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*COMPARATIVE STUDY REGARDING THE EVOLUTION OF THE FOREIGN  
DIRECT INVESTMENTS IN CENTRAL AND EASTERN EUROPE REGION'S  
COUNTRIES*

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**Summary:** In this paper, we question whether there is a catch-up effect or announcement effecting Foreign Direct Investment (FDI) from the European Union (EU) to the ten EU accession countries. We study FDI outflows for Romania, a small economy with few historical ties to Eastern Europe, and compare FDI in the transition countries in Central and Eastern Europe to FDI in other regions - most notably to transition countries in Central Asia. In our analysis we try to impose as little structure as possible on the data and allow for heterogeneity within the different regions. In an effort to improve on past studies in the same area, we use a very broad sample of countries; we present country-specific results. We will try to show that economic fundamentals explain differences in inward investment in the region. FDI and trade are mostly complementary and there is no evidence that there is crowding out between regions.

**Keywords:** partnership, sustainable development, investments, comparison.

## Comparative Study regarding the Evolution of the Foreign Direct Investments in Central and Eastern Europe Region's Countries

The last report regarding the global development new vistas lay down by the International Monetary Fund and made public in April this year, is optimistic regarding the chances of overtaking the world recession. In the second part of last year, the global income grew with almost 6% in updated terms, which represents the best performance recorded since 1999 until the present day. In the beginning this spectacular overcome was attributed to some moment favorable conjecture, especially in the USA. The last dates are indicated that the economical growth tendency is maintaining in 2004 and begins to appear also in other regions of the world.

Unfortunately, one of the areas which will record a slow development is the European Union, the transition economies, among these Romania also, are depending on it. For this reason, from the stronger economic blocks, Europe will be situated on the last place, after Japan, China and USA. The depreciation of the American dollar had many undesirable effects. The euro and the yen got stronger with almost 20% after 2002, influencing the economies from these areas. The depreciation of the dollar reduced the deficit of the current account of the USA, the most part of the demand being satisfied by internal production and not by imports. Historically, it has been shown that a depreciation with 10% of the currency leads to an increase with 0.5% of the payments balance of the USA. The International Monetary Fund's report considers that the depreciation of the American currency will lead towards an economic growth, but the inflation danger will generate drastic monetary policies, especially the increase of the interest rate.

If the currency evolutions hadn't affected only the developing countries, an increase of the interest rate for the US dollar will be strongly felt. The emergent economies – or in transition ones, just like Romania – will have to pay more and more in the account of the external debt, the last years indicating an explosion of the loans at country level. It is hard to believe that these interest rates could be maintained for a long time, interest rates which are situating at the smaller level since the Second World War. The decline of the payment balance for the developing countries will close the access to the new loans, which could put in danger the development of these economies.

The International Monetary Fund's report shows the weakness of the economies from euro area

reported to the rest of the world. One solution could be the increase of the direct foreign investments in these economies, especially in those which were included last in the European Union. But the investors aren't enthusiastic in investing in the Western Europe, one of the reasons being the climate form this area. In Central Europe and Eastern Europe the investments will go to alimentary and drinking industry, auto industry and finally towards electric industry.

In 2004 the emergent economies from Asia had advanced with 7%, which had meant 50% from the total global increase. In spite of the SARS epidemic, the economical development had continued, China being the greatest beneficiary of the foreign investments from the countries passing through economical transition. China is the main factor which stimulates the regional growth. This country is the destination of 17% of the Oriental's exports and participates with 35% from the exports in that region. Due to its development level, China has become one of the countries which suck more and more products and services from all over the world. FMI observe the importance bigger and bigger which China has for the regional economy. A second emergent economy is India, considered after its speed of development.

After the European Union expand with ten more countries, the harmonization of the policies and the achievement of the economical criteria by the newest members will raise big problems for the European Comity. The increase of the loans volume on the internal plan is a characteristic not only for Romania but for the entire region as well. The loans expansion has to be recorded carefully, because it can generate difficulties in the attempt of imposes the restrictive monetary policies.

Follows table nr. 1

Most of the economic annalists are optimists regarding the direct foreign investments evolution on a global level between 2004 and 2005. After three years of continuous depreciation of the investments effectuated in other countries than those originally for the companies, the tendency is to rise. A recently analysis realized by the UNCTAD shows that 77% from the global experts anticipates a reversal of the foreign investments, 9% say that the investments will fall, and 14% consider that will stay at the same level. For 2006-2007, the optimism grade raise at 81%, while only

6% remain skeptics and think that we will assist at a continuously depreciation of the investments.

The best locations for developing new business for the next few years are China, India and Japan. On the fourth place is Thailand, succeeded by Poland and Czech with the same percentage. Mexico and Melanesia are situated both on the next place. In the first ten places there are also Great Britain, Singapore and South Korea. The study situates Romania on the same place with Russia, the third place. The competition for the attraction of the foreign investments is becoming stronger, especially in developing economies. All over the world there are seeking for formulas to attract foreign investors through creating a more friend full legislative cadre.

The methods used for investments in the next period are principally the fusions and the acquisitions (41%) and the new investments, called Greenfield investments (37%). Other expansion methods at the international level, as well as the licenses and the strategically alliances between the companies, has been mentioned only by 22% of the questioned managers. In spite of the outsourcing is often used at the international level, the subjects questioned prefer the operations which have a small add value in developing countries to benefit of a cheaper labor resources.

Follows table nr. 2

From the developed economies from America and Europe the best locations are considered USA, followed by Great Brittan, France and Canada. Technological development of these countries attracts the investments regarding the production of the electrical and electronically devices, vehicles and others transport equipments. The services, transports and consulting are most attractive fields for the investments, followed by tourism, engross and en detail commerce and the software industry. The investors aren't enthusiastic by the economical climate from the Western Europe, one of the areas which usually attracted the bigger part of the foreign investments at the global level.

In the Central and Eastern Europe the capital fluxes will be directed towards the alimentary and drinking industry, auto industry and, finally, the electronically industry. Regarding the services a lot of money will be spent on constructions, commerce, transport, education and health, software and banking and assuring services.

## **Conclusion**

The experts are predicting that the most of the countries will intensify their efforts for attracting

new foreign investments. The competition is rising, the investments playing an essential roll in the economical development of a region. For 2004 – 2005 is anticipating an increase of the beneficiaries of the foreign investments, comparatively with the last year. The liberation process of the markets will be expanding so that as many economies as possible should benefit by the foreign investments. In developed economies, the liberation process will have a smaller roll, but the orientation of founds towards the top domains will be more obvious as ever.

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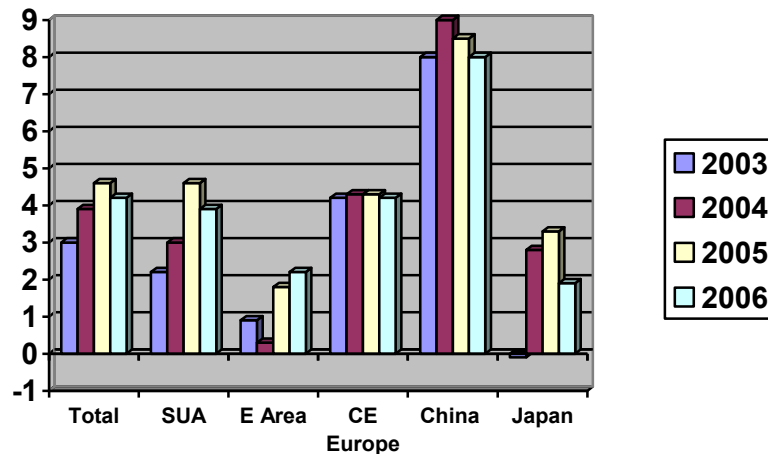
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Annexes

Table nr. 1

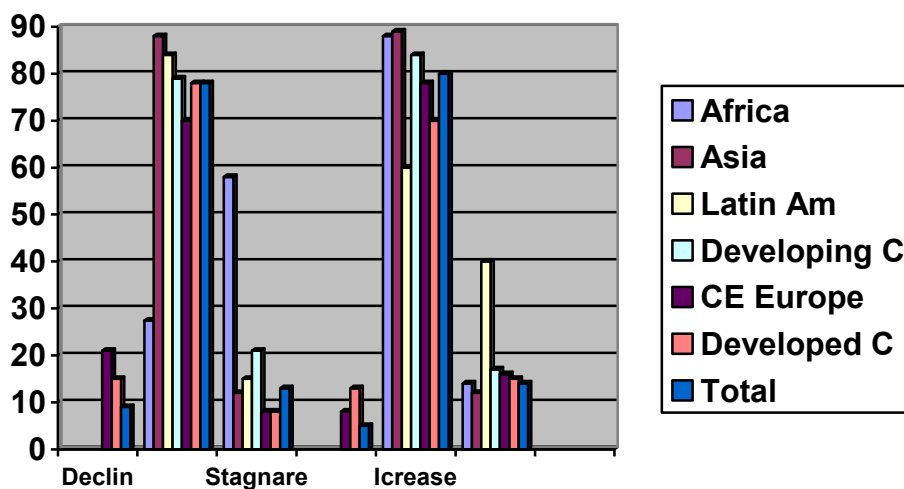
THE ANTICIPATED ECONOMICAL GROWTH FOR 2005 AND PREDICTED FOR 2006



From the beginning of the year the optimism of the economical analysts has obviously increase. FMI is the most important recently institution which anticipates a consisted economical growth. FMI has improved its predictions for this year and the next one, anticipating an increase with 4.5% for the Gross Internal Product. Until presently the most rapidly rhythm of the economical development is recorded in Asia, especially in China and the United States, regions where consume stimulates the economy.

Table nr. 2

PREDICTIONS FOR THE DIRECT FOREIGN INVESTMENTS



The majority of the economical analyses predict an increase of the capital fluxes directed towards the foreign investments.