic picture of Croatia, FDI enables the young generations to stay in their country and contribute to its development.

Key words: Foreign direct investments, attraction, city.

ПРИВЛЕЧЕНИЕ ПРЯМЫХ ИНОСТРАННЫХ ИНВЕСТИЦИЙ В ГОРОД – НА ПРИМЕРЕ БЕЛОВАРА, ХОРВАТИЯ

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Аннотация. Цель статьи – углубить понимание роли, которую играют прямые иностранные инвестиции в развитии городов, успешных стратегий привлечения таких инвестиций и проблем, с которыми они сталкиваются в этом процессе. Для достижения поставленных целей был использован количественный метод исследования. Данные были собраны с помощью онлайн-анкетирования с заранее заданными ответами. В выборку вошли представители местного самоуправления Беловара и местное население в возрасте 18-50 лет. Основные открытия, основанные на исследовании, заключаются в том, что прямые иностранные инвестиции оказывают глубокое и широкое влияние на развитие городов, способствуют экономическому росту, приносят технологический прогресс, создают новую инфраструктуру, создают новые рабочие места и создают благоприятный деловой климат в окружающей среде. Иностранные инвестиции могут способствовать диверсификации местной экономики, уменьшению зависимости в конкретных секторах и повышению устойчивости к экономическим потрясениям. Эта работа может повлиять на молодых, амбициозных людей, которые заинтересованы привлечением и использованием иностранных средств в своих компаниях и открытием новых стартап-компаний. Учитывая плохую демографическую картину Хорватии, прямые иностранные инвестиции позволяют молодому поколению оставаться в своей стране и вносить свой вклад в ее развитие.

Ключевые слова: прямые иностранные инвестиции, привлекательность, город.

Introduction

Attracting direct foreign investment to the city is an essential area for economic research. Direct foreign investments play a vital role in the economic development of cities. Investments by foreign companies in the local economy provide new jobs, improve infrastructure, and stimulate economic growth. Studying the strategies and factors that contribute to attracting foreign investments helps cities create a favorable business environment and achieve sustainable development.

In today's globalized world, cities must be competitive to attract foreign investment. Studying the factors that influence foreign investors' decisions helps cities position themselves as an attractive destination for business and investment. Analysis of trends and strategies used by other cities in attracting investment provides valuable insights for improving competitiveness.

Attracting foreign investments enables the creation of new jobs. This is especially important in areas with high unemployment rates and a vulnerable workforce. Research on investment attraction strategies helps identify sectors and industries that bring the most significant number of new jobs. Foreign direct investment usually results in increased capital inflows into the local economy. This positively affects citizens' income, consumption, and general economic activity. Studying the impact of foreign investments on the local economy helps understand their contribution and identify critical sectors for further development. Foreign investment often brings new technologies, expertise, and business practices that can spur innovation in the local economy. Studying the link between foreign investment and innovation helps cities identify ways to use that link to increase competitiveness and drive technological progress.

All these facts point to the topicality of research into attracting direct foreign investment to the city. The purpose of this research is to deepen the understanding of the role that foreign direct investment plays in the development of cities, the successful strategies that cities use to attract such investment, and the potential challenges they face in this process. Also, the purpose is to use the scientific method to achieve all the set goals of the research and to answer the research questions.

The specific goals of the article are:

- Determine the role of foreign investments in stimulating economic growth and development in cities.
- Identify and analyze the positive effects of attracting foreign investments to the city.
- Investigate examples of thriving cities in attracting direct foreign investment.
- Determine the challenges that cities face when attracting direct foreign investment.
- Propose strategies for overcoming obstacles in attracting direct foreign investment to cities.

The primary research question is how attracting direct foreign investments affects cities. The secondary research questions are as follows:

- What is the role and impact of foreign direct investment in the development of cities?
- What are the positive effects of attracting foreign investments to the city?
- What are the successful examples of cities that have attracted direct foreign investment?
- What are the potential strategies for overcoming the challenges and attracting direct foreign investment in cities?

In order to achieve the research objectives, it will be necessary to conduct primary research. Quantitative research will be conducted with the help of an

anonymous online questionnaire. A structured questionnaire will be used, which means that questions with predetermined answers will be used. The research will be conducted on a convenient sample, as the questionnaire will be sent to be filled out based on mutual acquaintances and social networks. The statistical program SPSS, version 26.0, and Microsoft Excel will be used for statistical analysis. Descriptive statistics, tables, and pictures will present the research results.

The limitation of the research refers to the limited time of the research and the availability of respondents for the survey in the summer months. The analysis will include representatives of the local self-government of Bjelovar and the local population in the age group of 18 to 50 years, as this is the group that can work and is most exposed to emigration abroad. The research will be conducted during the summer months of July and August 2023.

Theoretical background

The impacts of foreign direct investment can be multiple, positive and negative, so it is up to the cities to assess the potential benefits and costs realized.

The cities need more capital to realize and stimulate their technological progress. Thus, in most cases, economic growth will be based on foreign companies expected to help in these missions. Economic growth is an economic phenomenon contained in the process of progress, recognizing problems and appropriate solutions, and creating a future that should enable well-being. The present problem is articulated in the sphere mentioned above of economic growth, that is, the progress of society. Prosperous cities around the world use different strategies to attract foreign investment. These strategies often combine economic, social, and infrastructure measures to create a favorable environment for investors. Below are examples of some of the most prosperous cities in the EU and the world and their strategies for attracting foreign investment:

- Dublin, Ireland. Strategy: Favorable tax regime and educational infrastructure. Dublin has become the European hub for many tech giants like Google, Facebook, and Apple. A critical factor in attracting these companies is Ireland's favorable tax policy. With a standard corporate tax rate of 12.5%, Ireland has one of the lowest rates in the EU (Barry et al., 2016). In addition, Dublin offers a quality educational infrastructure emphasizing STEM (Science, Technology, Engineering, Mathematics) fields, which ensures access to a highly skilled workforce.
- Singapore. Strategy: Strong legal protection, infrastructure, and strategic position. Singapore is known for its strong legal protection of intellectual property, which makes it attractive to foreign investors (Tan, 2013). The city-state is also investing in world-class infrastructure and logistics capacity. Its strategic position at the crossroads between East and West makes it an ideal hub for trade and investment.
- Barcelona, Spain. Strategy: Innovation hubs and encouragement of start-up culture. Barcelona has become one of Europe's leading hubs for start-ups, especially in the technology sector. The city has established several innovation hubs

and incubators that provide resources and support to young entrepreneurs (Molina-Fernández, 2017).

- Frankfurt, Germany. Strategy: Financial center and quality infrastructure. Frankfurt hosts the European Central Bank and is one of Europe's most important financial centers (Wójcik, 2011). The city offers robust infrastructure and a highly skilled workforce, which makes it attractive to banks and financial institutions. Prosperous cities use a combination of economic, infrastructure, and social measures to attract foreign investment. Whether favorable tax rates, quality educational infrastructure, or strategic location, each city adapts its strategy to its unique strengths and needs.

Dublin, for example, has managed to become host to some of the biggest technology companies in the world, confirming its position as Europe's leading technology center. Conversely, Singapore uses its strategic location and solid legal protection to become a global hub for trade and investment. Barcelona, through its innovation hubs, has become a magnet for start-ups and young entrepreneurs, while Frankfurt has cemented its position as the financial center of Europe. These cities are proof that properly focused strategies can deliver significant economic benefits, creating jobs, fostering innovation, and improving its citizens' overall quality of life. Their successes serve as an inspiration to other cities around the world that strive to attract foreign investment and achieve sustainable economic growth.

Bjelovar is an example of a thriving city in attracting direct foreign investments.

The Bjelovar-Bilogor region is located in the central part of Croatia, more precisely in its eastern segment. Neighboring regions with which it shares borders include the Koprivnica-Križevačka, Virovitica-Podravina, Sisak-Moslavina, and Zagreb regions. Geographically, this area is characterized by four significant units: Bilogora, the peripheral parts of Papuk and Ravna gora, Moslavačka gora, and the valley areas of the Česma and Ilova rivers. This region covers 2,640 km². Its administrative and economic center is Bjelovar, which represents a key point for the region's political, cultural, and economic activities. In addition, Bjelovar hosts various institutions that contribute to its importance at the regional level. Its proximity to the capital, Zagreb, which is about 80 km, further strengthens its strategic importance.

One of the most significant advantages of Bjelovar for investors is its excellent geographic location and traffic connections. The city is at the crossroads of important traffic routes connecting Central Europe with the Adriatic. It is only 90 km away from the capital Zagreb. The airport in Zagreb is 100 km away, and the port of Rijeka on the Adriatic is 160 km away (BJ, 2021).

The city continuously creates a favorable business environment to attract new investments, especially foreign direct investments. Bjelovar has a long tradition of

industrial production, and today, the most important industrial branches are the food, metal processing, and wood processing industries. Despite modern efforts to create conditions for progress, encouraging innovation and technological development, they show significant differences compared to other Croatian regions in the segment of knowledge-based development. Bjelovar-Bilogora County faces the challenge of a high unemployment rate, especially among the younger population, which suggests difficulties in accessing the first job.

Bjelovar has favorable demographic characteristics for investors in terms of workforce. According to the 2011 census, the city has 40,000 inhabitants, of which almost 70% are of working age (BJ, 2021). The unemployment rate is below the national average. The population is relatively young, educated, and ready for retraining according to the needs of investors.

Around 30 business entities currently operate in the city in 8 business zones, employing around 630 workers. Total investments in the infrastructure of business zones from 2003 to 2016 amounted to almost HRK 37 million (BJ, 2018). Bjelovar is the first in the number of entrepreneurs in Bjelovar-Bilogora County, number of employees, total income, profit for the period, loss for the period, and net profit.

The city continuously invests in the development and improvement of the infrastructure of business zones in order to attract new investors. A business zone is an area limited in size within which specific economic activity occurs. As supporting infrastructure for entrepreneurs, business zones are essential for encouraging entrepreneurship development and the general economic growth of Bjelovar and the entire region. The city recognized business zones as a good model for helping domestic entrepreneurs and an instrument for attracting foreign investors. In addition to the fully equipped three zones, work continues on the preparation and projects of expansion of the existing zones, construction of infrastructure, improvement of management, and attraction of investors in business zones. Entrepreneurs have at their disposal the shared use of the infrastructure and more accessible business connections with each other. The city, along with seven other institutions, signed an agreement in April 2011 to provide additional assistance to investors who want to start and develop their businesses with as few bureaucratic obstacles as possible through the One Stop Service Center (OSSC), a proactive service coordinated by the regional development agency BB (RRA) at BB level. The city has the following business zones: Novi Borik Lepirac Business Zone, East Business Zone, and South Business Zone. In the city, business zones cover 823,552 m² of land, where 30 business entities work and employ 631 workers (BJ, 2018).

The city pays much attention to the development and encouragement of entrepreneurship, as evidenced by the total investments in the zone's infrastructure - investments through infrastructure investments in the period from 2003 to 2016 amounted to HRK 36,986,316.16. Since 2013, the city has had an Info Center for investors that provides services such as obtaining building documents

(location/building permit, confirmation of the leading project) for potential investment locations (business zones and business premises of the city), available publications and brochures (strategies, investments, and Fig.) and the City budget. At the beginning of 2012, the city joined the pilot project BFC SEE Certification of cities and municipalities with a favorable business environment. With the expert help of consultants to the city team, over 18 months, the city acquired an international certificate that guarantees a regional ranking of competitiveness according to the assessment of the quality of services it provides to investors and businessmen. In the period from 2013-2015. year, the city successfully promoted local investment potentials at large international gatherings, implemented projects: GIS, e-permits, information office for citizens, and realized investments. In July 2015, an agreement was signed on the certification of the City for BFC SEE (Gradonačelnik.hr, 2021).

The city of Bjelovar systematically promotes investment potential at international gatherings and fairs. Since 2013, an Investor Info Center has been operating in the city, which provides investors with all the necessary information and assistance in starting a business. 2012, the city received the international BFC SEE certificate for a favorable business environment. The certificate guarantees a high quality of services that Bjelovar provides investors.

Thanks to continuous work on improving investment conditions, several significant foreign investments have been realized in Bjelovar in the last few years. The German company Knauf invested in a new plasterboard factory worth more than HRK 200 million, which created over 130 new jobs (BJ, 2021). The investment is one of Croatia's most significant foreign greenfield investments in recent years. The Austrian company Egger, the leading European producer of panel materials, has invested around HRK 760 million in constructing a factory to produce chipboard and OSB panels in Bjelovar. This is the most significant greenfield investment in the history of Bjelovar and will create around 300 new jobs. Bjelovar also managed to attract smaller foreign investments, such as the Belgian company Van Roey, which opened a facility for the production of furniture, a Hungarian company for the production of LED lighting, an Italian company for the production of parts for the automotive industry, etc. (BJ, 2021).

In addition to direct foreign investments, the City of Bjelovar also encourages cooperation with foreign partners through EU funds. An example is the project to build an entrepreneurial incubator, co-financed with EU funds, worth almost HRK 20 U funds. The incubator will provide start-up entrepreneurs with more favorable conditions for starting a business and facilitate their access to the market. Bjelovar is continuously working on digitalizing services and introducing innovative solutions for citizens and investors, such as e-permits, e-consulting with the public, free wireless internet, etc. The plan is also to introduce the concept of a smart city through the digitalization of transport and utility infrastructure.

The city of Bjelovar can serve as an exemplary example of a Croatian city that attracts significant direct foreign investments through systematic work on improving the local business environment. The key to Bjelovar's success is continuity.

Methods of work and research approach

Research on the role and impact of direct foreign investment on the development of cities, with particular emphasis on the city of Bjelovar, was conducted to understand the mechanisms and strategies that cities use to attract foreign investment and the challenges they face in this process. The main objective is to understand how attracting foreign direct investment affects cities. In contrast, the secondary objectives aim to understand the role, positive effects, successful examples, and strategies cities use in this context. A quantitative research method was used to achieve the set goals. Primary data was collected through an online survey questionnaire structured with predetermined answers. A structured questionnaire with closed questions was used. The questionnaire is divided into two versions: one for the local population and the other for local government representatives. The sample included representatives of the local government of Bjelovar and the local population aged 18 to 50 years. This age group was chosen because it can work and is most exposed to emigration abroad. The research was conducted on a convenient sample using the snowball method, where the questionnaire will be distributed through mutual acquaintances and social networks. The research was conducted during the summer months of July and August 2023. Questionnaires were distributed via e-mail and social networks, with a link to the online questionnaire. The collected data were analyzed using the statistical program SPSS, version 26.0, and Microsoft Excel. The results are presented with descriptive statistics and graphically. The research methodology and sample were designed to provide a comprehensive insight into the role and impact of direct foreign investment on urban development, especially in the city of Bjelovar. The results of this research will provide valuable information to help decision-makers, researchers, and the general public better understand this topic.

Results

The total number of respondents is 80. Most respondents (68%) are aware of foreign investments in Bjelovar. The majority of respondents believe that foreign investments contribute moderately to the development of the city (52%), while 24% believe that they contribute significantly. Most (57%) believe foreign investment can reduce youth emigration. Regarding the sectors that would benefit the most from foreign investments, the industry is in first place with 34%.

49% of respondents noticed an increase in jobs due to foreign investment, while 51% said they did not notice such an increase. Of the respondents, 35% are neutral, while 38% consider local self-government good in attracting foreign

investments. The majority (64%) would support more excellent foreign investment even if it meant changes in the city's urban appearance. Regarding the cities in Croatia that are the most successful in attracting foreign investment, Zagreb is in first place with 45% of responses.

Most respondents (40%) believe that the increase in infrastructure is essential for attracting more foreign investment. Regarding the number of foreign investments realized in Bjelovar in the last five years, most representatives (45%) stated the number between 6 and 10. The local self-government most often uses active promotions (40%) to promote Bjelovar as an attractive destination for foreign investors. Most respondents (35%) believe the industry is the most attractive sector for foreign investors.

Regarding the current infrastructure of Bjelovar, 40% of respondents think it is good. 55% believe there needs to be more qualified labor in Bjelovar for the needs of foreign investors. 60% of the respondents confirmed that the local self-government has a particular team or department in charge of attracting foreign investments. Regarding the main challenges they face when attracting foreign investment, the lack of infrastructure is in first place with 30%. 70% of respondents believe that more significant foreign investments could change the urban image of Bjelovar. Regarding the main proposals to improve the attraction of foreign investment, the increase in infrastructure is in first place with 35%.

Discussion

Theoretical research helped to understand the essence and direction of the research. While some research suggests that direct foreign investment leads to positive results, such as increased capital, other research suggests that the impact of foreign investment is uncertain. However, more positive effects exist, such as job creation technology transfer. They are a source of private capital and thus reduce the burden on public resources. They also contribute to the development of infrastructure, innovation, and increased productivity in the city. Direct foreign investments can improve competitiveness and a better management structure, the global connection of the city to the international market. That is why strategies, incentives, benefits for investors, tax breaks, subsidies, education programs, simplification of legal regulations, strong marketing, good partnerships, cooperation with international organizations chambers, creating a friendly environment, and policy transparency are essential. An excellent example of this is the city of Bjelovar.

In this research on attracting direct foreign investment to the city, the main goal was to understand how attracting these investments affects cities. In contrast, the secondary goals were focused on the role, positive effects, successful examples, and strategies that cities use in this context. In order to achieve these goals, quantitative research was conducted through an anonymous online questionnaire.

The survey was conducted on the local population of Bjelovar and representatives of the local self-government. The total number of respondents was 80. The majority of respondents (68%) were aware of foreign investments that were realized in Bjelovar. Also, most respondents (52%) believed that foreign investments contribute moderately to the city's development, while 24% believed that they contribute significantly. In addition, most respondents (57%) believed that foreign investments can reduce the emigration of young people from Bjelovar.

Regarding the sectors that would benefit the most from foreign investment, most respondents (34%) mentioned industry. Also, most respondents (49%) noticed an increase in the number of jobs in Bjelovar due to foreign investments. However, local self-government received moderate marks when attracting foreign investment, with 38% of respondents considering their efforts to be good.

The majority of respondents (64%) would support more excellent foreign investment even if it meant changes in the urban appearance of the city. Regarding the cities in Croatia that are the most successful in attracting foreign investments, most respondents (45%) named Zagreb. This research provides insight into the perception of the local population and representatives of the local self-government about the influence of foreign investments on the development of the city of Bjelovar. Respondents know foreign investments, and most believe they moderately contribute to the city's development. Also, most respondents noticed an increase in the number of jobs due to foreign investments. However, local self-government received moderate marks in attracting foreign investments.

These results can be helpful to decision-makers, researchers, and the general public better understand the role and impact of foreign direct investment on urban development. Also, the results can provide guidelines for strategies to attract foreign investment and overcome challenges in the process. It is important to note that this research was conducted on a convenient sample of the local population of Bjelovar and representatives of the local government. Therefore, the results may be specific to that population. The limitation of the research refers to the limited time of the research and the availability of respondents for the survey during the summer months.

Conclusion

Foreign direct investment plays a crucial role in urban development. Cities can improve their infrastructure through financial injections, modernize industries, and create new jobs. In addition, foreign investments often bring new technologies and business practices that can increase cities' productivity and competitiveness. Also, foreign investment can encourage local companies to innovate, give them access to new markets, and enable them to connect to global value chains.

Based on the research results, several vital positive effects of attracting foreign investment to cities can be identified. First, foreign investment often brings significant financial resources that can be used for infrastructure projects, education,

and other vital sectors. Second, foreign companies often bring new technologies and business practices that can help local companies become more competitive. Third, foreign investments can create new jobs, reduce unemployment, and increase wages. Fourth, foreign investment can encourage local firms to connect to global value chains, giving them access to new markets and resources.

Although this research did not specifically investigate other cities, it is clear from the data that cities that actively promote their strengths, offer tax incentives, and have a skilled workforce often attract more foreign investment. Bjelovar, considering its efforts, can become one of those examples in the future.

Strategies for attracting foreign investment should be adapted to each city's specific needs and circumstances. However, some general strategies include improving the business environment, reducing bureaucratic barriers, providing tax breaks and other incentives, promoting local strengths and resources, creating partnerships with the private sector and international organizations, and investing in workforce education and training.

Ultimately, attracting direct foreign investment can be key to the sustainable development of cities. However, to maximize benefits and minimize potential challenges, it is necessary to continuously work on creating a favorable environment for investors, considering the needs and interests of the local community.

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