REGIONAL DEVELOPMENT AND INTRA-FIRM NETWORKS IN THE ENLARGED EUROPEAN UNION: THE ROLE OF FOREIGN DIRECT INVESTMENT

XAVIER RICHET
Sorbonne University

ABSTRACT

This contribution addresses the role of foreign direct investment (FDI) in the restructuring and specialization of the economies of Central and Eastern European countries after the fall of the Berlin Wall which, over the past decade (2004,2007) have joined the European Union. FDI have played an important role in their restructuring and specialization within the enlarged Europe. Although still small in volume, FDI played a decisive role in the restructuring of several sectors, notably in the automotive, services and finance sectors. Several factors have facilitated the entry of foreign capital. First of all, an effect of proximity to the western European markets, the satisfaction of a growing domestic demand, low cost and good qualification of the workforce and low price of acquistion of assets are some significant factors in this respect. Today these companies are among the very first in terms of capitalization, employment, exports, market share. They have contributed to the integration of these economies into several regional value chains. The massive presence of FDI raises a number of questions, including the extent to which these economies depend now on foreign capital.

Keywords: European Union, Foreing direct investment, regional development, trade

GENİŞLEYEN AVRUPA BİRLİĞİNDE BÖLGESEL KALKINMA VE ŞİRKET İÇİ AĞLAR: DOĞRUDAN YABANCI SERMAYE YATIRIMININ ROLÜ

ÖZ

Bu katkı, son on yılda (2004, 2007) Berlin Duvarı'nın yıkılmasından sonra Avrupa Birliği'ne katılan Orta ve Doğu Avrupa ülkelerinin ekonomilerinin yeniden yapılandırılması ve uzmanlaşmasına yönelik doğrudan yabancı yatırımının (DYY) rolünü ele alıyor. DYY, genişleyen Avrupa'da yeniden yapılanma ve uzmanlık kazanmalarında önemli bir rol oynamıştır. Hala küçük hacimli olmasına rağmen, özellikle otomotiv, hizmetler ve finans sektörlerinde olmak üzere birçok sektörün yeniden yapılandırılmasında belirleyici bir rol oynadı. Birkaç faktör, yabancı sermaye girişini kolaylaştırdı. Her şeyden önce, Batı Avrupa pazarlarına yakınlık, artan bir iç talebin memnuniyeti, düşük maliyet ve nitelikli iş gücünü ve varlıkların düşük fiyatla elde edilebilmesi bu çerçevedeki önemli faktörlerdendir. Günümüzde bu şirketler finasallaşma, istihdam, ihracat ve pazar payı açısından ilkler arasındadırlar. Bunlar bu ekonomilerin çeşitli bölgesel değer zincirlerine entegrasyonuna katkıda bulunmuşlardır. DYY'nin muazzam varlığı, bu ekonomilerin şimdi yabancı sermayeye ne derecede bağımlı olduğu da dahil olmak üzere bir dizi soruyu gündeme getirmektedir.

Anahtar Kavramlar:Avrupa Birliği, Daoğrudan yabancı yatırım, bölgesel gelişme, ticaret

The growth of the internal market due to the addition of New Member States (NMSs) to the European Union (EU) has increased many companies' activities in an expanding marketplace. The rules of competition, the capital flows, and market growth following various waves of EU expansion have allowed companies, especially those based in the EU, to increase market shares due to economies of scale, rationalized production, and increased participation in regional networks. These companies have made advances in the use of outsourcing, mergers and acquisitions, greenfield investments, and cooperation agreements. Naturally, European multinational firms (MNFs), as the primary agents--and beneficiaries--of these newly expanded markets, have not limited their activities to an expanded European market. As global firms, they operate in other markets, particularly in Asia, creating and implementing both global and regional strategies.

Immediately after the fall of the Berlin wall and the opening-up of former Soviet-bloc economies, these companies applied new outsourcing and investment strategies inside the future EU NMSs[1]. Expansion to the East made it possible for many companies to acquire businesses (see Figure 1), set up greenfield investments, develop markets, and invest in production segments (vertical integration), while also producing directly for these new markets as well as for EU-15 markets. These investments have sometimes raised issues of arbitrage and implied difficult decisions, particularly in cases of multiple installations in different localities (such as Volkswagen –VW- in Spain versus Slovakia) and between the countries of origin and host countries (such as Renault in Normandy as opposed to in Slovenia).

This article will show that FDI, predominantly by European multinationals, has played a highly significant role in this process. Companies have benefited from institutional changes, adjustment and opening policies, and the impact of joining the EU. The region has experienced rapid increases in FDI levels that have generated a major reorganization of the European industrial landscape and triggered the development of entirely new activities. Eastern Europe, and at present the economies of the Balkan nations, have seen significant shifts in industrial activity that bind them closely to EU industry. These changes raise questions about the degree of dependency of these economies and their subordination to large industrial and financial

1 Following successive waves of expansion: Estonia, Hungary, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, and Slovenia in 2004, Buglaria, Romania in 2007, Croatia in 2013

groups. Section 1 address the role of FDI in the region, while the second section demonstrates the importance of FDI as a factor in restructuring, and the final section sheds light on the dependency of the region's economies relative to FDI.

FDI in the Central and East European coutires (CEEC): A New Space for Multinational Companies

Multinational companies invest for three major reasons: Market and factors access, localization advantage (cf. the Dunning *Organization, Localisation Internalization* (OLI) model). In the first case, which involves horizontal investments, a company invests locally and is on the same competitive level as domestic firms (i.e., without customs duties and enjoying a range of preferential treatments such as tax reductions and advantageous tax rates). They also benefit from numerous competitive advantages, penetrating markets with prior knowledge unavailable to local firms and rapidly attaining a dominant position. Large retail distributors, for instace, which under socialism were completely absent from the CEEC, are currently dominated by major European groups such as Carrefour, Metro, and Tesco. Their presence results in a range of positive externalities both upstream and downstream (suppliers, local outsourcing, services linked to the presence of these companies). Foreign banks have helped modernize and develop financial services by opening local branches, thus helping local companies' restructuring efforts. This is also true of utilities like water, gas, and electricity. The presence of foreign firms implicates nearly every sector, while focusing primarily on manufacturing (Deloitte, 2014, see Table 2).

A company can outsource the manufacturing parts and segments which then, are assembled to make the final product in the country of origin. This is one example of vertical integration in which the company uses the competitive advantages of an outsourced manufacturing site, in particular reduced costs and labour skill. The Hungarian factories operated by the German company AUDI manufacture engines that are sent to Germany. Volkswagen completely assembles limited series of four-wheel drive vehicles in its Bratislava factory that are sent to Germany and other markets with high purchasing power. Renault produces in Romania low-cost vehicles, the Logan brand, for markets in the region and is currently penetrating EU-15 markets in response to consumer demand in areas with low purchasing power. The Romanian Renault-Dacia site presently serves as the hub of the international manufacturing and sales strategy for the Logan at a time in Central Europe, Russia, and Morocco.

Expansion to the East: Adjustments and Institutional Changes

Economic reforms and institutional changes after the fall of socialism led to the transformation of the CEECs into market economies before they joined the EU, which occurred in three successive waves in 2004 (The 3 Baltinc States + Poland, Czech Republic, Slovakia, Hungary and Slovenia) , 2007 (Bulgaria and Romania) , and 2013 (Croatia) . Economies such as Serbia that were in the pre-integration phase also underwent similar adjustments.

These economies underwent three successive shocks:

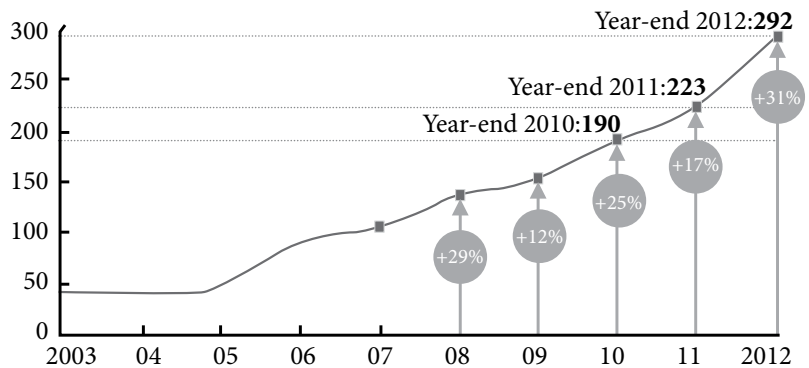
- A systemic shock with the collapse and disappearance of socialism, whose mode of organization and management of economic activities had shaped the industrial system of the region for four decades.

- An economic shock, ("the Washington consensus") by opening themselves and applying strict stabilization policies (involving the privatization of state companies and the creation of new private companies) and by reorienting exchanges and seeking new specializations.

- An institutional shock, by conforming to the strict conditions required for membership imposed by the EU (institutions, democracy, and sustainable competitiveness, as well as implementation of the "acquis communautaire"

Figure 1: The Impact of FDI in the CEEC: Growth and Impact on Employment

(In 1,000s of cumulated job-equivalents)



Source: Eastem European Services and Technology Committee analysis; McKinsey Business Technology Office;

McKinsey Global Institute analysis

Finally, in less than two decades, these economies have profoundly altered their productive structures, specializations, and modes of operation to become true market-based economies able to handle competition in an expanded European marketplace. The ways in which integration functions are nevertheless starkly different in terms of the living standards of the two sides of an expanded Europe, whether in terms of wages or per capita GDP, and despite real political convergence and significant flows of FDI (see Table 1).

Foreign Direct Investment: A Factor in Restructuring and Specialization

FDI has been the "surprise guest" that has massively transformed the economies of the region. By facilitating development and opening-up and liberalizing capital flows, and by bringing in significant financial resources and management skills and opening new markets, FDI has accelerated processes such as adjustment, restructuring, and specialization. These economies had a number of characteristics (governance, specialization) in common, but there were also significant differences in terms of per capita GDP, wages, and external openness. Convergence within these countries, on the one hand and with EU-15 will certainly be time consuming.

Table 1: Wages, GDP, and FDI in Eastern and Southeastern Europe, 2013

Countries	Average nominal gross monthly wages (in €)	GDP per capita, PPP/ EU-28 (EU-28=100, in %)	Stock of FDI (% of GDP)
Albania	291	28.1	29.2
Bosnia et Herzegovina	660	27.0	42.0
Bulgaria	413	45.6	93.3
Croatia	1,048	58.5	54.0
Czech Republic	965	80.0	62.7
Estonia	949	71.1	812
Hungary	777	65.2	77.8
Latvia	717	63.7	49.7

Lithuania	646	71.5	35.5
Macedonia	504	35.2	49.1
Montenegro	726	39.6	112.3
Poland	870	65.9	45.6
Romania	490	52.6	42.4
Serbia	537	36.7	61.9
Slovakia	824	74.1	58.0
Slovenia	1,523	80.7	29.7
New Member States (11 countries)	770	64.1	53.6
Euro-zone (18 countries)	1,845	106.7	
EU (28 countries)	1,742	100	

Source: Adapted from WIIW (the Vienna Institute in International Economy) (2014)

A wide range of factors facilitated the systematic and gradual influx of FDI into the region (see Figure 1 and Table 1):

- A proximity effect. FDI inflows come primarily from EU-15 companies, including European branches of North American companies. Conversely, very little investment has flowed from Asia or other regions. Early investments by South Korean and Japanese firms represented efforts to benefit from proximity to EU markets to take advantage of the expected positive effects of future EU membership. Since accession, Asian firms (primarily Indian) have invested in the region (particularly in the Czech Republic) in order to develop services closer to the final market (Infosys). Chinese companies have also expanded their markets by gaining contracts for large construction projects such as the Polish highway system, investing in the automotive manufacturing sector (in Bulgaria), and other infrastructure construction projects (in Serbia and Hungary). These companies are pushing commercial flows which facilitate their access to European markets, in the framework of the "New Silk Road." (Richet 2014)

- An industrial heritage that includes highly qualified labor notably in mechanical and electronic manufacturing. Low labor costs associated with these industries have further enhanced the region's appeal to investors (see Table 1) and explain the high concentration of FDI in the manufacturing sector (see Table 2) in most countries that have welcomed such investments.

- The weakness or even total absence of sectors essential to the functioning of developed market economies, including banking, finance, services, and commercial real estate or supplying the population with finished goods via large retail distribution networks have attracted high levels of direct investment (see Table 2).

The privatization of assets through sales, often at attractive prices, has also attracted large numbers of foreign investors. Very large companies like Volkswagen in the Czech Republic have followed a strategy of "first mover," acquiring shares and taking advantage of their dominant position to block or delay the entry of other Western and Asian competitors competitors, thus taking maximum advantage of attractiveness measures implemented by regional governments.

Table 2: FDI and Target Sectors in CEECs

Albania	1. Transportation, warehousing, and communications (27.5), 2. Financial intermediation (27.3), 3. Mining and quarries (25.7), 3. Real estate, rentals, commercial activities (10.8), 5. Wholesale and retail commerce (4.8)
Bosnia- Herzegovina	1. Manufacturing (28.4), 2. Finance and insurance (24.0), 3. Information and communications (15.0), 4. Wholesale and retail commerce (11.0), 5. Real estate
Bulgaria	1. Real estate, rentals, commercial activities (20.0), 2. Manufacturing, 3. Financial intermediation (16.6), 4. Wholesale and retail commerce (14.5), 5. Transportation, warehousing, and communications

Croatia	1. Financial intermediation (33.5), 2. Manufacturing (26.3), 3. Real estate, rentals, commercial activities (16.2), 4. Wholesale and retail commerce (9.1), 5. Transportation, warehousing, and communications (6.9)
Czech Republic	1. Manufacturing (33.1), 2. Finance and insurance (21.7), 3. Wholesale and retail commerce (10.7), 4. Real estate, 5. Specialized, scientific, and technical activities (4.2)
Estonia	1. Finance and insurance (25.4), 2. Real estate, 3. Manufacturing (13.7), 4. Wholesale and retail commerce (13.2), 5. Specialized, scientific, and technical activities (9.1)
Hungary	1. Specialized, scientific, and technical activities (25.7), 2. Manufacturing (21.1), 3. Finance and insurance (16.6), 4. Wholesale and retail commerce (10.9), 5. Information and communications (6.6)
Latvia	1. Finance and insurance (25.3), 2. Real estate (12.3), 3. Manufacturing (12.1), 4. Wholesale and retail commerce (12.0), 5. Construction (4.8)
Lithuania	1. Manufacturing (24.7), 2. Finance and insurance (24.3), 3. Real estate (12.5), 4. Wholesale and retail commerce (10.2), 5. Information and communications (9.3)
Macedonia	1. Manufacturing (34.9), 2. Finance and insurance (23.2), 3. Wholesale and retail commerce (12.3), 4. Electricity and gas (7.5), 5. Construction (5)
Poland	1. Manufacturing (31.7), 2. Finance and insurance (24.3), 3. Wholesale and retail commerce (14.2), 4. Real Estate (6.9), 5. Specialized, scientific, and technical activities (5,6)
Romania	1. Manufacturing (31.2), 2. Finance and insurance (18.5), 3. Wholesale and retail commerce (11.4), 4. Electricity and gas (8.9), 5. Mining and quarries (5.8)

Serbia	1. Manufacturing (24.0), 2. Wholesale and retail commerce (22.0), 3. Finance and insurance (17.1), 4. Construction (1.4), 5. Transportation and warehousing (8.5)
Slovakia	1. Manufacturing (30.6), 2. Finance and insurance (22,8), 3. Electricity and gas (16.7), 4. Wholesale and retail commerce (9.8), 5. Real estate (6.2)
Slovenia	1. Finance and insurance (34.6), 2. Manufacture (28.0), 3. Wholesale and retail commerce (16.2), 4. Real estate (7.0), 5. Information and communications (3.0)

Source: Adapted from WIIW (The Vienna Institute for International Economic Studies) (2014)

Acceding to EU membership and becoming integrated into the European market explains the increased influx and overall high levels of FDI in recent years. The proportion of FDI relative to GDP and its contributions to productive investment, employment, and exports, reveal the enormous weight of FDI in the economic activity and specialization of the region's companies. The last countries to join - Bulgaria, Romania, and and later Croatia - benefited greatly from this integration effect without slowing the growth in FDI flow towards the Western Balkans, which arefully engaged in the accession process. Capital inflows have had, and continue to exert, a positive influence on the region's growth rates, which have surpassed EU-15 rates (Transition Report, 2014).

The Effect of FDI on Regional Attractiveness and Restructuring

Institutional changes and significant industrial restructuring directly influenced the pace of FDI flowing into the region. Initially, with the exception of a few countries, particularly Hungary (which decided early on to open up by selling its companies to foreign buyers), the influx of foreign investment has been slowed by defensive and protectionist policies enacted to counter foreign investment. These measures have included distributing shares to the population free of charge, for example, in the Czech Republic, or Poland issuing a decree that a majority of domestic firms were considered "strategic companies."2 Governments were using these measures in an effort to retain

2 Which also continues to possess one of the most significant state-owned sectors in Europe. Cf. *Financial Times*, "Poland Barriers to Business," April 5, 2015

control over national industries. Limited domestic financial resources available for investment and the elevated costs of much-needed restructuring caused these governments to adopt more welcoming and generous strategies towards foreign investors. They were nevertheless able to protect and retain control over large public sector telecommunications and energy companies. It should be emphasized that this attitude is not irreversible. Hungary, the pioneer in encouraging FDI, currently opposes the massive presence of foreign companies in the country, and the present administration is now questioning standing agreements with large European companies.

Foreign investments linked to privatization (through public sales and private contractual operations) resulted in a lever effect in the acquisition of companies at bargain-basement prices. Sales to foreign investors presented several advantages, including rapidly restructuring companies, generating revenues, and providing access to foreign and EU markets. Rapid and massive sell-offs of shares helped to create positive exernalities for the industrial base through the establishment of branches and sub-contractors and the "swarming" effect generated by the presence of new companies. These sales also contributed to net increases in available jobs following an initial adjustment phase. For Western companies, entering such markets enabled them to quickly become operational, often within a few months.

As mentioned earlier, industrial heritage also played an important role in attracting investment to certain locations. Other attributes contributed to the appeal of these areas as well, including a professionally trained workforce of qualified workers and engineers and advanced technological development in several sectors such as defense industries. Indeed, systematic scarcity under socialism led a number of companies to innovate independently in order to maintain or improve existing machines that were difficult to import due to a lack of foreign currency (Richet 1992).

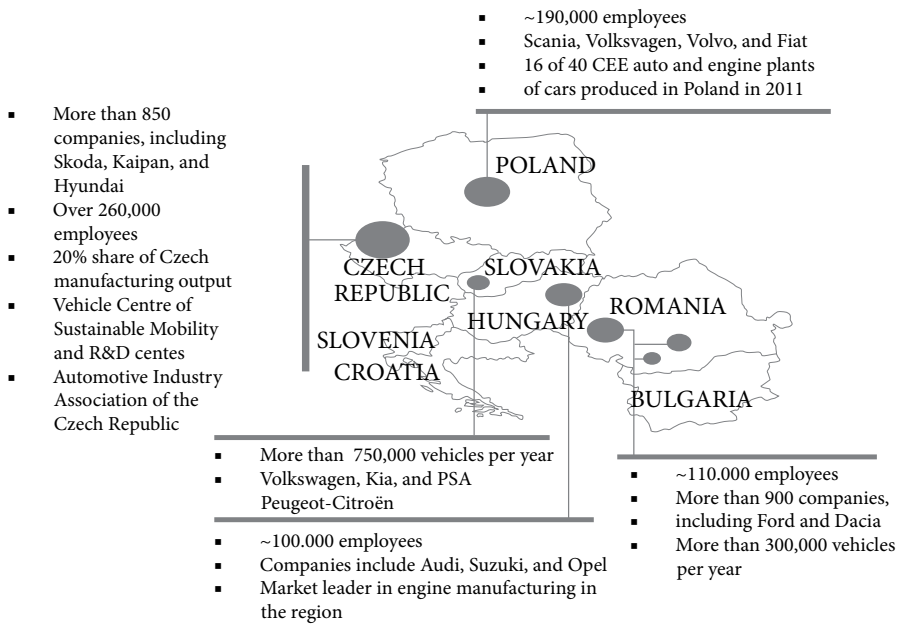
The Czech Republic3 possessed a pre-existing, high-quality automotive industry that continued to operate under the socialist regime. The existence of a highly qualified labor pool with a wage differential, given equal qualifications, of 1 to 5 (see Table 1) helped accelerate outsourcing and investment in several sectors, including information technologies and automobile manufacturing.

3 The Czech Republic was the only Central European country that had developed a domestic automobile industry (Skoda) before the turn of the twentieth century.

The encounter of skilled human resources, foreign firms supplying capital and markets with an integrative project encouraged the emergence of a number of industrial clusters (see Figure 2) in the region—in the south of Poland (Katowice-Cracow) and in the west of Hungary (Győr) around Bratislava in Slovakia. Pitesti, to the north of Bucharest, is the location of the Dacia factory headquarters, has become a veritable manufacturing and corporate hub. Logan automobiles are constructed at the site, which is the focal point of the group's strategy with respect to the EU-28, Russia, and Morocco markets.

European MNCs, like those in other large market economies, employ regional/national strategies to take advantage of markets, labor pools, technology, and cost advantages. Eastern Europe did not elude Western investors. Before the fall of communism, Eastern Europe was unattractive to European manufacturers, whose presence was limited to joint ventures in a small number of countries as Fiat in Poland, Renault in Romania.

Figure 2: Human and Capital Resources: The Cluster Effect



Source: McKinsey (2013)

The supply of vehicles was limited, while demand was minimal. The opening of these markets attracted investors to these sectors for the reasons discussed earlier. Most Central and Eastern European Countries (CEEC) are currently included in the regional strategies of large European and Asian groups (see Table 3). Their presence has significant influence on production and employment (see Table 4). These investments have greatly altered the industrial landscape (see Figure 3), attracting top-ranking suppliers who contribute to rapid technological development and the specialization of production units.

Table 3: Major Investors in the CEEC Automobile Sector

Rank	Rank /500	Company/Sector Name	Country	Owner
1	3	Skoda Auto	Czech Rep.	VW (All.)
2	14	Volkswagen Slovakia	Slovakia	VW (All.)
3	16	AUDI Hungaria Motor	Hungary	VW (All.)
4	25	Kia Motors Slovakia	Slovakia	Kia (Korea)
5	26	Automobile-Dacia	Romania	Renault (FR)
6	32	Hyundai Motor Manufacturing Czech	Czech Rep.	Hyundai (Kor.)
7	40	Fiat Auto Poland	Poland	Fiat (Italy)

Source: Deloitte, 2014

The massive infusion of capital into this sector over the past two decades has driven a steady increase in regional automobile production (see Table 4).

Table 4: Production, Employment, and FDI in the Automobile Industry in the PECO

	Production		*Employment*[1]		*Foreing direct investment*[2]	
	In millions of EUR	In % of manufacturing	Persons	In % of manufacturing	In millions of EUR	In % of manufacturing
Bulgaria	561.1	2.3	10,087	2.0	n.a	n.a
Czech Republic	31,647.8	22.4	138,575	13.1	8,091	27.4
Hungary	15,800.8	18.6	65,022	10.3	3,382	19.6[3]
Poland	26,669.1	11.2	146,685	6.7	7,456	15.3
Romania	9,046.0	14.9	116,156	10.4	2,838	16.3
Slovakia	16,435.8	28.5	50,998	13.2	2,425	18.6
Slovenia	2,598.5	11.7	12,837	6.8	201	7.6

Source: Hanzi-Weiss Doris, Robert Stehrer (2014): Table: Automotives clusters in CEEs

Manufacturers supply these markets and orchestrate distribution on the regional level. They also develop specialized operations at certain sites that assemble limited-edition cars and manufacture major components (motors, gearboxes, drive-trains, and transmissions) and entry and mid-market cars. The economic and political stabilization of the Balkans encouraged the return of companies that contributed , in the past, to the development of this sector, like Fiat in Serbia.

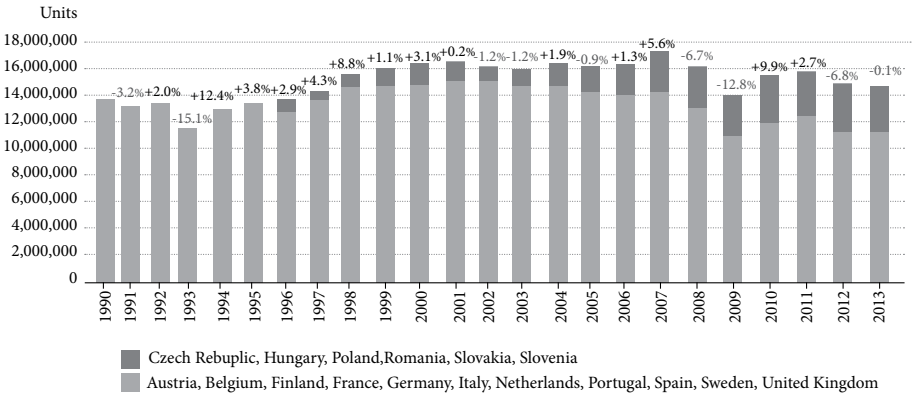
Figure 3: FDI and Industrial Facilities in Southern and Eastern Europe



Source: Amighini Alessia, Giovanni Balcet, & Xavier Richet (2015)

Chinese manufacturers are presently attempting to enter the European market from the south (for example, the Chinese firm Great Wall in Bulgaria). Other countries like Croatia specialize in sub-contracting and are seeking to establish niches for foreign investors and to become top-ranking suppliers. The fact remains that cost and proximity, typically critical in attracting FDI, will probably no longer suffice in the future, as competition in the automobile manufacturing sector increasingly focuses on on-board technologies and services. (*Financial Times*, 2015)

Figure 4: Contribution of Central and Eastern European Countries to Automobile Production in Europe, 1990-2013



Source: McKinsey (2013)

Volkswagen, the largest European automobile group, is present at every level of the automotive market, from Bentley to the VW Polo, and is present in at least thirty countries, which is also true of Renault, PSA, and FIAT, including facilities in South America, Asia, and the United States. Volkswagen manages the group's activities through a regional framework by coordinating its various facilities. One example is the company's Czech subsidiary Skoda, which manufactures its own components, its new models while also enjoying access to the company's parts bank in Germany. The company can thus produce its own parts and components for models manufactured and assembled in its German plants. Renault also targets its manufacturing sites on specific markets and models. Clios manufactured in Slovenia are destined to supply the South of France and Italy, while those manufactured in

Turkey satisfy demand in Southeast European markets. The company has delegated the manufacture of low-cost Logan line to its Romanian unit in order to supply regional as well as more distant markets.

Automotive parts manufacturers have also increased their activities in these countries, urged on by manufacturing firms to follow their new acquisitions closely in order to reduce costs and transportation times. There has been a veritable explosion of the vertical model that has resulted from these firms' networking and from assigning each company specific functions depending on the group's regional strategy.

The arrival of automobile manufacturers in the region transformed the industrial landscape while forging strong connections between these sectors and major multi-national groups. Acquisitions and new companies also answered to powerful internal demand. Companies outsourced relatively costly activities associated with high salaries and limited margins of maneuver to the East to increase labor productivity and innovation. This has increased the relative shanre of automobile construction in the region (Figure ')

Is it possible that these flows of investment might dry up? There has been steady growth in FDI in the region in recent years, reflecting the integration of CEEC companies thanks to networking strategies implemented by European FMNs. Late-coming EU member-states, such as Bulgaria and Romania, did not reduce FDI flows for reasons related to proximity and institutional transformations to protect investments, as well as subsequent near-term (Croatia) and longer-term (Serbia) expansions.

III. A Dependent, Hierarchized Production System in an Expanded Europe?

The massive presence of foreign firms was a blessing in disguise during the early phase of this transition because CEEC governments were sometimes obliged to sell equities, occasionally at deeply discounted prices, and benefited from the availability of capital and management skills as well as access to western markets. Rapid, continually expanding inflows of FDI, which continued despite contra-indications such as the rise in wage costs and competition from other countries with lower labor costs, have not diminished in recent years. The presence of foreign capital in the region raises sensitive questions related to the appropriation and control of companies (see Table 5). The strategies of Western firms tend to favor the time-hon-

ored model of labor division within multinational firms in spite of more recent developments such as the network effect, increased autonomy, and the specialization of different units according to regional company strategies.

This has been the case with the American automobile manufacturer GM's plans to divest itself of its German affiliate, Opel, which itself owns affiliates in Poland. A domino effect ensued in which the German government was prepared to finance the re-acquisition of Opel by making deep cuts in the Polish and Belgian affiliates.

Table 5 Foreign Companies, by Country and Sector, among Top 500 Companies in the CEEC

By Industry:

Situation in 2013	External Control	Central European Control	Government Companies	Total
Distribution and Transportation	108	58	13	179
Energy and Resources	51	31	64	179
Life Sciences and Health	12	6	-	18
Manufacturing	81	27	6	114
Public Sector	-	-	6	6
Real Estate	5	1	1	7
Technology, Media, Telecom.	22	6	2	30
Total	279	129	92	500

By Country:

Situation in 2013	External Control	Central European Control	Government Companies	Total
Bosnia and Herzegovina	2	-	1	3
Bulgaria	3	3	1	7
Croatia	1	7	4	12

Czech Republic	44	22	13	79
Estonia	2	2	1	5
Hungary	48	9	6	63
Latvia	5	1	1	7
Lithuania	4	7	2	13
Poland	90	33	38	161
Republic of Macedonia	1	-	-	1
Romania	33	4	5	42
Serbia	4	3	3	10
Slovakia	20	1	7	28
Slovenia	4	9	3	16
Ukraine	18	28	7	53
Total	279	129	92	500

Source: Deloitte (2014)

Several years earlier, the management of the Spanish group SEAT had envisioned outsourcing some of its activities in Slovakia within the VW group. In response, the FIAT management threatened to repatriate some of its activities from Poland to Italy. The French government offers aid to French car manufacturers if they invest in France, whereas demand is highest in China, where Renault and PSA are funding the development of vast industrial capacity.

The fact remains that governments and local investors cannot control the decisions and choices of MNCs except that governments can use fiscal advantages ("fiscal dumping") to some extent. The most competitive companies in the region have become affiliates of the large industrial groups. This pattern of integration does not prevent the emergence of highly competitive domestic businesses in the supply niches of various markets. Certain CEEC companies with mostly or exclusively domestic capital have joined other firms operating in the same sector in the region. One example of this

is MOL, a Hungarian company operating in the energy sector that has made acquisitions in Slovakia and Croatia.

Conclusion

In the span of two decades, the CEEC have succeeded in transforming their systems of production, inserting themselves into international (i.e., European) divisions of labor by developing comparative advantages associated with proximity, "industrial heritage," high-quality education systems, and competitive labor costs. Privatization and the massive entry of Western European companies have done the rest by enabling these economies to rapidly adapt themselves to the new environment.

Several threats nevertheless loom over the industrial futures of these economies. The continuing impact of the international financial crisis and its negative effects on employment could accelerate offshoring and delocalization activities to companies' countries of origin that are deeply affected by unemployment (such as the opposition of the French government's opposition to Renault's plans to create a manufacturing plant in Turkey). The other threat is that foreign investment in the CEEC could leave for economies with even lower costs such as Bulgaria or China.

The crisis that menaces certain sectors such as the automobile and steel industries that have surplus capacities, as well as the rise of the power of industrial groups from emergent countries such as China and India, could imperil the specialization of the New Member States, in turn endangering the industrial model that has developed during the past twenty years.

Two conclusions can be drawn from this process of regional integration:

- The capital of multinationals has no borders (or morality!): There is always a country that produces less expensively than another. Numerous Chinese companies, for example, are currently investing in Vietnam, Cambodia, and North Korea. Today, less expansive countries in the region in terms of cost, although still risky, are attracting investments that use to go towards these markets : Belarus, Ukraine.

- Because of globalization, "national capitalism" no longer exists. The transition of the CEEC has contributed to rich economic integration within an expanded European marketplace, enabling EU-15 companies to locate there but also leaving little space for national actors such as governments,

banks, local institutions, and industrial groups to control and influence operators from the EU-15 or elsewhere over these new spaces in order to valorize capital.

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