Introduction

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Ruth Rama is Research Professor at the Department of Applied Economics, National Research Council of Spain (CSIC), Madrid, since 1988. Before coming to CSIC she was a consultant for the Centre on Transnational Corporations of the United Nations, the OECD and FAO. She has published in the area of multinational enterprises' strategies, patenting and organisation of R&D in multinationals, internationalisation of R&D, industrial clusters and FDI, and networked innovators in refereed journals such as *Environment & Planning A*, the *Journal of Technology Transfer* and the *International Journal of Technology Management*. She is the author of 'Multinational Agribusinesses'.

1 Introduction

The fifth enlargement of the European Union represents an important step towards the completion of European unity and the economic and social renewal of Europe. However, the enlargement itself does not necessarily result in a homogenous economic space, neither does it automatically lead to improved efficiency or growth.

Despite enormous efforts towards restructuring, increased trade and investment opportunities, most of the New Member-Countries (NMCs) have an important economic lag and an untapped Foreign Direct Investment (FDI) potential. Concerted and national policy efforts will increase competitiveness in order to become a major pole of attraction for FDI within the enlarged Union, whereas the role of Multinational Enterprises (MNEs)

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will be decisive; particularly their entry and market development strategies. Competitive production costs, relatively low tax burdens and access to a large customs union are a few of the location advantages for MNEs. The improvement of the business environment may also increase opportunities for efficiency seeking investments and new entry.

At the opening of the transitional process in Central and Eastern European Countries (CEECs), FDI was considered as one of the main factors for their structural transformation and growth, though expectations have sometimes proved too optimistic (Javorcik, 2004; UN-ECE, 2000). Despite the fact that inward FDI flows cannot substitute, to a certain degree, domestic investments, their influence is crucial in the process of the integration of these countries into the global economy.

This Special Issue of *International Journal of Entrepreneurship and Innovation Management* (IJEIM) brings empirical evidence on the impact which enlargement will have on competitiveness and the organisation of cross border activities of Multinational Enterprises (MNEs) in these countries. It also contributes new analyses on the efficiency of a variety of policy tools to achieve competitiveness and attract FDI.

2 Competitiveness and Foreign Direct Investment

The last decade has seen a remarkable growth of European and US outward direct investment in CEECs. From 1995 to 2004, FDI stock in the ten new countries that accessed the EU in 2004 increased five fold, nearly twice as fast as total FDI stock, to 230 US$ billion.[1] The top host countries are relatively large countries such as Poland, Hungary and the Czech Republic, which, together, accounted for more than three quarters of the total inward FDI stock in this group. In the ten new countries, FDI stock, as a percentage of GDP (39%), was higher than in the EU-15 (31%) by 2004.

In the period from 1998–2004, while FDI flows to the EU as a whole fell, FDI flows to the ten new countries increased, attracted by high rates of growth, the availability of skilled labour and reduced uncertainty. The share of inward FDI in gross fixed capital formation in the ten new countries was 16% in 2004, also higher than the EU-15 average.

The major investors in the ten new countries have been the EU-15 countries, especially Germany, the Netherlands, Austria and France. However, part of these FDI flows comes from foreign affiliates operating in the EU-15. This is not surprising, as empirical evidence shows that participation in free-trade agreements enhances FDI among its members and, in the case of the European Union, also FDI from third-parties (Benito et al., 2003; Nicoletti et al., 2003). UNCTAD (2005) reports three outstanding trends in FDI inflows to the ten new EU countries:

- the new EU members are attracting FDI into activities requiring high skills (e.g., R&D)
- they are hosting more and more small and medium sized enterprises from the EU-15 countries (in addition to large MNEs)
- they are witnessing the consolidation of some industries and the restructuring of some MNEs.

FDI inflows started to grow in Bulgaria and Romania only after 2003; in part, as a consequence of investors anticipating the 2007 accession; this phenomenon led to large privatisation deals in these countries, though greenfield and expansion projects

inflows have also been important. FDI has especially targeted the automobile industry, the power industry and the telecommunication services. Low labour costs, even lower than those in the ten new countries that accessed the EU in 2004, will probably attract more investment in the future. According to an UNCTAD (2005) report, gross wages in Bulgaria and Romania were comparable, in 2004, to those in India and China, though the situation may change after accession.

FDI is important for the 12 new Member-Countries, though its incidence in the host-economies varies. UNCTAD (2005) built a "transnationality index of the host economies", averaging four shares: FDI inflows as a percentage of gross capital formation in 2000–2002, FDI inward stocks as a percentage of GDP; value-added of foreign affiliates as a percentage of GDP; and employment of foreign affiliates as a percentage of total employment. The report shows that, as early as 2002, the index was equal to or above 20% (comparable to The Netherlands or Ireland) in Bulgaria, Estonia, the Czech Republic, Slovakia, Lithuania and Slovenia, while it was much smaller in Poland (comparable to Portugal) or Romania (comparable to Norway). There have been expectations that FDI could encourage technological change, upgrading of skills and development in these countries and, moreover, contribute to the catching up of the host-economies with the rest of the EU.

At the same time, the 2004 enlargement aroused concerns in some of the EU-15 countries because it was felt that accession countries could use wage and tax competition to attract FDI, promoting a relocalisation of facilities within the EU-25 (Sachwald, 2005). According to the same study, some dislocation of production has actually taken place: Portugal, and even Spain, has lost production volume to Eastern Europe; Hungary has benefited from the relocation of assembly operations (ICT) from Ireland. Given these developments, the analysis of the comparative advantages offered to foreign investors by old and new member countries of the EU could be particularly interesting.

3 Contributions and findings

The collection of papers published in this issue of the *IJEIM* addresses some important issues, both theoretical and practical, that have stemmed from the transition process and from the process of integration of CEECs into the European Union.

Anastassopoulos, Georgiou and Maroudas examine the determinants of distribution of inward FDI stock, in six NMCs in comparison with five old Member-Countries (OMCs) from 2000 to 2004. Evidence suggests a heterogeneous response of FDI towards the two EU regions – considered as country groups – in the processes of globalisation and enlargement. The results confirm the dominance of efficiency seeking investments in OMCs and resource seeking investments for NMCs.

The role of the government is crucial in the NMCs in affecting both the business environment and the organisation of cross-border activities of firms. The contribution of Aaro Hazak analyses taxation, an important tool for attracting FDI. His paper studies the company level consequences of the Estonian distributed profit taxation regime, experimentally introduced in 2000. Unlikely profit taxation, distributed profit taxation implies that the government assigns a 'tax credit' to the company until the profit is distributed.

A deterrent factor for FDI in NMCs is risk. Even after accession foreign investors feel that risk of investment in the new EU countries still persist under the form of corruption,

poor infrastructure, etc. (UNCTAD, 2005). MNEs may respond to the presence of risk in a variety of ways, each of which may require different modes of entry and organisational structures. Carmen Stoian and Fragkiskos Filippaios evaluate the determinants of entry mode decisions of Greek firms in the markets of Central and Eastern European countries. They find that the interaction of ownership and location advantages, as suggested by Dunning's (2000, 2003) eclectical paradigm, would explain the foreign investment activities of Greek firms, which are among the most important investors in the area. They demonstrate that the ability of these firms to deal with some of these risk factors could be one of their ownership advantages vs. other MNEs entering the markets of new member countries.

Privatisation has been an important economic tool used to restructure large companies in the new member countries; however, a complete evaluation of its results is still pending. In this issue, Aurora Trif studies the recent restructuring of very large companies built during the Communist period in Romania and assesses its mixed results. In doing so, she compares, in depth, the experiences of privatised and state-owned companies in the chemical sector. She concludes that privatisation does not necessarily lead to a deeper restructuring of companies.

In NMCs, part of the state-controlled plants has been purchased by MNEs interested in the low costs and the potential demand of these countries. In some industries, these flows of investment have contributed to the geographical reorganisation of production in Europe (Sachwald, 2005). According to a study, a process of regional vertical integration, implying the reorganisation of companies' supply networks and global production, has taken place since the 2004 enlargement (and even before), especially in industries such as automobiles (Sachwald, 2005). In the next paper of this issue, Rob van Tulder assesses the extent to which the uncertainties brought by the 2004 enlargement of the European Union have influenced the position of the new member states in a particular regional division of labour. He concludes that more positive effects of FDI on local productivity and skills could be found in the first tier countries than in the lower tier. In spite of the dynamic growth of car making in the NMCs, production – he notes – remains highly dependent on the Western European car industry.

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Note

[1]This part of the Introduction draws from an UNCTAD report.