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FOREIGN DIRECT INVESTMENTS IN THE EMERGING MARKETS IN CENTRAL AND EASTERN EUROPE AND THE FINANCIAL CRISIS

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Abstract

Foreign direct investments (FDI) are the most important tool, through which economic players carry out the capital flows movement from North to South and from West to East. Basic bearers of these flows are the transnational corporations of the so called Strategic Triad – the USA, the European Union and Japan. They are exporters and at the same time recipients of capital flows. We should not also forget the role in attracting FDI played by the countries from BRIC (Brazil, Russia, India and China), which brought their economies to a rapid economic growth.

The main purpose of this paper is to study some problems related to attracting FDI in the countries from Central and Eastern Europe in the period of transition to market economy and in terms of full membership in the European Union. The focus of our study are Poland, Hungary and the Czech Republic, which are undoubted leaders in attracting FDI, and also the two countries from the new wave of accession - Romania and Bulgaria. An attempt has been made to analyze the problems that foreign investors face in the first group of countries, as well as to highlight some problems of investment environment in Bulgaria - the positive and negative effects over the recent years.

On the basis of this study, the trends of development of FDI in the countries of Central and Eastern Europe under the impact of globalization and the financial crisis have been outlined.

Keywords: *foreign direct investments, business activities, entrepreneurship, development*

INTRODUCTION

Foreign direct investments (FDI) are the most important means through which business subjects carry out the movement of capital flows from North to South and from West to East. The main carriers of these flows are the transnational corporations of the countries from the so called Strategic Triad – the USA, the European Union and Japan as both donors and recipients of capitals. A specific place in attracting FDI is occupied by the countries from Central and Eastern Europe, which attract about 6-7% of all investments in the world economy. It should be noted that they are quite different from the point of view of their economic, political and social development, their membership in international political and military organizations. The countries which can be related to a specific first group are Poland, Hungary, the Czech Republic, Slovakia and Slovenia. They carried out their market reforms, joined the EU with the so called first wave in 2004 and the latter two introduced the common European currency. The second group consists of Bulgaria and Romania that entered the European family at the beginning of 2007. To the third group can be related the five countries from the former Yugoslav Federation, Turkey and Albania, that need to make further efforts in the field of the European integration.

When considering the process of attracting investments, it would be useful to compare the situation in Bulgaria with the Balkan countries and the countries from Central and Eastern Europe. Knowing their experience in the field of attracting foreign capitals is of great significance to our country as its geographic location and the peculiarities of the regional market are important factors which influence the entrepreneur's choice. The social and political situation on the Balkans in the 1950s was quite different in the different countries due to the established different political and economic systems. This predestined the corresponding attitude to the place and role of the foreign capital in their economic development. The ruling circles in Greece and Turkey kept their adherence to the market economy.

The third group includes Macedonia, Moldova and Ukraine. They have a lower level of readiness for matching the criteria for convergence, for restructuring of their national economies, and a considerably lower standard of living. Each of these countries has met to a certain extent the political criteria for future membership in the EU, but far bigger efforts are needed as concerns the economic criteria.

EXPOSITION

Due to all these objective circumstances, different starting positions with regard to attracting foreign capitals were formed in the countries of Central and Eastern Europe. It is indisputable that the first group includes the countries from Central Europe – the first three of them being Poland, the Czech Republic, and Hungary. In this period they managed to attract not only a considerable volume, but also high quality investments in key branches and sectors of economy, such as telecommunications, machine-building – mainly car building, food-processing

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industry and chemical industry. As a result, they obtained a considerable growth of their Gross Domestic Product (GDP) as compared to the other Eastern European countries. The indisputable leader here is the Czech Republic followed by Hungary and Poland.

Among the other Eastern European countries the group of Bulgaria, Romania, Slovenia and Slovakia is specific. However they are too heterogeneous from the point of view of their economic, political and social conditions. Slovenia and Slovakia managed to realize all-embracing economic reforms, which helped settle down their national economies to the rails of a functioning market economy. Slovenia is the country that met to the greatest extent the economic and political criteria for membership in the EU– it was the first of the ten new member countries to introduce the common European currency. It is not by chance that among the 25 biggest transnational corporations in Central and Eastern Europe Slovenia and Croatia have each five and Slovakia – two. The considerable investment flows show that the newly built and the existing market subjects are regarded as serious business partners possessing a sizeable economic potential.

Bulgaria

In a report developed for the World Economic Forum in Davos and dedicated to the problems of competitiveness, our country occupies barely 59th position among 75 countries in the world. Competitiveness of each country can be measured by its potential for economic growth and by the level of company competitiveness. With regard to the first indicator showing the competitiveness at national level, Bulgaria has relatively good results. The second indicator is related to considering the problem at micro level and concerns the efficiency of the developed company strategies. According to this indicator Bulgaria still gives way and takes 68th place. The best position of all East European countries takes Hungary, followed by Estonia, Slovenia and the Czeck Republic. All countries with the so called "transition economies" have good indicators in terms of business environment quality and relatively weak results as regards company business strategies. The main reason for this is the lack of sufficient experience in business subjects in market environment.

Bulgaria has reached a considerable progress with regard to transparency at all levels of state administrative management. By this indicator the country takes 51st place before Poland, Romania, Russia and Turkey. The hopes are related to overcoming corruption and most of all improving the efficiency of the legal system.

Table 1. FDI in Bulgaria Source: WIR 2004, 2005, 2008

Year	till 2000	2001	2002	2003
FDI - mln $	2257	813	905	2097
2004	**2005**	**2006**	**2007**	**Total**
3443	3923	7507	8429	29374

The improvement of the above mentioned positions would not be possible without the help of foreign entrepreneurs, but at the same time it would send respective signals to the strategic investors. Investment inflows directed to hi-tech, capital-intensive and export oriented branches will determine the future competitiveness of the national economy. In this environment the investment activity will determine the place and role of the country as a full member of the EU.

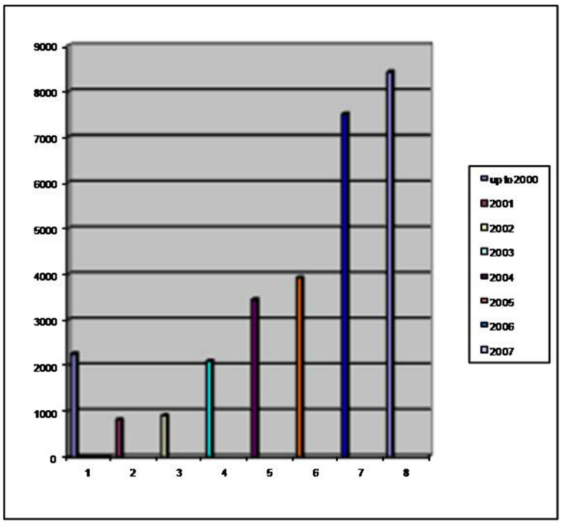

Fig. 1. FDI in Bulgaria

From a mid-term perspective our country is in a tough competitive struggle for attracting foreign investments into specific sectors of the national economy. The main part of the investments is in the sector of services and about a quarter of them - in the real sector. It can be noted that over the last two years the process of attracting foreign investments is getting more dynamic and they represent over 54% of all investments attracted into the country so far. (See Table 1) Bulgaria takes a leading place in regard to the indicator of accumulated FDI to GDP.

It has to be taken into account that from a short-term perspective the country's ability for absorbing foreign capital is quite limited because of the following reasons:

- Influence of the financial and economic crisis;
- Completed process of privatization;
- Lack of developed sector policies.

At that the big companies from the developed countries will carry out a more conservative investment policy and most probably the established enterprises will turn out to be a kind of buffer for prevention of negative consequences in their own countries.

It is generally agreed that a stable economy which is a basis for economic prosperity can be achieved through enforcing the investment activity of business subjects. It can and should be directed to structural and technological modernization and improvement of personnel's education and qualification level[1].

The country managed to attract a record volume of FDI during the last years, however the raging crisis led to a sharp decrease in their influx and in the first half of 2009 they did not exceed 300-350 million dollars. Up to now FDI covered the current account deficit which exceeded 20% for 2007. If this problem does not find an adequate solution by the new government team, this will seriously harm the image of the country as it is due to corruption scandals and the frozen EU pre-accession and accession funds.

The Czech Republic

Thanks to its geographic location, the Czech Republic turned into a transport and logistics crossroads for the countries of Central and Eastern Europe. At the back of

[1] *See Ангелов И., "България 2001", Икономически институт на БАН;*

this potential however lies the risk of a considerable damage of the transport infrastructure and the environment as a result of its high loading, especially on the part of the transit transportation. The Czech economy faces problems related to the maintenance, modernization and development of the transport infrastructure. Some of the regions are not connected to the international transport network; the construction of new high roads is seriously behind the plans. The local energy sector, regardless of its strong sides, is suffering from some weaknesses, such as rising prices and increasing dependence from external primary resources. Electrification and gasification have a good territory covering, as well as a satisfactory technological level and reliability. With regard to the telecommunications, the Czech Republic has a relatively good position. The expenses for information and telecommunication technologies in the Czech Republic as a percentage of GDP are higher than the average for the EU.

Table 2. FDI in the Czech Republic Source: WIR 2004, 2006, 2008

Year	**till 2000**	**2001**	**2002**	**2003**
FDI - mln $	2131	5 639	8483	2101
2004	**2005**	**2006**	**2007**	**Total**
4974	11658	6013	9123	50 122

In 2001 the Czech Republic attracted most of the foreign direct investments per capita in the countries of Central and Eastern Europe – 2,432 dollars and 40% of the country’s industrial production was realized by enterprises owned by foreign companies. The biggest amount of FDI was attracted in 2005, the first year of the country’s full membership in the EU. Even in 1997 the Czech government introduced a number of stimuli in order to encourage the investors – tax concessions, preferences when creating new workplaces, duty free import, advantages and stimuli at reinvestments and for investments in regions with high unemployment. As a result, the annual amount of the attracted FDI increased from 880 million dollars in 1993 to 5,639 billion dollars in 2001, and the total amount attracted in the Czech Republic for the period 1993-2007 was over 50 billion dollars (see Table 2).

Over the last few years the Czech economy registered a dynamic growth of GDP, which reached 6.5% in 2007. The forecasts for 2008 envisage a delay in growth to 4.5% due mainly to the world economic crisis. Among the major momentums of economic growth in the last years are: the investment activity, the households’ consumption, the positive development of foreign trade. The Czech Republic faces problems common for all Eastern European countries. They are related to the inadequate legal environment and the bad execution of laws.

The judicial system is not in a state to offer quick and efficient jurisdiction because the courts work slowly and with low effectiveness. Legal regulations are often very complicated. The constant changes in them do not improve their quality and only additionally aggravate the work of the system. The regulations in civil, trade and labor law are obsolete and do not meet the requirements of contemporary economy. The legislation process lacks analysis of impact of newly introduced regulations for business environment. As a result, the new norms operate without knowing if they really improve the situation and what the expenses for this are.

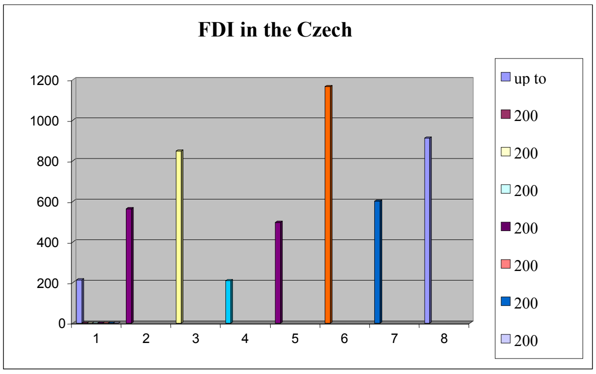

Fig. 2. FDI in the Czech Republic

It is a common opinion that the public finances necessary for co-financing the “European“ projects in the years that follow will not be enough. The bad information of the local entrepreneurs and other business subjects on the possible usage of resources from the EU programs creates additional obstacles for their wide assimilation. In order to make the most of the potential of the projects financed by EU resources, the Czech Republic has the necessary normative framework for realizing projects through public-private partnerships. The aim is to facilitate the realization of public projects of public interest, to reduce the prices of certain activities, to improve the quality of services owing to the private sector participation. It has been estimated that the proper distribution of the structural funds’ resources to sectors with a higher multiplying effect will lead to an increase of GDP by several points.

In view of the expected decrease of the FDI influx in the following years because of the financial and economic crisis, the possibility is considered to direct by means of a proper structure the incentives for investments to preferred sectors characterized by high added value and in this way to increase the investments in science and research. This will accelerate the transition to a knowledge-based economy. Measures are envisaged for consolidation and development of the capital market because by now it has not performed the task of being an additional source of financing for the national economy.

Slovakia

The economic development of Slovakia in recent years is characterized by constantly improving indicators. As a result, in 2007 the country took the first place in GDP growth in the EU – 10.4%, and in 2004 it was barely 4.2%.

This is due to a great extent to the structural reforms of the period 1998-2006, which made the labor market more flexible, the system of social security more organized and purposeful, and the state property was reduced. Slovakia attracted considerable investment projects in the car and electronic sectors which led to the establishment of new work places and increase of export. Most of all industrial activities have been developed in and around the capital Bratislava, which is a natural attractive centre for foreign entrepreneurs. Relying on the good traditions and the experience accumulated over the decades, the country managed to attract strategic investors in car, chemical, food-processing and construction materials industry, telecommunications and trade (see Table 3). The following companies should be mentioned here: Volkswagen, Holcim, Henkel, Coca-Cola, Deutsche Telecom, Orange, etc.

Due to the relatively moderate growth of the nominal salary, the value of labor unit has fallen since 2003. The availability of qualified labor force and well forecasted levels of inflation turn out to be the reasons for Slovakia’s economy not showing signs of burnout. The unemployment rate fell from 18.2% in 2004 to 11.1% in 2007. Regardless of this progress, however, the level of unemployment in Slovakia remains the highest in the EU. It is envisaged that the current account deficit will be reduced from 5.3% of GDP in 2007 to 3.6% of GDP in 2010.

Table 3. FDI in Slovakia Source: WIR, 2006, 2008

Year	**till 2000**	**2001**	**2002**	**2003**
FDI mln $	3733	1584	4094	669
2004	**2005**	**2006**	**2007**	**Total**
1122	2107	4165	3265	20739

Slovakia was the first Central European country which managed to fulfill the criteria of Maastricht and to join the European Currency and Financial Union at the beginning of 2009. This fact should be considered as one of the conditions improving the investment climate in the country. Slovakia’s economic success has been considerably influenced by the development of the rest of the EU countries since the country’s development would be endangered by some unfavorable development of the European partners’ economies.

The bursting forth financial and economic crisis has had a negative effect on the economic development because of the open character of Slovakia’s economy. A few programs and strategies for successful development

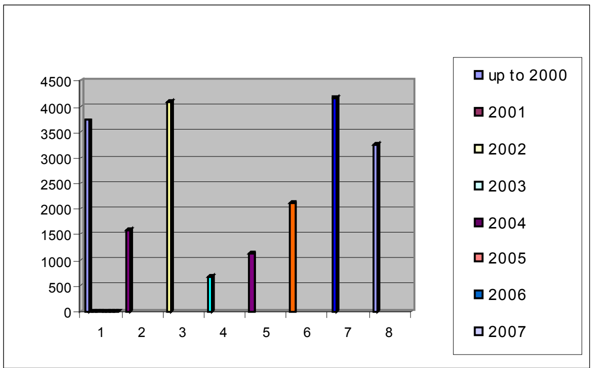

Fig. 3. FDI in Slovakia

of Slovakia’s economy and continuation of the economic growth have been developed and should be implemented. These are: Convergence Program for the period 2004-2010, Competitiveness Strategy for the Slovak Republic until 2010, Strategy of Slovakia for using EU structural funds for the period 2007-2013, National Reforms Program for the period 2006-2008, Strategy for Slovak industry development for the 21st century.

The central aim of the Strategy until 2010 is to achieve the standard of living of the most prosperous countries in the EU in the shortest possible time. This aim can be achieved only by an accelerated and long-term growth. In the conditions of market economy, the state can support the growth by creating conditions for increasing economy’s competitiveness. Since the Slovak economy, like the economies of the other Central European countries, is open in its bigger part to the EU countries, the negative consequences of the crisis appear in two directions: first – the decrease of the FDI influx from the big economies in the EU and the USA, second – the reduction of trade with the major trade partners.

Slovenia

Before signing the European Agreement for accession in 1990, Slovenia made terms for national attitude to the enterprises founded by EU member states. This was, of course, one of the determining factors for the multinational companies that had the intention to settle in Slovakia – a country which is too small for local investments in the region and population of only two million people. At the same time, Slovenia’s integration resulted in a growing number of subsidiaries or other types of strategic alliances of companies coping with the growing competition. This generated growth of companies, higher investments in research and development and thus bigger FDI in the local industry. The level of corporative tax in Slovenia is set to 23% and will be gradually reduced to 20% after 2010. There exist some tax advantages applied by the government in order to encourage foreign and local investments. The tax basis of the research expenses can be reduced and the allowed annual depreciation expenses for buildings and equipment are within the framework of 3% and 50%. In addition, the income tax on labor remuneration is envisaged to be reduced.

Table 4. FDI in Slovenia Source: WIR 2004, 2005, 2008

Year	**till 2000**	**2001**	**2002**	**2003**
FDI mln $	627	369	1 606	333
2004	**2005**	**2006**	**2007**	**Total**
827	577	645	1426	6410

Thus the companies will be encouraged to employ workforce with higher qualifications, with knowledge and skills. Besides, each donation made by a company for humanitarian, scientific, educational or cultural purposes also leads to tax deduction. In recent years, a great attention was paid to privatization. The process of privatization in the industrial sector is already completed, but a large part of public services and the financial sector are to be privatized. The last steps oriented to big privatization are related to the sale of the big telecommunication “providers” in Slovenia – for example Mobicom Austria has been the only owner of CiMobile since 2006. Besides, in September 2007, the country opened an auction for 49% of the company *Telekom Slovenije* – one of the biggest telecommunication providers in Slovenia. Moreover the companies employ handicapped workers or students during their professional education and thus they can reduce taxes. Many universities try to enhance cooperation with local companies through binding students with potential future employers and future possibilities for research. The state puts the focus on a higher level of employment and local agencies offer qualification and re-qualification of unemployed to companies willing to employ them. The Slovenian government encourages business activities in the so called special economic zones, which provide the companies with tax advantages and discounts. The terms for this are stipulated in the Law on Special Economic Zones, which was amended in 2007. The companies working in the special economic zones can apply for tax concessions for investments and for projects creating workplaces.

There is only one zone in Slovenia now, which is located at the port of Koper and embraces 55 companies.

According to a strategy developed by the government, the main purpose of such zones is to ensure the increase of the incoming flows of domestic and foreign investments. Only 5.1% of the companies in Slovenia have more than 10% foreign share. Nevertheless, the role of these companies is more than considerable since in 2005 over 16% of the capital, 18% of the assets and over 14% of the workforce in the whole corporative sector fell on them. About 22% of the operating profit in the economy comes from companies with foreign participation and they give a higher profit to an employee from the sector of financial mediation. FDI in Slovenia amount to almost 37% of export of goods and 36% of import in 2005. These facts not only evidence the significance of the further presence of FDI in Slovenia, but also provide a good motive for a comprehensive analysis of FDI accumulated in the country.

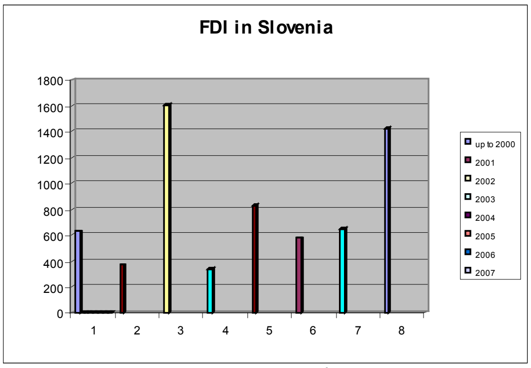

Fig. 4. FDI in Slovenia

The incoming FDI flows in Slovenia show also a strong advance during the first years of independence. At the second phase of privatization the incoming flows of foreign direct investments went up more than three times in 2001 as compared to 2000. Slovenia quickly turned into an attractive target for FDI, which increased, as it can be seen, to 1,606 billion euro. Looking back to the distribution of FDI by countries, there is a clear trend for domination of the EU member states, the share of which rose from 62% to almost 78% in the period 1994-2006 (see Table 4).

The interest of the EU member countries in investing in Slovenia grew and it is related to countries beyond the region because Slovenia adapted its economic and structural policy and business practices to the EU. Countries such as Austria, Switzerland, Holland, France and Germany take leading positions. It is interesting to see if the investments made in the sectors, which Slovenia specified as priority, have taken a leading place in recent years. According to the theoretical analyses, the type of FDI can also be divided into market-oriented and export-oriented. It is considered that the services hardly leave national borders and this is a good reason to conclude that over 25 investments are directed to the national market. At the same time most of the projects with foreign participation are export-oriented because of the relatively small domestic market in the country.

Poland

The role of the country in the world economy shows a growing significance, most pronounced by the growth of the Gross Domestic Product. Since the beginning of the economic and political reforms the value of GDP has increased more than five times. At the beginning of 1990, it amounted to 59 billion dollars (current prices) and in 2005 it exceeded 303 billion dollars – a fact which put Poland on 21st place in the world and 11th place in Europe by amount of GDP. The country improved its place in the international market as a result of the higher dynamics of foreign trade turnovers compared to the dynamics of the world trade. In the period 1990-2005 the annual growth of the volume of Poland's trade export exceeded 10% per year and the import – 15% while the volume of the world trade increased by about 6%. The enterprises with foreign participation working in the Polish market have a considerable contribution in fostering the foreign trade turnover. Poland is one of the major recipients of foreign direct investments in Central and Eastern Europe and a regional leader in attracted foreign capital (see Table 5). The country is getting more and more attractive for investments, which is due to the full membership in the EU. Important factors encouraging investments in the country are: the size and the absorption potential of the internal market, the positive forecasts for the economic development, the competitive advantages, such as the relatively low price of manpower, the big number of highly qualified employees and the good geographic location of the country, which facilitates the logistic possibilities and creates a favorable environment for cooperation with the eastern markets of Russia, Ukraine and the other countries from the Commonwealth of Independent States.

In regard to the level of economic growth, Poland is among the most dynamically developing countries in Europe and as a result its position in the EU is getting better. According to the data gathered by the European Commission, GDP per capita increased from 44.6% and is now 51.3% of this of the 15 EU countries for 2006.

Table 5. FDI in Poland Source: WIR 2004, 2006, 2008

Year	**till 2000**	**2001**	**2002**	**2003**
FDI mln $	3699	5713	4131	4589
2004	**2005**	**2006**	**2007**	**Total**
12873	10363	19198	17580	78146

It is necessary to note that for the period until 2003 the motive power for attracting FDI was the process of privatization, which has been completed to a great extent. This type of foreign investments was successfully replaced by a number of new projects "in green" as well as by reinvestments of profits made in enterprises with foreign participation. After 2004 the latter present between 40% and 50% of the amount of the attracted investment flows.

The largest part of foreign capitals comes from the EU - mainly from Germany, UK, Spain and France. According to estimates of the Polish National Bank, the share of participation of investors from the EU is over 80%. Among the investors outside the EU a very important role is played by companies from Switzerland, South Korea, Japan and the USA. Enterprises with foreign capital involvement occupy a significant place in the Polish economy. They represent 15.3% of the total number of enterprises with 10 and more employees and they employ 25% of manpower. The enterprises in this group own 37% of the capital assets. Their share of incomes from sales from business activity is 42%; the expenses for acquiring of capital assets are 52% and the total export amounts to 57%. Among the most preferred by the foreign entrepreneurs sectors of economy are industry, trade, repair and transport, storing and communications, where more than the half of the capital assets of the enterprises with foreign participation is concentrated.

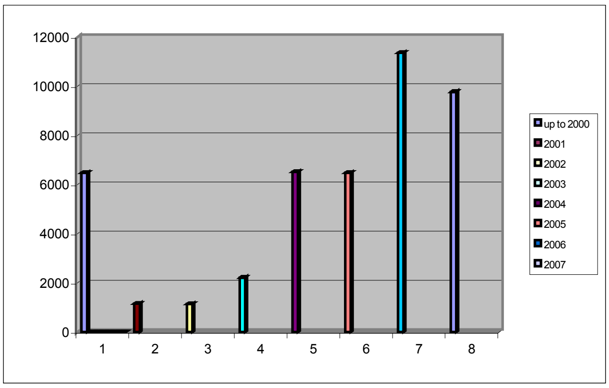

Fig. 5. FDI in Poland

The enterprises with foreign participation play a vital role for the change in the structure of industrial production and exports, thus leading to an increase of the relative weight of the hi-tech products. For the period 1995-2004 it can be noted that the part of high and medium technological goods almost doubled - from 30% to 56%. Thus FDI flows and the activity of the enterprises with foreign capital investment start to determine the dynamics of Polish economy's development and the country's export. There is a positive opinion that the potential location of realized investment projects carried out through various foreign centers provides opportunities for increasing incoming FDI in Poland. Among the factors playing a key role, most important for the investors are the size of the market, the price of manpower and the prospects for economic growth.

Up to the beginning of the present financial and economic crisis, most international agencies and private analyzers gave favorable appraisals both in regard to the general business environment and the conditions for attracting foreign capitals. The National Development Strategy for the period 2007-2015 developed by the Polish government relies both on own and external sources of funding, including regional development and improving infrastructure. Taking into account the fact that the biggest investors in the Polish economy are European countries most heavily affected by recession, it is necessary to improve the acquisition of European funds totaling 67.3 billion euros for the period 2007-2013.

Hungary

In recent years, Hungary has achieved economic progress based on economic reforms, which started in the 1990s and included privatization, liberalization of trade and labor market. After the mid 90s Hungary approached relatively quickly the level of the most developed countries. The average level of GDP growth during the last ten years exceeded by 4% per annum, which is almost twice as much the average level of Western Europe. GDP per capita in Hungary increased from 50% of the average level in the EU and reached 64.5% in 2007. The development process has been accompanied by deepening of integration with the European market and increasing Hungarian economy's openness.

After the political and social changes at the end of the 1980s, Hungary was an object of strong investors' interest. The country's geographic location and the international ways going through it, the well-qualified manpower and the transparency of investment conditions, which correspond to these in the EU, are the major prerequisites for the high growth of FDI. The favorable conditions of life and the cultural values of Hungary also tend to the positive decisions for investing. The presence of multinational companies contributed considerably to the process of modernizing the country's economy, to maintaining its dynamic growth, keeping employment and creating new workplaces. After the change of the political system, the amount of FDI in the country reached 56 billion dollars at the end of 2007. The influx of FDI after 1995 tangibly accelerated and facilitated Hungary's sustainable economic growth. (See Table 6)

The country takes the first place in attracted capital per capita among the countries of Central and Eastern Europe. Most FDI have been made in competitive branches (car industry, production of electrical machines and appliances, chemical industry) and in the services sector.

Among the foreign trade partners of Hungary, the first places belong to Germany, Italy and France. The commerce with Germany amounts to 19,584.4 billion euro. From the beginning of the transition to market economy and the end of the 1980s Hungary managed to attract sustainable flows of foreign capital, at that well-balanced in different branches of national economy. The total amount of foreign direct investments for the period 1989-2008 exceeded 55 billion dollars.

Table 6. FDI in Hungary Source: WIR 2005, 2006, 2008

Year	**till 2000**	**2001**	**2002**	**2003**
FDI mln $	22870	3936	2994	2162
2004	**2005**	**2006**	**2007**	**Total**
4506	7709	6790	5571	**56538**

It is expected that the European funds will be more effectively utilized after 2008, which will facilitate the growth of investments in the following years.

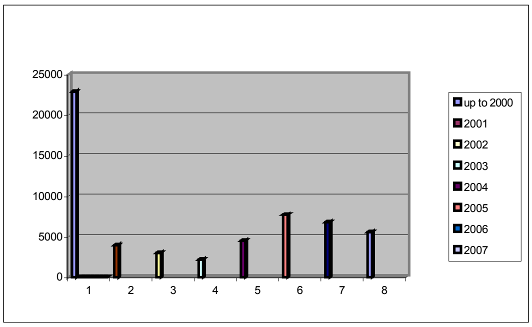

Fig. 6. FDI in Hungary

The debt burden is part of the management teams' heritage from the last ten-fifteen years. The indebtedness was at reasonable levels in 2000, but in 2005 it exceeded the limit of 60% of GDP according to the Maastricht criteria. The level of inflation decreased to 4% in 2006 and reached its peak in March 2007. It is envisaged that its level will not go over 3% in 2009.

The problem with the public finances stability is deepening. At the end of 2008 Hungary concluded an agreement with the International Monetary Fund for crediting in amount of 20 billion dollars. At the beginning of 2009, the Hungarian government initiated the development of "European Stabilization and Integration Program" – a complex program for financial help of the Eastern European countries. This was related to the fact that the problems with the country's public finances turned out to be most serious among the new members of the EU. This position of Hungary gave rise to very heavy criticism in Poland and the Czech Republic, the economies of which are in a better state.

Romania

The investors' interests are directed to exploitation of manufactures with low expenditure and high relative weight oriented to an increase of the domestic market in Romania. This reflects in an increase of the share of services as a final aim of FDI. At the same time, the production sector is subject to a great transformation.

The sector of services, which allows increasing the standard of living of a great part of the population, attracted considerable FDI inflows in financial mediation and insurance. Thus the relative weight of accumulated FDI in GDP increased four times in the period 2003-2006 (see Table 7). Besides, wholesale and retail trade, real estate and business activities doubled their share in GDP in the same period. The biggest beneficiary of FDI remained the industry sector, which holds one third of all investments accumulated in 2006. While the accumulated in this sector FDI grew as a whole in the relative weight of GDP for the period 2003-2006, they were also influenced by internal share redistribution. Some of the countries in Central and Eastern Europe have experience in a similar transformation process in the industrial production. At an earlier stage of transition, their industries relied on activities based on workforce with low educational level. Later the focus moved to branches with a higher share of added value like the IT sector and the car industry. FDI contributed to this change to the greatest extent. The countries which had experience in attracting big investment flows also faced the great increase of export based on goods with a big share of added value. In relation to the appraisal of this process of transformation in Romania, it is necessary to compare its FDI and export with these in some EU countries.

- The World Bank uses the share of trade partially as a component in the total industrial export as a common indicator of availability of activities based on educated workforce and capital intensive factors. For Romania this indicator shows a clear trend for increase, going up from 8% in 1999 to 14% in 2006. The absolute value of the export volume per capita in Romania is too low - it amounted to 125 euro for 2006 compared to 632 euro in the EU-8.

Table 7. FDI in Romania Source: WIR 2004, 2005, 2006, 2008

Year	**till 2000**	**2001**	**2002**	**2003**
FDI mln $	6480	1157	1144	2213
2004	**2005**	**2006**	**2007**	**Total**
6517	6483	11366	9774	**45134**

- The analysis of the particular sectors confirms the above mentioned trend, as the significance of production and export of clothes and leather is declining. Romanian export is still very much dependent on this sector, although its relative value decreased from 47% in 1999 to 30% in 2006 followed by a growing competition of the low expenditures for labor of the Asian economies. The level of FDI is always low; the contracts are characterized with changeability, which allows the global clients to replace the contractors with cheaper suppliers. The transfer of knowledge is limited. Probably the descending trend in this sector will continue in the following years.

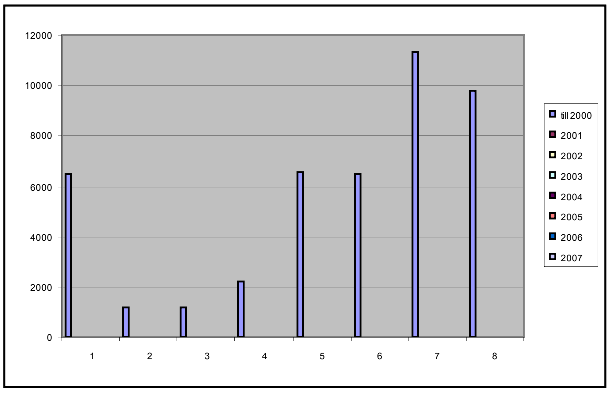

Fig. 7. FDI in Romania

- On the other hand, the sector of transport equipment reports one of the strongest FDI inflows, mainly in the sub-sector of car-building and shipbuilding. Companies from all over the world produce cars or spare parts, or often both, thanks to the good professional qualities of the workforce. What is more, the established traditions of shipbuilding in Romania allow the country to make profits from the increased demand of ships on a world scale. In general, the share of transport equipment in industrial export increased to 13% in 2006 compared to 7% in 2003. Although there is still a distance between the most highly developed members of the EU with their 18%, the Romanian economy is more and more turning into a very important player in this field. In addition, the knowledge transfer in this sector is relatively high.
- The motive mechanism of FDI were the big privatization programs as foreign investors were attracted to Romania by the relatively low levels of expenditure on labor, the closeness to the Eurozone, the stable macroeconomic bases and the increased potential of the home market. At that the Romanian advantage of low expenditure cuts to a certain extent the ground under the very sectors. While the hour expenses for labor remain low even for the Eastern European standards, the tense labor market and the lack of skills, due partially to the external migration, contributed to the enormous rise of the wages in private sector by 20% per annum. Although their level is competitive in the branches with high share of added value, the growing competitiveness of the Asian companies is felt in traditional branches with low expenditure on labor, such as clothes and leather production. Indeed, the salaries growth left behind the growth of labor productivity over the last two years. This led to a clear-cut depreciation of the real exchange rate affecting unfavorably the international competitiveness of the country. In conclusion, economy shows clear signs of burnout with a high and growing current account deficit (14% in 2007), increasing the lack of workforce, high rise of remuneration and a very big growth of household credits. Now this "low-hanging fruit" is eaten up, but the question remains about which factors will stimulate investments in sectors with a relatively high share of added value.

The leading European countries' experience shows that the industry has to be restructured, the specific significance of the cheap workforce is going down and other factors, such as business environment and infrastructure, play a leading role. The availability of qualified manpower will also turn into a very important condition for the foreign investors. Notwithstanding the great progress in this field, some of the important challenges still lie ahead. As concerns the quality of business environment, in 2007 Romania advanced from 55th to 48th place according to the World Bank Report, but it is still in a lower position among the half of the EU members. One of the key problems, with a negative influence on business environment, is the weakness of the public administration and the legislation (for example the delays when getting licenses, high tax expenses, long procedures for property registration) and the strict rules of labor regulation, and particularly the working time, the hiring and firing. Other points for observation in public administration are the necessity to increase the absorption capacity with regard to the EU funds and to strengthen the control and regulatory authorities (especially implementing the competition rules), to reinforce the struggle against corruption and to improve the judicial system's work. At the beginning of 2009, the Romanian government addressed IMF and the World Bank for a loan in order to replenish its fiscal reserve and overcome the large trade deficit.

Serbia

Serbia has a long 35-year experience with foreign direct investments. Turning back to 1967, Yugoslavia (whose inheritor is Serbia) as a pioneer in attracting FDI among the socialist countries opened its doors for foreign capital by regulating the possibility and the significance of foreign investments by a special law. At that time investment could be made through a specific model, according to which the foreign investor could acquire neither rights when taking decisions at the company management, nor property in the enterprise, in the capital of which he had invested. For the period until 1988, 367 investment agreements were concluded and the value of investments amounted to 900 million DM (about 450 million euro). In 1989 a new law introduced two models of foreign investments: the first – acquiring of property (through which the foreign investor acquires rights to take part in management and a share in the enterprise property); the second gives permission for doing certain activities (concessions and possibilities for realizing financial projects). Thus the country got more attractive to foreign investors. This is confirmed by the 5,726 agreements concluded between local and foreign investors - in this way 4,067.6 million German marks were invested into the Serbian economy. After 1991 the foreign investments were limited - on the one hand because of internal problems, the war and the lack of reforms, on the other hand – because of external obstacles and pressure (e.g. the international community's sanctions). According to data of UNSTAD, the foreign investments accumulated in the period until 2000 amount to 1,319 million dollars (see Table 7). The biggest donors of foreign capital for this period are Italy (560 mln $) and Greece (481 mln $) as they participated in the biggest privatization deals. The sectors with largest volume of attracted investments in this period are trade, transport and food-processing industry.

Table 8. FDI in Serbia *Source: WIR 2004, 2005, 2008*

Year	**till 2000**	**2001**	**2002**	**2003**
FDI mln $	1319	165	137	1360
2004	**2005**	**2006**	**2007**	**Total**
966	1609	4499	3110	**13165**

The change in the political attitude of the international community to Serbia in 2000 and its reintegration in the contemporary processes resulted in a growing interest on the part of the foreign entrepreneurs for investments in the Serbian economy. This started a serious influx of foreign capital.

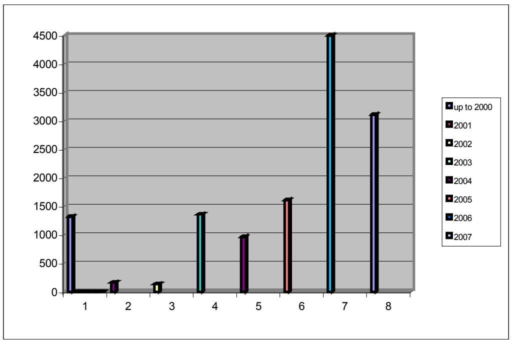

Fig. 8. FDI in Serbia

The process of economic reforms did not start until a reform government was created in the spring of 2001. In 2001 FDI represented 165 million dollars and seriously encouraged the economic development. It was expected that in 2002 the beginning will be put of a sustainable growth of FDI inflows: large shares of three cement enterprises were offered on a tender; investments were made in building objects and construction of office buildings, but the privatization process was not accelerated yet. Still, the internal political relations were the main reasons for the failed reforms and for not achieving the expected results. In 2003 Serbia passed the respective laws treating favorably foreign investments and offering guarantees and protective clauses for the investors. They provided a protective framework for the investments in Serbia and considerably contributed to the improvement of the investment climate. As a result, a considerable increase of the investments in the country was registered (see Table 8). The restrictive clauses related to the investments were abolished, an equal treatment to the internal and foreign investors was introduced, and transfer of profits and shares abroad was allowed. The biggest volume of FDI (about 4.5 billion dollars) was registered in 2006. Yet, the 13 billion dollars FDI attracted till the end of 2007 do not correspond to the abilities of the Serbian economy.

Its technological potential is too outdated and a part of its production capacity was affected by the war in 1999. The present crisis, which affects the leading in economic terms European countries, being the major trade partners, can influence in two ways: first - fall of the trade turnovers and a trade balance deficit and second – decline in the pace of attracting FDI. As a consequence of the deteriorated economic conjuncture, this can lead to devaluation of the national currency – the dinar.

Turkey

In an increasingly globalizing world, the technological development and the growing levels of employment are assured by foreign investments, which show an economic growth and an increased prosperity of the recipient countries. In Turkey, the foreign investments' development is accelerated by the changes in the country's economic and social structure. Liberalization and the economy's quick growth in recent years made Turkey an attractive market for foreign investors. Investing in Turkey also means relying on the laws defending foreign capital, working in a fully liberalized environment, possibility to recruit qualified workforce, using the convertible Turkish lira, relying on the profit made and the free repatriation of capitals. Among the largest companies investing in Turkey are the following: Toyota and Honda (Japan), Ford, Procter and Gamble, Philip Morris (USA), Renault and Cement France (France), Bosch, Mercedes and Siemens (Germany), Pirelli and Fiat (Italy), etc.

The countries investing the biggest capitals in Turkey are the USA, Italy, Germany, Holland, the UK, etc. The sectors which attracted the largest volume of foreign investments are: wholesale and retail trade – 36% of all investments, industry – 21%, real estate and business activities – 11%, transport and communications – 9% (see Table 9).

Table 9. FDI in Turkey Source: WIR 2004, 2005, 2008

Year	**till 2000**	**2001**	**2002**	**2003**
FDI mln $	19209	3266	1063	1753
2004	**2005**	**2006**	**2007**	**Total**
966	1609	4499	3110	**13165**

The country also has additional advantages. The only fact that 50% of the 70-million population is the group of 15-25-year-olds, makes Turkey a country with an unlimited possibilities market and a very high potential workforce. The country's closeness to the enormous markets of Russia, the Middle East and the European Union increases the attractive power of Turkey. Another positive fact is the reform which has started in the judicial system.

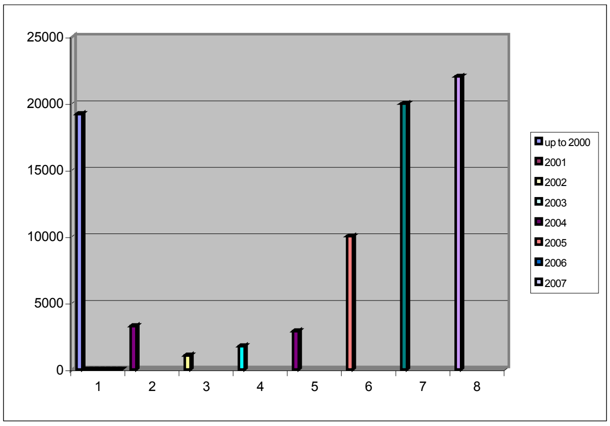

Fig. 9. FDI in Turkey

The new Law on foreign investments of June 2003 emphasizes the key elements of the liberal investment environment in the country. It is also worth mentioning that Turkey has signed various international agreements, such as the Customs Union Agreement, bilateral agreements for double taxation and tax evasion, the International Arbitration Court Agreement, etc. The reform in the public administration will contribute to the public sector restructuring and will also improve the administrative units' work. After the reorganization in the public sector, the Turkish Investment Agency, the infrastructure of which is ready, will start working. It will serve the foreign investors' needs before, during and after the investments execution through single desk service.

All these activities will undoubtedly increase the attractiveness of the Turkish economy for foreign capital and will strengthen its competitiveness. Another step in the same direction was the devaluation of the national monetary unit – the Turkish lira.

CONCLUSIONS

➢ The mortgage crisis which burst in the USA in 2007 affected the financial markets and created liquidation problems in many countries, leading to high credit expenditure. The possibilities for the enterprises to invest abroad are also limited. Since the transnational corporations in most industrial sectors have a sufficient liquidity in order to finance their investments, reflecting on the high corporative profits, their influence was smaller than expected. On macroeconomic level, the developed countries are affected both by the drop in production and the influence of liquidity upon the financial markets. As a result, the incoming and outgoing money flows from these countries go down. On the other hand, the relatively elastic economic growth of the developing countries can oppose this risk. In addition, beside the critical state with the credits in the USA, the global crisis is accompanied by a considerable devaluation of the dollar. Although it is difficult to isolate the effects of the exchange rates from the other crucial factors of FDI inflows, the dollar's weakness will stimulate FDI flows to the USA. The FDI from Europe will be stimulated by the relative health of the European investors and the decreasing investment expenditure in the USA. Besides, the companies exporting in the USA experience damages due to the change in the exchange rates and this forces them to expand their production when settling in the USA. This illustrates the change of strategy of some European transnational corporations, mainly car producers, who planned to build new or to expand existing production powers in the country. These strategies will not by now start working in car-building since big companies like GM, Chrysler, Ford, etc. face failure and the Congress granted them financial help for over 25 million dollars.

➢ The recession in the world economy and the financial disorders lead to liquidity crisis of monetary and debt markets in many developed countries. As a result, the branches' activity is starting to slow down. In the first half of 2008, the value of such transactions was by 29% lower than in the second half of 2007. Corporative profits and loans from bank unions are also going down. Based on the data available, the estimated FDI annual flows for the whole 2008 are expected to be about 1,600 billion dollars, which is by 10% less than in 2007. At that time FDI flows to the developing countries were less affected.

➢ The global financial tension has increased since the beginning of October 2009. The credit markets "got problematic", uncertainty of capital, stock and currency markets "is ruling", the number of banks, which are compelled to risk, increased. The growth of export of the 12 new members of the EU to developed economies will be delayed; the pressure for long-term investments will fluctuate. The financial conditions will be more difficult than in recent years at medium optimistic criteria. This will force the countries relying on external finances to finance their fiscal and current deficit. The growth in the 12 new EU member states had already been delayed before the crisis and accompanied by shrinking of production in Estonia and Latvia. Although the prospects for economic development are much weaker for 2010, the uncertainty in these forecasts is considerable. Inflation has also reached its peak in most of the 12 countries, but it will remain increased in the next period too.

➢ The financial and economic crisis in Europe and in the world raises necessity of coordinated non-standard measures on the part of the leading in economic terms countries. It is necessary for the countries of Central and Eastern Europe to take the following measures with a view to minimize the negative effects of the world crisis:

- Infrastructural projects and attracting of big transnational companies in the field of roads, railways, highways, gas supply and energetics are among the ways of minimizing the harmful effects of the crisis;
- Development of quality business projects by the EU member states under the operative programs financed within the accession and pre-accession funds of the Union.

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