



**Working paper**

**277.**

**October 2024**

*Magdolna Sass*

**20 YEARS IN THE EUROPEAN UNION – FOREIGN DIRECT  
INVESTMENTS AND THE PROCESS OF INTEGRATION**

**W P**

HUN-REN Centre for Economic and Regional Studies, Institute of World Economics

Working Paper Nr. 277 (2024) 1-25. October 2024

## 20 years in the European Union – Foreign direct investments and the process of integration

Author:

**Magdolna Sass**

Director

Institute of World Economics,  
HUN-REN Centre for Economic and Regional Studies

email: [sass.magdolna@krtk.hun-ren.hu](mailto:sass.magdolna@krtk.hun-ren.hu)

---

HUN-REN CERS, IWE Working Papers aim to present research findings and stimulate discussion. The views expressed are those of the author and constitute “work in progress”. Citation and use of the working papers should take into account that the paper is preliminary. Materials published in this series may be subject to further publication.

The contents of this paper are the sole responsibility of the author and do not necessarily reflect the views of other members of the research staff of the Institute of World Economics, CERS HUN-REN.

---

ISSN 1215-5241

ISBN 978-963-301-737-1

## 20 years in the European Union – Foreign direct investments and the process of integration

Magdolna Sass<sup>1</sup>

---

### **Abstract**

Foreign Direct Investment played a crucial role in the economic transition of the post-socialist countries. EU membership prospects positively affected FDI inflows in the nineties and the integration process promoted FDI directly and indirectly as well, through enterprise restructuring, labour market impact, sectoral reforms, regulatory quality, rule of law, and specific aspects of the business environment. FDI flows added new, competitive capacities and technologies to the region, however, FDI-related benefits remained below the expectations. The Central and East-European countries could mainly offer their low wages in the intra-EU distribution of production and most of them lacked competitive local firms. These economies based their growth strategies on FDI and it still plays a determining role, especially in certain export-oriented sectors.

**JEL:** F2, P33

**Keywords:** FDI, European Union, New Member States

---

### **1. Introduction: integration and FDI**

For the eight new member states that joined the European Union in 2004, followed by three more in 2007 and in 2013, foreign direct investment (FDI) played a crucial role in their transition to market economy (Walkenhorst, 2004) and in the subsequent convergence process with the more developed members of the integration. In contrast to many less developed economies, these countries possessed a workforce with a high level of education and skills, a reasonably developed industrial structure, and closeness to prosperous markets in Western Europe. On the other hand, they lived for a long period in planned economies, had limited memories of how market economies work, and the

---

<sup>1</sup> Director, HUN-REN Centre for Economic and Regional Studies – Institute of World Economic, 1097 Budapest, Tóth Kálmán street 4. Email: [magdolna.sass@krtk.hun-ren.hu](mailto:magdolna.sass@krtk.hun-ren.hu)

technological level of their production was inferior to that of their Western counterparts. As these economies began their transition process to a market economy, they opened up to FDI with different timing after a protracted period of isolation under the planned economy. They therefore turned into fascinating "laboratories" (Meyer and Peng 2016) for business and economic research on FDI, leading to a series of studies about the many facets of the topic in question.

The inflow of FDI has been shaped by many factors, not only economic but also political ones, especially those concerning the legal and political climate (Kaminski, 2000), but also those connected to the integration process. Integration processes in theory impact on the various flows (goods, services, capital and workforce) between the affected economies, and lead to increasing FDI inflows in member countries (Dunning, 1993). Dunning and Robson (1988) differentiate between investment creation, investment diversion and investment restructuring in terms of the impact of the integration process on the flow of FDI between the member countries. Discriminative liberalisation shifts capital flows from non-integrating into integrating countries. We can add that even the prospects of joining an integration process can have such impacts *ex ante*. However, the presence, the actual mechanisms and extent of this impact were rarely analysed empirically. Obviously, the integration process improves the domestic business and institutional environment, makes it less risky and more calculable for the investors. Penev and Rojec (2014, p. 45) highlight the specificity of this impact in the case of the analysed economies as follows: „The decision to pursue EU accession also means the decision to pursue a specific concept of transition reforms and a specific legal and institutional system. Thus EU accession accelerates inward FDI because transition countries become part of an economic integration and because transition reforms speed up.”

Indeed, studies suggest that EU membership prospects positively affected FDI inflows (Kaminski, 2001; Makhavikova, 2018), with this effect increasing as accession negotiations progressed (Gungor and Binatli, 2010; Iwasaki & Suganuma, 2010). According to Bevan and Estrin (2004), announcements about EU Accession proposals had an impact on FDI for the future member countries. However, this relationship was not linear; it rather followed a reverse J-shaped curve, with a potential adverse impact in the final negotiation phase (Iwasaki & Suganuma, 2010). Besides this direct impact, EU

integration also indirectly affected FDI by influencing post-socialist states' efforts to promote FDI, as the role of FDI in progress to transition to the market economy has become obvious and as certain countries, which opened up to FDI earlier (Estonia, Hungary) progressed quicker in transition. Furthermore, FDI policies were also shaped by historical legacies, by the privatization strategies applied and by other elements of the reform process (Bandelj, 2010). Through its impact on other areas, the integration process promoted FDI indirectly as well, through enterprise restructuring, labour market impact, sectoral reforms, regulatory quality, rule of law, and specific aspects of the business environment (Penev and Rojec, 2014). Furthermore, emphasizing the political aspect, the integration process was also perceived as providing security for mainly small but geopolitically exposed states (Chen, 2009).

Overall, the empirical evidence is not conclusive. Fertő and Sass (2020) found empirically that for the Visegrad countries, FDI inflows are affected by distance, relative country size, and trade costs – this latter reflecting the importance of the reduction of trade costs in a wide sense due to the integration process. Brunot et al. (2021) found a positive impact of integration on FDI flows. However, we can also find studies, which actually found a negative effect of EU-integration-related steps on FDI in the analysed countries (Babic, 2016). One study also revealed that the impact of the integration process was stronger in inward than in outward FDI (Gorynia et al. 2020). Another study underlined country differences in terms of the extent of the impact (Penev & Rojec, 2014), which may have influenced group performance and which depended on various domestic economic policy and political factors, such as method and level of privatisation, political stability, business environment, FDI policies and incentives offered etc. (Kalotay and Hunya, 2000; Kalotay, 2006). The European integration stands out in terms of its impact on FDI inflows in international comparison. Deep integration, realised in the European Union has a positive impact on FDI not only from within the EU but also from non-member countries. EU membership boosts FDI from outside the EU by around 60% and from inside the EU by approximately 50%. The impact of EU membership on FDI appears to be significantly greater than that of less deep integration arrangements such as EFTA, NAFTA, or MERCOSUR, since the Single Market of the European Union provides the foundation of this differential impact (Bruno et al. 2021).

However, as it can be seen, the above cited papers are rather outdated, and admittedly, it is difficult for them to differentiate the impact of EU membership from those of other factors. Furthermore, FDI data are very much affected by the ‘stop-and-go’ nature of the transition process as well as the influence of privatisation-related FDI-projects on FDI inflows, especially that these latter are usually large in terms of their size (see e.g. Sass, 2005 for the Visegrad countries).

In this short paper, we show the developments in the FDI inflows in the last two decades, concentrating on the “Eastern” new member countries of the European Union: namely the EU-8, the eight countries, which joined the EU in 2004, namely Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia; the EU-2: those two countries, which joined in 2007: Bulgaria and Romania, and finally, EU-1, Croatia, which has become EU-member in 2013.

We assume that on one hand, the evolution of FDI in these new member countries can provide illustration to the impact of the integration process on the “attractiveness” of these countries for FDI, on the other hand, the analysis of FDI is one way to evaluate the success of economic integration.

In our analysis, we rely on simple descriptive statistics. We use mainly the data of UNCTADStat (available at <https://unctadstat.unctad.org/EN/>) because it presents FDI data for a long period of time (since 1990) without breaks and for a large number of countries, enabling international comparisons. Furthermore, for industry and partner country breakdown, the data of Eurostat, supplemented with data from the respective national banks, in the case of missing data, are used.

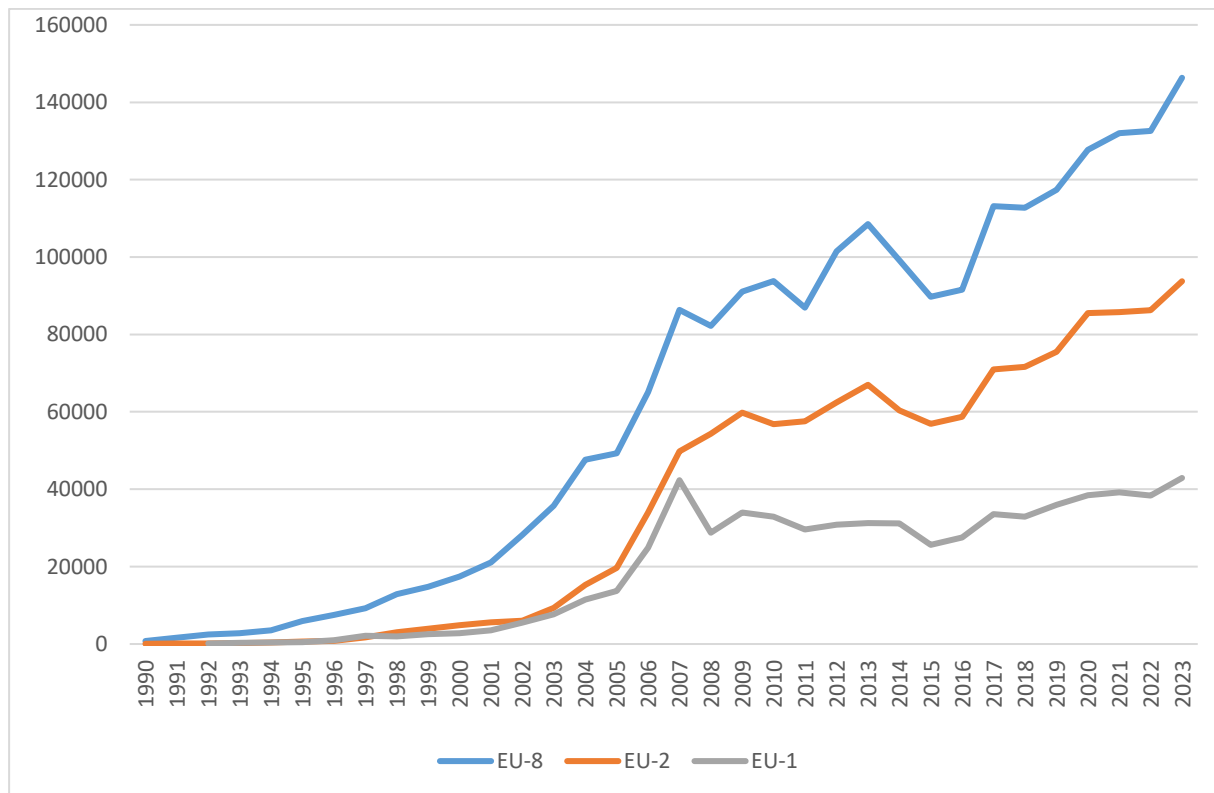
Besides presenting and analysing briefly the data on the trends of inward FDI in the analysed countries, we deal in detail with three areas: the developments in intra-EU and extra-EU flows and the link of FDI inflows to the global value chain (GVC) participation of the analysed countries as well as the importance of FDI in the growth models of the analysed economies.

## **2. Large inflows of FDI in the analysed countries**

The analysed countries have experienced substantial increases in the inflow of FDI after 1990. (Figure 1) The EU-8's relative position as beneficiaries of FDI increased progressively over the pre-accession era, peaked after the accession year, and during the post-accession period, with some backlashes, it grew further at a lower pace. However, the relative position of the EU-8 remained significantly higher than it was during the pre-accession period. The dynamising impact of EU accession has somehow been waning with the subsequent enlargements. (Figure 1) Based on the categories of Dunning and Robson (1988) we can assume that in the immediate pre- and post-accession era, investment creation (opening up new prospective markets for horizontal FDI and opening up new prospective production sites for efficiency-seeking FDI) dominated, which impacted positively on FDI inflows in the analysed countries. Some investment diversion may also have occurred within the integration, though empirical evidence concerning that is not conclusive (Barry, 2002). The motivation for tariff jumping FDI between the (prospective) member states waned due to the integration process, which may have impacted negatively the FDI inflows from 'old' to 'new' member countries, though the extent of this can be small, as the analysed countries have basically been closed to FDI before 1990. At the same time, tariff jumping FDI could have been promoted from outside the integration by the integration process into the (prospective) member countries. We can assume, that the magnitude of this type of inflows was much larger compared to the first type of tariff jumping, resulting in an overall positive impact coming from the second type of integration-on-FDI impact. Furthermore, the third type of integration-on-FDI impact: investment restructuring could also take place, when the market, which is enlarged due to the integration process, can be served from fewer sites. In this process, relocations, "rationalising" production capacities are important, usually from (higher wage) 'old' member states to (lower wage) 'new' members, sometimes from one new member state to another. Through these relocations, besides seeking efficiency, economies of scale can also be sought for. This process has been present, starting before the accession process and resulting in significant relocations from the 'old' to 'new' members, especially in the automotive, machinery and electronics industries, and later on in business services. However, the magnitude of these relocation processes is well below what we would

expect based on announcements in (economic) dailies (Hunya and Sass, 2013). Thus, the third impact, investment restructuring is also assessed to contribute positively to these increased FDI inflows.

**Figure 1, FDI stocks in the analysed countries, 1990-2023, million USD**



Source: UNCTADStat

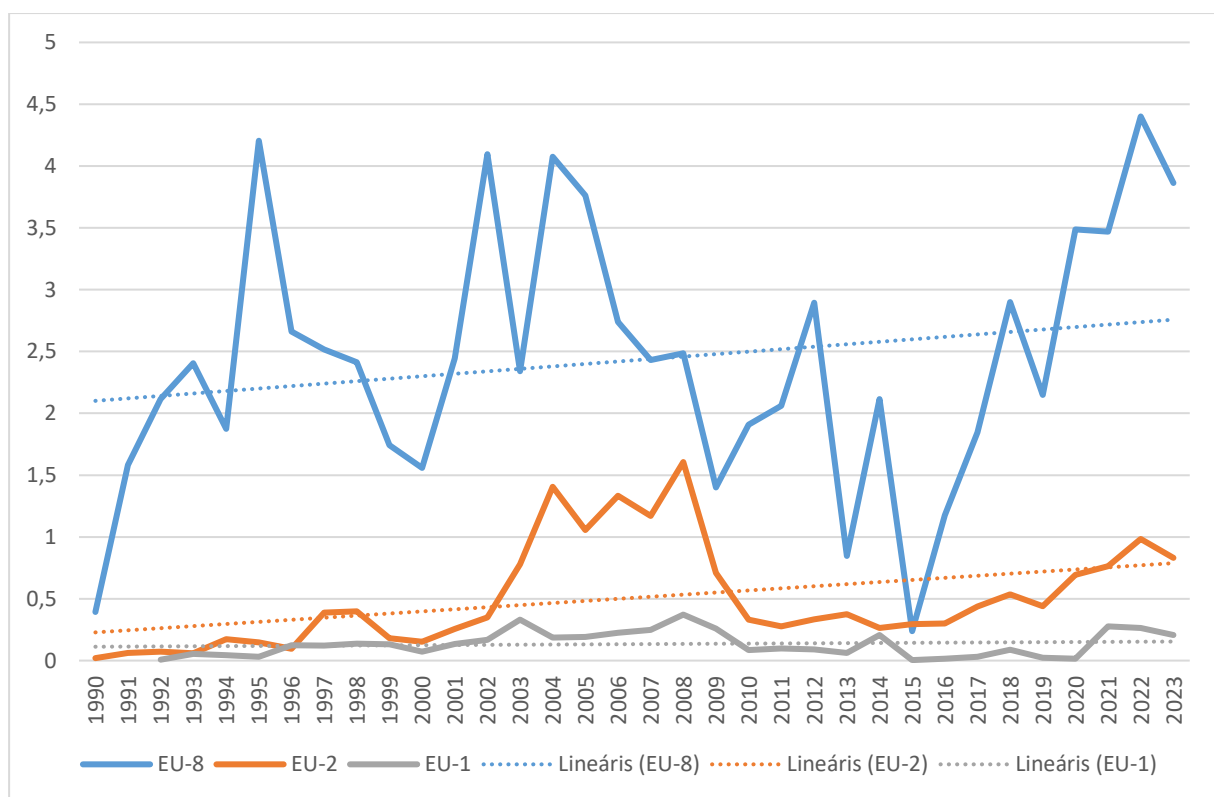
In international comparison, with large fluctuations in the case of FDI inflows, during the examined period, the analysed countries could substantially increase their shares in annual world FDI flows. (Figure 2) Part of the fluctuations obviously come from the volatility of world FDI flows, from the negative impact of global crises in 2008-9 or related to the COVID pandemic in 2020, as well as “local” crises in Europe, such as the euro-debt crisis till the mid-2010s. The pre-financial crisis FDI boom years showed relatively high inflow shares in the analysed countries, while in the post-financial crisis FDI bust years their share fell considerably, which indicates that they were affected especially negatively by the decrease in available FDI. However, the overall share of the analysed countries from close to zero in 1990 went up to over 5 per cent in peak years in the analysed period. Peak years include the immediate pre- and post-accession ones for EU-8 and EU-2,



referring to the direct impact of membership, and a renewed “renaissance” after the COVID-pandemic most recently. For Croatia, the pattern is slightly different; peaks were reached well before the accession – and immediately after it, indicating that the positive impact of EU-membership was “priced in” already before it took place. (Individual performances of countries may of course influence the trends, such as Hungary or Slovakia between 2013 and 2016.)

**Figure 2,**

**Share of the analysed groups of countries in annual world FDI flows, 1990-2023, %**



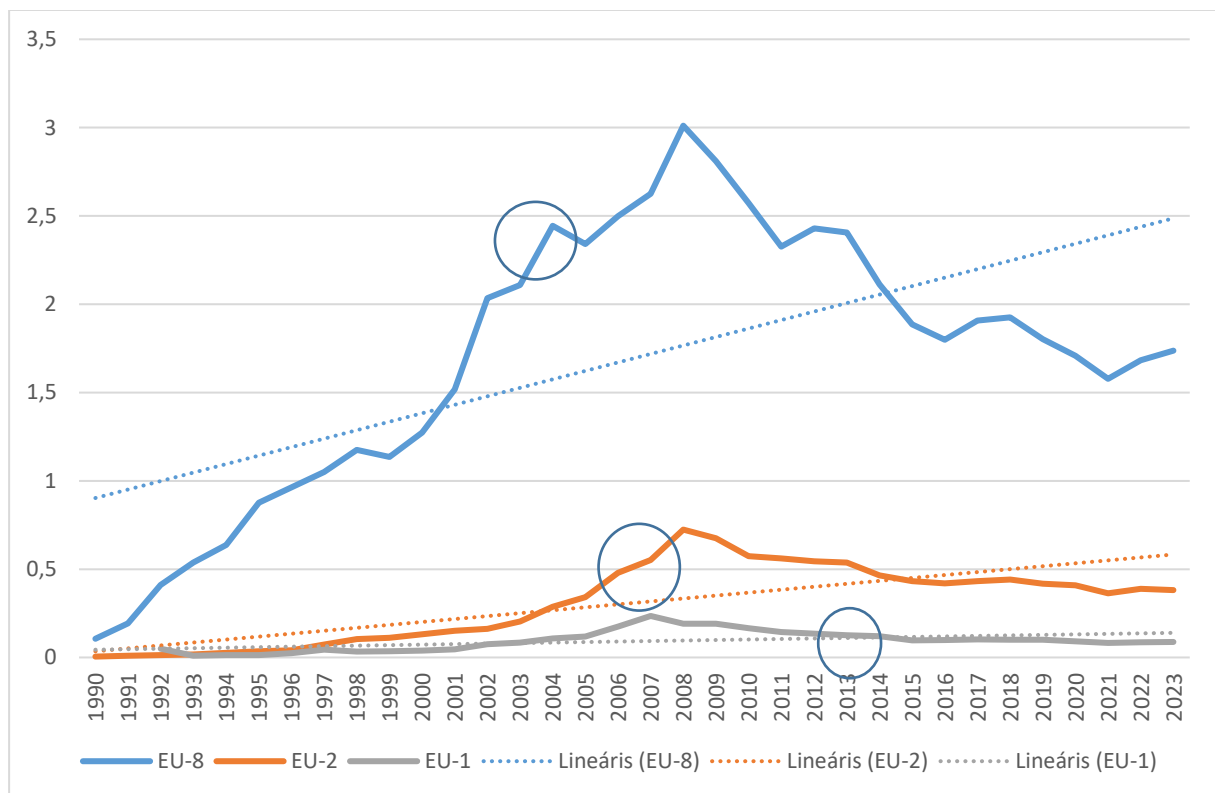
Source: UNCTADStat

Evolution in the shares of FDI stocks in world total highlights more accurately the quick increase from basically zero in 1990 to above 3 % in 2006 and fluctuating between 2 and 3 % after 2013. Thus, taking into account world FDI trends, the country group as a whole represented the highest world FDI stock share between the two enlargements in 2004 and 2013, again underlining the most pronounced impact of the integration process on FDI inflows in the immediate pre- and post-accession periods. (Figure 3) The world financial crisis represents a dividing line, similarly to the evolution in world FDI, which

indicates that world economy impacts play a large role in influencing FDI inflows into the analysed countries. Accordingly, on one hand, world FDI cycles are important from the point of view of FDI flows in the analysed countries, on the other hand, the impact of the integration process also influences their FDI performance. There seems to be a saturation effect: after reaching a peak within a few years after the accession of the various country groups plus Croatia, their shares are rather declining. This decline is not influenced by individual country performances, as they rather move together (Figure 4), but can be described as a common trend, indicating the withering of the “FDI premium” caused by the integration as well as the impact of world FDI trends.

**Figure 3,**

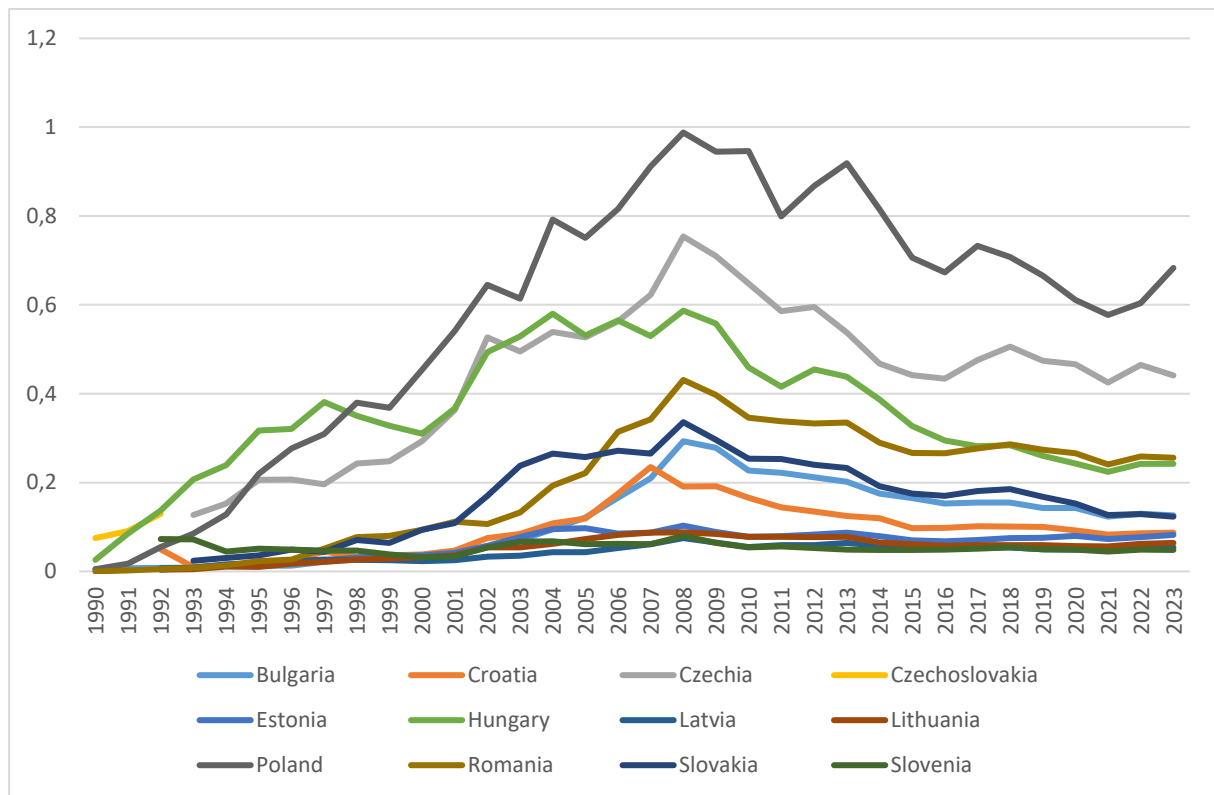
**Shares of the analysed groups of countries in the world stock of FDI, 1990-2023, %**



Source: UNCTADStat

Notes: years of accession of the given country group indicated by the circles

Figure 4, Shares of the individual countries in the world stock of FDI, 1990-2023, %



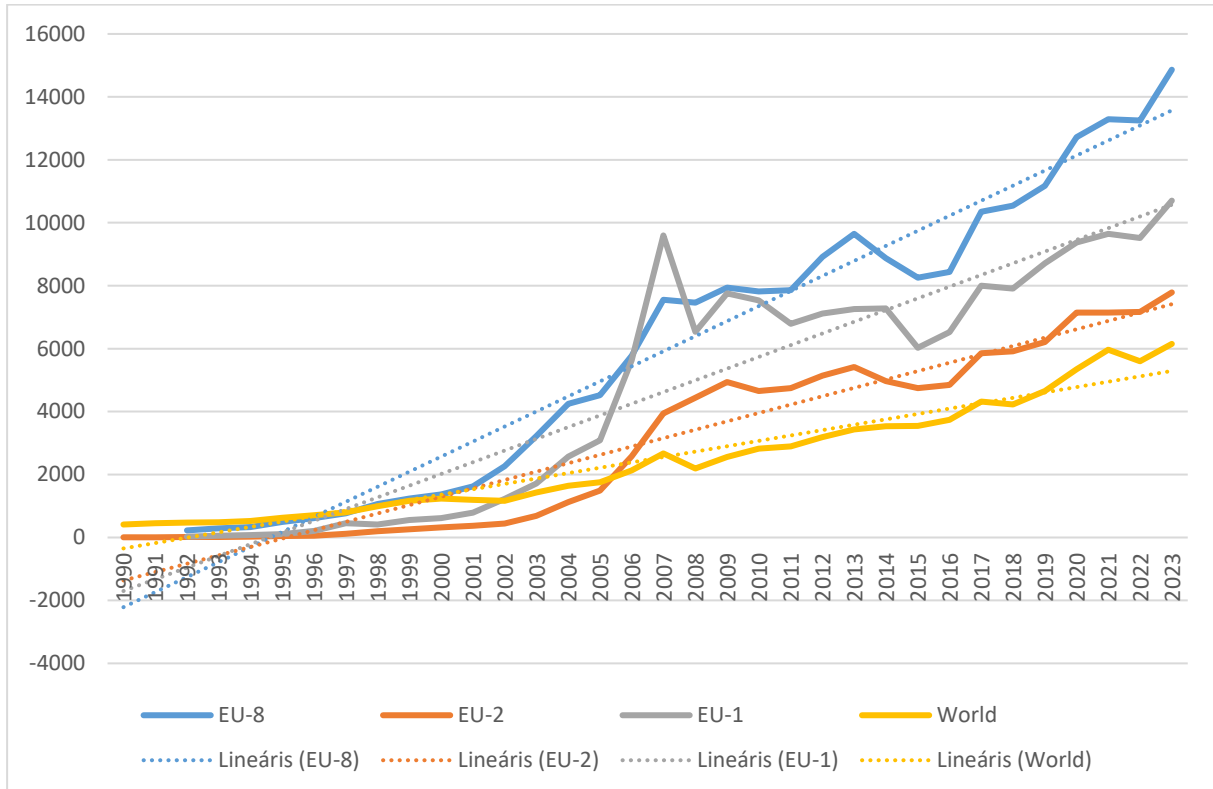
Source: UNCTADStat

Country size matters, thus per capita FDI makes country group and individual country performances more comparable. In terms of per capita stock, the analysed countries surpassed the world average a few years before their EU accession: the EU-8 in 2000, EU-2 (Bulgarian and Romania) in 2005 and Croatia already in 2002. (Figure 5) Country differences are large: Estonia and to some extent Czechia stand out, and at the other extreme, the two “large” countries, Poland and especially Romania have the lowest per capita FDI throughout the period. (Figure 6) However, other factors, such as e.g. roundtripping FDI (when domestic capital goes abroad and comes back through an intermediary country as foreign) may increase inward FDI and its share, such as in the case of especially Czechia (Sass and Vlcková, 2019) and to some extent Poland. In the case of roundtripping, Czech capital, which previously went abroad, returns to the country as foreign, while in reality it is ultimately Czech-owned. Its impact is large on FDI inflows and stock: in Czechia roundtripping can represent as high share of inward FDI as 17%, in Croatia 25 %, and in the case of Estonia and Poland 5 %. (Unfortunately, data are available

*Magdolna Sass / 20 years in the European Union – Foreign direct investments and the process of integration*

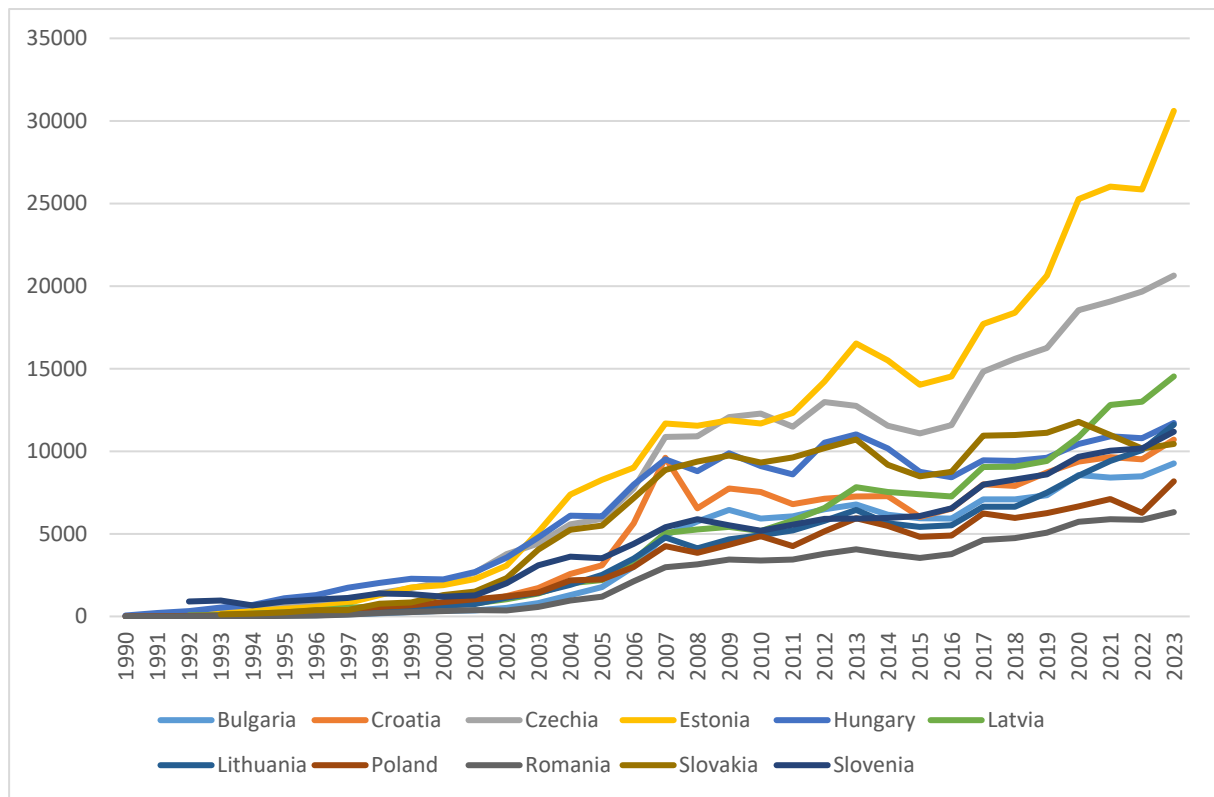
just for a few countries.) Other factors “inflating” FDI data may include capital in transit or asset portfolio restructuring.

**Figure 5, Per capita inward FDI stock, country groups, 1990-2023, USD**



Source: UNCTADStat

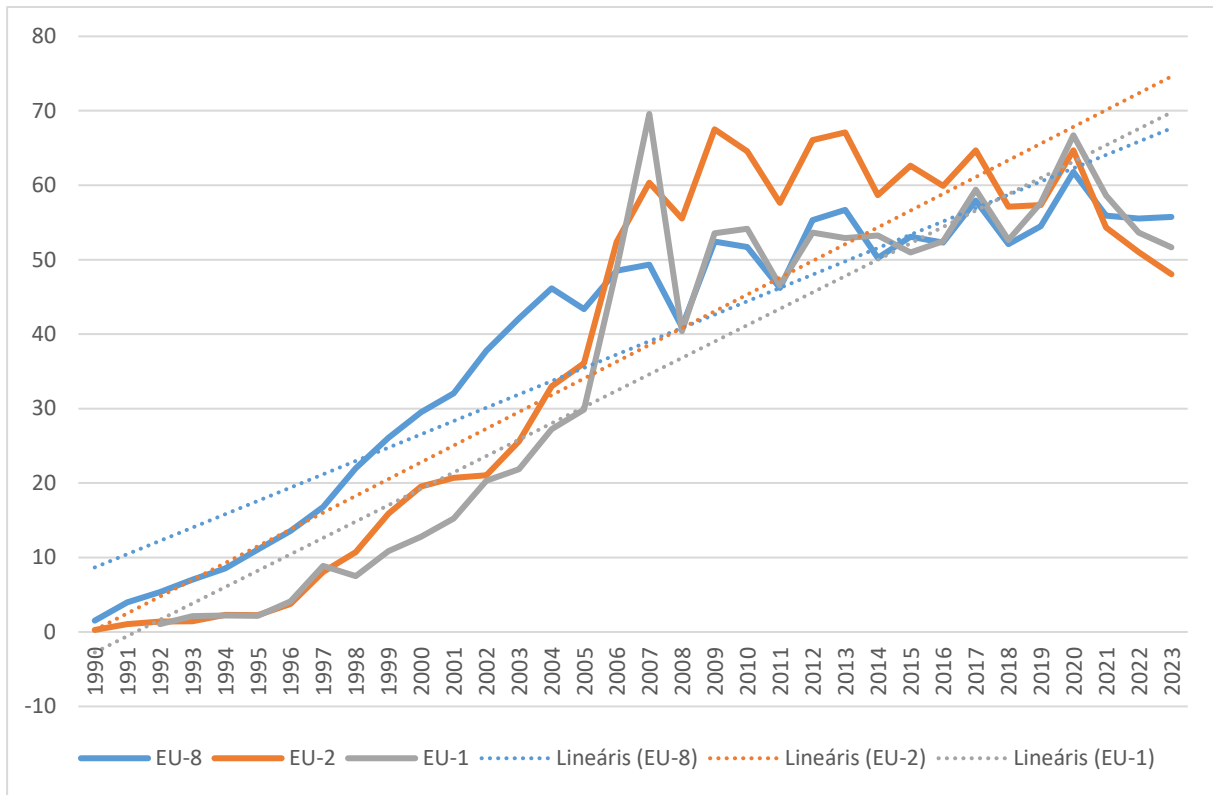
**Figure 6, Per capita inward FDI stock, individual countries, 1990-2003, USD**



Source: UNCTADStat

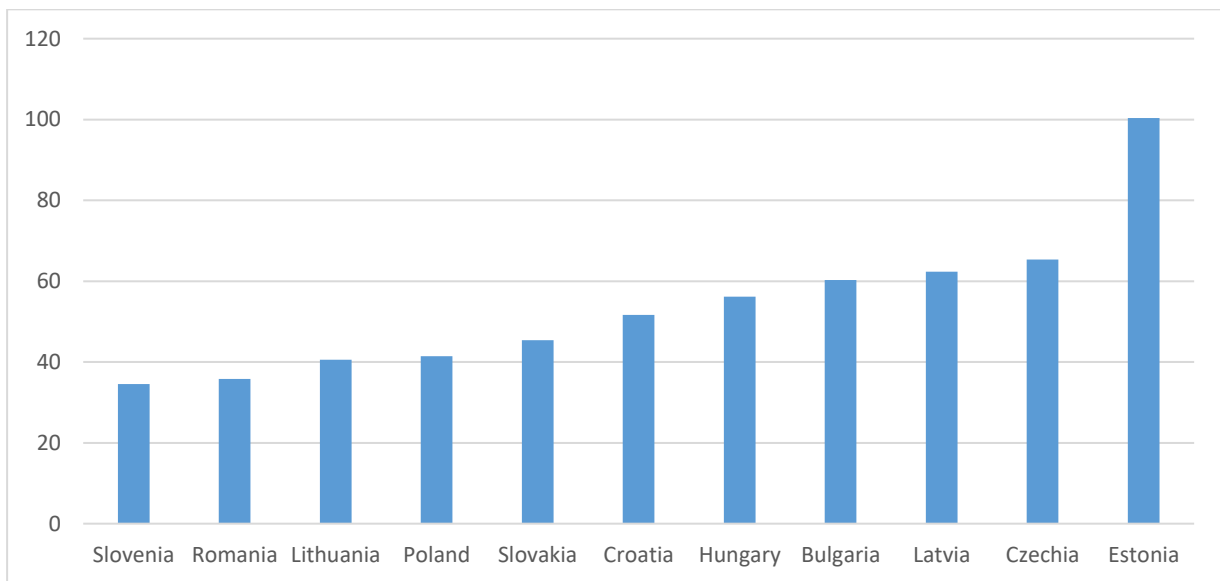
The importance of inflows from the point of view of the operation of the analysed economies and the increasing role of foreign-owned companies is obvious based on the developments in the FDI stock/ GDP ratios. There has been a steady growth in that ratio up until the EU-accession of the analysed countries, reaching very high levels even in international comparison, and afterwards rather stagnating. (Figure 7) However, this stagnation fluctuates within the 50 to 61 % range – and it is still considerably high in international comparison, though the averages hide large country differences. According to the latest data, at one extreme in 2023, there is Estonia with more than 100% of FDI stock per GDP ratio; at the other end of the spectrum, we can find Slovenia, with 35% FDI stock/GDP. Thus, the country group is rather heterogeneous in that respect. (Figure 8)

Figure 7, FDI stock/GDP ratios of the analysed country groups (%), 1990-2023



Source: UNCTADStat

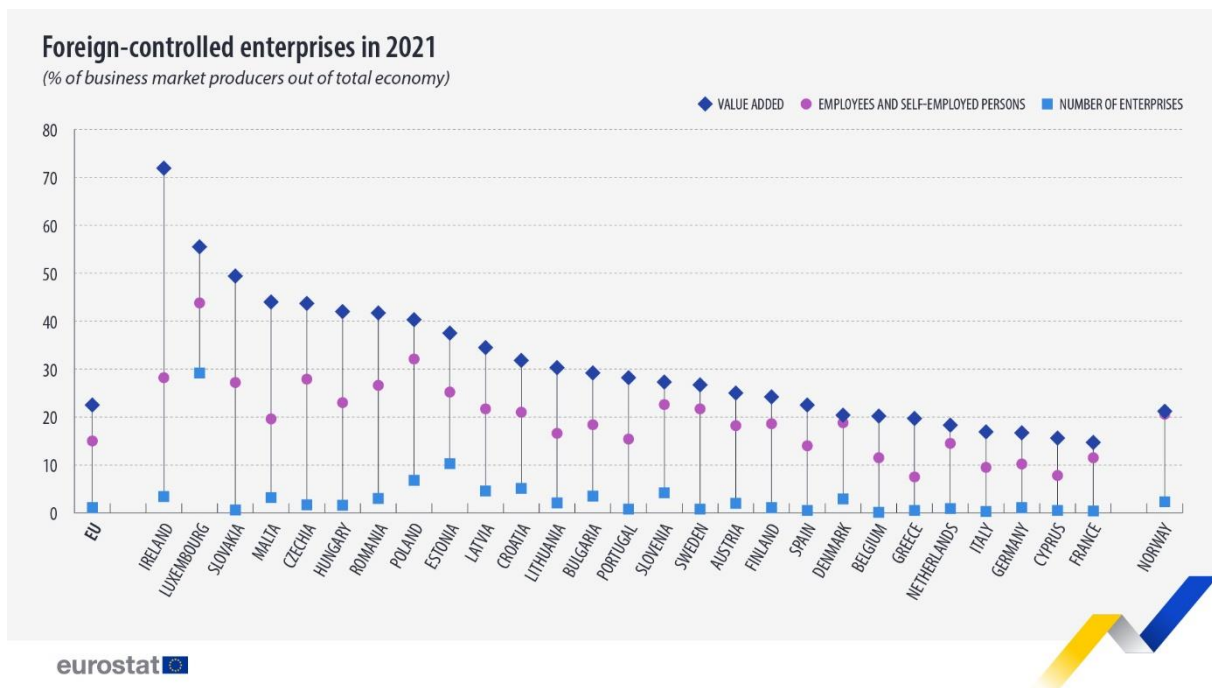
Figure 8, FDI/GDP (%) by country in 2023



Source: UNCTADStat

FATS (foreign controlled enterprises) data provide a better insight into the role of foreign controlled companies (it is based on the criterion of a minimum 50 % foreign ownership, as opposed to 10 % for FDI statistics) in the respective economies. According to the latest data, available for 2021, in EU comparison, all the analysed countries are among those, which have a very high share of foreign-controlled enterprises in value added and in employment, both above the EU average. (Ireland and Luxemburg can be categorised as special cases because of beneficial for foreign investors tax and other regulations. Taking them out shows that the new member states are leaders in terms of the role of foreign-owned entities in their economies.) (Figure 9)

Figure 9

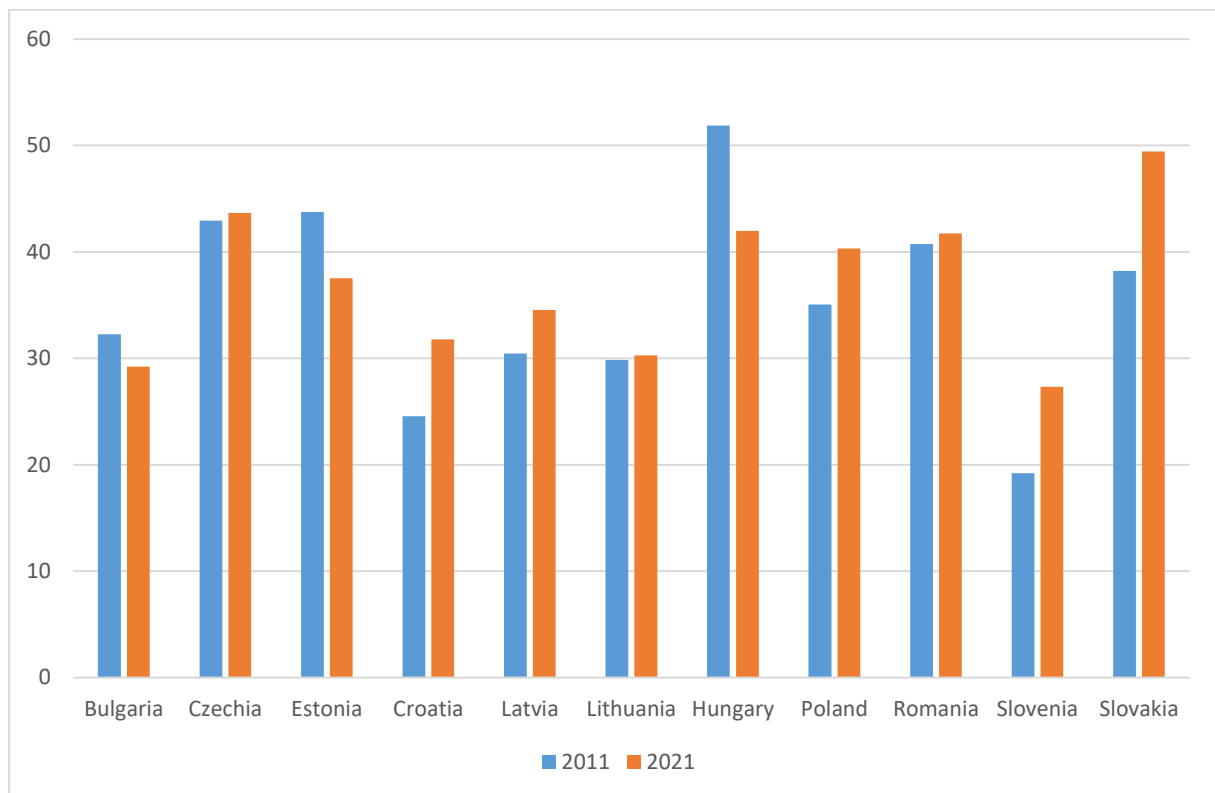


Source: Eurostat

The share of foreign-controlled enterprises in value added has changed in different direction between 2011 (the first year for which Eurostat presents these data) and 2021 (the last such year). No substantial changes characterised Czechia, Lithuania and Romania. A considerable increase is present in Croatia (which became member of the EU within this period, in 2013), Slovenia and Slovakia (members since 2004). On the other hand, Hungary (from an outstanding level in regional comparison) and Estonia exhibit a substantial fall in that respect. As a result, the share of foreign controlled enterprises in

value added is mostly in the range between 30 and 40%, with Slovakia considerably deviating from this regional average with its close to 50 % ratio. Sector differences are however important, and the most profitable industries and companies are mainly in foreign hands. Though the number of locally-owned or controlled multinationals has increased over time, they are still not numerous (Jaklič and Sass, 2024).

**Figure 10, Foreign-controlled enterprises share in value added in the analysed countries, 2011 and 2021**



Source: Eurostat

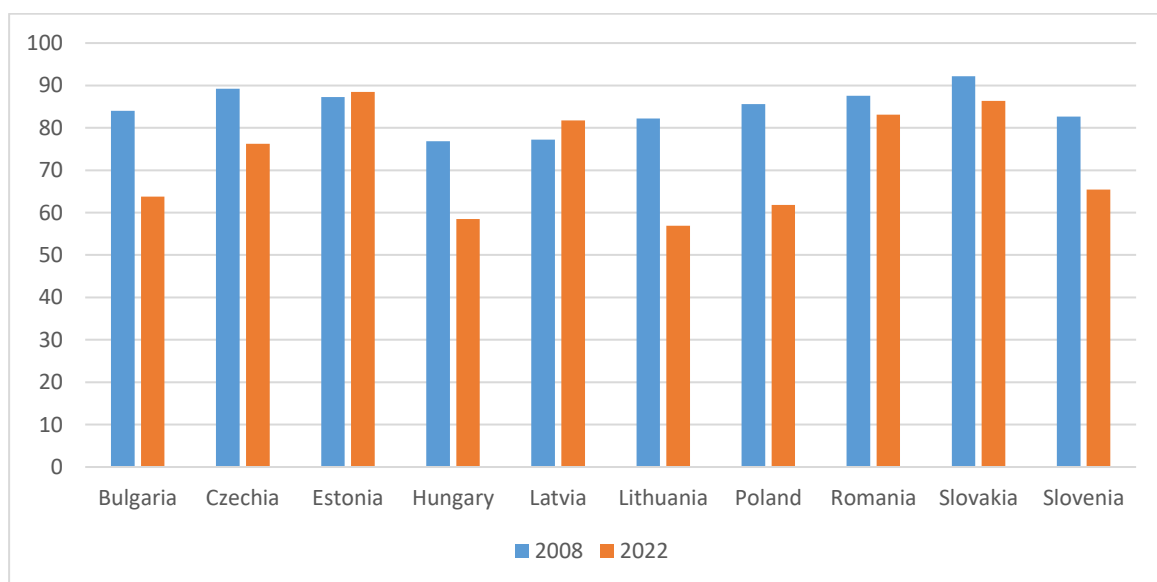
Overall, based on descriptive statistics, EU integration impacted significantly upon the FDI inflows in the analysed economies, especially in the immediate pre-and post-accession periods, indicating an “FDI premium” connected to (prospective) EU-membership and resulting in a high FDI “penetration” in international comparison. However, world FDI trends have not left the region unaffected.



### 3. Home countries of FDI: some decline in the share of the ‘old’ members

In the pre-accession and immediate post-accession period, most FDI in the analysed countries primarily originated from the Western member countries of the EU, indicating that the integration process first increased within-(prospective) integration investment flows (Gelbuda, et al., 2008, Baldwin et al, 1997). Thus, this indicates an investment creation type of integration-on-FDI impact, mainly for within integration flows plus FDI diversion from the same source from non-integrating to integrating countries. However, later on, the integration process resulted in an FDI premium not only in intra-EU but also for extra-EU capital flows, another type of investment creation plus investment diversion. Data are not available for the whole period and for all the analysed countries (data on Croatia are missing), but as Figure 11 shows, according to the immediate investor’s nationality, between 2008 and 2022, the share of EU countries decreased somehow in the total FDI stock, except for Estonia and Latvia. The extent of the fall exceeded twenty percentage points in Bulgaria, Lithuania and Poland, and ten percentage points in the case of Czechia and Hungary, indicating the increasing importance of extra-EU sources for these countries after 2008. (Figure 11)

**Figure 11, Share of EU countries in total FDI stock (%), 2008 and 2022**



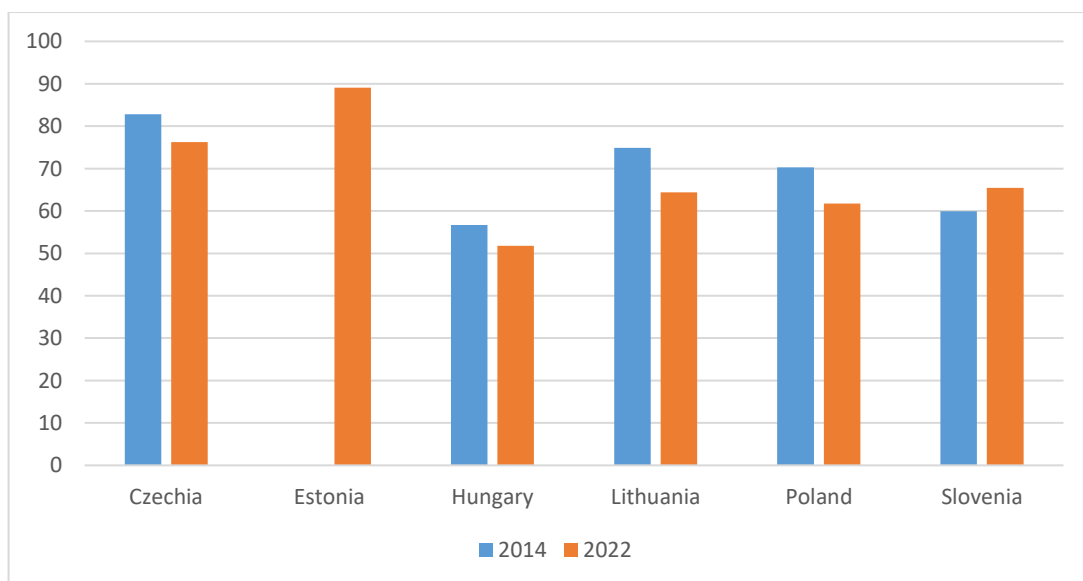
Source: Eurostat and respective national banks

Note: based on the nationality of the immediate owner

However, Figure 11 is based on the nationality of the immediate or direct owner of FDI, which in many cases does not coincide with the ultimate controlling owner's nationality, especially in the case of ultimately non-European-owned/controlled investments (Gubik et al., 2020). For the countries, for which data are available for the ultimate controlling owner's nationality, however, there are similar tendencies between 2014 and 2022, though the magnitude of the decline is smaller. (Figure 12) The prevalence of world FDI trends can be backed by the fact that investments by outside-EU investors have been strengthened after the global crisis in 2008-9 in the EU as a whole as well, not only in the new member countries.

Furthermore, while for the other countries, the share of EU investors is similar according to the immediate and the ultimate owner's nationality, there is a considerable difference in that respect in the case of Hungary. In the country group, Hungary has been the most exposed to non-EU investors already with the lowest share of EU investors in 2014. Part of the fall in the analysed period is explained by the Brexit and thus the "recategorisation" of UK investors from EU to non-EU in 2020. However, in the case of Hungary, also mainly Asian investors (especially China, Korea and to some extent India and Japan) are responsible for the relative decrease in the share of EU investors.

**Figure 12, Share of EU countries in total FDI stock (%), 2014 and 2022**



Source: OECD and Hungarian National bank

Note: based on the nationality of the ultimate controlling owner

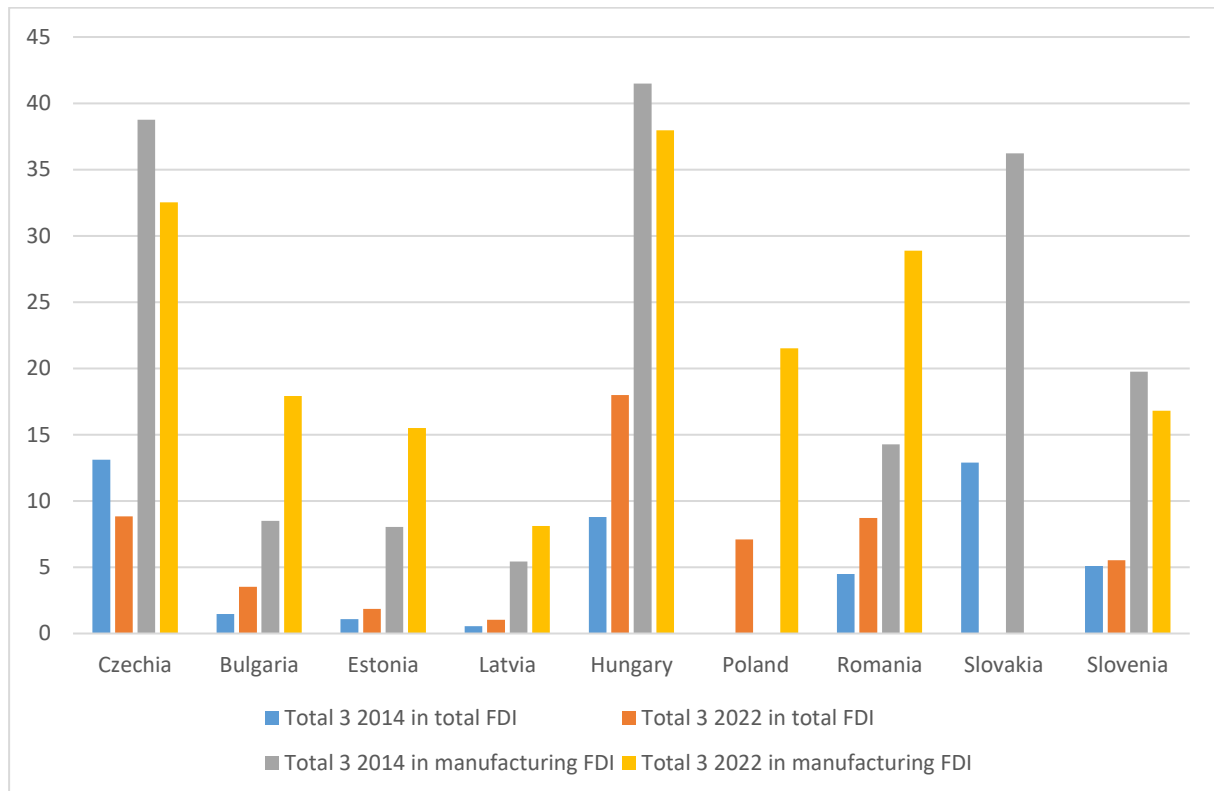
Overall, the dominance of EU investments is still there but declined to some extent in the analysed countries with Hungary showing the largest drop and the lowest share of EU FDI in that respect. This can partly be motivated by tariff-jumping, as these investments are recently of export-platform type, which produce for the whole EU market.

#### **4. Mainly GVC-related vertical FDI – with consequences for domestic impact and vulnerability**

The analysed countries differ from each other in the sector composition of FDI. There have been significant changes in investor motivations and thus the composition of FDI over time. FDI was mostly drawn to the manufacturing sectors of CEE economies in the first decade of the first Eastern enlargement (Damijan et al., 2013). According to the results of Fertő and Sass (2020) for the Visegrad countries, while both horizontal and vertical FDI are present, by now, the latter dominates. This is especially true for their integration in global value chains (GVCs) as factory economies, through the arrival of vertical FDI in GVC-related industries. Indeed, the three smaller Visegrad countries (Czechia, Hungary and Slovakia) stand out in that respect, with an exceedingly high, though slightly declining shares of GVC-related industries. However, in all economies (except for Czechia and Slovenia) the share of GVC-related industries has grown over time in total and in manufacturing FDI. Sector case studies reinforce that, for example Éltető et al. (2023) underline the GVC-relatedness (and thus vulnerability) of the CEE automotive industry. Other, less straightforward cases for vertical GVC-related FDI may be found in services (e.g. other business services, information technology services or financial services), but there are also horizontal FDI projects present in these. This high GVC-relatedness is connected to large disruptions and fall in the related industries during crisis years (such as e.g. during the 2008-9 financial crisis or during the pandemic), on the other hand, these are usually the first industries to bounce back and get back to normal operation after the crisis situation is over. This vulnerability and recent protectionist and related friendshoring and tariff-jumping tendencies affect considerably present FDI flows in the analysed countries.

The integration process plays a fundamental role in the increased GVC participation and related increased FDI flows of the analysed countries. On one hand, relocating unskilled, mid-skilled and even skilled labour intensive activities (e.g. R&D centres) from higher wage Western European members to the new Eastern members provides an important efficiency and competitiveness factor for EU multinationals. On the other hand, extra-EU multinationals can access EU markets and at the same time benefit from lower wages through setting up export platform FDI projects in the new Eastern members, as it was mentioned above in the case of Hungary. Both processes are linked to significant FDI.

**Figure 13, FDI in GVC-related industries in % of total and in % of manufacturing total (stock), 2014 and 2022, selected economies**



Source: Eurostat

Note: the analysed industries: Manufacture of computer, electronic and optical products; Manufacture of motor vehicles, trailers and semi-trailers; Manufacture of machinery and equipment n.e.c.

## **5. Lower than expected positive impact of FDI on the domestic economy**

A brief analysis of the impact of FDI on the analysed host economies should also be presented, however, the empirical evidence is not straightforward in that respect. Potentially, FDI can lead to growth because it means additional investment and more efficient management practices for the country, and it can lead to direct and indirect job creation. It can improve the fiscal position, the current account and it can lead to higher productivity especially if it is sourced from technologically more advanced locations, and there is transfer of technology (Haskel et al., 2007). Additionally, the presence of multinational firms may benefit domestic firms through backward or forward linkages (Javorcik, 2004) and FDI can result in enhanced productivity of local economic actors, including locally-owned or controlled firms horizontally within industries through increased competition. However, none of these positive impacts occur automatically.

For the analysed countries, empirical evidence concerning the positive impact is rather mixed. Data problems and the impact of data selection on study results were often underlined as one important reason for the ambiguity (Iwasaki and Tokunaga 2014). The analysed time period may also influence the results. For example, according to one study, FDI had a favourable effect on growth, as seen by the per capita FDI stocks in 2016, albeit this effect was not particularly strong or robust and was only marginally statistically significant. The projected impact of FDI was much larger for the 1989-2008 period alone, showing that the function of FDI in the post-crisis period after 2008 has been less beneficial (Kekic, 2018). At the same time, the indirect impact of FDI on the productivity of domestic firms is less straightforward (Zimny, 2019). Overall, the positive impact of FDI on the host economy and domestic firms was far below expectations, some of which were exaggerated (Farkas, 2013; Sass, 2021). Drahekoupil and Fabo (2020) have shown the limited contribution of foreign-owned firms to the development of local skills and capabilities, while other studies have pointed to mixed and inconclusive evidence on technology transfer and spillovers associated with foreign direct investment (Iwasaki and Tokunaga, 2016). One of the many reasons for these limited positive spillovers can be the integration process itself. In the circumstances of low trade costs, it can be less costly or more efficient to rely on the original, home country partners through imports or through inviting them to join the partner country through FDI in the new location, especially if they are closely located, than to spend time and money on recruiting (and sometimes

training) new local suppliers. Of course, other factors, such as the limited capabilities and capacities of local firms, strategies of the multinational companies etc. also play an important role in this process.

## **5. Conclusion**

EU membership clearly affected positively the “FDI attractiveness” of the analysed countries. FDI inflows have increased considerably, especially immediately before and after EU accession. Not only intra-EU, but also later on extra-EU FDI has been attracted, and in this latter, integration membership played a clear role. These FDI flows added new, competitive capacities and technologies to the region. However, FDI-related benefits remained below the expectations. Positive spillovers have been limited as well as the rise of competitive local firms based on their partnerships with foreign investors. Partly we can blame for that the deep integration of the analysed countries with their Western counterparts, whereby there is no need to look for local partners, as domestic partner firms are within reach and can supply easily given the smooth flows of goods, services and factors of production within the integration. Furthermore, the countries in question could mainly offer their low wages in the intra-EU distribution of production and they lack competitive local firms – with some exceptions. New trends, such as automation, Industry 4.0 related technologies, decreasing wage advantage, strengthened industrial policies, the reconfiguration of supply chains, increased role of extra-EU (emerging) FDI and growing protectionism/regionalisation pose important questions marks to the continuation of this trend.

While the analysed economies based their growth strategies on FDI, though to various extents, there have been now some signs of “deviations” from this strategy at the level of certain countries, however, this never goes together with a complete rejection of FDI. FDI still plays a determining role in the economies of the analysed countries, especially in certain (export-oriented) sectors. One such strategy change can underline new growth strategies that either rely on „quality” (selected) FDI, whereby those projects are targeted, which result in technology transfer, or other considerable positive impacts or in strategic advantages for the country in question and partly on other growth sources, such as e.g. competitive domestic firms in order to reach lasting convergence.

## References

- Babić, D. (2016) European Integration as a Determinant of Foreign Direct Investment in Central and Eastern Europe, 1995-2013. *Comparative Advantage: Stanford Undergraduate Economics Journal* 4.1: 5-13.
- Baldwin, R., Francois, J.F. Portes R. (1997) The costs and benefits of eastern enlargement: The impact on the EU and Central Europe. *Economic Policy*, 12, pp. 125-176. <http://www.jstor.org/stable/1344733>
- Barry, F. (2002). "EU accession and prospective FDI flows to CEE countries: A view from Ireland", (Dublin: University College Dublin), working paper, (August), mimeo
- Bevan, A. A. and S. Estrin (2004) The determinants of foreign direct investment into European transition economies. *Journal of comparative economics* 32.4 (2004): 775-787.
- Bruno, R. Campos, N.; Estrin, S. (2021) The Effect on Foreign Direct Investment of Membership in the European Union. *Journal of Common Market Studies*, 59 (4), 802-821
- Chen, M. X. (2009). Regional economic integration and geographic concentration of multinational firms. *European Economic Review*, 53(3), 355–375.
- Damijan, J. P., Rojec, M., Majcen, B. & Knell, M. (2013). Impact of firm heterogeneity on direct and spillover effects of FDI: Micro-evidence from ten transition countries. *Journal of Comparative Economics*, Volume 41, Issue 3, Pages 895-922.
- Drahokoupil, J. and Fabo, B. (2020) The limits of foreign-led growth: Demand for skills by foreign and domestic firms. *Review of International Political Economy* <https://doi.org/10.1080/09692290.2020.1802323>
- Dunning, J.H. (1993) *Multinational Enterprises and the Global Economy*, Wokingham: Addison Wesley
- Dunning, John H. and Robson, Peter (1988)(eds), *Multinationals and the European Community*, Basil Blackwell, ISBN 9780631163299.
- Éltető A, Vlčková J, Křenková E, Túry G (2023) Disruptions and resilience building in Central European automotive supply chains *JOURNAL OF EAST EUROPEAN MANAGEMENT STUDIES* 28 : 3 pp. 557-578.
- Farkas, B. (2013) Changes in the European convergence model. *WIIW MONTHLY REPORT* 2013 : 1 pp. 14-19.
- Fertő, I. and Sass, M. (2020) FDI according to ultimate versus immediate investor countries: which dataset performs better? *Applied Economics Letters* 27:13, 1067-1070, DOI: 10.1080/13504851.2019.1659925
- Gelbuda, M.; Meyer, K.E. and Delios, A. (2008) International business and institutional development in Central and Eastern Europe, *Journal of International Management*, 14(1), pp. 1-11, <https://doi.org/10.1016/j.intman.2007.05.011>.

*Magdolna Sass / 20 years in the European Union – Foreign direct investments and the process of integration*

- Gubik, A.; Sass, M. and Szunomár, Á. (2020) Asian Foreign Direct Investments in the Visegrad Countries: What Are Their Motivations for Coming Indirectly? DANUBE: LAW AND ECONOMICS REVIEW 11 : 3 pp. 239-252.
- Haskel, J., Pereira, S. and Slaughter, M. (2007) 'Does Inward Foreign Direct Investment Boost the Productivity of Domestic Firms?' Review of Economics and Statistics, Vol. 89, No. 3, pp. 482–96
- Iwasaki, I., and M. Tokunaga (2014) Macroeconomic Impacts of FDI in Transition Economies: A Meta Analysis. World Development 61: 53–69. doi:10.1016/j.worlddev.2014.03.022.
- Iwasaki, I.; Tokunaga, M. (2016) Technology transfer and spillovers from FDI in transition economies: A meta-analysis. Journal of Comparative Economics, 44, 1086-1114
- Jaklič, A. and Sass, M. (2024) Foreign Direct Investment in Central and Eastern Europe after two decades the EU enlargement; insights from Slovenian and Hungarian perspective. Acta Histriae – forthcoming
- Javorcik, B. S. (2004). Does foreign direct investment increase the productivity of domestic firms? In search of spillovers through backward linkages. American Economic Review, 94, 605–627.
- Kalotay, K. (2006): "The Impact of EU Enlargement on FDI Flows", Batten, J.A. and Kearney, C. (Ed.) Emerging European Financial Markets: Independence and Integration Post-Enlargement (International Finance Review, Vol. 6), Emerald Group Publishing Limited, Leeds, pp. 473-499. [https://doi.org/10.1016/S1569-3767\(05\)06019-X](https://doi.org/10.1016/S1569-3767(05)06019-X)
- Kalotay K. and Hunya G. (2000) Privatization and FDI in Central and Eastern Europe. Transnational Corporations, 9(1): 39-66.
- Kekic, L. (2018) To what extent has FDI benefited the transition economies of Central and Eastern Europe? Columbia FDI Perspectives Perspectives on topical foreign direct investment issues No. 236 October 8, 2018  
<https://ccsi.columbia.edu/sites/default/files/content/docs/publications/No-236-Kekic-FINAL.pdf#:~:text=The%20material%20in%20this%20Perspective%20may%20be%20reprinted%20if%20accompanied>
- Meyer, K. E., and M. W. Peng. 2016. "Theoretical Foundations of Emerging Economy Business Research." Journal of International Business Studies 47 (1): 3–22. doi:10.1057/ jibs.2015.34.
- Sass, M (2005) Tőkevonzás és privatizáció: a visegrádi országok példája (FDI attraction and privatisation: the case of the Visegrad countries). GAZDASÁG ÉS STATISZTIKA 56: 6 pp. 3-20.
- Sass, M. (2017) Is a live dog better than a dead lion?: seeking alternative growth engines in the Visegrad countries. In: Bela, Galgoczi; Jan, Drahokoupil (eds.) *Condemned to be Left Behind? Can Central and Eastern Europe Emerge from its Low-Wage*



*Magdolna Sass / 20 years in the European Union – Foreign direct investments and the process of integration*

Model? Brussels, Belgium : European Trade Union Institute (ETUI), (2017) pp. 47-79.

Sass, M and Hunya, G (2014) Escaping to the East?: relocation of business activities to and from Hungary, 2003–2011 Budapest, Hungary: Institute of Economics, Centre for Economic and Regional Studies, 34 p.

Sass, M. and Vlčková, J. (2019) Just Look behind the Data! Czech and Hungarian Outward Foreign Direct Investment and Multinationals ACTA OECONOMICA 69 : S2 pp. 73-105.

Walkenhorst, P. (2004) Economic transition and the sectoral patterns of foreign direct investment, *Emerging Markets Finance & Trade*, 40(2): 5-26.

Zimny, Z. (2019) FDI has benefitted the EU members from Central and Eastern Europe and can continue to do so. *Columbia FDI Perspectives Perspectives on topical foreign direct investment issues* No. 261 September 23, 2019

[https://ccsi.columbia.edu/sites/default/files/content/docs/publications/No-261-Zimny-FINAL.pdf#:~:text=Zbigniew%20Zimny\\*\\*%20Since%20opening%20to%20FDI%20in%20the%20early%201990s](https://ccsi.columbia.edu/sites/default/files/content/docs/publications/No-261-Zimny-FINAL.pdf#:~:text=Zbigniew%20Zimny**%20Since%20opening%20to%20FDI%20in%20the%20early%201990s)