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**Transborder Investment:
Corporate Strategies and Regional Development in Eastern Europe**

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Peter Nijkamp

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**TRANSBORDER INVESTMENT: CORPORATE STRATEGIES
AND REGIONAL DEVELOPMENT IN EASTERN EUROPE**

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ABSTRACT

Currently we are witnessing the disappearance of many man-made borders and an increased international cooperation in the European Union. At the same time, the former communist countries are going through a painful process of economic transformation. Whether these developments lead to an open society to the benefit of all actors in all regions, remains to be seen.

This paper addresses the issue of transborder investment in Eastern Europe by Western companies. The paper contributes first, to a conceptual discussion on borders and barriers, and the influence of borders and barriers on regional development (Section 2). Furthermore, based upon a blend of applied studies, the paper explores empirically transborder investment in Eastern Europe (Section 3). Particular attention will be given to barriers to this investment (Section 4). The paper proceeds with a discussion of factors that cause a differentiation in regional development potentials in Eastern Europe, among others a different attractiveness for foreign direct investment (Section 5). This differentiation will be one of the ingredients in the design of scenarios for future regional development in Eastern Europe in the concluding section.

KEY WORDS: borders, barriers, Eastern Europe, investment, scenario.



1. INTRODUCTION

To date, many political borders have disappeared or changed in character, exemplified by the unification of Western Europe and the opening up of the Eastern European power block. However, vanishing political borders do not automatically imply more openness. On the one hand, mankind seems to be keen in inventing new bottlenecks precluding a free movement of people, goods and information. Self-interest or group interest is apparently a strong driving force which is often at odds with the benefits of a borderless society. On the other hand, the heritage of political borders in terms of cultural and institutional differences may remain for a long time and prevent transborder cooperation.

Companies have many motives to seek cooperation abroad. All motives however, are to be seen within attempts to maintain or increase profits in an environment which is progressively competitive and global. Accordingly, motives are cost-related, market-related or both. Involvement of companies in business in foreign countries may take various forms. Common examples are strategic alliances, subcontracting and direct investment. Which of these modes is chosen, is dependent upon a variety of economic and political influences in the country of investment (such as market size, **labour** cost, tariffs, exchange rates, investment incentives, etc.) and on the needs of the **firms** in question.

Foreign direct investment is investment in majority or partially owned subsidiaries. This may be achieved in two ways, namely acquisition and 'greenfield' investment. In the latter, production facilities are established from the very beginning. Clearly, risks in 'greenfield' investment are different from the ones in acquisition of existing firms. Foreign direct investment is generally a **far-reaching** (and less flexible) type of involvement in foreign business, for example compared with strategic alliances.

The attraction of foreign direct investment is considered essential in Eastern Europe in order to pursue improvement of socio-economic conditions. Foreign capital acts as a catalyst for various new developments. It is barely needed in the process of privatization and it helps the creation of new

employment (although the initial effect is often the contrary). In addition, foreign direct investment enhances the introduction of innovative products and new production processes. For example, experiences in Hungary indicate that foreign-owned companies spend much more on R & D than domestic ones [1].

The current 'national systems of innovation' in Eastern Europe are still very much influenced by the peculiar features of the communist past [2]. First, there was a relative weakness of R & D and innovation on the enterprise level. Innovation and R & D were traditionally found in branch level institutes. A second feature was the relatively large contribution of the 'Academy' system to basic and applied research. Consequently, there were no strong links between knowledge sources and enterprises. It is the university and its new generation of young engineers and scientists which form the greatest hope for the future development of technology and innovation in Eastern Europe, rather than the older generation in the Academy and branch institutes [2]. This deserves particular attention in reform policies which accentuate the development of business infrastructure for small high technology **companies**.

Foreign direct investment can be considered as a specific form of spatial interaction. Therefore, the article will first discuss borders and barriers theoretically within a spatial interaction framework. In the empirical part, attention will focus on specific barriers encountered by companies investing or willing to invest in Eastern Europe. A differentiation in attractiveness for foreign investment will then be one of the ingredients in scenario analysis for regional development in Eastern Europe in the concluding part.

2. **BORDERS AND BARRIERS**

Following Nijkamp et al. [3] a **barrier** refers to all obstacles that cause discontinuities in interaction in time and space. Barriers keep people and goods apart, or prevent communication and knowledge transfer [4, 5, 6]. The

related term of a **border** has more a geo-political meaning: it is the line separating two political or geographical areas, especially countries.

Recently, much attention has been paid to the different nature of barriers in interaction. Within this framework **classifications of barriers** have been based upon at least seven dimensions [3, 4, 6, 7, 8]:

the **field** where barriers occur, i.e. physical, economic, **socio-cultural** and time;

the origin of barriers, i.e. natural and man-made, intended and unintended, primary and derived barriers;

the position of barriers in relation to the network, i.e. internal (endogenous) and external (exogenous), node barriers and link barriers;

the organisational setting of barriers, e.g. related to individual actors or organisations, to symmetric or asymmetric relationships;

the spatial scale, ranging from micro to macro levels;

the **time** dimension of barriers, i.e. temporal and permanent, regular and irregular;

the **permeability** (intensity) of barriers, e.g. absolute closure, filtering, etc.

Table 1 lists major examples of general barriers by distinguishing four fields, i.e. physical, economic-political, socio-cultural and time-related, and by emphasizing the difference between intended and unintended barriers. The latter type of barriers is often inherent in the nature of interaction or a consequence of other barriers. **Intended** barriers are imposed for reasons of protection against access to networks and against transfer of goods or information. Important examples can be observed in property and ownership regimes, such as patent protection.

Table 1 **Potential barriers to interaction**

	Type of Barrier
PHYSICAL	Spatial distance Natural obstacle Congestion (overload) Lack of safety (criminality) Missing (small) links in traffic infrastructure
ECONOMIC/POLITICAL	
a. Unintended	Low supply/demand for networking Small skill to identify networks (mental map) High cost of network participation Property and ownership regimes Monetary system Lack of convertibility of currency Legal system
b . Intended	Instable power structures Political borders Trade borders and (fiscal) tariffs Market regulation Border customs formalities (waiting time) Secrecy
SOCIO-CULTURAL	
a. Unintended	Language and vocabulary disparities Educational and income disparities Cultural behaviour disparities Network inertia
b . Intended	Political and ideological protection Social group protection
TIME	Peak and off-peak hours Divergent time zones

An often used term in view of barriers is **bottlenecks**. Bottlenecks may be regarded as one specific form of barriers, namely the ones in which transfer or interaction is hindered by an imbalance between actual capacity in facilities (channels) and desired capacity. Bottlenecks are mostly physical, such as in traffic infrastructure.

Many barriers to networking occur in **the social (cultural) environment**. Language is far the most important barrier here, including spoken, written and computer language, as well as the vocabulary used in communication. The latter barrier type follows for example, from different stages in the development of a technology (basic and applied), and from differences in the organisational culture between actors [9, 10]. With regard to (remote) border regions, social (cultural) barriers have often come into existence during centuries of isolation from the core-area. This may be reflected in a different dialect and lower educational levels, but more importantly, also in divergent attitudes following from social class and ideological differences.

A further field where barriers occur is time. In this respect constraints to interaction arise in two ways. Channels (infrastructure) may not be able to handle all demand for interaction during a number of peak hours (such as in telecommunication and physical transport), or handling through particular channels is delayed on purpose or as a result of indifferent attitudes. The latter barriers are evident at particular border crossings in Eastern Europe. The second source of time constraints rests on the system of global time-zones. Interaction may be hampered by a lack of overlap of working times between the two sides involved. This holds largely for flows by telephone and is clearly visible in **world-embracing** services, such as in banking.

To conclude, a large variety of barriers may obstruct spatial interaction. Over the past several years, the importance of socio-cultural obstacles has increasingly been emphasized in research on interaction and communication. Political borders may have vanished and physical borders may have been overcome, but the socio-cultural differences that have developed as a **conse-**

quence of these borders, may last for a long time. The remaining part of this section will explore various theoretical views on barrier effects of political borders. Particular attention will be given to impact of political borders on economic activity in border regions from the perspective of various classes of economic theory.

Political borders may have (had) a divergent functional impact on the surrounding regions. This impact can be classified into three types [11], while a fourth type can essentially be added [12]:

- **frontier** effects: (almost) closed barriers stop or strongly penalize interaction;
- **filtering** effects: partially permeable barriers distort the intensity or direction of interaction, or cause a selection of interaction;
- **polarizing** effects: partially open borders cause various types of contact between political-institutional and socio-economic sub-systems, leading to zones of attraction;
- **conditioning** effects: borders cause differences in ‘ways of doing things’, for example in a legal, political and socio-cultural sense.

In conventional theoretical approaches to border region development, border regions are often regarded as being economically **penalized** [11]. This situation stems from a specific configuration of political-institutional and socio-economic factors. In the observations of Christaller [13] borders are distorting elements of ‘hinterlands’ causing an incomplete development of cities, also leading to a rise of overhead costs of investments [14]. Lösch [15] particularly observed the negative impacts of custom taxes, limited border crossings and threat of military action on market areas.

A further conventional approach puts an emphasis on development processes of border regions within the wider context of national spaces and the world economy (particularly in view of spatial division of **labour**). In this line of thinking, border regions offer various **attractive** features for the location of

specific production activities. First, border areas anticipate on both sides the proximity of the other country, leading to various benefits, such as the presence of economic operators from two or more political-institutional systems. A second attractive feature concerns the availability of border **labour** force, which may be cheaper, more flexible and have a different motivation of workmanship. The third reason is essentially cultural. Border regions have a greater 'permeability' of the local society, due to an adaptive spirit and a specific valuation of cultural identity.

In other classes of theory, border regions are associated with **disadvantages** due to their remoteness or peripherality in relation to national cores, both in view of low innovative types of industrial activity and weak power in decision-making [16].

A recently introduced direction in border region development research involves a **dynamic micro approach** [11]. It combines the study of (vanishing) borders with the analysis of strategic behaviour of companies, while articulating the removal of barriers and the construction of **contact-spaces**. **The** approach takes the following driving forces behind inter-firm cooperation into consideration: reduction of uncertainty, reduction of transactions costs (or control costs of the established inter-firm organization) and demand for integration.

This paper will adopt the latter micro-behavioral perspective. Based upon theory and a blend of applied research, it will particularly focus on the demand for direct investment in Eastern Europe and the uncertainty (risks) that prevent companies to undertake such action. First however, aggregate patterns of foreign investment on the national and regional level will be discussed in a concise way.

3. FOREIGN DIRECT INVESTMENT IN EASTERN EUROPE

Foreign direct investment in Eastern Europe has clearly increased in the past years. For example, the stock of foreign direct investment in Hungary progressed from 569 to 4,376 million US dollars between 1990 and 1993 [1]. To mention an example of an investing country, Dutch direct investment has grown from **24,3** to **92,3** million DFL per month between 1991 and mid 1993 [17] (Table 2). Traditionally, Hungary has been the most popular country. This can be ascribed to the ‘early’ modes of reform and the politically stable situation in this country. Dutch investment in Czechoslovakia took off rather late due to the late reform here. To date, Czechoslovakia (Czech Republic) is the most popular country in Dutch direct investment.

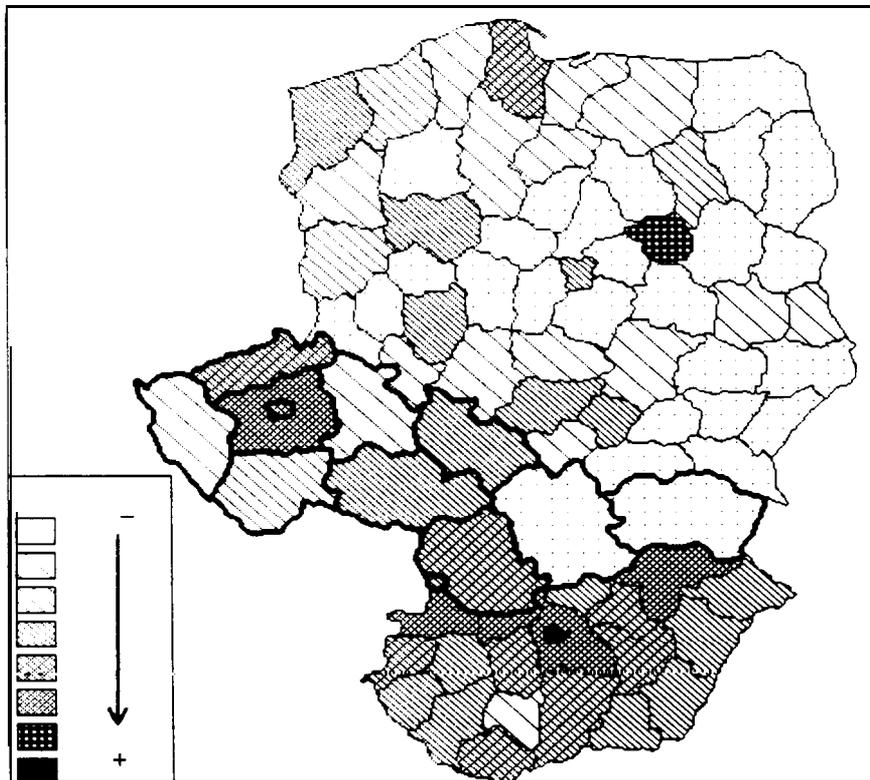
Table 2 Dutch direct investment in Eastern Europe (million DFL per month)

	1991	1992	1993a
Hungary	12,9	17,2	13,4
Poland	9,4	5,0	19,5
Czechoslovakia	1,8	29,5	55,1
Remaining	0,2	1,6	4,3
Totals	24,3	53,3	92,3

a. Average per month for the first eight months.
Source: De Nederlandsche Bank (1993), in [17].

It needs to be emphasized that foreign investment is **unequally** spread over the various regions of Eastern Europe [18, 19]. Large urban centres with international airports, modern telecommunication facilities and good living conditions, and the regions bordering Germany and Austria seem to be most preferred. The further to the East, the less foreign capital invested, Hungary being the sole exception to this rule (Figure 1).

Figure 1 Foreign capital invested in Poland, Czech Republic, Slovakia and Hungary



Source: [19]

It seems that the political 'iron curtain' has been succeeded by a new border, particularly based on a different attraction of Western investment capital. This new economic border lies however, more to the East.

An attractive theory to explain the demand for direct investment combines ownership characteristics of the firm with locational factors of the countries of investment [20]. Accordingly, a company will engage in foreign direct investment when each of the following three principles is present:

Ownership-specific advantages. The investing firm possesses particular advantages over indigenous firms, for example, knowledge (patents), human skills, capital and market power.

Such advantages are most suitably exploited by the firm itself

rather than by selling or leasing them to others; in other words: **the firm internalizes** the use of its ownership-specific advantages. The most important incentive to internalize markets may be uncertainty [21]. The greater the uncertainty, for example, in view of the availability, price or quality of supplies, and in view of the price obtainable for the **firm's** products, the greater the advantage to control these activities.

- **Location-specific factors.** It must be more profitable for the firm to exploit its assets abroad rather than in domestic locations. Location-specific factors in Eastern Europe are often associated with market demand and with cost advantages. Within this context, the national political climate and attitude to foreign direct investment are also important.

The above theory does not explain the mode of investment chosen, such as joint ventures, acquisition of entire (partial) existing firms, and 'greenfield' investment. Such detailed strategic behaviour may be explained by particular opportunities but also by particular barriers perceived by companies intending to invest. In the next section, attention will particularly focus on barriers.

4. BARRIERS TO FOREIGN DIRECT INVESTMENT

An empirical analysis of barriers to direct investment in Eastern Europe needs to be based upon case studies and expert opinion [17, 22]. Large scale surveys which yield information that can be generalized statistically, are still scarce.

Case study research indicates that the major motivations to invest in Eastern Europe are **cost-related**. The most important component in this

respect seems to be the **low wage level**. . . "Aslong as wages are one tenth or less of Western wages, a cost-related investment is always worth". . [17]. Relatively low production costs may also be based on cheap land and cheap equipment. When cost-motives dominate, products are usually exported from Eastern Europe. A second group of major motives is **market-related**. Accordingly, the investing company aims at a location close to (potential) consumer markets. The products are often to satisfy primary needs of the population, such as from food industry.

It should be emphasized that **the starting position** in which companies develop investment plans may be crucial in their search behaviour, negotiation and decision-making on investment. Sensitivity for risk is different between companies performing well in the home-market and companies in bad shape (downfall in profits) wanting to reach better results exactly through investment in Eastern Europe. It is also important to make a difference between **multinationals**, and **small and medium-sized enterprises**. The latter category is particularly vulnerable because the **firms** operate in a small segment (niche) of the market, and have usually small experience in operating abroad. The remaining section will therefore, particularly focus on this type of companies.

First, the barriers an entrepreneur perceives at first sight are very much dependent upon the **image** of Eastern European countries. This image is not simply positive. Whether or not based on actual facts, the media create a **very ambiguous** image. On the one hand, they report long lists of serious inconveniences and threats, such as delay in government payments to companies, rising taxes, poor phone service, undependable air transportation, conflicting tax laws and (particularly in Moscow) activity of maffia-like groups forcing businesses to pay extortion money [23]. On the other hand, the media also underline strong opportunities for investment, a great deal of goodwill in Eastern Europe and positive learning experiences on both sides.

The following **barriers** can be distinguished, based upon experience of individual Western companies and on expert opinion:

Political risks. These include nationalization, strong shifts in power, refusal to acknowledge former administration's decisions, and '**power fluidity**' causing uncertainty in outcomes of procedures and uncertainty about the right persons to negotiate with.

Legal risks. There is often no legal system based on a free market economy and when there is a new system, it may be changed on short term or it has a weak basis because there is no experience in the specific jurisdiction. These legal risks are concerned with property rights, bankruptcy, validity of legal contracts, taxes, etc.

Monetary risks. These follow from the lack of Western currency in Eastern Europe, while the domestic currency often suffers from **(hyper)inflation**. Investments are usually done in Western currency but no national bank in Eastern Europe can guarantee a return on investment in this currency. Various constructions for 'escape' have been created to solve this entrepreneurial risk, but governments often prohibit such constructions.

Socio-cultural barriers. These stem not only from different languages and cultural values, but also (and often) from different 'ways of thinking and doing things'. Western entrepreneurs are not familiar with government decrees, such as concerning purchase of (building) material in the host country, particularly when these do not meet price or quality criteria. Cultural risks include also different skills in corporate management and cost calculating. Another cultural risk originates in the **lack of transparency** of structures and procedures. For 'outsiders', it is very time-consuming to get to the bottom of procedures for specific approvals, details of legal and fiscal system (incentives), and local habits. A missing local contact-network therefore, may cause considerable delay.

Economic barriers associated with relatively **low labour productivity**. It takes considerable time and patience to bring **labour** productivity on a higher level, for example by means of an increase of **labour** motivation and loyalty. It takes also time to learn local personnel to take decisions on their own responsibility.

It is a difficult task to indicate the relative importance of the above barriers. However, a research among Austrian (Styrian) companies investing in Hungary, Slovenia and Croatia [22] provides a basis for such a ranking (Table 3). It appears that political instability and contract risks are by far the two most important barriers. This is important to note because this type of barriers refers to very basic needs of certainty in entrepreneurship.

Table 3 Barriers perceived by Austrian ‘companies investing in Eastern Europe

Barrier	% a	R a n k
Political instability	40	1
Contract risks	29	2
Information on potential partners	11	3/4
Low quality of products	11	3/4
Language barriers	6	5
Contract complications	3	6

a. Frequency of (very) problematic obstacles.
Source: Adapted from [22].

After these general barriers, we now turn to some specific barriers associated with certain **investment modes**, i.e. acquisition and development from ‘scratch’. In the case of acquisition, the following barriers may occur:

a forced transfer of workforce (and their privileges) to the Western company; this is particularly an obstacle for investment when the size of the workforce does not meet the criteria of profit-seeking;

strong technical inferiority of machinery and back maintenance of buildings.

The building of new factories (and starting up new operations) may be hampered due to various delays. In fact, normally only minor problems are involved, but the sum of them may cause considerable damage, such as:

- inefficient procedures at borders leading to a slow down of importing of equipment, building material, etc. ;
- inefficient transactions with banks in Eastern Europe, which is evident in a ‘disappearance’ of money during a number of weeks (six to eight weeks is not exceptional).

There is plenty of knowledge about successful investment decisions. However, there is small knowledge about Western companies which went through decision-making rather far, but withdrew from their projects in a later stage. Case study evidence indicates that such a **withdrawal** occurs under two conditions (as perceived by Western partners):

Unexpected and ‘unreasonable’ behaviour on the side of the Eastern European partner or government. A good example is the government ‘decree’ to adopt hundreds of extra workers or to pay a large amount of money instead.

An increase in structural ‘mistrust’ based on relatively low skills of the local participants and fear for a negative impact on economic results of the investment.

The above discussion emphasizes a great many risks which may prevent entrepreneurs from Western countries to invest in Eastern Europe. It is quite clear that only a successful economic-institutional (including legislation) and monetary reform can smoothen the path for a further increase in foreign investment. Such a future reform will be one of the ingredients in scenario analysis for regional development in Eastern Europe. In this analysis, it is also taken into account that these countries are actually very different, causing different border effects and barriers. This will be the subject matter of the next section.

5. REGIONAL DISPARITIES IN EASTERN EUROPE

The transition to a stable democracy and open market-oriented economy is expected to take place in a different pace throughout Eastern Europe [18, 19, 24, 25]. Due to different development paths under communist rule and central planning, different natural resources and problems of environmental damage, different national traditions and a divergent (geo-political) location, future outlooks are better for some countries and regions and worse for others.

These circumstances clearly cause a variety of border effects, following for example from monetary (divergent strength of currency) and socio-cultural (more or less democratic traditions) differences. The borders with Hungary and Yugoslavia were much more permeable in the past than the ones for example, with Rumania and the Soviet Union. Hungary began economic reforms relatively early, so that economic ties could develop at least on an interregional scale particularly with Austria. Yugoslavia always had a substantial amount of interaction across the border, as witnessed by **labour** force mobility, consumer trips and openness to foreign tourism. At that time, the latter borders were really 'filtering' borders, open for particular activities but more or less

closed for others.

The Czech Republic has the strongest democratic roots, which may help support a fast transition to democratic rule. This newly emerged nation is noted for its skilled **labour**, capital base, a low external debt and enacted plans to privatize large parts of the economy. Hungary has most experience in rules of the market economy and in evolutionary political reform, but its economic recovery suffers from large foreign debts. The latter is even more true for Poland, a country in which the transition to democracy and a market economy is also hampered by internal political confrontation.

The newly established states of Slovenia and Croatia and the Baltic Republics still 'struggle' with a consolidation of their independence. On the other hand, these states have more than any other the opportunity to establish radically new economic models and new legislation. Their small size (and domestic markets) requires however, a very strong cooperation with neighbouring countries. A peculiar feature for at least a part of these small republics is their location in transit zones (such as Slovenia). This brings our attention to an even more important locational factor, namely the distance to sources of capital and innovation [18, 19]. The following factors are important here: proximity to an international airport, proximity to a large urban centre, and proximity to the Western border (to capital from Germany and Austria).

Based on various regional factors, the trend so far seems to be the following. The larger the distance from a large urban centre and the further to the East, the weaker the regions' ability to economic transformation and growth [18, 19, 24]. In the design of scenarios in the next section we will take this differentiation into account.

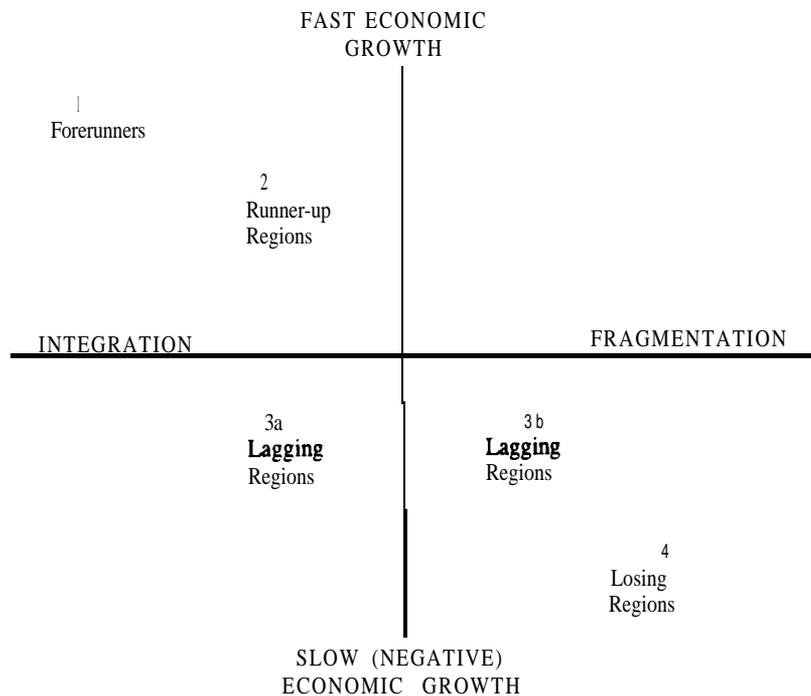
6. SCENARIOS FOR REGIONAL DEVELOPMENT

In recent years, the impact of the political changes on the socio-economic map of the European Union has become a fascinating new research field [26]. One important issue is the so-called regional inversion, i.e. the overturning of the predominance of advanced or core areas by some previously peripheral regions. Most recently, research has been carried out on the changing socio-economic map particularly of Eastern Europe [18, 19]. Here, the major subject matter is the increase of existing regional disparities (or polarisation) and the catching up of a few regions with Western Europe.

The first years of transformation in Eastern Europe have shown a rather clear regional pattern. The most urbanized, traditionally most industrialized (except old, heavy industry) and best equipped (infrastructure) regions seem to have suffered least from the negative impacts of the structural transformation. In fact, traditional regional disparities have not disappeared but seem to have been reinforced in the past years, even leading to **polarisation** effects.

Economic growth in Eastern European regions in the next decade is dependent upon the interplay of various factors. In order to design scenarios, we will particularly consider the following: level of urbanization of the region, proximity to Western Europe, diversification of the regional economy, availability of particular natural resources (and their damage), and ability (or willingness) to economic reform policies by Eastern European governments. The emerging differences will become evident on two related dimensions, namely (1) speed of economic growth and (2) degree of integration into the European (or global) economy (Figure 2). In this context, integration means being a part (node) in the European economic network, as manifested in for example transport and communication, and capital investment.

Figure 2 A classification of scenarios for regional development



The following scenarios of regional development are no clear cut pieces of thorough scientific investigation, but merely pieces of ‘creative thinking’ aimed to provoke discussion. They should read in that spirit.

1. **Forerunners** in economic growth: this scenario seems to be restricted to the large metropolises and a few smaller cities close to Western European borders. Independent from assistance by the West, these city regions benefit from their initial (historical) lead, gateway and transit functions, and strong transborder cooperation in reaping the fruits of a strong reform policy. Notable examples are Prague, Budapest and Bratislava, Poznan and Warsaw, the latter being an ‘outsider’ regarding its poorly developed agrarian hinterland. Based upon these leading regions, a South-North axis may develop including two strong growth

centres (Vienna-Bratislava-Budapest and the Prague region) and a few smaller growth centres (Ljubljana and Zagreb) in the South, while being weaker towards the North, leaving two alternative developments open. One alternative is running towards the Northeast (including Gdansk) and perhaps ending in the Baltic States, whereas the other is running towards the West (including Berlin). Figure 3 indicates such a South-North development axis (named Central European Boomerang) particularly by considering the **Visegrad** nations Poland, the Czech Republic, Slovakia and Hungary.

2. **Runner-up regions:** this scenario is concerned with city-regions outside the above axis which are able to benefit from a strong reform policy, among others due to specific economic potentials. Good examples are transit (distribution) centres attracting new logistic services and value added manufacturing [27], and smaller cities on the edge of National Parks (Natural Reserves) and Spa regions attracting particular classes of tourism from Western Europe. A further category includes university towns where strong links are being established between regional business and applied modern science, alongside the creation of a small business infrastructure.
3. **Lagging regions:** this scenario is relevant for metropolitan areas at large distances from Western Europe, particularly when reform policy fails. This type of lagging regions (3b) remains poorly integrated in the European economy (Figure 2). A second type of lagging regions (3a) is at a shorter distance from Western Europe and therefore, potentially more integrated within Europe. Economic growth is however, hampered by an old (**one-sided**) industrial structure (heavy industry and mining) and strong environmental damage.
4. **Losing regions:** this scenario also supposes a failing economic

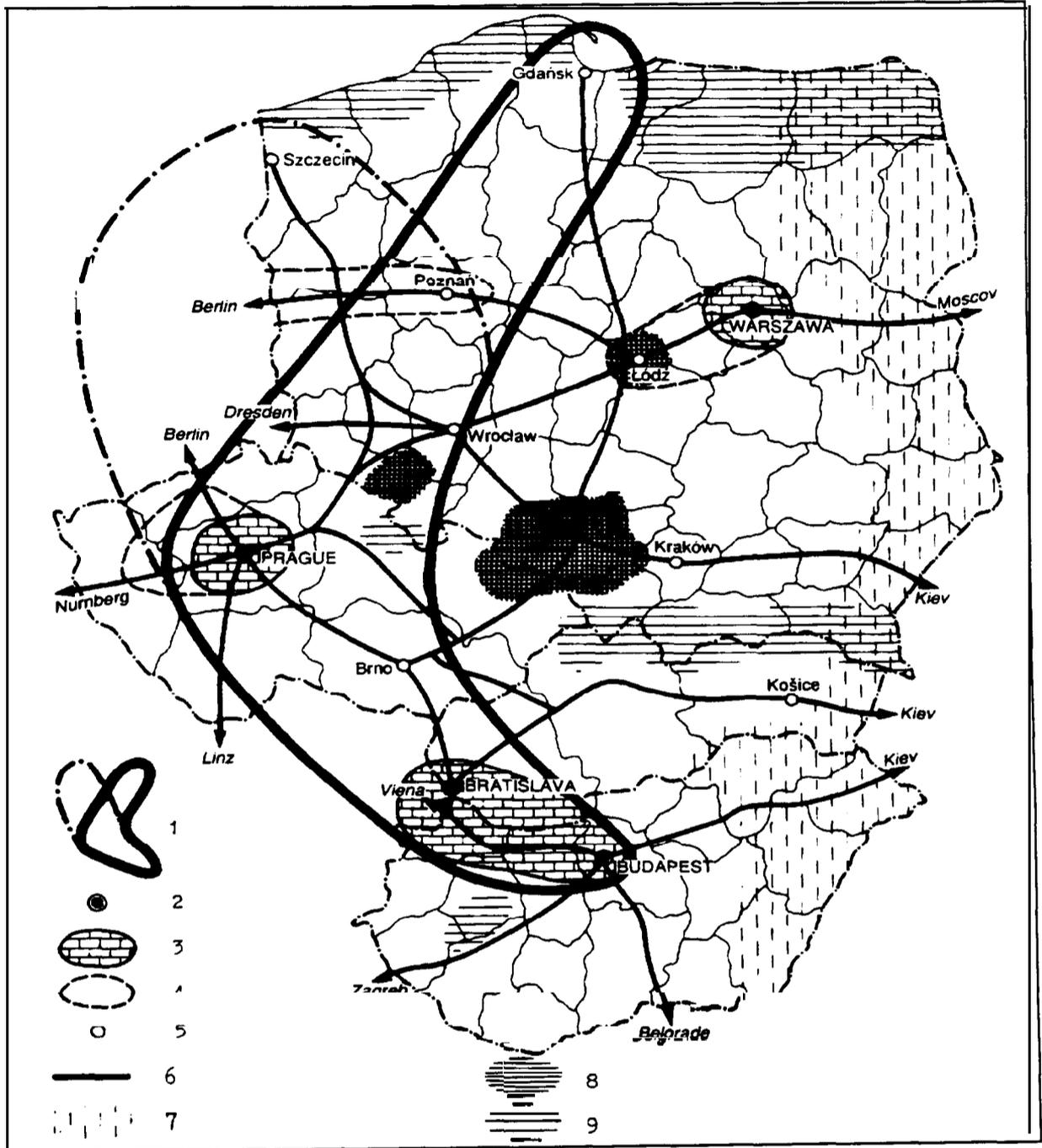
reform policy. It may be true for agrarian regions deep into Eastern Europe and at far distances from large cities. The scenario is also true for specific spots which suffer from ethnic or political tension. Aside from a relatively small (negative) economic growth, these regions are not or only poorly integrated in the European economy.

It is clear that these scenarios are not meant to be alternative forecasts, but just a set of future images which may serve as background frameworks for strategic policy considerations. There is no doubt that the economic future of the regions of Eastern Europe is uncertain and that a mobilisation of all available development forces is a *sine qua non*. In this context, foreign direct investment will play a pivotal role.

Eastern Europe needs the benefits of foreign direct investment, not only to reduce its unemployment but also to help to innovate the production system. Similar to experiences in medium-developed countries in Latin America and the Mediterranean, small companies may play a crucial role in the process of innovation [28, 29]. This means taking active steps in order to develop an attractive **small business infrastructure**, for both domestic and foreign small firms. One major component in such a strategy may be to establish links between strong knowledge sources at universities and foreign small **firms**. In this setting, Eastern Europe may draw on interesting experiences in Western Europe and elsewhere.

Finally, it is believed that chances for foreign direct investment in the small and medium-sized business sector are the best when developments are based upon **'bottom-up'** initiatives, i.e. partly initiated by local entrepreneurs and supported by regional business networks or associations [30]. Such a situation would prevent mistrust and advance local collaboration to the benefit of both investors and Eastern European local (regional) economies.

Figure 3 A Central European Boomerang?



The Central European 'BOOMERANG' — a concentration of transformation processes.
 1: present and potential Central European axes; 2: major centres of transformation; 3: cores of transformation; 4: potential cores of transformation; 5: centres of transformation; 6: main existing or projected highways; 7: Central European 'Eastern Wall'; 8: old industrial regions; 9: regions with tourist potential.

Source: [19]

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