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Original Article

Investment Potential of Eastern and Central European Countries in Terms of Developing New Locational Advantages

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Abstract: *The goal of this study was to demonstrate the correlations between factors affecting competitiveness and investment attractiveness as two separate but related categories. It also aimed to highlight the significance of new geographic advantages in determining a country's level of investment attractiveness. This essay also compared the appeal of investing in various Central and Eastern European nations. The article is structured as follows: in the first section, attention was concentrated on the traditional and new locational advantages that determine a country's competitiveness and investment attractiveness, taking into account the flow of direct investment from the perspective of M. Porter's diamond model. The eclectic paradigm and new growth theories of J. H. Dunning. The findings of the investment attractiveness analysis, which covered a few Central Asian nations between 1995 and 2013, were reported in the second section.*

Keywords: *investment attractiveness, central and eastern european countries.*

I. INTRODUCTION

This study intends to highlight the parallels between competitiveness and investment attractiveness as two complementary categories and to demonstrate the importance of new locational advantages in influencing a country's level of investment attractiveness. We will emphasise throughout our presentation that productivity, which is the rate at which inputs are transformed into goods and services, is commonly tied to competitiveness. The higher and faster the potential for productivity growth in a particular country or group of countries, defined in this study as the location of economic activity, the more competitive that area is in luring different types of investments. A rising role is given to new locational advantages in the process of enhancing a country's competitiveness and, as a result, its investment attractiveness in comparison to the traditional determinants of foreign investment inflow, the assets of which include intellectual capital.

One other objective of this study is to compare the degree to which the nations of Central and Eastern Europe are attractive to investors. While the second section of the article is "focused" on the flow of direct investment from the perspective of M. Porter's diamond model, the first section of the article discusses the competitiveness of the country and the traditional and emerging locational advantages that characterise its investment attractiveness. The eclectic J. H. Dunning paradigm and new growth theories. The second section, which also contains a few nations from Central and Eastern Europe, presents the findings of the investment attractiveness analysis for the period 1995 to 2013. Data and indicators released by the United Nations Conference on Trade and Development (UNCTAD) served as the basis for the research of the investment appeal of Central Asian nations.

II. COMPETITIVENESS AS A GLOBAL CATEGORY

The term "competitiveness," despite its complexity and variety, is frequently used in a variety of social and economic situations. As a result, there are various definitions of competitiveness that are utilised by various authors in various contexts and for various research reasons. Competitiveness is a vague concept, especially in terms of its causes and consequences. Undoubtedly, this category is closely related to the activities of individual companies. The ability to compete in a global market is referred to as a company's competitiveness. In this sense, it is typically associated with the achievements of companies that have a significant amount of market share and control over the product marketplaces. A metric for any analysis that takes a competitiveness in such a static manner cannot be accepted. A company's high level of competition, on the other hand, leads to a sizable market share.

However, relative to the economy as a whole, competitiveness can be characterized by the production and sale of competitive products in domestic and foreign markets, and the growth of real income [2].

Because the economy must continue to be able to expand and generate chances to raise societal standards of life, this requirement is crucial in a dynamic approach to competitiveness. Therefore, from the standpoint of the enterprises as well as the economy, the productivity of the employed resources, i.e., labour and capital, is becoming increasingly important. The quantity of output produced by a unit of labour or capital is known as productivity. Its degree is influenced by the attributes of the product, production effectiveness, and product quality [1].

Competitiveness is described by the World Economic Forum (WEF) as a group of institutions, rules, and other components that influence how productive a country is. The level of production, in turn, determines the degree of economic success that can be attained [4]. The WEF measures competitiveness using a global competitiveness index, whose weighted average is composed of a variety of unique factors arranged into 12 competitiveness pillars: institutions, infrastructure, macroeconomic environment, health, primary education, higher education, and training, as well as the effectiveness of the labour market, the efficiency of the market for goods, and the development of the financial market, as well as technological readiness, market readiness, and government policy [3].

III. TRADITIONAL AND NEW LOCATIONAL ADVANTAGES DETERMINING INVESTMENT ATTRACTIVENESS FOR FDI

Countries now play a significant role in transnational corporate transactions due to the intensifying global competitiveness. Variations in national values, cultures, economic systems, institutions, and histories have an impact on competitor success. The conditions for the development and innovation of particular features of resources and capabilities are influenced by the national environment, which has an impact on national competitiveness. Four factors can be used to describe how a country's competitiveness affects foreign direct investment and TNCs; these factors also influence how appealing a country is [5].

- The competitiveness of the nation influences the TNC's choice of global location (for instance, inexpensive labour, plentiful materials, and high market demand);
- TNCs' choice of industry is influenced by the competitiveness of the nation. In order to capitalise on the variations in industrial structure between the home and host nations, it is crucial for diversified firms to select a foreign industry that complements their worldwide product portfolio. No country can constantly sustain high levels of sector-specific competitiveness, according to the concept of sector-specific competitiveness. Therefore, it is more crucial for businesses to ascertain whether industry is superior in terms of the local economy and level of competition;
- The nation's level of competitiveness has an effect on the corporation's ability for innovation. Foreign direct investment and trade frequently show the industries that a nation's organisational and technological prowess favours, and these trends encourage additional growth and investment in these opportunities. Organizational and institutional qualities are related to variances in a country's competitiveness. Enterprises that operate and invest in a country with strong organisational and technological capabilities can therefore gain additional knowledge from local businesses and partners;
- The competitiveness of the nation influences TNC's worldwide strategy. As was already noted, a country's competitiveness may be shown in a number of ways, including its rich natural resources, sophisticated and robust market demand, effective governmental operations, and improved infrastructure for innovation. Due to this diversity, businesses are able to differentiate their globally spread functions and benefit from other countries' competitive advantages.

Then, in order to decide where to invest in terms of the country and the industry, multinational firms need also evaluate the country's competitiveness, in addition to international organisations and nations. This also explains why numerous institutions created for this aim in the linked literature view investment attractiveness as a factor in a country's competitiveness or as a result of the rise of competitiveness.

The competitive advantage of businesses and a region's comparative advantage are frequently combined to determine a nation's level of competitiveness. These two work together to raise the social income. As a result, it is feasible to evaluate a nation's competitiveness at both the corporate and regional levels, the latter of which includes an analysis of investment attractiveness. This is because M. Porter's diamond model is frequently used in studies on regional competitiveness. A good example of regional competitiveness is the capacity of (regions) to generate relatively high levels of income and employment while contending with external competition. Regional competitiveness is a term used more generally to describe the capacity of a region to generate goods and services that stand the test of time on global markets while retaining a high and steady level of revenue. The quantity and quality of jobs must be guaranteed for the region to remain competitive [7].

Countries compete for investment based on their capacity to draw different sorts of foreign capital flows, which necessitate expertise and innovation. The transfer of new knowledge to other enterprises in the host site can be encouraged by direct investment and other foreign capital flows. As a means of knowledge transmission and an incentive for local businesses to adapt to the demands of global competitiveness, FDI can in this case help the host nation modernise and advance technological progress. FDI also helps operations in the host country become more efficient by transferring soft technology to those activities. Experts from UNCTAD encourage all nations to prioritise attracting investment and ensuring that it supports sustainable development. [6].

IV. RESEARCH RESULTS OF CENTRAL AND EASTERN EUROPEAN COUNTRIES INVESTMENT ATTRACTIVENESS

According to the estimated direct investment attraction indices, the analysed countries are placed first among the 17 Central Asian economies and second among the 195 nations that were considered for the study (see Table 1). For the whole period under study, changes in the rankings of the examined nations were also calculated.

The Russian Federation, the Czech Republic, Albania, and Belarus held the top four spots in the ranking of Central Asian nations in 2013, according to indices evaluating the attraction of foreign direct investment. The last four positions went to Poland, Slovenia, Slovakia, and Lithuania. In 1995, the top four positions were held by Hungary, Slovakia, the Czech Republic, and Poland, while the bottom four positions were held by Bosnia and Herzegovina, Belarus, Croatia, and Bulgaria. Thus, between 1995 and 2013, Belarus experienced the largest 12-point increase, while Poland and Slovakia experienced the largest 13-point fall.

Table1. The ranking of CEE countries according to inward FDI attraction index, 1995–2013

Country	Position of country*										A change of position	
	1995		2000		2005		2010		2013		1995-2013	
	a.	b.	a.	b.	a.	b.	a.	b.	a.	b.	a.	b.
Albania	79	9	90	12	104	15	61	5	57	2	22	7
Belarus	146	16	127	16	129	17	94	9	78	4	68	12
Bosnia and Herzegovina	179	17	105	15	99	14	112	14	129	12	51	5
Bulgaria	105	14	41	4	30	4	81	7	90	9	15	5
Croatia	112	15	57	6	69	10	135	16	135	13	-23	2
Czech Re-public	32	3	29	2	24	1	66	6	72	3	-40	0
Estonia	53	5	57	7	28	2	56	3	86	7	-33	-2
Hungary	13	1	43	5	35	5	99	11	80	5	-67	-4
Latvia	61	6	64	8	77	11	128	15	102	10	-41	-4
Lithuania	99	13	82	11	77	12	108	12	135	14	-36	-1
Moldova	76	7	64	9	84	13	109	13	113	11	-37	-4
Poland	42	4	39	3	59	8	60	4	194	17	-152	-13
Romania	77	8	74	10	39	6	91	8	86	8	-9	0
Russian Federation	81	10	93	13	68	9	55	2	40	1	41	9
Slovakia	15	2	26	1	45	7	97	10	140	15	-125	-13
Slovenia	93	11	130	17	111	16	141	17	191	16	-98	-5
Ukraine	98	12	94	14	28	3	51	1	82	6	16	6

Source: own calculations, based on: http://unctadstat.unctad.org/ReportFolders/report Fold- ers.aspx. (10.12.2014).

* where:

a. Position of country in the group of 195 economies
b. Position of country in the group of 17 CEE economies

Belarus, Bosnia and Herzegovina, and the Russian Federation saw the biggest increases in FDI attractiveness among the 195 economies between 1995 and 2013 among Central and Central Asian nations. Throughout the whole study period, Poland, Slovakia, and Slovenia saw the largest declines. In the first 10 years of the study period, i.e. 1995-2004, Bosnia and Herzegovina (up 107 places), Bulgaria (up 83 places) and Romania (up 51 places) had the highest relative to their economic size encouraged the flow of direct investment. In 1995–2004, only Hungary (down 39 places), Czech Republic (17 places), Slovakia (14 places), Moldova (13 places) and Latvia (down 11 places) experienced a decline in FDI flows. ranks). From 2005 to 2013, or the following nine years, only three nations saw improvements in this regard: Belarus (up 51 places), Albania (up 47 places), and the Russian Federation (28 places). Poland (135 points), Slovakia (95 points), Slovenia (80 points), and Croatia (66 points) saw the biggest drops in investment attractiveness throughout this time period. Out of the 14 Central Asian nations whose rankings have been poorer in terms of the volume of FDI flows relative to their economic size, Latvia has also had the least loss in this category, by 20 points. reached the mother.

The values of the trade specialisation index, the volume of FDI per capita, and the specialisation index for Central Asian nations between 1995 and 2013 are shown in Table 2. Estonia, the Czech Republic, Hungary, and Slovakia—all of which had per capita GDPs exceeding US$10,000 in 2013—saw the largest absolute gains in attracting FDI over the long term. Foreign investors' term commitments occurred in the case of Moldova, Ukraine, Belarus and Albania – all of which had foreign direct investment reserves of less than US$2,000 per capita in 2013. . The largest absolute increase in foreign direct investment reserves per capita occurred in 2013. The studied period was again recorded by Estonia (US$16,493), the Czech Republic (US$12,374), Slovakia (US$10,674) and Hungary (US$10,614), with the lowest increase in Moldova (US$1,048). , recorded by Ukraine (1,686 USD).), Belarus (1785 USD) and Albania (1898 USD).

Table2. Inward FDI stock and flows for CEE nations from 1995 to 2013 in USD at current exchange rates, per capita, and merchandise trade specialisation indices

Year	FDI pc		PP	LRM	LSM	MSM	HSM
	stock	inflow					
				Albania			
1995	63	21	-0.705	-0.519	-0.603	-0.938	-0.881
2000	75	44	-0.763	-0.263	-0.530	-0.896	-0.912
2005	319	83	-0.646	-0.255	-0.646	-0.881	-0.916
2010	1033	334	-0.457	-0.181	-0.460	-0.837	-0.876
2012	1462	271	-0.357	-0.113	-0.383	-0.828	-0.869
2013	1923	386	-	-	-	-	-

Accordingly, the research's findings indicate that from 2005 to 2013, investors' interest in Central Asian countries obviously fell while it was larger and more stable between 1995 and 2004. An analysis of how the comparative advantages of the different Central Asian countries have changed suggests that these countries may no longer have any comparative advantages or may have lost their comparative advantages in technologically less developed product groups due to their inability to reach a sufficient level. specialise in products with cutting-edge technology.

V. CONCLUSION

The investment-attractiveness of the nations in Central and Eastern Europe can be compared to show that while many more nations receive direct investment, fewer nations actually attract more of it. Investments shrank, as was seen. Since both domestic foreign direct investment attraction indices and per capita measures of the corresponding inflow of foreign direct investment show a decline over the past years, we can conclude based on the study's findings that Central and Eastern Europe has become less attractive as an investment destination. This demonstrates how difficult it is for most of the nations in Central and Eastern Europe to draw direct investment and, as a result, to foster an environment where foreign businesses desire to operate.

The causes might be numerous and differ from nation to nation. The competition for direct investment from Asian nations, notably the Asian tigers, has grown, according to figures from throughout the world. Secondly, it makes the case that many nations in Central and Eastern Europe have lost their cost advantages over the rest of the world, for instance because they do not provide enough in the form of natural attractions. These are mainly called new location advantages that attract foreign investments looking for strategic assets, which not only allow foreign firms to achieve high added value of business activities. The building of an infrastructure that fosters knowledge spillovers and spillovers is made possible by these new locational advantages, which allow the nation the chance to boost productivity based on various types of knowledge development and sharing.

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