The Karol Adamiecki University of Economics in Katowice

Volume 6 2009

Journal of Economics & Management

Joanna Wiechoczek

FOREIGN DIRECT INVESTMENT OF ASIAN COMPANIES IN CENTRAL AND EASTERN EUROPE AS AN ELEMENT OF EXPANSION STRATEGY ON THE EUROPEAN UNION MARKET

Introduction

Joining the European Union by new member states from Central and Eastern Europe significantly influenced the increase in their investment attractiveness not only for western-European companies but especially for Asian companies (including developing economies, i.e. China and India). If companies from Asia want to maintain or improve their competitive positions on global markets, they have to be present in the countries of the Western Europe, i.e. on markets of strategic importance for the world economy. The strategy of expansion that is based only on export of products to those markets is no longer efficient. Because of high customs duties and import fees the price of many products that come from Asia is not very competitive, and moreover, existing import limits and other limitations make free access to the EU market more difficult. Therefore, in order to avoid existing barriers, Asian countries more and more often decide for direct investments in new EU countries where labour costs are, for the time being, lower than in the old countries of the EU, the employees are highly-qualified and what is more, where special economic zones that offer various conveniences to investors function.

The purpose of the study is to identify the reasons for undertaking direct investments in the countries of Central and Eastern Europe by Asian companies, to present forms of such investments, to recognise major fields of investments and also to define future tendencies in direct investments.

1. Direct investments as a form of foreign expansion of a company

Company development on an international scale is associated with making strategic decisions that refer to the selection of foreign target markets, the method of entering those markets and also servicing the markets in question. Therefore, a company has to plan the strategy of foreign expansion precisely, while taking into account mutual relationships that appear among various markets.

Foreign expansion strategy is understood here as development of the company activity through entering foreign markets, that is oriented towards an increase in sale, profit and/or share in the market (Gorynia, 2007, p. 36). The strategy may be implemented in various ways. Companies that internationalise their activity most often apply:

- geographic expansion that refers to entering new foreign markets with existing offer,
- international diversification of the product that includes production and sale of new products on new foreign markets,
- mixed strategy that is a combination of both strategies mentioned above.

Direct investments are one of the forms of foreign expansion of companies. In the literature, this notion is defined in various ways, for example as international transfer of capital for the purpose of establishing, by a company, its branch in another country and controlling it (Krugman and Obstfeld, 2000, pp. 169-170). In a broader context, direct investments are defined as capital deposits taken up by a company with the intention of obtaining a direct influence on the company activity in which they invest, or as a supply of new resources to the company in which the investor has purchased considerable shares (Cantwell, 1993, p. 303). In this article the OECD definition, the so-called benchmark definition of foreign direct investments will be adopted*. It has been developed in order to standardise classification of foreign transactions, and therefore facilitation and authentication of international comparisons. According to the definition, direct investments mean obtaining a long-term influence on a business entity that is a resident in a country different from the investor's, by a resident that is called a direct investor (it is a legal body in a given country) (OECD, 2008, pp. 9-11). As a consequence of investment, there occur long-term interrelations between the direct investor and the company to be controlled.

Foreign direct investments are therefore actions undertaken mainly in order to obtain permanent influence on the company activity in another country. It ought to be added that the transfer of financial capital to a foreign company is usually accompanied by a transfer of management methods, knowledge, experience, technology, resources, etc.

There are various reasons for undertaking direct investments on foreign markets by a company, including for example:

1. Gaining cheaper material, human, non-material and technological, etc. resources which will allow for reduction of business activity costs.
2. Expansion of markets for sale that allows for some increase in sale, and as a consequence, increase of the company shares in the international market.
3. Improvement in business activity efficiency as a result of rationalisation of the processes of production, supply, marketing, etc. (it is about optimum allocation of resources).
4. Gaining strategic resources that allow a company to maintain or develop international advantage over the competition**.

According to J.H. Dunning and S.M. Lundan, two first reasons for direct investments are typical of beginning investors and the two other reasons are predominant among advanced investors, i.e. companies that plan subsequent investments on foreign markets. Analysing the reasons for undertaking FDI, we ought to observe that they

* In the model definition all transactions concluded between an investor and a foreign company, beginning from the transaction that states the establishment of foreign direct investment are included. According to the OECD, the investor has permanent influence on a foreign company if they own more than 10% of its shares. This amount can be changed in case of the appearance of other factors that determine FDI.

** Reasons for undertaking direct investments and types of corresponding investors are described by J.H. Dunning and S.M. Lundan (Dunning and Lundan, 2008, pp. 63-78).

are all related to and/or strengthening of the competitive position of the company. It means that they may be treated as tools of competitive struggle that are used on the international scale.

FDI can be realised in two forms, i.e. as investments of the Greenfield and Brownfield type. Greenfield investments involve individual building of a company from the very start on a foreign market. Brownfield investments in turn, are related to takeover of an operating company (in the form of a merger or acquisition) by an investor and effecting restructuring processes, or cooperation with a local company in the form of joint venture*. The choice of a specific form depends on many internal factors (for example the kind and size of company resources, key competences and specified strategic purposes) and external ones (for example economic, legal and cultural conditions in the country, existing structure of competition, attitude of consumers towards foreign companies and the level of infrastructure development).

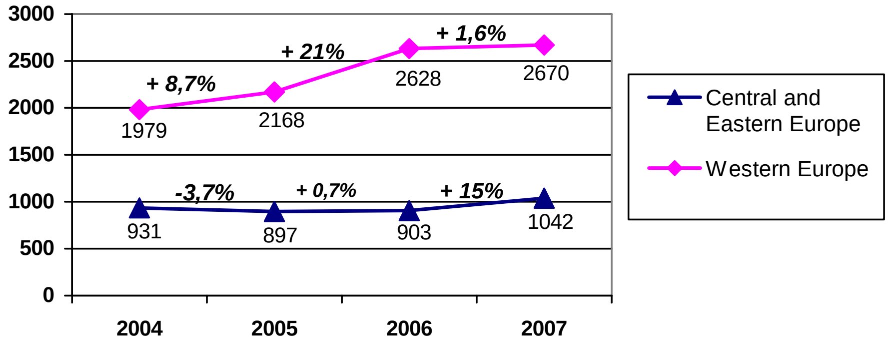
From the point of view of the state where FDI is realised, investing capital in the form of direct investments is not only the most profitable, but also the safest form of investment of foreign capital. First of all, it comes out of long-term quality of the investment of this type.

2. FDI in Central and Eastern Europe against the background of investments in Western Europe

Between 2004 and 2007, the number of FDI realised in Europe was systematically growing (Figure 1). However, we can observe significant disproportion between the number of investment projects located in the countries of Western Europe and Central-Eastern Europe.

Only 1/3 of all European FDI has been located in the countries of Mid-Eastern Europe so far. However, it is worth stating that in 2007, compared to 2006, the dynamics of an increase in FDI in Central and Eastern Europe was significantly higher than in Western Europe; it came to 15% while this index for Western Europe reached the level of 1.6%. This may prove growing interest of investors in the countries of this region of Europe. Increased interest of foreign investors was associated, among others, with joining the European Union by new member states from Central and Eastern Europe (on the 1st of May 2004, 10 countries, including Malta that is classified as Western Europe in the statistics mentioned above, joined the EU and on the 1st of January 2007, 2 more countries joined the EU as well).

* The types of direct investments were described more widely in (Rymarczyk, 2007, pp. 190-209; Stawicka, 2007, pp. 24-28).



* Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Russia, Lithuania, Estonia, Latvia, Belorussia, Serbia, Croatia, Montenegro, Slovenia, Bosnia and Herzegovina, Macedonia, Albania, Moldova, Turkey, Cyprus are considered the countries of Central and Eastern Europe. Western Europe includes 15 countries of the "old" European Union and Switzerland, Norway, Lichtenstein, Monaco, Malta and Iceland.

Figure 1. The number of FDI projects realised in Central and Eastern Europe and in Western Europe* between 2004 and 2007

Source: Ernst & Young (2008a).

Analysing the inflow of FDI to Europe with respect to value, we can also observe their systematic growth between 2004 and 2007, and in the countries of Western Europe (including the countries of old EU) those indices of growth reached significantly higher level than in Mid-Eastern Europe (Figure 2). Rapid growth in FDI was observed between 2005 and 2006. We can suppose that it was the result of continuation of economic policy by the Western Europe countries (and particularly by Great Britain, France and Germany), that favoured entering this largest and richest regional market by investors. Creation of numerous industry clusters, which made the labour market flexible and development of financial sector, which raised the level of attractiveness of this region as a place for location of direct investments were of fundamental meaning here.

It is worth noticing that a remarkable part of the FDI Project in Western Europe was realised inside this region (that is through companies that come from there). There are predictions that in the following years (until 2011) the value of FDI in the countries of Western Europe should still be successively growing.

In the countries of Mid-Eastern Europe, the inflow of FDI, which was the largest in value, was recorded in 2006. It was, among others, the result of a vast scale privatisation of state companies and boom on the property market in many new countries of the EU. Since this time however, a slight fall in FDI (by around 10%) has been recorded. According to predictions, until the year of 2011, the value of FDI located in this region will have been on a similar level. In spite of a 15% increase in the number of FDI projects in 2007 when compared with 2006 (when FDI of the record value came to Mid-Eastern Europe), their value decreased by almost 2%, which means a smaller average unit value of enterprises.

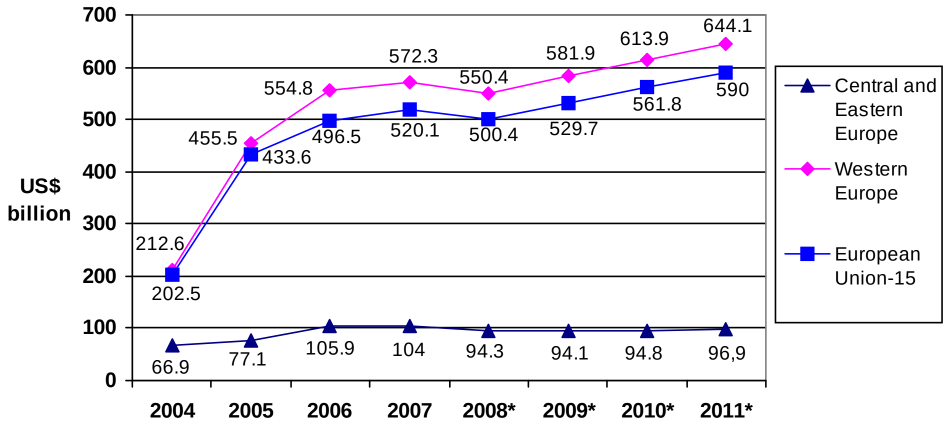


Figure 2. Inflow of FDI into the countries of Mid-Eastern Europe and Western Europe between 2004 and 2007 and predictions for the year of 2011 (in US$ billion)

Source: Based on The Economist Intelligence Unit (2007, pp. 44, 55).

It ought to be noticed that the value of FDI realised in Mid-Eastern Europe in 2004 made up around 30% of the value of investment that came to Western Europe at the time. In 2007 this relation was even worse (around 18%) and the predictions are not positive either. Quantity analyses (Figure 1) do not show such drastic differences in those relations. Therefore, we can come to a conclusion that in Western Europe were located FDI of a remarkably higher unit value.

FDI inflow to particular countries of Central and Eastern Europe also reaches various levels (Table 1). Table 1 presents the countries with largest amounts of FDI inflow only. In most of the countries significant annual fluctuations in FDI inflow can be observed.

Analysing Table 1, it is possible to conclude that FDI of the highest accumulated value came between the years of 2004 and 2007 to Russia, Poland, Romania, Czech Republic and Hungary. However, taking into account their share in the gross national product of individual countries, Bulgaria and Romania move to the leading position as FDI receivers. According to predictions, the situation in the next few years will not change significantly. It is worth observing that Poland is the only country where cumulated growth in investments until the year of 2011 is predicted, however their share in the gross national product will go down (similarly to all other countries)*. Countries of the old EU are the largest suppliers of FDI to the countries

* Predictions of Polska Agencja Informacji i Inwestycji Zagranicznych S.A. (PAIiIZ) /Polish Information and Foreign Investment Agency/ assumed the increase in FDI in Poland in 2008 at the level of USD 15 billion, so the level that was higher than world predictions.

of Mid-Eastern Europe, especially to new countries in the EU (Witul, 2008). Their share in general value of FDI of some countries is even higher than 80%*.

Table 1

FDI inflow into selected countries of Mid-Central Europe between 2004 and 2007 and the prediction for the year of 2011

Year	Bulgaria		The Czech Republic		Hungary		Poland		Romania		Russia		Slovakia		Ukraine	
	FDI inflows (USD billion)	% of GDP	FDI inflows (USD billion)	% of GDP	FDI inflows (USD billion)	% of GDP	FDI inflows (USD billion)	% of GDP	FDI inflows (USD billion)	% of GDP	FDI inflows (USD billion)	% of GDP	FDI inflows (USD billion)	% of GDP	FDI inflows (USD billion)	% of GDP
2004	3.5	14.2	5.0	4.5	4.5	4.4	12.9	5.1	6.4	8.5	15.4	2.6	1.1	2.7	1.7	2.6
2005	3.9	14.5	11.6	9.3	7.5	6.8	9.6	3.2	6.5	6.7	12.8	1.7	1.9	4.0	7.8	9.4
2006	5.2	16.4	6.0	4.2	6.1	5.4	14.5	4.3	11.4	9.4	28.7	2.9	4.2	7.5	5.2	4.9
2007	3.5	9.3	6.5	4.0	4.8	3.7	12.5	3.1	9.8	6.1	35.0	3.0	2.0	2.7	5.2	3.8
Total	16.1	–	29.1	–	22.9	–	49.5	–	34.1	–	91.9	–	9.2	–	19.9	–
Mean value	–	13.6	–	5.5	–	5.1	–	3.9	–	7.7	–	2.6	–	4.2	–	5.2
2008[a]	2.3	5.4	6.0	3.3	4.8	3.5	12.0	2.7	7.2	3.8	29.0	2.1	2.0	2.6	4.8	3.2
2009[a]	2.3															
2010[a]	2.4	5.4	4.8	2.5	5.4	3.6	12.9	2.7	7.0	3.2	31,.0	1.8	2.4	2.8	4.8	2.5
2011[a]	2.5	5.3	5.1	2.6	4,.8	3.0	13.1	2.6	7.2	3.0	32.0	1.7	2.5	2.7	5.3	2.4
Total	9.5	–	20.4	–	20.9	–	50.6	–	28.7	–	122.0	–	9.1	–	19.5	–
Mean value	–	5.4	–	2.7	–	3.6	–	2.7	–	3.4	–	1.9	–	2.7	–	2.7

[a] Forecast.

Source: Based on The Economist Intelligence Unit (2007); UNCTAD (2007).

2. Attractiveness of Central and Eastern Europe for foreign investors

In spite of stagnation or even a slight decrease in FDI inflow into the countries of Central and Eastern Europe that is predicted in the next years, this region should still be in the sphere of investors' interest. However, a change in the FDI structure with respect to the country of investors' origin ought to be expected. Probably, the share of

* For example, in Poland in 2007, the share of FDI made by the companies of the old EU in total investments of this kind reached over 85% (in 2006 it was even higher, because 87.9%) (National Polish Bank, 2006, 2007, 2008).

investments coming from Western Europe will decrease and the percentage of Asian investments will grow.

The study of investment attractiveness that was carried out by Ernst & Young in 2008 proves growing interest of prospective investors in the countries of Mid-Eastern Europe*. The results of the study proved that in recent years distinct changes in the level of attractiveness of the countries and regions in the world had occurred (Figure 3).

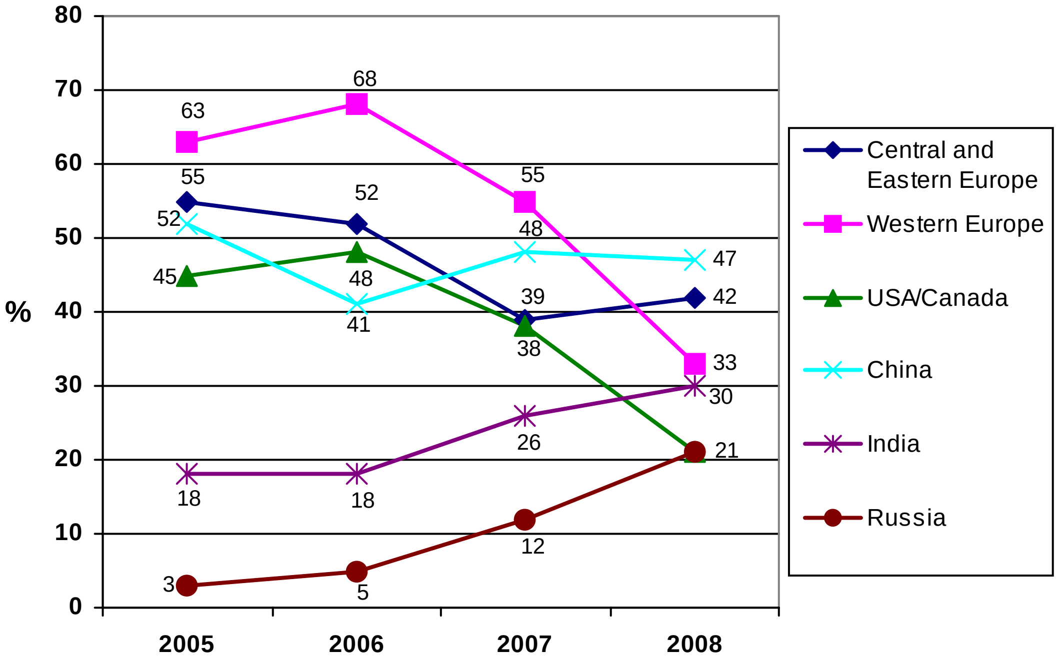


Figure 3. Investment attractiveness of Mid-Eastern Europe against the background of other regions between the years of 2005 and 2008

Source: Based on Ernst & Young (2006, 2007, 2008b).

* The study was carried out between February and March 2008 on a representative group of 834 international decision-makers representing various sectors and types of activity. The study sample included 56% of European companies, 33% of companies from Northern America and 11% of companies from Asia and other regions. Studied companies represented five key sectors of European and world sectors of economy, that is 1 – industry, motorization, power industry (37%), 2 – services of business-to-business and business-to-consumer type (19%), 3 – telecommunications and advanced technologies (9%), 4 – consumer goods (21%) – properties and construction and others (14%). Investment attractiveness of a country or region was assessed on the basis of image, investor's confidence and perceived ability of a given country or area to ensure the most competitive profits for foreign direct investors. The results of the study are published in (Ernst & Young, 2008b).

For the first time in history, in 2008 Western Europe lost its position as a leader with respect to perceived attractiveness as for the location of direct investments. Moreover, investment attractiveness of the USA and Canada went down radically. This situation mainly results from faster economic development of other world regions (particularly Far Eastern Asia and Russia). In the rankings of investment attractiveness in 2008, the countries of Central and Eastern Europe were placed in the second position (after China), improving its position from 2007 at the same time. The results of the study can suggest that the companies will be more and more interested in investments in the countries where economies develop dynamically and their markets show growing competitiveness. However, for the time being, actual investment flows (also those predicted) do not reflect the investors' perception. The largest amount of FDI is still attracted by highly developed countries, but the character of investment projects changes (for example in Western Europe the number of industrial investments is falling down, which slows down the creation of new work places).

For several years in Europe a distinct investment "specialisation" has been apparent. In Western Europe, direct investments are predominant in the sectors of financial services for businesses (including audit, legal services, personnel counselling and other consulting services), IT and research and development centres (i.e. centres that are conducive for development of knowledge based economy). On the other hand, Central and Eastern Europe mainly attract industrial projects (most direct investments were made in automotive, electronics and electric sectors). According to investors' opinion, in relation to such a complimentary investment profile, Europe as a whole, and particularly the countries that belong to the EU, is an attractive region for nearby location of different direct investments.

Countries and regions that want to attract foreign investors in the future have to present themselves as valuable locations for running business activity. According to respondents of the above mentioned studies, four major groups of factors have the most significant influence on making a decision about location of foreign investments. They are namely the following:

1. Entering the market – companies change locations of their business activity or add new ones mainly as a result of changes that take place on the home market and/or foreign markets where they have been functioning so far. It is mainly related to changes in size and structure of demand and actions of competition. Decisions related to a new location mainly depend on proximity of markets, their infrastructure (for example transport and logistics) as well as the level of development and quality of telecommunications.
2. Labour costs and productivity – companies look for resources, including human resources, on foreign markets. While comparing various profiles of labour costs on the international scale they can decide where it is best to locate the investment.

The choice usually refers to a place where the company can obtain the best relation between availability of employees with specific skills and costs of their employment and productivity.
3. Fiscal regulations and legislation – these factors may significantly influence (directly or indirectly) profitability and flexibility of a direct investment. Fiscal burdens, incentive actions from the state and legal regulations (including their stability) are particularly important here.
4. Conditions in the environment of a given country and region – environment in which the company functions considerably condition the possibility of its development. Therefore, companies carefully study and analyse factors that may influence their future competitive advantage essentially, for example the level of innovation, quality of life, capital and financial market availability and specific specialist knowledge, political risk, etc.

Particular factors are of diverse significance while making a decision to invest abroad. The results of the study showed that since 2005 the importance of some factors as major reasons for undertaking direct foreign investments abroad had been going down. These factors include tax reliefs, subsidies and other forms of support from the state and availability of local financial investors. Significance of such factors as transparency and stability of political and legal environment, transport, logistic and telecommunications infrastructure, growth in productivity (caused by lower labour costs, among others) is growing as well.

It has to be remarked that in the near future the factors that will bring about a decrease in investment attractiveness, which may suppress the inflow of new FDI to the countries of Central and Eastern Europe, can appear or be intensified. Dangers may be seen in high prices of many resources (for example oil and, gas), a growing interest rate of loans, growing inflation pressure, and absence of balance in the world economy. These factors may lead to significant limitation of economic growth and therefore reduce investment attractiveness of the countries of this region. Lower labour costs are no longer an asset of the countries in Central and Eastern Europe, including Poland. Constant pressure on the rise in salaries may cause the most labour-consuming investments to be moved to the countries with lower costs including, among others, Asian countries.

To sum up, from the point of view of an investor, the best situation to make a decision about locating a direct investment abroad is when the market of a given country is attractive and the risk reaches the lowest possible level.

4. Reasons for making investments in Central and Eastern Europe by Asian companies

For several years Asian companies (especially Japanese, Korean, Chinese and Indian) have more and more often been locating their direct investments in the countries of Central and Eastern Europe, particularly in those that are the EU member states because the EU membership is a guarantee for relatively large economic and legal stability of the environment in a given state. Moreover, owing to investments in this region, companies enjoy easier availability of nearly 500 million prospective customers from the EU because the companies in question can freely (i.e. without customs barriers and other commercial limitations) export their products to other countries of Western Europe (i.e. to markets of strategic significance in the global economy)[*].

Lower taxes are another important factor that makes Asian companies invest directly in the countries of Central and Eastern Europe. For example, the rate of CIT – Corporate Income Tax – in Poland reaches 19%, in the Czech Republic – 24%, in Hungary and Romania – 16%, in Bulgaria and in Lithuania and Latvia – 15%, and in China even 33% (PricewaterhouseCoopers and the World Bank, 2007). It means that revenues of companies from business activity in this region of Europe may be remarkably higher than from home markets. Moreover, high-skilled employees who additionally know various foreign languages and who have strong motivation for work are a great advantage of many countries of this region[**].

However, labour costs that recently have been systematically growing ceased to be an essential factor that determines the choice of location of direct investments in most of the countries of Central and Eastern Europe[***]. They are still significantly lower than in the countries of Western Europe. Therefore, if Asian companies want to evade customs restrictions introduced by the EU, they have to invest in the countries of the Community. New EU member states offer more favourable conditions from the point of view of labour costs. And because of this, some Asian companies (particu-

[*] In case of appearance of import quotas for specific products in a given area, the production of this commodity in this region makes it possible for a foreign company to introduce, in total, more goods than in case of the import itself.

[**] It ought to be remarked that migration for earnings that at present is apparent in the countries of Central and Eastern Europe on a large scale makes companies in this region start having problems with recruitment of employees, which can bring inhibition of inflow of direct investments.

[***] There is still large differentiation of labour costs in the EU but it has systematically been going down. It is the result of a faster increase in salaries in the new EU countries in comparison with the old ones (labour costs are growing the fastest in the countries that record high rate of economy development, i.e. in Lithuania and Latvia, in Estonia, but they are still lower than in the Czech Republic and in Hungary). For example, in Hungary the labour cost per hour reaches USD 5.72, in the Czech Republic USD 5.43, in Poland around USD 5, and in Great Britain even USD 24.71, in Germany USD 32.53 and in Norway USD 34.64. The lowest labour cost per hour is recorded at present in Romania.

larly those that invested in Western Europe many years ago) perform relocation of production from the countries of the "old" EU to its new members, or they develop a new productive activity there.

In recent years we can observe a growing tendency to relocate production plants from Western Europe to the countries of Central and Eastern Europe. In the eighties and nineties of the 20th century a lot of factories of Asian companies (especially Japanese) were established in Great Britain. The pressure on costs results at present in closing down some of them, and the production often moved to Central and Eastern Europe. And so did Sony do while closing down their production plant in Wales in 2006. The automotive concern Toyota moved some of its branches that produce components for factories or assembly plants located among others in Great Britain to Central Europe (for example Toyota Motor Manufacturing, Toyota Motor Industries, Toyota Europe Engineering & Maintenance NV/SA).

Locating direct investments by Asian companies in Mid-Eastern Europe is, first of all, associated with their competitive struggle for share in the European and global markets. Purchase decisions of buyers are mainly determined by the price of products (apart from quality that is more and more often comparable, because of, among others, cooperation of competitors in the sphere of research and development or supply). Therefore, starting production plants of readymade products or only components in the areas of new EU member states where production is not burdened with high customs duties and labour costs are still lower than in Western Europe (or USA or Japan), seems to be an efficient method of expansion.

Apart from the access to the markets of Western Europe, a great increase in local demand for lots of products (for example household goods and radio and television products) was (and still is) an important factor that brings some inflow of direct investments into new member states of the EU. With high dynamics of demand, the appearance of a new competitor on a given market does not cause such significant intensification of competitive struggle as in the case of markets in the stage of stagnation or recession. This favours the growth of general sale of a company, which in turn, positively influences the level of its home and international competitiveness.

While selecting any FDI location, Asian companies also attach great importance to the level of infrastructure and the quality of life in a given country. Hungary, the Czech Republic and Slovenia are best assessed with respect to these factors. Poland and other countries of this region lose with the countries mentioned above mainly because of a lower level of development of the road and hotel infrastructure. If this situation is not changed, the future geographical structure of direct investments in Asia may be affected.

It is worth observing that a majority of Asian direct investments in Central Europe have been located in special economic zones, owing to which the companies involved can derive profits from tax reliefs and public aid. The results of the research mentioned above showed that while it was true that the importance of incentives of this kind was not as important for investors as it had used to be, the analysis of location of investments in Asia showed that it was still an important reason for making a decision about FDI. Moreover, because of the fact that in such zones we can often observe trade specialisation, a large foreign investor attracts here the co-operants from the home country and competitors with whom they often do not only compete but also cooperate. Therefore, for example Korean and Japanese investors have attracted direct investments of companies from home countries to the zones in question. Various facilities can be additional encouragement for such companies.

Experts predict that in the next few years in particular countries of the new EU, the share of direct Asian investments in the structure of foreign investments will increase to several percent, i.e. even by half*. For example, in Poland in 2007, the share of direct investments from Asia reached 8%, and according to predictions it can increase by 3-4% in years 2008-2009. The largest amount of investments will come from China, Japan and India (particularly in case of household appliances, the automotive sector, consultancy, financial services and those based on knowledge). Apart from those mentioned above factors, partial opening of the labour market of some countries of Central and Eastern Europe (for example Poland) for the citizens of Asian countries, which can make the process of their employment easier, is an additional impulse for those investments.

The introduction of the common Euro currency can be another incentive to locate FDI in a specific country of the new EU by Asian companies (that want to improve their competitive position both in the European and global markets) because it will be possible to reduce transactional costs of actions performed in Europe and to eliminate currency risk to a large extent.

It is worth observing that the factors that may bring a decrease in the speed of inflow of direct investments from Asia (and other regions) to a majority of countries of Central and Eastern Europe will appear in the future. The most important of them include:

- privatisation processes – in many countries, these processes are being completed, which means that only the companies that are not very attractive for possible investors have been left for privatisation,
- the forms of direct investments already made in a given country – foreign international companies or also home companies have already performed important

* JVC (that at present belongs to Panasonic Corporation), Daihatsu Motor (Japan) and Tata Motors (a part of industrial conglomerate from India that in the middle of 2008 bought two European brands of the premium class, i.e. Jaguar and Land Rover) among others, plan direct investments in the countries of Central and Eastern Europe. It also ought to be added that Romania that joined the EU on the 1st of January 2007 became a serious competitor for new member states in acquisition of foreign investors, particularly from China, which results not only from the lower labour costs but also from historical reasons (there is a strong Chinese minority in Romania).

mergers and acquisitions on the local market, and therefore subsequent direct investments will be more expensive and also risky,
– slowing down of the development of the world economy – this situation may negatively influence the size of total direct foreign investments, which will probably bring the lower level of foreign investments by Asian companies both in the countries of Central and Eastern Europe and in other regions of the world.

5. Major tendencies of inflow of Asian direct investments into Central and Eastern Europe

The most Asian direct investors that operate in Central and Eastern Europe represent automotive, electronic, home appliance and machine and steel sectors (Table 2). The value of investments in the sectors is also the highest.

Table 2

List of the largest direct investors from Asia in the countries of Central and Eastern Europe (data on June 2008)

Investor	Investor's country of origin	Activity sector	Country of investment receiver
Amatsuji Kogyo Seisakusho	Japan	Production of machines and appliances	Poland
Bridgestone Corporation	Japan	Production of goods made of rubber and plastics	Poland
Daicel Chemical Industry Ltd.	Japan	Production of transport equipment	Poland
Denso	Japan	Production of transport equipment	Poland Czech Republic
Fuji Seal	Japan	Production of goods made of rubber and plastics	Poland
Kotani	Japan	Production of metal goods, machines and equipment	Poland
Mitsubishi Corporation	Japan	Transport, warehouse economy and communications	Poland Bulgaria
NGK Insulators	Japan	Production of goods from other non-metallic resources (for example precious ceramics)	Poland
Panasonic Corporation (former Matshushita)	Japan	Production of electronics	Czech Republic
Nifco Inc.	Japan	Production of engine vehicles, trailers and semitrailers	Poland
Sanden Corporation	Japan	Production of transport equipment	Poland
Sharp Corporation	Japan	Production of electronics and optic equipment	Poland
Toho Industrial Co. Ltd.	Japan	Production of machines and appliances	Poland
Tokai Rubber Industries Ltd.	Japan	Production of goods made of rubber and plastics	Poland

Table 2 continued

Tokai Rika	Japan	Production of electronic appliances and security systems for vehicles, houses for companies	Czech Republic
Toyo Seal Industries Co. Ltd.	Japan	Production of goods made of rubber and plastics	Poland
Toyota	Japan	Production of transport equipment	Poland Czech Republic
Yagi Industries Co. Ltd.	Japan	Production of machines and appliances	Poland
Yazaki	Japan	Production of electronic systems (including car components)	Romania Ukraine
YKK Holding Europe	Japan	Production of fabrics and textile goods	Poland
Daewoo Electronics CO Ltd.	South Korea	Production of electric, electronic and optic appliances, financial services (insurance and pension funds)	Poland Romania
Dong Yang Electronics	South Korea	Production of electronic, electric and optic appliances	Poland
Hanyang Precision Co. Ltd.	South Korea	Production of goods made of rubber and plastics	Poland
Heesung Electronics Co. Ltd.	South Korea	Production of electric, electronic and optic appliances and communication equipment	Poland
Hyundai Motor Company	South Korea	Production of transport equipment	Slovakia Czech Republic
Kia Motors	South Korea	Production of transport equipment	Slovakia
LG Chem Ltd.	South Korea	Production of electric, electronic and optic appliances and communications equipment	Poland
LG Electronics Inc LG Innotek CO. Ltd.	South Korea	Production of electric, electronic and optic equipment and communications equipment; repair of vehicles, motorbikes and goods of personal and domestic use	Poland Czech Republic
LG International	South Korea	Production of chemicals, chemical goods and artificial fibres	Poland
LG philips LCD CO. Ltd.	South Korea	Production of electric, electronic and optic equipment and communications equipment; repair of vehicles, motorbikes and goods of personal and domestic use	Poland
Lucky SMT	South Korea	Production of electric, electronic and optic appliances and communications equipment	Poland
Samsung Electronics Co. Ltd.	South Korea	Production of electric, electronic and optic equipment and communications equipment; repair of vehicles, motorbikes and goods of personal and domestic use	Poland Slovakia Hungary
SK Chemicals	South Korea	Production of chemicals, chemical goods and artificial fibres	Poland

Table 2 continued

First International Komputer Inc.	Taiwan	Production of computers and computer sets,	Czech Republic Russia
TPV Displays	Taiwan	Production of electronics, leading display solution provider, specializing in design and production of a wide spectrum of desktop monitors and LCD TVs.	Poland Hungary

Source: Based on: Hunya (2006, 2007, 2008); List of Major… (2006, 2007).

However, the share of companies from Asian countries in total direct investments that came to Central and Eastern Europe is highly differentiated. The companies from Japan and Korea, the countries in which the process of internationalisation began many years ago, have the highest share in those investments. For them, entering the markets of new countries of the UE is the next step in international expansion that is often mainly related to rationalisation of their activity. The share of Chinese and Indian companies in Asian investments is systematically increasing although the increase is quite slow now.

Analysing the type of FDI that flows into particular countries, we can observe some geographical specialisation. Owing to direct investments (of both Asian and European companies) including construction of large production and assembly plants, Slovakia can soon become a leading centre of automotive industry in Europe. A majority of Korean Greenfield investments located in Europe came to this country.

A lot of producers started investing in the automotive sector before joining the EU by the countries of Central and Eastern Europe, while using the opportunities they were given by association agreements signed by these countries with the countries of the Community (Table 3). This way, a lot of companies established launch pads for expansion into the markets of Western Europe. For example, Hyundai Motor Co. considered starting production of their vehicles in Europe to be fundamental (factories were built in the Czech Republic and Slovakia) in order to face the growing competition, particularly in the sector of lower-middle class cars, which make up almost 30 percent of sale in the EU. Apart from the production plant, Hyundai also invested in the European Design and Technical Centre, i.e. to help the company to design models of cars in such a way that they should meet expectations of European buyers at most, and at the same time they contributed to the growth in sale.

Table 3

Major locations of direct investments of Asian automotive concerns (of the Greenfield type, mergers and acquisitions in Central and Eastern Europe against the background of investments of the companies from other regions (production and assembly plants are taken into accounts only)

Producer	Location	Beginning of production	Approximate amount of production of cars in 2006
Investors from Asia			
Suzuki	Hungary (Esztergom)	1990	200,000
Daewoo Motor (taken over by General Motors in 2002)	Poland (Warsaw)	1996	150,000
Toyota/PSA (Peugeot, Citroën)	The Czech Republic (Kolin)	2002	300,000
Hyundai/KIA	Slovakia (Zilina)	2004	300,000
Hyundai	The Czech Republic (Nosovice)	2006	300,000
Investors from Western Europe and the USA			
Renault/Revoz	Slovenia (Novo Mesto)	1991	180,000
Fiat	Poland (Bielsko-Biała)	1991	250,000
Volkswagen (Skoda)	The Czech Republic (Mlada Boleslav)	1991	450,000
Audi	Hungary (Gyor)	1992	40,000
Volkswagen	Poland (Poznań)	1993	120,000
Volkswagen	Slovakia (Bratislava	1993	350,000
Renault (Dacia)	Romania (Pitesti)	1995	100,000
General Motors (Daewoo)	Romania (Craiova)	1996	22,000
General Motors (Opel)	Poland (Gliwice)	1998	120,000
PSA (Peugeot, Citroën)	Slovakia (Trnava)	2003	450,000

Source: Based on PricewaterhouseCoopers (2007, p. 2).

The analysis of Table 4 allows for concluding that Asian companies made direct investments mainly at the beginning of the 21st century, i.e. before joining the EU by selected countries, or after their accession*. European concerns located or relocated their production into Mid-Eastern Europe since the beginning of the nineties of the 20th century, and the main reason for their actions was to lower the costs. It ought to be noticed that some investments were made jointly by cooperating companies from various regions.

Well prepared industrial zones, qualified personnel and plans of motorways to be built contribute to improvement in logistics and transportation of ready products and components to Western Europe, which facilitates the choice of location of direct

* At present another Japanese producer, Daihatsu, is looking for a location for a factory of small passenger cars in Mid-Eastern Europe (Frendl, 2008).

investment made by Asian companies in the automotive sector. Moreover, some suppliers of components relocate their production because of the pressure from their customers or shareholders or just to be closer to those producers with whom they are closely related through business (for example they form a chain of suppliers). For example, in 2008, Korean Daedong that is a supplier of parts for producers of cars started its production of lines for hand-brakes in Poland (in Cieszyn). This location was chosen by the company because of, among others, proximity of the company customers, i.e. the Kia production plant that is located in Slovakia and Hyundai that functions in the Czech Republic (close to the Polish borderline). Another Korean producer, i.e. Sungwoo Hitach, built a factory of car bodies in the Czech Republic (also close to the borderline with Poland).

Electronic trade is another sector in which a remarkable inflow of direct investment from Asia is observed. In this trade, most of the Greenfield FDI came to Poland. Asian companies such as Sharp, Toshiba and Funai Electric and Korean LG Philips[*] also invested in production of LCD screens and TV sets in Poland. A Japanese company Sharp that had already had its production plants in three countries of Western Europe (i.e. Great Britain, France and Spain) realised direct investment in Poland while constructing the factory of LCD modules[**]. After it had commenced its activities, export of those parts from Asian factories to Europe decreased, which resulted in lowering prices of ready products.

The Toshiba conglomerate is another Japanese investor in the electronic sector in Poland and Romania. In Poland Toshiba built a factory of components for high-tech TV sets. The company also invested in Romania in production plants of electronics components[***]. Owing to those investments, the company is going to triple the production of TV sets and other electronic goods intended for European markets.

Funai Electric Corporation is another Japanese investor. In 2007 the company started production of high-tech LCD TV sets in Poland. At the same time, Poland became the production base for the company in Europe, from where its products are exported to all markets of this region. For Funai (and also for other investors), the European market is a strategic area because of its size. Location of production plant in Poland

[*] Consulting Agency Ernst & Young predicts that in 2010, annually 40 million TV sets are going to be produced in Poland, and a larger part of production is going to be exported into other European markets, mainly to the countries of Western Europe.

[**] The company also located its research and development centre in Great Britain and started its branches in Munich and Helsinki. The centre has been working on new technologies in liquid crystal displays, semi-conductor lasers, language and encryption software and consumer bio-science, and it also works on designing products offered on the world markets.

[***] The Toshiba company has already had its production plants of a bit different production profile in two countries of Western Europe, i.e. in Great Britain (computer systems and electronics) and in Germany (computer systems, computer accessories and office appliances). Moreover, research and development centres that work for the whole corporation are located on the British market.

allows for reducing order realisation time and storage costs. It also helps the company to avoid import duties and increase profits owing to tax reliefs. These should translate into some increase in the level of company competitiveness not only in the European market, but in the whole world (because European countries today belong to the group of major buyers of LCD TV sets).

Japanese and Korean direct investments in the electronic sector also attract, apart from Poland, other countries of Central and Eastern Europe[*]. For example, in 2002 in Hungary, the Samsung SDI branch built a factory (Greenfield investment) in which it started production of large plasma screens. Then, in the Czech Republic, in 2006, ISP Alpha Technology (joint venture of Hitachi Displays, Panasonic Corporation and Toshiba) built a factory in which they produce both LCD modules intended for production plants outside Europe and complete LCD TV sets exported into the European markets mainly. In the Czech Republic and Slovakia, Panasonic Corporation is an important investor that runs not only production business in electronics but also research and development. The presence of this leading producer attracted other producers of electronic components from Asia (mainly from Malaysia) that located their production plants close to their partner. Such a situation is often observed when local companies are not able to provide foreign investors with supplies.

In recent 2-3 years we have also been able to observe a distinct increase in interest of Asian companies in location of direct investments in Russia. The LG Philips concern established a factory of TV sets near Moscow, and Panasonic corporation is going to build such a factory as well.

Analysing the costs borne by the producers of electronics, we have to notice that the cost of screens (plasma or LCD) influences the final price of a TV set or monitor the most. Therefore, so many Asian direct investments are located in the countries of Central and Eastern Europe. This favours maintaining a competitive level of prices of their products both in Europe and in the world. Moreover, a high level of employees' qualifications allows for producing goods of very high quality.

The sector of household goods is another sector in Central and Eastern Europe in which a significant inflow of direct investments from Asian companies has been recorded. Poland is a country that so far has attracted the largest number of investments in this field. A Korean concern of LG Electronics that operates not only in the sector of household goods but also in the sector of telecommunications and media digital products, is one of the largest Asian investors in Poland. The concern has production plants located in Poland and the plants apart from household goods produce LCD TV sets and high-tech television modules. The company places emphasis on imple-

[*] For example in the Czech Republic, Japanese cumulated foreign investments reached the level of over Euro 951 million, which gives only 1% of share in all FDI realised between the years of 1993 and 2007 (the Czech National Bank, 2008).

mentation of innovative technologies that ensure world quality to its products, and at the same time allows (along with lower production costs than in Europe) for increasing the level of its competitiveness. Therefore, it seems that Poland is becoming a strategic European production centre for the LG concern. A major part of produced goods (in case of household appliances even 90%) is intended for export. Owing to direct investments in Poland, the Korean company wants to compete with world leaders more efficiently both on the whole European market and on other markets (becoming the largest producer of household goods and TV sets in the world soon is the strategic target of the concern)*. According to the president of LG Electronics Europe, Poland is more favourable location for direct investments than the Czech Republic, Slovakia or Hungary because of the size of its internal market. A remarkably bigger market (nearly 40 million people) provides perfect grounds for testing new products that are to be exported to many countries in the world (Augustyniak, 2005).

Moreover, LG production plants in Poland are suppliers of components for both other foreign branches of the company and for cooperating companies from the branch (for example LCD screens are exported to LG Electronics, Toshiba and Philips factories in the Czech Republic that produce TV sets, and Panasonic Corporation (formerly Matsushita) in Hungary).

A Indian production company Videocon that operates in four sectors, i.e. electronics, household goods, glass and oil is another direct investor that is respected in the countries of Central and Eastern Europe**. In 2005 it purchased the factory of picture tubes in Poland (and also production plants in China and Mexico) from the Thomson company. At present, Videocon is going to locate another direct investment in Poland. This time, the investment is going to take the Greenfield form because the company is planning to build a factory of LCD screens. The value of these investments is valued at about USD 2.5 billion, so it is going to be the largest foreign investment realised in Poland for many years. Screens of the latest generation are going to be produced from the beginning to the end (not only assembled from ready components). It has to be added that there is no such plant with a complete production cycle in Europe so far. The company plans to open a research and development centre as well.

Another large investment in the household goods sector is going to be realised by the Korean concern Daewoo Electronics that is planning the second direct invest-

* Between the years of 2006 and 2016, the company will receive significant financial support from the national budget in relation to building of the factory of household goods and TV sets.

** The company has one more factory in Europe, i.e. in Italy. The producer cooperates with many international companies including Samsung Electronics (Korea), Panasonic Corporation (Japan), Electrolux AB Sweden and Techneglas (USA) in the sphere of research and development and supplies.

ment of the Greenfield type in Poland*. The company is going to build a factory of fridges in which big refrigerators of side-by-side type are going to be produced. The products are to be intended mainly for export to Western Europe and also to eastern markets (particularly to Russia and Ukraine). Producers of household goods consider the European market of side-by-side fridges prospective and therefore they plan this undertaking. While it is true that so far the share of this type of appliances in total sale of fridges is small, their sale is increasing by 60-70% per year. Owing to this investment, Daewoo wants to increase its power of competitiveness and start efficient competition with the leaders of this sector, i.e. with Korean concerns of Samsung and LG (that also have their production plants located in Central and Eastern Europe).

Chinese producers also consider direct investments in the household goods sector. HAIER Group, the world leading producer of household goods (at present the leader in production and sale of fridges) and radio and television products, is one of potential investors in this region of Central and Eastern Europe. For the time being, the company works on the wholesale of its products in this region of Europe but they are looking for location for their production centre as well**.

Steel sector is another investment area for Asian companies. The largest investments came to Polish and Ukrainian steel sectors from India. In 2004, the Indian steel concern – LNM Holdings – (since 2005 the Mittal Steel Group and since 2007 – Arcelor Mittal), as a result of privatisation, took over Polskie Huty Stali Holding (including 4 steelworks)***. At present, the company concentrates about 70 percent of production potential of metallurgical industry. Starting the most modern steel hot-rolling mill in Europe will allow for winning customers (especially those working in the European markets) from sectors that are most dynamically developing, i.e. automotive and household goods sectors. In 2005, in turn, Mittal Steel took over the Ukrainian Kriworiżstal steel plant. This investment belonged to one of the largest foreign investments in Mid-Eastern Europe. Owing to direct investments realised in recent few years, a newly established concern ArcelorMittal became the largest producer of steel

* In 1993, the Daewoo Electronics concern already started realisation of the Greenfield direct investment that resulted in construction of a factory of TV sets. The company systematically modernizes production lines to make its goods competitive in the whole world. Over 70% of production is exported, 40% of which is offered under other brands. Western and Central Europe is the major export market of the concern.

** In 2001, the Haier company purchased the Italian factory of refrigeration equipment in which up till now they have been producing goods for the needs of European markets (the company has a total of 15 production facilities and they plan construction of several new ones). The Italian regional head office also coordinates marketing and sale on those markets.

*** Acquisition of the European steel giant from Belgium, the Arcelor, company, by the Indian company of Mittal Steel in 2006 was one of the largest transactions on the world economy scale. The value of this investment reached USD 42 billion. At present, the Arcelor Mittal Poland branch belongs to the largest Polish exporters of steel and also the largest producers of coke in Europe and in the whole concern.

in the world. The company also occupies the leading position in the world of research and development and technology.

More and more direct investments come to the countries of Central and Eastern Europe from China. Avoidance of customs restrictions, controlling new markets and establishment of production and/or distribution branches there, obtaining access to sources of raw materials, acquiring resources (particularly capital, technology and qualified workers) and aspiration for taking over global brands are major reasons for undertaking FDI by Chinese companies.

It has to be added that expansion of Chinese companies in the form of foreign direct investments was only possible at the beginning of the nineties of the 20th century. Only then, the Chinese government allowed their companies to start acting on foreign markets. In order to increase their competitiveness in the world market, the largest companies were provided with government subsidies and special rights in the sphere of autonomic management. Rapid geographic expansion of Chinese companies was the result of the above policy (in 2004 their cumulated FDI reached the level that was similar to the companies from Southern Korea that started their foreign expansion much earlier, i.e. USD 38.8 billion)[*]. Countries of Central and Eastern Europe also seemed to be interesting for Chinese companies. In 2003, 865 Chinese companies were operating in this region compared to 280 in 1995 (i.e. nearly 68% more), which made up 1.6% of all Chinese companies operating abroad. To compare, in 1995, 102 Chinese companies were functioning in old countries of the EU, and in 2003, 532, so this number increased by over 76% within the period of 8 years[**].

So far, the most important Chinese investments have been made in the IT and telecommunications sectors. Lenovo Group, IT Chinese company that is the fourth largest producer of personal computers in the world, in 2005 purchased the section of PC computers from IBM, starting the next stage of international expansion at the same time. The plant that is located in Poland and that produces PC computers, is the first direct investment of this company in Europe. Poland was competing for this investment with the Czech Republic and Slovakia (service centre of the company works here). According to the managers of Lenovo, large and prospective economic infrastructure, strategic location of Poland in Europe (proximity to old EU countries) and highly educated potential employees are major reasons for choosing the location in Poland. It is worth remarking that Polish factory will have taken over the produc-

[*] For the last several years China has been one of the largest recipients of FDI in the world. However for a few years Chinese government has been introducing more and more restrictions for foreign companies that take over Chinese companies. At the same time we can observe a growing tendency to promote native technologies and numerous branches of industry by Chinese authorities on international markets (new policy of the government may be described as "going global"). It favours foreign expansion of Chinese companies.

[**] More on the subject of foreign expansion of Chinese companies see (Gwiazda, 2007).

tion of Lenovo computers from Hungary by 2009 (the equipment of the Chinese producer is made in this country on the principle of production outsourcing). The company has calculated that the cost of production of a single computer in Poland is going to be 6 to 8 dollars lower than the price that they pay to the producer in Hungary*. In the first stage, actions of Lenovo factory will mainly include assembly and configuration of products as well as distribution and logistics services. In the following years the range of activity is going to be gradually extended. A larger part of the equipment produced will be exported to European markets and to the countries of the Middle East and Africa.

Huawei Technologies Co. Ltd. is another Chinese investor that operates in Central and Eastern Europe. It specialises in the production of telecommunications and IT appliances and solutions. At present, the company is the main supplier of telecommunications equipment to Asian and African markets, but they are planning further expansion to European markets. In Russia the company has already started one of 12 research and development centres located in the world and in the future they are planning further direct investments in the countries of Central and Eastern Europe**.

It has to be noticed that for Chinese and Indian companies that are perceived in Europe as producers of low quality goods, access to advanced technologies in this region is an important argument that proves the necessity of direct investments in this region. Those investments can increase the quality of their goods and in the future, they can also change their market image, which is extremely important in case of creation of own brands. Then, the companies will become even more dangerous for contemporary European, American or Japanese leaders.

6. Predicted changes in the structure of direct investments in Central and Eastern Europe

Countries of Central and Eastern Europe are particularly interested in the inflow of direct investments from Japan because such investments are related to transfer of advanced technologies. The investments can significantly contribute to improvement in product and technological competitiveness of home companies, as well. Owing to diffusion of knowledge and technology, in the longer period the investments favourably influence the process of technological changes and increase competitiveness of economy of a given country.

* For the time being, the Chinese company decided for the lease of factory building that has been recently built. The plant will start working in December 2008. In the near future Lenovo is going to realise next direct investments, but none of them will come to Europe. The company is planning construction of factories in India, Mexico and the USA, and also on its home Chinese market.

** In Europe, so far the company has been focused on telecommunications projects realised for operators of telecommunications networks.

In relation to high labour costs in some countries of Central and Eastern Europe (including Poland, the Czech Republic, Estonia, Latvia or Hungary), we can observe some decrease in direct investments that are based on the use of cheaper workforce only. On the other hand, there is some increase in the inflow of undertakings that are based on new technologies, services based on IT or projects in the field of research and development. Therefore, in forthcoming years we can expect changes in the structure of direct investments coming to the countries of Central and Eastern Europe. In the countries of higher labour costs and highly qualified workers (for example in Hungary, the Czech Republic, Poland and the Baltic states) investments in the sectors of high-tech services based on knowledge (including e.g. creation of research and development centres) should be predominant. With the appropriate investment state policies, those countries are likely to obtain larger amounts of "knowledge-consuming" investments. Investments in production sectors (so cost-consuming enterprises) will be mainly realised in the east and south, for example in Ukraine, Romania and Bulgaria. It is supposed that investments in metallurgic, chemical, plastics, vehicle and communications sectors will be predominant.

Interest in further investments in Central and Eastern Europe is mainly presented by Indian companies that so far have invested most of their resources in the Czech Republic and in Hungary (mainly in technological investments in small outsourcing centres)[*]. However if the investments declared by them are realised, in the near future, Poland may become a new technological launch pad for Indian companies in this region of Europe. So far, in the Polish market most investments from India have been made in the sectors of IT and BPO (business process outsourcing). A majority of undertakings were related to provision of services, while at present investments of direct nature are planned. The strategy of nearshoring investment, i.e. location of service centres and software production near customers to be served, is declared by all largest suppliers from India. Some Indian companies (for example Manoj Nair) are also interested in cooperation in the form of joint-venture. The investments to be made will allow for much better service for many European customers of Indian companies. The investments should also contribute to acquisition of many new buyers for the companies both in new and old EU countries.

Specialists predict that in next years the share in the structure of direct investments (in new EU countries) made by the countries from outside Europe, mainly Asian, should grow[**]. Also the growth in direct investments of Japanese companies

[*] For example TCS and Satyam Computer Services started outsourcing centres in Hungary (Budapest) in 2001.

[**] For example, direct investments of Chinese companies that engage their capital mainly in production sectors (electronic, household and automotive goods) started to be coming to Poland. In 2006 Indian companies invested on the Polish markets for the first time. Since then, their share in direct investments that come to Poland has been growing slowly, but systematically. However, it is predicted that

(especially in the sectors of services and high technology) in the countries of Central and Eastern Europe is also predicted.

At the end, it ought to be added that the strategy of geographic expansion of Asian companies, and in fact Chinese and Indian ones, is based on direct investments in the sectors of production and resources because the companies involved find key competencies here, i.e. they bear low costs and they know how to produce cheaply. They try to create own brands on the basis of lower prices and acceptable quality. In the future, the tactics of implementation of the expansion strategy will probably change. Professor C.K. Prahalad predicts that Asian investors will start overtaking companies from highly-developed countries (so also from Western Europe) – the companies that work in sectors that are more knowledge advanced. This way, Asian investors can quickly get high-tech knowledge. High probability of this forecast is confirmed by the above mentioned examples of the Chinese Lenovo concern that purchased the section of notebook production from IBM (acquiring at the same time the right to use the popular brand of Think) and a merger of Indian metallurgic concerns with American or European companies. Acquisition of competing companies, i.e. elimination of competition allows the investor for overtaking their markets and increasing their profits due to economies of scale. In this situation, the interest of companies in new direct investments in Central and Eastern Europe can be significantly reduced.

As a consequence of the growing international economic crisis, the level of investment attractiveness of Central and Eastern Europe may go down very soon (usually, the attractiveness of developing markets is weaker in the period of crisis). However, the decrease in attractiveness of particular countries in the region for foreign investors should be differentiated. The largest decrease in the level of investment attractiveness will probably be observed in the countries that are the least resistant to recession, such as Lithuania, Latvia, Estonia as well as the Czech Republic and Slovakia (here, the euro currency adoption in 2009 will also bring the increase in investment costs). Nowadays, majority of investors (including Asian ones) postpone the decisions related to long-term enterprises on external markets. We can expect that in the future the interest of foreign investors in individual countries of Central and Eastern Europe is going to be dependent not only on their political and economic stability but also on the competitiveness of government systems of support for investments.

[**] investments made by leading companies from India, namely Infosys and HCL, that have engaged their capital in sectors of new services and IT, can attract direct investments to Poland and/or nearby countries by other companies from this country.

Conclusions

Central and Eastern Europe is the region in which a lot of Asian companies have already invested and other companies are planning such investments in the near future. Location of direct investments in this region of Europe by companies from Asia is related to their competitive struggle for share in the European and global markets and at the same time aspiration to improve or strengthen their competitive positions in the world.

Direct investments of companies from Asia are both Greenfield and Brownfield (in the form of a merger, acquisition or starting cooperation with a local company as joint venture). The share of Greenfield direct investments is systematically growing. Moreover, Asian companies more and more often undertake cooperation in the form of strategic alliances with European partners.

New member states of the European Union are particularly attractive for investors from Asia because of relatively strong economic and legal stability and their large and receptive markets. Expansion in the form of direct investments into the markets of new EU member states provides Asian companies with easier access to customers from all EU countries, because they can export their products without customs barriers and other limitations to markets of strategic importance for global economy. This seems to be the major reason for investments in this region of Europe. Other important reasons for investments include revenue taxes for companies that are lower than in Asia, availability of highly-qualified employees and their strong motivation to work, growing local demand and facilities offered by special economic zones (for example tax reliefs or properties that are well-prepared for investments). Labour costs in a majority of new member states of the EU are no longer an important factor for investments because the costs in question are systematically growing. However, the costs are still significantly lower than in the countries of Western Europe. In relation to this, we can observe a phenomenon of relocation of production from Western Europe to the new EU countries, mainly by Japanese companies (but also other West European companies as well).

So far, the largest amount of direct investments in the countries of Central and Eastern Europe (major beneficiaries included the Czech Republic, Poland, Slovakia and Hungary) came from the countries of the old European Union (their share reaches about 80%). However, we can observe systematic growth in the share of investments from Asia. So far, Japanese and Korean companies have realised the most of direct investments (they are additionally related to rationalisation of management on the international scale). For several recent years Chinese and Indian companies, for whom access to advanced technologies (that can bring some increase in the quality of their goods and as a consequence, the improvement of their existing poor market image in Europe) is an important additional reason for investments in this region, have shown their growing interest in investments. A majority of Asian direct investors that operate in this region represent production sectors including automotive, electronic, household goods, machine and metallurgic ones.

Because of high labour costs, in some countries of Central and Eastern Europe we can observe a decrease in direct investments that are based only on the use of cheaper labour force. On the other hand, the inflow of undertakings that are based on new technologies, services based on IT or research and development projects is growing. Therefore, in the forthcoming years we can predict some change in the structure of direct investments that come to the new member states of the EU. In the countries with higher labour costs and higher qualifications of the employees investments in sectors of high-tech services based on knowledge (including e.g. creation of research and development centres) should be predominant. On the other hand, investments in production sectors (o costs-consuming undertakings) will be realised mainly in the east and in the south of the region, for example in Ukraine, Romania, Bulgaria and also in Russia.

References

Augustyniak S. (2005): *Zaproszenie na koreańską drogę.* "CEO. Magazyn Top Menedżerów" February, http://ceo.cxo.pl/artykuly/46453/Zaproszenie.na.koreanska.droge.html.

Cantwell J. (1993): *The Relationship between International Trade and International Production*. Surveys in International Trade, Blackwell, Cambridge, MA.

Czech National Bank (2008), March, http://www.czechinvest.org.

Dunning J.H., Lundan S.M. (2008): *Multinational Enterprises and the Global Economy*. Edward Elgar Publishing Inc., Glos, MA.

Ernst & Young (2006): *European Attractiveness Survey 2006, Globalization Act II: Team Europe Defends its Goals*.

Ernst & Young (2007): *European Attractiveness Survey 2007, Wanted: A Renewable Europe*.

Ernst & Young (2008a): *European Investment Monitor 2008*.

Ernst & Young (2008b): *Otwarty świat. Badanie atrakcyjności inwestycyjnej Europy 2008.*

Frendl K. (2008): *Wszyscy jadą do Polski*. Http://www.rynkizagraniczne.pl (13 March).

Gorynia M (2007): *Strategie zagranicznej ekspansji przedsiębiorstw*. PWE, Warszawa.

Gwiazda A. (2007): *Globalna ekspansja firm chińskich*. "Ekonomika i Organizacja Przedsiębiorstwa", No. 2, pp. 79-86.

Http://itbiznes.pl/art30145.html.

Http://panasonic.cz/onas_spolecnost_panasonic_v_cr.aspx.

Http://sharp-world.com/corporate/info/ci/consolidated/oversea.html.

Http://www.arcelormittal.com.

Http://www.bbc.co.uk/polish/business/story/2005/09/050909_lg_czechy.shtml.

Http://www.d-e.pl/index.php?navi=002,001.

Http://www.egospodarka.pl, 17 June 2008.

Http://www.funaiworld.com/ouroperations/production.html.

Http://www.haiereurope.com/about/index.php.

Http://www.huawei.com/corporate_information/global_operations.do.

Http://www.ips-alpha-eu.cz/obsah/o-spolecnosti/1/19/.

Http://www.lenovo.com/lenovo/pl/pl/.

Http://www.toshiba-europe.com/eu.

Http://www.videoconworld.com/global.

Hunya G. (2006): *wiiw Datapase on Foreign Direct Investment in Central, East and Southeast Europe: Increased Significance of Repatriated and Reinvested Earnings 2006*. The Vienna Institute for International Economic Studies, May, Wien.

Hunya G. (2006): *wiiw Datapase on Foreign Direct Investment in Central, East and Southeast Europe: Shift to the East*. The Vienna Institute for International Economic Studies, May, Wien.

Hunya G. (2006): *wiiw Datapase on Foreign Direct Investment in Central East and Southeast Europe 2008: Decline to Follow Uneven FDI Inflow Growth*. The Vienna Institute for International Economic Studies, June, Wien.

Krugman P., Obstfeld M. (2000): *International Economics, Theory and Policy*. Addison-Wesley, New York.

List of Major Foreign Investors in Poland by Country of Origin of the Capital. December 2006, http://www.paiz.gov.pl/files/?id_plik=8721.

List of Major Foreign Investors in Poland by Country of Origin of the Capital. December 2007, http://www.paiz.gov.pl/files/?id_plik=10570.

National Polish Bank (2006). *Information on Foreign Direct Investment in Poland in 2006*. Warszawa, http://www.nbp.gov.pl/en/publikacje/ziben/ziben2006n.pdf.

National Polish Bank (2007). *Foreign Direct Investment in Poland in 2007*. Warszawa, http://www.nbp.gov.pl/publikacje/zib/zib2007p.pdf.

National Polish Bank (2008). *Zagraniczne inwestycje bezpośrednie w Polsce w 2006 roku*. Warszawa, http://www.nbp.gov.pl/publikacje/zib/zib2006.pdf.

OECD (2008). *OECD Benchmark Definition of Foreign Direct Investment*. 4th edition. Paris, http://www.oecd.org/dataoecd/26/50/40193734.pdf.

PricewaterhouseCoopers (2007). *Eastern Influx, Automotive Manufacturing in Central and Eastern Europe*. Part 1, February.

PricewaterhouseCoopers and the World Bank (2007). *Paying Taxes: The Global Picture 2006-2007*. Http://www.pwc.com/extweb/pwcpublications.nsf/docid/ 5272B7569A7EAE4 F8525727 9006605B3/$File/EasternInfluxPart2Final.pdf.

Rymarczyk J. (2004): *Internacjonalizacja i globalizacja przedsiębiorstwa*. PWE, Warszawa.

Stawicka M.(2007): *Atrakcyjność inwestycyjna Polski*. CeDeWu, Warszawa.

The Economist Intelligence Unit (2007). *World Investment Prospects to 2011. Foreign Direct Investment and the Challenge of Political Risk.*

UNCTAD (2007). *World Investment Report 2007, Transnational Corporations, Extractive Industries and Development*. Http://www.unctad.org/en/docs/wir2007 _en.pdf.

Witul A. (2008): *Szczyt za nami*. “Forbes”, No. 3, p. 132.