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**CHANGES OF FOREIGN DIRECT INVESTMENT IN AGRIBUSINESS
IN THE CENTRAL-EASTERN EUROPE AT THE EARLY 2000'S**

*ZMIANY ZAGRANICZNYCH INWESTYCJI BEZPOŚREDNICH
W ROLNICTWIE W EUROPIE ŚRODKOWO-WSCHODNIEJ
NA POCZĄTKU XXI WIEKU*

Key words: privatization, food industry, transition, Hungary, Poland

Słowa kluczowe: prywatyzacja, przemysł spożywczy, przejście, Węgry, Polska

Abstract. The business experts could witness major changes in the targets of international capital flow during the last two decades. The Central-Eastern European economic and social transition that was started in the early 1990s has created good conditions for the international investments. The new target of foreign direct investments – besides the Asian regions – depended on the changes of political and economic system going on in the countries concerned. The different pace of changes and the privatization of state properties determined the share of individual countries from the capital import. The early eminent countries were replaced by new eminent ones, and the capital inflow replaced brown field investments – that dominated at the beginning – with green field investments. The paper examines the worldwide and regional tendencies of foreign direct investments of the 1990's and the 2000's, the share of individual countries within the region as well as the changes in the sectoral distribution. Relations are searched for the changes of position of Hungary, as well as among the economic-social processes in the country.

Introduction

The foreign direct investment (well-known abbreviation is FDI) is an investment activity in the relation of two countries, when the company of one of the countries gets a long-term share in the other country. This share usually includes participation in the management, in joint venture, technology transfer and expertise, and often the acquisition of the market partly or totally.

There are two typical theoretical approaches concerning the foreign direct investments. According to the modernization theory, the foreign direct investment is the ideal mechanism of capital, market and know-how distribution, which leads to the development of newly independent countries of the world. The Dependency and World System theory says that the foreign direct investment is a developed tool for creating neocolonialist economic order which brings poverty to the Southern and wealth to the Northern countries. King and Váradi [2002] say, however, that the „that's what” approach is true because the positive and negative factors exist together and their balance is what counts.

Following the collapse of the Eastern European regimes, the foreign direct investment played an important role in the transition to market economy in these countries, enabling them to integrate into the European Union and accelerating the transition process [Bevan, Estrin 2004, Demekas et al. 2007, King, Váradi 2002, Weresa 2005].

There are a lot of factors involved in the foreign direct investments and the investment attraction ability of a country. The role and importance of these factors, however, is very different in each target country. The main factors are as follows: labour capacity, skill, wages, available infrastructure in the country, access to the required energy sources, stability of political, legal and regulatory environment, stability and condition of macro-economic environment, general supporting market environment, liberalization (economic) policy, economic dynamics of the country, health condition of the population (also as a human resource), distance of the source country and host country, size of the internal market, distance of export markets and the transport costs of marketing the products [Noorbakhsh et al. 2001].

As regards capital attraction ability, the available (natural and human) resources within a country, the size of the local market, the distance of potential markets can limit the capital absorption capacity of the countries. Demekas et al. [2007] has made estimations concerning the capital attracting potential of Central-Eastern European countries. In 2003, the estimated (non-privatiza-

tion) free foreign direct investment capacity (difference of the foreign direct investment potential and the foreign direct investment stock) was 9% in case of Hungary, 22% in case of Slovakia, 25% in case of Poland, 32% in case of the Czech Republic and 65-85% in most of the Balkan states. The foreign direct investment per head was 4400 USD in Hungary, 4000 in the Czech Republic, 2000 in Slovakia and 1400 USD in Poland. Under the given conditions, the foreign direct investment potential was about 4800 USD per head in case of Hungary, 5900 in case of the Czech Republic, 2600 in case of Slovakia and 1900 USD in case of Poland [Demekas et al. 2007].

The foreign investors choose their targets by considering the appropriately qualified labour force and the level of wages. Either this or that is more stressed. It is a general experience that the role and level of human capital is a key factor in the foreign direct investments and it positively affects the economic growth of the host country. [Alfaro et al. 2010] Examining, however, the regional distribution of foreign direct investments, it is obvious that capital flows to the developed countries for the skilled labour, while to the developing countries for the low wages [Blonigen et al. 2007].

Unusually high amounts of investments went to the Central-Eastern European region from the smaller continental European countries (e.g. Austria and Sweden). It can be due to the lower wage costs and the relatively low transaction costs resulted by the small distances of management of production factors. [Bevan, Estrin 2004] The advantages from the foreign direct investments disappear if the companies become monopolies. The monopolies request higher than fair market price and do not really invest in R+D. It is even worse if these companies repatriate their profit (retransfer to their home countries), use import to replace the spare parts and components procured earlier from national suppliers and thus they can ruin existing national supplying sectors. That's what happened to the Hungarian textile industry. It can be the (dual) impact of foreign direct investment that the replacement of industries with questionable comparative advantages to ones with actual relative advantages can be bad in the short run but good in the long run for the raw material producing sectors. The growth of monopolization together with the repatriation of profit can lead to long-term stagnation [King, Váradi 2002].

By analyzing the processes of the 1990s and 2000s, the objective of the paper is to explore the restructuring of the foreign direct investments including the investments into agriculture and food industry and considering the share of these sectors from the investment. The examination focuses especially on four countries of the Central-Eastern European region: the Czech Republic, Poland, Hungary and Slovakia. In case of Hungary, the sectoral structure of capital investments are also examined.

Material and methods

The paper examines the foreign direct investments in the countries of the region on the basis of the databases of UNCTAD, the specialized organization of UN as well as the database of Eurostat. The data we used are as follows:

- flow of foreign direct investments in/out (1970-2009),
- foreign direct investment stocks (1980-2009),
- flow of foreign direct investments according to sectors (1987-2006).

The examinations were made with simple statistical measurement. The examination included the comparison of the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia country group (CE5) out of the Central-Eastern European countries, and the member countries (EU15) of EU before the enlargement in 2004. In sectoral analysis, the agriculture and fishing, food products, wholesale trade and retail trade sectors were considered relevant regarding agribusiness.

By using the data of UNCTAD we analyzed the position changes of the Central-Eastern European region on the basis of the share of population (%) from the world population, share from world total GDP (%), share of FDI Stock from world total (%), quotient of FDI Flow% and GDP%; and quotient of FDI Stock% and GDP%.

Results

The foreign direct investments have multiplied since the 1970's. The total annual capital investment of the world grew by 158-fold since 1970, the stock of capital investments increased by 25-fold from 1980 till 2009. The growth stopped short due to the financial crisis in 2008 and the subsequent general economic crisis (Tab. 1). The reason for the decline („dotcom” crisis) following the turn of the Millenium was that the capital that was invested before in the telecommunication sector, including information technology sectors „overheated” these areas. The investment depression in the early 2000's due to the downfall, restructuring and the related capital withdrawal has also resulted the decline in capital investment stocks.

Examining the target sectors of capital flows, it has become obvious that the industrial activities have not been prioritized by the investors anymore and the investments in service sectors have taken over the leading role. In the second half of the 1990's, the telecommunication sector beat all the former share records and absorbed huge capitals. In 1999 one-fifth of foreign direct investments, next year, one-third of them went into the sector. Quick growth was followed by quick decline and the ratio of capital flowing into the sector backslid to a higher level than before the rise, to approximately half of the peak value. During the examined period, the most balanced performance was shown by the financial institutions including bank and insurance sector. About 15-20% of foreign direct investments went into this sector. These shares might have declined by 2009 due to the financial crisis, but we do not have appropriate data to support this presumption.

Significant amount of capital flowed into the Central-Eastern European countries during the privatization processes of the 1990s and to the emerging markets, primarily to the industrial, trade and service sectors. As the result of this, the Central-Eastern European region has become a preferred region for investors (Tab. 2) and from 1991 the FDI input reflected on the GDP – that expresses the development level of the country group – surpassed the capital flowing into the EU15. In 1997, the specific FDI stock reflected on GDP reached and later surpassed that of the EU15 country group.

Table 1. Share of sectors from inward foreign direct investment flows in the world (1987-2006)

Tabela 1. Udział sektorów gospodarki w przepływie bezpośrednich inwestycji zagranicznych na świecie (1987-2006)

Year/ Rok	Foreign direct investment in economy (inward)/ Bezpośrednie inwestycje zagraniczne (wpływy)		Agriculture and mining/ Rolnictwo i górnictwo		Industry/ Przemysł		Services/Usługi			
	flow/ przepływy	stock/ zapasy	total/ ogółem	from this: agriculture and fishing/ w tym: rolnictwo i rybołówstwo	total/ ogółem	from this: food products/ w tym: produkty żywnościowe	total/ ogółem	from this: trade, repair/ w tym: sprzedaż, naprawy	from this: transport, telecommunication/ w tym: transport, telekomunikacja	from this: finance/ w tym finanse
	bln USD/mln USD		%							
1970	13.3	–	–	–	–	–	–	–	–	–
1980	54.1	700.3	–	–	–	–	–	–	–	–
1987-1990	176.4	1 698.4	12.0	0.6	51.9	8.1	36.1	6.0	3.6	11.8
1990	207.7	2 081.8	6.6	0.1	46.9	8.4	46.4	5.1	9.6	14.4
1991-1995	228.4	2 726.8	6.6	0.6	47.4	9.6	46.0	7.0	6.3	14.7
1995	342.5	3 381.3	7.0	0.5	42.7	9.7	50.3	3.8	4.4	16.6
1996-2000	814.3	5 614.8	6.1	0.5	33.8	4.3	60.1	6.4	15.5	16.2
2000	1 401.5	7 442.5	1.7	0.1	24.5	4.4	73.8	2.4	32.0	16.1
2001-2005	747.5	9 388.3	9.7	0.3	31.2	7.4	59.0	4.8	12.8	17.0
2005	985.8	11 524.9	16.1	0.3	28.4	6.3	55.4	4.1	13.6	13.1
2006	1 459.1	14 275.7	9.8	0.2	31.2	2.8	59.1	2.6	16.0	14.9
2007	2 100.0	17 990.1	–	–	–	–	–	–	–	–
2008	1 770.9	15 491.2	–	–	–	–	–	–	–	–
2009	1 114.2	17 743.4	–	–	–	–	–	–	–	–

Source: own study based on UNCTAD data

Źródło: opracowanie własne na podstawie UNCTAD

Table 2. FDI changes flowing into the Central-Eastern European region and EU15 countries (1990-2009)
Tabela 2. Zmiany w przyptywie bezpośrednich inwestycji zagranicznych do Europy środkowo-wschodniej i krajów EU15 w latach 1990-2009

Year/ Rok	A		B		C		D		E		F	
	CE5	EU15	CE5	EU15	CE5	EU15	CE5	EU15	CE5	EU15	CE5	EU15
1991-1995	1.08	6.67	0.73	29.85	2.12	37.67	0.49	33.98	2.52	1.05	0.62	1.14
1996-2000	1.12	6.30	1.02	27.82	1.95	36.64	1.08	28.41	4.54	3.85	1.06	1.02
2001-2005	1.04	6.03	1.23	27.94	2.88	40.09	1.86	36.70	4.61	2.92	1.51	1.31
2005-2009	0.98	5.85	1.56	27.83	3.62	31.40	3.23	37.73	7.38	3.32	2.06	1.36

Explanations: CE5: Czech Republic, Poland, Hungary, Slovak Republic, Slovenia; EU15: member countries of the European Union before the enlargement in May 1, 2004; A) Share of population from the population of the world (%); B) Share of GDP from the world total (%); C) FDI Flow (inward) from world total (%); D) FDI Stock from world total (%); E) Quotient of FDI Flow%/GDP%; F) Quotient of FDI Stock%/GDP%.

Oznaczenia: CE5: Czechy, Polska, Węgry, Słowacja, Słowenia; EU15: kraje członkowskie Unii Europejskiej przed akcesją w 1 maja 2004 roku; A) Udział populacji w światowej populacji [%]; B) Udział PKB w PKB światowym [%]; C) Przepływ bezpośrednich inwestycji zagranicznych w światowym [%]; D) Zapasy bezpośrednich inwestycji zagranicznych w światowych; E) Współczynnik przepływu bezpośrednich inwestycji zagranicznych [%]/PKB [%]; F) Współczynnik zapasów bezpośrednich inwestycji zagranicznych [%]/PKB [%].

Source: see tab. 1

Źródło: jak w tab. 1

The experiences are obvious: the foreign capital going into the agriculture is negligible, but quite considerable capital went into the food industry (Tab. 3). The top value of 2009 was resulted by the foreign direct investments in Poland. The significant share of wholesale and retail trade indicates the investments of chain stores emerging and expanding in the countries of the region. It is evidently due to the fact that the profitability of invested capital is the lowest in case of agricultural production, higher in food industry and significantly higher in trade, not to mention the financial sector.

The foreign direct investments played significant role in the Hungarian social transition and the economic modernization of the country [Báger, Kovács 2004]. The food industry had especially highlighted role in the first half of the 1990's. By our days, however, both the positive and negative impacts have become obvious. The considerable growth of product variety and product quality is indisputable but the other side is that the vegetable oil industry and the sugar industry has been ruined, the raw material import of meat and milk industry has pushed the Hungarian producers into the background. The multinational retail chain stores have also contributed to this process. They decrease the income of food suppliers by several combinations of about eighty different titles and hamper their sales in the stores. The distribution of products from the home countries is prioritized in the business philosophy of most of the foreign chain stores.

Table 3. Share of FDI flowing into the sectors within agribusiness supply chain from total FDI flowing in the country groups (1998-2009)

Tabela 3. Udział przepływów bezpośrednich inwestycji zagranicznych do sektora agrobiznesu w przyptywie bezpośrednich inwestycji zagranicznych do grup państw w latach 1998-2009

Years/Rok	Agriculture and fishing/ Rolnictwo i rybołówstwo		Food products/ Produkty żywnościowe		Wholesale trade/ Sprzedaż hurtowa		Retail trade/ Sprzedaż detaliczna	
	C5	EU15	C5	EU15	C5	EU15	C5	EU15
1998-2000	0.19	n.a.	3.75	n.a.	n.a.	n.a.	n.a.	n.a.
2001-2005	0.57	-0.13	1.75	0.79	4.20	1.43	1.70	1.02
2006-2009	0.37	-0.08	4.91	3.01	3.43	2.47	1.99	1.59

Explanations: CE5: Czech Republic, Poland, Hungary, Slovak Republic, Slovenia; EU15: member countries of the European Union before the enlargement in May 1, 2004

Oznaczenia: CE5: Czechy, Polska, Węgry, Słowacja, Słowenia; EU15: kraje członkowskie Unii Europejskiej przed akcesją 1 maja 2004 roku

Source: own study based on EUROSTAT database

Źródło: opracowanie własne na podstawie danych EUROSTAT

Conclusions

The foreign direct investments played very important role in the transition of post-socialist Central-Eastern European countries. These investments enabled the implementation of the latest technologies, the reduction of infrastructural deficiencies of these countries and the restructuring of industrial and service sector. Besides the introduction of new production culture, the development of suppliers' sectors was also a significant positive impact which contributed to the expansion of small- and medium-scale enterprises.

The balance of FDI impacts is rather positive for the Central Eastern European countries. The economic development generated by the foreign direct investments enabled most of them to access to the European Union. The sign of the development in addition to integration is that these countries are not only capital importers at present but they have considerable capital exports, too, although their capital import still exceeds their capital export. Through their capital export, however, cross-border, regional economic integrations started to emerge, as a lot of examples prove it.

Comparing the Central-Eastern European regional competitors (the Czech Republic, Hungary, Poland, Slovakia and Slovenia), it can be seen that the early advantage of Hungary – due to privatization – has disappeared. The Czech Republic and, in some years, Slovakia, also approached its position. The pace of capital inflow depended on the internal political environment of the countries and the progress of social transition.

Upon analyzing the sectoral data, we saw that – similarly to the general trend – the foreign direct investments flowing into the Central-Eastern European countries has an insignificant share in agriculture, partly owing to the low profitability, partly to the existing legal limits of land ownership [compare with Takács-György, Sadowski 2005 and Takács-György et al. 2008]. Significantly higher capital investments have arrived to the food industry, in the first phase connected to privatization, later through green field investments in order to meet expanding internal market demand.

It is a considerable experience that a capital withdrawal wave started following the world economy crisis and the volume of profit repatriation has also increased.

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Streszczenie

Na podstawie analizy procesów gospodarczych w latach 1990 i 2000 w artykule przedstawiono ocenę restrukturyzacji bezpośrednich inwestycji zagranicznych, w tym inwestycji w przemyśle rolno-spożywczym. Badanie skupiło się szczególnie na pięciu krajach Środkowo-Wschodniej Europy, tj: Czechach, Polsce, Węgrzech, Słowenii i Słowacji. W przypadku Węgier została także przedstawiona struktura sektorowa inwestycji kapitałowych.

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