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Characteristics of FDI Process in Central and Eastern Europe

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Abstract

Most of the countries of Eastern Europe have had a very turbulent trend in the last twenty years. These countries have experienced complex processes of transition from the centralized economic systems, characterized by limited relations, often only with the countries of the former Communist bloc, to the market economy and to the advantages and risks of globalization. By means of this study we proposed to evaluate the investment climate of these countries, highlighting the issues that led the dynamic of FDI. Starting from the premises that the Eastern European economies are business development opportunities of other developed European and non-European countries, but also from the fact that the countries with developing economies need capital and technology inflows, we showed, in the results of the study, the main factors that favoured a larger interest in the investments in such economies.

Keywords: Foreign direct investment determinants, Transition economies, FDI trend, investitional characteristics;

1. Introduction

Along with the fall of the Iron Curtain in the 90s, Europe underwent an economic and political evolution with radical changes, especially for the former Communist countries. Many of the values and the restrictions of the former period became caducous and inappropriate for the new conditions and Eastern Europe set on its long way of transition towards the flourishing, functional and open market economy. Global economy waited impatiently to come into contact with these economies, trying to exploit its capitalized advantages throughout some decades of capitalist evolution. However, the Eastern European markets were not prepared for such an effort, the economies undergoing long periods following such “clashes” of cultures and economic interests. Even if the general economic variables (for example GDP/inhabitant) did not give, according to the models of investments and external commerce developed until 1990, any chances of attractiveness to the economies in the Centre and East of Europe, reality proved that the new market represented one of the central points on the agenda of the main international companies.

The way in which the national governmental policies knew how to deal with the difficulties of the time and the opportunities offered by the international economic relations have made the difference between the success and the unsucces of these economies. One of the components which have remarkable effects at the international level is represented by the business environment and its essential components, regarding which, in this paper, we drew an evolutionary and correlational analysis related to the foreign direct investment. The qualitative conclusions of this survey allow for a re-evaluation of the concepts concerning the attractiveness of the economies and the form of investment approach in the countries in Central and Eastern Europe.

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The evolution of the main macroeconomic indicators and also the characterization of the business environment in these countries have always represented traditional or non-traditional landmarks in taking decisions concerning the internationalization of multinational companies. The form of using this information varies from qualitative and descriptive approaches to quantitative analyses which have a strong econometric component. The surveys which were conducted in this field started from generally accepted theoretical foundations on the basis of which hypotheses were drawn up which were attested or rejected, they were either produced ad hoc in relation to the factors which were considered to be determining under certain circumstances.

2. Investitional climat in CEE countries

Given the evolution of the economic methods and thinking in this field, each of these approaches were considered to be useful to an analysis on the determinants of the foreign direct investment in or from different countries or regions. From the point of view of its economic, political or social components, the national general framework has represented the main field of analysis for analysts and the multitude of aspects assessed required their synthesization and particularization. The national and international statistics have contributed to the synthesization and systematization of the information so that the investors and the decision-making factors of the multinational companies have been and are informed by means of the methodologies for the processing of data.

Taking into account the importance of these aspects for the analysts of the foreign direct investment, we propose, in the first place, to stress, in relation to the main statistics, the defining aspects of the business environment of the Central and Eastern European countries. In the second place, we consider it necessary to reflect on the stage of the foreign direct investment in each country so that we can finally draw up a unifying picture of the conjuncture and of the stage of the investment for the cases which were analyzed. The former Central and Eastern European countries, which are in the process of integration into the structures of the European Union have adopted attitudes of being open towards the foreign investors and of boosting the internal business environment. We will further tackle the situation of some countries in this region, having the status of countries which have been recently integrated into the European Union and which have registered important progress regarding the foreign direct investment, especially lately, when many countries, including the developed ones, face difficulties in maintaining the stocks of foreign direct investment. To this effect, we will analyze the business environment of these countries by means of some indicators which characterize: the easiness of setting up a new business (Setting up a business, Getting credit, Dealing with construction permits, Registering property, Getting electricity), ensuring a climate for investment based on safety and normality (Protecting investors, Enforcing contracts, Resolving insolvency) and creating a stimulating business environment (Trading across borders, Paying Taxes).

For many investors, the form by means of which the process of being open to a new business is developed has already become a first picture concerning the attitude of the countries towards the business undertaken by the private sector. The number of documents required, of the procedures carried out as well as the time and the resources necessary for setting up a business have a major effect on the characteristics and performances of economies. The reduced number of procedures (Slovenia – 2, Bulgaria – 4, Hungary - 4) as well as the brief period for registering a new company (Hungary – 4 days, Slovenia – 6 days) represent important decisions taken by the authorities in these countries in order to encourage undertakers to set up new companies(Table 1). The issue of construction permits also represents an important stage in setting up and developing many companies. Countries such as Slovakia, Slovenia and Romania require a relatively reduced number of documents, in exchange countries such as Hungary, The Czech Republic or Bulgaria issue construction permits more rapidly (100-120 days). It is worth noting the high costs for such permits from Bulgaria (317% of income per capita) or from Romania, Slovenia and Poland which are over 50% of income per capita.

Taking into account the importance of implementing some new projects in different countries, the form of obtaining and using the right of construction as well as the procedures for setting up a business represent aspects of utmost importance for the undertakers who want to develop international business in the Central and Eastern European countries. The number of necessary documents as well as the period of waiting for such documents represent interesting aspects both for the national investors and for the external ones, influencing the investment climate in these countries. If in countries such as Slovenia, Slovakia and Romania, the number of procedures for
obtaining the right of construction is the lowest, the deadline for obtaining the notices is the shortest in countries such as the Czech Republic, Bulgaria and Hungary, in the rest of the countries, the notices exceeding 200 days.

Besides the general aspects concerning the regulations and the facilitation of the setting up and development of business, the ceditation of business represents an important aspect aimed at by investors. Nonetheless, the internal financial market is firstly accessed by internal investors and secondly, by external ones. Under the conditions of international business and of financing foreign direct investment, multinational companies have the alternative to use the most convenient funding sources on the international market. Nonetheless, in an indirect way, given the placement of the company’s products on the market of a certain country and of the activity in the field of realizing certain products, the impact of financing on companies and on local natural persons in the Central and Eastern European countries also influences the activity of multinational companies, determining their development or restriction. The placement of the analyzed countries under the general ranking concerning the financing and the facilities related to them are presented in Table 1.

The registering of properties can be also achieved more easily in countries such as Slovenia and Hungary, the number of procedures being under 4 and the minimum deadline being one week at the most.

Concerning these aspects, the length and the documents necessary for registering the properties and for connecting to utilities represent an important aspect which is taken into account by the foreign investors when they initiate their projects. It is worth noting the relatively high costs related to the average income per capita, necessary for connecting to the electricity network, especially in Romania and Bulgaria, in relation to other countries.

When we talk about protecting investors, we intend to express the extent of minority shareholder protections against managers’ misuse for personal gain. For the international corporations this is a real problem to solve. To this end, we talk about agency costs. In the World Bank Data, we consider the “protecting investors” indicator that expresses 3 dimensions of investor protections: the extent of disclosure index (transparency of related party transactions), the extent of director liability index (liability for self-dealing) and the easiness of shareholder suits index (shareholders’ ability to sue officers and directors for misconduct). The level of the shareholders’ protection is at medium/low level in all the CEE countries. In countries such as Azerbaijan, Slovenia, Bulgaria, Georgia, Poland and Romania, the investors are protected to the highest degree (given that the levels of strength of protection index are higher than 6).

The issues related to the development of contracts and the settlement of insolvency situations represent landmarks of complying with the legislation as well as of ensuring a normal business environment.

As the MNC that develop international projects of FDI are highly involved in international trading, the level of issues that facilitates these kinds of activities are welcomed for international investors. Both for exports and imports, the number of documents is relatively equal between countries (approximately 4-7 documents). Likewise, the time necessary for the operations meant for external commerce is 20 days at the most, with insignificant variations between countries. This relative homogeneity is given by the necessity to homogenize the processes at the international level and reflects the fact that Central and Eastern European countries are interested in applying them in order to build up an attractive business environment.

The taxes and the public contributions represent for investors variables of utmost importance which are always considered when the investors want to set up a new business or when the international companies decide upon the location of the future companies. The number of payments to be made at the level of this year is different from one country to another, ranging from 8 payments per year in the Czech Republic to 113 in Romania.

Considering the previously mentioned issues, the countries can be classified according to each criterion so that the summarizing situation for 2012 concerning the positions held by the surveyed Central and Eastern European countries is highlighted in Table 2.

<table>
<thead>
<tr>
<th></th>
<th>Bulgaria</th>
<th>Czech Republic</th>
<th>Croatia</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>Slovak Republic</th>
<th>Slovenia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>49</td>
<td>138</td>
<td>67</td>
<td>39</td>
<td>126</td>
<td>63</td>
<td>76</td>
<td>28</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>128</td>
<td>68</td>
<td>143</td>
<td>55</td>
<td>160</td>
<td>123</td>
<td>50</td>
<td>81</td>
</tr>
</tbody>
</table>
In general, for the analyzed issues, the countries evinced a positive evolution, in the direction of improving their positions in relation to 2012. This general situation is justified by the efforts of the recently adhered countries to the European Union to improve their business environment and to harmonize it with that of the European developed countries.

The efforts made to this end were materialized with a view to a greater attractiveness for the foreign direct investment. In the countries from Central and Eastern Europe which are in the process of transition, the evolution of the foreign direct investment is a positive one, the flows coming both from the developed countries of the European Union and also from other regions such as the BRIC area (Brazil, Russia, India and China) or the North American continent.

The FORTRAN direct investment cannot be carried out if we do not also take into account the essential components of the outlet, namely the income and the population (Table 2).

<table>
<thead>
<tr>
<th>Table 2 General characteristics of CEE’s countries</th>
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<tbody>
<tr>
<td>Population</td>
</tr>
<tr>
<td>GDP, per capita</td>
</tr>
<tr>
<td>Income Category</td>
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</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>Change in position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing business</td>
<td>59</td>
<td>70</td>
<td>+2</td>
</tr>
<tr>
<td></td>
<td>64</td>
<td>79</td>
<td>+6</td>
</tr>
<tr>
<td></td>
<td>80</td>
<td>46</td>
<td>-1</td>
</tr>
<tr>
<td></td>
<td>51</td>
<td>59</td>
<td>-5</td>
</tr>
<tr>
<td></td>
<td>62</td>
<td>65</td>
<td>-3</td>
</tr>
<tr>
<td></td>
<td>72</td>
<td>43</td>
<td>-7</td>
</tr>
<tr>
<td></td>
<td>48</td>
<td>37</td>
<td>-5</td>
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<tr>
<td></td>
<td>37</td>
<td>0</td>
<td>0</td>
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</tbody>
</table>


The literature represented by the elaborated theories and the surveys carried out highlights even from the beginning as being basic determinants of investment the following: The Gross Domestic Product, including its variant - the gross domestic product per capita and the number of inhabitants of each country. From this point of view, the situation of each of the analyzed countries is described as in table 2.

**Conclusions**

In the internationalization process in the countries in the Centre and East of Europe, the symbiosis of the traditional factors (income, population, market) with those which have a predominantly qualitative character, which is especially linked to the characteristics of the countries, of the measures taken with a view to promoting the business environment, has a determinable effect on the flows of foreign direct investment. This thing is highlighted by the fact that, under the circumstances of a global economic crisis, in relative terms, the flows of foreign direct investment have undergone much lower drops than in other countries. There were cases in which the foreign investors were even attracted by the economic conditions identified in some countries in the Central and Eastern Europe.

The dynamic of business in these countries, strongly influenced by the characteristics of the specific business environment, also leads implicitly to an increase in the interest of foreign investors.

The efforts directed towards the promotion of a stable and stimulating business environment as well as towards outlining some conditions specific to some functional market economies represent characteristics which, beyond a series of traditional factors of the market and economy which influence the foreign direct investment, become determining factors in taking some decisions concerning investment.

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