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# SUSTAINABLE DEVELOPMENT AND COMPETITIVENESS THROUGH FOREIGN DIRECT INVESTMENTS. THE CASE OF CENTRAL AND EASTERN EUROPEAN COUNTRIES

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**Abstract:** After a long period of transition to market economy, Central and Eastern European Countries (CEEC) have made great efforts regarding the attraction of foreign direct investments (FDI), which are considered as the main engine of economic restructuring and dissemination of technology, know-now, capital etc. However, the results of our research revealed that there is still a gap with the rest of the European Union member states and this is due mainly to deficient measures that were taken. For example, agonizing transition in Romania has been attributed to institutional fragility and incoherence or inconsistency of the state in the imposition of pro-market institutional framework. Considering these aspects and the fact that attraction of FDI contributes to increasing the development level of a country or region, in this paper we attempt to analyze the investment flows in CEEC before and during crisis, as a share in GDP, which is the distribution of FDI stock by main economic activity in Romania, within the eight development regions, and in the last part of the paper, we will try to highlight some of FDI projections in CEEC until 2014 year.

**Key words:** sustainable development, competitiveness, foreign direct investments, Central and Eastern European countries, economic crisis, projections

**JEL classification:** E22, O16, O40, O47

## 1. Aims and scope of the paper

The aims of the paper refer to the analyzing of:

- ❑ the dynamic of FDI in CEE countries before and during crisis;
- ❑ the situation of our country concerning the FDI;
- ❑ the impact of FDI;
- ❑ the perspectives of FDI in CEE countries.

## 2. Review of the literature

- ❑ One of the main reasons for regional disparities in FDI allocation and performance was the inadequate state policy. In general, the governments of CEE countries set quantitative objectives towards FDI, doing too little to attract or support quality FDI to accelerate the development **(Kolev, K., 2010)**.
- ❑ Beyond its contribution to financial resources, investment, technology and providing access to markets, inward FDI in economies in transition has also played a role in the strengthening of the private sector and the emergence of market-economy behaviour, as well as the elimination of macroeconomic distortions inherited from earlier centrally planned systems **(Kalotay, K., 2001)**.

## 2. Review of the literature

- ❑ Since the beginning of transition, various countries of Central and Eastern Europe and the CIS have undergone important structural changes, linked with the entry of FDI. In the early phases of transition, these structural changes were linked with the adjustment of enterprises to the requirements of the new, market-based macroeconomic framework. It was followed by a phase of structural changes determined by the demand and supply factors of the newly established market economies and their integration into the international division of labour. Already in this phase, structural change proceeded unevenly, with future EU members advancing faster than other countries in transition (**Szanyi, M., 2004**).
- ❑ Poor institutional quality leads to potentially higher costs of investments and, thus, reduces FDI activity. In addition, poor legal structures increase the probability of expropriation of firms' assets which, in turn, make investment activity less likely in the host country (**Blonigen, B.A., 2005; Bénassy-Quéré et al., 2007**).
- ❑ From the mid-1990s onwards, inward FDI has gained importance in the restructuring of an increasing number of CEE countries (**UNCTAD, 2003**).

### 3. Methodology of research

**Comparative analysis** in CEE countries for highlight mainly the distribution of FDI stock by main economic activity, the flows of FDI, as a share in GDP etc.

## 4. Findings and debates

The Ernst & Young survey (2009) concluded:

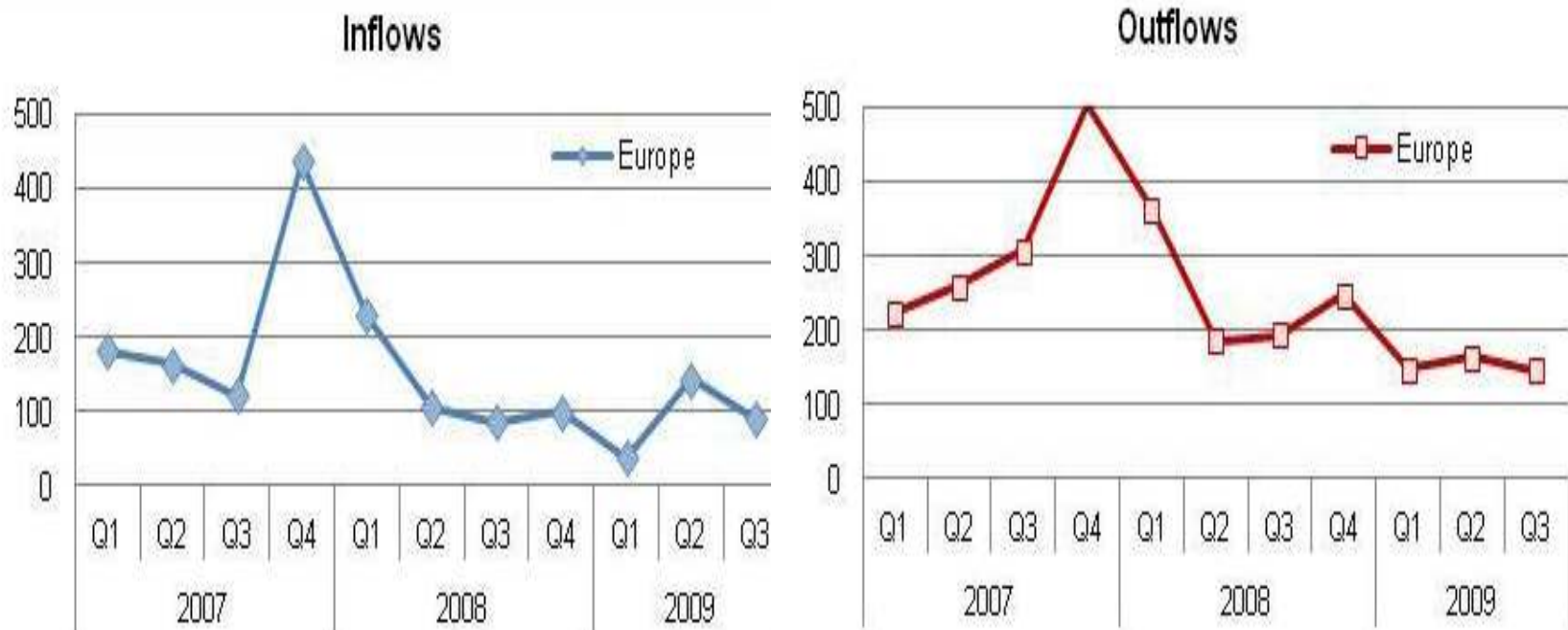
- ❑ The region including the Czech Republic, Hungary, Poland, Slovakia, Estonia, Latvia, Lithuania and Slovenia is regarded as the second most attractive foreign investment locale after Western Europe and is the most favoured place for investment in the manufacturing industry (30%), followed by only 23% for China and only 16% for Western Europe;
- ❑ CEE region experienced a five-fold increase in FDI inflows between 2003 and 2008, rising from US\$30 billion to US\$155 billion;

## 4. Findings and debates

- ❑ The credit crunch and the actual recession mean a collapse of FDI inflows to the CEE region. In the region FDI inflows were 50% lower in 2009, compared to 2008;
- ❑ The real estate sector, which has attracted a quarter of all FDI inflows into the CEE countries since 2003, accounted for much of the aggregate investment fall in the region. Real estate FDI declined by 71% in 2009, compared with 2008.

## 4. Findings and debates

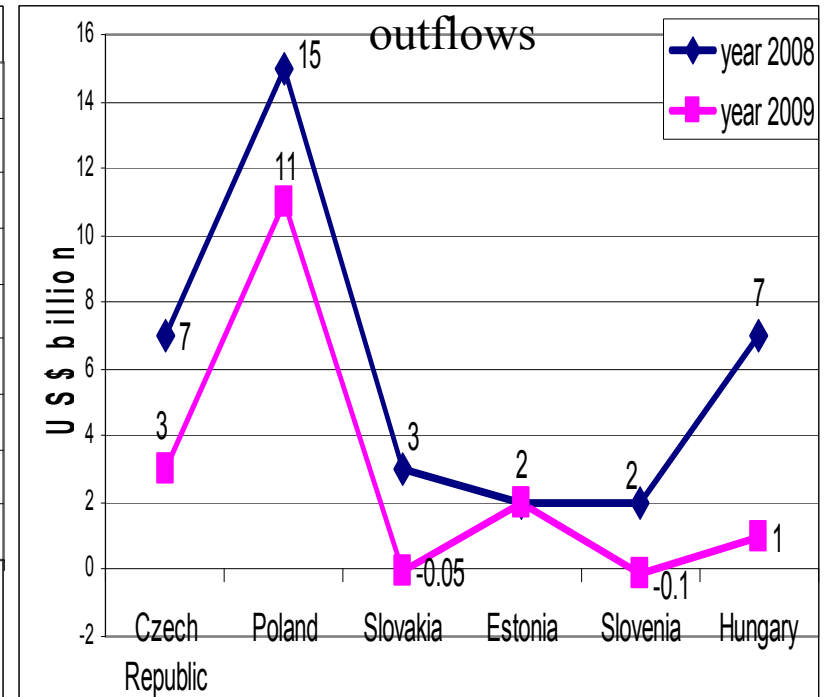
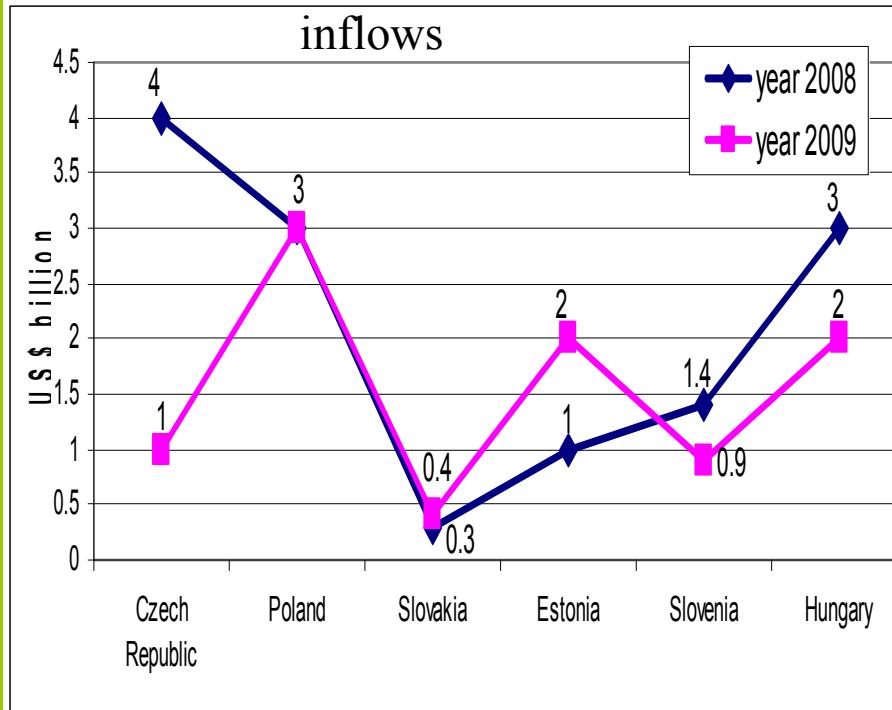
### FDI inflows and outflows: 2007 Q1 - 2009 Q3 (US\$ billion)



Source: OECD

## 4. Findings and debates

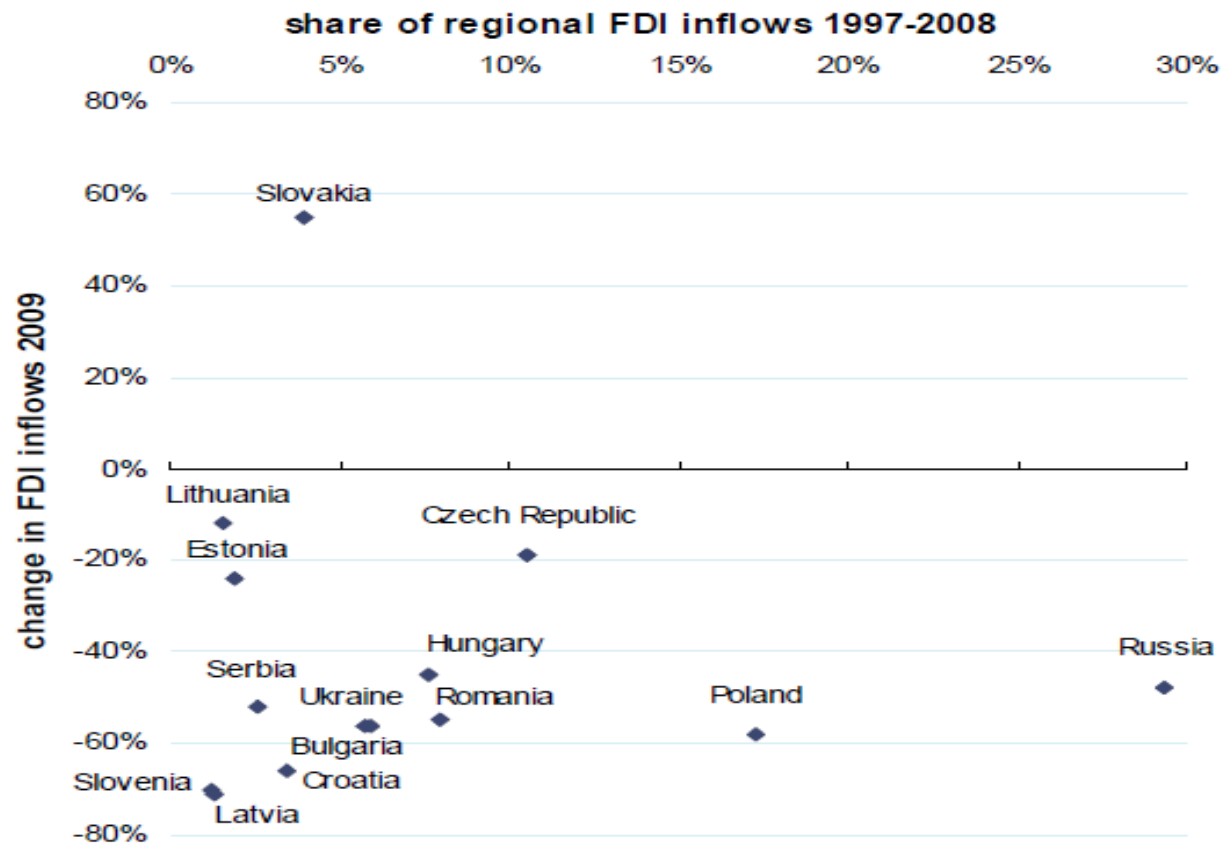
### FDI inflows and outflows, 2008-2009 (US\$ billion)



Source: data offered by OECD

## 4. Findings and debates

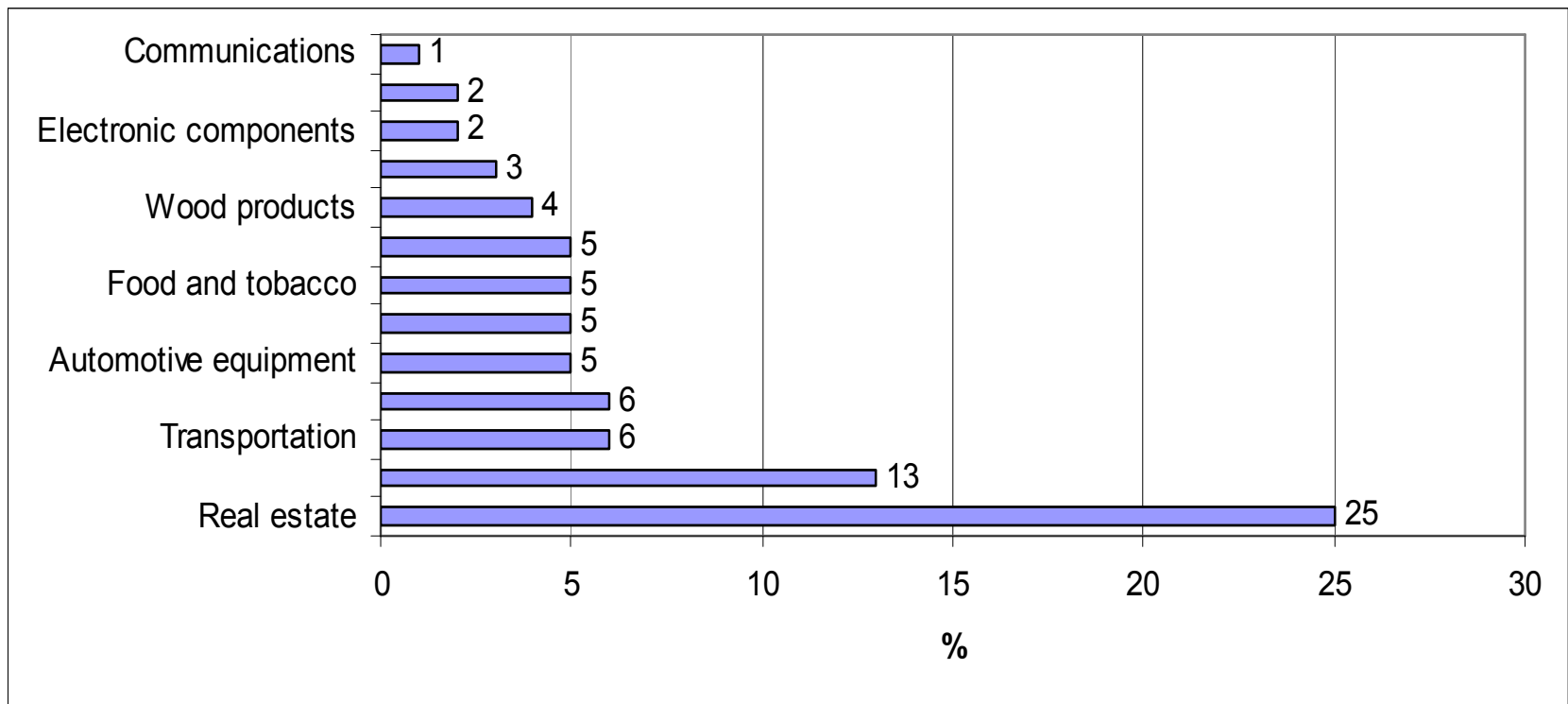
### FDI by country



Source: UNCTAD

## 4. Findings and debates

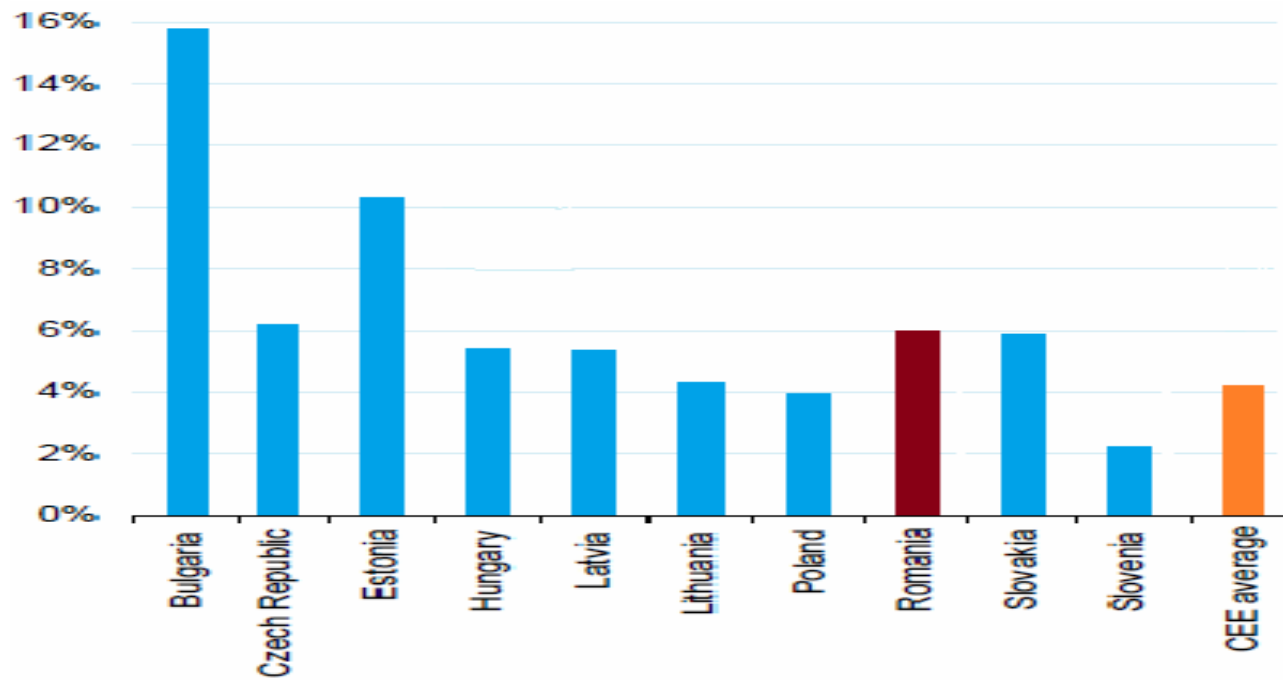
### Share of regional FDI inflows in CEE countries, 2003-2009



Source: data offered by OECD

## 4. Findings and debates

**Average level of FDI as a share of GDP in CEE countries  
(1997-2008)**

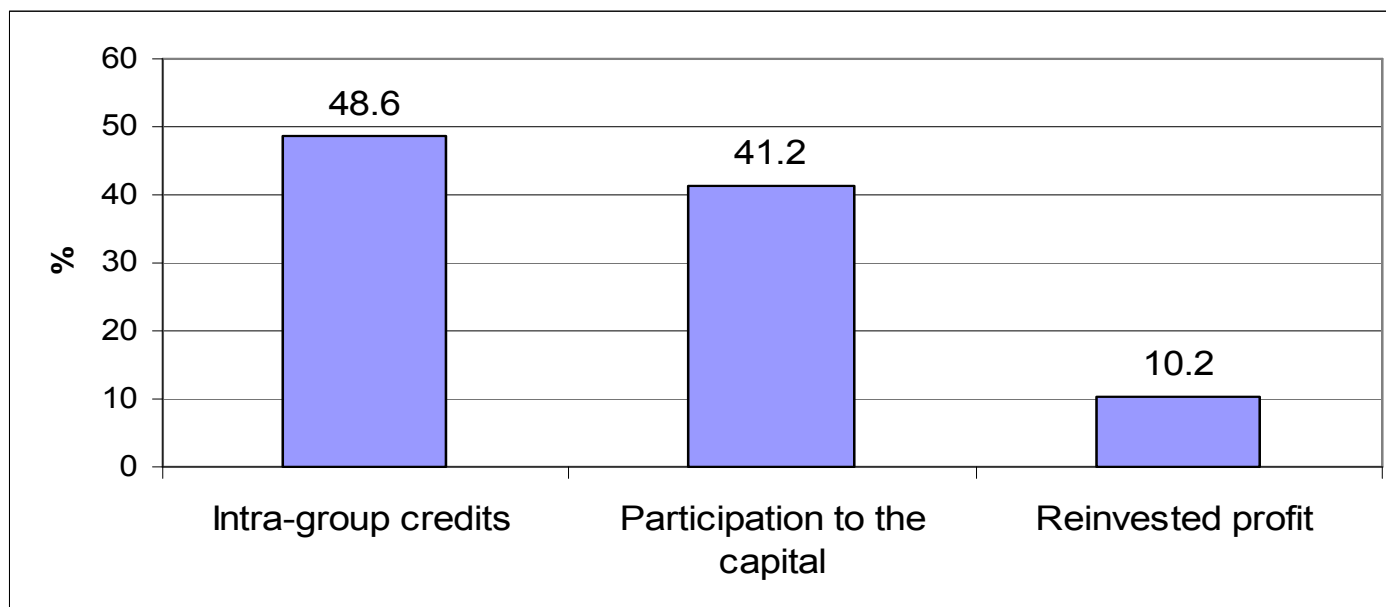


Source: data offered by OECD

## 4. Findings and debates

**FDI attracted by Romania during January-July 2009: 3 097 million Euro, covering Romania's current account deficit.**

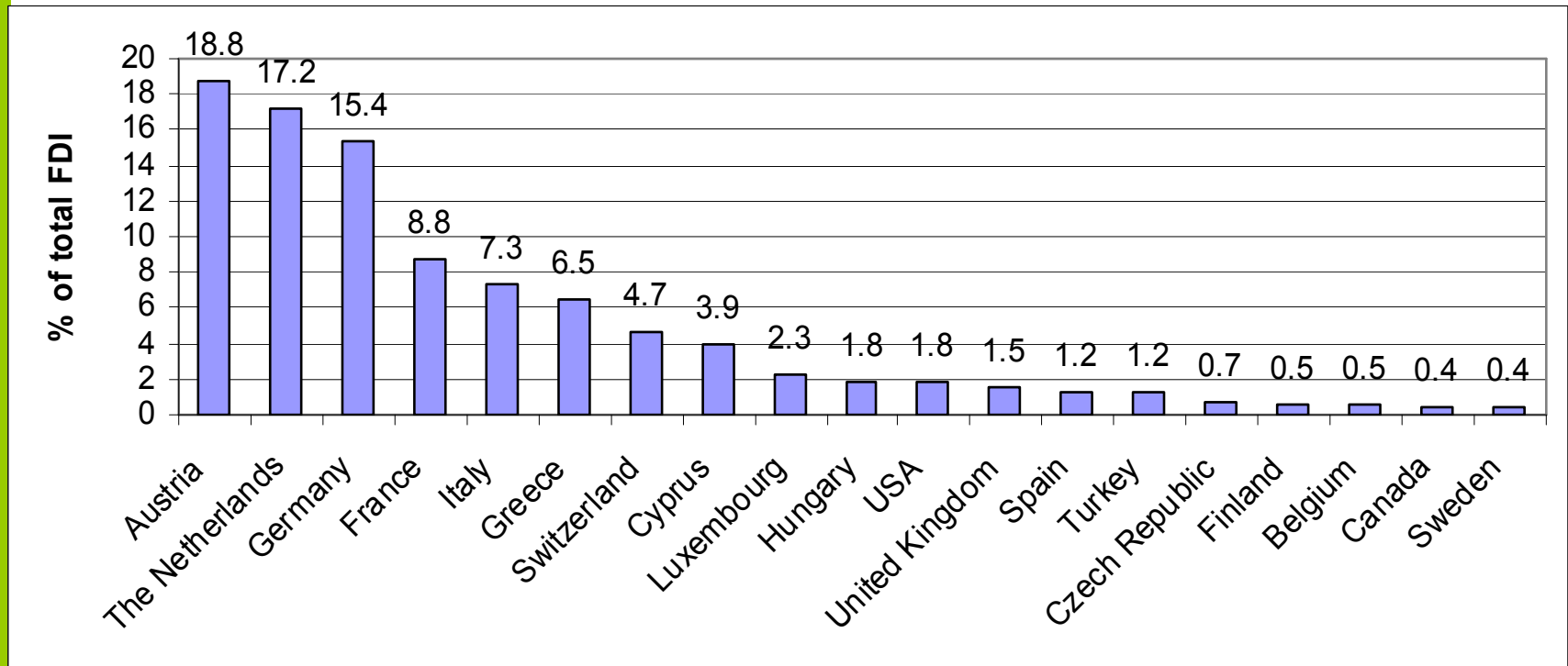
### FDI structure



Source: data offered by The National Bank of Romania

## 4. Findings and debates

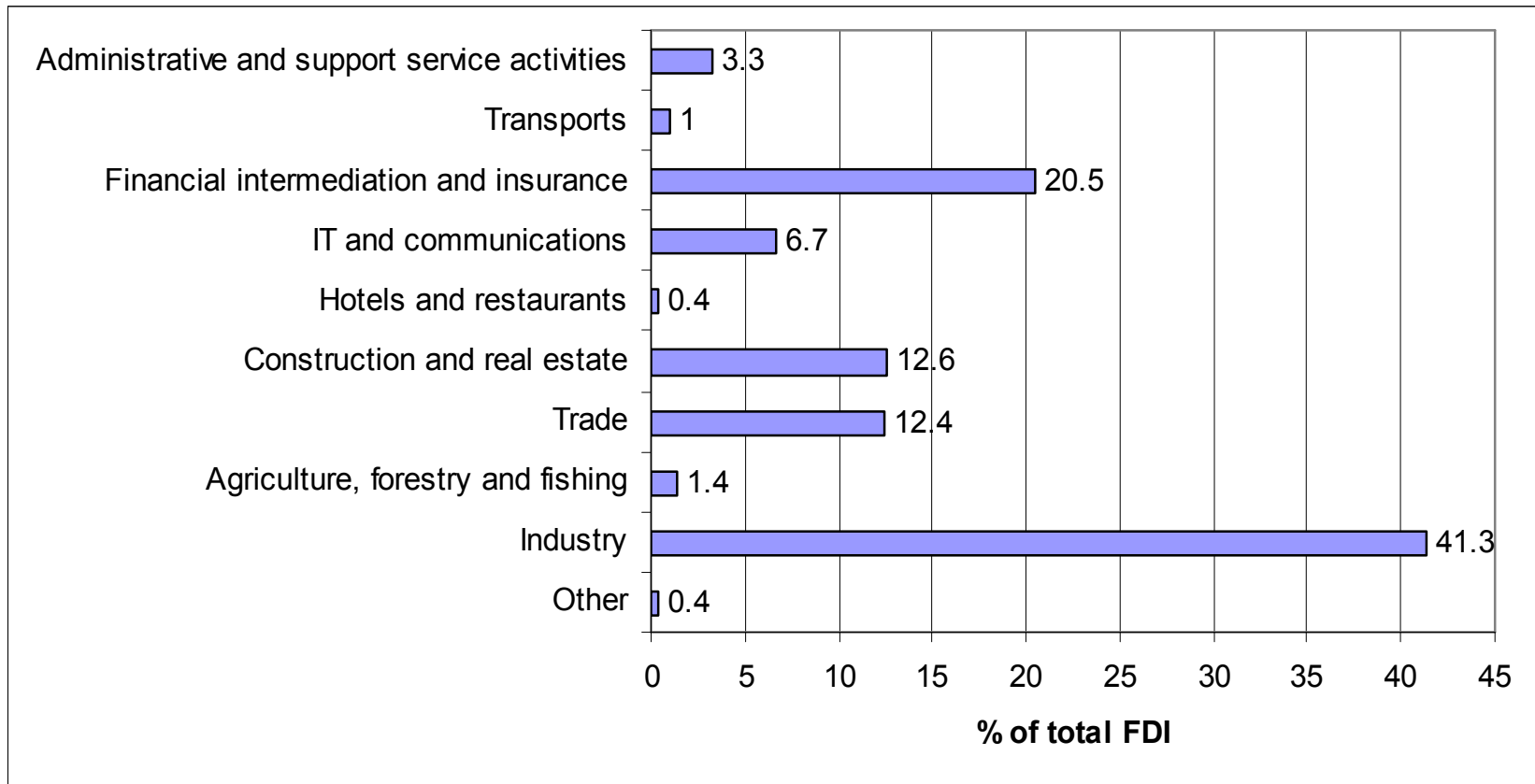
### Distribution by country of origin (EUR million) – end of 2008 year



Source: data offered by The National Bank of Romania

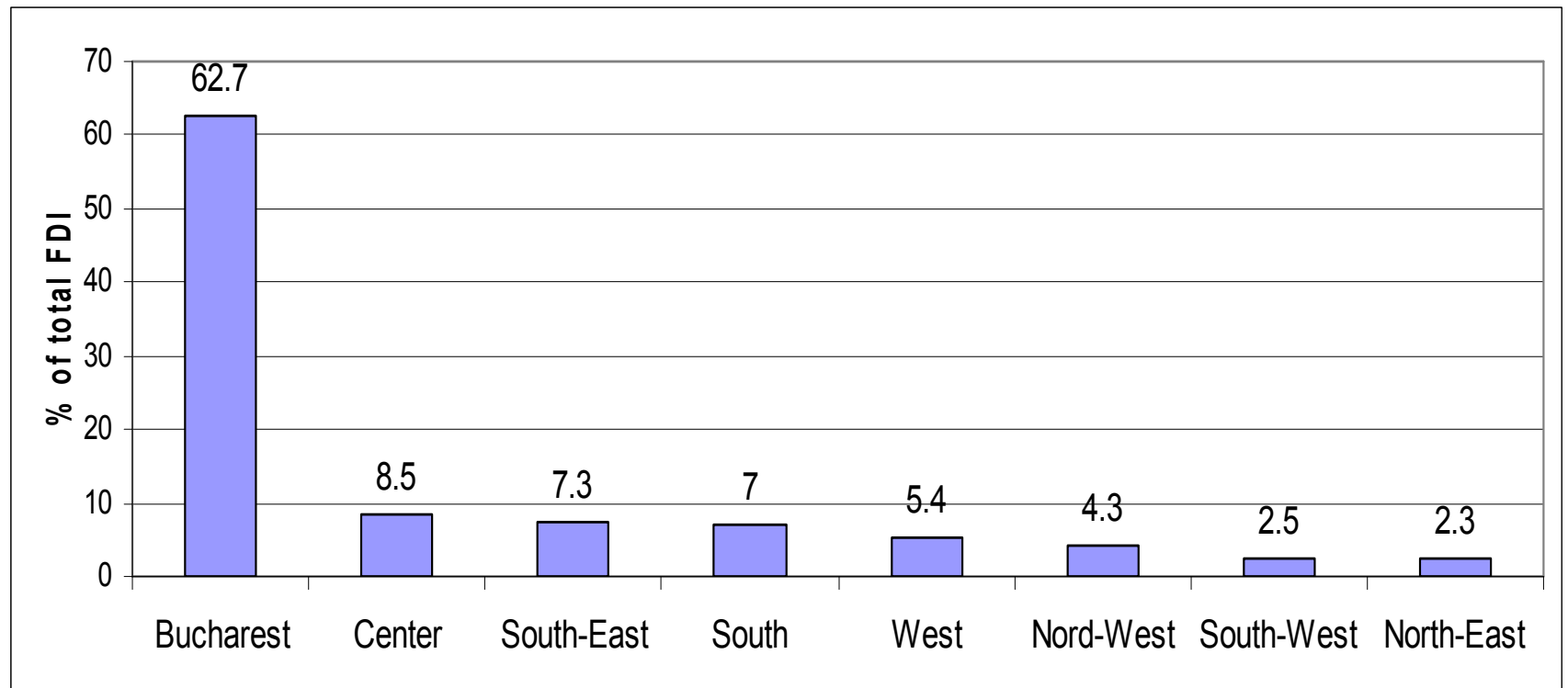
## 4. Findings and debates

### Distribution of FDI stock by main economic activity (EUR million) – end of 2008 year



## 4. Findings and debates

### FDI distribution by development region– end of 2008 year



Source: data offered by The National Bank of Romania

## 5. Results and discussions

### Why to invest in Romania?

- ❑ EU, NATO and WTO membership;
- ❑ One of the largest markets in Central and Eastern Europe (ranking 7<sup>th</sup> place in European Union as number of population, with over 21 million inhabitants);
- ❑ Attractive geographical position;
- ❑ High potential for tourism;
- ❑ Highly skilled labour force at competitive prices;
- ❑ Sound fiscal policy (16% flat tax).

## 5. Results and discussions

### The impact of FDI

- FDI is an important source of financing for transition economies, helping to cover the current account deficit, facilitates transfer of technology, know-how and skills, and helps local enterprises to expand into foreign markets;
- FDI) would play an important role in the process of convergence;
- CEE countries do benefit from the transfer of advanced technology, management and marketing knowledge;
- FDI has contributed to the upgrading of production and export structures, and raised the prospective medium-term growth rate.

## 5. Results and discussions

### The perspectives of FDI

**The specialists** consider:

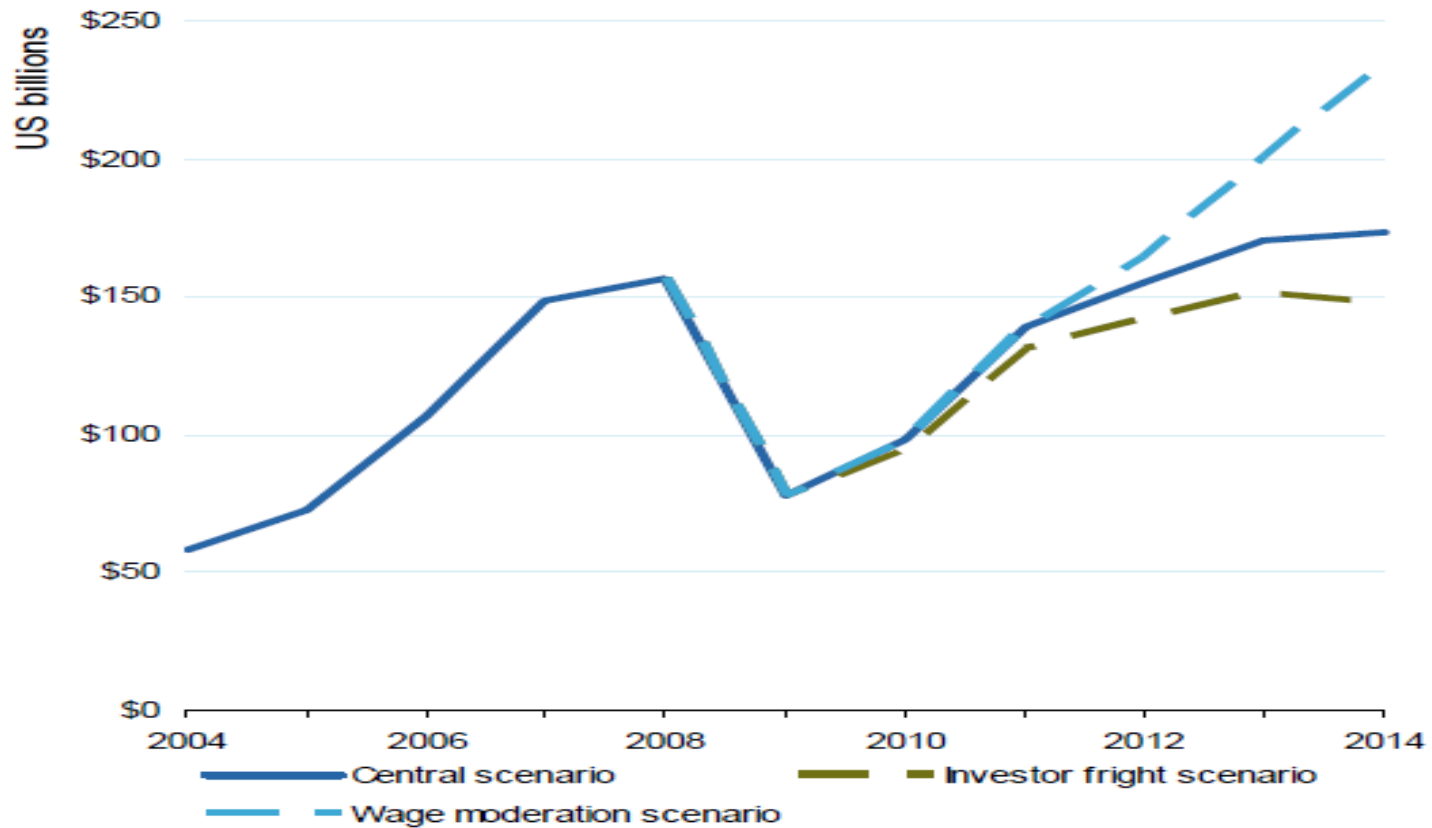
- ❑ FDI is projected to recover only modestly from 2010 onwards, comparing with US\$155 billion in 2008; US\$77 billion in 2009;
- ❑ By 2014, the value of FDI in the CEE region will be US\$ 172 billion;

**The Economist Intelligence Unit:**

- ❑ It is estimate in the next years the change from predominantly greenfield and brownfield investment to more existing foreign investors reinvesting profits in CEE.

## 5. Results and discussions

### FDI inflows and projections



Under investor fright scenario the recovery in FDI is weaker; the wage moderation scenario differs from the central scenario as wages in the CEE region are projected to grow only at the rate of inflation.

## 6. Concluding remarks

- ❑ Market size, low relative unit labour costs, a skilled workforce, growth potential has been the driving force behind investments in the CEE region in the previous years;
- ❑ In 2009 the recession was not uniform across the CEE region: Estonia, Latvia and Lithuania have had experienced double-digit rates of contraction in economic output; Bulgaria, Czech Republic had know a decline of less than 5% of FDI output;
- ❑ In the context of economic crisis, in Romania the FDI have had a low level, the region Bucharest has attracted 62,7% of total FDI of the country;
- ❑ Improvements in the investment climate will mean higher gross fixed capital formation, which in turn leads to greater economic growth;
- ❑ In Romania, as well in CEE region, FDI inflows will not immediately bounce back to previous highs. The bust which followed the long boom will have persistent effects in the region.

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**Thank you for your attention!**

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