JANINA WITKOWSKA, ZOFIA WYSOKIŃSKA

Macroeconomic Comparison of Transformation Processes in Central and East European Countries

Abstract

The aim of the paper is to examine and compare macroeconomic aspects of 10-year-transition period in four Central European countries: Czech Republic, Slovak Republic, Hungary and Poland. Economic effects observed in the CEECs have been connected very strong with two processes: transformation into market economies and their involvement into economic integration with the EU. One of the major impediments to a rapid accession is the large gap between the EU and the central European candidate countries in terms of:

- the level of economic development and monetary stability,
- the structure of the economy,
- the competitiveness of companies,
- differences of the legal system,
- the efficiency of market institutions.

This paper explores comparative aspects of macroeconomic adjustments of these countries into market economies and answers the question whether foreign direct investment (FDI) can contribute to competitiveness and to narrowing the development gap between the CECs, and the EU members. The indices of the macroeconomic stability, structural changes and economic effects of FDI inflow are analysed in details.

The signing of the Europe Agreements and the prospect of the membership of the EU enhanced the location advantages of all the these countries. They are attractive both for European and non-European firms as a location for their investment. Integration processes initiated by the Europe Agreement and adjustments to a future membership of the EU give an impulse both for optimum seeking and tariff jumping investment in these countries.

Introduction

The aim of our paper is to present our research and comparative data concerning the decade-long transformation process in four countries of Central and Eastern Europe: The Czech Republic, Slovakia, Hungary, and Poland. The economic accomplishments of these four countries are closely intertwined with two parallel processes: the transformation to a market economy; and the process of European integration. Our paper focuses on the results achieved by the aforementioned countries in terms of foreign trade and direct foreign investment (DFI). We also try to formulate some answers to the question to what extent the economic policies implemented in the respective countries have been effective aids in strengthening their ongoing economic transformation.

1. An assessment of the economic and financial stability of the countries of Central and Eastern Europe

Overall economic growth in the so-called "Wyshehrad Group" of Central and Eastern European countries (Poland, Czech, Hungary, and Slovakia) during the period 1992–2000 was characterized by **systematic economic growth** of approximately 2 percentage points higher than the overall worldwide average[1]. In Poland economic growth grew from 2.6% to 7% between 1992–1995, following which its tempo declined and fell to 4.1% in 1999. In the Czech Republic economic growth increased from 2.2% to 4.8% between 1994–1996, after which it declined in the later 1990's and fell to 3.1% in 2000. Hungary, on the other hand, was characterized by a stable economic growth trend in the second half of the 1990's, growing from 1.5% in 1995 to 5.5% in 2000. Slovakia experienced its greatest economic growth in the period between 1994-1996, when it fluctuated between 6.5% and 6.9%, while in the latter half of the 1990's it fell to 2%.

GDP per capita in Poland, measured in terms of USD, rose from $2155 per annum in 1992 to $3056 in 1995 and $3725 in 1999. For comparison purposes, the same economic indicator for 1999 was $4790 for Hungary, $3662 for Slovakia, and $5161 for the Czech Republic, where it was the highest among the CEFTA countries. If one revises the GDP per capita for Poland to take into account actual purchasing power, then the Polish GDP per capita becomes approximately doubled, equaling $8650 USD. This level, however, is about

[1] According the IMF, the overall worldwide average was 2.8% from 1995-1997, and 3% in 1996/97.

three times lower than the actual average GDP per capita, measured in USD, for the member-states of the European Union, which was $22, 588 in 1999. It is also interesting to look at the GDP per capita in terms of purchasing power in the European Union countries, where the German per capita GDP of 25,729 USD retained the same purchasing power and the French per capita GDP of $23,724 had a purchasing power of only $22, 067, while the Spanish GDP per capita of $15,220 had a purchasing power of $18,215 and the Portuguese GDP per capita of $11,438 was the equivalent of a purchasing power of $16,703.

The **inflation rate** in the CEFTA countries analyzed herein systematically declined during the 1990's: in Poland it fell from 480% in 1990 to 7% in 1999; in the Czech Republic from 24% to 4%; in Slovakia from 16% to 6%; and in Hungary from 36% to 10%.

The CEFTA countries were also bound to implement the WMF criteria aimed at creating monetary stabilization, in particular to consistently reduce the size of their budget deficits in the 1990's in relation to GDP: in Poland the annual budget deficit fell from 6% of GDP in 1992 to 2.1% in 1999; in Hungary from 7.3% in 1992 to 3.5% in 2000; and in the Czech and Slovak Republics their budget deficits at the end of the 1990"s did not exceed 2.4% and 3.3% of GDP respectively.

The relatively high costs of credit in the CEFTA countries analyzed constituted a significant barrier to the development of small and medium–sized domestic enterprises throughout the 1990's. The highest **annual interest rate for credit** was recorded in Poland following implementation of Poland's "shock therapy" economic program in 1990, when the inflation rate reached 480% and the annual credit interest rate 540%! The situation quickly stabilized according to plan, however, and the annual credit interest rate fell to 54.6% in 1991 and has been characterized by a systematic declining trend thereafter, falling to 17% in 1999. This pattern of declining bank interest rates can be observed throughout the entire region, in Hungary falling from 35% in 1991 to 12% in 2000; in the Czech Republic from 14% in 1993 to 7.2% in 2000; and in Slovakia to a lesser degree, where the annual bank interest rate fell from 21% to 14.4%[2].

It is worth noting that the difference between the interest rate and the inflation rate was significantly higher for Poland and Slovakia, where it reached 9-10 percentage points, with the attendant negative consequences on economic growth. In Hungary and the Czech Republic, on the other hand, the difference between the interest and inflation rates was only 2-3%.

[2] All the statistics given in this section were gathered from official national publications of the countries analyzed.

2. An assessment of the foreign trade patterns for the countries of Central and Eastern Europe

In the 1990's the countries of Central and Eastern Europe implemented policies of **fundamental reorientation in foreign trade**, shifting the direction from the East (the former Soviet Union and satellite countries) to the West (primarily the European Union). This was closely connected with the fact of signing Association Agreements between the CEFTA countries and the European Community and EFTA. The most drastic reorientation occurred in the Czech Republic, followed by Poland and Hungary, while the shift was the weakest in Slovakia (see Table 1).

The process of implementation of the Association Agreements, which mandated the mutual liberalization of foreign trade restrictions, led to a worsening of the **foreign trade deficits** in the CEFTA countries. While Hungary, the Czech Republic, and Slovakia managed to reverse this trend in the 1990's and even obtain small foreign trade surpluses, Poland's foreign trade balance has systematically worsened and reached a deficit of 10.5 billion USD in 1999 (see Table 2). The asymmetry built into the liberalization provisions of the Association Agreements, as well as the delayed access to EU markets for so-called "sensitive products", which encompass textiles, steel, coal, and agricultural products, led to a significant restructuring in the patterns of foreign trade between the countries analyzed herein and the EU in the 1990's (see Table 3). As regards the export of coal and coal-derived products, the most significant restructurization occurred in the Czech Republic and Poland; as regards steel and steel products, in the Czech Republic, Hungary and Poland; while as regards agricultural products the most significant changes occurred in Hungary and Poland (see Table 3). As regards textile and clothing products, where the CEFTA countries enjoyed a significant comparative advantage due primarily to the low costs of labor, a trend of gradual worsening can be observed beginning in 1997–1998, which is especially evident in the cases of Poland and Hungary. (see Table 3) (Z. Wysokinska, 2000).

Beginning in 1998-1999, the CEFTA countries analyzed gained access to the EU market for their industrial products free from tariff and quota restrictions. As a result of this process, the share in exports to the EU of **natural resource-consuming goods**, earlier usually classified as "sensitive", was significantly reduced. The share in the exports of such goods in the overall exports of Poland, the Czech Republic, and Slovakia to the highly-industrialized countries fell by approximately 50%, falling in Poland from 37% to 17%, and in the Czech Republic and Slovakia from 10% to 5%. This reduction in the share of such goods in relation to overall exports is also connected with the application of EU

ecological norms and standards to such products. For example, the share in Poland's overall export of goods classified as "environmentally harmful" fell from 57% in 1992 to 46% in 1998 as a result of the application of EU norms. (Z. Wysokinska, 2001).

As a result of the twin processes of systemic transformation and European integration, an improvement was noted in the competitive position of **high tech goods and products** exported world-wide from the CEFTA countries analyzed (see Table 4). In the case of Poland this is especially evident as regards telecommunications equipment; in the case of Hungary as regards computers; in the case of the Czech Republic as regards telecommunications, space and aeronautics, and research and development equipment. As regards Slovakia, this improvement is less evident and concerns primarily research and development equipment (see Table 4).

3. Economic policies designed to encourage export

The financial instruments available to the CEFTA countries to encourage exports must be consistent with the international agreements between these countries and the European Union (the Association Agreements), the OECD (within the framework of the so-called "OECD Consensus"), as well as the multi-lateral WTO Treaties. Accordingly, the following policies have been implemented (in varying degrees) by the CEFTA countries analyzed:

- **Income tax investment credits, on the condition that such credits do not constitute illegal State Aids under EU law**
- **Insurance and guarantees for export, including export credit insurance guaranteed by National State Treasuries**

In Poland, a special institution, the **Polish Corporation for Export Credit Insurance Guarantees**, known as KUKE, S.A.[3], has been set up to handle the granting of export credit insurance guarantees offered by the National State Treasury. In addition a Policy Committee for Export Credit Insurance Guarantees has been established to elaborate the principles and guidelines for implementation of such aid[4]. The use of such export credit insurance

[3] The capital structure of this corporation is dominated by state ownership (97% of equity is owned by the State Treasury and the Polish National Bank). The corporation is supervised by the Ministry of Finance.

[4] This Committee was established by the Act of Feb. 21, 1997 (Dz. U. 1997, nr. 28, pos. 154).

guarantees in relation to overall export has been almost nil, however. In 1994 only 0.5% of overall export was covered by export credit insurance guaranteed by KUKE, which rose to only 1.12% in 1995, 1.45% in 1996, and 1.36% in 1997, and 1.89% in 1998.

The Czech Republic's **Corporation for Guarantees and Export Credit Insurance**, known as EGAP, was established in 1992 and capitalized by the State in order to oversee the Government's program of export credit subsidies. A special government fund has been set up to provide such subsidies, which are granted to cover up to 70% of the difference between existing national interest rates and international rates for export credit covering foreign investment products.

- **Insurance for businesses investing in foreign markets**

This category includes the provision of insurance against lack of access to foreign markets, guarantees of supply credit offered by foreign banks, guarantees of production credit offered for goods produced for export, guarantees of export contract insurance and contract insurance taken as a hedge against fluctuations in currency exchange rates

- **Financing of export credit for national enterprises from public funds**

Export credit from public funds is not available in Poland. Enterprises wishing to take out export credit must apply to commercial banks (either national or international) and such credit is thus available only at market rates. Because of the high cost of this type of credit it is seldom used in Poland.

On the other hand the **Exim Bank of Hungary**, established exclusively with State capital, was created to support Hungarian export either by providing direct export credit or making available funds to refinance export credit taken out through commercial banks. The total portfolio value of such preferential export credit supplied by the Hungarian Corporation for Export Credit (MEHIB) reached 800 million USD in 1998.

- **Governmental Export Credit for the export of goods and services connected with developmental aid**

Developmental aid is regulated by the OECD Consensus[5] as well as the regulations of the ODA (Official Development Assistance). Such aid may be the subject of either bi-lateral or multi-lateral treaties. Since 1998 Poland, Hungary, and the Czech Republic have observer status in the Consensus group.

[5] See the "Arrangement on Guidelines for Officially Supported Export Credits" – a treaty establishing guidelines for the establishment of officially supported export credit, known in short as the OECD Consensus.

- **Interest rate subsidies for export credit**

Each year Poland's ratified budget sets a limit on monies which can be set aside for interest rate subsidies for export credit (in the 1999 budget this limit was 6.7 million USD, and in 2000 the sum of 10 million USD was envisioned). In practice, however, almost no enterprises apply for such interest rate subsidies. The authorizing regulations for the grant of such subsidies will expire in January, 2002, after which time the analyzed countries "in transition" will need WTO approval in order to offer such subsidies.

- **Export credit granted at preferential interest rates pegged to the CIRR referential rate**

Poland is presently considering authorizing the introduction of a new credit rate mechanism allowing commercial banks to grant medium and long-term export credit in both major foreign currencies and Polish zloties at interest rates pegged to the CIRR referential rate. This rate, established by the CIRR with reference to the major currencies of the OECD countries and calculated on the basis of 2.5 and 7 year Government bonds, is published monthly. The legislation under consideration in Poland would allow banks to tie interest rates established for the entire term of loans to the to the CIRR rate.

4. Foreign direct investment in the economies of CEE countries

Foreign direct investment (FDI) first entered the countries of Central and Eastern Europe as early as the 1970's. Some of these countries attempted to seek outside sources for financing their development independent of governmental loans, at the same time searching for a method that would be consistent with the reigning principles of centralized state planning. However, the fundamental contradiction between the market principles guiding foreign investors and the principles of a planned economy caused such FDI to be marginal.

The implementation of far-reaching systemic transformations throughout Central and Eastern Europe radically changed the attitudes of foreign investors toward the region as a location of FDI. In addition, the countries quickly adopted new laws granting foreign investors the necessary protections for their investments, including the right to transfer profits abroad, the retransfer of capital in the case of liquidation or sale, as well as the right to compensation in the event of nationalization or a taking by eminent domain. In addition, the very process of rapid, almost overnight, transformation lured investors with the prospects of new markets. It may be recalled that the transformations encompassed property ownership transformation, the creation of market

segments, including especially the creation of a capital market, far-reaching changes in monetary and financial policies, de-monopolization of the market and implementation of fair trade practices, and liberalization of laws regulating access to world markets.

The positive reaction of foreign investors to the changes taking place throughout Central and Eastern Europe can be seen by a glance at Tables 5 and 6, which demonstrate the **annual streams and accumulated investment of FDI** into Central and Eastern Europe in the 1990's. At the beginning of the transformation period investment of FDI inward stock in the entire region was estimated at 3 billion USD, and by 1999 it comprised 103 billion USD worth of investment, a 34-fold increase.

The **annual stream of FDI** into the region was approximately 2.4 billion USD in 1991, and reached 21 billion USD by 1999. Although this constituted only 2.5% of total FDI worldwide, still the amount was of great significance to the region. About 70% of FDI into the entire Central and Eastern European region was invested in Poland, Hungary, the Czech Republic, and Slovakia. Their relative positions as countries receiving FDI has varied throughout this time. In the early phase of the transformation wave the most attractive country in the region for foreign investors was Hungary. By the latter half of the 1990's, Poland occupied first place in terms of total FDI invested in the region, a position now occupied by the Czech Republic. The reasons for this variation in terms of locating FDI in the region are connected with the varying paces of privatization, fluctuating changes in the indicators of economic growth, and the attractiveness of varying investment incentives offered to foreign investors.

The relative scale of FDI engagement in the overall economies of the countries analyzed herein can be seen by examining some basic economic indicators, such as: 1) inward FDI stock as a percentage of GDP; (2) inward FDI flows as a percentage of gross fixed capital formation; and (3) inward FDI stock per capita. Viewed in these terms, the scale of FDI in the region overall is comparable to the scale for the rest of the world. On the other hand, the relative scale of FDI engagement in the respective countries analyzed herein varies greatly (see Table 7). The relativity indicators are highest for Hungary, which testifies to the great importance of FDI in the economic development of that country. For example, the share of inward FDI stock relative to the GDP of Hungary was 33% in 1998, while inward FDI flows constituted more than 18% of Hungary's gross fixed capital formation for the same year (UNCTAD, 2000), averaging a per capita flow of almost 1900 USD. Slovakia is at the other end of the scale among the analyzed countries, where the values for the same indicators listed above constituted just 12.1% and 6.1% respectively, and per capita flow was only slightly greater than 460 USD. While data for the entire region

is incomplete, there is no doubting the increasing penetration of FDI throughout the region in the 1990's. Its effects are most evident in Hungary, where for example foreign affiliates were responsible for 27% of overall employment in Hungary in 1997, including almost 43% in industry, and the share of foreign affiliates in total economic turnover reached 48%, including 67% in industrial turnover (Measuring globalization, OECD, 2000).

In terms of the **structure of foreign investment according to country of origin**, it is readily visible that the dominating position is held by investors from the European Union Member States. Their share in overall FDI in the region fluctuates between 65-87% (OECD, 2000; PAIZ 2000). This can be explained by the twin factors of proximity as well as the ongoing process of European integration, which significantly improved the climate for investment beginning with the signing of the Association Agreements at the beginning of the 1990's.

The **sectoral structure of FDI** in the region is characterized by certain common and long-term trends. At the beginning of the transformation period, 2/3 to 4/5 of FDI in the region was located in industrial manufacturing (Sector II), while by the end of the 1990's the share of this Sector in overall FDI in the region fell to a range between 2/5 and1/2. (OECD, 2000; PAIZ 2000). The share of FDI in service industries (Sector III) has risen in proportion to its decline in industrial manufacturing. FDI in Sector I industries has been minimal throughout the entire analyzed period. A close analysis of the data concerning FDI in industrial manufacturing reveals that the pattern of such investment has been very similar in all the countries analyzed. Of greatest interest to foreign investors have been the food processing and automotive industries, and of least the advanced technology industries. In the service industries a significant proportion of FDI has been located in financial services as well as in trade and maintenance services. It is worth noting that a general overview of the sectoral structure of FDI in the region is similar to that pertaining throughout the world.

It is worth supplementing the macroeconomic assessment of FDI in the transformation process in Central and Eastern Europe with an analysis of its reverse effect, i.e., the effect of FDI on the transformation process itself. The entry of foreign investors into the region accelerated one of the fundamental strategical aims of the transformation – **privatization.** The host countries were eager to welcome foreign companies which operated according to long-established free market principles different from those of the companies being privatized. In this way foreign investors cooperated in creating new ownership structures in the region. On the other hand, it is worth noting from a perspective of ten years that the behavior in practice of some of the foreign companies has

varied from what was ideally expected from them in the earliest phase of the transformation. In particular some of the monopolistic or oligopolistic practices of foreign investors in some branches of industry have limited expected competition from imports.

One of the means of protecting against some of the unwanted business practices such as those referred to above has been the **liberalization of foreign trade.** The countries analyzed herein have engaged in such liberalization in differing ways. Poland adopted a strategy of radically opening the market at the beginning of the transformation period, followed by a gradual implementation of tariff restrictions to protect against foreign competition. The Czech Republic, Hungary, and Slovakia on the other hand have implemented similar policies of opening their markets step by step. It should be noted that the relationship between DFI and trade liberalization is not unambiguous, and depends primarily on whether the DFI is oriented toward the domestic market or directed toward production for export. In the case of the former, foreign investors are in favor of implementing tariff restrictions designed to protect domestic industries (as was the case of foreign investors in the Polish automotive industry). One of the factors counterbalancing the pressure of both foreign investors and domestic producers to establish market protections is undoubtedly the obligations incurred by the CEFTA countries in their Agreements with the EU, OECD, and WTO. In the case of DFI directed toward export, foreign investors obviously are in favor of the elimination of trade barriers.

In analyzing the influence of DFI on the other previously-cited aims of the transformation process, i.e., the creation of a capital market, transformation of the banking system, de-monopolization and promotion of fair trade practices, one is led to conclude that in the initial phase of the transformation process progress in the aforementioned areas was primarily dependent upon internal factors in the countries themselves. Certainly DFI encouraged the development of a capital market in the sense that it sometimes had a significant effect on the number of stock market transactions or on the prices of bonds and other securities in the developing markets of Central and Eastern Europe. In addition, the entry of foreign capital into the banking sector had the effect of increasing competition and thus reducing bank margins, but at the same time it limited the freedom of the host countries to implement their own monetary policies or grant "risky" credit to critical enterprises.

The inflow of DFI cannot be equated with automatic de-monopolization in the countries undergoing transformation. On the contrary, the entry of certain "strategic investors" into selected branches of previously monopolized industries often had the effect of increasing the level of concentration of production in the hands of some large enterprises and encouraged price-fixing.

This negative effect of FDI on anti-monopoly policy could be seen in Hungary in the first half of the 1990's in the paper and tile industries, as well as in the production and sale of detergents, cosmetics, and cement (World Investment Report, pp. 110-111). What was previously an oligopolistic market became transformed into a virtually monopolistic one as single foreign investors began to buy up the majority or sometimes all national enterprises in a given sector.

In summary, it seems that the bottom line is that DFI has had a positive effect on the transformation process, but it has not been without some negative consequences as well.

5. Government Policies of the countries of Central and Eastern Europe vis a vis foreign investors

In the world economy, the process of removing barriers to the free flow of capital has been underway for more than twenty years. The various countries of the world - both the highly developed and developing nations – compete among themselves for DFI capital. The basic strategies are the same: either the offering of foreign investment incentives (benefits, exemptions, special regulations) or implementing a policy of strengthening economic "fundamentals" (infrastructure, education, economic stability, etc), or both, with the aim of improving the attractiveness of their respective countries as a location for DFI (Ch. Oman, 2000). The countries of Central and Eastern Europe are no exception. Their policies as regards foreign investors underwent fundamental change during the systemic transformation period. They abandoned the restrictive policies which had been implemented, primarily for doctrinal reasons, during the years when they operated as centrally planned economies. It may be said that during the early phase of the transformation most countries in the region implemented policies which granted foreign investors a specially privileged status vis a vis domestic enterprises, inverting the principle that one should treat others as one treats one's own on its head. While presently the countries of Central and Eastern Europe have readjusted their policies to providing similar treatment for foreign and domestic enterprises, this by no means means that they have forgotten about or are no longer competing for foreign investment. One only need look at the legal regulations in place in the Czech Republic, the extensive government programs in Hungary, or the draft legislation being worked on in Poland to see that support for attracting foreign investment continues to be high.

The competition to create and implement policies favoring foreign investment springs from the conviction that DFI brings significant economic advantages to the host country, and that well-crafted policies can promote and

expand upon such advantages. Paradoxically, in the age of globalization host countries competing for DFI have fewer and fewer policy tools at their disposal to attract the same. This is primarily a result of their membership in the WTO, which applies its principles alike to its highly-developed, developing, and transforming member countries. The binding Agreements on Subsidies and Counterveiling Duties and on Trade-Related Investment Measures (TRIMS/WTO) restrict the policy options available to the member countries. Countries which are members of the OECD are also bound to implement the Capital Movements Code. And finally, the countries of Central and Eastern Europe which are candidate countries for accession to the EU must be prepared to fully respect the functioning of the single internal market upon accession.

The most important limitations on the formulation of pro-foreign investment policies seem to be the restrictions arising from the aforementioned WTO Agreements on the one hand, and the limited effectiveness of and lack of funds to provide incentives for foreign investment on the other. The provisions of the WTO treaties categorically prohibit the application of investment incentives for foreign investors which would have the effect of deforming or disorganizing foreign trade, even though from the point of view of many of the developing countries such investment incentives might make good economic sense. Such incentives, sometimes still being applied (UNCTAD 1996), may also lead to deforming effects similar to those achieved by traditional trade barriers, and for this reasons member countries of the WTO are subject to discipline for applying them. In addition, it is worth noting that using public funds to offer investment incentives does not guarantee achievement of expected results, and runs the risk of "overpaying" for expected returns. In addition, if too many incentives are offered, governments may simultaneously have to pay out allocations while losing long term revenues, none of which will guarantee that DFI will remain in place once the incentives expire.

The foreign investment policies of the countries analyzed herein underwent a natural evolution during their systemic transformations. In the early phase they passed laws which granted fundamental guarantees to foreign investors and even gave them privileges not available to domestic enterprises, while at the same time annulling restrictions in place from an earlier period. The accession of Poland, Hungary and the Czech Republic to the OECD began a process of deregulation, strengthened by their preparations for membership in the EU. The principle of treating foreign enterprises the same as domestic ones has become the norm. At the end of the 1990's the countries analyzed herein have begun to provide investment incentive packages for both foreign and domestic investors, although their conditions are framed in such a way that they are often easier to be fulfilled by foreign investors.

References

Dziennik Ustaw (Law Register) (2000) nr 7, poz. 85 – Cz.20, Dział 94, Rozdział 9410).

OECD (1999) *Measuring Globalisation. The Role of Multinationals in OECD* Economies, OECD, Paris.

Oman, Ch. (2000), *Policy Competition for Foreign Direct Investment. A study of Competition Among Governments to Attract FDI*, OECD, Paris.

UNCTAD (1994), *World Investment Report: Transnational Corporations, Employment and the Workplace*, UN, New York –Geneva.

UNCTAD (1996), *Incentives and Foreign Direct Investment*, UN, New York and Geneva.

UNCTAD (1999) *World Investment Report 1999. Foreign Direct Investment and the Challenge of Development*, UN, New York–Geneva.

Witkowska, J., (1996), Bezpośrednie inwestycje zagraniczne w Europie Środkowo-wschodniej. Próba interpretacji na gruncie teorii bezpośrednich inwestycji zagranicznych i teorii integracji, Wyd. UŁ, Łódź (*Direct Foreign Investment in Central and Eastern Europe: An Attempt of Assessment based on FDI Theory and Integration Theory*).

Wysokińska, Z., (2000), *Effects of Liberalization of Trade in Textiles and Apparel in the Light of the GATT/WTO Agreement. Comparative Aspects for Central and East European Countries*, Montpellier, 2000, forthcoming.

Wysokińska, Z.,(2001), *Impact of Environmental Standards on Sustainable Competitiveness. The Case of Poland as a Country in Transition.* Proceedings, IT&Fa , Washington D.C., 26-29 May.

Table 1. Realignment of Foreign Trade in Poland, the Czech Republic, Slovakia, and Hungary (in%)

Year	Poland		The Czech Republic		Slovakia		Hungary	
	Eastern Europe and the former USSR	EC/EU	Eastern Europe and the former USSR	EC/EU	Eastern Europe and the former USSR	EC/EU	Eastern Europe and the former USSR	EC/EU
Import								
1985	54.3	20.4	74.8	8.9			49.5	21.8
1989	32.2	34.2	55.0	18.0			39.3	29.1
1990	21.9	45.8	43.8	24.0			31.7	32.5
1995	15.4	64.7	24.3	61.1	52.0	34.8	22.1	61.5
1997	14.5	63.8	21.1	51.5	46.7	39.5	17.8	62.8
1999	14.0	65.0	17.4	64.0	22.8	51.7	14.4	64.4
Export								
1985	48.3	23.8	70.5	9.5			52.4	16.0
1989	34.9	32.7	53.9	18.5			41.1	25.0
1990	21.4	47.2	42.5	26.9			28.5	35.2
1995	17.3	70.1	25.8	61.0	52.1	37.4	20.0	62.8
1997	24.1	64.2	26.8	60.2	46.7	39.5	15.4	71.2
1999	17.1	70.6	19.5	69.2	28.9	59.5	12.7	76.2

Source: Own calculations based on official national statistics of the countries analyzed
Overall import and overall export = 100%.

Table 2. Trade balances of the countries of Eastern and Central Europe with the EC (in mln dol.)

Year	Czechoslo-vakia	The Czech Republic	Slovakia	Hungary	Poland
1970	-42,7			-37,8	30,7
1975	-234,4			-382,3	-1.512,1
1980	4,5			-325,9	114,5
1985	108,1			-402,0	518,8
1990	50,9			417,3	2.309,5
1995		-2.237,3	159,6	-1.437,7	-2.742,8
1999		132,5	222,2	1.010,2	-10.491,5

Source: Same as Table 1

Table 3. Export share of „sensitive" goods (textiles, coal and steel and their products, agricultural products) in overall export to the EC/EU (in %)

Goods	Year	Czechoslo-vakia	The Czech Republic	Slovakia	Hungary	Poland
Textiles	1990	9,3			9,3	5,7
	1995		7,84	11,19	13,91	15,95
	1997		8,39	10,17	9,12	15,38
	1999		6,27		7,55	13,58
Coal	1990	3,2			-	8,1
	1995		3,59	0,02	0,21	5,44
	1997		2,05	0,03	0,00	5,55
	1999		1,12		0,03	3,60
Steel	1990	13,3			5,2	7,4
	1995		7,94	14,13	3,62	4,64
	1997		5,40	11,46	1,89	3,51
	1999		3,13		0,99	2,60
Agricultural Products	1990	7,9			28,4	18,3
	1995		5,30	2,81	14,49	8,03
	1997		2,99	2,28	7,91	7,17
	1999		3,76		5,95	6,15

Source: Same as Table 1.

Table 4. Geographical Structure of High-Tech Exports, 1980-1997 (in %)

Region	Year	Overall High-Tech Goods	541.5	752	764	776	792	87+881+ 884+885	951
Worldwide	1992	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	1995	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	1996	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	1997	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
The Czech Republic	1992	0.01	0.00	0.01	0.05	0.00	0.01	0.01	0.06
	1995	0.10	0.02	0.06	0.11	0.08	0.00	0.21	0.13
	1996	0.11	0.01	0.06	0.13	0.06	0.15	0.19	0.40
	1997	0.12	0.03	0.06	0.10	0.06	0.26	0.18	0.53
Hungary	1992	0.10	0.33	0.01	0.30	0.01	0.08	0.11	0.21
	1995	0.08	0.46	0.01	0.24	0.02	0.01	0.12	0.11
	1996	0.07	0.37	0.01	0.19	0.02	0.01	0.13	0.12
	1997	0.26	0.30	0.82	0.24	0.03	0.00	0.13	0.14
Poland	1992	0.06	0.00	0.02	0.05	0.05	0.06	0.07	0.73
	1995	0.08	0.36	0.01	0.08	0.11	0.05	0.10	0.72
	1996	0.09	0.20	0.03	0.12	0.10	0.11	0.11	0.35
	1997	0.09	0.01	0.02	0.16	0.10	0.06	0.10	0.39
Slovakia	1992	0.01	0.00	0.00	0.01	0.00	0.00	0.01	0.11
	1995	0.04	0.00	0.01	0.05	0.00	0.01	0.09	0.91
	1996	0.04	0.00	0.00	0.06	0.00	0.00	0.07	0.78
	1997	0.03	0.00	0.01	0.08	0.01	0.01	0.07	0.05

Source: Own calculations based on the data base COMTRADE/ONZ

Table 5. FDI inflows into the Czech Republic, Slovakia, Hungary and Poland, 1991–1999 (USD million)

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total CEE countries	2448	4439	6757	5932	14267	12697	19034	19963	21420
Including:									
Former Czechoslovakia	600	-	-	-	-	-	-	-	-
Slovakia	-	100	168	245	195	251	206	631	322
Czech Republic	-	1003	653	869	2562	1428	1300	2720	5108
Hungary	1462	1471	2339	1146	4453	2275	2173	2036	1944
Poland	291	678	1715	1875	3659	4498	4908	6365	7500[a]
FDI inflows into Czech Republic, Hungary, Poland as % of total inflows into CEE countries	96.1	73.3	72.1	69.7	76.2	66.6	45.1	58.9	69.4

[a] Estimates

Source: UNCTAD FDI/TNC data base and own calculations.

Table 6. FDI inward stock in the Czech Republic, Slovakia, Hungary and Poland in 1990–1999 (USD million)

Country	1990	1995	1998	1999
Total CEE countries	2959	36355	84153	102697
Including:				
Slovakia	81[a]	1248	2502	2044
Czech Republic	1360[a]	7352	14375	16246
Hungary	569	10007	15862	19095
Poland	109	7843	22479	29979
FDI inward stock in above countries as % of CEE total FDI inward stock	71.6	72.8	65.6	65.6

[a] Stock data prior to 1992 are estimated by subtracting flows.

Source: As in Table 5.

Table 7. Selected indicators of the importance of FDI in CEECs

Country/region	Inward FDI stocks as a percentage of GDP, 1998 (%)	Inward FDI stocks per capita, 1999(USD)	Inward FDI flows as a percentage of gross fixed capital formation, 1998(%)
Slovakia	12.1	464[a]	7.6
Czech Republic	26.1	1580	17.5
HUNGARY	33.2	1897	18.3
Poland	15.1	776	15.8
CEE countries average	12.1	-	12.9
The world average	13.7	-	11.1

[a] 1998

Source: UNCTAD, GUS and my own calculations.