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# ATTRACTIVITY OF THE FDI IN WESTERN BALKANS: EVIDENCE FROM THE CENTRAL AND EASTERN EUROPEAN COUNTRIES (CEEC)[1]

*ABSTRACT*

*One lesson of the transformation of CEECs during the 1990s and early 2000s has been that FDI was not initially considered as a tool for boosting economic transformations in the region. Today most of these economies rely on the accumulated stocks and the annual flows of capital to develop their specializations, deepen their economic transformation and linking their economies to the most advanced economies of the EU. There has not been clear vision of the role of FDI at the beginning of the transformation. Poland and the Czech Republic, for instance, have set up policies of transformation, notably privatizations, to avoid the presence of foreign investors. Privatizations in Hungary has been a « blessing in disguise » (see P. Mihaly) : selling assets to foreign investors has speed up the adjustment, transforming whole regions of the country, (Western Hungary, Budapest) into a new industrial network welcoming investment in sectors with strong added value. In other countries, achieving the systemic transformation, matching the objectives set up by the EU to become future members, (even for late comers like Slovakia) have paved the way to create a strong attractivity to FDI which account, in many ways (rate of investment, share in the GDP, share in value added, in exports, etc..) in the economic performance of these economies (see G. Hunya). To sum up, attractivity can be explained by different factors such as former specialization of those economies (see S. Radosevic), proximity, fragmentation and outsourcing of some functions of big corporations (Renault in Romania), macro policies, increasing local demand, etc..*
*Concerning Western Balkan economies we will elaborate two questions:*

- *Do capital flows continue to poor in the region in direction of the "late comers" which have delayed their economic adjustment?*
- *What kind of competitive advantage can be build up in the region in order to follow what has been done in CEECs?*

***Key words****: FDI, CEEC, European Union, privatization, economy*

***JEL classification****: E01, E22, F21*

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[1] Second draft of the article.

## 1. INTRODUCTION

The Western Balkans region[2] is rich with opportunity and potential. It is experiencing significant improvements in terms of reforms, economic growth and foreign direct investments (FDI). The region has made strong progress, outpacing Central Europe in economic growth with an average gross domestic product (GDP) increase, these latest years. For the next several years, the markedly strong economic development is expected to continue in Western Balkans. Inflation has largely been kept under control, and is expected to decline further in the near future. The Western Balkans is improving risk profile and economic outlook are also validated by the international credit ratings. As unemployment (in almost all Western Balkans countries) is still high, sustainable economic growth (Redžepagić and Llorca 2007) and job creation are the major challenges the region faces.

It is important to mention, for example, that the FDI into the region was 3.4 billion of euros in 2005, but also the cumulative FDI inflow in the region was near 15 billion of euros for the five-year period of 2001-2005. As the countries of the region rarely invested abroad, net FDI inflows also played a key role in financing foreign trade imbalances that stem from ongoing structural reforms and significant investment demand in the transition to free markets.

As the EU expands to the east and south, the Western Balkans is considered by many current and prospective investors to offer opportunities as Europe's next high-growth business location. Croatia and Macedonia are candidates for EU membership, and Stabilization and Association Agreements are in force or under negotiations for the other countries of the region. Generally analyzing, the characteristics driving investment in this region include:

- Access to a growing market of over 150 million consumers
- A competitive business environment, with labour costs under the levels of the Czech Republic and Hungary in parts of the region
- Abundant availability of a highly skilled and well-educated workforce
- Economic reforms delivering an enhanced investment climate
- First-mover advantage to those entering the market at the front end of a growing wave of investment

The FDI in the new market economies in Eastern Europe (now for New Member States of the EU) is interesting to be analyzed from the several points of view (Redžepagić 2006).

First of all, the motivations of the foreign firms, mainly European (the share of the FDI except Europe are lower than 20% of the total) are divided between the access to new markets, on the one hand and with a regional integration by the means of a vertical segmentation from the other side. This contributes to redraw the industrial landscape of these economies by specializing them around activities mainly with high added value.

[2] Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Montenegro and Serbia

The analysis of flows and the contents in value added of the exchanges between these countries and the countries of the EU-15 emphasize well this phenomenon: intra-branch, mainly, whereas the exchanges with the Maghreb countries[3] are initially characterized by inter-branches exchanges.

One second significant lesson is that the transformation of these economies into market economies could not have taken place without the assistance of the foreign capital. The companies with foreign capital contribute in a very significant way to employment, the investment, exports and the new specialization of these economies.

Lastly, a third lesson is due to the effect of proximity, the "nearshoring", of the FDI: the delocalization of activities is required for well-known advantages (cost of work, growth of new markets, etc). It appears that the effect of proximity plays such a significant role, because of constraints related to the production of products or services integrated in the production of the goods and the services in the country of origin.

By comparison, the exchanges between the Maghreb countries and the EU make favours to arise their nature inter-branches; the FDI, as for them, are focused on still weak segments in value added or on narrow segments to higher value added like the services.

In the light of this experiment, it is advisable to see how the economies of the South of the Mediterranean, in particular most open (Morocco, Tunisia) can be adjusted and position, in particular while going up in range on sectors with higher value added, in particular by developing industrial partnerships with positive and durable external effects on industrial fabric of these countries.

In a second part, one will recall certain aspects of “universalization” and his effects, in particular, on the regional growing points. In a third part, one analyzes the role of the capital, foreigner in the transformation and the adjustment of the European economies post socialist, finally, in conclusion, one wonders about the type of policies to implement in the economies of the south of Europe.

The current period of globalization (analyzing situation in the World, generally) seems to be entering a second phase. After a period of quick moves, massive investments in emerging locations, pressure on suppliers and crises in undersized, labor-intensive industries, investors are looking at consolidating and ensuring their return on investment[4]. Generally, the questions, given in the “Analyzes of Ernst&Young” (2007) could make us to develop some questions, as following:

- Are China and India attracting all of the world’s foreign direct investment?
- When will Russia come out of its transition period?
- Can Europe – especially mature, Western economies – reach agreement on the profound reforms needed?

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[3] Morocco, Algeria and Tunisia.

[4] Ernst&Young, Attractiveness Survey 2007, “Attractiveness of South East Europe: The new frontier of Europe?”

- What is the performance of accession countries (and New Member States of the EU) – East and South?
- Are there new frontiers in Europe which investors are seeing or ignoring?

## 2. GLOBALIZATION, ADJUSTMENT AND NEW CO-OPERATIONS

There is an abundant literature on the effects (benefits and misfortunes) of the Mondialization (Michelet 2004, 2007); it is supplied with the analyses today relating to China and its threats with in particular the "delocalizations" of the Western firms in the China. Behind this movement of the capital, a pessimistic vision is born. Some advance the idea that universalization becomes the vector of the domination of the United States whose action of the multinational firms, through the "outsourcing", would induce a model of production arranged hierarchically in which the firms of the less or fairly advanced countries would collect only bits in the chain of creation of the value: mass production to low value added with little hope to go up in range by producing goods to greater added value. The example of China and India, today, tend to contradict this pessimistic vision with the rise in range on segments of production integrating more added value and of capital (X. Richet and W. Wang, 2005; X. Richet and J. Ruet, 2006).

The operation of the multinational firms shows, on the contrary, that the step which animates them is rather an operation in network, at the same time in terms of division of competences, of entry on the markets, of research and development. Also, without reconsidering the international literature on the operation and the motivations of the MNC[5] (Dunning), on the positive aspects of the presence of the foreign firms and companies (Wolf 2004), the impact of the presence of these firms on the dynamic regional ones must be underlined: contribution of capital, integration in a regional network, opening of new markets, effects of drive near the subcontractors of the large firms to delocalize itself, without speaking about the positive effects on the use and the standard of living. On the other side, the massive presence of the foreign investors attract our attention, in certain countries on the side of "economic patriotism" [6] the role of the national companies unable to support competition and to draw only from the limited benefit of the presence of the MNC in their country. This is currently developing in China, although the country is one of the very first receiving countries of foreign capital; it appeared for a long time in Russia where the oligarchs seek to protect the credits which it acquired at cheap price (Huchet, Richet, Ruet, 2007). The argument is certainly justifiable on behalf of countries which carried out massive investments in order to develop their industry, without having sufficient capital, know-how: one finds here all the significant question of the possibilities of an autarkical development via the

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[5] Multinational corporation (or transnational corporation) (MNC/TNC) is a corporation or enterprise that manages production establishments or delivers services in at least two countries. Very large multinationals have budgets that exceed those of many countries. Multinational corporations can have a powerful influence in international relations and local economies. Multinational corporations play an important role in globalization; some argue that a new form of MNC is evolving in response to globalization: the 'globally integrated enterprise'.

[6] A recurring concept in France, which dates from the period of the beginning of the Eighties with the defense of the crown jewels in front of the movements of fusion-acquisitions.

substitution of imports. The failure of Soviet industrialization and that of Eastern Europe calls into question these strategies which did not support the appropriation of know-how and to enrich technologies as knew to do it Japanese and the South Korean ones (without contributions of the MNC) thanks to the strategy of "reverse engineering".

Movement of the capital answers the attraction of the territories, the areas, the countries: the "seduction of the nations" analyzed by C-A Michalet returns to the analysis of specificities of the areas, with the effect of agglomeration, economic geography in Krugman. Areas will be able to implement well policies of attractivity without attracting large world, others will not have great a deal to make to attract the capital: intrinsic qualities of the territory (P. Veltz), but also effect "mouton de Panurge"[7]: it is what one observes in a positive way in China (effect "first mover": if *General Motors* goes to China, why not *Ford* or *Toyota*?) and that one observed in a negative way in Vietnam in the Nineties where eleven car manufacturers invested in the country whereas the capacities installed of only one foreign company were sufficient to answer the local request.

**Table 1: Country of origin and country of destination of the principal investments**

| 2000 | | 2004 | |
|---|---|---|---|
| **Origin of the first 10 countries** | **Principal destination** | **Origin of the first 10 countries** | **Principal destination** |
| USA | UK | USA | UK |
| Germany | UK | Germany | France |
| UK | France | UK | France |
| Japan | UK | Japan | UK |
| Sweden | UK | France | UK |
| France | UK | The Netherlands | France |
| Netherlands | GB/France | Sweden | UK |
| Switzerland | France | Switzerland | France |
| Italy | France/Spain | Italy | France |
| Finland | UK | Austria | Hungary |

Source: Ernst & Young (2005)

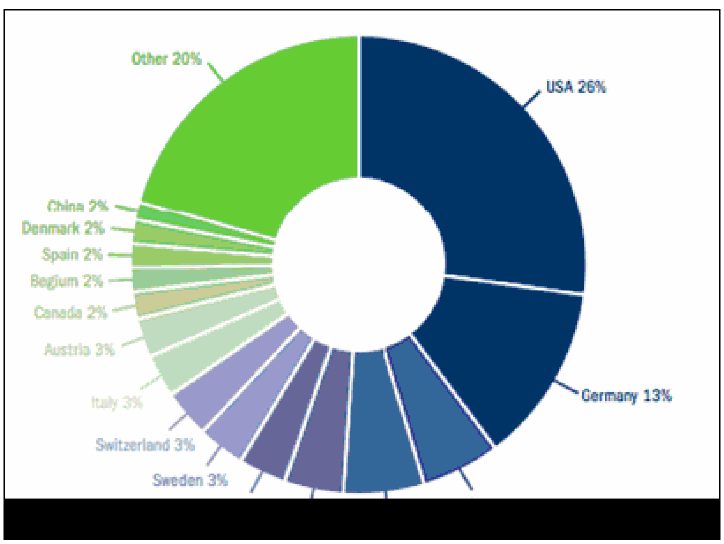
The statistics show besides that "success goes toward the success": foreign flows of investment, on the world level, go first of all towards the developed countries, mainly between the United States and Europe, which tends to reinforce the strategic centers and of control of the FDI at the same time as the integration of the great developed economies. The figures also translate the importance of the trade intra-connects between the great market economies. Only China seems an alternative, mainly because

[7] In French, he appears in the set phrase « mouton de Panurge », after a story in which he buys a sheep from the merchant Dindenault and then, for revenge, makes the sheep jump off a cliff. The rest of the sheep in the herd stupidly jump after it in spite of the shepherd.

of the importance of its domestic market, a side, and weakness of the unit costs of work of the other.

One of the characteristics of this movement, today, is to take place in the form of fusion-acquisitions, at the European or transatlantic level with sometimes of the failures resounding (see recent merge-fusion of *Daimler* with *Chrysler*). There is a thus strong regional content of universalization, with thorough exchanges and strong integrations between the most developed poles (transatlantic). The innovation appeared these last years is related to the emergence of China (and India), like new partners attracting the investment, but who are still weak as for their participation in the outflow of capital, even if today China also starts to delocalize its production towards countries with low wages (Africa, North Korea) or seeks, like India, to approach producing markets of knowledge with strong growth potentials (for example the investment of a division of the Indian firm *Tata* in the Midlands, in the United Kingdom, heart of the British car industry, install Indian filial *Infosys* in the Czech Republic. This illustrates the arbitration between remote delocalization and low costs and volume higher vs. close delocalization ("nearshoring")[8] and costs from which Europe seems to benefit today from the East.

**Chart 1: Origin of the projects of FDI in Europe**




Source: Ernst & Young' S European Investment Monitor, 2005

[8] Nearshoring means sourcing service activities to a foreign, lower-wage country that is relatively close in distance or time zone (or both). The customer expects to benefit from one or more of the following constructs of proximity: geographic, temporal, cultural, linguistic, economic, political, or historical linkages. Similar terms include nearsourcing and nearshore outsourcing. The service work that is being sourced may be a business process or software development. As with offshore, the term "nearshore" was originally used in the context of fishing and other ocean-based activities and later adapted by the business world.

## 3. SYSTEMIC TRANSFORMATION AND MOVEMENT OF THE CAPITAL: THE CASE OF EASTERN EUROPE

The question of the compared attractivity of the CEECs (and also the Maghreb countries) already was discussed several among the specialists (Neffati and Richet, 2004; Redžepagić 2007) who agree to recognize that the FDI in this area of Europe have creates a strong effect of ousting, in particular with the detriment of the Maghreb countries, engaged quite front in programs of adjustment even if relatively, flows which were directed in this area, on the beginning were modest and still remain it with respect to other destinations (intra developed countries, China). They also recognize that the nature of specializations is different: intrabranche in the case of the EU-CEECs exchanges (and also inter-connects the EU-Maghreb countries). It is not necessary to reconsider here the history of the transformation of the countries from the region which is well-known (Drouet and Richet, 2007). We can focus, on the other side, to know why the foreign capital moved in the one area and not worms of others, or more exactly, why for the European firms it is necessary to be at the same time present in Eastern Europe and China[9] factors played, even if they appeared contradictory. The first factor is related to the level of economic development and with the emergence of new needs for consumption which were strongly constrained in the old system by a rigid or non-existent offer. The second factor is related to the nature of the "national system of innovation" of these economies. In spite of a "bad industrialization" (i.e. an industrialization around an economic development, within an autarkical framework privileging heavy industries), on the one side, and of a not very effective industrial engineering (autonomy of the firms, quality of management, signal and intermediary, information system) of the other side, the National System of Innovation (NSI) was able to create a scientific and technical environment with relatively high standards, with a qualification of the labour close to those of the countries of the EU.

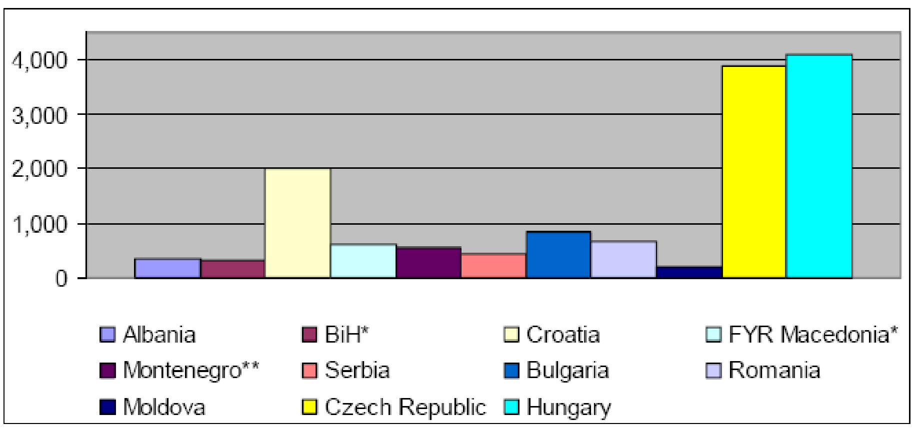
The differential of cost of work was also a significant factor: to equal qualification and for a level of productivity are equivalent in the firms which were restructured by the foreign investors, the differential is still significant, between a fifth and a quarter of the German average wages. The narrowness of the labour markets, the competition of the low costs induce also a delocalization of the investments carried out in the production of goods with low value added in the area towards other regions (China, for example).

As the last frontier amid a rapidly integrating continent, the Western Balkans has emerged as Europe's next high-growth destination for FDI. The region, now directly adjacent to the EU's expanding border, has attracted the focus of the leadership of the European Commission. It is expected that countries of the Western Balkans will enjoy membership in the EU within few years. As has been demonstrated in the economic booms of recently acceded EU member countries, the period leading up to full EU integration is a strategic time for forward-looking investors to maximize their opportunity. To confirm this opinion, we can precise some important and significant elements:

[9] One of the reasons of the strong competitiveness of German industry in spite of the recession, the strong Euro comes owing to the fact that mainly German industries assemble products whose components are manufactured at low cost in the CEECs. A considered German economist, W.Sinn goes even until qualifying the German saving in "saving in bazaar".

- In a comparison of the largest operating costs (i.e., labour, land and utilities), Western Balkans countries ranks well ahead of New Member States of the EU (such as the Czech Republic and Hungary).
- The workforce, in the Western Balkans countries, is well educated and experienced in production processes; so this is the reason why current investors cite local technical expertise and the strong work ethic as competitive advantages of this region.
- Geographically, uniquely situated with Adriatic port access and adjacent to both Western and Central European major country markets, the region is well positioned for serving the EU, Russia and beyond.
- In the Western Balkans countries, inputs increasingly can be locally sourced in key sectors, and an existing supply network is based in the region's longstanding history as a production centre.
- The governments of the Western Balkans region are committed to the attraction of FDI, as evidenced on several fronts, including progress on regulatory, fiscal and tax reforms and investor incentives.

**Chart 2: Trade Liberalization and FDI inflows: Average FDI stock per capita in EUR (2000-2006)**



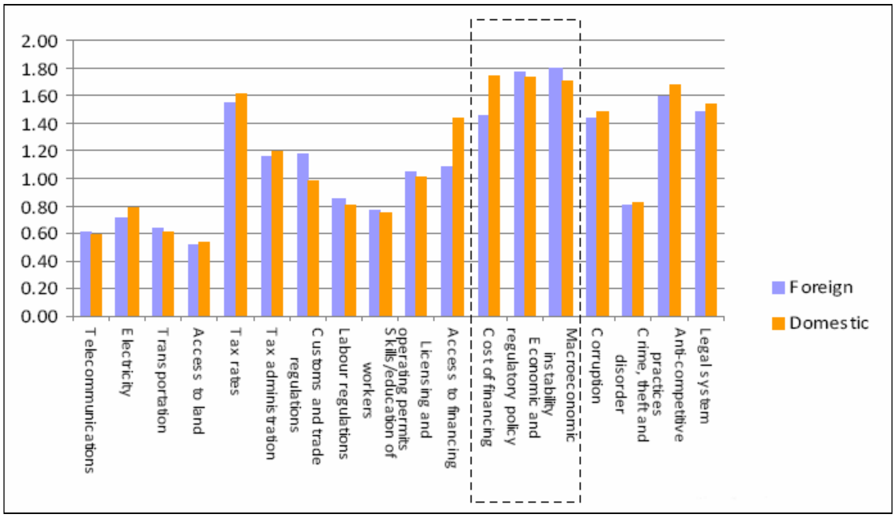

Note: * missing values for Bosnia and FYR Macedonia in 2006
** missing value for Montenegro in 2000

Source: WIIW (2007) and EBRD Transition report (2007)

The FDI in the Western Balkans are mostly concentrated in the service sector (banks, telecommunications, insurance) in non-tradable inward oriented sectors (constructions, real-estate). Some preliminary analysis indicated that there was an underlying problem with competitiveness and productivity level:

- Labour flexibility and skills shortages and gaps
- Infrastructure (energy, transport, telecommunication)
- Access to land (cadastre, registration, permits)
- Complex regulatory environment

**Chart 3: Investment related obstacles across the region: BEEPS results for Western Balkans (2005)**




Source: World Bank, BEEPS (2005)

Some analyzes are pursuing two approaches:

- "Macro approach" exploring the links between trade liberalization and FDI, in particular the impact of regional liberalization through Central European Free Trade Agreement (CEFTA) and external liberalization on FDI inflows
- "Sectorial analysis" looking at competitiveness factors in selected industry sectors.

The mode of privatization of the companies contributed, in certain countries (Hungary, for example) to attract the IDE quickly, leading, then, with the fast reorganization of the economies of the countries hosts (Calf & Richet, 2004). The fast creation of a legal environment protecting the investments made the remainder. The adjustment of the firms to the new environment of market was facilitated by the implementation of macroeconomic policies and stabilization continuous, supported by the assistances structural provided by the EU within the framework of the future integration of these economies which intervened in 2004 and in 2007.

**Table 2: Flow of IDE received by the CEECs (million dollars and %)**

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Poland | 89 | 291 | 678 | 1715 | 1875 | 3659 | 4498 | 4908 | 6365 | 7270 | 9341 | 5713 | 4131 | 4225 |
| Czech Republic | 72 | 523 | 1003 | 654 | 878 | 2568 | 1435 | 1286 | 3700 | 6310 | 4984 | 5639 | 8483 | 2583 |
| Hungary | 311 | 1462 | 1479 | 2350 | 1144 | 5103 | 3300 | 4167 | 3828 | 3312 | 2764 | 3936 | 2845 | 2470 |
| Romania | 0 | 40 | 77 | 94 | 341 | 419 | 263 | 1215 | 2031 | 1041 | 1037 | 1157 | 1144 | 1566 |
| Bulgaria | 4 | 56 | 42 | 40 | 105 | 90 | 109 | 505 | 537 | 819 | 1002 | 813 | 905 | 1419 |
| Estonia | 0 | 0 | 82 | 162 | 215 | 202 | 150 | 267 | 581 | 305 | 387 | 542 | 284 | 891 |
| Slovakia | 93 | 81 | 100 | 179 | 273 | 258 | 370 | 231 | 707 | 428 | 1925 | 1584 | 4123 | 571 |
| Latvia | 0 | 0 | 29 | 45 | 214 | 180 | 382 | 521 | 357 | 347 | 411 | 163 | 384 | 360 |
| Slovenia | 4 | 65 | 111 | 113 | 116 | 152 | 174 | 332 | 218 | 106 | 137 | 369 | 1606 | 181 |
| Lithuania | 0 | 0 | 10 | 30 | 31 | 73 | 152 | 355 | 926 | 486 | 379 | 446 | 732 | 179 |
| 10-CEEC | 573 | 2518 | 3611 | 5382 | 5193 | 12703 | 10833 | 13786 | 19249 | 20424 | 22367 | 20362 | 24637 | 14445 |
| % World | 0,3 | 1,6 | 2,2 | 2,4 | 2,0 | 3,8 | 2,8 | 2,8 | 2,8 | 1,9 | 1,6 | 2,5 | 3,6 | 2,6 |
| % EU | 0,6 | 3,2 | 5,0 | 7,3 | 6,7 | 11,1 | 9,8 | 10,9 | 7,7 | 4,3 | 3,3 | 5,7 | 6,6 | 4,9 |

Source: UNCTAD

Lastly, it is necessary to mention the effect of proximity which associated the costs and the human capital accentuated the process of delocalization of the large firms of the EU in direction of these markets. A great number of IDE concern vertical integration (table 3).

**Table 3: Principal sectors and principal destinations of the projects of investment: Top 10 sectors vs. Top 10 destinations (2005)**

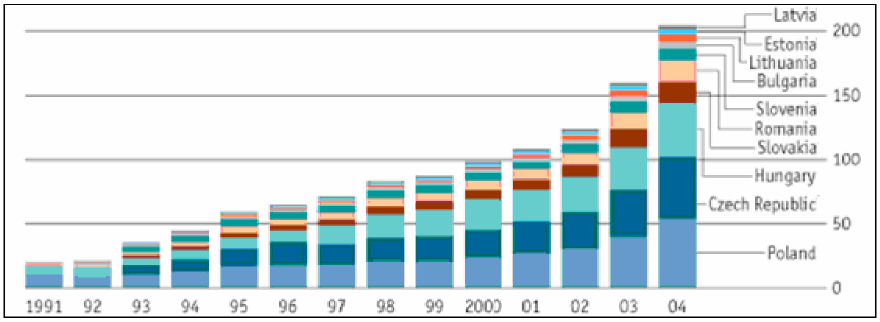
| | Belgium | Czech Republic | France | Germany | Hungary | Poland | Russia | Spain | Sweden | United Kingdom | Grand Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Software | 22 | 6 | 64 | 20 | 6 | 1 | 4 | 21 | 12 | 123 | 363 |
| Business Services | 19 | 10 | 63 | 25 | 9 | 7 | 6 | 14 | 16 | 61 | 319 |
| Electronics | 6 | 7 | 48 | 8 | 11 | 19 | 6 | 7 | 11 | 48 | 226 |
| Automotive Components | 17 | 25 | 36 | 10 | 11 | 27 | 4 | 5 | 1 | 26 | 224 |
| Other Transport Services | 24 | 7 | 35 | 6 | 9 | 10 | 3 | 4 | 3 | 11 | 169 |
| Machinery & Equipment | 8 | 7 | 37 | 8 | 11 | 8 | 8 | 2 | 2 | 29 | 157 |
| Financial Services | 2 | 2 | 11 | 4 | 4 | 4 | 7 | 8 | 10 | 38 | 143 |
| Food | 8 | 1 | 26 | 6 | 3 | 11 | 10 | 11 | 2 | 18 | 133 |
| Chemicals | 14 | 6 | 24 | 15 | 3 | 7 | 8 | 7 | 2 | 10 | 127 |
| Pharmaceuticals | 7 | 1 | 15 | 10 | 3 | 4 | 1 | 8 | 6 | 17 | 109 |
| Grand Total | 180 | 116 | 538 | 181 | 115 | 180 | 111 | 147 | 96 | 559 | 3066 |

Source: Ernst&Young, European Investment Monitor, 2006

These FDI contribute to create a true industrial crown in the region with the integration of the existing manufacturing units in the strategy of the great European groups, on the one side, that is to say by the creation of investments “ex-nihilo” in the region, on the other side.

The following graph measure the impact of the FDI, the countries hosts of the region at the same time in terms of specialization of the sectors, of export of goods and services in direction of the industrialized countries (mainly European, in terms of contents in value added of exports. The graph shows the growth of exports of the countries of the area in direction of the developed industrialized countries which were carried out during these last years in particular around the three countries which received the most FDI (Poland, the Czech Republic and Hungary).

**Chart 4: Exports of goods and services towards the industrialized countries**




Source: The Economist (2005)

Table 4 shows the contents in value added of exports in direction of the countries developed during these last years. It translates at the same time the importance of vertical integration ("re-exportation" of products which will enter the final assembly), the contents in qualified work and capital-intensive intensity.

**Table 4: Exports in terms of intensity of factors in 1996, 2000 and 2003**

| Country classes in terms of stock of IDE in the manufacturing sector per capita in 2003 | Leaves intensive qualified work and intensive products in capital in | | | | | | Value of exports in qualified work and capital |
|---|---|---|---|---|---|---|---|
| | Exports | | | Exports minus exports intensive in natural products | | | Index, 2003 |
| | 1996 | 2000 | 2003 | 1996 | 2000 | 2003 | 1996=100 |
| Hungary | 46% | 73% | 76% | 65% | 84% | 87% | 535 |
| Czech Republic | 61% | 68% | 73% | 77% | 80% | 83% | 267 |
| Slovenia | 61% | 65% | 67% | 73% | 76% | 79% | 169 |
| Slovakia | 49% | 66% | 70% | 59% | 76% | 83% | 353 |
| Estonia | 38% | 50% | 47% | 59% | 71% | 71% | 336 |
| Poland | 41% | 52% | 54% | 59% | 68% | 68% | 286 |
| Lithuania | 37% | 30% | 31% | 64% | 54% | 52% | 183 |
| Bulgaria | 41% | 31% | 32% | 63% | 44% | 47% | 120 |
| Romania | 35% | 34% | 37% | 45% | 43% | 47% | 225 |
| Latvia | 30% | 24% | 26% | 53% | 49% | 54% | 176 |

Source: B. Kaminski (2004)

The figure below illustrates the paradox of the delocalization in the sense that the recent movements of delocalization go today on sites close at the same time to the sources of knowledge (economy of knowledge, organizational complexity, "just in time", etc.) and of the final markets with more or less strong purchasing power.

**Table 5: The paradox of the outsourcing: proximity vs. costs/quality**

| | |
|---|---|
| **Proximity ("nearshoring"):**<br>- Complex final market: small series, speed of the quasi-integration production on the level of the final assembly<br>- Sources of knowledge<br>- To answer a double request in the country host and the country of origin | Relatively high costs but with one interesting differential:<br>Labour more qualified and powerful in sectors with high added value |
| **Distance**<br>- Control, costs of coordination, outdistances, large volume | Weak costs<br>Can become a secondary advantage if integration quality<br>Interest: growth of the local markets<br>Possibility of correction, but mass productions |

Thus the production of the *FIAT 600* in Poland or *Logan* in Romania answers a local request with weak purchasing power at the same time in the area but also in the countries of the EU-15. The company *Zar*a, the manufacturer of Spanish clothing, its side, carries out small renewed series every three months and not shouting the weak prices of the Chinese products obtained thanks to volumes of production but whose transport and distribution take at least two months.

We can conclude that the Western Balkans is already host to many global and regional companies making leading products in their sectors. For confirm this conclusion we can analyze two great sectors – "automotive" and "food and beverage", as shown in the following tables:

**Table 6: The analyze of two great sectors – “automotive” and “food and beverage” in Western Balkans countries**

| AUTOMOTIVE | | | |
|---|---|---|---|
| **Company** | **Origin** | **Location** | **Product/Activity** |
| | | | |
| *Daido Motor* | Japan | Montenegro | ball bearings |
| *VW Sarajevo* | Germany | Bosnia and Herzegovina | vehicle assembly, spare parts |
| *Prevent Sarajevo* | Slovenia | Bosnia and Herzegovina | leather interiors |
| *St. Jean Industries* | France | Croatia | aluminium casts |
| *Le Belier* | France | Serbia | aluminium casts |
| *Iskra Avtoelektrika* | Slovenia | Bosnia and Herzegovina | electronic parts |
| *Plastal* | Sweden | Serbia | plastic parts |
| *ThyssenKrupp Belisce* | Germany | Croatia | vehicle tires |
| *MZT Hepos* | Italy | Macedonia | brake equipment |
| *Ruen Intl. Technologies* | Luxembourg | Macedonia | clutches, gears, metal parts |
| *Dura Auto. Systems* | USA | Bosnia and Herzegovina | control systems |

| FOOD AND BEVERAGE | | | |
|---|---|---|---|
| **Company** | **Origin** | **Location** | **Product/Activity** |
| *Flour Mills Loulis* | Greece | Albania | flour and wheat processing |
| *Coca-Cola* | USA | S/M, B/H, Croatia | soft drink bottling |
| *Delta Ice Cream* | Greece | Serbia | ice cream |
| *Bramburi* | Austria | Croatia | potato packing facility |
| *Citrus D.O.O.* | Slovenia | Bosnia and Herzegovina | meat processing |
| *Chipita Intl.* | Greece | Serbia | snacks and croissants |
| *Aprider* | Israel | Albania | greenhouse agriculture |
| *Zito Luks-Skopje* | Greece | Macedonia | baked goods |
| *Ideal Sipka* | Bulgaria | Macedonia | cheese |
| *Van Drunen Farms* | USA | Serbia | organic fruits and vegetables |

Source: EBRD (2004): Transition Report

**Table 7: Advantages and disadvantages of the FDI in the Western Balkans**

| Advantages | Disadvantages |
|---|---|
| • Growth<br>• Macroeconomic stability<br>• Reform speed<br>• Foreign investment and tax incentives<br>• Trade cooperation<br>• EU aspirations | • Unhappiness<br>• External imbalances<br>• Slow implementation<br>• Problems of corruption and business climate<br>• Trade barriers<br>• Stalled EU progress |

## 4. CONCLUSION

The Western Balkans prospects have looked mixed for some time, as have general appraisals of the situation in the region. The overall assessment has tended to vary according to the primary focus (economic, political, security) or even temperament of the observer-summed up by the proverbial question of whether the glass is "half empty or half-full". The importance of FDI for the region, and the need for the recent trend to be sustained, cannot be overstated. Despite the strong theoretical case[10] for the advantages of free capital flows, many private capital flows pose "countervailing risks". In contrast, FDI is both less volatile than other flows and has a series of additional benefits. FDI is a key factor for upgrading physical and human capital; for increasing export capacity; for reducing external vulnerability; and for boosting the structural reform momentum. FDI inflows are more likely than other forms of capital flows to translate into increases in domestic investment. FDI is a vehicle for the transfer of technology and managerial and organizational know how, and it can promote competition in the domestic market. Profits generated by FDI contribute to host country tax revenues. It has been shown that for FDI to have a significant positive impact on a host country's performance and growth the host has to already have a certain level of skills, which the Western Balkans countries generally possess. Finally, and crucially, the reliance on FDI is far preferable to dependence on official aid flows – this general proposition is likely to be especially important in the Western Balkans.

Generally analyzed, trade liberalization and FDI inflows in the Western Balkans countries, show us the following:

- The Western Balkans countries are characterized by advanced trade liberalization and open non-discriminatory regime to FDI.
- Proximity to the EU market and significant lower labour costs than in the EU-15, and very competitive tax rates.
- These elements should contribute to generate high FDI inflows into the region replicating the same dynamic Central European countries experienced in the late nineties and early 2000. However, so far this has not been the case.

[10] There are many studies confirming this !

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