THE IMPACT OF FOREIGN DIRECT INVESTMENTS ON CENTRAL AND EASTERN EUROPEAN ECONOMIES FROM A POLITICAL ECONOMY PERSPECTIVE

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Abstract

This paper aims to analyze the role played by foreign direct investments (FDI) in the restructuring of some Central and Eastern European economies with special emphasis on Poland, Czech Republic, Slovakia, Hungary and Romania. While it is generally accepted that FDI have had a positive impact on host Central and Eastern European (CEE) economies during the last 20 years and have contributed to the economic growth of the respective countries it is less obvious what really explains the differences in the volumes of FDI attracted by these countries. It is also of interest how can we measure the impact of FDI on the respective economies in order to obtain meaningful information for the design of effective economic policies that can support further growth.

Keywords: foreign direct investments (FDI), political economy, economic policies, Central and Eastern European (CEE) transition, incentives for investors.

JEL Classification: F2; F5.

Setting the stage: A back to classics (i.e. Adam Smith and David Ricardo) approach

After more than 20 years of transition, of more and more intense connection to a globalized world, after joining the European Union and NATO, after experiencing the glory of the boom years and the difficulties of the crisis years, the CEE economies are a mixture of global and local investors, of private and public entities and of (moderate) success or (almost) failure. How can we explain that? Which are the factors that really determined such results? Are there common denominators or just plain differences determined by

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chance? Or, to ask the so-called **Adam Smith question** – what are the conditions for successful economic growth and development?

Obviously, the usual approach is that any additional investment creates wealth thus the question is which entities have performed better? **The local companies** - private or still state owned, or **the subsidiaries of foreign companies established after 1990** which benefitted of the proper know-how and capital and which were able to compete both locally and internationally in a very competitive and often adverse business environment?

What CEE economies developed faster and better, those which deliberately attracted more FDI and were oriented to export or the others which relied more on laissez faire (in this case that is lack of clear and consistent FDI attraction policies), domestic capital and internal consumption?

In this context we consider of interest to perform a qualitative and quantitative assessment of the foreign investments in CEE countries in order to commensurate their performances and the significance of the economic policies promoted by host countries in attracting foreign investments.

In doing so, we fully agree with George Friedman who remembered us recently that, "classical political economists like Adam Smith or David Ricardo never used the term "economy" by itself. They always used the term "political economy." For classical economists, it was impossible to understand politics without economics or economics without politics. The two fields are certainly different but they are also intimately linked. The use of the term "economy" by itself did not begin until the late 19th century. **Adam Smith understood that while an efficient market would emerge from individual choices, those choices were framed by the political system in which they were made, just as the political system was shaped by economic realities. For classical economists, the political and economic systems were intertwined, each dependent on the other for its existence.**[3]"

As we are fully convinced that one can not separate economy from sociology, politics, anthropology, we propose the study of factors of influence for FDI decisions into CEE countries and of the impact of these FDI on the respective economies in the context of political economy. The paradox is that such an approach is nowadays unconventional or less conventional exactly because it is classical. In a world of economic analysis largely dominated by econometrics (which, by the way, is as good as the model is – that is largely incomplete and artificial) and propose a return to classics.

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[3] George Friedman, Global Economic Downturn: A Crisis of Political Economy, Stratfor Geopolitical Weekly, August 9, 2011.

Therefore, **a political economy approach** is one based on “a much more expansive mixture of philosophy, political science, history, economics, anthropology, and sociology”[4]. In this approach we also include the fact that during the transition period those who studied the CEE countries re-discovered (like Jeffrey Sachs did) that “History is important” (that is what happened to the CEE countries starting 15 – 16 th century till present), but also “Geography is important” (that meaning the importance of existence or non-existence of direct borders of CEE countries with Western countries).

These being said it is clear that not all CEE countries were “born” in 1990 equal and that those inherited characteristics shaped to a large extent their economic transformation, the role of FDI included. Our research is not done in view of justifying failures of some countries in harnessing the potential of FDI, but rather in view of learning useful lessons and looking for “best practices” that can be applied elsewhere.

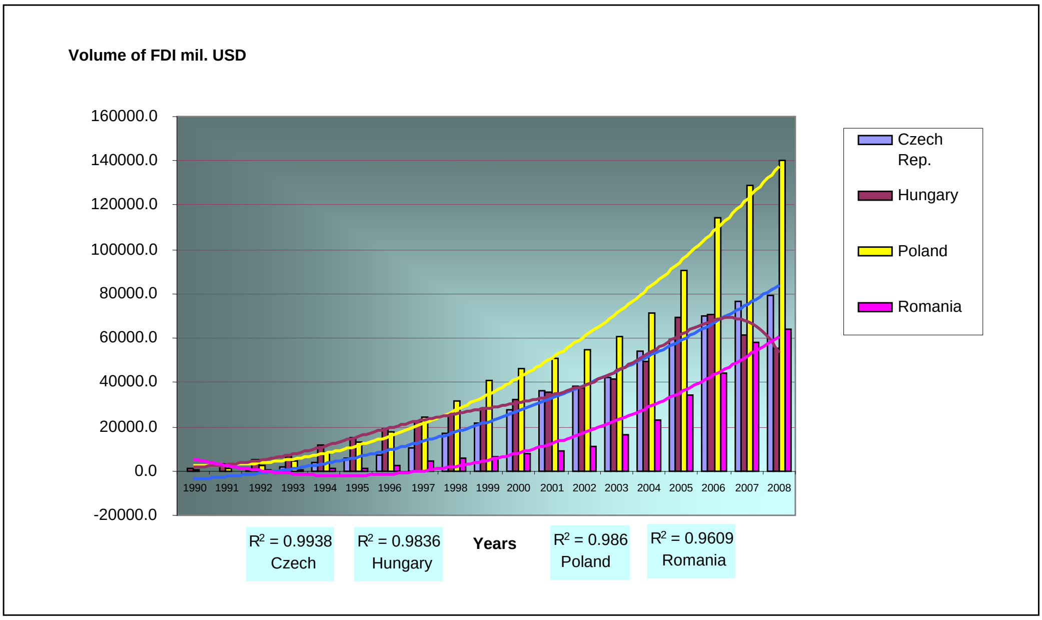
CEE and FDI: The facts

The CEE countries have started their transition period from rather different backgrounds. Some of them already experienced economic reforms (Poland, Hungary), while others had no such experience (Romania). Some of them had some private sectors in their economies (like Poland or Hungary), others very little (again Romania). Some of them had a long term developed industrial base (Czech Republic), others had an industry developed more on quantitative terms rather than qualitative (Romania).

During the past 20 years, Poland attracted the highest volume of FDI in the CEE group of countries followed by the Czech Republic and Hungary with relative similar patterns, although the economic under performance of the latter during the past years has been reflected also in a decrease of foreign investments level, phenomena accentuated by withdrawal of funds which led to a decrease of FDI stock as shown in the graphic below.

[4] Internet Encyclopedia of Philosophy, article on Adam Smith, at http://www.iep.utm.edu/smith/

Graph 1: Evolution of FDI stock in Czech Republic, Hungary, Poland and Romania during 1990 – 2009.



Source: Author calculation based on data from www.worldbank.org

Our further analysis is based on the latest ranking Top 500 CEE ("Top 500") as published by Coface[5] which include the first 500 companies from Poland, Czech Republic, Hungary, Slovakia, Romania, Ukraine, Croatia, Bulgaria, Slovenia, Lithuania, Estonia, Latvia and Serbia ranked by year 2009 turnover. In this ranking the financial services providers such as banks, insurance companies, leasing firms and brokers excluded.

Certainly, we are fully aware that there are annual fluctuations of economic indicators and also that the year 2009 was the first full year of the financial crisis in Europe but the population of firms – 500 items – is strong enough to enable us to identify a trend, to understand what are the industries favored by the foreign investors and what are the stimulants behind their decision to invest. Most important, we try to determine **whether the policies promoted by host governments count or the investors rely solely or mostly on their own internal assessments in the decision making process for investing abroad**.

[5] http://www.cofacecentraleurope.com/CofacePortal/CE/en_EN/pages/home/ne/Top_500

In addition we want to establish if there is any direct connection between foreign investments and the fact that the CEE champions of economic development namely Czech Republic, Slovakia, Poland and Hungary have attracted the highest volume of FDI in sectors with highest spillover effects.

As shown above, it is well known that the respective countries have started their transition from **different stages of economic development and different social and political environments**. While Czechoslovakia, Poland and Hungary were more economic developed and had some private sector economy experience in Romania it was only at the beginning of '90s that the subject was brought on the public agenda. An interesting aspect is that in Hungary discussions about the role of FDI in economic development had started almost 20 years before 1990 and this long period of time allowed both researchers and civil society to reach a relatively good understanding and agreement on the acceptance of FDI[6]. In contrast, the Romanian opening to FDI started for real only in 1990 so that for some years large strata of society as well as populist politicians claimed loudly that "we are not selling our country" and by that practically opposed the entrance of FDI.

Under these circumstances, while the basic legal and institutional framework regarding investment and trading activities liberalization was adopted more or less synchronous across the entire CEE region, the practice was uneven till this day, more than 20 years later. The Top 500 numbers and structure reflect the different performance of the CEE economies and the role played by foreign investments.

As anticipated the first country in this top is Poland with around 132 billion Euro cumulated turnover from 142 companies followed by Hungary with 85 billion but with a record of approximately 1 billion Euro average turnover for each of the 83 companies included in the top.

At the opposite end of the scale we find Romania ranked the fifth country with cumulated turnover value of 33 billion Euro, after Poland, Hungary, Czech Republic and Ukraine, but with only 692 million Euro average income per company in 2009 against a medium level of 913 million for the entire region.

Certainly, the data included in Top 500 may contain errors and omissions. Information is based on the companies annual statements submitted with local Ministries of Finance or Trade Register (according to each country's legislation). There could be some missing data but we consider that the results of our analysis will not be affected given the magnitude of the numbers.

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[6] Peter Mihalyi, Privatization policies to attract FDI – lessons from the experiences of Hungary, Central European University, Budapest, 2001.

Table 1 Top 500 country ranking and number of companies

Country	Turnover Top 500 * [thou. Euro]	Number of companies included in Top 500*	Turnover / Number of companies [thou. Euro]**
Poland	131,927,082	142	929,064
Hungary	85,635,578	83	1,031,754
Czech Republic	68,055,405	69	986,310
Ukraine	39,824,099	43	926,142
Romania	33,209,703	48	691,869
Slovakia	31,707,707	32	990,866
Lithuania	14,369,892	16	898,118
Bulgaria	13,189,287	18	732,738
Slovenia	12,495,100	17	735,006
Croatia	12,451,764	17	732,457
Total	**442,865,617**	**485*****	**913,125**

* Coface; **Author calculation, *** The remaining 15 companies up to 500 belong to Serbia, Latvia and Letonia to small to be included in the table

Taking into account that the Top 500 includes foreign and local companies with public and private ownership and that foreign subsidiaries are uniformly run across the region and do not rely on national consumption, one of the conclusions for the low performance of the Romanian companies could be that local firms included in the top are managed under their potential as opposed to similar companies from other CEE countries.

Before assessing the structure of the economic sectors and the equity structure of the companies included in Top 500 it is of significant importance to review their financial performance and contribution to national wealth.

Thus, although the number of persons employed in Top 500 companies at regional level is only around 4% of the active population, their turnover represents 38% of the cumulated GDP. This indicate without any doubt that the productivity is much higher in the affiliates of transnational corporations than in the rest of the companies.

There are still some notable exceptions. In the case of Hungary, the turnover of the 83 companies included in Top 500 amount to 69% of the country's GDP employing 9% of the total workforce against the region's averages which are 50% of Hungary's numbers.

At the other end, we find Bulgaria whose 18 Top 500 companies employ only 0.64% of the active population which basically leads to the conclusion that the largest Bulgarian firms are in majority just trading companies with little value added to the economy.

Romania is in a slightly better position than Bulgaria with almost 2% of the active population working in the country's 48 largest companies signifying that, besides trading companies there are also some manufacturing entities with substantial revenues.

Table 2 Top 500 selected performance indicators

Country	Turnover Top 500 [th. Euro]*	Employees Top 500*	Active population*	Net profit ratio (Net profit /Turnover)**	Turnover/ Employees**	Turnover/ GDP**	Employees Top 500/Active population**
Poland	131,927,082	729,635	17,279,200	4.64%	180,812	31.19%	4.22%
Hungary	85,635,578	373,955	4,202,500	3.63%	229,000	68.93%	8.90%
Czech Republic	68,055,405	260,532	5,296,5000	6.52%	261,217	35.88%	4.92%
Ukraine	39,824,099	684,579	21,150,300	1.74%	58,173	34.42%	3.24%
Romania	33,209,703	196,846	9,924,100	5.34%	168,709	20.67%	1.98%
Slovakia	31,707,707	102,161	2,689,800	5.69%	310,370	35.91%	3.80%
Lithuania	14,369,892	57,592	1,640,900.00	1.70%	249,512	39.96%	3.51%
Bulgaria	13,189,287	22,348	3,491,600.00	1.97%	590,178	29.45%	0.64%
Slovenia	12,495,100	45,198	1,014,700.00	3.79%	276,452	27.49%	4.45%
Croatia	12,451,764	68,275	1,765,000.00	4.14%	182,377	20.17%	3.87%
	442,865,617	254,112	68,454,600.00	3.92%	174,280	37.73%	3.95%

* Top 500, ** Authors calculations

An important indicator which also reflects the structure of each country's Top 500 companies is the productivity calculated as Turnover/Employee ratio.

Bulgaria establishes a record high, a new indication that the Bulgarian largest companies in terms of turnover are in majority trading companies. By contrast, Slovakia is the most competitive among countries with largest manufacturing facilities, outperforming in terms of employee productivity all neighboring countries such as Poland, Czech Republic, Hungary and Ukraine.

Romania is under performing with only 65% of the Czech and 74% of Hungary levels but close to Poland's. As previously mentioned Romania is under performing in the category of average turnover per firm as well, with 692 million Euro, only 67% of Hungary's amount, the best placed country in terms of median company income.

FDI inflows into CEE countries and the role of economic policies

The four top performing countries namely Czech Republic, Hungary, Poland and Slovakia **have clearly and transparently established the priority sectors** for the economy where governments have granted subsidies schemes in order to stimulate fast development.

The common priority sectors are: automotive, electronic equipment and engineering, pharmaceuticals, biotechnology, professional services, research and development, information technology, telecommunications and software.

Separately, each of the previously mentioned countries has added other priorities according to their own competitive advantages such as: aviation, clean technologies, renewable energy and nano-technologies.[7]

As regards economic policies and particularly FDI attraction policies, we have to note that not only a clear decision on priority sectors is important, but also the consistency of these policies. Foreign investors need a clear picture on the economic options of a host economy and also need the perception of consistency and stability. An important positive message for foreign investors regarding economic policies refer to the stability of main objectives beyond political cycles.

From this point of view the messages sent by Romania to the foreign investors community has been rather unclear, unstable and often confusing. While in the first years of transition (1991 – 1996) there was a general differentiation of economic activities supported by government, differentiation achieved by offering longer tax holidays to industrial investments as compared to those in agriculture and constructions and those in trade, after 1997 even such a general differentiation was eliminated and the remaining incentives referred only to the value of investment, but not to the sector of activity.

Contrary to common sense, the Romanian approach to FDI especially after 1996, based on an undifferentiated openness ("the foreign investors can invest in any region, in any sector, in any proportion of capital ownership") is less attractive than an approach based on different levels of incentives for different sectors of economy. The fact that a country has some targeted sectors for particular development does not signify the interdiction of investment in the rest of the economy; it just gives a message about the areas of interest of a government for the long term development of a country.

Similar comments related to the economic policies in the CEE countries can be done in relation to FDI infrastructure, that is the existence, stability and attributions of institutions dealing with FDI. While in early 1990s all CEE

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[7] Data based on economic policies presented by the investment promotion agencies of the respective countries at : www.czechinvest.org, www.itdh.com, www.paiz.gov.pl

countries had investment promotion agencies which were more or less similar in size, shape and attributions, after 1996 Romania started to differ due to high institutional instability. Starting 1997 to 2002 Romania changed almost every year the institution dealing with FDI while diminishing constantly the budget, staff and attributions of the respective entities. After 20 years the Czech Republic, Poland or Hungary have well established and reputed investment promotion agencies (CezchInvest, PAIZ and ITD Hungary[8]) while such a Romanian counterpart is non-existent. Even the low profile Romanian agency established in 2002 (ARIS) has been abolished in 2010 as result of reduction in government spending and replaced by a mere department in the Romanian Centre for Trade and Investment[9].

Largest FDI players in CEE countries

As result of all these aspects involving both legal and institutional FDI related aspects the structure of largest FDI companies from CEE whose turnover represent approx. 35% of the region's GDP, follows different patterns according to the development stage of the respective states.

Thus, we recognize three groups:

i) **most advanced**: Czech Republic, Poland, Hungary, Slovakia and Slovenia which have significant electronic components, automotive and pharmaceutical companies;

ii) **intermediate**: Romania with significant automotive companies but with limited electronic components and pharmaceutical companies;

iii) **Remaining countries**.

Overall oil and gas represents the most significant activity in the region in terms of turnover (24%) followed by electricity generation, transmission, distribution and supply (12.64%), retail and wholesale (12.19%), automotive (9%), electronic components (7%) and pharmaceuticals (3.8%).

Table 3 Distribution of selected activities within Top 500 CEE*

	Oil & Gas	Electricity	Telecom	Retail & Wholesales	Mining & Metal	Automotive	Electronic component	Pharma
Poland	28,752,325	19,266,249	7,105,222	11,383,735	8,534,625	11,972,217	8,916,275	6,534,684
Czech Republic	9,544,093	6,322,268	3,037,064	8,556,636	6,430,329	12,196,797	5,410,473	2,317,146
Hungary	23,154,203	8,277,366	3,507,351	8,594,304	4,251,054	6,903,895	12,224,838	4,643,501
Romania	10,401,696	3,818,056	3,153,083	7,733,263	1,179,255	2,811,644	1,027,793	463,667

[8] Which has been replaced since January 1st, 2011 by the National Foreign Economy Office.

[9] http://www.traderom.ro/

Slovakia	6,407,938	6,141,000	1,812,532	2,188,193	2,247,480	4,821,016	3,575,102	937,435
Bulgaria	6,388,840	2,461,161	1,538,577	863,505	-	-	-	-
Ukraine	13,362,084	6,122,815	2,339,384	3,445,192	7,797,273			389,569
Slovenia	2,867,466	803,499	886,070	2,966,874	-	1,290,986	-	1,521,861
Lithuania	3,960,250	1,113,296	-	5,434,441	-	-	-	-
Croatia	2,685,295	1,652,639	2,142,438	2,799,886	-	-	-	-
Total	107,524,190	55,978,349	25,521,721	53,966,029	30,440,016	39,996,555	31,154,481	16,807,863
	24.28%	12.64%	5.76%	12.19%	6.87%	9.03%	7.03%	3.80%

* Indicative authors calculation based on Top 500 numbers.

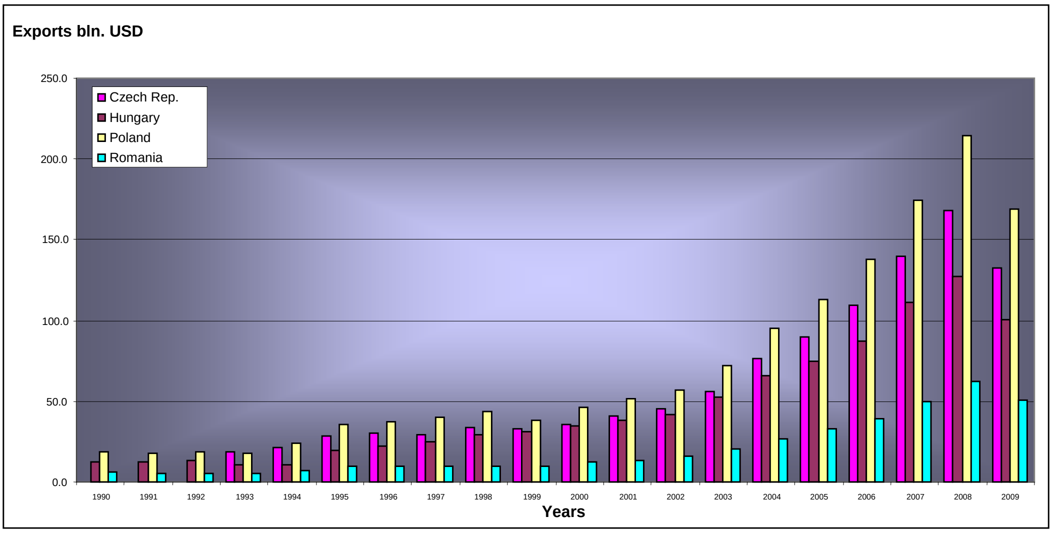
In terms of cumulated value of automotive and electronic components and equipment,

Slovakia ranks the first with 26.48% of the top, followed by Czech Republic with 25.87%, Hungary with 22.34%, Poland with 15.83%, and Romania with 11.55% which in fact has a very limited electronic components and equipment industry in terms of turnover. Those two industries are not only the most internationalized at global level but are generating as well the highest value added in economy creating networks of competitive local suppliers and R&D activities.

It is also important to note that these categories of companies are run based on economies of scale and once an investment is finalized and commissioned, it serves the whole region not only the country where it is legally registered.

Therefore, in terms of consumption the location does not count, the plasma TV sets produced in Poland are shipped in all CEE countries, while Dacia or Skoda cars manufactured in Romania, Czech Republic and Slovakia are sold everywhere in Europe, and the outsourcing centers established in Romania or elsewhere in the region are supporting companies throughout Europe. Cheaper and faster transportation and communication means separated production from consumption and allowed investors to choose the location so as to make best use of local resources, business environment and incentives schemes offered by the governments.

Graph 2 Evolution of exports Czech Republic, Hungary, Poland and Romania during 1990 - 2009



In contrast to the export oriented activities, there are also some notable exceptions such as oil & gas, electricity and telecommunications, sectors which attracted high volumes of foreign investments targeting mainly local markets. Major players in these fields of activity in CEE countries are international well established companies, majority of them being included in Top 1000 worldwide.

The structure of the largest firms in CEE shows that some foreign companies have chosen locations in several countries for their investments. Notable example is Nokia with production sites in both Hungary and Romania, Samsung which invested in Slovakia, Hungary and Poland with a turnover of 7.4 billion Euro in 2009 from these sites, Philips in Hungary and Poland with a cumulated income of 3 billion Euro etc.

In fact the automotive and electronic components and equipment sectors are driven by a limited number of world players. Some of them are coming from history and are pioneers in their field of activities, others were established only decades ago but benefited of some new industries opportunities such as mobile communications, video equipment, Internet related equipment, etc. It is thus important to attract the investments of such well established players in order to become a manufacturer in automotive or electronic equipment sectors.

In a recent debate, the National Bank of Romania governor stated that "Only large companies have the necessary force to pull up the economy and who wants to gain market share now needs to think rather to an acquisition, because the limited growth prospects and relatively high competition make an organic growth strategy too expensive”[10].

In comparison with its more economically advanced neighbors, Romania is lacking of investments in the electronic components and equipment while automotive sector has not yet reached its potential.

In addition, although Romania has double the population of Czech Republic or Hungary and four times the population of Slovakia, the pharmaceutical sector is only 1.4% of the top Romanian companies against an average of 3.63% for the five analyzed countries.

Table 4 Contribution of selected sectors to the turnover of Top 500 in some CEE countries

	Oil & Gas	Electricity	Telecom	Retail & Wholesales	Mining & Metal	Auto motive	Electronic components	Pharma
Poland	21.79%	14.60%	5.39%	8.63%	6.47%	9.07%	6.76%	4.95%
Czech Republic	14.02%	9.29%	4.46%	12.57%	9.45%	17.92%	7.95%	3.40%
Hungary	27.04%	9.67%	4.10%	10.04%	4.96%	8.06%	14.28%	5.42%
Romania	31.32%	11.50%	9.49%	23.29%	3.55%	8.47%	3.09%	1.40%
Slovakia	20.21%	19.37%	5.72%	6.90%	7.09%	15.20%	11.28%	2.96%

Apparently, Hungary is overcrowded with large companies whose cumulated turnover represents over 60% of the country’s GDP. It is obvious that the domestic market cannot ensure the critical mass for their sales and that exports are vital. Global slowdown of world economy during past three years has led to a lower foreign trade activity which in turn put pressure on the profit margins of the companies heavily dependant on regional or international markets.

A more balanced situation is to be found in Poland and Czech Republic where the Top 500 cumulated income represents 31%-35% of the national GDP. This situation leaves enough space for a competitive medium size companies sector gravitating around large regional and international players with local production sites.

It is also worth noting that traditional, vital industries such as oil & gas, electricity and telecommunications are dominating the sector of large enterprises from CEE with over 40% of their cumulated turnover being in majority oriented towards serving the local markets.

[10] Conference, “Companies that overcame the crisis. Lessons for the next economic growth period”, Bucharest, July 5, 2011.

What is somehow surprising is the limited representation in Top 500 of the food sector. Poland with almost 5 billion Euro turnover and Czech Republic with 1 billion Euro are the champions, while Romania and Hungary are lagging behind with around 700 million Euro.

In addition although countries such as Romania and Bulgaria do need complete overhaul in terms of infrastructure and construction of highways, there are no constructions companies in Top 500 be it with local or foreign capital. Only Czech Republic and Poland have altogether 2.8% of the cumulated turnover of their Top 500 companies from construction.

This is a clear indication that the two countries have had the highest magnitude in what concerns the opportunities in the field, leading to the conclusion that their infrastructure underwent substantial investments.

Particularly for Romania the poor situation of infrastructure is presented in all international evaluations of business environment as one of the most important (if not the most important) obstacle in attracting foreign investors. Only in the automotive sector Romania lost in 2008 a Daimler-Benz investment of almost 1 billion Euro in favor of Hungary due to poor infrastructure while another investor that came to Romania, Ford, is constantly complaining about the difficulties encountered due to infrastructure.

Retail and wholesales sector is dominated by international chains. There are still some local champions in each country but they do not exceed the threshold of 1 billion Euro turnover. With a lower consumption than of its neighbours, Romania has in turn a record of 24% of its largest companies in retail and wholesales sectors, a confirmation of the fact that production field is under represented.

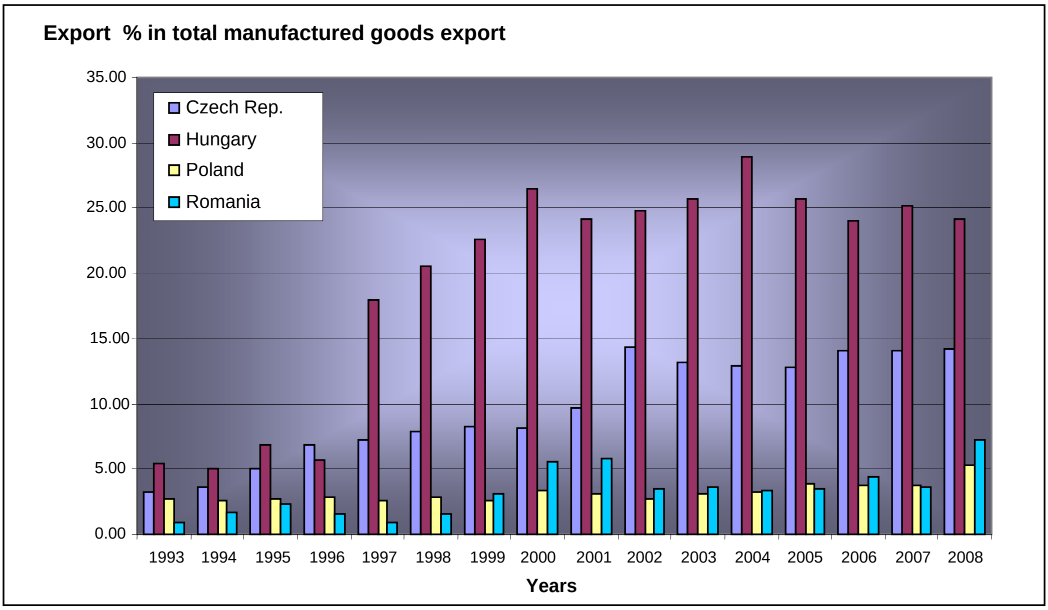
It is obvious that the top performer is Czech Republic where 47% of its Top 500 cumulated turnover is generated by companies from automotive, electronic components, pharmaceutical, construction, transport, metallurgy and food industries which ensure a solid production base to serve domestic, regional and global markets.

Among the first ranked companies, we recognized some global players such as Skoda Auto (fully owned by Volkswagen group) privatized since 1990 but manufacturing cars since beginning of twenties century with a 6.5 billion Euro in 2009, Foxconn from Taiwan, largest electronic equipment manufacturer employing worldwide over 1 million people (5,000 in Czech Republic), Toyota Peugeot Citroën Automobile Czech Republic with almost 2 billion turnover and 3,386 employees in 2009, Panasonic AVC Networks Czech, s.r.o with 2,200 employees and others.

Hungary belongs to the category of top performers especially in the automotive and electronic equipment sectors. Nokia, Audi, General Electric, Samsung, Philips, Suzuki, Flextronics, Electrolux, Bosch and IBM directly employ over 45,000 people in their production sites located in Hungary.

The concrete results of the FDI impact on Czech Republic and Hungary economies is best evidenced when assessing the high technologies rates of their exports which show record highs for Hungary, followed by Czech Republic.

Graph 3 High technology exports rates for selected countries in CEE 1993 - 2008[11]



Obviously, the situation may change if new foreign investments are attracted by Romania and the success of Nokia can be encouraging. In 2010 Nokia recorded a turnover in Romania of 1.6 billion Euro (56 % increase over 2009 and a 14 % increase of profit over 2009)[12]. The analysis indicate a clear deficit in the electronic equipment sector therefore targeted policies are needed in order to stimulate the interest of major players for a local production site.

Romania can take advantage of the fact that it is not crowded and has enough unused potential in terms of qualified workforce, relative cheaper utilities and available state aid in order to become the favorite location in CEE for the next generation of foreign investments.

[11] www.imf.org

[12] Adrian Seceleanu, Explozia Nokia: de la 6 milioane de euro În 2007 la 1,6 Miliarde de euro În 2010, Ziarul Financiar, August 24, 2011.

Goldstar, Philips Lighting, Samsung Electronics, Sharp Manufacturing, Electrolux have contributed to the transformation of Poland into the largest producer of home appliances in CEE. At the beginning, considerable domestic market able to provide critical mass to achieve break-even was a major advantage. However, given the geographical proximity, production bases could have been located anywhere in the region, especially since the start of accession negotiations with the EU, the convergence of trade policies of Central European countries becoming a fact.

Transnational companies have selected investment locations, especially depending on the quality of business environment, benefits and incentives offered by host countries, the existence of networks of competitive suppliers and of a relatively well-qualified workforce in the field.

Important to note that some companies have made investments in several countries in the region. For example Samsung, Philips and Electrolux, are on top in both Poland and Hungary. By comparison, the only company producing electronic components present in Romania and listed in Top 500 is Nokia with revenues of 1 billion Euro in 2009 (and 1.6 billion Euro in 2010), while in Hungary the same company recorded a turnover of about 4 billion in 2009.

Conclusions

After 21 years since the demise of the centrally planned economies of Central and Eastern Europe, the role of FDI in reshaping these nations is beyond any doubt. The largest companies in each of these countries are multinationals, they have the biggest share of exports as well as highest weight in terms of high technology goods and services.

Anyway, significant differences were recorded between Central European countries and Romania both regarding volumes of FDI attracted and FDI contribution to modernizing and increasing the productivity and efficiency of economy.

Such differences can be explained by:

- Different initial levels of development. In this context the concept of development is understood in its broadest sense, including GDP/capita as a synthetic indicator, infrastructure, technology, etc. The conclusion is that the more developed countries attracted more FDI;

- Different historical experience and geographical location. Historical experience influenced both domestic decisions and attitudes of civil society and position of Western chancelleries towards the new administrations in CEE countries. Geographical position influenced FDI, among other reasons, simply by cost related issues and easiness of access;

- Different quality of administration and business climate. The countries with some private sector experience, with a partially reformed administration and more business friendly received more FDI;
- Existence or non-existence of clear and consistent economic policies. More FDI was attracted by countries with clear and stable options regarding priority sectors in the economy and interest for predictability and transparency in any decisions affecting the business;
- Existence or non-existence of a clear and stable institutional framework for receiving and supporting foreign investors. While this is not the only significant factor, the more than 20 years of practical experience shows that the countries with such institutional framework succeeded in attracting high volumes of FDI, while the countries that treated the matter lightly obtained much less convincing results.

The FDI sector is more and more important in a global economy. The ongoing economic and systemic crisis adds more dynamism to the existing one and the importance of global players is changing. The competition for capital is increasing and the role of political factor is also on the rise.

In this context all elements are known and best practices are easily available. It only remains that the business sector, the civil society and the politicians find a common denominator for the next two decades and start to adopt and implement the measures necessary for the brave new world to come.