

**REGIONAL DEVELOPMENT  
EFFECTS OF FOREIGN  
DIRECT INVESTMENT IN  
CENTRAL AND EASTERN  
EUROPE**

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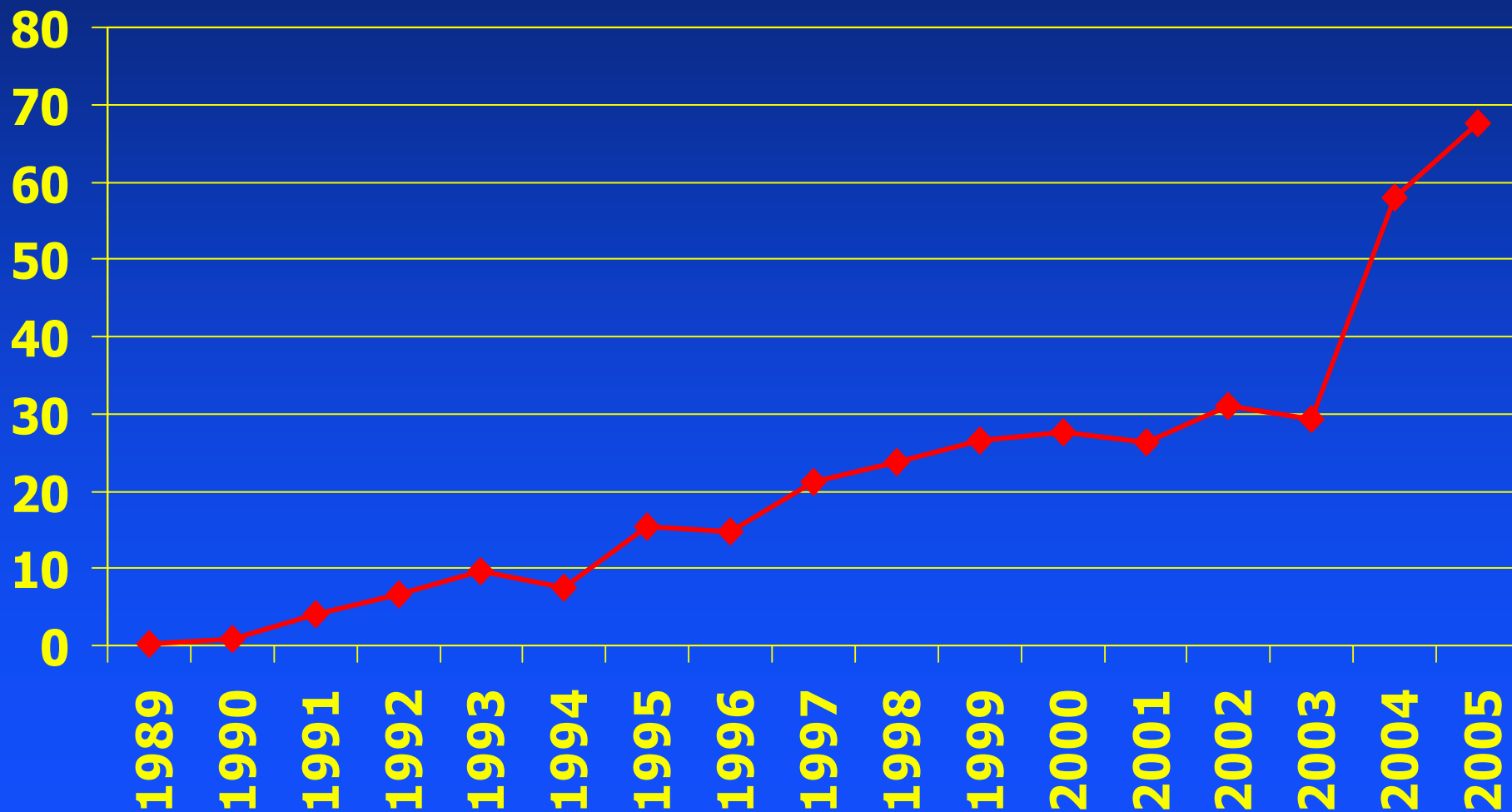
# PRESENTATION OUTLINE

- Introduction
- FDI and uneven development
- Regional development effects of FDI
- Regional development and globalization
- Conclusion

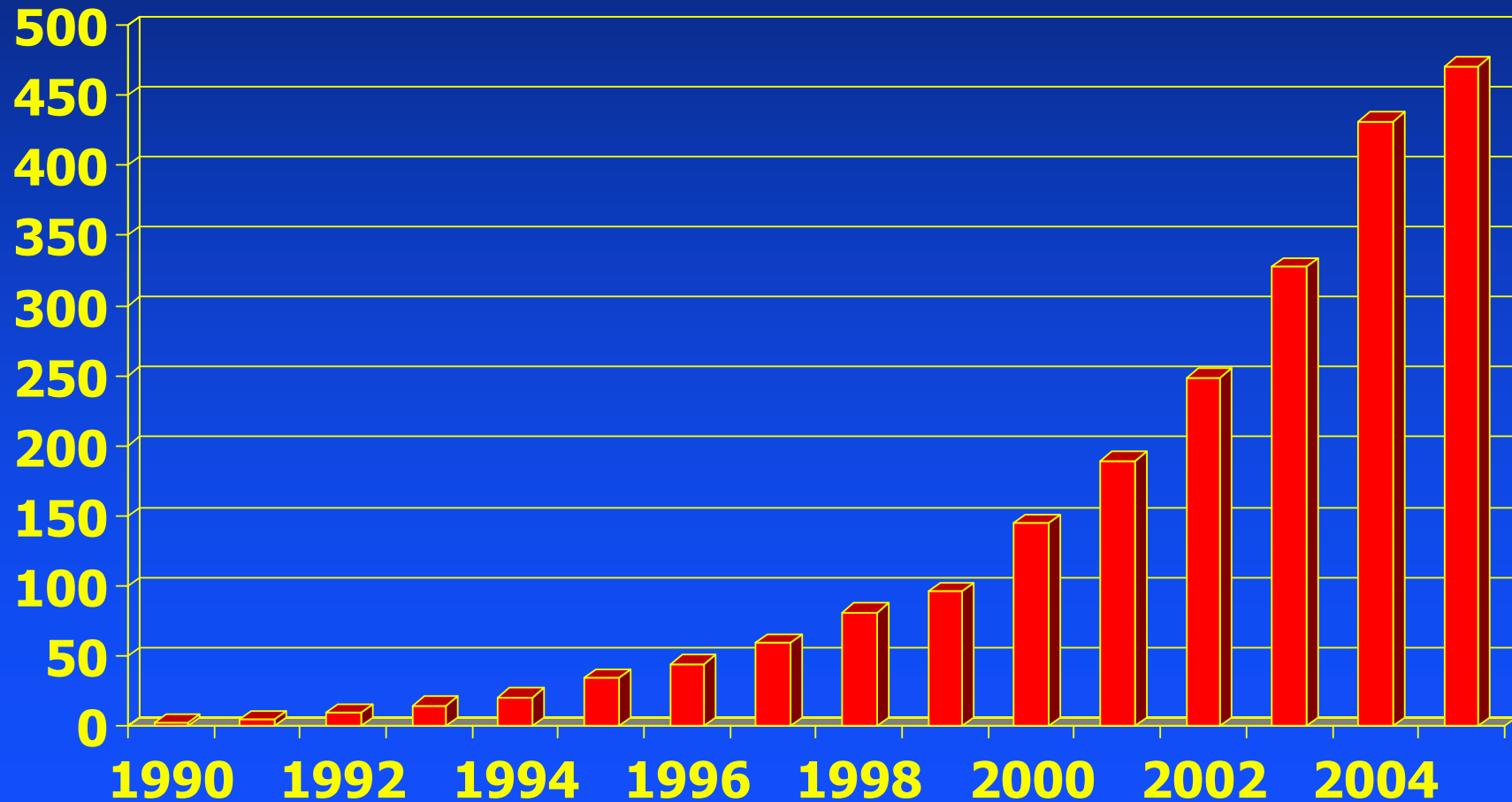
# REASONS FOR FDI IN CEE

- Market potential
- Low production costs
- Prospects of the EU membership
- Geographic proximity of Western European market

# ANNUAL FDI INFLOWS TO CEE, 1990-2005 (billions of USD)

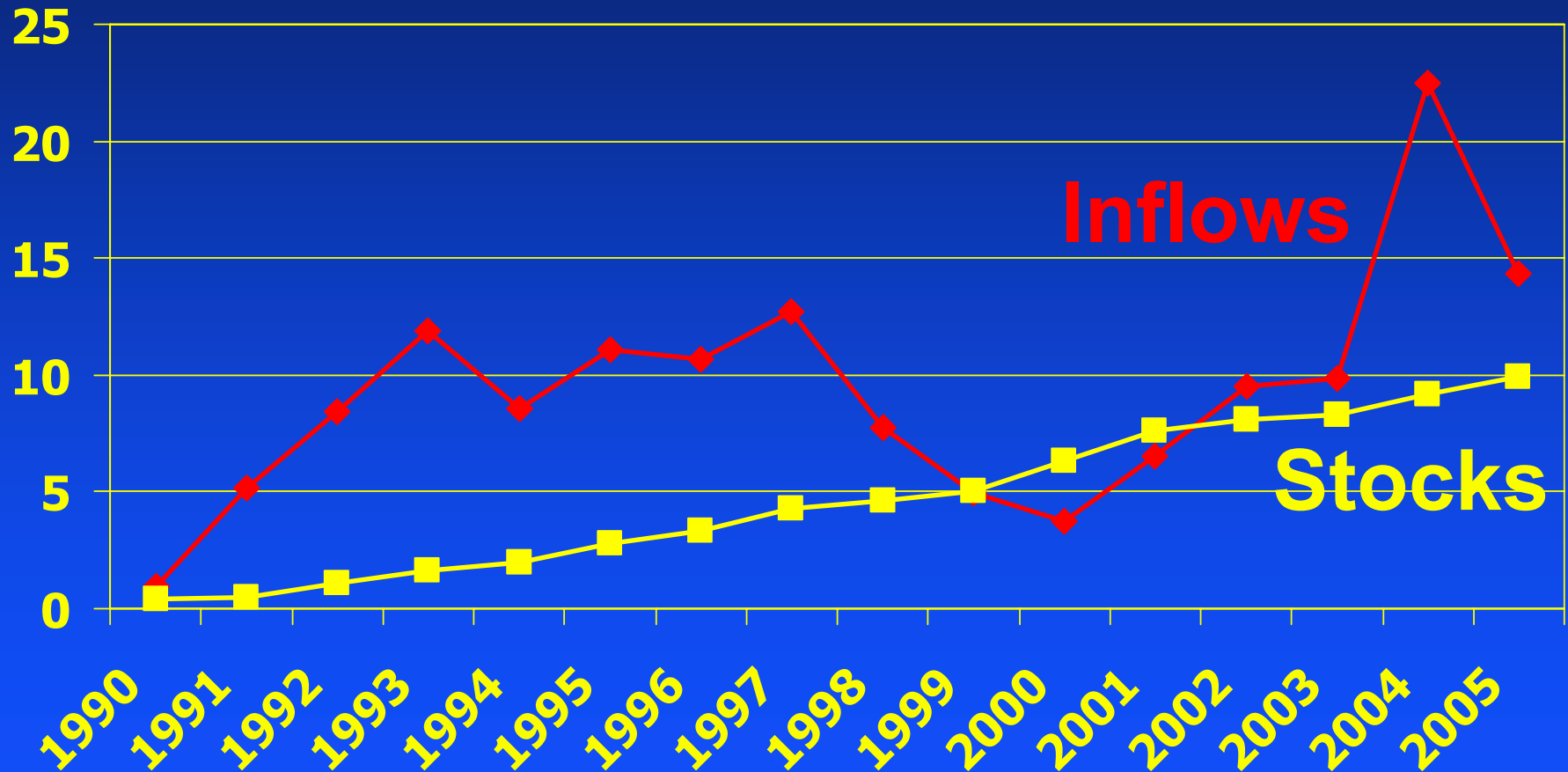


# INWARD FDI STOCK IN CEE, 1990-2005 (billions of USD)

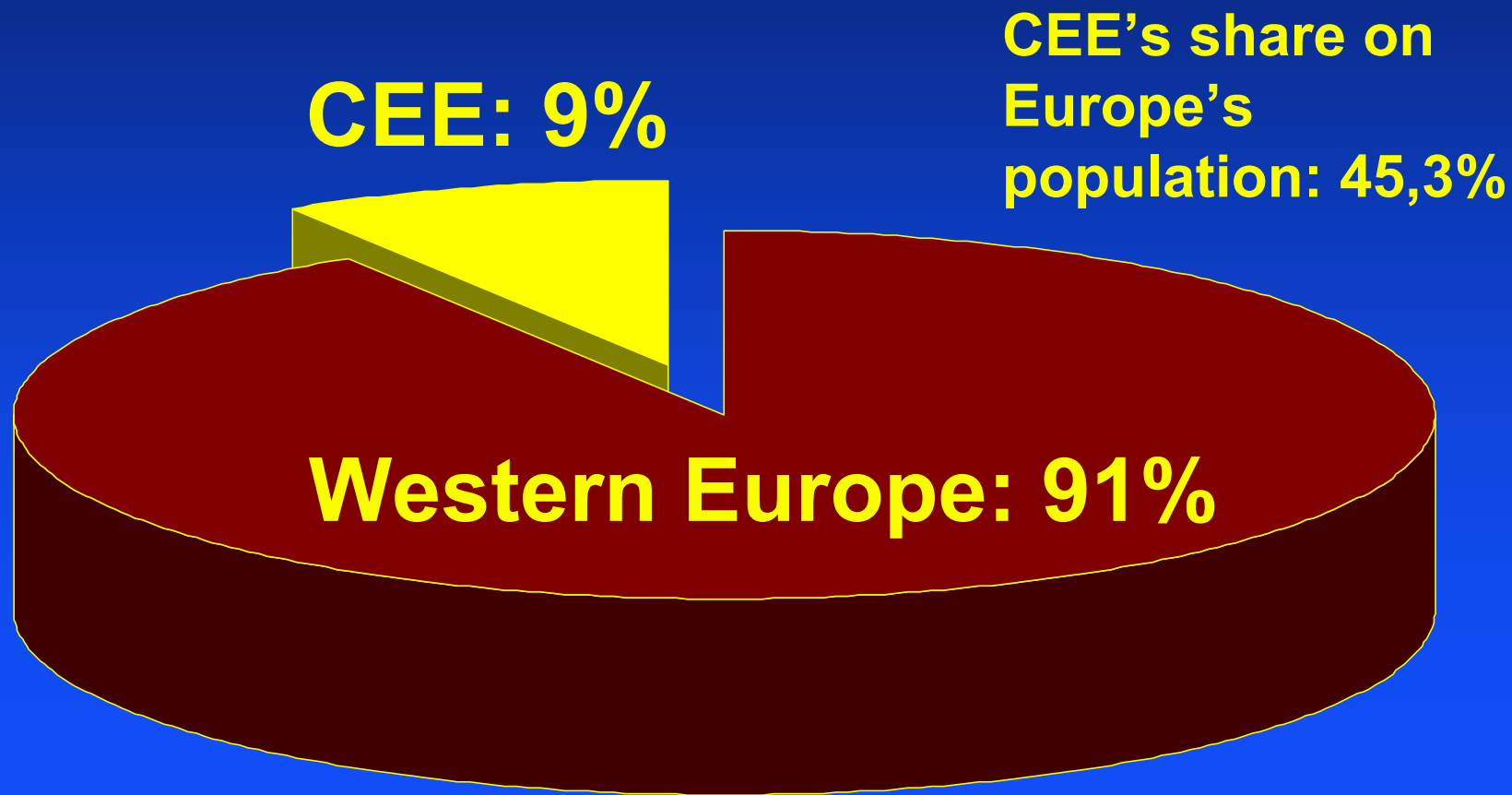


# **FDI AND UNEVEN DEVELOPMENT IN CEE**

# SHARE OF CEE ON EUROPE'S ANNUAL FDI INFLOWS AND STOCKS

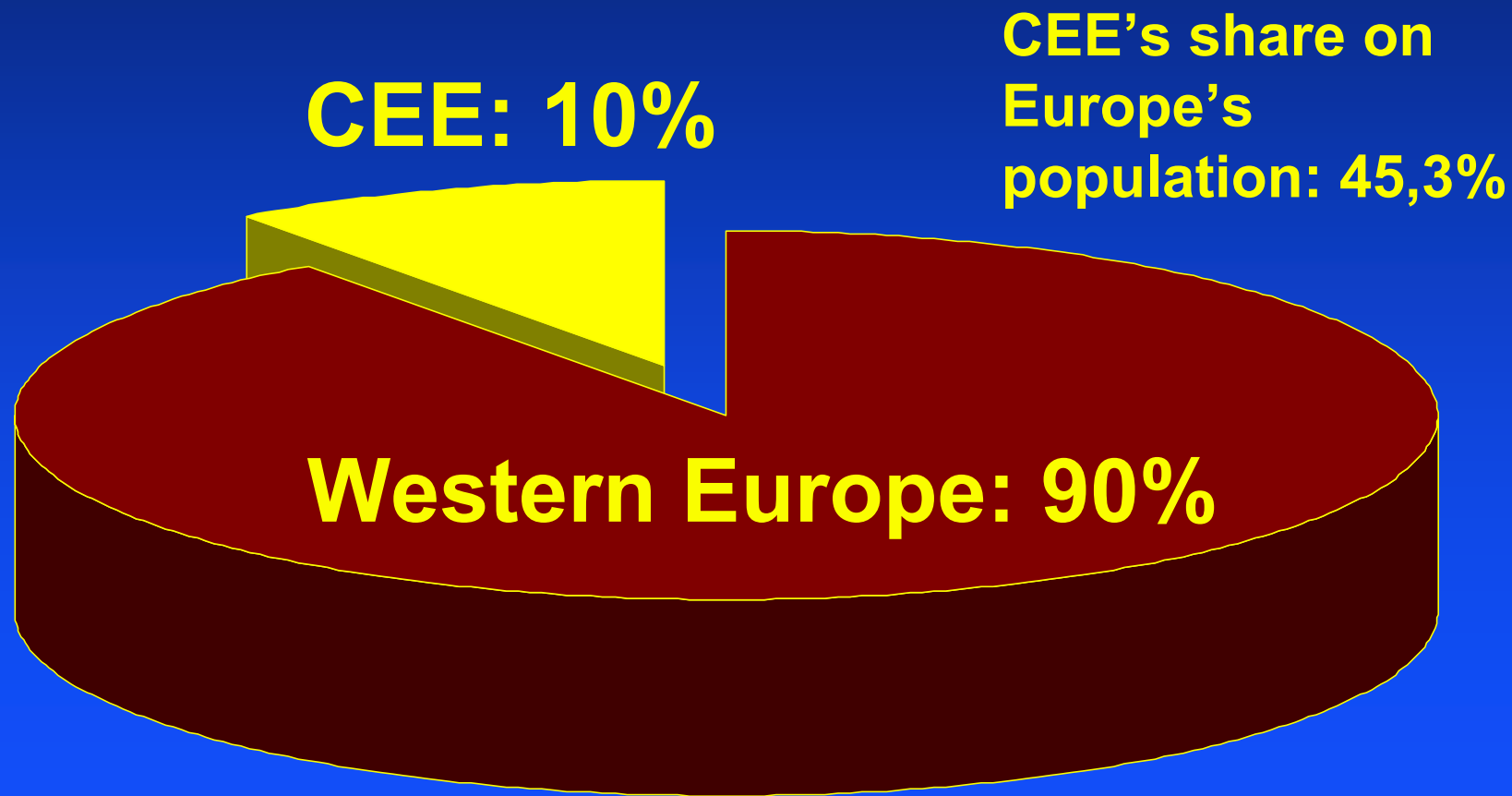


# SHARE OF CEE AND WESTERN EUROPE ON TOTAL EUROPEAN FDI INFLOWS, 1990-2005

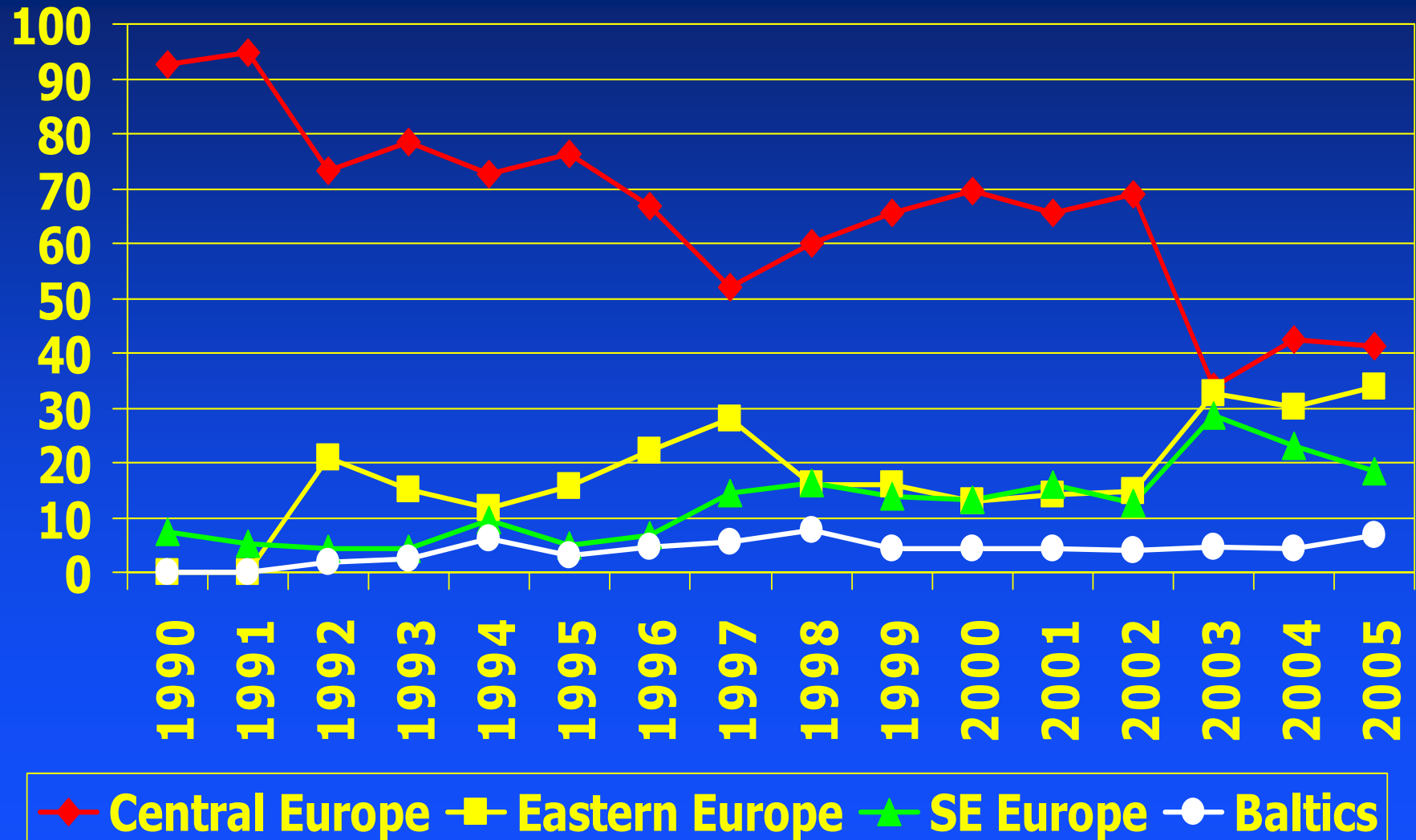




# SHARE OF CEE AND WESTERN EUROPE ON TOTAL EUROPEAN FDI STOCK IN 2005



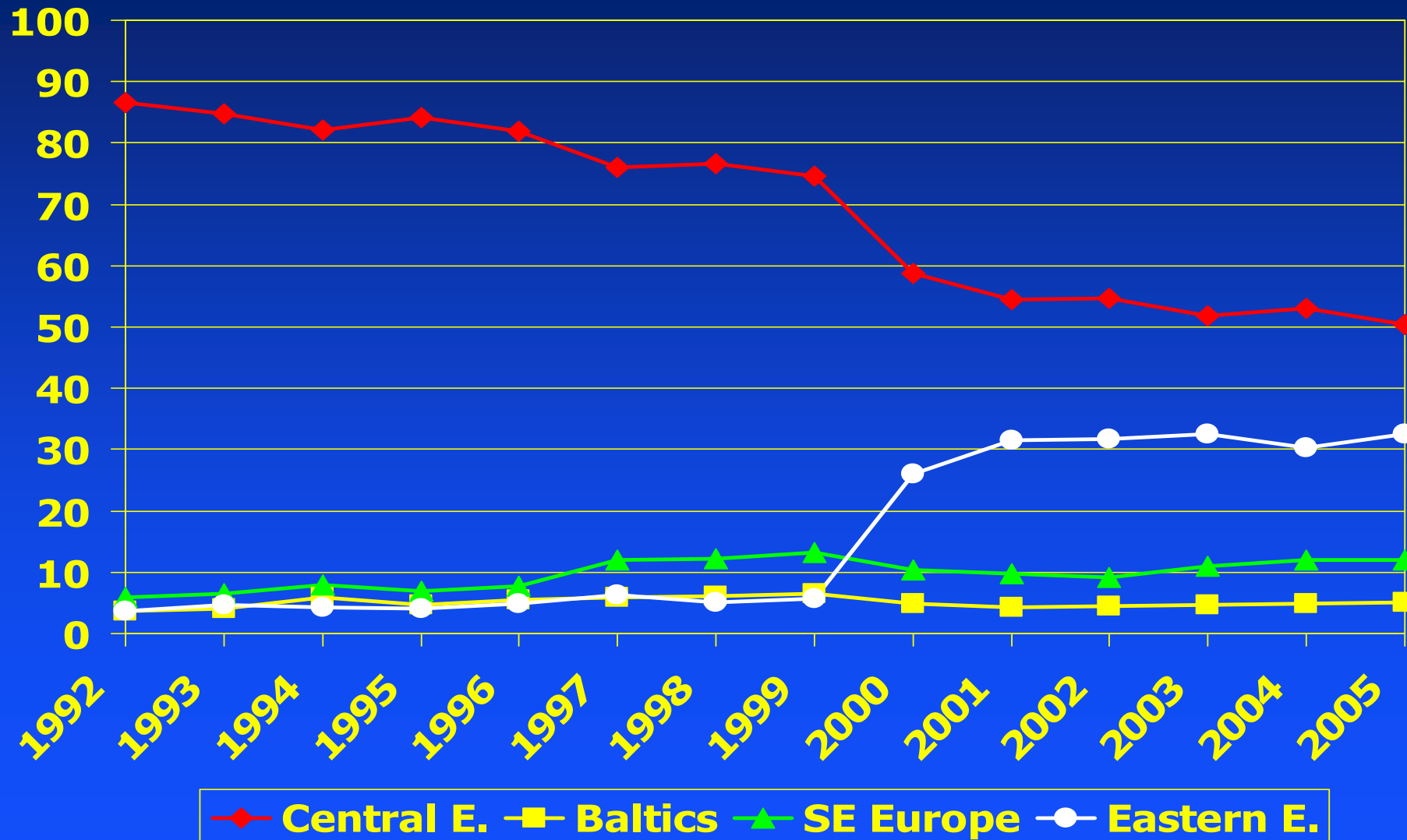
# SHARE OF CEE REGIONS ON ANNUAL FDI INFLOWS TO CEE



# FDI STOCK IN CEE, 2005

	FDI stock (USD)	%	Population (millions)	FDI stock per capita
Central Europe	237,397	50.4	65.9	3,602
Baltic states	23,518	5.0	7.0	3,360
SE Europe	56,562	12.0	53.4	1,059
Eastern Europe	153,211	32.6	204.1	751
CEE total	470,689	100.0	330.4	1,425

# SHARE OF REGIONS ON INWARD FDI STOCK OF CEE



# FDI stock in CEE in 2005 (millions of US dollars)

• Russia	132,491	28.1%	• Slovenia	8,064	1.7%
• Poland	93,329	19.8%	• Lithuania	6,461	1.4%
• Hungary	61,221	13.0%	• Serbia&Mont.	5,428	1,2%
• Czechia	59,459	12.6%	• Latvia	4,783	1.0%
• Romania	23,818	5.1%	• Belarus	2,383	0.5%
• Ukraine	17,209	3.7%	• Bosnia&Herz.	2,067	0.4%
• Slovakia	15,324	3.3%	• Macedonia	1,880	0.4%
• Croatia	12,516	2.7%	• Albania	1,680	0.4%
• Estonia	12,274	2.6%	• Moldova	1,129	0.2%
• Bulgaria	9,173	1.9%			

# FDI stock per capita in CEE in 2004 (US dollars)

• Estonia	7,331	• Romania	834
• Hungary	5,973	• Russia	688
• Czechia	5,531	• Macedonia	588
• Croatia	2,952	• Albania	473
• Slovakia	2,685	• Bosnia&Herz.	437
• Slovenia	2,481	• Serbia&Mont.	369
• Latvia	1,953	• Moldova	224
• Lithuania	1,879	• Belarus	210
• Poland	1,608	• Ukraine	196
• Bulgaria	983		

# INWARD FDI STOCK AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT IN 2005

- the Baltic states 42.4%
- Central Europe 38.6%
- South-Eastern Europe 26.7%
- Eastern Europe 17.4%

# INWARD FDI STOCK AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT IN 2005

• Estonia	93.64	• Lithuania	25.11
• Hungary	55.92	• Romania	24.16
• Czechia	48.10	• Slovenia	23.70
• Moldova	37.93	• Bosnia&Herz.	21.93
• Macedonia	37.47	• Ukraine	21.07
• Bulgaria	34.33	• Serbia&Mont.	20.71
• Croatia	33.33	• Albania	20.12
• Slovakia	32.77	• Russia	17.29
• Poland	31.05	• Belarus	8.06
• Latvia	28.73		



# FDI AT SUB-NATIONAL SCALE

- Contribution to regional polarization and uneven development
- Reasons

# FDI AT SUB-NATIONAL SCALE

- Concentration in capital cities
  - Budapest: more than 50% (Central Hungary 66%)
  - Bratislava region: 68%
  - Prague 47% (Central Bohemia 57%)
- Relatively little FDI invested in non-metropolitan, underdeveloped and peripheral regions
- Uneven sectoral distribution: 'dual economy'

# REGIONAL AND LOCAL DEVELOPMENT EFFECTS OF FDI

- Issues to consider:
  - profit-seeking behavior
  - a great variety of different types of FDI and a large diversity of foreign-invested enterprises
  - not only the overall volume of FDI in a country or region but also its structure determine its overall economic effects
  - differences between immediate or short-term regional economic effects of FDI and its potential long-term regional development effects

# POTENTIAL POSITIVE AND NEGATIVE EFFECTS OF FDI AT THE ENTERPRISE LEVEL

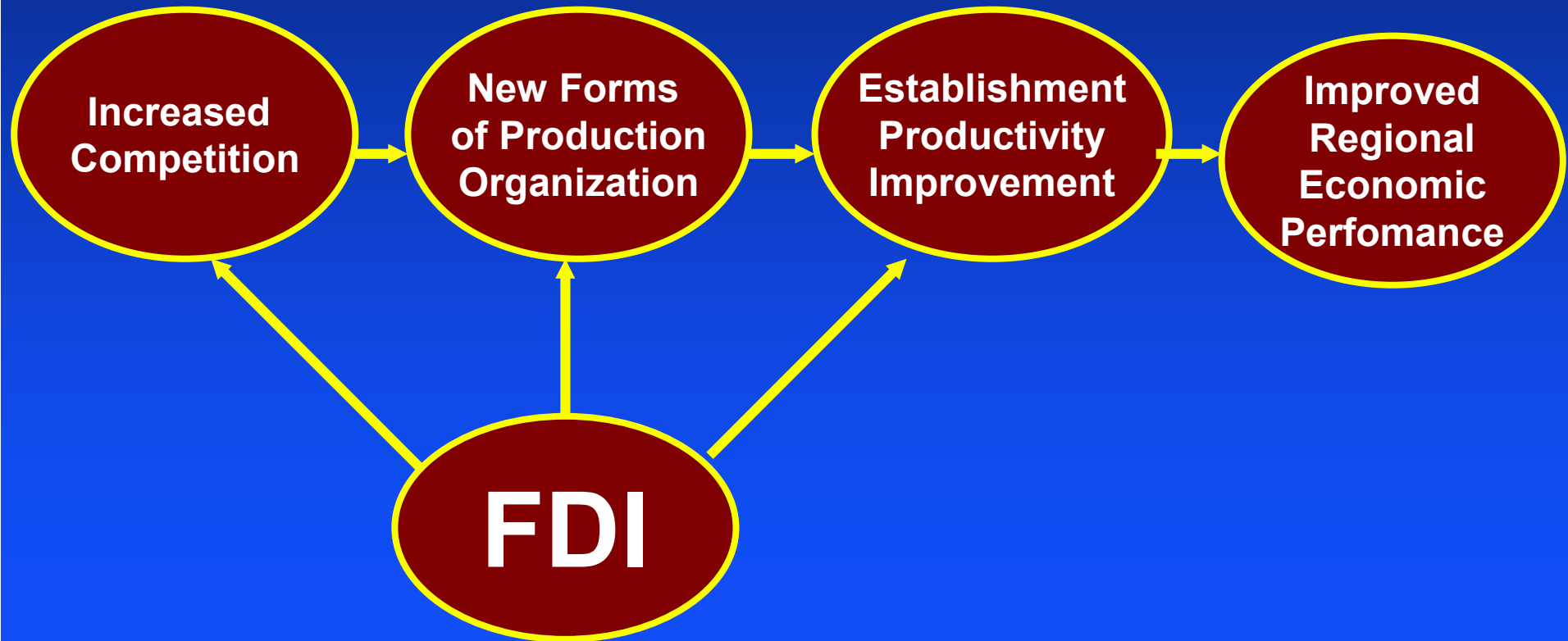
## *Positive*

- continued and expanded production
- increased labor productivity
- access to investment capital
- access to worldwide sale and distribution networks
- transfer of Western technology and know-how
- improved competitiveness
- increased R&D

## *Negative*

- labor shedding
- disinvestment and downsizing of production
- transfer of R&D abroad

# IDEALIZED RELATIONSHIP BETWEEN INWARD FDI AND REGIONAL ECONOMIC PERFORMANCE



# POTENTIAL POSITIVE EFFECTS OF FDI FOR LOCAL AND REGIONAL ECONOMY

- saving of existing jobs and creation of new jobs
- increased wages
- growth of real income
- increased tax base
- increased exports
- provision of social services to local communities
- spillovers to local and regional economy
- increased opportunities for local companies to supply foreign-owned companies
- diffusion of knowledge, new patterns of behavior, business relationships, work organization etc.

# POTENTIAL NEGATIVE EFFECTS OF FDI FOR LOCAL AND REGIONAL ECONOMY

- local dependency on foreign capital
- external control of local economies
- attracting skilled and semi-skilled workers from local companies
- suppression or destruction of local firms unable to compete with FIEs supported by generous governmental investment incentives and benefiting from transfer pricing
- suppression of the development of new indigenous enterprises
- deskilling

# POTENTIAL NEGATIVE EFFECTS OF FDI FOR LOCAL AND REGIONAL ECONOMY

- regional specialization in low-skilled labor intensive production
- development of 'dual economy'
- branch plant syndrome
- instability of Western investment
- repatriation of profits abroad



# POTENTIAL REGIONAL DEVELOPMENT EFFECTS OF FDI

- employment effects
- linkages of FIEs with local companies
- technology effects
- industrial structure and entrepreneurship effects
  - effects on the competitive position of existing domestic enterprises and on the formation of new indigenous firms

# FACTORS AFFECTING REGIONAL AND LOCAL DEVELOPMENT EFFECTS OF FDI

- mode of entry
- reason why FDI was made
- operational attributes

# LINKAGES OF FIEs WITH DOMESTIC COMPANIES

- particular strategy of TNC and the role of a particular FIE in that strategy
- characteristics of the host economy
- amount of time since the investment was originally made
- weak spillover effects in CEE so far

# FDI, GLOBALIZATION AND REGIONAL DEVELOPMENT

- How can local companies achieve and maintain competitive advantage in the increasingly globalized economy?
- How do globalization processes affect the quantity and quality of local jobs?
- How can local and regional development strategies effectively support local enterprises in reaching and maintaining their competitive position?

# A GLOBAL PRODUCTION NETWORKS PERSPECTIVE

- centrality of the “territoriality” of production networks analysis of regional and local development effects of GPNs
- value production, enhancement and retention
- the dynamic ‘strategic coupling’ of global production networks and regional assets

# ROLE OF REGIONAL INSTITUTIONS

- Promotion of local and regional assets and advantages to attract FDI
  - they must fit the strategic needs of TNCs
  - high-quality labor force
  - advanced infrastructure
  - supply networks and support institutions
  - state-of-the-art logistics

# CONCLUSION

- Increasing importance of FDI in CEE economies
- FDI will further contribute to uneven development
- Potential positive and negative effects of FDI
- FDI does not automatically translate in positive long-term regional development