

# Patterns of inward FDI in economies in transition, 1991–2006

Conference on strengthening integration of the economies in transition into the world economy through economic diversification  
2–4 April 2008, Geneva

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United Nations Conference on Trade and Development

# Outline

- FDI inflows to economies in transition. Four categories of countries:
  - New EU members (2004 and 2007),
  - South-East Europe,
  - Russian Federation (a category of its own), and
  - Other CIS
- The role of FDI in financial accumulation (FDI to gross fixed capital formation)
- Cross-border M&As
  - linked with FDI through privatization;
  - their industry patterns, and
  - their geographical patterns
- The case of the automotive industry
- Conclusions from a policy perspective

## Preface: Why FDI is important

- Unlike trade, it is not a one-off transaction
- Productive capacities created through FDI remain in the host country for the long term
- TNCs, the main agents of FDI, participate in almost two-thirds of world trade
  - One third through their sales to third parties
  - One third through their intra-group transactions

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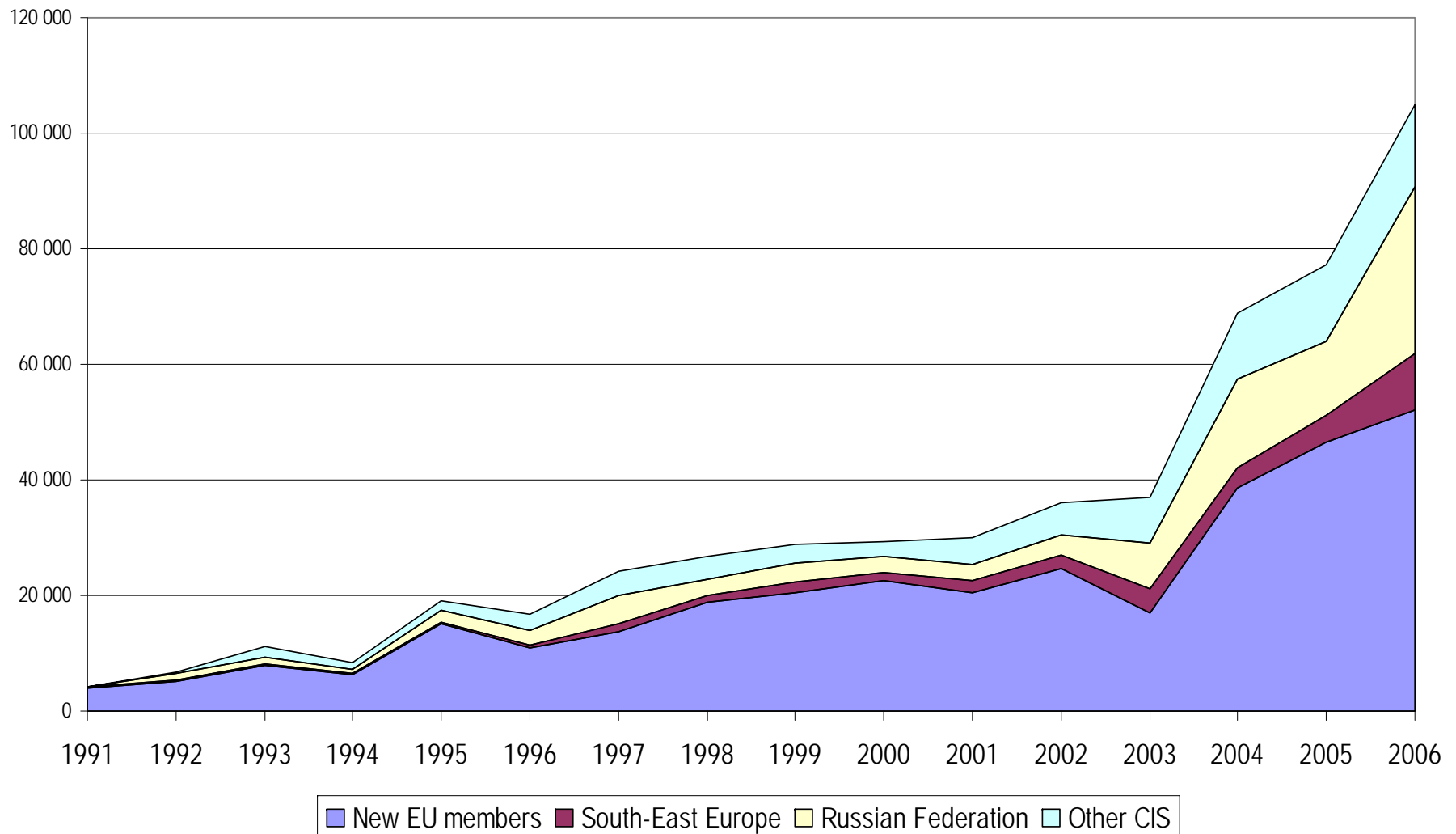
# Trends in FDI inflows



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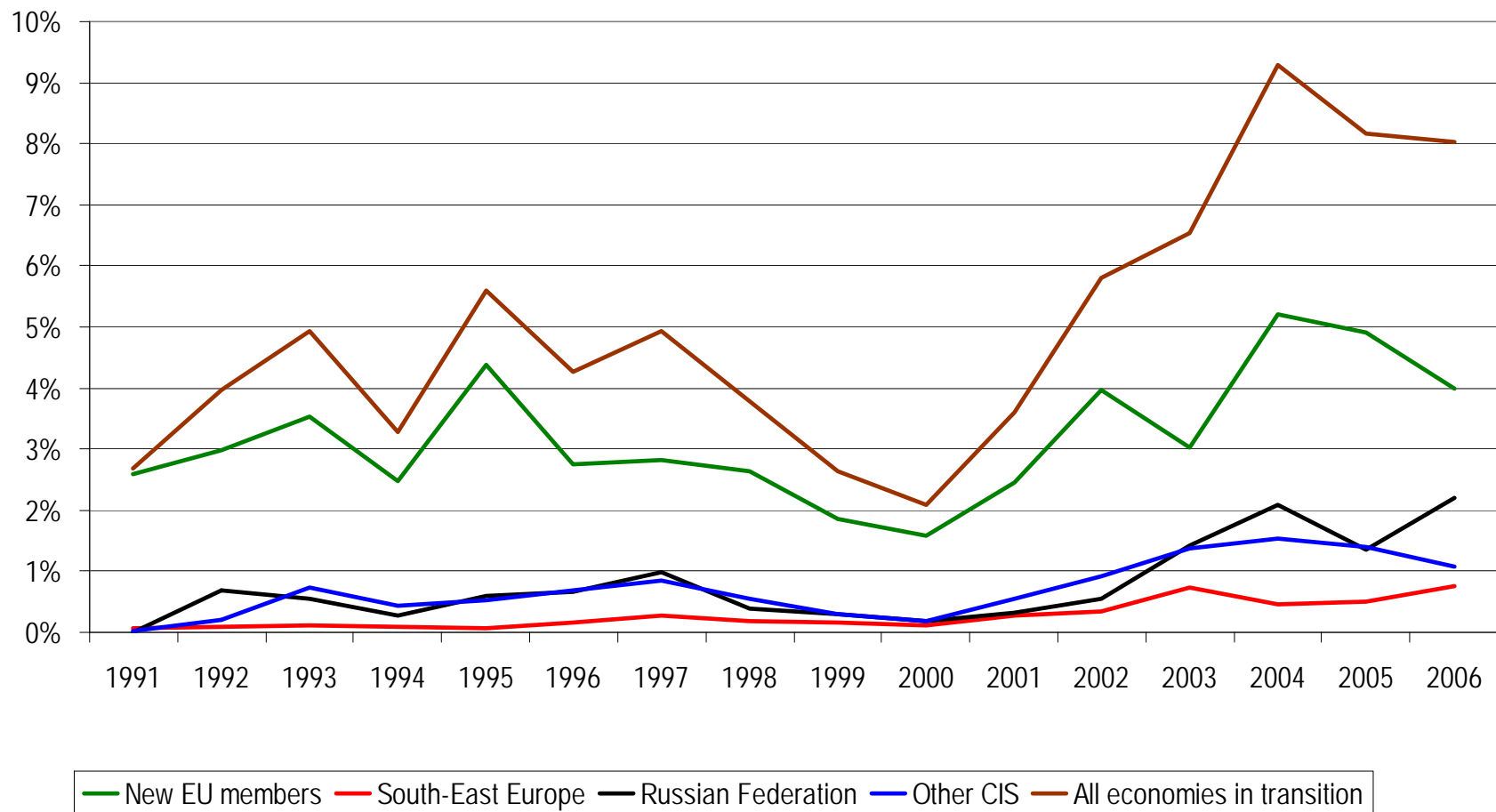
# Growth and the spread of FDI inflows, 1991–2006: a chronological sequence from West to East

Figure 1. FDI inflows to economies in transition, by group, 1991–2006  
(Million dollars)



# Share of economies in transition in global FDI on the rise, and new EU members leading (except late 1990s)

Figure 2. Share of economies in transition in global FDI inflows, 1991–2006  
(Per cent)



# Large differences in cumulative inflows

- Massive flows to large economies and ‘early birds’
- Tiny flows to some small low-income economies

Figure 3. The five largest cumulative FDI inflows, 1991–2006  
(Billion dollars)

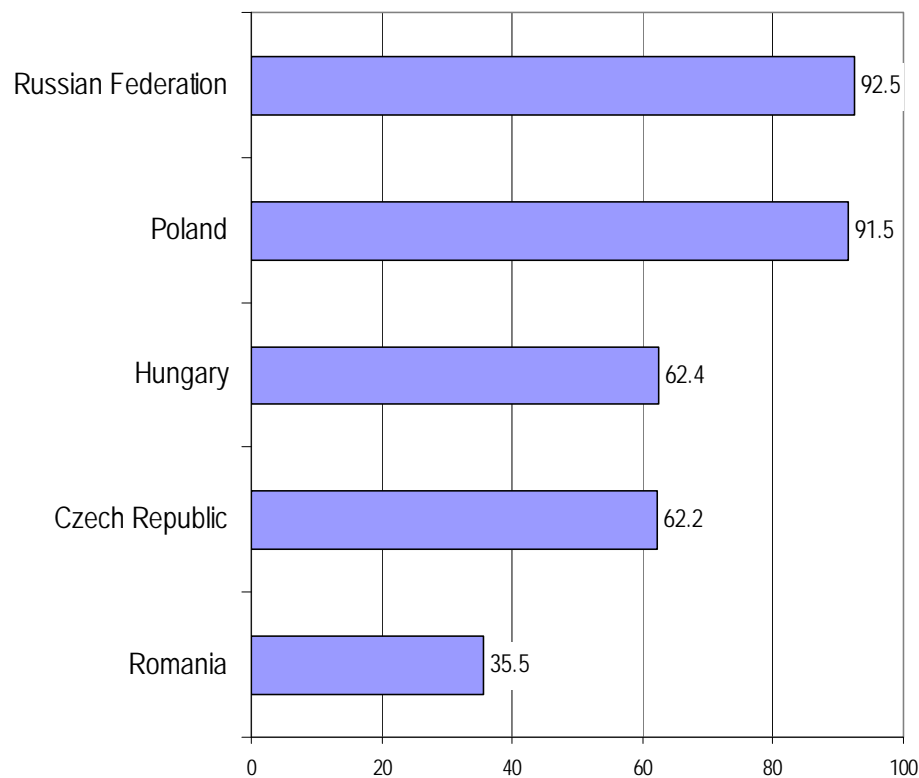
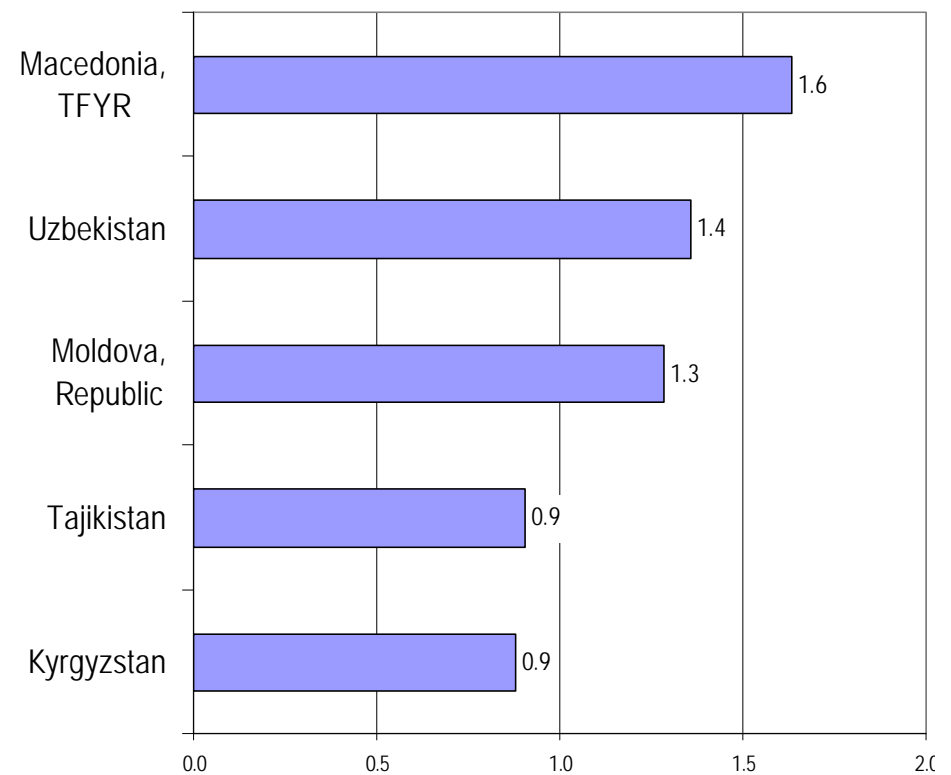


Figure 4. The five smallest cumulative FDI inflows, 1991–2006  
(Billion dollars)



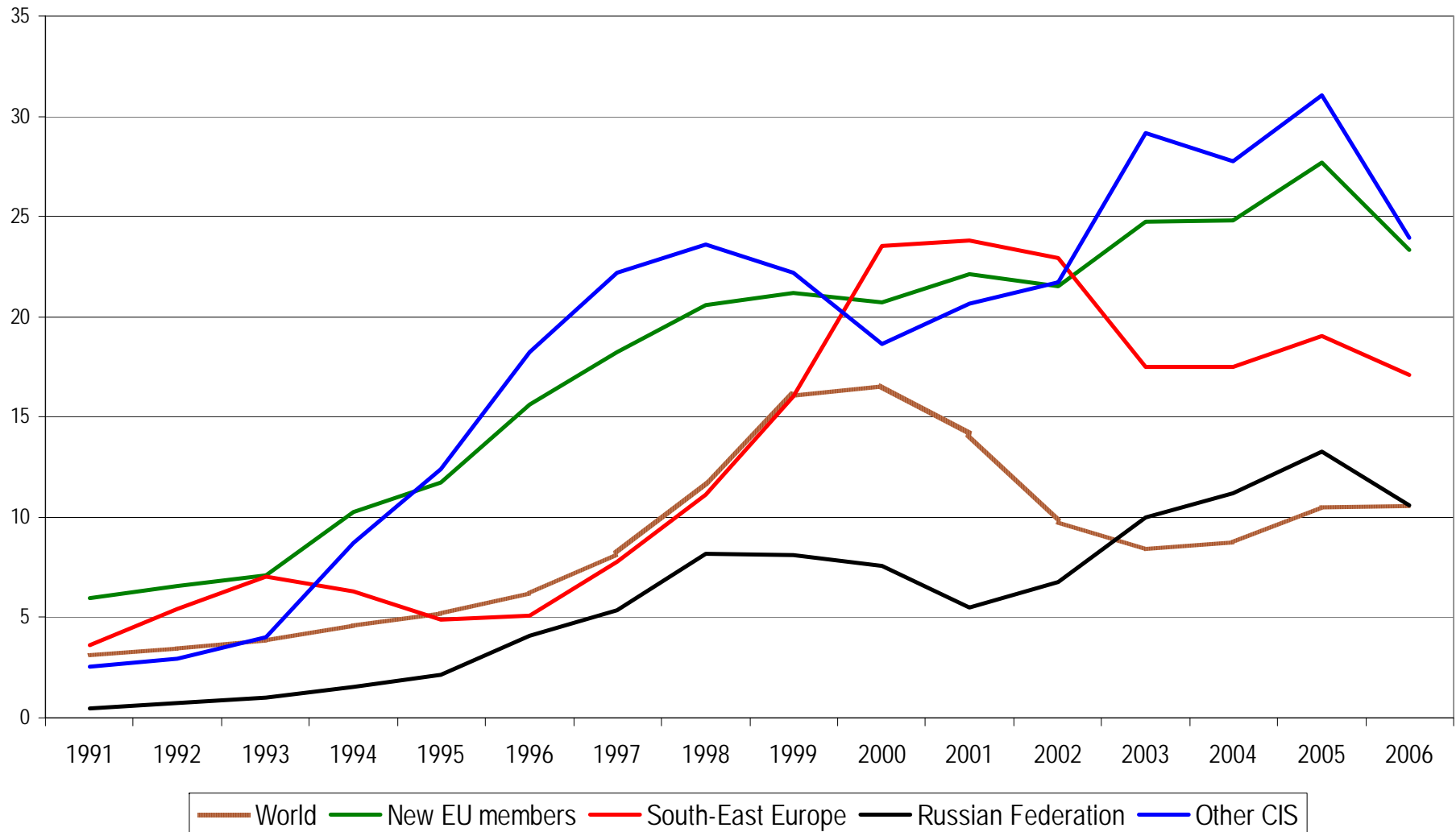
A faint, light blue world map is visible in the background of the top half of the slide.

# FDI in financial accumulation (gross fixed capital formation)



# FDI to gross fixed capital formation is higher than the world average and increasing

Figure 5. FDI inflows to economies in transition, compared to GFCF, three-year averages, 1991–2006  
(Per cent)



# Some have relied heavily on FDI, others have not

- Heterogeneous group: an 'early bird', two oil economies, a poor country with low GFCF...
- Heterogeneous group: a very large economy, the most developed economy, and countries with political problems in FDI attraction

Figure 6. The five highest ratios of inward FDI to GFCF, average of 1991–2006 (Per cent)

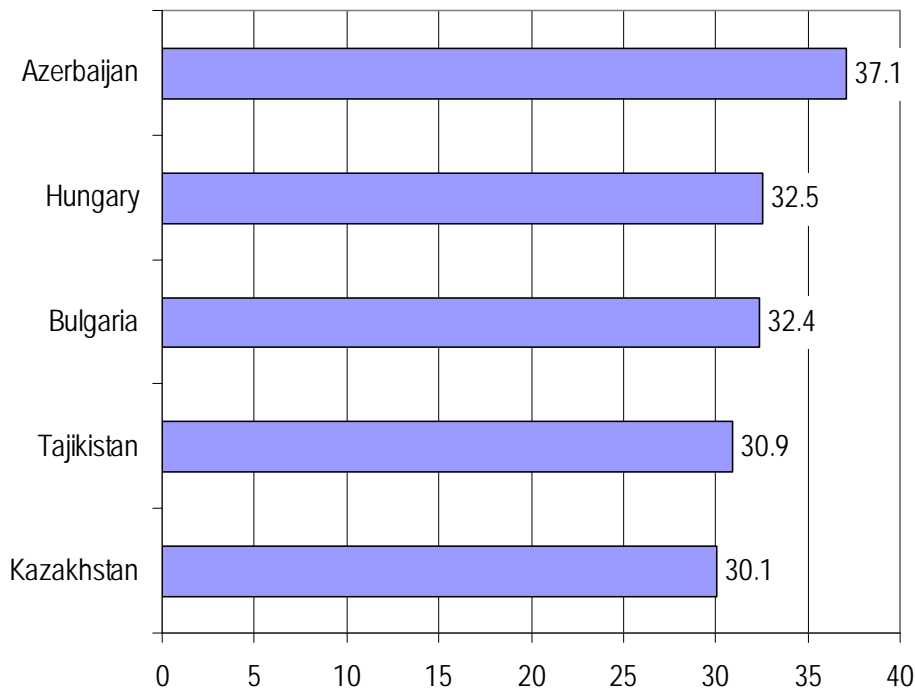
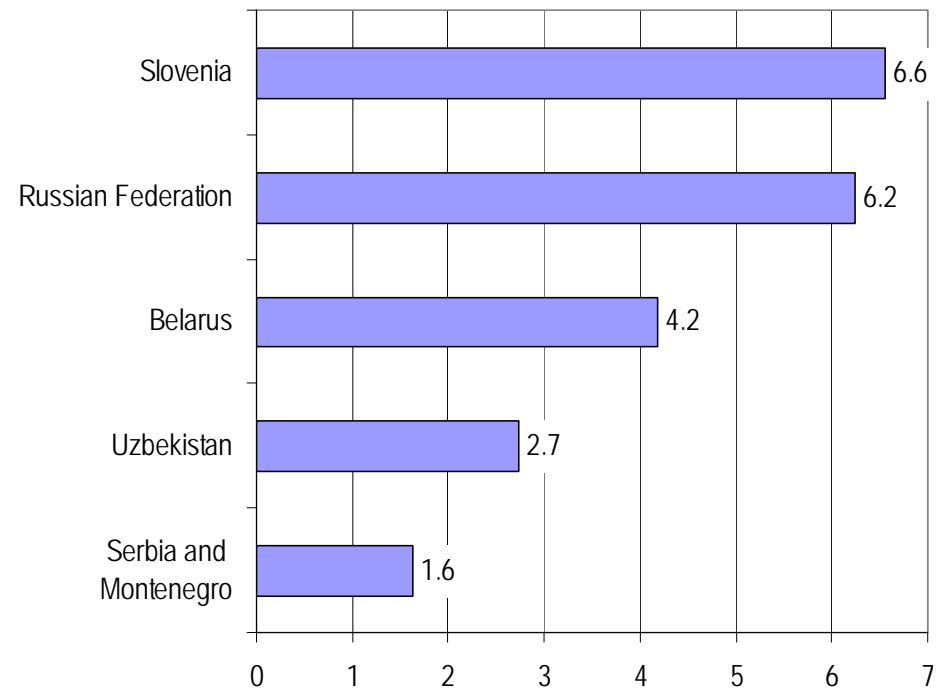


Figure 7. The five lowest ratios of inward FDI to GFCF, average of 1991–2006 (Per cent)



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# Cross-border M&As

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## Industry and geographical patterns

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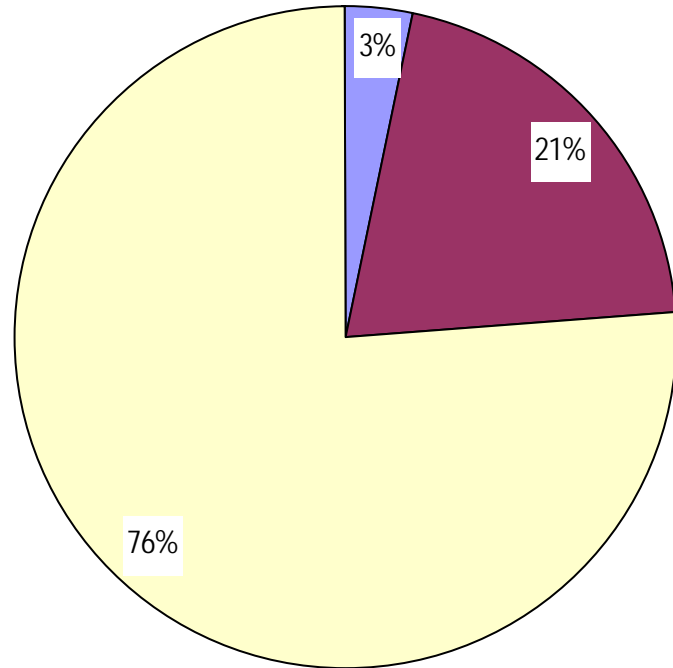
## Why cross-border M&As?

- Move together with FDI globally
- Economies in transition: FDI and M&AS linked together via privatization
  - although unevenly: privatization was always a main source of FDI in early transition but in early transition FDI did not necessarily play a key role in privatization
- (Plus data are better than for FDI)
- Missed: greenfield industries such as electronics manufacturing

# Cross-border M&As, 1991–2006: three different worlds in industry patterns (1)

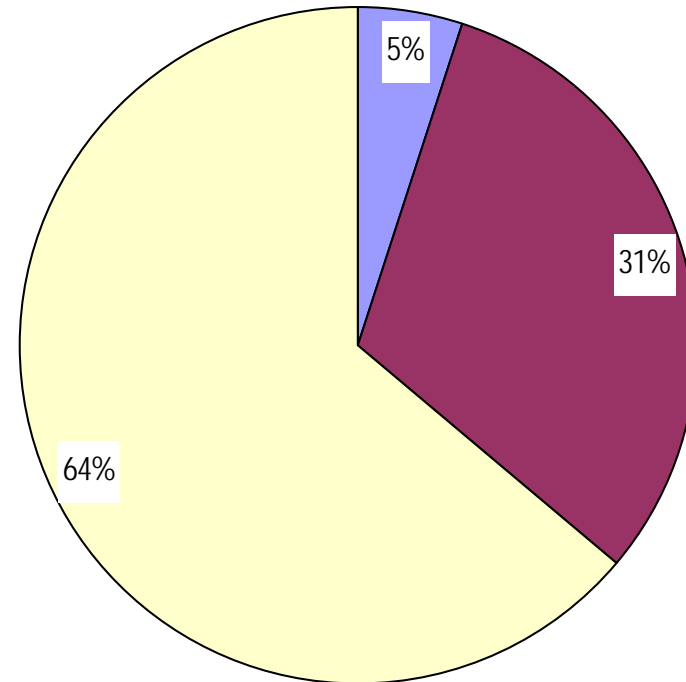
- New EU members: service economies
- SEE: services still dominate, but manufacturing is more important

New EU members



■ Primary ■ Secondary ■ Tertiary

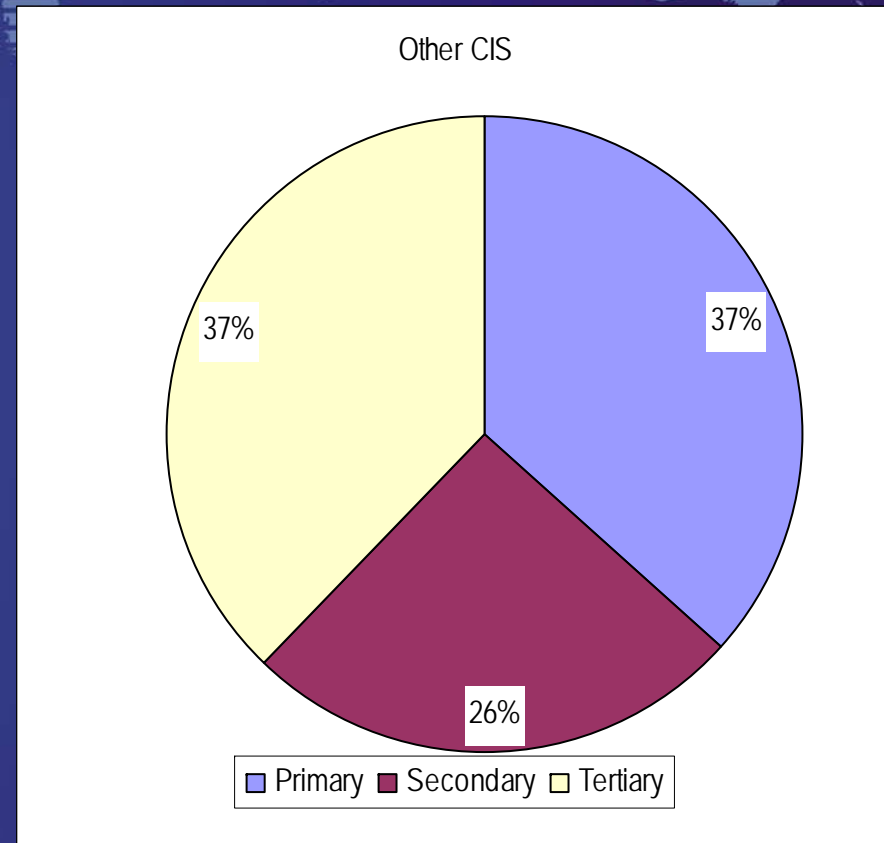
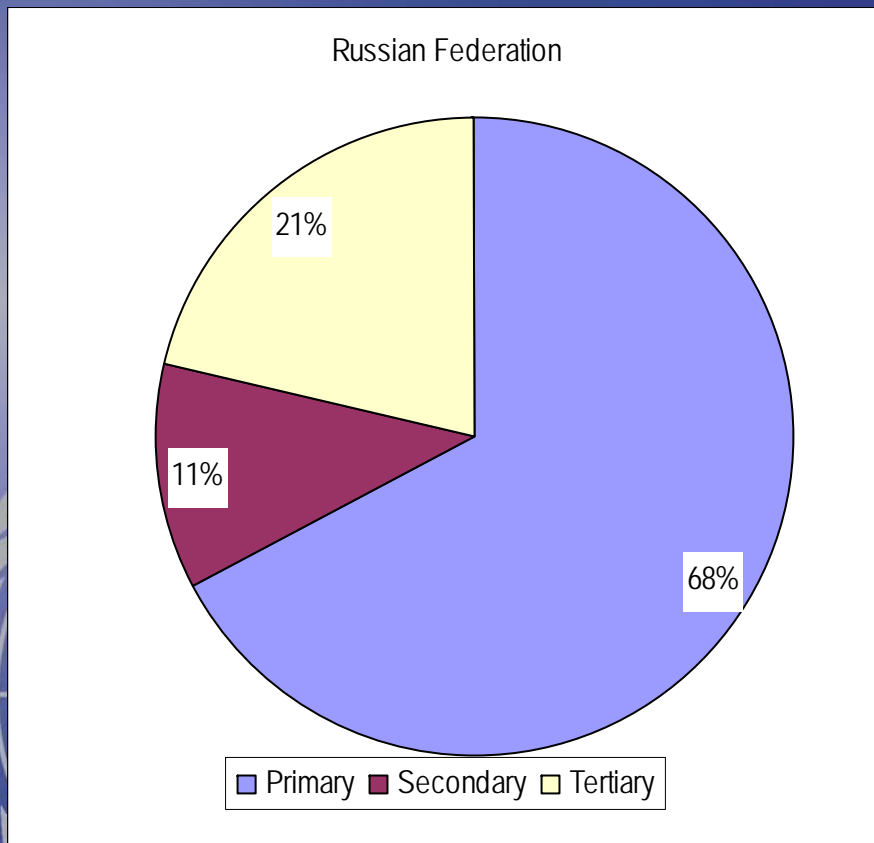
South-East Europe



■ Primary ■ Secondary ■ Tertiary

# Cross-border M&As, 1991–2006: three different worlds in industry patterns (2)

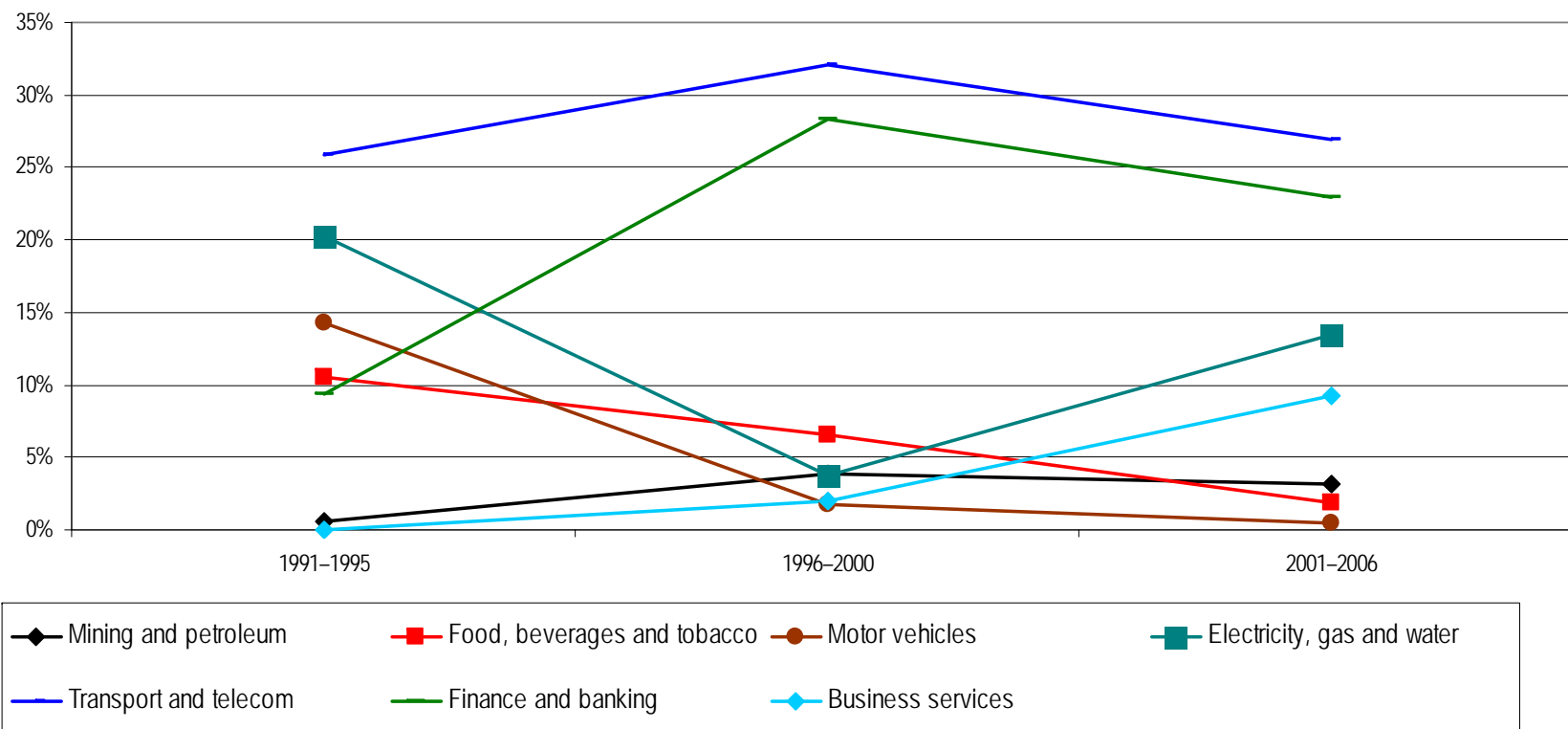
- Russian Federation: primary sector dominates
- Other CIS: no sector dominates



# Evolution of industry composition in new EU members

- Telecom and banking are leading industries in all periods
- Share of business services constantly increasing
- Share of electricity, gas and water fluctuating
- Motor vehicles were important in the early 1990s but their share declined due to a shift towards greenfield projects

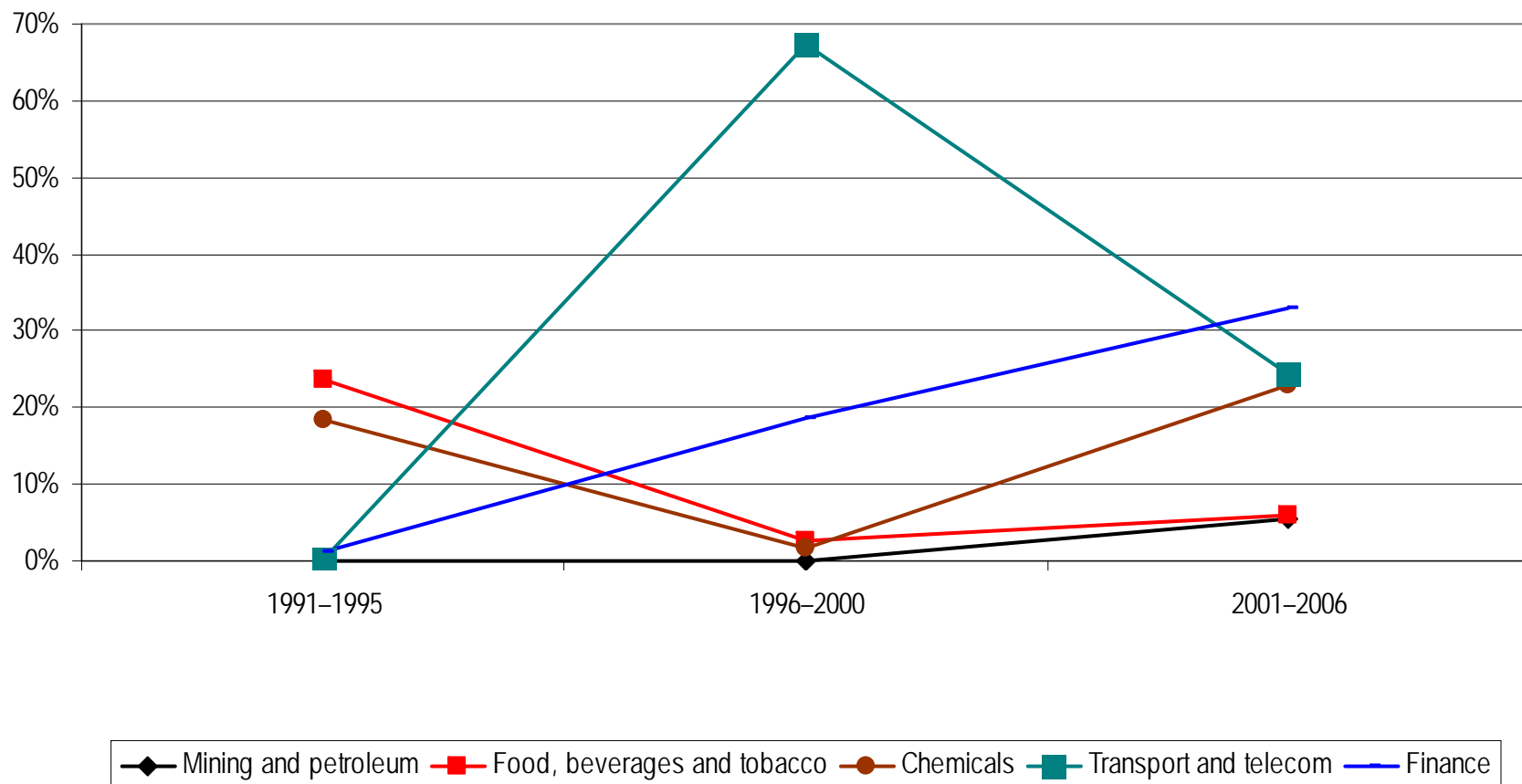
Figure 9. Share of selected industries in total M&A sales of new EU members, 1991-2006  
(Per cent)



# Evolution of industry composition in South-East Europe

- Large but fluctuating share of telecom
- Rise of finance and banking

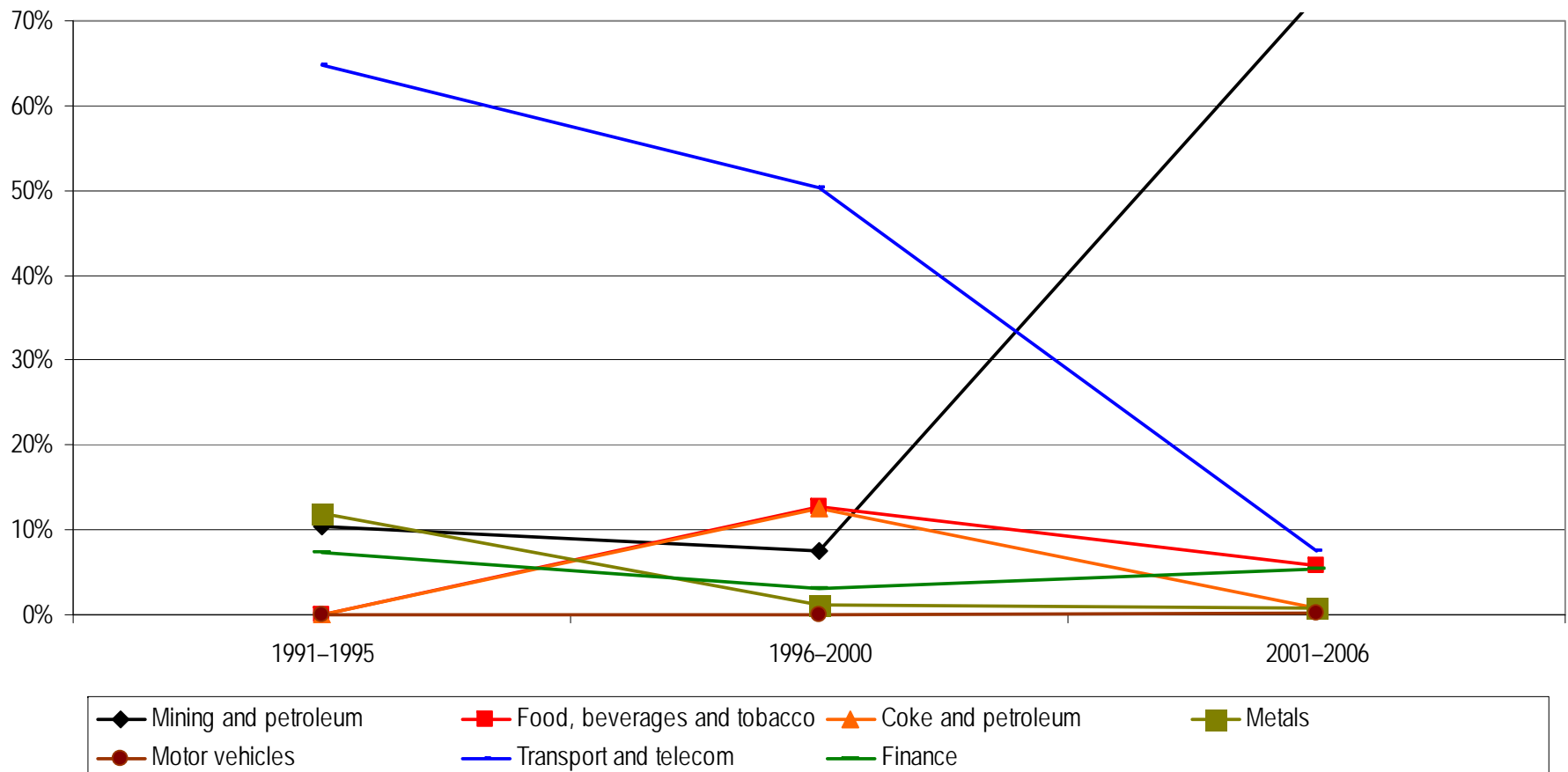
Figure 10. Share of selected industries in total M&A sales of South-East Europe, 1991-2006  
(Per cent)



# Evolution of industry composition in the Russian Federation

- Spectacular rise of the share of mining and petroleum, to 73% in 2001–2006
- Decline of telecom from a high level
- Fluctuations in other industries

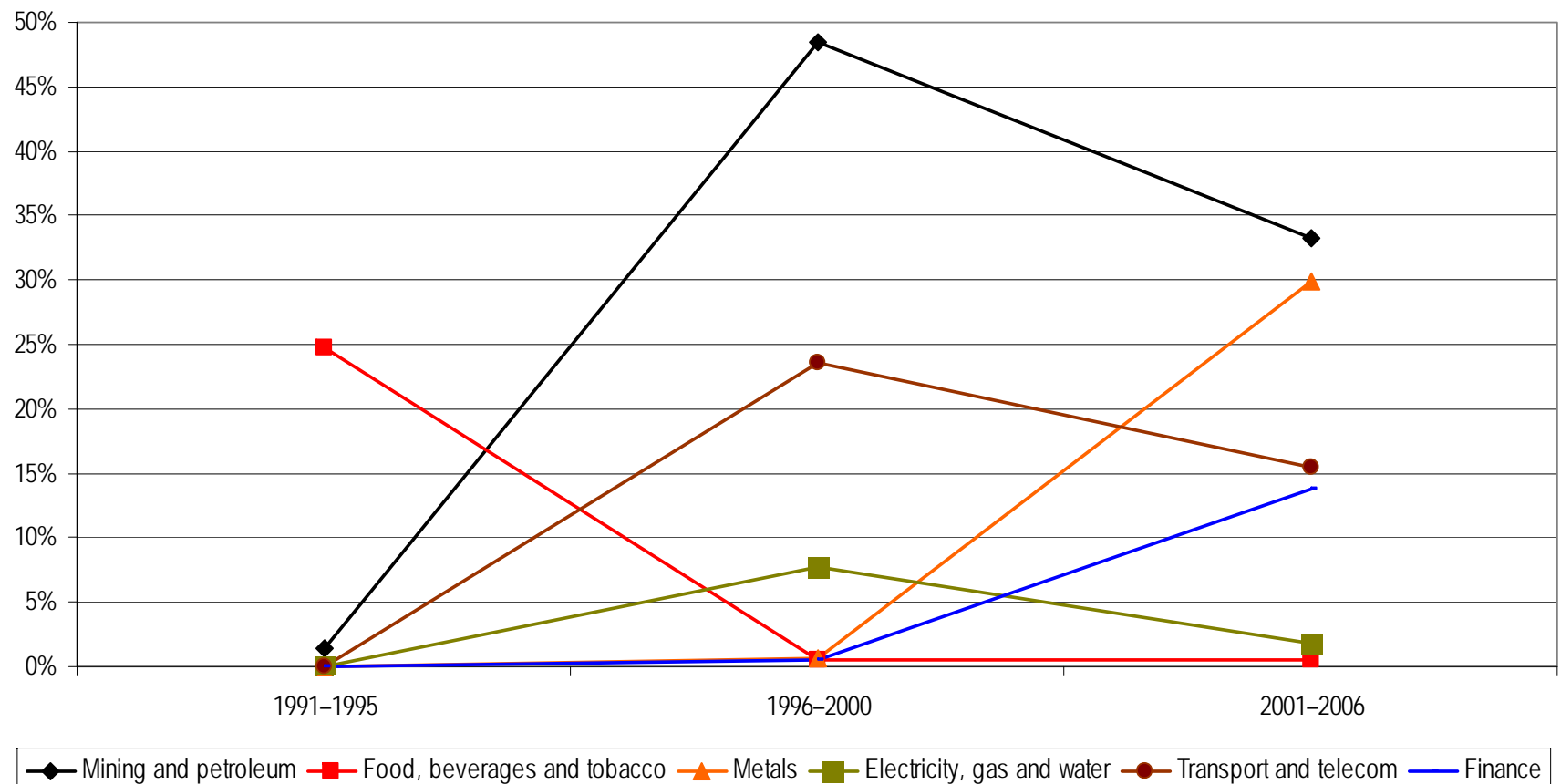
Figure 11. Share of selected industries in total M&A sales of the Russian Federation, 1991-2006  
(Per cent)



# Evolution of industry composition in other CIS

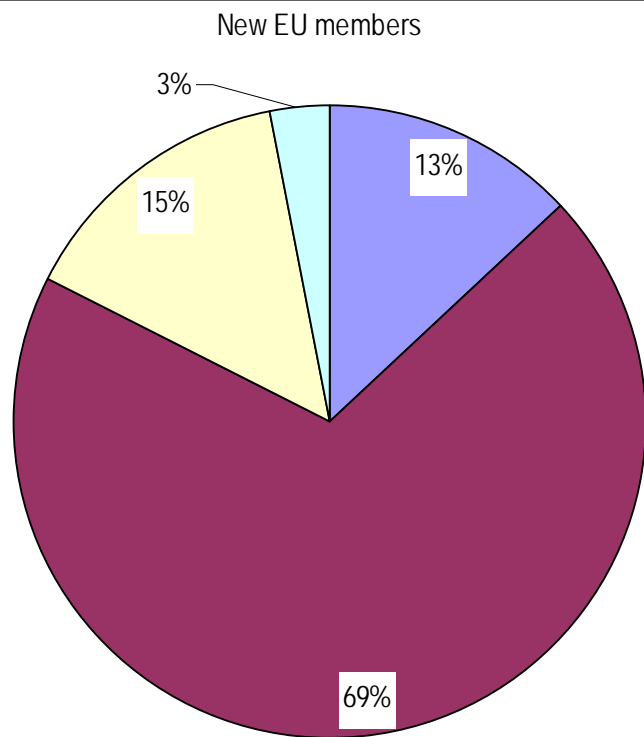
- Few clear-cut trends (fluctuations)
- Mining and petroleum still very important
- Strong recovery of food and beverages
- Rise and decline of telecom

Figure 12. Share of selected industries in total M&A sales of other CIS, 1991-2006  
(Per cent)

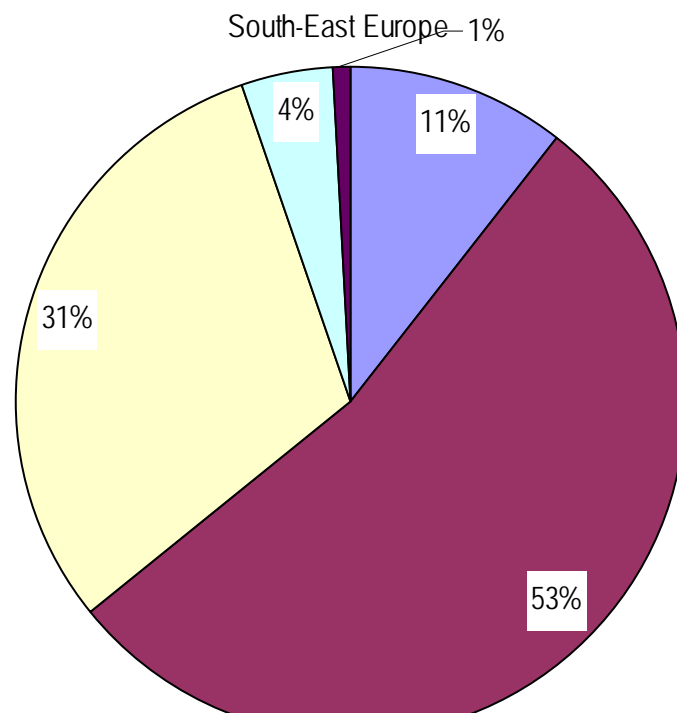


# Cross-border M&As, 1991–2006: countries of origin (1)

- New EU members: other EU members dominate largely (FR, AT, DE), followed by other developed countries (US)
- South-East Europe: more evenly spread; still other EU (DE, IT) and other developed countries (US) dominate



■ New EU members      ■ Other EU members  
■ Other developed economies      ■ Other economies

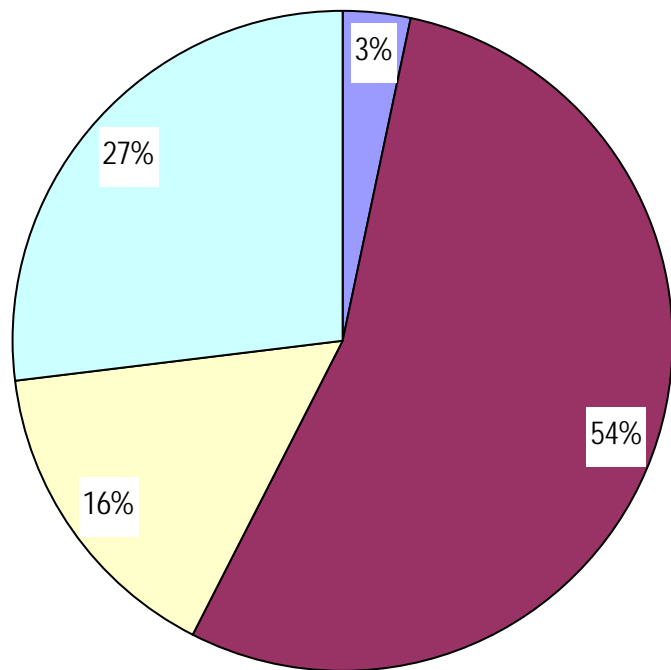


■ New EU members      ■ Other EU members  
■ Other developed economies      ■ South-East Europe & CIS  
■ Other economies

# Cross-border M&As, 1991–2006: countries of origin (2)

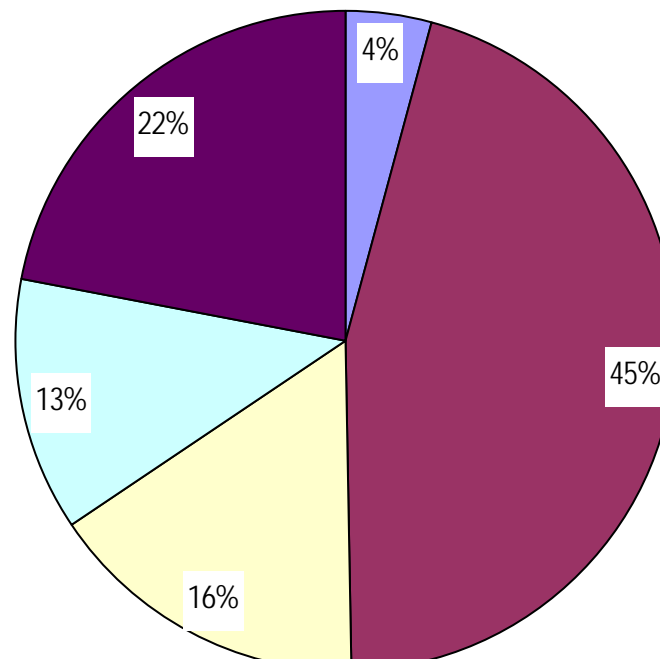
- Russian Federation: other EU dominates again (UK, DE), but developing countries are second (CN, IN), and other developed countries third (US)
- Other CIS: other EU still important (NL: 32%), but economies in transition are second (RU, KZ)

Russian Federation



■ Other economies      ■ Other EU members  
■ Other developed economies      ■ Developing economies

Other CIS

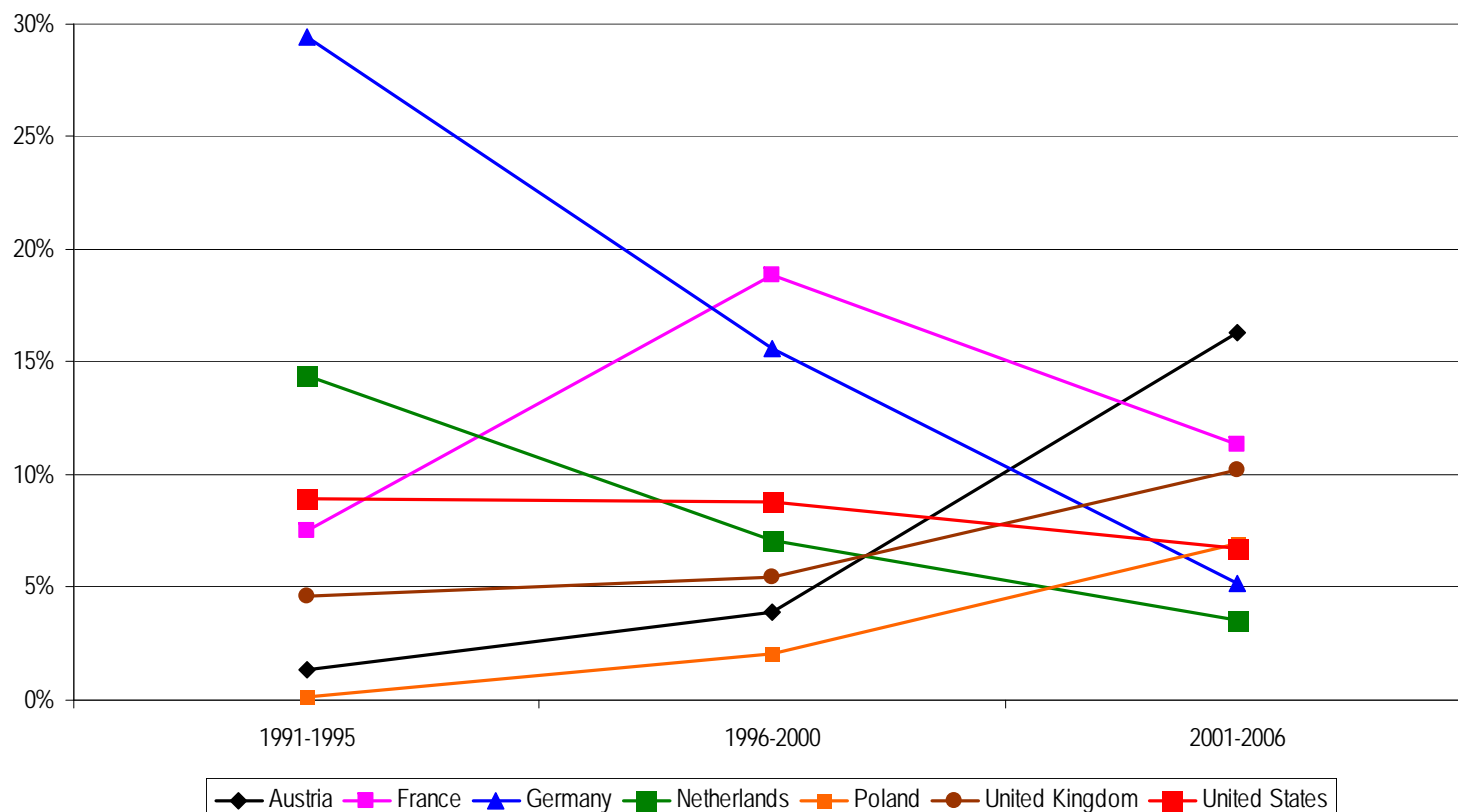


■ New EU members      ■ Other EU members  
■ Other developed economies      ■ Developing economies  
■ South-East Europe and the CIS

# New EU members: Rise and decline of source countries

- Significant decline of Germany and the Netherlands from a high level
- Relatively stable share of the United States
- Fluctuation (up and down) in the share of France
- Rise of the United Kingdom and Poland
- Very quick rise of Austria (is it a non-traditional source of FDI?)

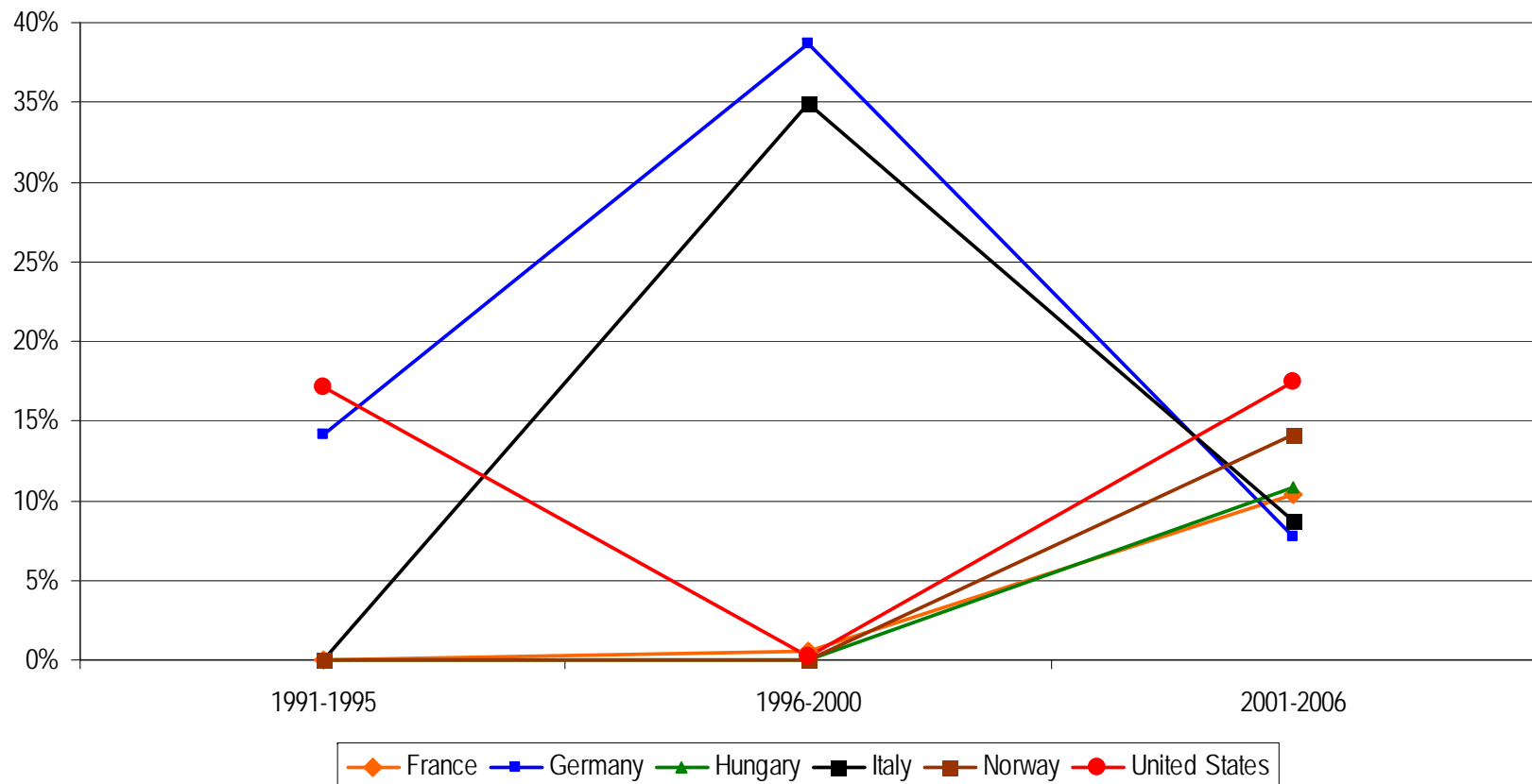
Figure 14. Share of selected countries in the cross-border sales of new EU members, 1991-2006  
(Per cent)



# South-East Europe: Rise and decline of source countries

- Germany and Italy: rise and decline
- United States: decline and rise
- Emergence of Norway, Hungary (two unusual sources), and France

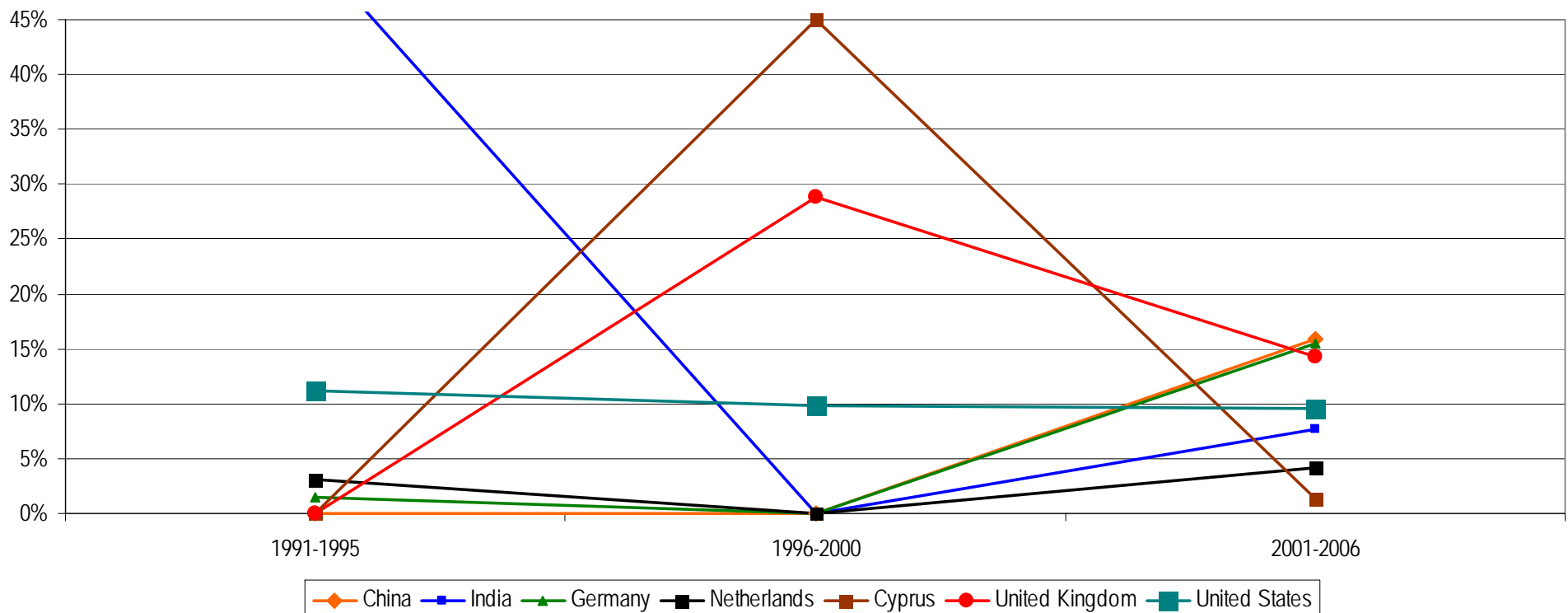
Figure 15. Share of selected countries in the cross-border sales of South-East Europe, 1991-2006  
2006  
(Per cent)



# Russian Federation: Rise and decline of source countries

- Rise of resource-seeking China
- Decline and recovery of resource-seeking India
- Rise and decline of the round-tripping hub of Cyprus
- Rise (BP-TNK) and decline of the United Kingdom

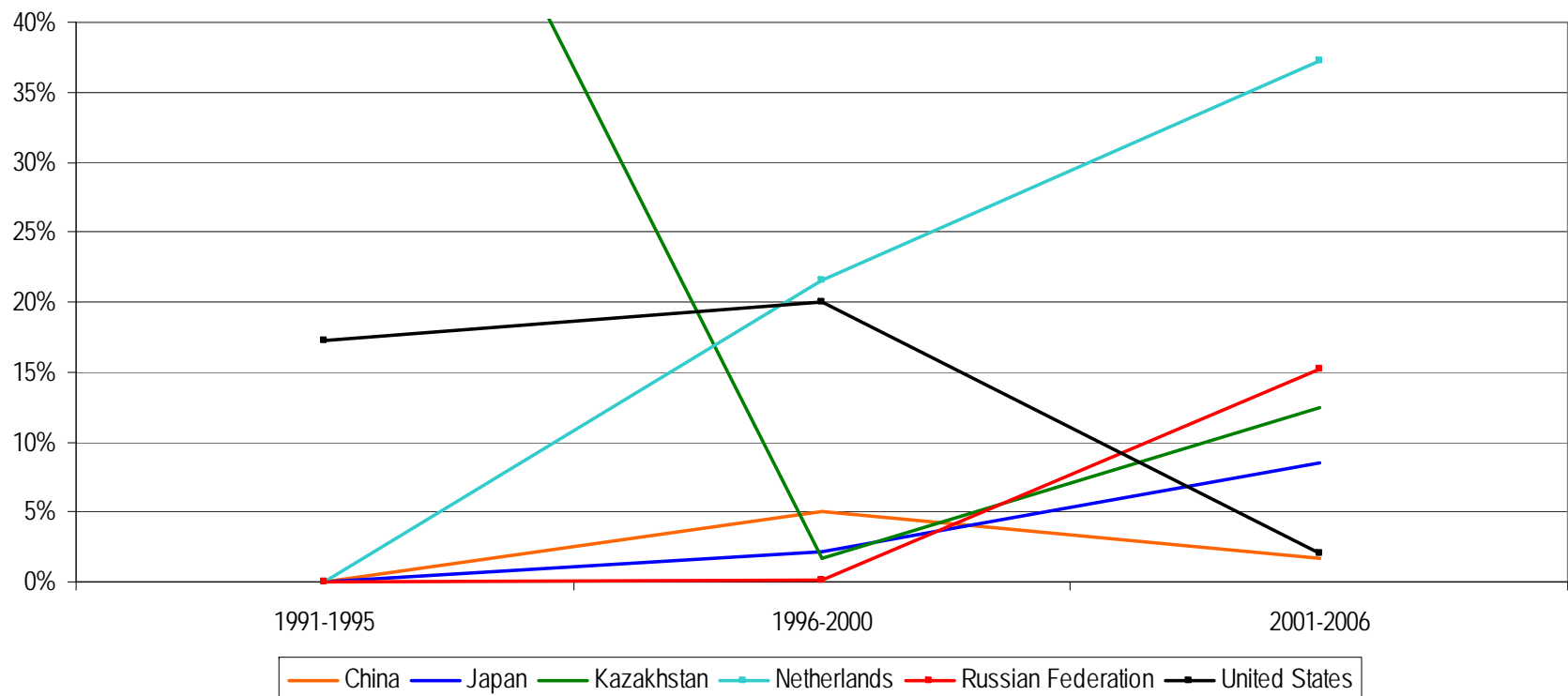
Figure 16. Share of selected countries in the cross-border sales of the Russian Federation, 1991-2006  
(Per cent)




# Other CIS: Rise and decline of source countries

- The Netherlands and the Russian Federation rise: geographical and cultural proximity for the latter
- China and Japan (natural resource seeking): the latter grows faster
- For further research: Kazakhstan's presence in the top list

Figure 17. Share of selected countries in the cross-border sales of other CIS, 1991-2006  
(Per cent)



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# Mini-case study on the automotive industry



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# Economies in transition are host to large car assembly projects: examples

- Czech Republic
  - Mlada Boleslav: Volkswagen/Skoda (1991)
  - Kolin: Toyota/PSA (2002)
  - Novosice: Hyundai (2006)
- Hungary
  - Esztergom: Suzuki (1991)
  - Győr: Audi (1992)
- Poland
  - Bielsko Biala: Fiat (1991)
  - Poznan: Volkswagen (1993)
  - Warsaw: Daewoo FSO (1996)
  - Gliwice: General Motors/Opel (1998)
- Romania
  - Pitesti: Renault Dacia (1995)
- Russian Federation
  - Togliatti: GM/AvtoVAZ joint venture (2002)
  - Vzhevolovsk: Ford (2002)
  - Moscow: Renault (2005)
- Slovakia
  - Bratislava: Volkswagen (1993)
  - Trnava: PSA/Peugeot (2003)
  - Zilina: Hyundai/KIA (2004)
- Slovenia
  - Novo Mesto: Renault (1991)

(Yellow: privatization; Green: greenfield)

# Fast growth of car assembly

## Production of passenger cars in selected countries, 2005–2007

(Number of units)

Country	2005	2006	2007	Change 2007/2005 (%)
Czech Republic	596 774	848 799	925 778	55.1
Poland	540 100	632 300	695 000	28.7
Slovakia	218 349	295 391	571 071	161.5
Hungary	148 553	187 633	287 982	93.9
Romania	174 538	201 663	234 103	34.1
Slovenia	138 393	119 212	174 209	25.9

Source: European Automobile Manufacturers' Association

# Why the automotive industry is important

- Accentuates and exacerbates differentiation between countries
  - The haves: Czech Republic, Hungary, Poland, Russian Federation, Slovakia, Slovenia etc.
  - The have nots: large parts of CIS
- It has a clustering effect for locations (draws in first- and second-level suppliers)
- Creates local linkages (often second-level suppliers only)
- Implications for technological development are strong (automotive as a focal point)
- Differences between modes of entry (privatization versus greenfield projects) matter little ← Privatization is in fact brownfield...
- All projects related to FDI (no Japanese or Korean type development of national champions)

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# Conclusions



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## Some policy-oriented conclusions (1)

- FDI has been one of the main channels of reintegrating the world economy
  - Have policies been sufficient and the right ones?
- Has FDI been an agent for structural changes?
  - Mostly in new EU member countries
  - In other economies in transition, the volume of FDI was more modest, and its structural impact less clear
- Is there a need to link investment promotion with industrial policy?
- The relationship between the quantity and the quality of FDI to be better understood
  - What lessons for investment promotion?

## Some policy-oriented conclusions (2)

- FDI and private ownership: no longer a clear-cut relationship
  - What policies to adopt in face of the rise of Stat-owned FDI?
  - How to overcome the three handicaps of economies marginalized in FDI flows?
    - Geographical: infrastructure development
    - Market size: economic development strategies
    - Policy: improvement of FDI policies

More questions than definitive answers



Thank you very much for your  
attention

More questions?

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