

Monthly Report

Are Net Capital Importing EU-CEE Countries Exploited by Foreign Direct Investors?

How Much Do Direct Investors Earn in EU-CEE Countries and where Do They Put it?

Impact of Technical Barriers to Trade on Foreign Direct Investment in CESEE

FDI in Eurasia: A Comparison with Selected EU-CEE Countries



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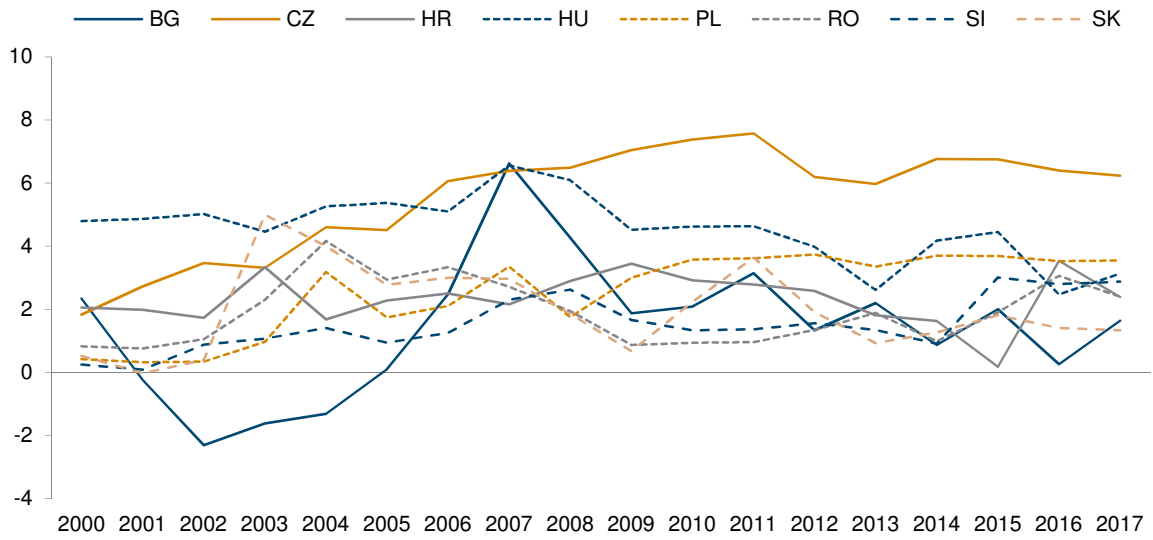
**FDI in Eurasia: A Comparison with Selected EU-CEE
Countries**

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Difference between GDP and GNI in EU-CEE countries, as % of GDP



Note: Gross domestic product (GDP) measures the income of anyone within a country's boundaries, regardless of who produces it. In contrast, gross national income (GNI) measures all income of a country's residents and businesses, regardless of where it is produced.

Source: EU AMECO database.

Opinion Corner: Are net capital importing EU-CEE countries exploited by foreign direct investors?

answered by Vladimir Gligorov

'OURS, BUT FOREIGN'

Krugman pointed out that corporate tax cuts in the US will benefit foreign investors either old or new.¹ Piketty pointed out that foreign ownership affects measures of inequality because profits of foreigners are not taken into account.² Other effects of foreign investments and a large share of foreign ownership of assets in Central Europe, the Baltic states, and in the Balkans have been brought up as well. Some of these observations have been taken to be supportive of populist policies.

Transition economies in Europe have indeed relied on foreign investments perhaps to an unprecedented degree. As a consequence, the net primary income balances in their current accounts tend to be negative. However, over time, their trade balances have improved and often turned into surplus which should eventually affect their income balances too. So, to the extent that is what is going on, these imbalances are sustainable over the long run and over the short run too. There are of course cases where sustainability has proved to be a problem to which I will come.

Piketty's point about inequality needs to be assessed in a different way. The question is whether inequality would have been higher or lower if ownership was domestic, 'ours' that is, rather than foreign. That would depend on the capital-labour ratios in the two cases. If the ratio is higher or it increases faster with foreign investments rather than with domestic ones, income inequality would be higher if cross-border investments were reduced (because capital would be more scarce compared to labour without foreign investments).³

That might not be the case if domestic owners of capital were taxed more, or favoured less, than foreigners. That is perhaps what is meant when it is argued that firms operating in 'our country' should be 'ours' and not foreign. Or, in the populist mode, that 'our' firms or banks are owned by foreigners.

Whether foreign owners are treated more favourably than domestic ones depends on at least two things. One is the ease of foreign capital's mobility and the other is the ability to influence. Often it is argued that the former brings about the latter and thus the overall advantage of the foreign owners over the domestic ones (because foreign capital is more mobile, so it can threaten to leave if it is not afforded special treatment). It is part of the populist argument that investors prefer domestic over foreign markets out of e.g. patriotism or nationalism. That, to the extent it is true, would allow for higher tax rates on profits earned by 'our' as opposed to foreign capitalists or investors.

¹ P. Krugman, 'Leprechaun Economics and Neo-Lafferism', <https://krugman.blogs.nytimes.com/2017/11/08/>.

² T. Piketty, '2018, the year of Europe', <http://piketty.blog.lemonde.fr/2018/01/16/2018-the-year-of-europe/>.

³ See P. Krugman, 'Leprechaun Economics, With Numbers', <https://krugman.blogs.nytimes.com/2017/11/09/>.

Assuming that were true, then it might be the case that domestic ownership of assets would lead to higher corporate and income taxes and thus to lower inequality. But that should be the case at each level of taxation, so it should be the case that foreign investment is marginal. In other words, domestic investment should crowd out foreign. And that has not been the case, at least in the European countries in transition. Which suggests that taxation is not the important factor in either inflow of foreign investments or in the development of income inequality.

Transition countries are not homogeneous in this respect however. As mentioned above, Central European countries have by and large turned their trade and often even current account balances into surpluses. These developments have preceded the crisis of 2008-2009, though the crisis has arguably speeded them up. The Balkans, however, for the most part, are different. This is not so much because of the overreliance on foreign investments as it is the consequence of the policy (of overvalued exchange rate and high interest rates) favouring consumption over investment.

In addition, in these countries, GDP may not be the best indicator for income and activity, because of the large transfers from abroad, i.e. remittances. Still, national saving tends to be low. This is due to populist policies mostly rather than to large foreign investments, which have not been in evidence anyway. Also, external balances and the associated foreign debts present problems in the Balkans with sustainability concerns even over the short run in some cases.

Finally, inequality is most probably higher in the Balkans than in Central European countries in transition with high shares of foreign ownership. It is unlikely that it would be otherwise if foreign income earned in 'our' country were counted as 'ours'. This is in part due to the inferior performance of Balkan economies during the whole transition period, which is certainly related to the low level of domestic and reluctant foreign investments.

In terms of populism, it is not necessarily the case that a higher level of foreign ownership invites nationalist resentment more, at least on the evidence from countries in transition. An argument could be made that it is easier to tax and regulate foreign investors and owners because domestic ones have easier access to the government both through corruption and through voting. In that sense, populism might be associated with higher barriers to foreign investment in the first place rather than the opposite being the case – the presence of significant foreign investments inciting populism. The latter outside of the interest to nationalise which is to say of taking back from the foreigners what is 'ours' – which can be incited at any level of foreign investment. This is similar to the populist anti-immigrant policy, which also claims to be about taking one's country back and can be unrelated to the reality of immigration, in numbers and in their economic contribution.

answered by Leon Podkaminer

'THE IMPORTANCE OF BEING EXPLOITED?'

Many CESEE countries, including the new Member States of the European Union (EU-CEE), have been deeply penetrated by foreign direct investment. In 2016, the combined FDI stock represented 49.5% of the combined GDP of the 11 EU-CEE countries. It is commonly believed that the FDI inflows may have done much good to the recipient countries. However, the jury seems to be out on the overall balance of costs and benefits of FDI. First, it is hard to assess the impacts (positive or otherwise) of the FDI which participated in the early-stage privatisation of the state-owned firms. True, the new, foreign owners of such firms may have introduced new technologies, management practices, access to international

markets etc. But generally their first job usually was to 'rationalise' the operation of their acquisitions which often boiled down to a more or less extensive suppression of the labour costs (i.e. wages) combined with a downsizing of the staff employed. Not infrequently the effects of initial rationalisations were unequivocally destructive as they stipulated the closure, or complete subordination to the 'mother' organisations located abroad, of potential domestic competitors, termination of the native research and development activities, and the loss of human capital, often accumulated over many decades.

FDI (whether through acquisition or as greenfield) in areas promising rent-like high and quick profits (e.g. into commercial banking and insurance, retail and wholesale trade networks and real estate activities) is also rather hard to qualify as obviously positive. No terrible amounts of technology transfers seem to be related to FDI in most of these areas. The FDI into such high-profit/low-technology activities has been very high though. For the EU-CEE countries, these activities accounted for 42.1% of the inward FDI stocks in 2015 – more than they did for manufacturing (26.9%). High foreign involvement in these activities has been facilitated by the governments' inaction in CESEE. The governments did not shelter the nascent private domestic initiatives that, given some time, could have grown to the proper sizes. Worse still, the governments actively bolstered the FDI in these areas – e.g. selling out the state-owned banks and insurance companies to foreign owners (often at big discounts), guaranteeing tax privileges etc.

The FDI involvement carries high costs, especially in the Visegrád countries. FDI income earned in the Czech Republic reached 7.3% of the country's GDP in 2016. For Hungary, Poland and Slovakia the respective shares were 6.1%, 3.8% and 4%, respectively. The rates of return on FDI (income earned/FDI stock) were high as well, ranging between 8.2% (Slovakia) and 11.6% (the Czech Republic). These are the measures of EU-CEE 'exploitation' by FDI. Professor Joan Robinson famously remarked that 'the only thing worse than being exploited by capitalism is not being exploited by capitalism'. Paraphrasing this, is it better to have been exploited by FDI than not to have been exploited by FDI? Possibly. But my suggestion would be that for the EU-CEE countries the first-best option would have been to become exploiters themselves.

I come to this suggestion upon contrasting the experiences of EU-CEE with that of the Republic of Korea. Korea has been by far a more successful country, in terms of growth, than e.g. Poland – the best (so far) pupil among the EU-CEE countries. By 2010, Poland's real GNI was by 49% higher than in 1999 and in 2016 by 78% higher. For Korea the figures are more impressive: 70% and 103% respectively. However, Korea's superiority cannot be explained by its being friendly to FDI. Just the opposite is true. Back in 2000, the inward FDI stock represented only 6.6% of Korea's GDP (in Poland it was already then 16.6%). By 2016, the Korean inward FDI stock rose to 16% of GDP – but in Poland that ratio reached about 50%. Instead of being a place to dump FDI, Korea has become an FDI source itself. In 2000, Korea's outward FDI stock represented 49% of the inward FDI stock located on its soil. By 2010, that ratio reached 106%, followed by 165% in 2016. This trajectory contrasts with Poland's where the initial ratio was 0.8% in 2000, rising to 13% in 2016.

The moral to this story seems obvious. Reliance on FDI inflows may be a tactics for achieving moderate medium-term economic success. But the strategy aiming at reaching extraordinary long-term economic goals may not boil down to the reliance on uncontrolled inflows of overpaid foreign capital. Instead, it must stipulate consistent and organic growth of the own productive forces – even if this means keeping foreign capital at bay for extended periods of time.

How much do direct investors earn in EU-CEE countries and where do they put it?

BY GÁBOR HUNYA

INTRODUCTION

The income of foreign direct investors has been in the focus of attention recently. Piketty (2018) made an arbitrary comparison of foreign investors' income with the transfers that EU-CEE countries receive from the EU budget, concluding that investing EU Member States which are also net payers to the EU budget earn more on the CEE members in terms of FDI income than they transfer as capital. This comparison has long served in the populist media of EU-CEE countries as an argument for economic nationalism and raising anti-FDI and anti-EU sentiments. That Piketty made methodological mistakes and compared apples with pears has been pointed out by Darvas (2018) and others. The correct use of balance of payments data distinguishing between repatriated and reinvested profits has been highlighted in wiiw's annual *FDI Report* (Hunya, 2017).

In the following we first look at the rate of dependence on FDI in the EU-CEE economies using the international investment position (IIP) and foreign affiliates statistics (FATS). Then the profitability of foreign businesses is discussed. Finally the income of foreign investors and its use based on balance of payments data will be discussed.

HIGH FDI PENETRATION IN EU-CEE

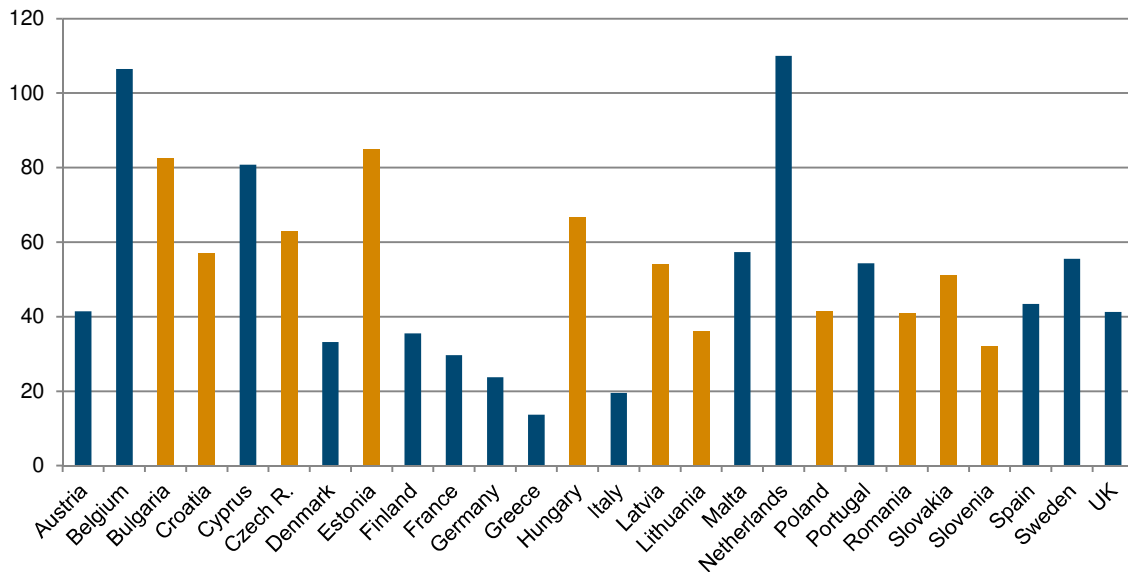
Economic transition and development in the EU-CEE countries has to a large extent been based on imported capital and technology via FDI. Foreign investment enterprises dominate much of the manufacturing production, financial services, etc. The penetration of FDI in a host economy can be measured by the FDI stock as percentage of GDP. This does not mean that the two numbers are conceptually related; the purpose of comparing a stock indicator with a flow indicator is to make countries of different size comparable (Figure 1). Countries with FDI penetration rate above 100% (Luxembourg, Ireland, Netherlands and Belgium) host headquarters of large holding companies and special purpose entities (SPEs¹) attracted by especially advantageous regulations. These countries have also similarly high outward FDI intensities. Countries with low inward FDI penetration include large and/or highly developed countries where outward FDI is dominant over inward FDI.

Figure 1 also demonstrates that EU-CEE countries have relatively high FDI penetration in comparison with more developed EU Member States except those hosting holdings. Smaller EU-CEE economies (Estonia), or those attractive for real estate investors (Bulgaria), and those open to FDI for a longer period of time (Czech Republic, Estonia and Hungary) have higher rates of FDI penetration than larger

¹ SPEs are economic entities owned by foreigners without economic activity, channelling funds between non-residents. See: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Special-purpose_entity_\(SPE\)](http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Special-purpose_entity_(SPE))

economies (Poland) and those with less FDI-friendly policies (Slovenia). FDI penetration of EU-CEE countries has not changed much since 2010 (Figure 2); increases in recent years occurred mainly in countries with relatively modest FDI penetration (Croatia, Latvia and Slovenia). Lower FDI stocks as a percentage of GDP in 2016 than previously were the result of stronger GDP growth.

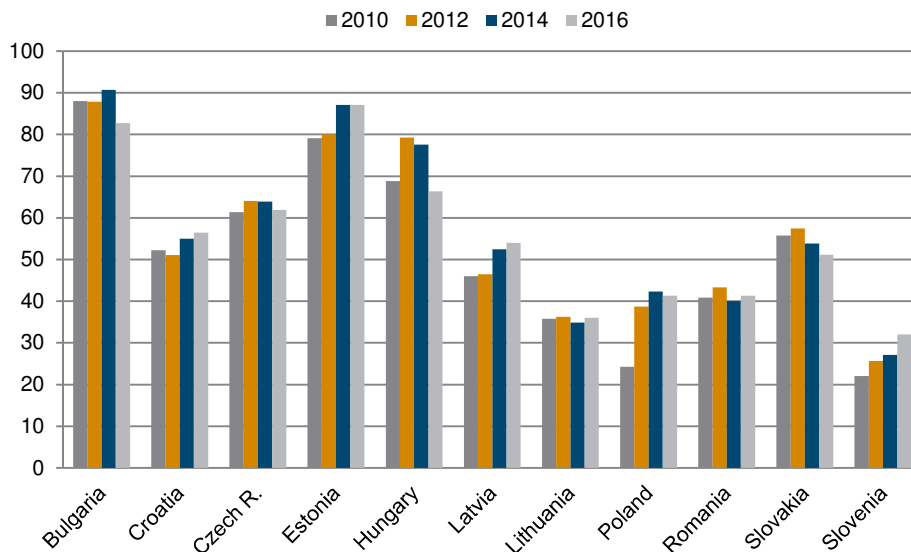
Figure 1 / FDI inward stock as a percentage of GDP in EU countries, 2016



Note: FDI stock based on directional principle excluding special purpose entities (SPEs); not included in the figure are Ireland: 290.2% and Luxembourg: 376.7%.

Source: Eurostat.

Figure 2 / FDI inward stock as a percentage of GDP in EU-CEE 2010-2016, selected years

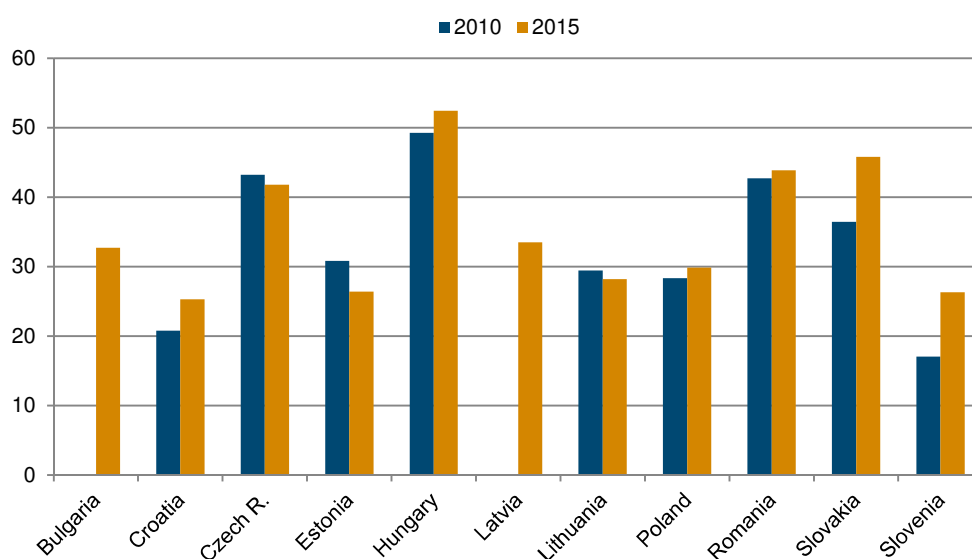


Note: FDI stock based on directional principle excluding SPEs.

Source: wiiw FDI Database relying on Eurostat.

Another indicator to measure the significance of FDI is the share of foreign affiliates in the value added. It is not the amount of invested capital that matters in this comparison but the value added produced by foreign affiliates. The coverage of FDI stocks and foreign affiliates statistics (FATS) differ as the latter do not include companies with minority foreign ownership and those active in the financial sector.

Figure 3 / Value added by foreign affiliates as a share of the total value added in the business economy (excluding finance and insurance activities), in %



Note: Foreign affiliates statistics (FATS) refer to companies with at least 50% foreign ownership; total business economy based on structural business statistics (SBS). No data for Bulgaria and Latvia in 2010.

Source: Eurostat FATS and SBS.

The contribution of foreign affiliates to value added is highest in Hungary, more than 50%, followed by Slovakia, Romania and the Czech Republic with over 40% (Figure 3). These are among the countries which are at the top also in respect of FDI penetration based on stocks. Some other countries with high FDI penetration based on stock data, namely Bulgaria and Estonia, fare more modestly in terms of the share of foreign value added, partly due to the absence of the financial sector and real estate ownership in FATS data. Poland has relatively low foreign penetration by both indicators. It is a large and diversified economy, where domestically owned companies have preserved dominance while the foreign multinationals are also important, especially in manufacturing. The Slovenian economy is an outlier in every respect as it is small, export oriented but largely domestically owned in all economic sectors. But foreign investors have gained pace in the 2010s in Slovenia in the wake of a financial crisis that hit the state-owned banks and companies with weak corporate governance.

Foreign penetration in the manufacturing sector tends to be higher than average. Foreign affiliates provide 70% of the value added in the Hungarian and Slovak manufacturing sectors and 60% in the Czech and Romanian; about 40% in the rest of the EU-CEE countries. In Bulgaria and Lithuania, the low share of foreign ownership in manufacturing goes hand in hand with the below-average share of this sector in the value added. Another sector which is typically dominated by foreign affiliates is the information and communication sector. Initially, this sector was modernised and developed mainly by foreign investors providing 60-70% of the sectoral value added in 2010. However, in recent years a rapid

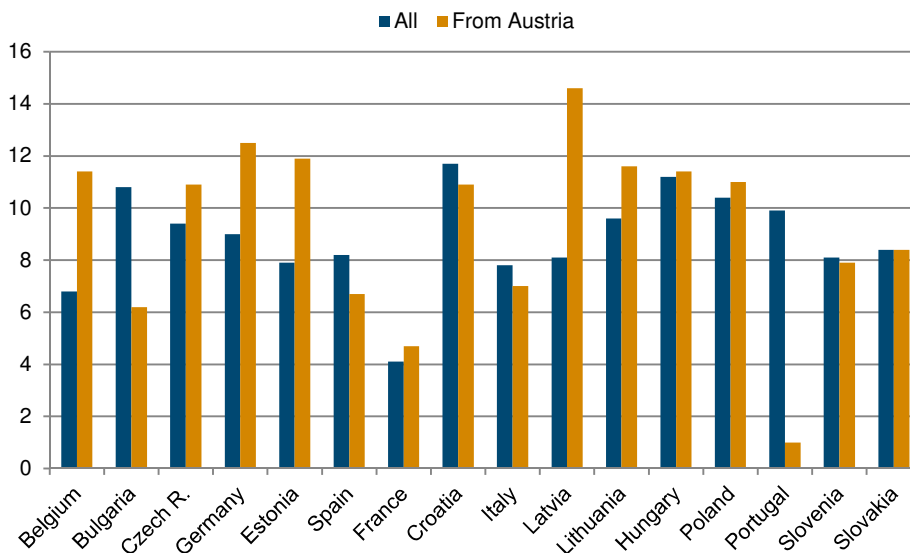
catching-up of domestic service providers, especially in software development, has generated a decline in the foreign investors' dominance by some ten percentage points.

The rate of foreign penetration has not changed much over time in terms of either indicator (FDI and FATS). The relative position of EU-CEE countries has been quite stable over the last five to six years. This was the result of more modest FDI inflows than before the financial crisis of 2008. Also the locational factors attracting FDI have been quite stable. Differences among EU-CEE countries in terms of economic growth do not correlate with the rate of foreign penetration or with the intensity of FDI inflow. Between 2010 and 2016, the fastest growing economies were the three Baltic states plus Poland and Romania – countries with rather different FDI penetration rates. The least growing economies, Croatia and Slovenia, were however those with very low rates of foreign penetration.

PROFITABILITY OF FOREIGN AFFILIATES – AUSTRIA AHEAD OF OTHER INVESTORS

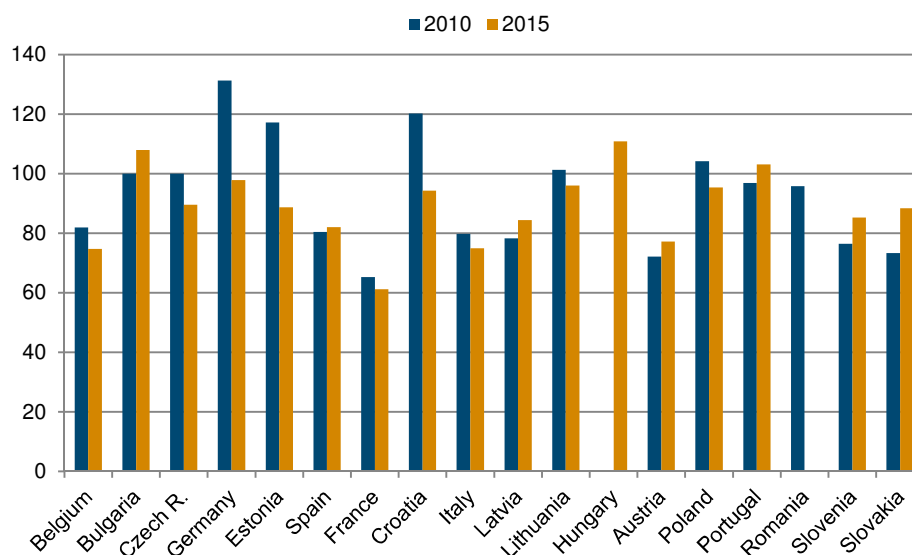
Foreign affiliates are on the whole profitable as indicated by the positive gross operating surplus as a percentage of turnover (Figure 4). Austrian affiliates show above-average profitability in the EU-CEE countries, except in Bulgaria (no data for Romania), and also in the country's main FDI destination, Germany.

Figure 4 / Gross operating surplus as a percentage of turnover of all foreign affiliates and Austrian affiliates in selected EU host economies, 2015



Source: Eurostat inward FATS.

Figure 5 / Gross operating surplus per turnover (gross operating rate) of foreign affiliates as a percentage of the gross operating rate in the total business economy



Note: Data refer to the business economy excluding finance and insurance activities.

Source: Eurostat inward FATS and SBS, own calculation.

In terms of the foreign sector's relative profitability, the difference between EU-15 and EU-CEE host economies appears to be neither systematic nor large. Foreign affiliates had lower than average profitability (below 100% in Figure 5) in 2015 in most countries except in Bulgaria, Hungary and Portugal. This can probably be explained by the below-average share of value added in the turnover of foreign affiliates. The profit share as a percentage of value added, if available, would most probably be higher for the foreign sector.

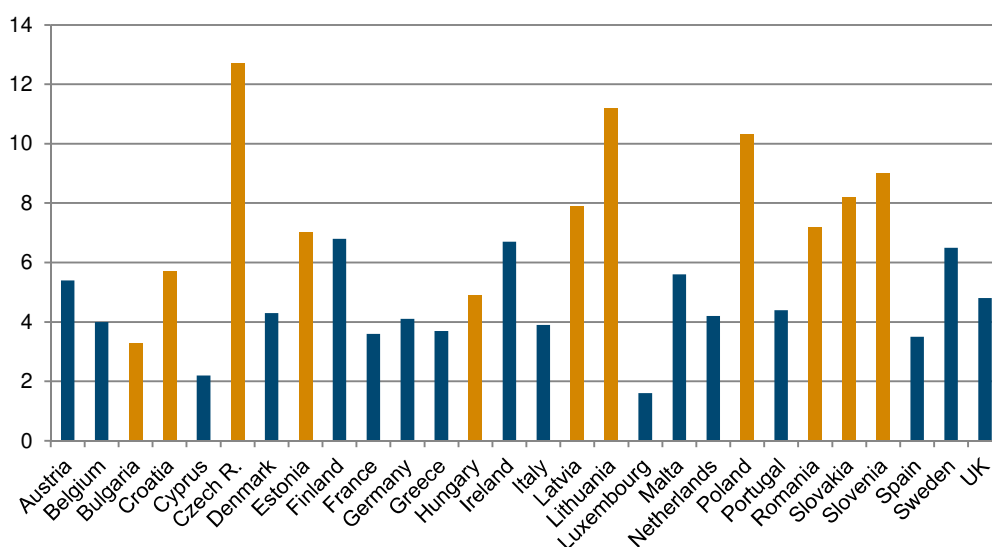
HIGH RATE OF RETURN ON FDI IN EU-CEE COUNTRIES

Private investors expect a positive return to their invested capital. There is no difference between foreign and domestic investors in this respect. Both of them are also free to decide what to do with the taxed income they earn. What makes the income of foreign investors special compared to resident investors is that the balance of payments tells us how much the former earn and whether they keep it in the host country. Contrary to this, resident investors' income is not scrutinised from this aspect. The rate of return is an important factor of a location's attractiveness to FDI. Data suggest that EU-CEE countries offer high rates of return and remain being attractive for foreign investors.

The rate of return earned by foreign investors on FDI capital is higher in EU-CEE countries than in the EU-15. In the EU-28 the FDI-related income as a percentage of FDI stock is 5.6% on average but with remarkable differences between countries (Figure 6). In EU members with above-average FDI stock/GDP ratios (Ireland, Sweden) the rate of return tends to be higher than in countries with low FDI penetration. The largest and most developed economies have usually the lowest FDI stock in relation to their GDP and a below-average rate of return on the FDI stock (Germany, France). In their case, not profitability but other factors such as agglomeration and market presence may be the main factors of FDI

attraction. The outliers with very high FDI penetration but a low rate of return are Luxembourg and Cyprus, which have exceptionally high FDI stocks in SPEs which have no economic activity in the host economy.

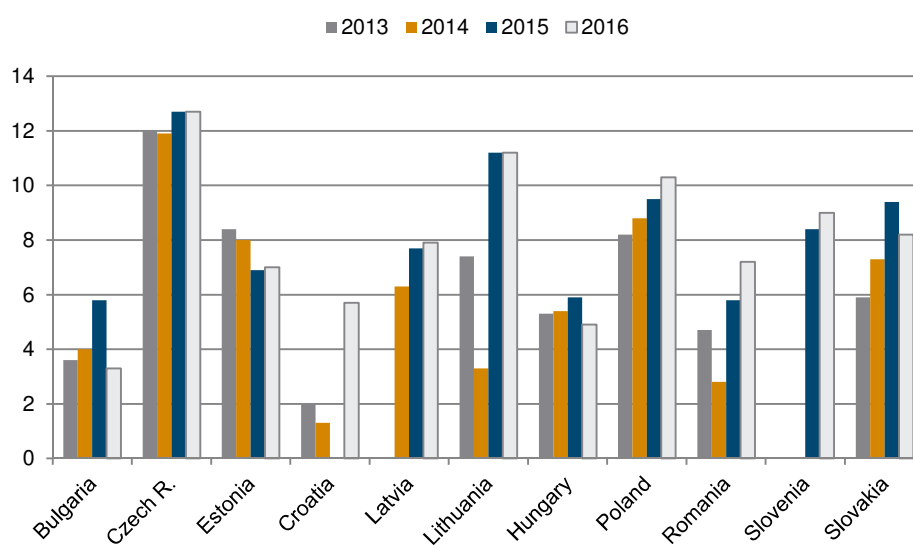
Figure 6 / Rate of return on inward FDI stock, per cent, 2016



Note: FDI income on inward FDI as a percentage of inward FDI stocks including SPEs based on the balance of payments and international investment position.

Source: Eurostat.

Figure 7 / Rate of return on inward FDI stock, per cent, EU-CEE, 2013-2016

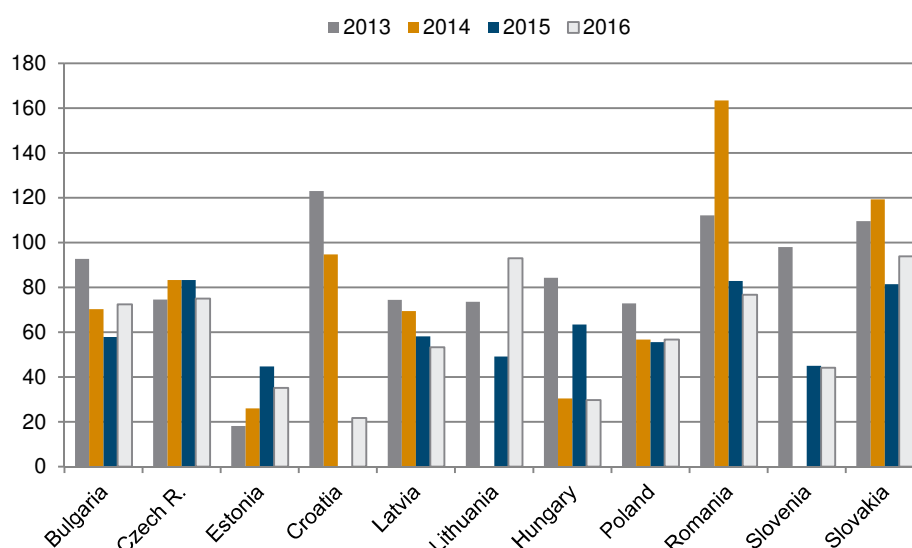


Note: FDI income on inward FDI as a percentage of inward FDI stocks including SPEs based on the balance of payments and international investment position.

Source: Eurostat.

In the EU-CEE countries, direct investors attain higher rates of return in countries with better doing business conditions (Figure 7). The highest rate of return has been achieved in the Czech Republic, about 12%. Rates around 10% in 2015-2016 characterised also Lithuania and Poland; about 8% was achieved in Slovakia and Slovenia. Countries with lower level of development tend to have lower profit rates on FDI (Bulgaria, Romania): lower wage costs do not translate into higher profits for investors. Hungary is an outlier because the large amount of FDI in SPEs halves the rate of return compared to what would be achieved on the FDI stock without SPEs. An acceleration of growth in the region's economies was conducive for profit generation as shown by the generally increasing rate of return in 2015-2016 against the previous two years.

Figure 8 / Repatriated income as a percentage of FDI income



Note: Repatriated income is calculated as the difference between FDI-related income and reinvested earnings. All indicators are net balances thus including the (minor) impact of outward FDI.

Source: Eurostat, own calculation.

Not all income that belongs to the foreign direct investor leaves the host country – a discretionary part of it is reinvested and then booked as FDI inflow on the financial account of the balance of payments. In general, more income is repatriated than reinvested; the repatriation rate has hovered between 60% and 80% in recent years (Figure 8). It is also possible that in a given year the amount of repatriated income surpasses the amount earned due to liquidated reserves. This was the case in several EU-CEE countries e.g. in 2013-2014, when the rate of return was low. In 2015-2016, when earnings were rising and FDI activity increased, the repatriation rate subsided. In 2016, the highest repatriation rates were observed in Lithuania and Slovakia followed by Romania and the Czech Republic with above or close to 80%. Most of these countries also had above-average rates of return on FDI. Poland was in the best position because the repatriation rate was relatively low despite the high and increasing rate of return.

The annual balance of FDI inflow and income outflow is negative in countries with high amounts of repatriated income. This was the case for the Czech Republic and Slovakia in each of the years 2013-2016 and in Hungary and Poland in two of these four years. Negative but insignificant balances characterised the rest of the EU-CEE countries as well. However, this apparent loss on the external

accounts attributed to FDI is more than compensated by the trade surplus generated by foreign investment enterprises.

CONCLUDING REMARKS

The impact of FDI on EU-CEE economies has changed over the past decade. The intensity of FDI inflows subsided in the wake of the global financial crisis and has hardly increased when economic growth accelerated in 2016-2017. As a result, the extent of FDI penetration in the EU-CEE economies has largely stabilised – albeit at a relatively high level compared to most EU-15 countries.

Host country governments striving to attract FDI should welcome that investors enjoy an adequate rate of return. This is not always the case especially in political messages and also questioned by Piketty (2018). In practice, governments even supplement the FDI capital with state aid and/or lower the corporate tax rate for certain investors in competition for new investment projects. These policies push up the rate of return on FDI capital, therefore above-average rates of return should not come to governments as a surprise.

Relatively high rates of return also mean that there is room for increasing wages in foreign affiliates. Overall wage dynamics over the past ten years has been slow except in Bulgaria, Hungary and Romania in the past two years, while manufacturing sector wages grew ahead of the national average in all countries (Astrov, 2018). Increasing labour shortages in the current boom period can hike wages further and make efficiency-increasing investments necessary in order to maintain profitability. It seems that foreign investors are willing to take this step which absorbs a large part of the current FDI inflows including reinvested profits.

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Impact of technical barriers to trade on foreign direct investment in CESEE

BY MAHDI GHODSI

INTRODUCTION

One important factor inducing firms to undertake foreign direct investment (FDI) is to access a market that is protected by trade policy measures in the host economy. Several studies have found high trade costs as an important factor encouraging firms to undertake horizontal foreign direct investment (HFDI). In HFDI, firms establish all production procedures in the host country to supply the final product. This allows them to completely remove the trade costs of the final product from their home country to the destination market.

At the same time, in recent decades great efforts have been made to reduce trade frictions and trade costs. Currently very low or no tariffs at all are levied on the import of many products, especially those exported to the developed economies. This trade liberalisation has allowed multinational enterprises (MNEs) to enjoy production fragmentation across the globe by undertaking vertical foreign direct investment (VFDI). In fact, due to lower trade costs MNEs establish some parts of their production activities in other countries where the costs of factors of production are relatively smaller. The recent large manufacturing investment in assembly lines in Central, East and Southeast Europe (CESEE) is one important manifestation of this phenomenon.

Given the generally low import tariffs, international trade is nowadays to a large extent impeded by non-tariff measures (NTMs), which cover regulatory measures concerning health, safety, environmental quality, and general standards. According to the Multi-Agency Support Team (MAST)¹ classification, 'NTMs are policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both'. Classifications of NTMs are mostly based on international regulations mandated by the WTO and other organisations, while scholars have additionally classified NTMs based on their nature and implications into two broad categories.

The first category includes quantitative NTMs such as anti-dumping duties (AD), quantitative restrictions (QR), safeguard measures (SG), etc. Despite having quantitative implications, this category of NTMs is grounded on national security requirements, health and environment issues, market adjustments, etc. The second category refers to NTMs which aim at qualitative characteristics of products. Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBTs) are the most important examples in the 'quality NTM' category. TBTs and SPS measures allow countries to impose restrictions on the import of low-quality products suspected to harm the domestic consumers' health, global environment, safety, etc. Such trade policy tools aim at maintaining specific standards in the import market. For

¹ <http://unctad.org/en/Pages/DITC/Trade-Analysis/Non-Tariff-Measures/MAST-Group-on-NTMs.aspx>

instance, improving the market efficiency by information requirements such as mandatory labelling, or setting standards for the intermediate inputs of production to meet the technical requirements in the next stages of production, are such quality-related aspects behind TBTs. Bans on imports of poultry washed with chlorinated water or restrictions on imports of peanuts with large amount of aflatoxin are examples of SPS measures.

Where the market fails to address these quality issues in an optimal way, governments are obliged to set up regulative frameworks to enhance the level of standards (Swinnen, 2016; Ing and Cadot, 2017). If the import product does not comply with these regulations, access to the market is halted and the exporter might bear the costs of conformity. Alternatively, a producer who intends to serve the host market might opt for establishing a production facility in the host market which applies the local standards embedded within NTMs, rather than restructuring its production line at home at an extensive sunk cost to comply with conformity assessments. This outcome is very similar to 'tariff jumping' motives behind HFDI, although the mechanism is through trade-restrictive regulative measures which effectively play a role in transforming the final product or the production procedure to a new set of standards.

Both FDI and trade are bilateral relationships between two partner countries. VFDI usually increases when trade costs are lower in both directions. This means that trade-restrictive policies imposed by the home country on the product imported from the host country could potentially reduce the VFDI. A smart trade policy aligning itself with the domestic industry would usually avoid harming the profit of domestic firms investing abroad (possibly in upstream sectors) by imposing the restrictive trade measures on their imports of products which are either used as their intermediate inputs of production or sold as final product in their retail store to the final domestic consumer.

Nevertheless, as mentioned above, in addition to the trade impact (which could be restrictive), NTMs as trade policy measures embody standards with technological content. This means that when an economy is imposing new quality NTMs, its production technology at home should most probably maintain those technological standards regulated by NTMs. When the exporting country cannot afford the production at the level of standards set by the importing country, firms in the importing country who operate in a higher technological environment would have a chance to undertake the technological transfer to the exporting country through FDI. This will firstly allow these firms to benefit from cost-efficient factors of production in the host country which might have had a relatively high comparative advantage before the NTMs halted exports. Additionally, when VFDI takes place, complying with the higher home standards in the upstream sector transferred to the host economy will facilitate the production of the downstream sector or the final product at home. Consequently, regulations embedded within NTMs imposed by a country might possibly increase the outward FDI.

Technical barriers to trade (TBTs) are one of the most important subcategories of NTMs enforcing regulations and standards on import flows which have been frequently used by governments. WTO members are eligible to impose these NTMs unilaterally in line with the TBT agreement of the WTO. However, some TBTs might be trade restrictive, raising concerns of other WTO members or ultimately causing dispute settlements. WTO members are obliged to notify their NTMs directly to the WTO Secretariat to improve the transparency in trade policies, but they can also discuss issues related to other members' policies and notify them to the meetings of the TBT Committee. WTO members can actually raise Specific Trade Concerns (STCs) on TBTs imposed by other countries, no matter whether or not those TBTs are notified to the WTO directly by the imposing member. While a TBT is a unilateral

regulation imposed against all exporters, a TBT STC is discriminatory, meaning that there are specific exporters raising those concerns against a given TBT that is potentially trade restrictive.

Using econometrics techniques and gravity modelling, this article analyses how NTMs imposed by both home and host countries affect the stocks of FDI in CESEE countries.²

METHODOLOGY

A firm's decision to undertake FDI has several determining factors depending on the type of FDI, i.e. either horizontal or vertical. When controlling for determinants of FDI such as the size of the economies and the level of development, I focus on the impact of TBTs. The equation to be estimated is as follows:

$$FDI_{ijt} = \alpha_0 + \alpha_1 \ln(NTM_{nijt} + 1) + \alpha_2 \ln(T_{ijt} + 1) + \alpha_3 \ln(NTM_{njit} + 1) + \alpha_4 \ln(T_{jit} + 1) + \alpha_5 X_{it} + \alpha_6 X_{jt} + \alpha_7 Z_{ijt} + \omega_{ij} + \omega_t + \varepsilon_{ijt}, \quad n \in \{TBT, TBT\ STC\} \quad (1)$$

where FDI_{ijt} is the logarithm of stocks of FDI in US dollar in host country i from home country j at time t ; NTM_{nijt} includes the stock of TBTs imposed (being in force or initiated) by country i on imports from country j at time t , and Specific Trade Concerns raised by country j on the TBTs imposed by country i at time t ; T_{ijt} , is the simple average tariff imposed by country i on imports from country j at time t . For VFDI trade costs of products shipped to the home country matter as well, therefore, the reciprocal trade policy measures are also included in the regression as NTM_{njit} and T_{jit} .

The control variables are as follows: X_{it} and X_{jt} refer to country aggregate variables such as real GDP, real GDP per capita, exchange rates with respect to the US dollar (proxy for economic volatility) xr , WTO dummy being equal to 1 for being a WTO member, and EU dummy for being an EU member, for home country i and host country j , respectively; Z_{ijt} refers to time-variant variables including bilateral imports to host country i from home country j M_{ijht} , and exports from host country i to home country j X_{ijht} ³; ω_{ij} and ω_t are respectively country-pair and time fixed effects; and ε_{ijt} is the error term. Robust standard errors are clustered by country-pairs to control for the heteroscedasticity in the error term.

TBTs are usually imposed unilaterally at the disaggregated product level (e.g. at the 6-digit level of the Harmonised System (HS)). In order to aggregate them at the (bilateral) country level, one can use the trade-weighted average number of TBTs across all products traded between two trading partners, which is referred to in the literature as the coverage ratio of NTMs (Bao and Qiu, 2010). Here, I use trade values at the 6-digit HS level as the averaging weights⁴ as follows:

$$NTM_{nijt} = \sum_h \frac{m_{ijht}}{\sum_h m_{ijht}} NTM_{nijht}, \quad n \in \{TBT, TBT\ STC\} \quad (2)$$

$$NTM_{njit} = \sum_h \frac{m_{jihnt}}{\sum_h m_{jihnt}} NTM_{njihnt}, \quad n \in \{TBT, TBT\ STC\}$$

² In this short contribution there is no room for a full scale overview of the related literature.

³ Country-pair variables comprising traditional time-invariant gravity variables such as distance, sharing the same border, colonial history and language are dropped out of the estimation when bilateral fixed effects ω_{ij} are used.

⁴ Using simple averages instead of trade-weighted averages of NTMs in the estimations would give similar results, which are available upon request.

ESTIMATION RESULTS

Table 1 presents the estimation results on bilateral inward FDI stocks for 23 CESEE countries⁵ for the period 2009-2016. Going from column 1 through 5, the estimated model includes additional control variables over the same sample of data. In column 5, the sample is divided into the non-EU CESEE countries and Central and East European EU Member States (EU-CEE).

Almost in all model specifications, tariffs imposed between the two trading partners (host i and home j) from any side have no statistically significant impact on stocks of FDI in CESEE countries. Only FDI stocks in EU-CEE are negatively correlated with tariffs imposed by them on imports from home countries. This is mainly because of inward FDI stocks to Croatia which substantially increased after the country's accession to the EU in 2013; other EU-CEE countries joined the EU before 2009. This could hint at the prevalence of vertical FDI in the EU-CEE countries, whose FDI inward stocks substantially increased after their accession to the EU due to their much lower tariffs and partaking in the European value chains.

TBT STCs imposed by the host countries are significantly and positively related to the inward stocks of FDI. As mentioned earlier, TBT STCs are restrictive cases of TBTs that are discussed during committee meetings at the WTO. Thus, we observe 'tariff jumping' where the investors prefer to invest in the destination market rather than to bear the high costs of exports due to restrictive measures. This impact becomes statistically insignificant when we separate the sample in specification 5.

In contrast, TBT STCs imposed by the home countries do not have any statistically significant impact on the FDI stocks to the CESEE countries in any of the model specifications.

Unilateral regular TBTs imposed by the host countries do not affect the inward FDI stocks of CESEE countries in models 1 through 4. However, after including the EU dummies in model 5, this impact becomes negative and statistically significant. Observing a similar negative robust impact on the sub-sample of non-EU CESEE countries indicates that this is only the case for these non-EU countries. In other words, when the average number of TBTs imposed by a non-EU CESEE country increases by 1%, the inward stocks of FDI to this country from the home country decreases by 0.25%. This is in contrast to the 'tariff jumping' phenomenon caused by TBT STCs (which are in essence trade restrictive), while general TBTs mostly set higher quality standards which are not necessarily trade restrictive.

The interesting result is related to the statistically significant and positive impact of TBTs imposed by the home country on the outward FDI stocks to the host economy. This could hint at a possible technology transfer from the home country via larger FDI to the host economy, where the technical standards embedded within TBTs become higher. This relationship becomes stronger for the sub-sample of non-EU CESEE countries, while it is statistically insignificant for the sub-sample of EU-CEE. This could be because the EU-CEE countries have a similar set of regulations and standards due to harmonisation and mutual recognition across the whole EU, which has been achieved mostly during the accession period.

⁵ Albania, Bulgaria, Bosnia and Herzegovina, Belarus, Czech Republic, Estonia, Croatia, Hungary, Kazakhstan, Kosovo, Lithuania, Latvia, Moldova, Macedonia, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey, and Ukraine.

Table 1 / Estimation results on the FDI inward stocks in CESEE during 2009-2016

Dep. Var. FDI_{ijt} Hosts (i)	1	2	3	4	5		
	CESEE	CESEE	CESEE	CESEE	CESEE	Non-EU CESEE	EU-CEE
$\ln(T_{ijt} + 1)$	0.28	-0.19	-0.51	-0.62	-0.82	0.97	-5.22**
$\ln(T_{jit} + 1)$	0.0034	0.0034	0.0041	0.0034	0.0028	0.0068	0.0060
$\ln(TBT\ STC_{ijt} + 1)$	0.74**	0.71**	0.73**	0.73**	0.72**	0.77	0.72
$\ln(TBT\ STC_{jit} + 1)$	-0.22	-0.26	-0.28	-0.29	-0.28	0.39	-0.29
$\ln(TBT_{ijt} + 1)$	-0.012	0.000049	0.00022	-0.0011	-0.050**	-0.25***	0.031
$\ln(TBT_{jit} + 1)$	0.0054**	0.0063**	0.0062**	0.0062**	0.0069***	0.010***	-0.0022
$\ln(GDP_{it})$		0.49**	0.70***	0.70***	0.63***	0.36	2.24**
$\ln(GDP_{jt})$		-0.15	-0.13	-0.11	-0.12	-0.24	-0.32
$\ln(GDPpc_{it})$		-0.50	-1.01	-1.06	-0.60	-0.52	-1.69
$\ln(GDPpc_{jt})$		1.05**	1.08**	1.03**	1.07**	1.18**	1.45**
$\ln(xr_{it})$			0.0099	0.012	0.034	0.15	-0.0100
$\ln(xr_{jt})$			0.042	0.044	0.048	-0.087	0.16
WTO_{it}			-0.36***	-0.36***	-0.32***	-0.31***	
WTO_{jt}			0.073	0.079	0.095	0.092	0.11
$\ln(M_{ijt})$				0.017	0.016	0.014	0.036
$\ln(X_{ijt})$				0.014	0.017	0.069	-0.044*
EU_{it}					0.49***		
EU_{jt}					0.069	-0.23	0.71***
N. Obs.	7742	7742	7742	7742	7742	4601	3134
R-sq	0.929	0.929	0.930	0.930	0.930	0.925	0.945
adj. R-sq	0.917	0.917	0.918	0.918	0.918	0.911	0.935
AIC	17766.4	17734.8	17707.4	17703.2	17676.1	11063.2	6025.9
BIC	17808.2	17804.4	17804.7	17814.5	17801.2	11172.6	6122.7
Country pair FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

SUMMARY AND CONCLUDING REMARKS

In this article, the impact of technical NTMs on the FDI stocks in Central, East and Southeast Europe (CESEE) was analysed. The econometric results suggest that import tariffs no longer have a significant impact on the decisions of multinational enterprises (MNEs) to undertake FDI in CESEE economies, especially in non-EU CESEE countries. Conversely, technical barriers to trade (TBTs) embedding standards and regulations could possibly influence the FDI stocks in CESEE. In fact, restrictive TBTs imposed by non-EU CESEE countries, on which specific trade concerns (STCs) are raised by the home countries, are positively related to the inward stocks of FDI in these CESEE countries. Moreover, a larger number of TBTs imposed by the home countries motivates outward FDI to non-EU CESEE countries. Technical regulations and more stringent standards embedded within these NTMs could designate a higher level of technological progress in the country imposing them. Therefore, the outward FDI to CESEE countries could be an indication of technological transfer via FDI, which enables the host countries to export to the home countries meeting the standards in the home market.

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Bao, X. and L.D. Qiu (2010), 'Do technical barriers to trade promote or restrict trade? Evidence from China', *Asia-Pacific Journal of Accounting & Economics*, Vol. 17, No. 3, pp. 253-278.

Ing, L.Y. and O. Cadot (2017), Ad valorem equivalents of non-tariff measures in ASEAN, *ERIA Discussion Paper Series 2017-09*.

Swinnen, J. (2016), 'Economics and politics of food standards, trade, and development', *Agricultural Economics*, Vol. 47, No. S1, pp. 7-19.

FDI in Eurasia: A comparison with selected EU-CEE countries

BY PETER HAVLIK

INTRODUCTION

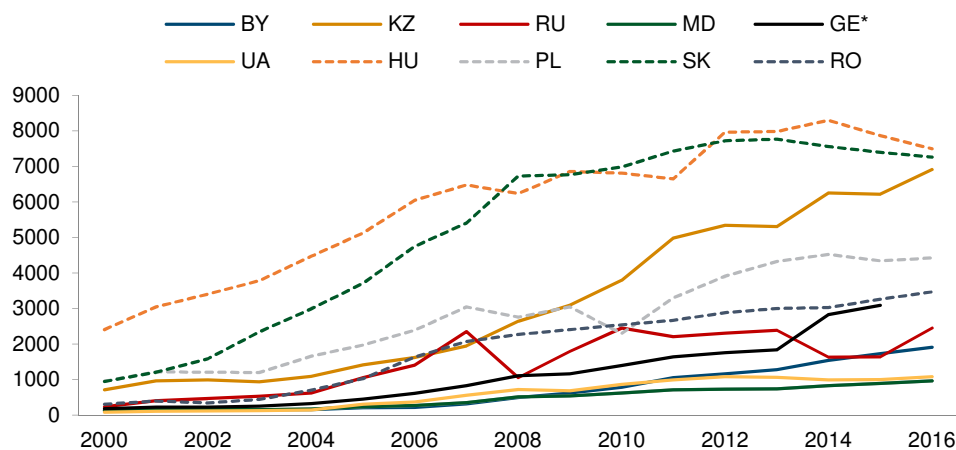
Foreign direct investment (FDI) has been the main driver of restructuring and modernisation in the countries of **Central and Eastern Europe (EU-CEE)** which became members of the EU in 2004, 2007 and 2013, respectively. FDI has been instrumental both in privatisations of state-owned enterprises and in launching new investment projects. FDI flows in manufacturing have created modern competitive export-oriented industries and generated export revenues. FDI flowing into services sectors (including finance and insurance, but especially retail trade and real estate) has been more controversial since it tends to boost import demand rather than create new export capacities.

This article is relying on the author's contribution to the forthcoming **IIASA Fast Track** study which looks into FDI stocks and flows in a dynamic and cross-country perspective, comparing the key countries of the Eurasian Economic Union (EAEU) (Belarus, Kazakhstan and Russia) as well as countries which have signed Deep and Comprehensive Free Trade Agreements (**DCFTAs**) with the EU (Georgia, Moldova and Ukraine) with selected **EU-CEE** peers in the neighbourhood (Hungary, Poland, Romania and Slovakia). The study also provides insights into the relevant regulatory environment and focuses on the specifics of FDI in the energy sector.¹

FDI flows into the EAEU and DCFTA countries have been highly volatile and there is no straightforward explanation for such fluctuations. In 2015, for example, Russia and Kazakhstan received unusually low inflows due to a combined effect of sanctions, oil price collapse and subsequent currency devaluations. In 2016, FDI to **Russia** went up sharply, not least owing to a single large transaction related to Rosneft; inflows to **Kazakhstan** recovered as well. FDI inflow into **Ukraine** also increased in 2016, primarily due to bank recapitalisations and the privatisation of some companies with the participation of institutional investors such as the EBRD. FDI inflows to **Georgia** have been relatively high during the whole 2014-2016 period, presumably thanks to the implementation of a DCFTA with the EU. A similar trend, albeit at a much smaller scale, has been observed in **Moldova**.

Another important indicator for international FDI comparisons is the per capita stocks/flows since it eliminates the effect of the country size. Figure 1 shows that, apart from Kazakhstan, all EAEU and DCFTA countries accumulated, on aggregate, much less FDI than EU-CEE peers. There are also other, structural, features which distinguish EAEU and DCFTA countries in terms of varying FDI performance from EU-CEE peers.

¹ See IIASA (2018), 'Foreign Direct Investment in the European Union and the Eurasian Countries, 2005-2016' (forthcoming).

Figure 1 / FDI inward stock per capita, in EUR

*Georgia: Excluding Abkhazia and South Ossetia.

Source: wiiw FDI Database. Georgia: UNCTAD, World Investment Report, wiiw calculations.

FDI IN EAEU COUNTRIES

FDI flows to **Russia**, which dominates the whole EAEU region, peaked in 2013 and fell significantly in the following two years while not fully recovering yet. FDI stocks had been drastically reduced during that period as well – by more than EUR 150 billion between end-2012 and end-2015. A part of the disinvestment can also be attributed to the official ‘de-offshorisation’ campaign. Another part of the capital outflow can be attributed to debt service payments. In 2016, FDI inflows into Russia increased again, largely owing to a single big transaction related to the state-owned oil company Rosneft (sale of a 20% stake in Rosneft to a consortium including the Swiss company Glencore and the sovereign fund of Qatar). The previous massive reduction of investments – domestic as well as foreign – is definitely no good sign for modernisation and diversification prospects in Russia. In addition, traditionally, about half of the Russian inward FDI originates from tax havens and offshore centres. Some EU Member States – such as Cyprus, Luxemburg and the Netherlands – as well as the offshore centres in the Caribbean, are home to Russian holdings most probably chosen for security and tax optimisation reasons. In fact, the huge jump in FDI stocks recorded in 2016 can be largely attributed to Cyprus (FDI flows and stocks data are not directly comparable; the fast track IIASA study provides more details on the composition of Russian offshore FDI stocks and flows).

Belarus was a late starter and a sluggish reformer, not really welcoming to foreign investors and privatisations in general. FDI inflows into Belarus peaked in 2011 and have stayed relatively modest ever since. After controlling for the size of the country, Belarus has received more FDI than either Moldova or Ukraine, but less than the EU-CEE peers. However, FDI in Belarus is mainly of Russian origin. In addition, FDI from Cyprus in Belarus is also in all likelihood of Russian origin, thus the direct and indirect FDI dependence on Russia is rather high.

In relative terms, **Kazakhstan** accumulated the biggest FDI stocks among all EAEU and DCFTA countries. However, FDI in Kazakhstan has been highly concentrated in both geographic and sectoral terms: about half of accumulated FDI stocks originate in the Netherlands, and another 18% in the United

States. 75% of accumulated FDI stocks are concentrated in mining and quarrying (see Figure 2), particularly oil extraction. In 2016, a huge negative FDI outflow occurred which was partly related to a reclassification of FDI activities in the mining industry.

FDI IN DCFTA COUNTRIES

DCFTA countries (especially Moldova and Ukraine) have been laggards with respect to attracting FDI, largely due to the existence of 'frozen' conflicts and the poor investment climate. It is generally expected that the implementation of DCFTAs with the EU will lead to a more predictable and familiar (to the EU investors) regulatory environment. The approximation of EU norms and standards is thus expected to facilitate inflows of FDI into DCFTA countries. The potential benefits of FDI will heavily depend on the progress in covering the gap in the regulatory environment. An important distinct feature of FDI in the DCFTA countries (similarly to Russia) has been the skewed geographic origin of investors.

In **Ukraine**, for example, more than 30% of FDI stocks also came from Cyprus; the share of FDI from Western Europe (EU-15) was just 36% of total FDI stocks in 2016. In per capita terms, FDI stocks in **Moldova** are the lowest among the EU-CEE peers and there has not yet been any acceleration of FDI inflows after the DCFTA signature either. Moreover, the single main investor in the country has been Russia, making Moldova the second most dependent (after Belarus) country on Russian FDI. In **Georgia**, a lot of FDI originates from Azerbaijan, Turkey, the United Arab Emirates and the Virgin Islands. The extremely high shares of Cyprus and other offshores indicate that this kind of FDI most likely represents just a recycling of domestic flight capital, and possibly also tax evasion. One can probably safely assume that this kind of FDI is also not particularly conducive to an upgrading and modernisation of the economy, since it is typically not associated with the transfer of new technologies, adoption of new managerial practices, etc. Progress in DCFTA implementation and institutional reforms in general should thus rather result in diminishing the shares of offshore-originating FDI.

SECTORAL COMPOSITION MATTERS

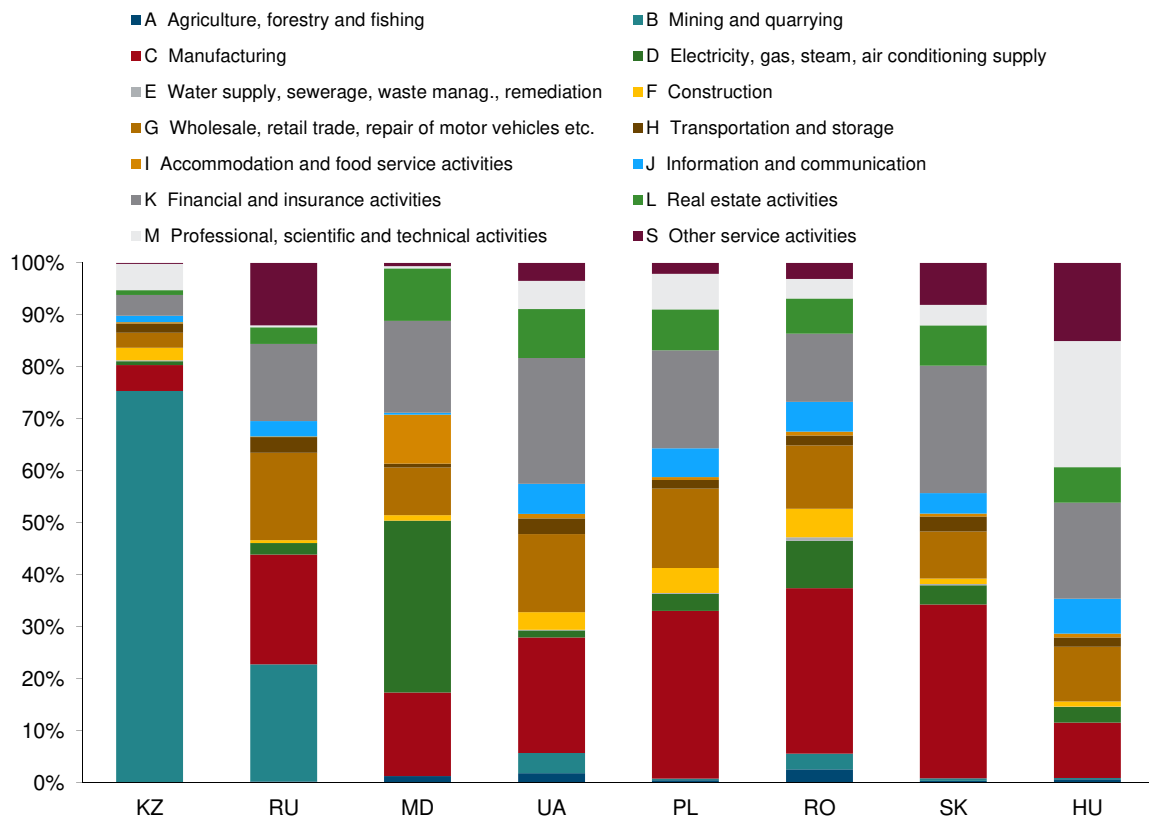
The experience of the **EU-CEE** countries indicates that FDI inflows have significantly contributed to the modernisation and economic restructuring of these economies (about 80% of their FDI originates from Western Europe). Especially FDI in the manufacturing industry and business services, such as IT, software development and logistics, has been beneficial. Such investments have been particularly welcome as they helped to establish competitive export-oriented industries (the successful German-CEE automotive cluster is a case in point). Since the EU accession of CEE countries at the latest, foreign investors have to be treated as domestic ones (equal treatment). Most recently, though, renewed economic nationalism has resulted in selective treatment of investors in certain activities, in some countries de facto restricting foreign investment in banking, trade, etc. (e.g. in Hungary and Poland).

However, it is not just the volume of registered FDI per se and its origin, but also its sectoral composition, investors' motives and other FDI structural and 'quality' characteristics that matter. Indeed, the sectoral composition of FDI in the EAEU, DCFTA and EU-CEE peer countries displays important differences (Figure 2). In EU-CEE countries, the bulk of FDI has been concentrated in **manufacturing, trade, and financial services**: each of these three broader sectors accounting for about 20-30% of total FDI stocks. In this respect, the DCFTA countries have not been much different from Hungary, Poland,

Romania or Slovakia. As far as EAEU countries are concerned, most FDI has been concentrated in **energy and mining sectors** (especially in Kazakhstan and Russia). In Moldova, Ukraine and Romania, there are also some (small) foreign investments in agriculture. Finally, the electricity sector has been an important FDI target in Moldova and Romania (there are no comparable data for Belarus and Georgia).

Figure 2 / FDI inward stock by economic activities in selected countries, 2016

(% of total FDI stock)



Source: wiiw FDI Database.

However, it is not just the volume of registered FDI per se and its origin, but also its sectoral composition, investors' motives and other FDI structural and 'quality' characteristics that matter. Indeed, the sectoral composition of FDI in the EAEU, DCFTA and EU-CEE peer countries displays important differences (Figure 2). In EU-CEE countries, the bulk of FDI has been concentrated in **manufacturing, trade, and financial services**: each of these three broader sectors accounting for about 20-30% of total FDI stocks. In this respect, the DCFTA countries have not been much different from Hungary, Poland, Romania or Slovakia. As far as EAEU countries are concerned, most FDI has been concentrated in **energy and mining sectors** (especially in Kazakhstan and Russia). In Moldova, Ukraine and Romania, there are also some (small) foreign investments in agriculture. Finally, the electricity sector has been an important FDI target in Moldova and Romania (there are no comparable data for Belarus and Georgia).

FACTORS BEHIND FDI FLOWS

How to explain the huge differences in various FDI structural characteristics across individual transition countries? A number of factors definitely play a role: geography, size of the country, resource endowments, costs and skills of labour, government FDI policies and the investment climate in general.

According to the latest World Bank **Ease of Doing Business** survey for 2018 (published on 31 October 2017 and registering big shifts in ranking scores), the EAEU and DCFTA countries covered in this article received the following ranking (out of 190 countries surveyed): Georgia (9), Poland (27), Russian Federation (35), Kazakhstan (36), Belarus (38), Slovakia (39), Moldova (44), Romania (45), Hungary (48), and Ukraine (76). The Russian Federation, Kazakhstan, Belarus and Georgia were among the top 10 countries which have managed to improve their ranking recently.

Obviously, other rankings, macroeconomic indicators and political risks analysis (in addition to industry- and even enterprise-specific conditions and market analyses) are indispensable for making informed investment decisions as well. The remaining (geopolitical and other) risks are hard to evaluate and will always be present.

In conclusion, the above implies that EAEU and DCFTA countries have not been particularly attractive for foreign investors: taking out round tripping inflows from offshore destinations, the accumulated FDI in these countries would be even lower. This explains to a large extent why economic restructuring in the region has largely stalled. This pattern can change only with marked improvements in the domestic regulatory environment and investment climate. FDI inflows should also be promoted by pro-active government policies (in big countries such as Kazakhstan, Russia and Ukraine also at the regional level) which should focus mainly on attracting FDI in manufacturing and business services in order to assist restructuring and modernisation.

The editors recommend for further reading*

On Trump's tariffs on steel and aluminium

Proclamations are here: <https://www.whitehouse.gov/presidential-actions>

Krugman on tariffs: <https://www.nytimes.com/2018/03/08/opinion/trump-trade-tariffs-steel.html?mtrref=www.google.rs&assetType=opinion>

<https://www.nytimes.com/2018/03/10/opinion/trumps-negative-protection-racket-wonkish.html>

Britain to ask for an exemption: <https://www.reuters.com/article/us-usa-trade-britain/u-s-approach-to-tariffs-wrong-absurd-if-britain-affected-uk-minister-idUSKCN1GL0TG?il=0>

On effects of tariffs and on retaliations:

<https://voxeu.org/article/potential-retaliation-against-trumps-steel-and-aluminium-tariffs>

Sachs on tariffs:

<https://edition.cnn.com/2018/03/02/opinions/trump-tariff-move-shows-his-ignorance-sachs/index.html>

Cochrane's comment on Trump's tariffs: <https://johnhcochrane.blogspot.co.at/2018/03/on-tariffs.html> and a reprint of the economists' letter against Smoot-Hawley tariffs from 1930:

<https://johnhcochrane.blogspot.co.at/2018/03/economists-letter-on-tariffs.html>.

DeLong on tariffs: <https://www.project-syndicate.org/commentary/trump-tariffs-on-steel-aluminum-by-j--bradford-delong-2018-03>

Rodrik on tariffs:

<https://www.project-syndicate.org/commentary/trump-tariffs-trade-gimmickry-by-dani-rodrik-2018-03>

Autocrats

On the succession problem: <https://www.the-american-interest.com/2018/03/14/the-succession-dilemma/>

On Chairman Xi: <http://www.nybooks.com/daily/2018/03/14/chairman-xi-chinese-idol/>

Miscellaneous

Piketty on fiscal union:

<http://piketty.blog.lemonde.fr/2018/03/13/towards-a-union-in-the-union/#xstor=RSS-32280322>

Moving in and out of periphery: <https://voxeu.org/article/history-european-core-and-its-periphery>

* Recommendation is not necessarily endorsement. The editors are grateful to Vladimir Gligorov for his valuable contributions to this section.

Monthly and quarterly statistics for Central, East and Southeast Europe

The monthly and quarterly statistics cover **20 countries** of the CESEE region. The graphical form of presenting statistical data is intended to facilitate the **analysis of short-term macroeconomic developments**. The set of indicators captures trends in the real and monetary sectors of the economy, in the labour market, as well as in the financial and external sectors.

Baseline data and a variety of other monthly and quarterly statistics, **country-specific** definitions of indicators and **methodological information** on particular time series are **available in the wiiw Monthly Database** under: <https://data.wiiw.ac.at/monthly-database.html>. Users regularly interested in a certain set of indicators may create a personalised query which can then be quickly downloaded for updates each month.

Conventional signs and abbreviations used

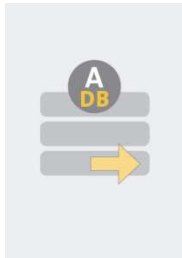
%	per cent
ER	exchange rate
GDP	Gross Domestic Product
HICP	Harmonized Index of Consumer Prices (for new EU Member States)
LFS	Labour Force Survey
NPISHs	Non-profit institutions serving households
p.a.	per annum
PPI	Producer Price Index
reg.	registered

The following national currencies are used:

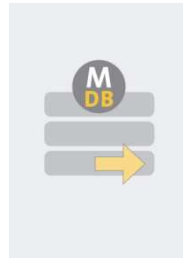
ALL	Albanian lek	HUF	Hungarian forint	RSD	Serbian dinar
BAM	Bosnian convertible mark	KZT	Kazakh tenge	RUB	Russian rouble
BGN	Bulgarian lev	MKD	Macedonian denar	TRY	Turkish lira
CZK	Czech koruna	PLN	Polish zloty	UAH	Ukrainian hryvnia
HRK	Croatian kuna	RON	Romanian leu		
EUR	euro – national currency for Montenegro and for the euro-area countries Estonia (from January 2011, euro-fixed before), Latvia (from January 2014, euro-fixed before), Lithuania (from January 2015, euro-fixed before), Slovakia (from January 2009, euro-fixed before) and Slovenia (from January 2007, euro-fixed before).				

Sources of statistical data: Eurostat, National Statistical Offices, Central Banks and Public Employment Services; wiiw estimates.

Online database access



wiiw Annual Database



wiiw Monthly Database



wiiw FDI Database

The wiiw databases are accessible via a simple web interface, with only one password needed to access all databases (and all wiiw publications).

You may access the databases here: <https://data.wiiw.ac.at>.

If you have not yet registered, you can do so here: <https://wiiw.ac.at/register.html>.

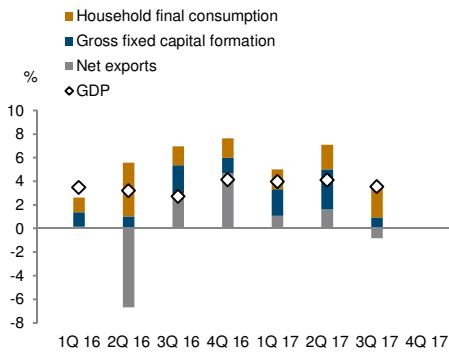
Service package available

We offer an additional service package that allows you to access all databases – a Premium Membership, at a price of € 2,300 (instead of € 2,000 as for the Basic Membership). Your usual package will, of course, remain available as well.

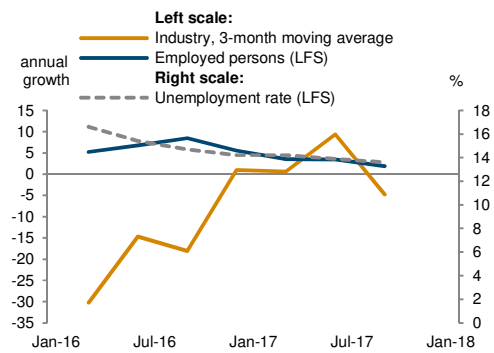
For more information on database access for Members and on Membership conditions, please contact Ms. Gabriele Stanek (stanek@wiiw.ac.at), phone: (+43-1) 533 66 10-10.

Albania

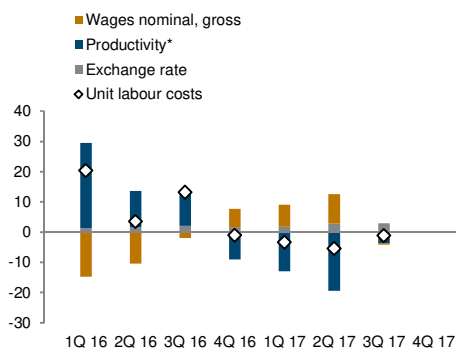
Real GDP growth and contributions
year-on-year



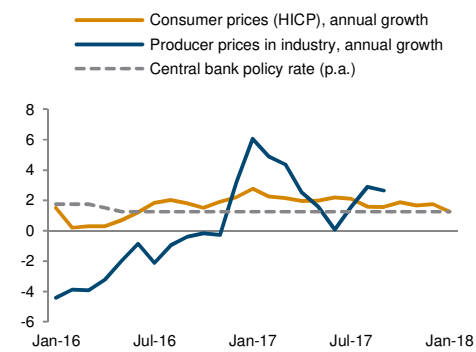
Real sector development
in %



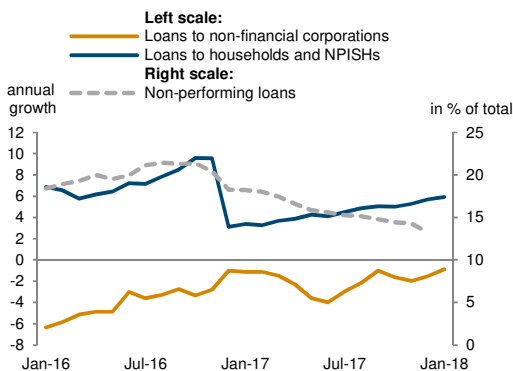
Unit labour costs in industry
annual growth rate in %



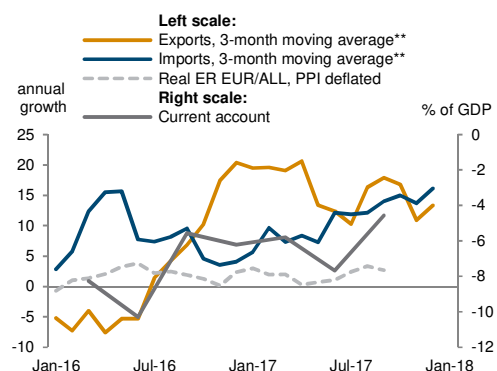
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

**EUR based.

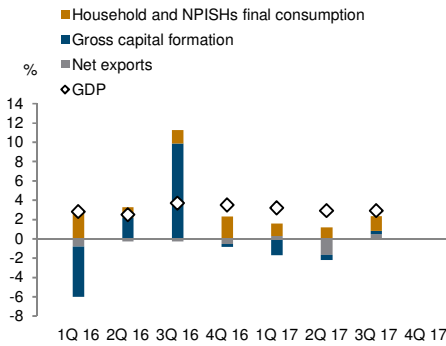
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

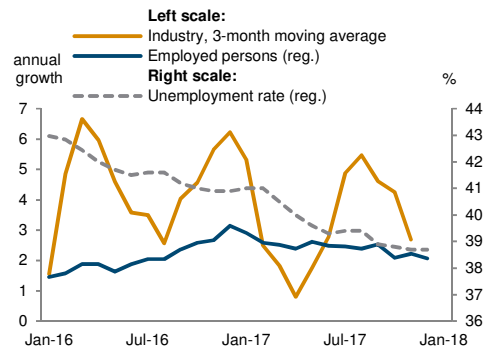
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Bosnia and Herzegovina

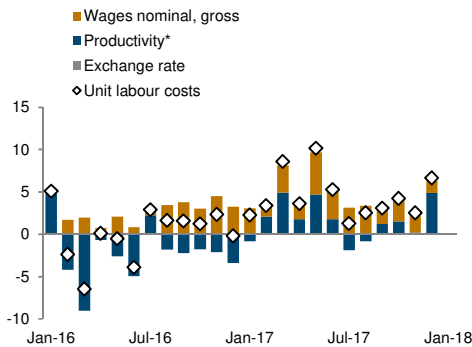
Real GDP growth and contributions
year-on-year



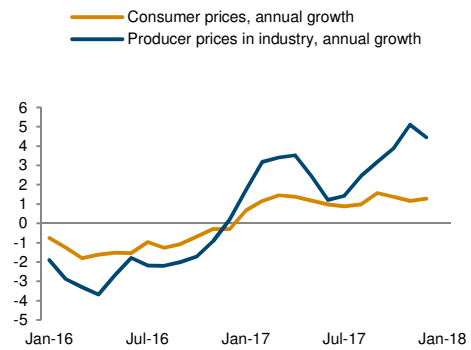
Real sector development
in %



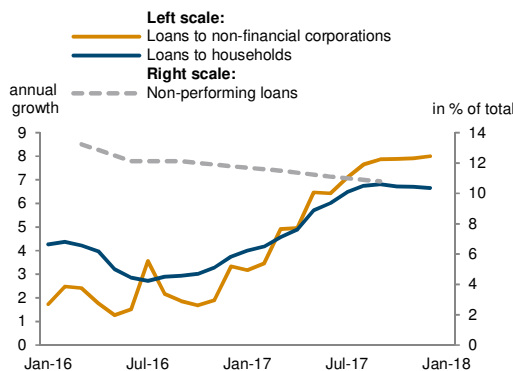
Unit labour costs in industry
annual growth rate in %



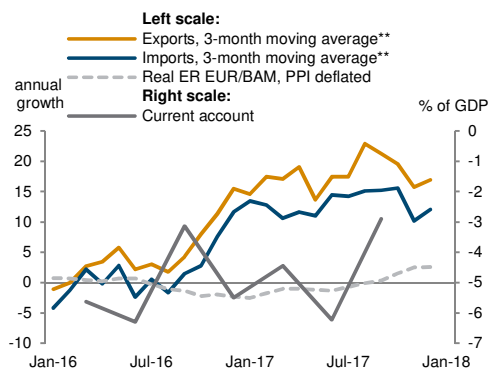
Inflation
in %



Financial indicators
in %



External sector development
in %

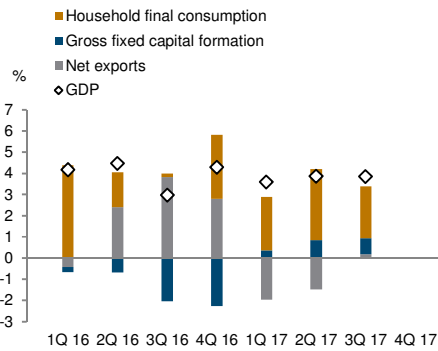


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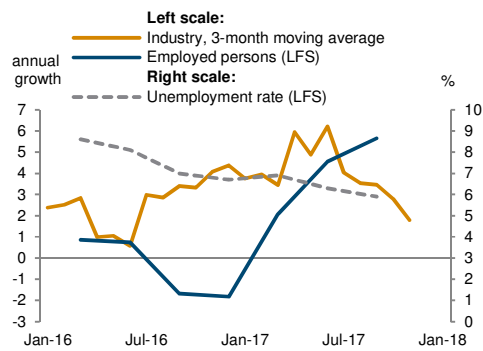
Source: wiiw Monthly Database incorporating Eurostat and national statistics.
Baseline data, country-specific definitions and methodological breaks in time series are available under:
<https://data.wiiw.ac.at/monthly-database.html>

Bulgaria

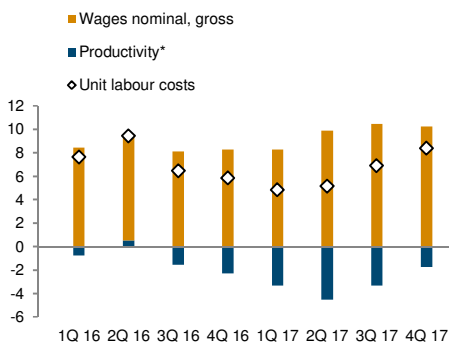
Real GDP growth and contributions
year-on-year



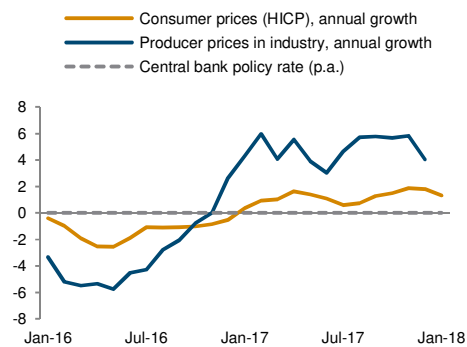
Real sector development
in %



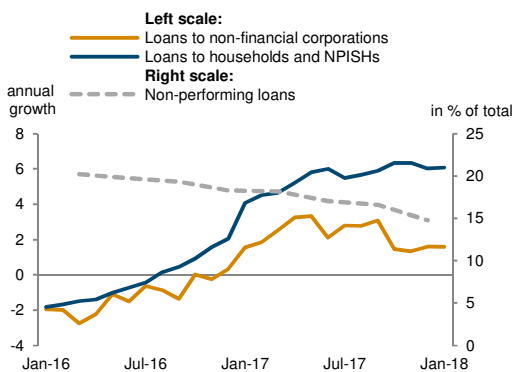
Unit labour costs in industry
annual growth rate in %



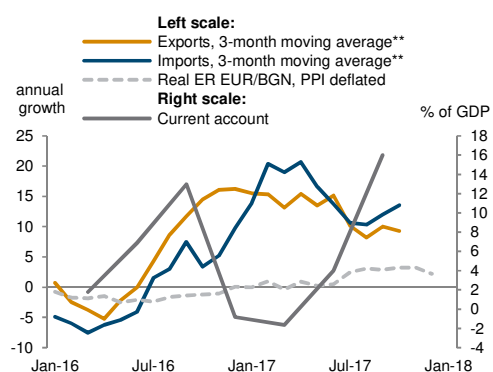
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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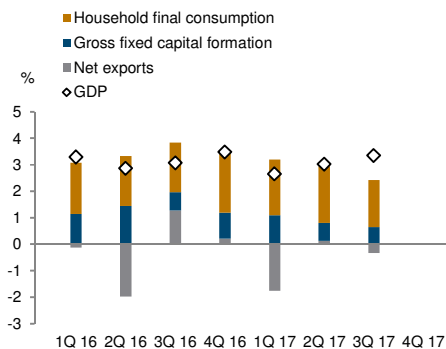
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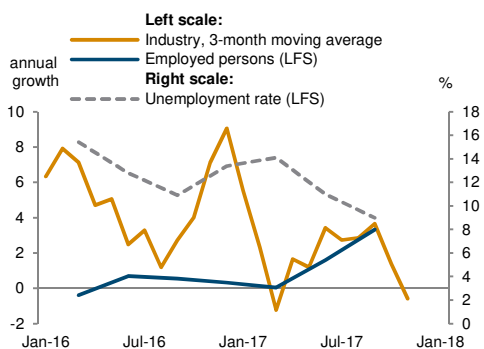
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Croatia

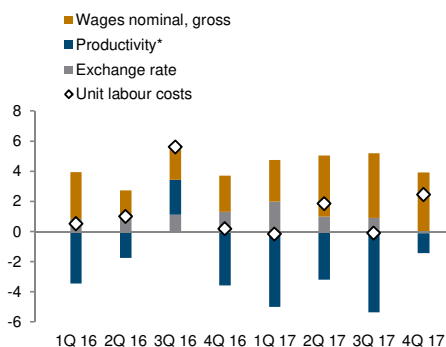
Real GDP growth and contributions
year-on-year



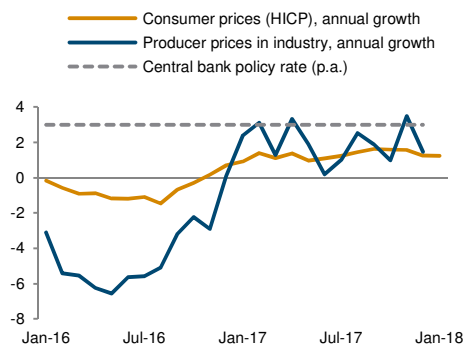
Real sector development
in %



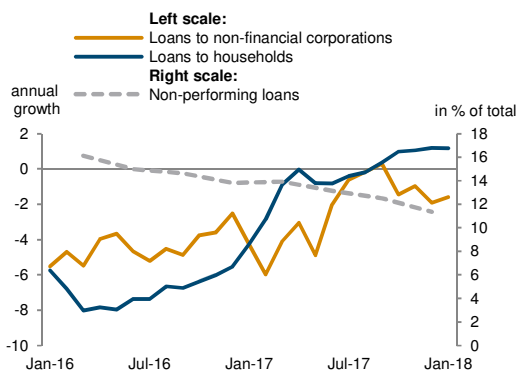
Unit labour costs in industry
annual growth rate in %



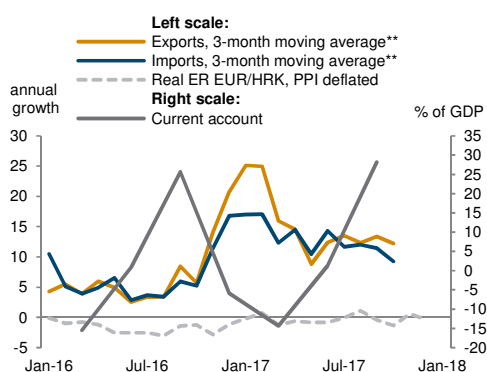
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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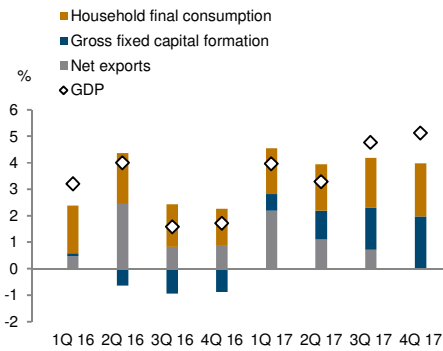
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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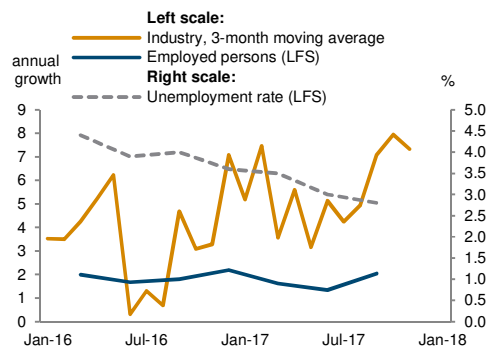
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Czech Republic

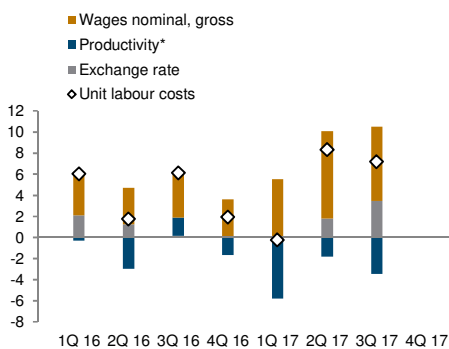
Real GDP growth and contributions
year-on-year



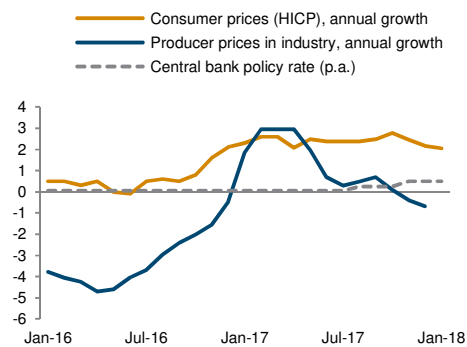
Real sector development
in %



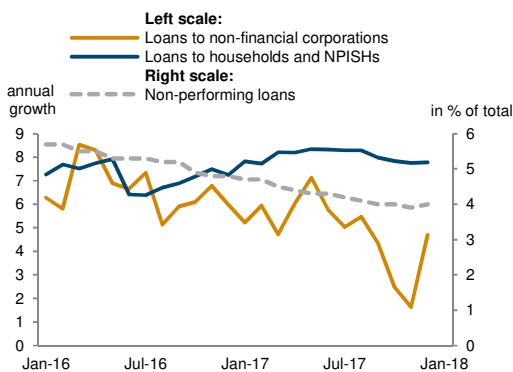
Unit labour costs in industry
annual growth rate in %



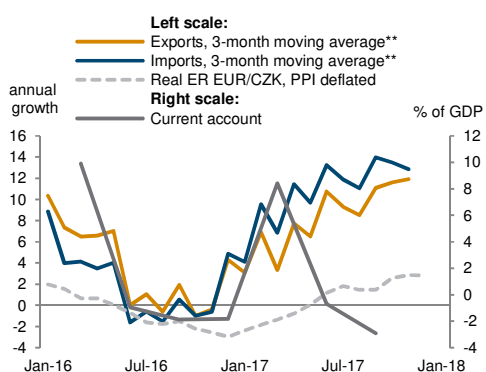
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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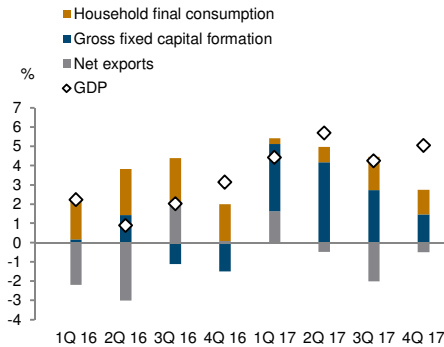
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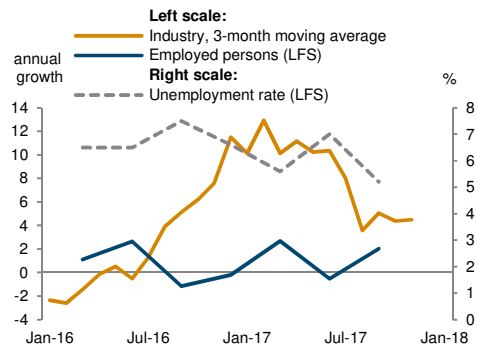
<https://data.wiiw.ac.at/monthly-database.html>

Estonia

Real GDP growth and contributions
year-on-year



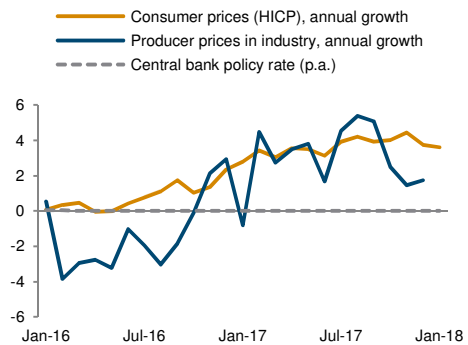
Real sector development
in %



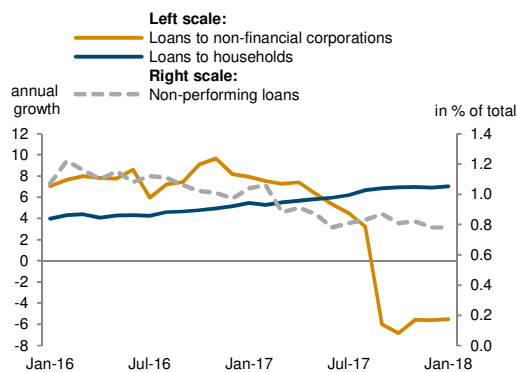
Unit labour costs in industry
annual growth rate in %



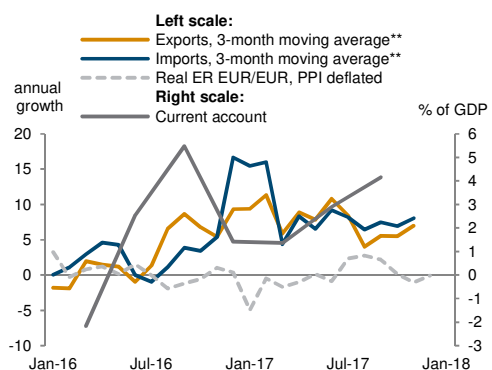
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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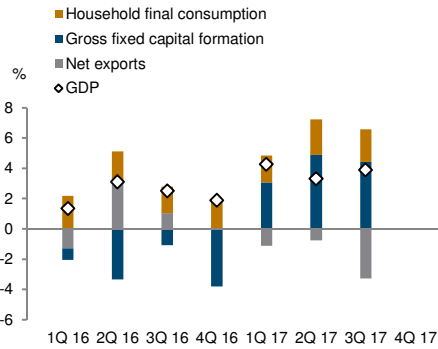
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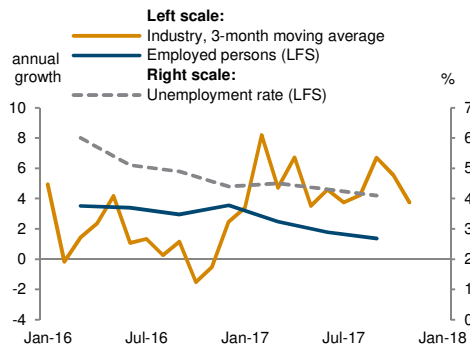
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Hungary

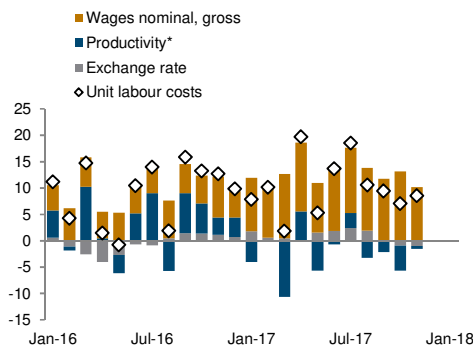
Real GDP growth and contributions
year-on-year



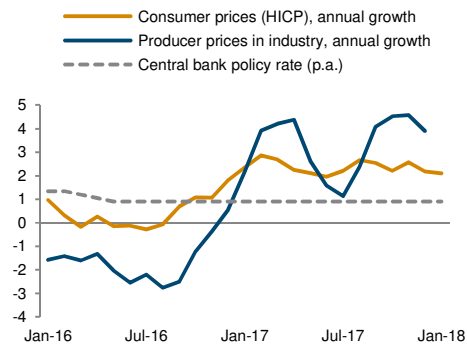
Real sector development
in %



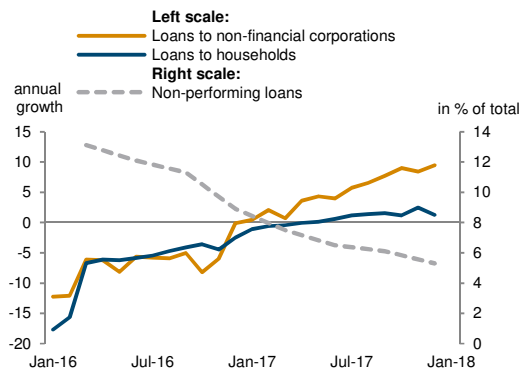
Unit labour costs in industry
annual growth rate in %



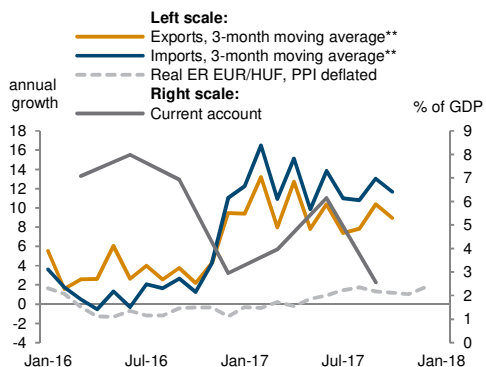
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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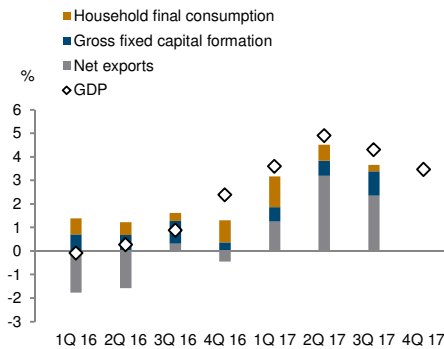
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

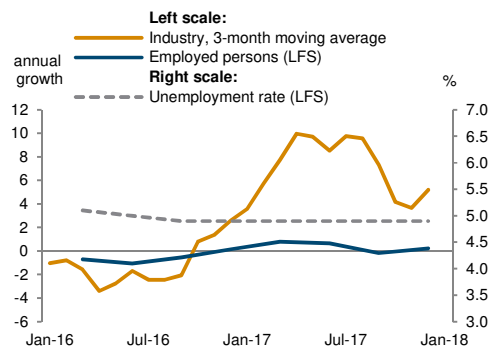
<https://data.wiiw.ac.at/monthly-database.html>

Kazakhstan

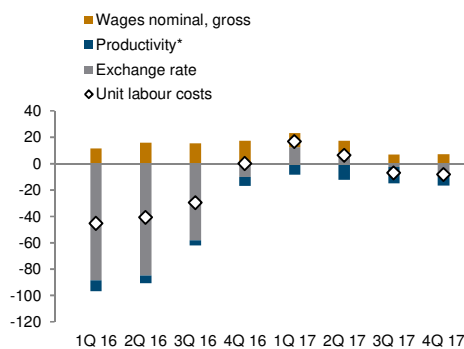
Real GDP growth and contributions
year-on-year



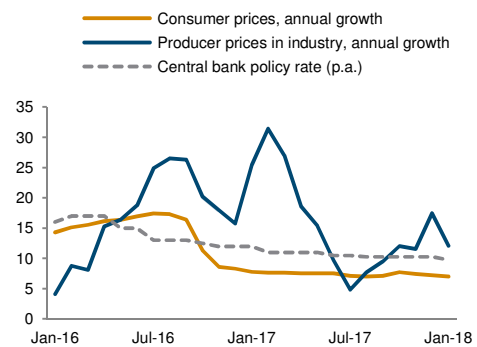
Real sector development
in %



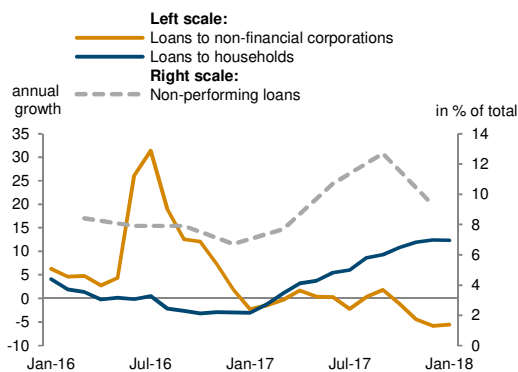
Unit labour costs in industry
annual growth rate in %



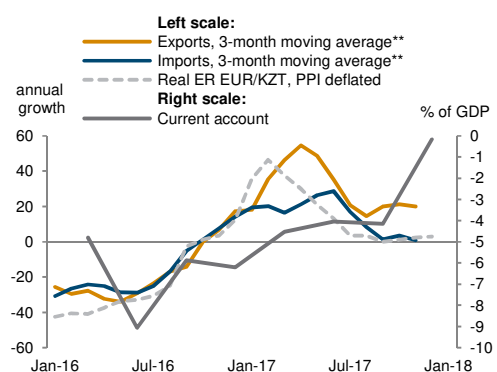
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

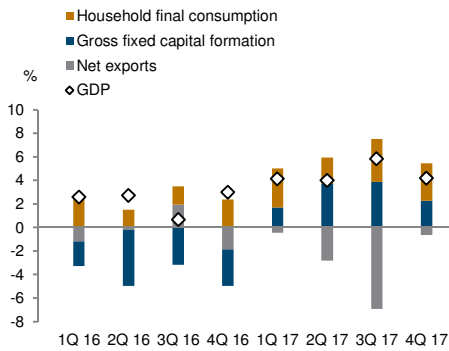
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Baseline data, country-specific definitions and methodological breaks in time series are available under:

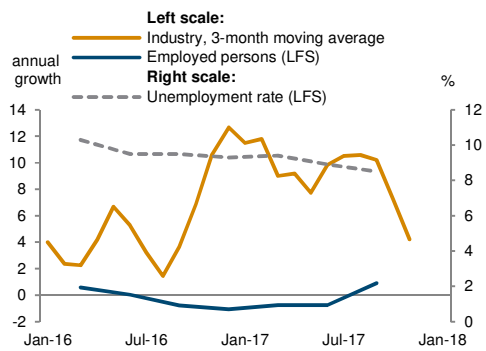
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Latvia

Real GDP growth and contributions
year-on-year



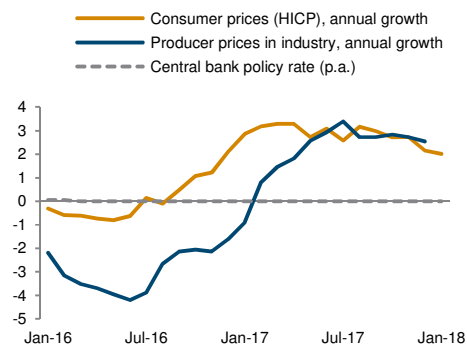
Real sector development
in %



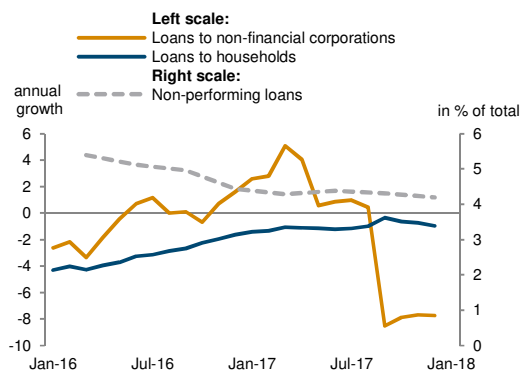
Unit labour costs in industry
annual growth rate in %



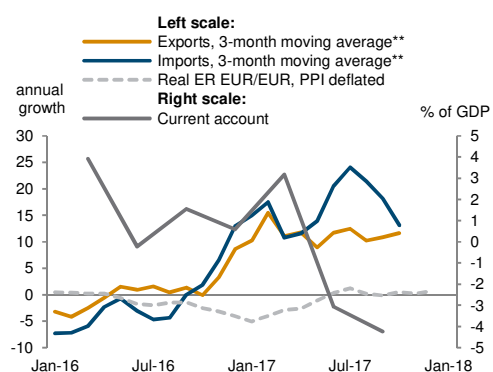
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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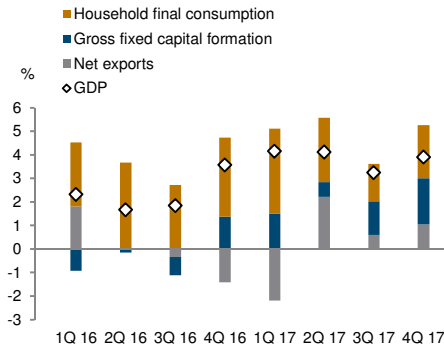
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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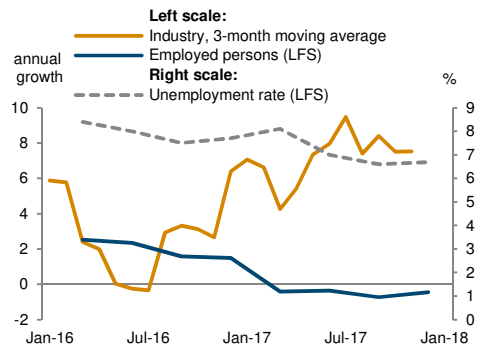
<https://data.wiiw.ac.at/monthly-database.html>

Lithuania

Real GDP growth and contributions
year-on-year



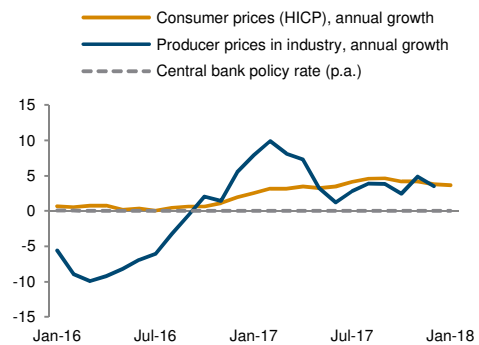
Real sector development
in %



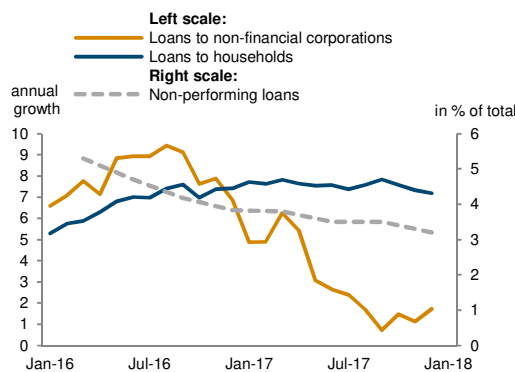
Unit labour costs in industry
annual growth rate in %



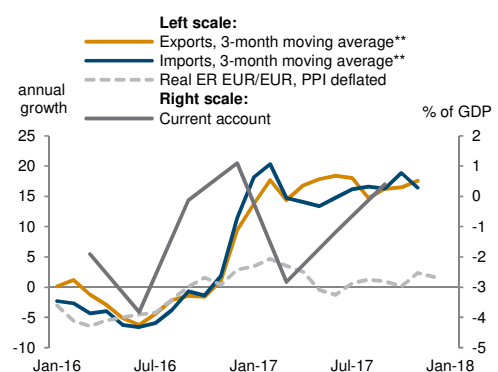
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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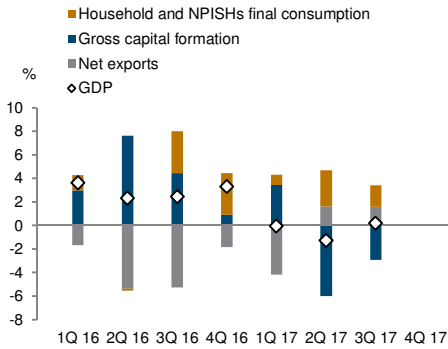
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

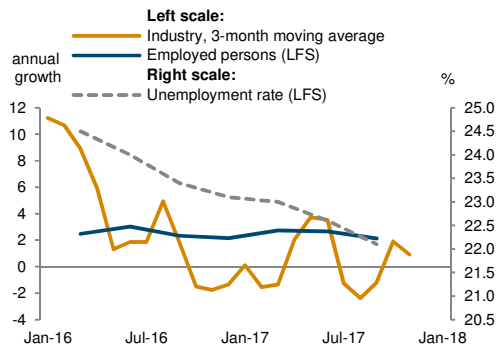
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Macedonia

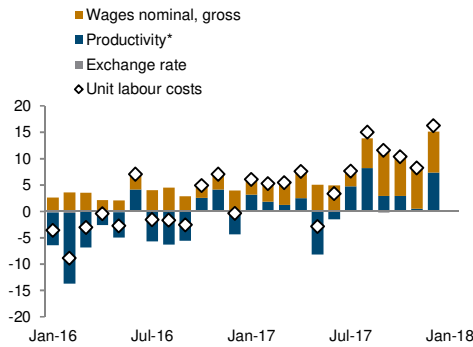
Real GDP growth and contributions
year-on-year



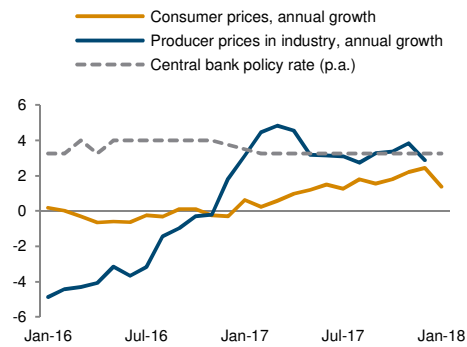
Real sector development
in %



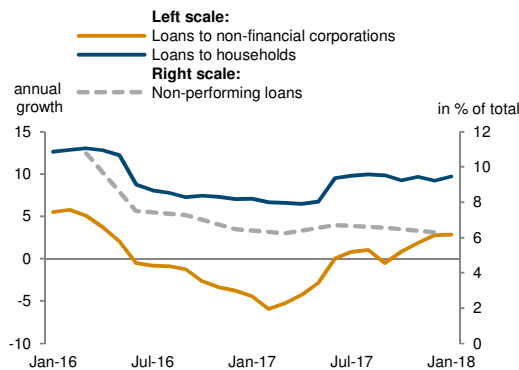
Unit labour costs in industry
annual growth rate in %



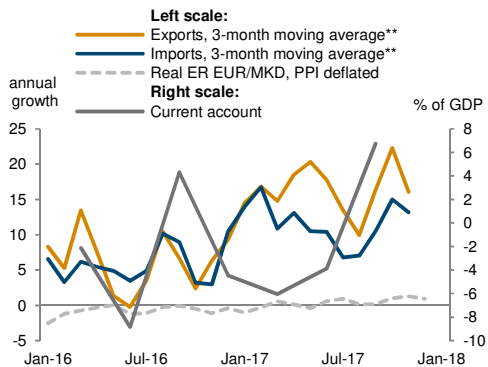
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

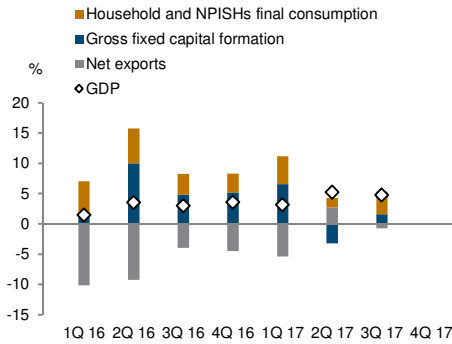
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

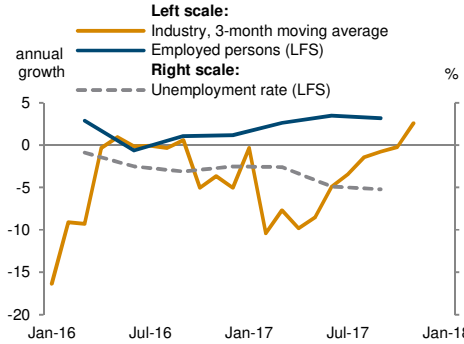
<https://data.wiiw.ac.at/monthly-database.html>

Montenegro

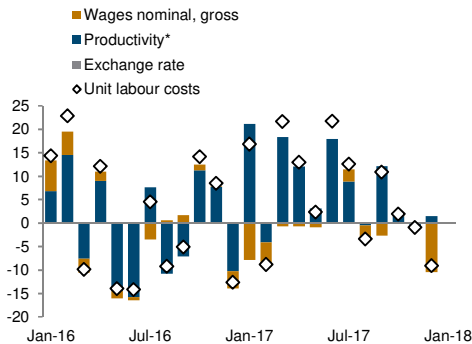
Real GDP growth and contributions
year-on-year



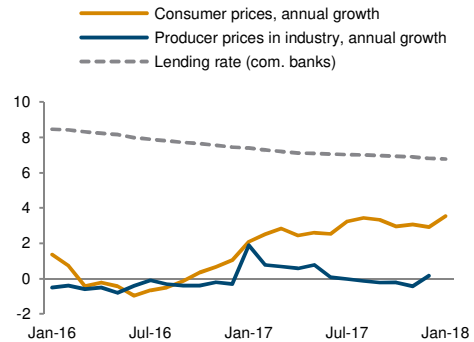
Real sector development
in %



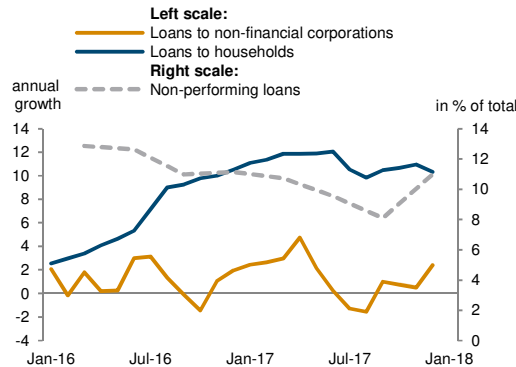
Unit labour costs in industry
annual growth rate in %



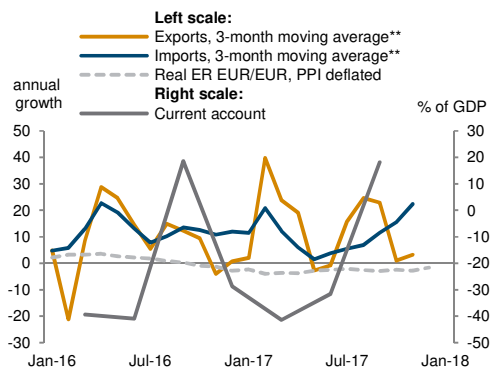
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



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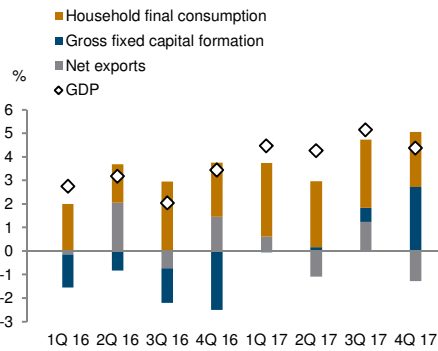
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

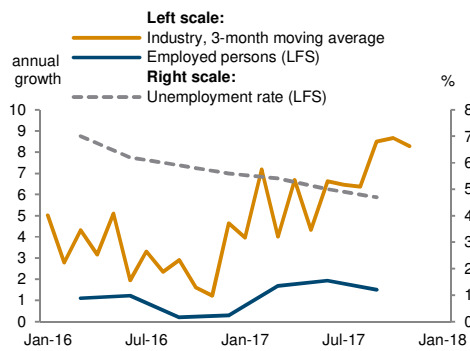
<https://data.wiiw.ac.at/monthly-database.html>

Poland

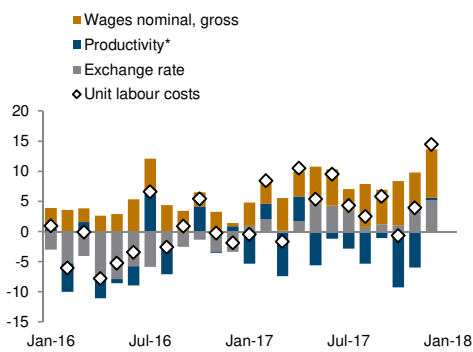
Real GDP growth and contributions
year-on-year



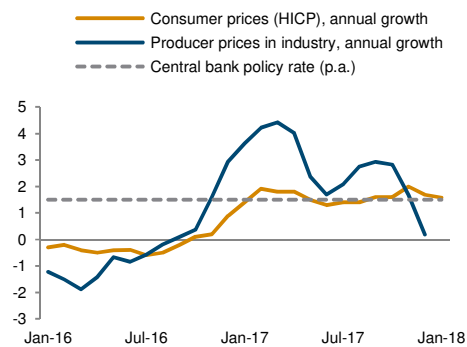
Real sector development
in %



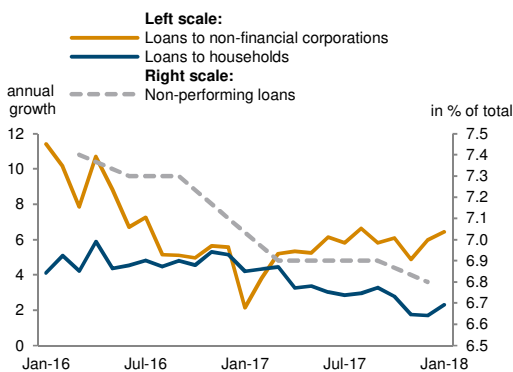
Unit labour costs in industry
annual growth rate in %



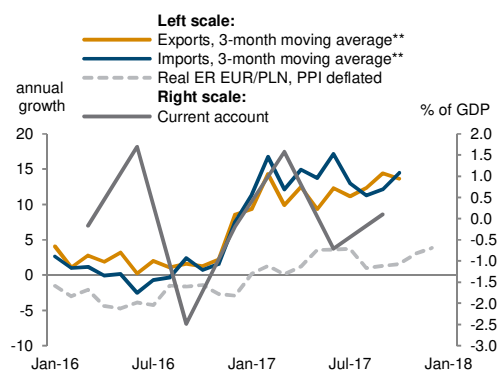
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.
**EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

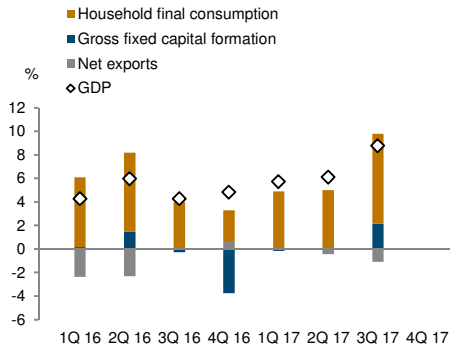
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Romania

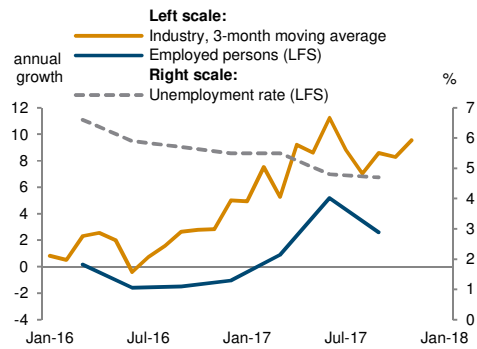
Real GDP growth and contributions

year-on-year



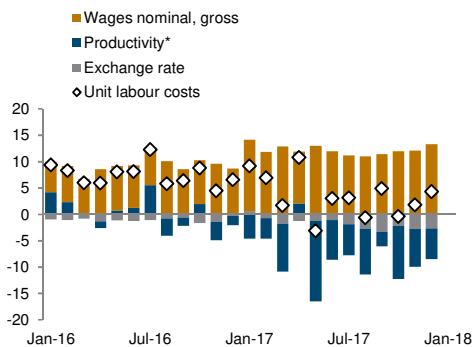
Real sector development

in %



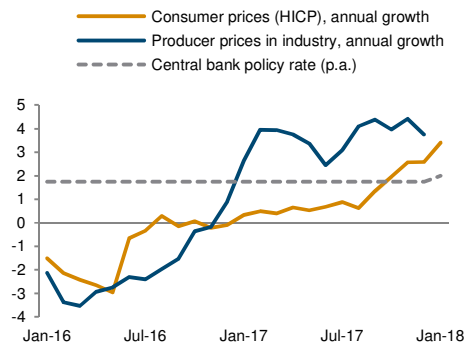
Unit labour costs in industry

annual growth rate in %



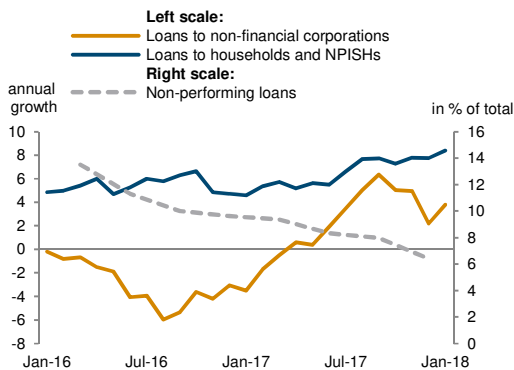
Inflation and policy rate

in %



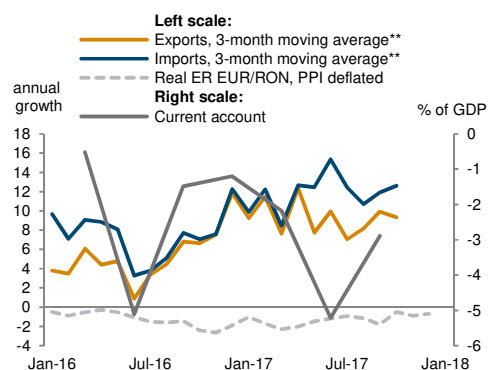
Financial indicators

in %



External sector development

in %



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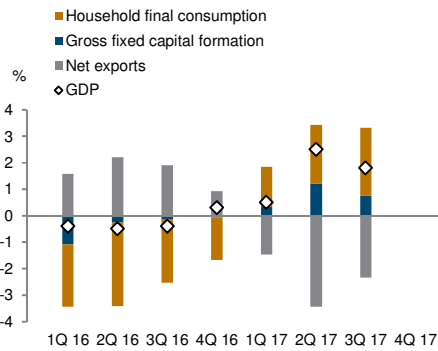
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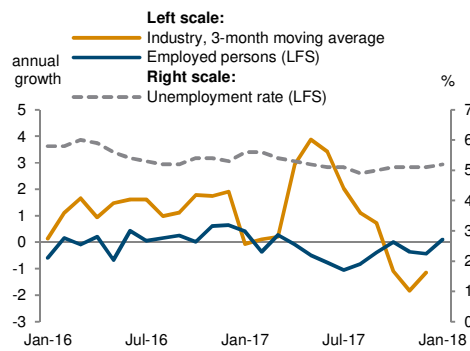
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Russia

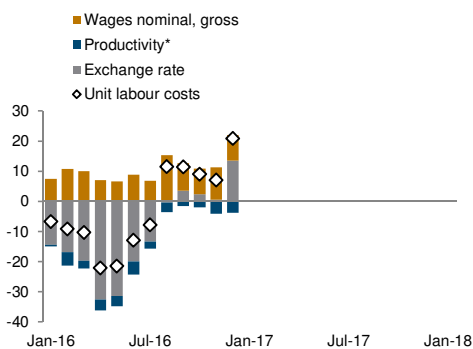
Real GDP growth and contributions
year-on-year



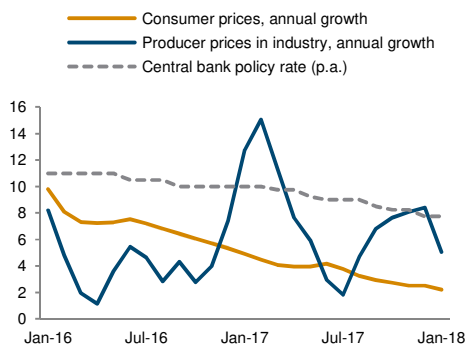
Real sector development
in %



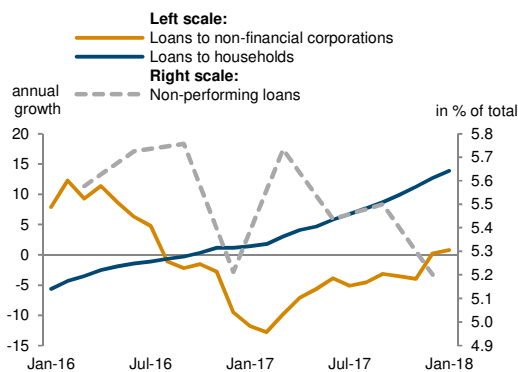
Unit labour costs in industry
annual growth rate in %



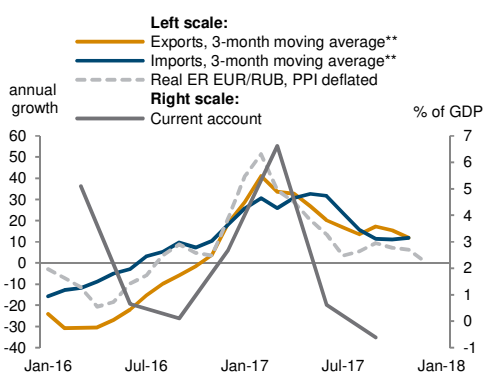
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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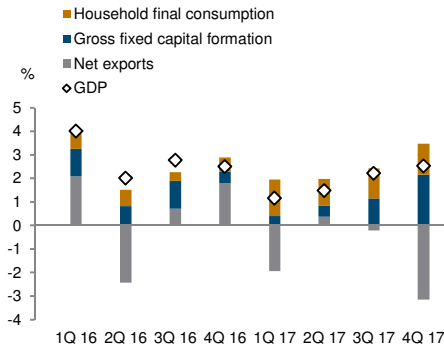
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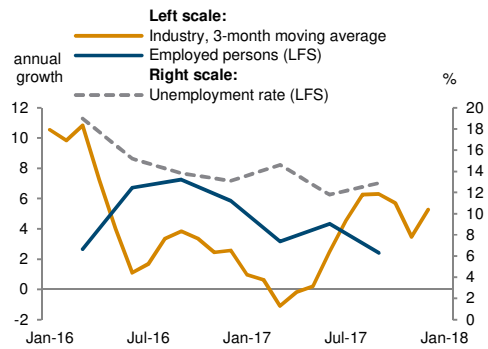
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Serbia

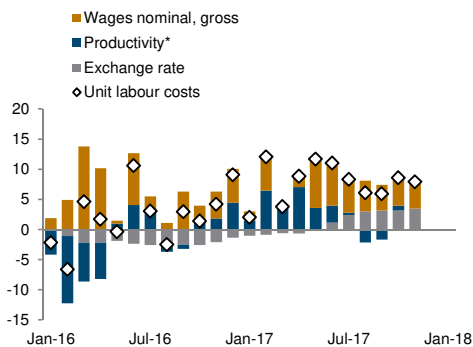
Real GDP growth and contributions
year-on-year



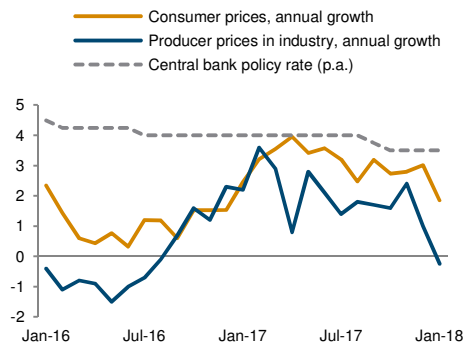
Real sector development
in %



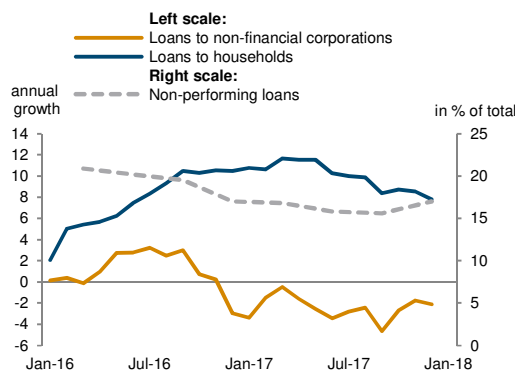
Unit labour costs in industry
annual growth rate in %



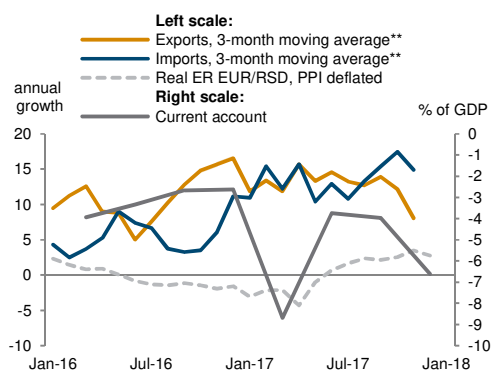
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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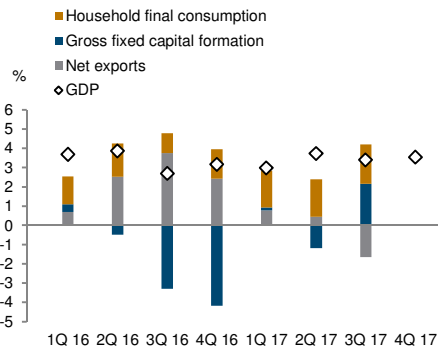
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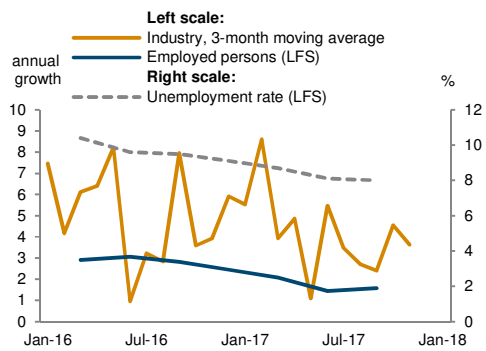
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Slovakia

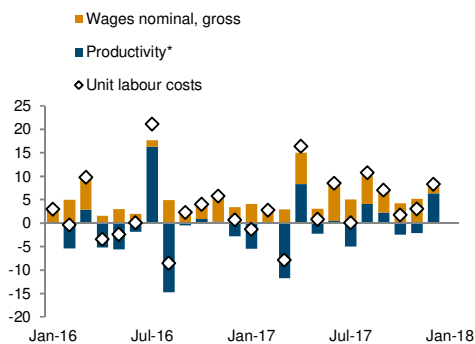
Real GDP growth and contributions
year-on-year



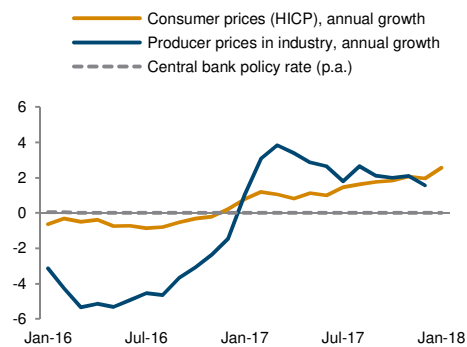
Real sector development
in %



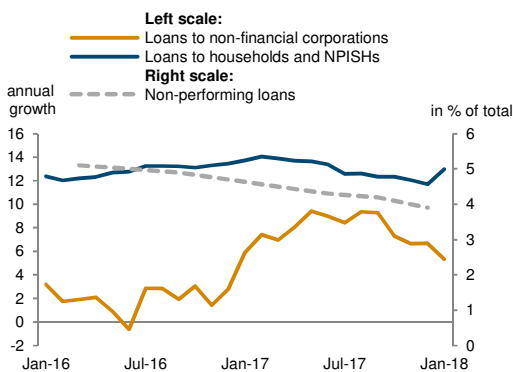
Unit labour costs in industry
annual growth rate in %



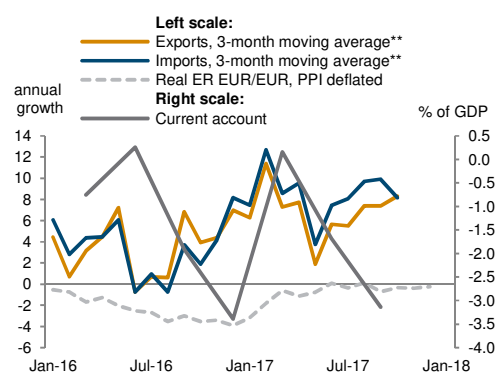
Inflation and policy rate
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Financial indicators
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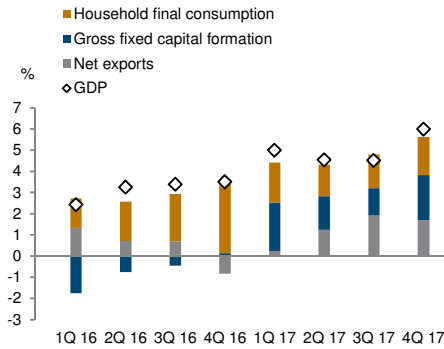
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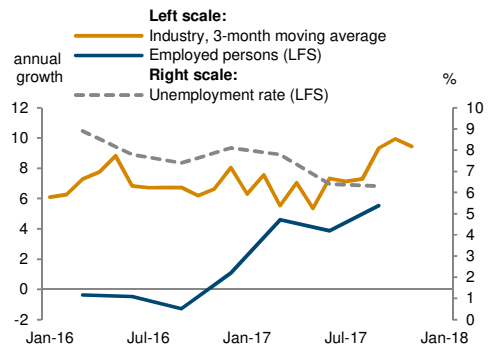
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Slovenia

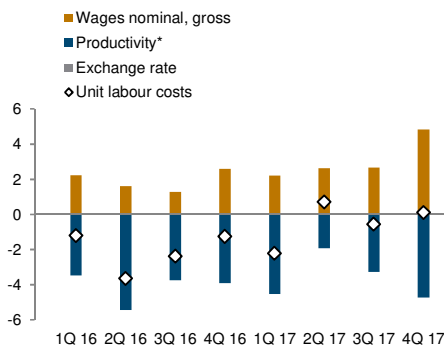
Real GDP growth and contributions
year-on-year



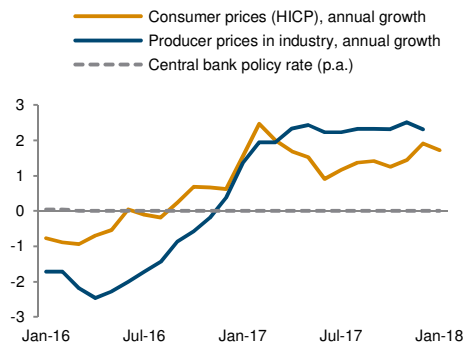
Real sector development
in %



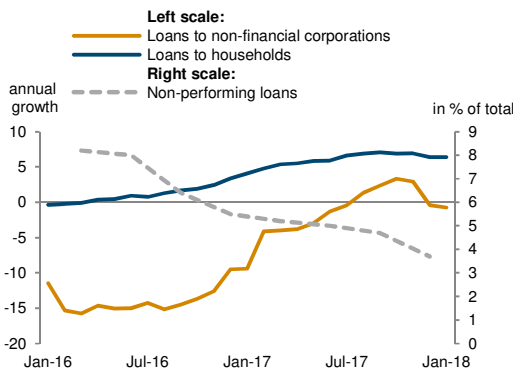
Unit labour costs in industry
annual growth rate in %



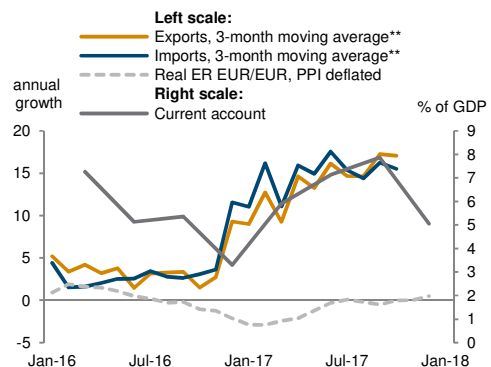
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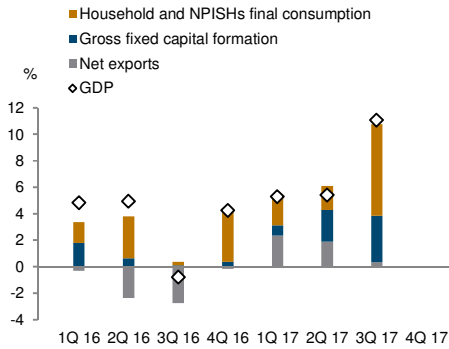
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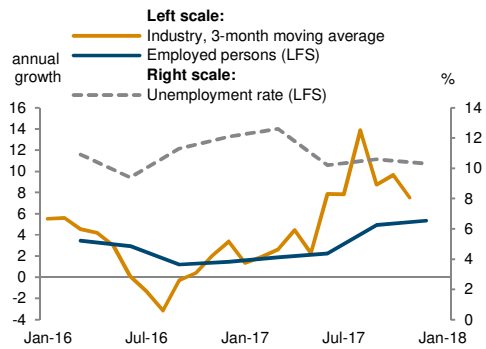
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Turkey

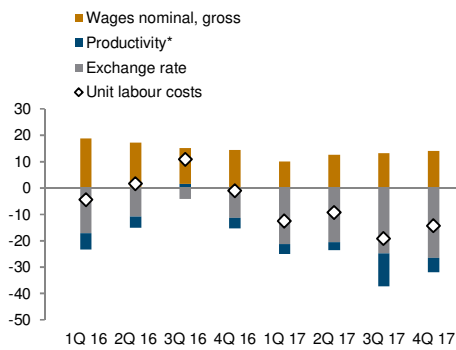
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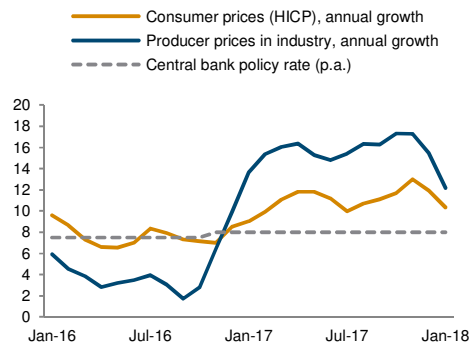
Real sector development
in %



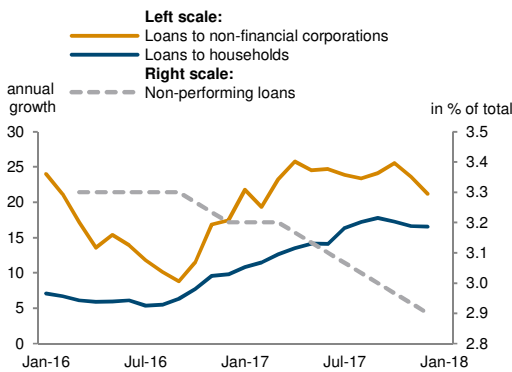
Unit labour costs in industry
annual growth rate in %



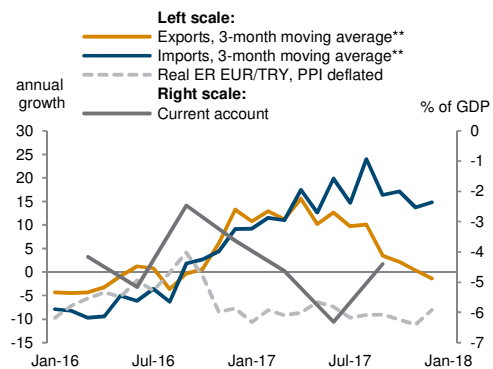
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Financial indicators
in %



External sector development
in %



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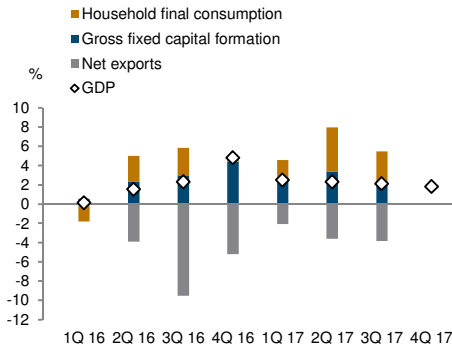
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Ukraine

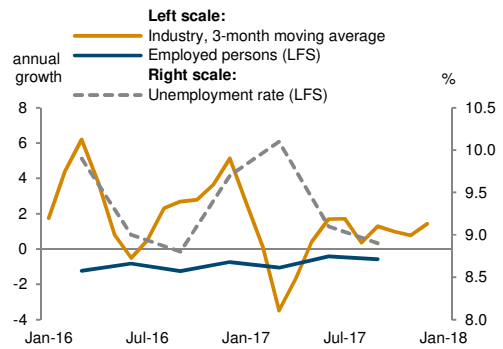
Real GDP growth and contributions

year-on-year



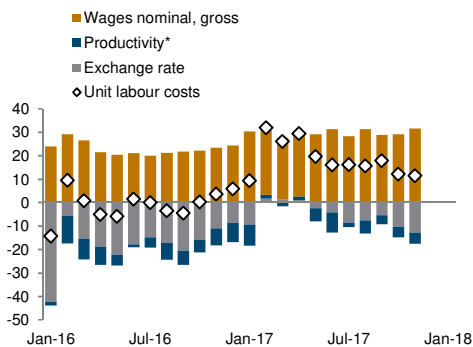
Real sector development

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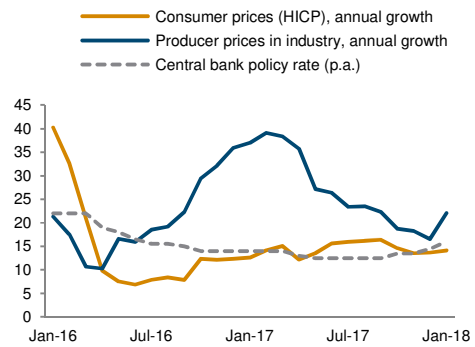
Unit labour costs in industry

annual growth rate in %



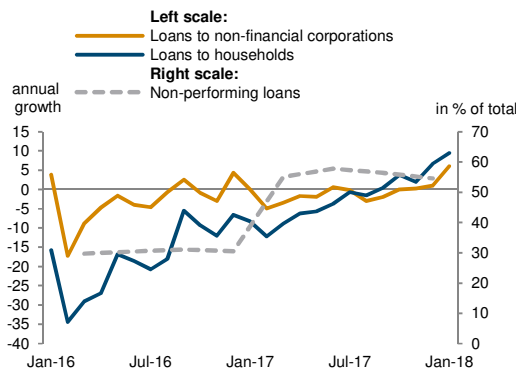
Inflation and policy rate

in %



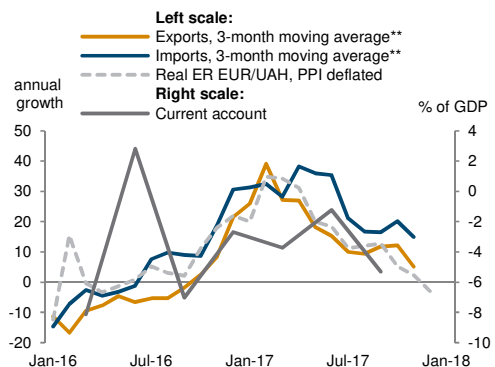
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IMPRESSUM

Herausgeber, Verleger, Eigentümer und Hersteller:
Verein „Wiener Institut für Internationale Wirtschaftsvergleiche“ (wiiw),
Wien 6, Rahlgasse 3

ZVR-Zahl: 329995655

Postanschrift: A 1060 Wien, Rahlgasse 3, Tel: [+431] 533 66 10, Telefax: [+431] 533 66 10 50
Internet Homepage: www.wiiw.ac.at

Nachdruck nur auszugsweise und mit genauer Quellenangabe gestattet.

Offenlegung nach § 25 Mediengesetz: Medieninhaber (Verleger): Verein "Wiener Institut für Internationale Wirtschaftsvergleiche", A 1060 Wien, Rahlgasse 3. Vereinszweck: Analyse der wirtschaftlichen Entwicklung der zentral- und osteuropäischen Länder sowie anderer Transformationswirtschaften sowohl mittels empirischer als auch theoretischer Studien und ihre Veröffentlichung; Erbringung von Beratungsleistungen für Regierungs- und Verwaltungsstellen, Firmen und Institutionen.



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