BOOK REVIEW

**Balázs Szent-Iványi: Foreign Direct Investment in Central
and Eastern Europe.
Post-Crisis Perspectives**

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In the book *Foreign Direct Investment in Central and Eastern Europe Post-Crisis Perspectives* edited by Balázs Szent-Iványi, the authors address the important questions of how the volume, quality and impacts of foreign direct investment (FDI), as well as related policies have changed in the Central and Eastern European (CEE) region following the global economic crisis, and what these changes imply in terms of the region's economic development. The eleven chapters of the book take various approaches to these questions, use different methods and case studies to support their arguments. Even though each chapter has its own research questions and specific findings that are somewhat difficult to generalise to the region as whole, two main conclusions can be drawn. First, the crisis fundamentally changed the structure of FDI flowing in the region; efficiency-seeking FDI, in search of relatively cheap, semi-skilled labour, has lost its relevance in the region and the bulk of FDI is now composed of reinvested earnings with the service sector accounting for most investments. Second, the CEE countries are stuck in what the concluding chapter calls a *low value capture trap*. Low value capture trap refers to a stalemate in which the degree of value capture of the CEE countries is low and does not improve with upgrading due to how they have integrated into global value chains. Even though there are some promising signs that the CEE countries are able to upgrade their positions in global value chains and attract better quality FDI activities which generate higher value added, upgrading in itself, without the support of proper national policy, is unlikely to allow these countries to escape this trap.

Even though the eruption of the Great Recession and all the changes it has generated in the CEE region have created a new impetus to study how exactly the trends in FDI and government policies have changed after the crisis, there are only limited number of studies focusing on these issues. This book should be a welcome addition to filling this gap by focusing on the questions of how FDI

flows to the CEE countries have changed after the crisis in terms of volume and structure, and how these changes impact the development of the region.

The chapters of the book are organised into three blocks. The first block with its four chapters (Chapters 2, 3, 4 and 5) primarily addresses macro-level trends in foreign direct investment after the crisis, whilst the second block (Chapters 6, 7 and 8) focuses on the effects of FDI in the region, both at the macro and micro level. They also examine how the CEE countries are integrated into multinational corporate value chains and what impacts this particular form of integration has. The final cluster (Chapters 9 and 10) turns to examining government policies aimed at attracting FDI.

Following the Introduction, the first block opens with Chapter 2 by Kálmán Kalotay, who provides a broad analysis about the pre-crisis dynamism of FDI, the question of what the advantages of the region were before the crisis, and how the countries should reinterpret their advantages in the post-crisis era. Kalotay claims that the CEE countries have to re-interpret their advantages and should place higher emphasis on innovation, research, education and a high degree of skills in the labour force. Even if the new set of advantages would be less unique and would make the CEE countries direct competitors of Western Europe and some emerging regions in the world economy, the CEE countries have to recognise that the national development strategy based on cheap labour is no longer viable. This chapter is best seen as a bridge between the introduction and the research chapters, as it provides a broad analysis covering all CEE EU member states. It actually echoes similar sentiments as the concluding chapter and thereby these two chapters provide a nice framework for the whole volume.

The task of the third chapter by Tereza De Castro and Pavel Hnát is twofold, on the one hand, to investigate Czech FDI performance and search for potential structural shifts in FDI inflows in the post-crisis period, whilst it also looks at the increasing importance of non-traditional sources of FDI to CEE especially at those coming from the BRICS countries. Accordingly, two main conclusions can be identified. First, the authors find that even though the Czech Republic's trade balance shows a surplus, profit repatriation tendencies of multinational companies provide some evidence that the Czech economy has competitiveness issues and the country is not attractive enough for reinvestments. At the same time, the authors find that the crisis has not had such an influential impact on the structure of the Czech FDI performance. Second, even though EU member states remain the most important sources of FDI for the Czech Republic, the role of emerging economies, especially China and Russia, is increasing.

Chapter 4 written by Martin and Nóra Grančay examines the post-crisis tendencies in Slovak FDI flows. They find that even though the Slovak economy was extremely successful in attracting FDI after the turn of the Millennium, these

tendencies were ended by the hit of the Great Recession. The authors test whether and up to what degree the post-crisis FDI flows are better quality than those before the crisis, and whether there is any evidence of upgrading. This chapter argues that there is indeed some sign of quality improvement and thus of upgrading, yet these are rather limited in their scales. Evidently, the Slovak economy can no longer be labeled as the Tatra Tiger as it was termed after the turn of the Millennium due to its extraordinary FDI performance compared to the other CEE countries.

The author of Chapter 5, Magdolna Sass, takes a different perspective and focuses on outward and intra-CEE FDI flows. Even though the scale of outward flows is relatively small as compared to inflows in the region, it is a very unique research field which is hardly studied in the literature. Building upon the theory of the Investment Development Path (IDP), the author raises the question of whether there is any relation between a country's level of development and net investment position. The chapter finds that the outflows of any country of the region are mainly targeting other CEE countries and this intra-CEE FDI flow is heavily concentrated between three major source countries (Hungary, the Czech Republic, and Poland) and three major host countries (the Czech Republic, Slovakia, and Lithuania). The chapter also examines the gravity factors determining the direction and the volume of FDI flows and finds that beyond country size, economic development and geographic proximity, bilateral FDI is often driven by single large transactions as well as indirect outward FDI, carried out by third-country multinational subsidiaries present in the given CEE home country.

Moving to the second block of this volume, Chapter 6 by Andrea Szalavetz examines the role of CEE countries in the global value chains of MNCs, and raises the question of how and under what circumstances upgrading impacts their development. Even though the study stresses the importance of upgrading FDI activities in terms of value added, the author – with a touch of skepticism – argues that gains from upgrading are quite different for subsidiaries and for lead firms. In principle, any functional upgrading should be followed by increasing value capture by the value chains members. The author warns us that increased value capture is not an automatic consequence of upgrading, and power relations within global value chains significantly determine this process. Relatively peripheral actors may have difficulties with reaping the rewards of upgrading, whilst lead firms with more favourable power position place pressure on subsidiaries to reduce costs. Using Hungary as a case study and based on fieldwork among multinational affiliates in Hungary, the author proves that functional upgrading has had minimal impact on value captures of the local subsidiaries. This chapter warns us that upgrading may have lower impacts on national development than many may have thought.

In a similar vein, in Chapter 7 Annamária Artner claims that the way CEE countries have integrated into global value chains is harmful for their long-term development. Her argument is based on world systems theory. The core/periphery/semi-periphery division of the world economy has created asymmetrically interdependent relations, within which multinational corporations in the countries of the core benefit most, as they are able to repatriate their profits earned on the periphery, supporting further innovation and investment in the core. Within this narrative, the CEE countries – although belonging to the “integrated periphery” of the EU – exhibit semiperiphery-type characteristics. The conclusion resonates very well with those in the previous chapter and stresses the importance of more pro-active national development policies, incentives for research and innovation driven economy.

The final chapter of the second block examines a specific case of multinational corporations, namely the case of multinational banks and analyses their impact on CEE banking sectors in the post-crisis era. The author, Gábor Kutasi, finds that the multinational banks in the CEE region are simply “too big to fail”. The “too big to fail” theory implies that these multinational banks are so large and influential that no matter what, the parent firms or even the government would assist them to prevent their failure. The author identifies those channels through which the CEE bank affiliates have been affected by the crisis, such as an increase in non-performing loans, depreciation of national currencies, and government-induced shocks, such as sector-specific taxes. Using a dynamic panel regression model and focusing on the impacts of these different variables on capital adequacy ratios in the 11 CEE countries, the author presents various results. First, the capital adequacy ratio of the previous period is the most important determinant of capital adequacy. Second, the “too big to fail” characteristic of the parent bank is a strongly significant and positive determinant of capital adequacy. Finally, banking tax has negative, but only weakly significant effect on capital adequacy ratios. The conclusion of the chapter argues that large multinational banks have cushioned the crisis for the banking sectors in the CEE countries.

The final cluster of the book looks at investment promotion policies, focusing on how these have changed in the post-crisis years. The first chapter in this section, Chapter 9, by Ágnes Törös, Ádám Mészáros, and Ákos Dani, focuses on the investment promotion policies of the four Visegrad (V4) countries, Czech Republic, Hungary, Poland and Slovakia. The chapter raises the question of how the investment promotion agencies (IPAs) in these country work and whether the policies of these agencies are effective or not. Based on the literature, the chapter first assesses what makes IPAs successful in attracting FDI. The authors examine the different sector-targeting strategies and investment incentives offered by the four countries and find evidence that there is a clear divergence in these

policies in the post-crisis era. The V4 countries target similar sectors with their investment promotion policies, yet it is not transparently explained how and why these sectors are selected. The sectors targeted clearly show a preference towards higher value-added production and services. The study identifies three main factors which can make IPAs more effective: legal status, marketing, and operation. Using these three variables, and elucidating the differences of the countries examined, the authors find that Czech Republic's investment promotion agency is the most effective in the region.

Chapter 10 focuses on the investment promotion practices of Romania and Bulgaria. The author, Sorin Gabriel Anton, takes a different approach as compared to the previous chapter and uses a much broader framework of national competitiveness to raise the question of how the effectiveness of the investment promotion efforts of the two countries can be linked to their changing positions in international competitiveness rankings. Both the EU accession of these countries and the eruption of the global economic crisis have led to profound changes in investment promotion policies and in the set of tools they have used. Romania and Bulgaria made impressive gains in their competitiveness in the run-up to their EU accession, yet the impact of the crisis changed these tendencies and pushed the countries back to their pre-accession positions in competitiveness rankings. The study finds that Bulgaria has been able to attract more FDI as compared to Romania which is mainly due to the stable organisational set-up of its investment promotion agency. The investment promotion agency in Romania in the past decades has been frequently reorganised undermining its ability to be successful in attracting FDI.

The concluding chapter, written by Balázs Szent-Iványi, synthesises the findings of the previous chapters and relates them to the economic development prospects of the CEE countries. The final chapter stresses two main messages. First, the conclusion elucidates that policymakers or experts focusing exclusively on FDI upgrading are somewhat short-sighted. To ensure their development, countries should rather concentrate on increasing domestic value capture by promoting innovative, locally based companies, which have the potential to become lead firms in global value chains. Despite upgrading in CEE subsidiaries, their share of the value captured decreases due to cost reduction pressures from the lead firms. Second, CEE countries can be seen to be stuck in what Szent-Iványi calls a "low value capture trap". The low value capture trap is a situation when even though there is some upgrading happening in the countries, they are not able to reap the benefits and to increase their value capture. In order to escape this trap, CEE countries need to focus on supporting high value-added, research-driven industries like information technology or pharmaceuticals. This requires a holistic approach building on elements of industrial policy, education policy, research and

development policy. At the same time, countries should fine-tune their national policies to find such a balance which is able to provide incentives for the national companies, yet avoid “national capitalism”.

This edited volume has several laudable features. First, the authors’ use of language throughout the argument is very accessible and easy to follow even for a non-expert. While there is no unifying methodology used throughout the book, chapters make vibrant and strong arguments. Second, the authors use a multidisciplinary framework, combining the analytical tools of the economic historian, the work of political economists and political scientists, which is crucial if one wishes to understand the multifaceted nature of this topic. Third, the introduction provides an accurate guide to the concepts and definitions used throughout the paper. Furthermore, even though the book undertakes a rather challenging task to find some generalisable features of the FDI flows to the CEE region in the post-crisis era, the two concluding thoughts do this job very well. The two concluding theses are present throughout the whole volume with more emphasis in the beginning and in the end thereby excellently framing the studies of the book.

While the beauty of this volume lies in its heterogeneity, this also makes the volume somewhat unbalanced. The book is divided into three clusters, yet some clusters involve more material than the others. Also, some countries received much more attention than others and it was not clear on what basis these case studies were chosen.

In summary, *Foreign Direct Investment in Central and Eastern Europe. Post-Crisis Perspectives* is a pioneering publication filling a research gap by focusing on the question of how FDI flows to the CEE countries have changed after the crisis in terms of volume and structure, and how these changes impact the development of the region. I recommend this book to those who have some previous understanding of the political economy of the CEE region, although the book in general is highly accessible.

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