Some aspects of the investment attractiveness of the Visegrad Group countries

Vybrané aspekty investičnej atraktívnosti skupiny krajín V4

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Abstract: The article stresses the importance of analysing the inflow of foreign direct investments to the countries of the Visegrad Group. In this context, what is shown is the attractiveness of the CEE countries, including the Visegrad Group, in terms of the FDI location; and there are also other factors depicted, which determine the attractiveness of regions for foreign investors. The EU accession gave the Visegrad Group countries new opportunities to attract FDI; the point is to take advantage of these opportunities. Actions at both national and regional level are constantly needed in order to enhance the location attractiveness, since the VG countries need capital to modernize their economies. The quality of the investments attracted is also crucial, as the "modern" ones will create stable bases for the economy modernization and for building of a sustainable competitive advantage.

Key words: foreign direct investment, capital, region, economic environment

Abstrakt: Článok venuje pozornosť skúmaniu prílevu priamych zahraničných investícií do krajín V4. Poukazuje na atraktívnosť krajín strednej a východnej Európy, vrátane skupiny V4 v zmysle alokácie priamych investícií, ako aj ďalších faktorov, ktoré determinujú atraktívnosť regiónu pre zahraničného investora. Členstvo krajín V4 v Európskej únii významnou mierou prispieva k atraktívnosti regiónu pre alokovanie priamych zahraničných investícií. Napriek tomu je dôležité neustále venovať pozornosť zvyšovaniu atraktívnosti pre alokovanie investícií, nakoľko krajiny V4 potrebujú zahraničný kapitál na modernizáciu svojich ekonomík. Dôležitý je nielen objem priamych zahraničných investícií, ale aj ich kvalita, ktorá môže byť prínosom pre modernizáciu a budovanie konkurencieschopných ekonomík.

Kľúčové slová: priame zahraničné investície, kapitál, región, ekonomické prostredie

The current processes in the global economy are the cause of regional changes, marking out the way for further development of these areas. Globalization and the processes that it involves determine the position not only of individual countries but also of the entire regions of the world in the competitive settings having a global dimension and involving new subjects. Also Europe undergoes constant changes, stipulated by the progressing globalization that in the economic aspect "becomes a higher, more complex and more advanced stage of internationalization of economic activity" (Horská, Bielik 2004). In effect, the connections (in investment, production, trade and cooperation), not only those of economic nature are intensified and broadened, and the interdependence of national economies is growing. Among the causes determining the development of globalization, and at the same time being the engine of changes under way, these factors are the most important: progress in science and technology, international competition, and economic policy in a broad sense, as realized by the individual countries, and by means of which the obstacles to the functioning of markets are eliminated and the integration processes take place (Horská, Turčeková 2004).

The process of globalization influences the development of countries as well as that of regions. It is noticed that in the era of globalization, the role of local frames (local scale) is not diminished; on the contrary, it is higher there, where also competitive advantage is being built. Regions grow in importance as competing entities in the turbulent international environment. Some regions can discount the advantages deriving from globalization; other, less capable of adjusting to the changes under way, i.e. less adapt in attracting capital, are becoming weaker (Horská 2004).

Transnational corporations, being the carriers of the globalization process, whose main attribute is their *"ability to organize and coordinate production and trade activities in international dimension"*, and among their qualities is – *"integration of actions/functions located in numerous countries"* – are largely responsible for the capital flow in the form of foreign direct investments (FDI) (Horská, Ubrežiová 2001). This kind of investment is a very advantageous form of capital flow for the host country or region. Recently, a pronounced area of FDI flows (locations) has been formed by the countries of Central and Eastern Europe (CEE), including the countries of the Visegrad Group (V4) that is Poland, the Czech Republic, Slovakia and Hungary. The article stresses the importance of analysing the inflow of foreign direct investments to the countries of the Visegrad Group.

MATERIAL AND METHODOLOGY

This paper aims at proposing an analysis of the inflow of foreign direct investments to the countries of the Visegrad Group. In this context, what is shown is the attractiveness of the CEE countries, including the Visegrad Group, in terms of FDI location; and there are also other factors depicted, which determine the attractiveness of regions for foreign investors. In the paper, we use the data of the World Investment Report for 2005 and the Eurostat database as well. Besides the accumulated value of FDI (the total value of the FDI attracted since 1994), to analyse the current situation and development in the sphere of the FDI allocation we use the inflow of the FDI in USD million indicators as the FDI stock per capita, the FDI inflow per capita, the FDI stock (inward) as the percentage of gross domestic product (GDP) or gross fixed capital formation, the FDI Inward performance index as a measure of the extent to which a host country receives the inward FDI relative to its economic size. It is calculated as the ratio of the country's share in the global FDI inflows to its share in the global GDP. Also we devote attention to the factors that create the "attractiveness" of business environment as GDP growth, labour costs or location factors are.

RESULTS AND DISCUSSION

Countries of Central and Eastern Europe have become an attractive place for FDI location. Along with the transition processes in these economies currently under the way, the FDI started to gradually flow to the Visegrad countries – the leaders in the region in terms of this kind of investment inflow. When we analyze the accumulated value of FDI (total value of the FDI attracted) at the end of 2004, we see that the four Visegrad countries attracted USD 192 671 million. Poland is the group leader in terms of the FDI inflow, as at the end of 2004 the the FDI stock (the accumulated value of FDI) reached over USD 61 billion. However, Hungary attracted not much less, that is USD 60.328 billion. Slovakia, on the contrary, got only USD 14.5 billion, which at the close of 2004 accounted for 7.5% of the total value of FDI stock in the four countries. The total value of FDI which came to these countries accounted for 5.7% of the EU-25 FDI stock (that is including the ten new countries – EU-10). The FDI stock in the 4 countries of the VG accounted, at the end of 2004, for 83.9% of the total value of investments made in the EU-10.

An analysis of the data in connection with the FDI inflow to the individual VG countries shows that in 2004, Poland was the biggest target, attracting 38.7% of the total value of FDI in the four countries under scrutiny, that is USD 6 159 million. The Czech Republic and Hungary attracted over USD 4 billion,

Table 1. FDI inflow to the Visegrad countries in the years 1994-2004 (in USD million)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Czech Republic	869	2 562	1 428	1 300	3 718	6 324	4 986	5 641	8 483	2 101	4 463
Poland	1 875	3 659	4 498	4 908	6 365	7 270	9 343	5 714	4 131	4 123	6 159
Slovakia	273	258	370	231	707	428	1 925	1 584	4 094	669	1 122
Hungary	2 286	5 104	3 300	4 167	3 335	3 312	2 764	3 936	2 994	2 162	4 167
Visegrad countries in total	5 303	11 583	9 596	10 606	14 125	17 334	19 018	16 875	19 702	9 055	15 911

Source: Compilation of data based on: FDI Inflows, by Host Region and Economy, 1970–2004; http://www.unctad.org/Templates/Page.asp?intItemID=3277&lang=1, 6. 04. 2006

Table 2. FDI value per capita, expressed as a percentage of GDP and as a percentage of gross fixed capital formation in the EU-10 countries, in 2004

Country	FDI stock per capita (in USD)	FDI inflow per capita (in USD)	FDI stock (inward) as a percentage of Gross Domestic Product	FDI flows (inward) as a percentage of gross fixed capital formation
Cyprus	9 847	1 388	52.7	40.2
Czech Republic	5 515	436	52.7	15.4
Estonia	7 138	694	85.1	29.6
Hungary	5 959	412	60.7	18.6
Latvia	1 938	279	32.9	16.7
Lithuania	1 855	225	28.8	15.8
Malta	8 897	1 053	66.0	37.0
Poland	1 593	160	25.4	14.5
Slovakia	2 685	208	35.3	11.1
Slovenia	2 522	262	15.1	6.5

Source: Compilation of data based on the data from: http://www.unctad.org/Templates/Page.asp?intItemID=3277&lang=1, 6. 04. 2006

Data on population: http://stats.unctad.org/Handbook/TableViewer/tableView.aspx, 15. 04. 2006

each. The lowest value of FDI inflow was noted in Slovakia – it was barely USD 1 122 million. It is worth noting, that in 2002, this country noted the highest value of FDI, amounting to USD 4 094 million. In 2004, the total value of FDI made in the VG countries amounted to USD 15 911 million. However, the inflow of FDI did not reach the value from 2002 that is USD 19,702 million. The year 2003 saw a remarkably pronounced decreasing trend. The values of the FDI inflow to the VG countries in the particular years are presented in Table 1.

The share of FDI in the GDP of these countries and in the fixed capital highlights its importance for their economies (Table 2).

Among the VG countries, the biggest FDI stock and the highest flows per capita were noted in the Czech Republic and in Hungary.

FDI Inward Performance Index

An enterprise, fulfilling the main principle of profit maximization and realizing the internationalization of its activity, also in the form of FDI, is driven by four motives: market, cost, supplies and politics. An investor, when making a decision to locate his/her activity abroad, tends to take into consideration a group of motives (a group of factors which are responsible for the motive) (Rymarczyk 2004). The eclectical paradigm by J.H. Dunning should be depicted for the purpose of theoretical consideration, that is the so-called OLI (*Ownership, Localization, Internationalization*), including three conditions (advantages), which need to occur together for an enterprise to invest abroad. These are: the advantage of ownership; the advantage of location, specified by

Table 3. FDI Inward Performance Index* for the Visegrad countries

Country	1990	2000	2001	2002	2003	2004
Czech Republic	–	18	14	14	19	28
Poland	100	47	46	61	72	75
Slovakia	–	41	27	8	14	25
Hungary	49	26	25	28	39	46

*three-year moving averages, using data for three years ending with the year in question; ranking for 140 economies

Source: World Investment Report 2005, op. cit, pp. 274–275 the factors inducing to invest abroad and the offered benefits which are specific for each region; and the advantage of internalization. In this context, it is worth realizing what attracts the investors to invest in the countries of the VG. Also the corporations analyze them. A trans-national company behaves as a single subject in all the economic territories it acts in and allocates resources for their maximally efficient utilisation without regard to practically anything else (meaning any geographical, cultural or other barriers). In such measure, the firm manages to internalise most of the originally external, and thus not manageable, processes to be more efficient (Jeníček 2006).

Many centres publish rankings indicating the investing attractiveness of the individual countries and their ability to attract foreign investments. This ability is described as "*the ability to attract investors to choose the region as a place of locating investment*"(Gawlikowska-Hueckel, Umiński 2000), which also forms a constituent element of competitiveness, also in case of regional economies. If we look at a certain ranking prepared on the basis of the FDI Inward Performance Index, which indicates the ability of a given country to attract FDI, then one can see pronounced disparities between the VG countries. Slovakia can be found at the top of this ranking (Table 3).

GDP growth and labour costs

It is widely accepted that the factors determining the FDI flows into the ten new EU member states, including the Visegrad Group countries, are: robust economic growth, unit labour costs remaining at a low level, as well as adoption of the EU legislation. Without any doubt, a positive aspect was the accession of these countries to the EU, which enhanced the investors' confidence. In 2004, Poland noted the highest GDP growth among the VG countries, although it was lower again in 2005. The forecasts for 2006 and 2007 show a gradual growth of GDP in all of the Visegrad Group countries except the Czech Republic. In case of Slovakia, the factor of real GDP growth is systematically improving, and the growth

Table 4. GDP growth (real) in the years 2000–2007 (% changes in comparison to the previous year)

Country	2000	2001	2002	2003	2004	2005	2006 (forecast)	2007 (forecast)
Poland	4.2	1.1	1.4	3.8	5.3	3.2	4.3	4.5
Czech Republic	3.9	2.6	1.5	3.2	4.7	6.0	4.4	4.3
Slovakia	2.0	3.8	4.6	4.5	5.5	6.0	5.5	6.3
Hungary	6.0	4.3	3.8	3.4	4.6	4.1	3.9	3.9
EU-15	3.9	1.9	1.1	1.1	2.3	1.5	2.0	2.2
EU-25	3.9	1.9	1.2	1.2	2.4	1.6	2.1	2.4

Source: database Eurostat, 14.04.2006, http://epp.eurostat.cec.eu.int/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=STRIND_ECOBAC&root=STRIND_ECOBAC/ecobac/eb012 , 14. 04. 2006

Table 5. Labour costs in selected countries (in USD per hour)

Countries	2003	2004	2005	2006	2007	2008
Germany	30.5	33.8	36.7	37.7	36.6	36.7
USA	22.1	22.9	23.5	24.2	24.9	25.7
Japan	20.5	21.8	22.1	22.7	23.2	23.7
Poland	3.1	3.5	4.0	4.2	4.4	4.4
China	0.8	0.9	1.0	1.2	1.5	1.7
India	0.8	0.9	0.9	1.0	1.1	1.2

Source: KPMG after: Rynki Zagraniczne, dated March 13, 2006, No. 13, p. 3

rates reached in 2000–2005 as well as the forecasts for the following years are the highest among the Visegrad Group countries. This means that the country grows in importance as a potential place for locating investments (Table 4).

Investors have indicated also in Poland that the EU accession has a positive effect on the investments flows due to the adjustment of law to the EU regulations, abandoning of customs duties and simplification of procedures. Foreign investors locating their businesses in Poland have indicated such factors as: the size of the market, low labour costs and positive economic growth outlook, i.e. the same elements that were presented in the World Investment Report. On the other hand, among the factors affecting location in the regions, qualifications of workers and labour costs were mentioned. But the ability to attract the investors and attractive locations are not stable; they must be created over and over again, and the existing barriers must be eliminated. Investors in Poland have also pointed to the following obstacles: bureaucracy, frequent changes in the law, provisions of the law and extended time for making administrative decisions. Investors value Poland as a country of high population potential, having a large share in the GDP of the CEE. However, among the negative factors, the following

Table 6. Groups of location factors in regions and their chosen qualities

Factor	Chosen qualities (measures) describing the location factor
Labour market (resources and labour costs)	Quantity and quality (skills) of workforce, labour costs, supply of appropriately qualified personnel (e.g. high school and university graduates), level of economic and social activity of people (level of entrepreneurial initiative) – social capital, health condition of the population.
Transport availability	Geographic location and availability of important markets and attractive regions, good quality of transport infrastructure (transport connections), intraregional situation (e.g. density of road network), extra-regional railway connections, access to motorways (express roads and fast railway), airports in the vicinity (including international airports) and access to them, time and space distance to main agglomerations, including metropolitan centres.
Investment activity towards investors	Image of the region and its popularization, quality of investor offers, activities (taken by the local authorities) to attract investors, services provided for the benefit of investors and their high quality, information and promotion activity geared at investors.
Absorption level of the consumer market	Disposable personal income, population size, investment expenses of enterprises, access to outlets.
Economic and social infrastructure – its level of development	Presence (in the vicinity) of financial and insurance companies and of companies managing real estate and providing services to other enterprises, density of such institutions, in case of Poland presence of special economic zones (offering tax redemptions and investment servicing). Presence of centres of innovation – universities, research units, enterprises; universities and research institutes in the vicinity, presence of science and technology parks, fairs/exhibitions, development and level of social infrastructure, including schooling and healthcare, level of development of tourist infrastructure and similar infrastructure and the presence of cultural institutions.
Level of economic development	Structure of the economy, value of real assets, value of production, foreign trade, share of technologically intensive goods in the total imports, level of technological progress of production, cooperation between research centres and business – clusters, progress of economic transition, economic climate.
Condition of natural environment and its protection	Level of natural environment protection, level of water and atmosphere contamination
Level of social security	Level of detectability of crime.

Source: Gorzelak, Jałowiecki (2000) and authors were mentioned: slowdown of reforms and political instability. On that score, the Czech Republic was valued for its low costs and a high potential of people with technical qualifications. Finally, Hungary was assessed negatively due to its macroeconomic instability.

Membership of the CEE countries in the EU created new chances of attracting additional FDI to the region. However, in these countries there are still problems to overcome, like: a low level of infrastructure (IT, physical, power), corruption (lack of transparency), lowering of advantage based on low costs (due to wage rises) and macroeconomic instability. These are the risk factors for the investors. From the moment of the EU accession, the VG countries may become less competitive in terms of, inter alia, labour costs, which may contribute to the outflow of investments, also to non-European countries. Labour costs in some of the countries are presented in Table 5.

The investors, however, (or more specifically, the multinational corporations), when making investment decisions, take into consideration also the factors of regional location.

Attractiveness of regions and determinants of investments location

Due to the lack of uniformity in Europe, investors take into consideration certain advantages, which they may obtain by locating their investment in a certain region/country. Apart from the so-called "fixed" investment attractiveness factors, there are also "soft" location factors. Investment attractiveness is to do with certain location factors, which predispose the entrepreneurs to make profit. However, what is crucial is their specific, optimal combination. In addition, one has to take into consideration the fact, that the decisions of subjects relating to locating investments are determined by other factors as well. Factors that determine the attractiveness of a location in a given region depend also on the nature of business activity, as may be performed by individual companies, e.g. production, tertiary, or based on the utilization of advanced technologies (Table 6).

The capital, however, flows into the regions that have already been attractive, having certain advantages in terms of their location, and, therefore, it is not evenly placed all over the country. In particular, the agglomerations have such "force of attraction". Therefore, regions not vested with certain factors of location, or not as well endowed, are in a more difficult position, and consequently prone to marginalization. In order to develop them (and also in order to create specific factors of location), the authorities, both local and national, need to apply instruments of regional policy, and make the regions more attractive. The EU structural funds, e.g. for the development of infrastructure and granted to assist small and medium-sized enterprises, may be regarded as promising in this matter.

CONCLUSIONS

In the current time of changes, when space has been "reduced", what also determines the placement of corporate investments are the advantages (factors of location) in the individual European regions. The fact that the CEE countries and their regions are still an attractive place for investment location does not mean that this shall continue indefinitely. The countries of the Visegrad Group will also compete over the corporations' investments with other centres or regions in the world. In reference to this, actions at both national, and regional level are constantly needed in order to enhance the location attractiveness, since the VG countries need capital to modernize their economies. The quality of the investments attracted is also crucial, as the "modern" ones will create stable bases for the economy modernization and for building of a stable competitive advantage, which should contribute to a gradual narrowing of the gap which separates the Visegrad countries from the "old" countries of the EU-15. The EU accession gave the Visegrad Group countries new opportunities to attract FDI; the point is to take advantage of these opportunities.

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