



Exploring alternate scenarios to FDI-led regional development: The case of Central and Eastern Europe

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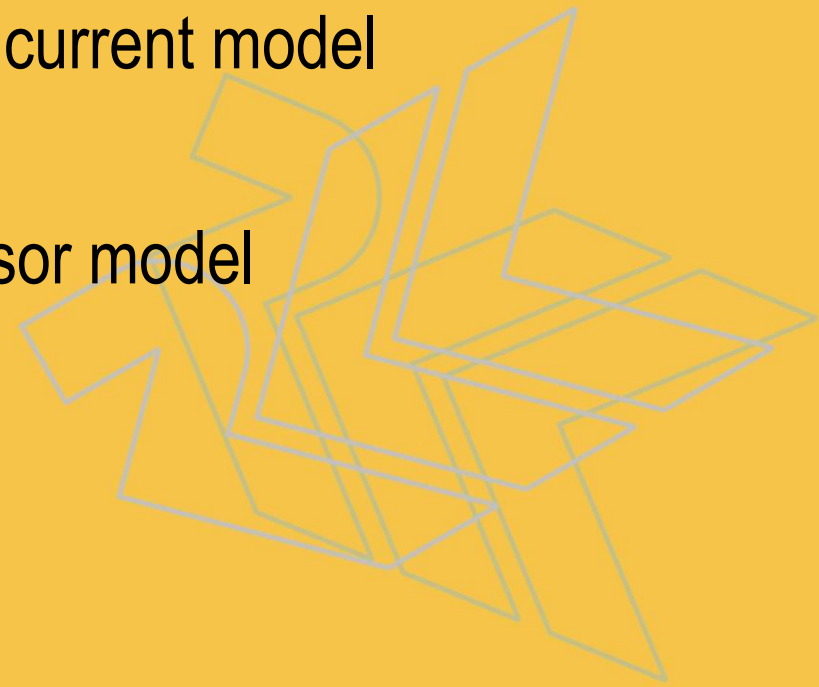
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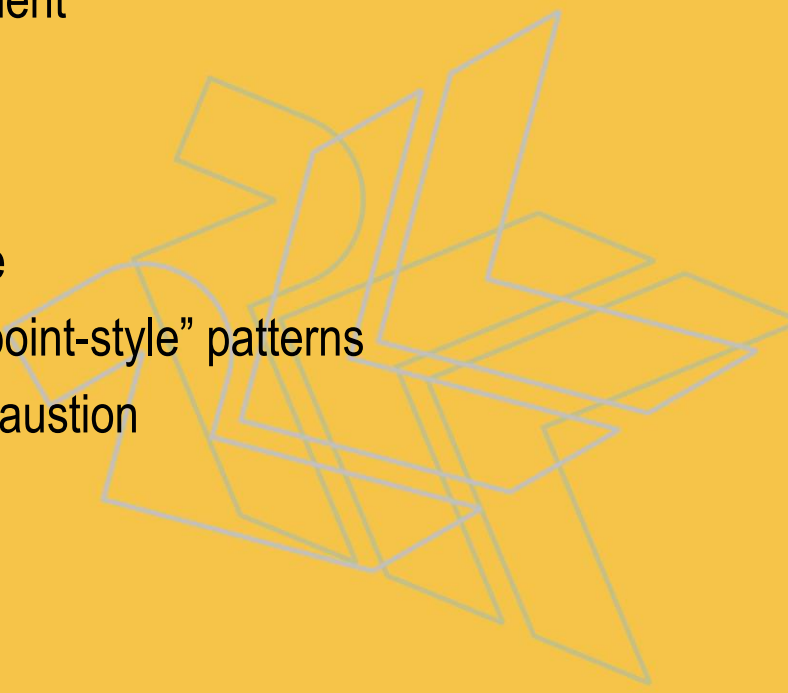
Topics to be explored...

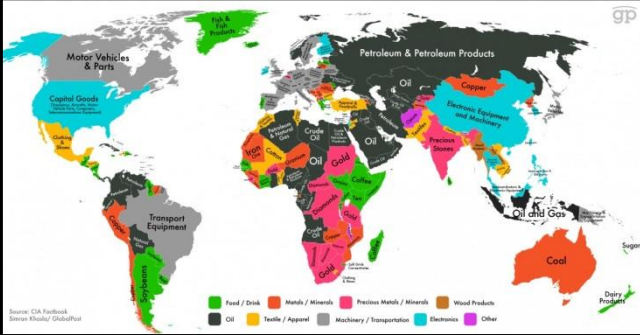
- FDI-led (dependent) development in CEE regions
- The limitations & tradeoffs of the current model
- Alternate development scenarios
- From the dependent to a successor model





- Policy priority under post-socialism:
 - state-led development loses legitimacy
 - privatisation → reproducing existing structures
 - new greenfield investments → source of new regional differentiation
 - new FDI/state nexus as driver of development
- Integration into GVCs and GPNs
- Process
 - from 1990s: V4 countries, continuous zone
 - 2000s: expansion towards SEE and EE, „point-style” patterns
 - 2010s: deepening integration, signs of exhaustion





Source: CIA Factbook

Simran Khosla/ GlobalPost

„Atlas of Economic Complexity” (2014):

- dominant export profile
- evidence of deep integration
- leading role of automotive value chains
- CEE: „complete space” (Freudenberg – Lemoine) & „integrated periphery” (Pavlínek 2022)



The emergence of Dependent Market Economies

- Instead of convergence towards western paradigms, a new, distinct **variety of capitalism** has been created
- Global market governance, different competitive models (Gereffi 1995)
- Types (Bohle – Greskovits 2004, 2006; Rugraff 2008; Nölke – Vliegenthart 2009):
 - **Liberal market economies (LME)**: low state intervention, market-based solutions
 - **Coordinated market economies (CME)**: stronger state intervention, corporative and collaborative solutions
 - **East Asian developmental states**: state capitalism, global market integration via national champions
 - **Dependent market economies (DME)**: emerging CEE model dependent on foreign capital & external corporate decision-making, weak state regulation



The three main varieties

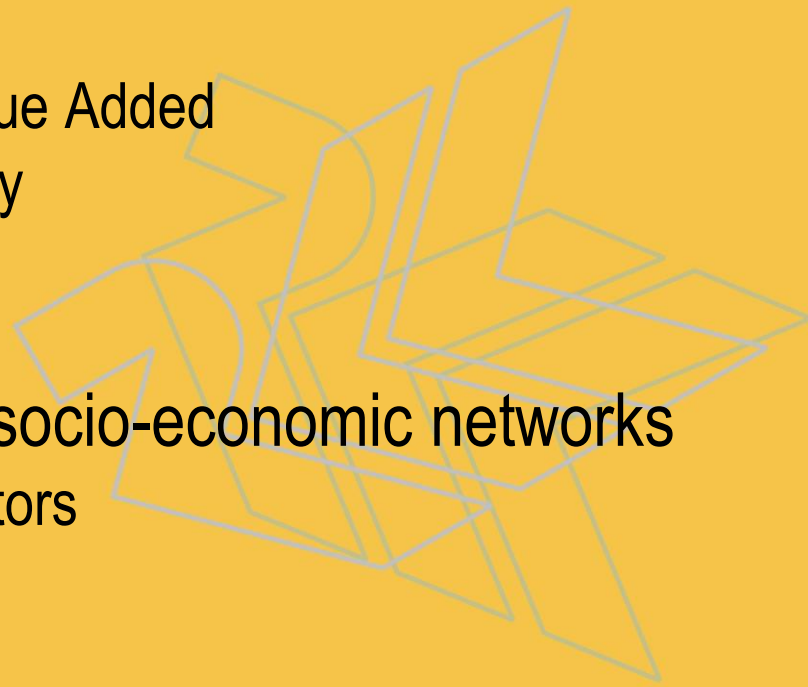
<i>Institution</i>	<i>Liberal Market Economy (LME)</i>	<i>Coordinated Market Economy (CME)</i>	<i>Dependent Market Economy (DME)</i>
Distinctive coordination mechanism	competitive markets and formal contracts	interfirm networks and associations	dependence on intrafirm hierarchies within transnational enterprises
Primary means of raising investments	domestic and international capital markets	domestic bank lending and internally generated funds	foreign direct investments and foreign-owned banks
Corporate governance	outsider control/dispersed shareholders	insider control/concentrated shareholders	control by headquarters of transnational enterprises
Industrial relations	pluralist, market based; few collective agreements	corporatist, consensual; sector-wide or even national agreements	appeasement of skilled labor; company-level collective agreements
Education and training system	general skills, high research and development expenditures	company- or industry-specific skills, vocational training	limited expenditures for further qualification
Transfer of innovations	based on markets and formal contracts	important role of joint ventures and business associations	intrafirm transfer within transnational enterprise
Comparative advantages	radical innovation in technology and service sectors	incremental innovation of capital goods	assembly platforms for semistandardized industrial goods

Source: Nölke – Vliegenthart, 2009, 680.



FDI-led (DME) development in CEE: General features

- „Prefab”, easily transplanted advantages
 - tech transfer
 - modern management/QA
 - global market linkup
 - advantages in capital finance
- Division of labour
 - medium-skilled jobs & medium Value Added
 - upgrading & growing factor intensity
 - emerging supply network
 - post-2010 reinvestment behaviour
- Reconfiguration & reuse of local socio-economic networks
 - significance of path-dependent factors
 - bundled location advantages
 - new combinations





Problems of the development model

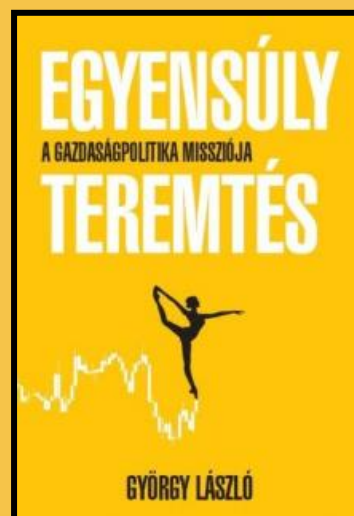
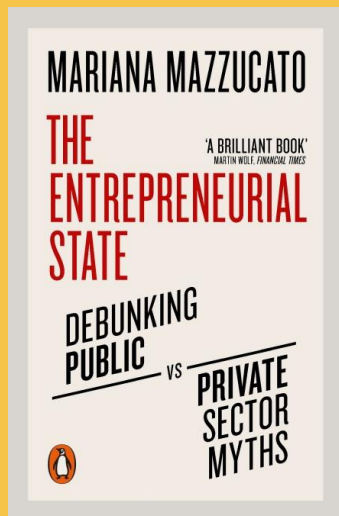
- Dependencies involve...
 - different firm behaviour on domestic and investment markets
 - reshoring and delocalisation (disembedding) risks
 - uneven geographies
 - crowding-out and congestion effects
 - a neglect of domestic alternatives
- Growing social issues...
 - migration led by low wages → human capital losses
 - regional disparities
 - weak capital accumulation → reproduction of historical capital-poor status
- Regional development implications
 - unrelated variety, blindness to local productive traditions
 - uniform texture, interchangeability (standardised low-cost production)
 - centre-periphery relationships
 - may exacerbate future crises due to low diversity („all eggs in one basket“)
 - diminishes local entrepreneurial exploration



Where to from the FDI-led model?

- Is it sustainable?
- Does it lead to a development trap? (middle income ~, disappearing middle ~, low-VA ~)
- What is missing?
- Which way forward?
 - along the current path, but „further and better”?
 - towards the East Asian-style developmental state?
 - domestic SME sector

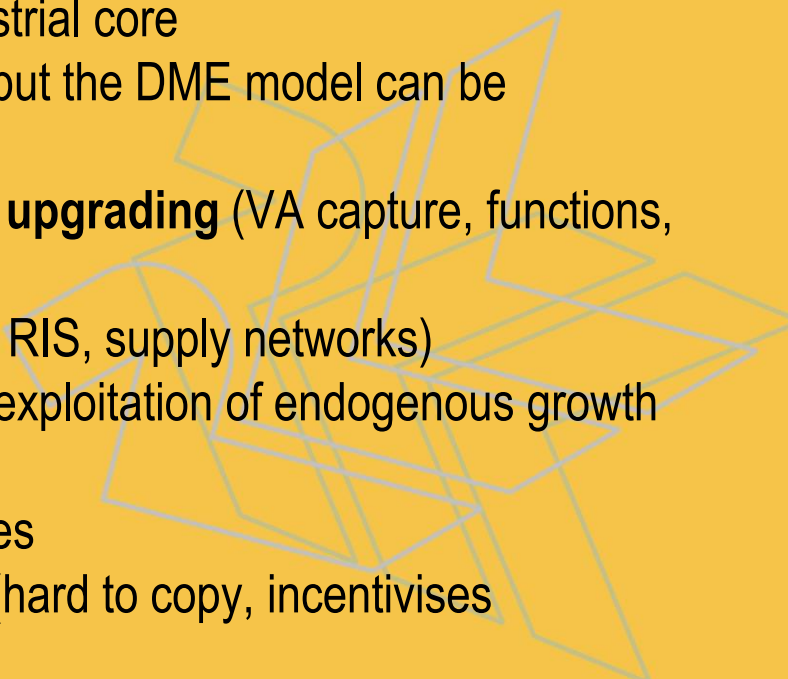
(Are these alternatives complementary or exclusive?)





1. Upgrading in the current model

- Dependent to embedded model
- General aims:
 - from „job creation” to „job enrichment”
 - balanced economic structure (industries and high-VA services)
 - flexible and resilient knowledge base
 - social and territorial cohesion
 - geographical expansion of integrated industrial core
- No realistic chance to replace FDI-led growth, but the DME model can be reimagined...
 - ...stronger **local embeddedness**, gradual **upgrading** (VA capture, functions, linked services)
 - ...widening **industrial networks** (clusters, RIS, supply networks)
 - ...**lower exogenous dependency**, better exploitation of endogenous growth
- Focus on smaller, more embeddable FDI
- Shift from comparative to competitive advantages
- Specialised and localised industrial structures (hard to copy, incentivises embedding)
- Regional/local level: exploit virtuous path-dependencies





2. Active industrial policies & domestic multinationals

- The visible hand
- Missing „national champion” firms
 - key players in East Asian (and previously European) modernisation
 - CEE: abandoned strategic industrial policy after 1990
 - EU-wide reappraisal of active industrial policies („entrepreneurial state”, Mazzucato 2012), followed by limited policies in core EU & CEE (FDI/state nexus remains)
 - play a vital role in national/regional ecosystems: network hubs, spillovers in finance + R&D + service sector, domestic supply networks, national brands, etc. → multinationals are „truncated”
- Partial national champions: not all functions are present. Active in banking, energy, agriculture, manufacturing, pharma
 - Mixed ownership, local management
 - Own strategies + helped by political matchmaking
- Emerging large enterprises
 - Growing into MNC status → high risk of failure (Fornetti, Solaris, Waberers...)



3. Domestic entrepreneurship & regional development

- Geographic, historical & cultural proximity to DE, AT, IT – realistic goal?
 - High-road competitiveness elements
 - Persistent weaknesses in the SME sector, metropolitan concentration of gazelles
 - Long policy neglect due to FDI/state nexus, vicious circles (industrial legitimacy)
- Emerging tier of mid-sized firms („Mittelstand” and „Italianate” types)...
 - „functional” and „potential” companies
 - from survival to excellence?
 - efficient use of scarce endogenous resources
 - growing internationalisation, export-based learning
 - supply chain integration vs. own product development
 - reproduction and accumulation of knowledge and territorial capital
- ...but mostly early-stage clusters / locally embedded production networks
- Key issue: (re-)constructing coherent **local specialisations** → capital accumulation cycles, embedding, resilience & diversification

POLICY ALTERNATIVES

FDI IN REGIONAL DEVELOPMENT

Exploiting comparative advantages	Exploiting locally embedded competitive advantages
"More jobs"	"Better and long-lasting jobs"
Investment attraction	Investment embedding
Medium factor intensity and added value in core manufacturing	Increasing factor intensity and value capture via functional upgrading
Dominance of top-down networks	Multilateral networks
Large-scale FDI projects	Multiple smaller FDI projects

INDUSTRIAL POLICY AND NATIONAL CAPITAL

Policy agendas set by FDI-state nexus	Broad stakeholder coalition of FDI-state-domestic entrepreneur groups
Indirect industrial policy set	Entrepreneurial state and activist industrial policies
Partial national champions	Functional and active national champions
Fragmented large company network	Emerging domestic/CEE multinationals
Dominance of FDI-based inwards investment	Increasing outwards investment
Advanced corporate functions in home countries	Domestic spillover effects from local headquarters

DOMESTIC SME DEVELOPMENT

Early-stage enterprises	Multi-generational enterprises
Atomised SME network	Integrated, embedded SME network
Low-road development trap, survival-oriented strategies	Expansion through growth-oriented strategies
General products	Niche goods and high-quality general products
Domestic markets, weak internationalisation	Growing internationalisation through GVCs and global market niches
Low innovation activity	Export-based learning and own product development

MECHANISMS

CAPITAL ACCUMULATION

EMBEDDEDNESS

OWNERSHIP BALANCE

RE-SPECIALISATION

OUTCOMES

INCREASING VALUE-ADDED

DIVERSIFICATION

RESILIENCE AND STRATEGIC AUTONOMY

MORE DISPERSED REGIONAL DEVELOPMENT

Towards a successor model in regional development?

- The DME model has reached its boundaries (missed modernisation goals, disadvantages & tradeoffs)
 - Systemic vulnerabilities apparent
 - Concerns of uneven development
 - Need for a new policy mix
- ➔ „successor model”



Risks and limitations

- Can successful practice be adapted?
 - it is hard to construct new development paths
 - local adaptation is needed for success
 - incremental changes accumulate
 - **utilise positive path-dependency**
- Growing problems
 - decline of the CME model in Western Europe?
 - can the integrated periphery converge towards the EU core?
 - exogenous shocks exposing the DME model's vulnerabilities
- „It is hard to predict, especially the future.”
- „Interesting times” ahead?



„institutions matter”





Thank you for your attention!

