

# **Business Environment and its Dynamics in Central and Eastern Europe**

## ***FDI and HR Perspective: Labor and Skill Shortage II.***

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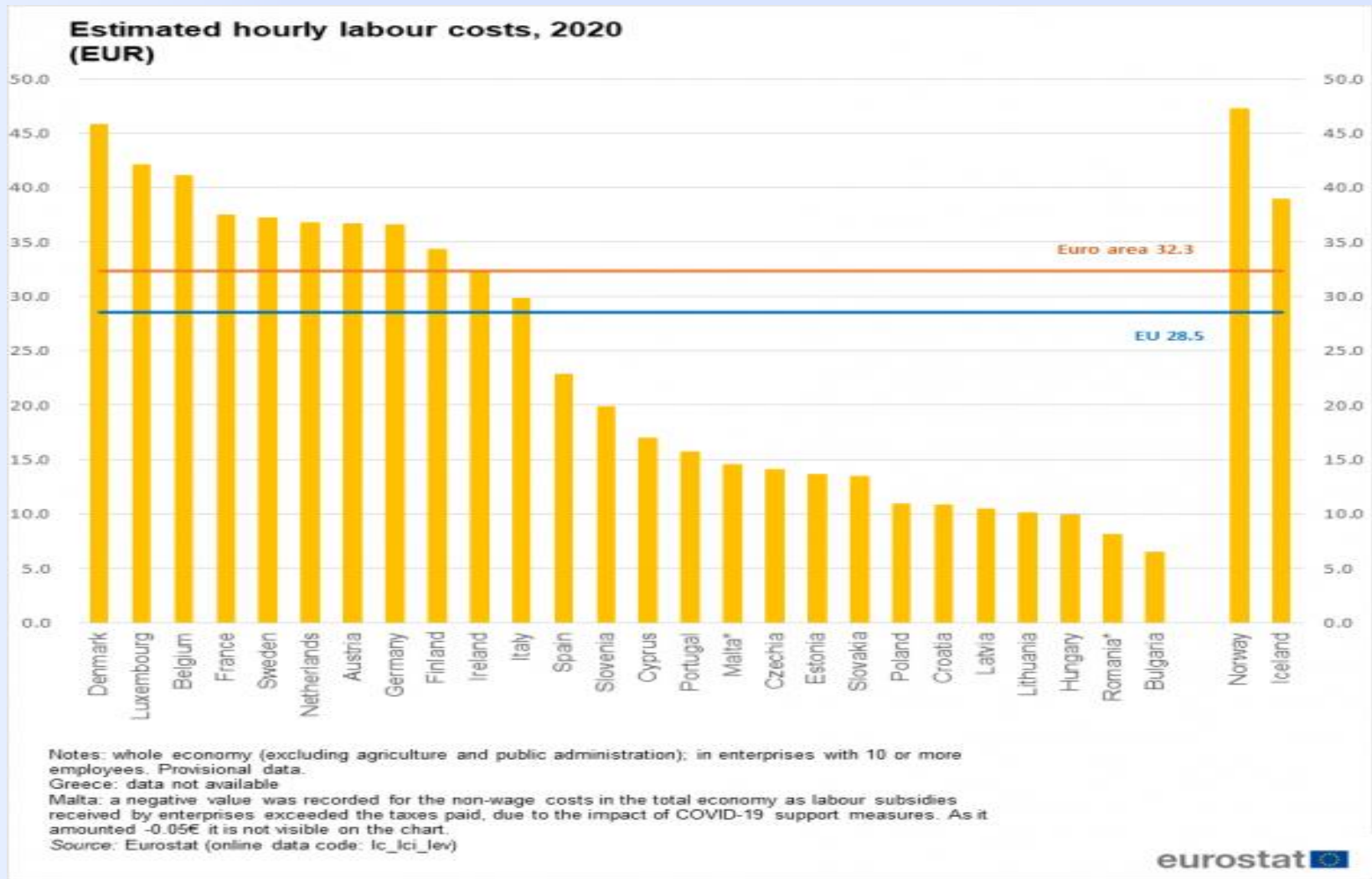
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# Why to do business in CEE?

## *Classical Motivations for Foreign Investors*

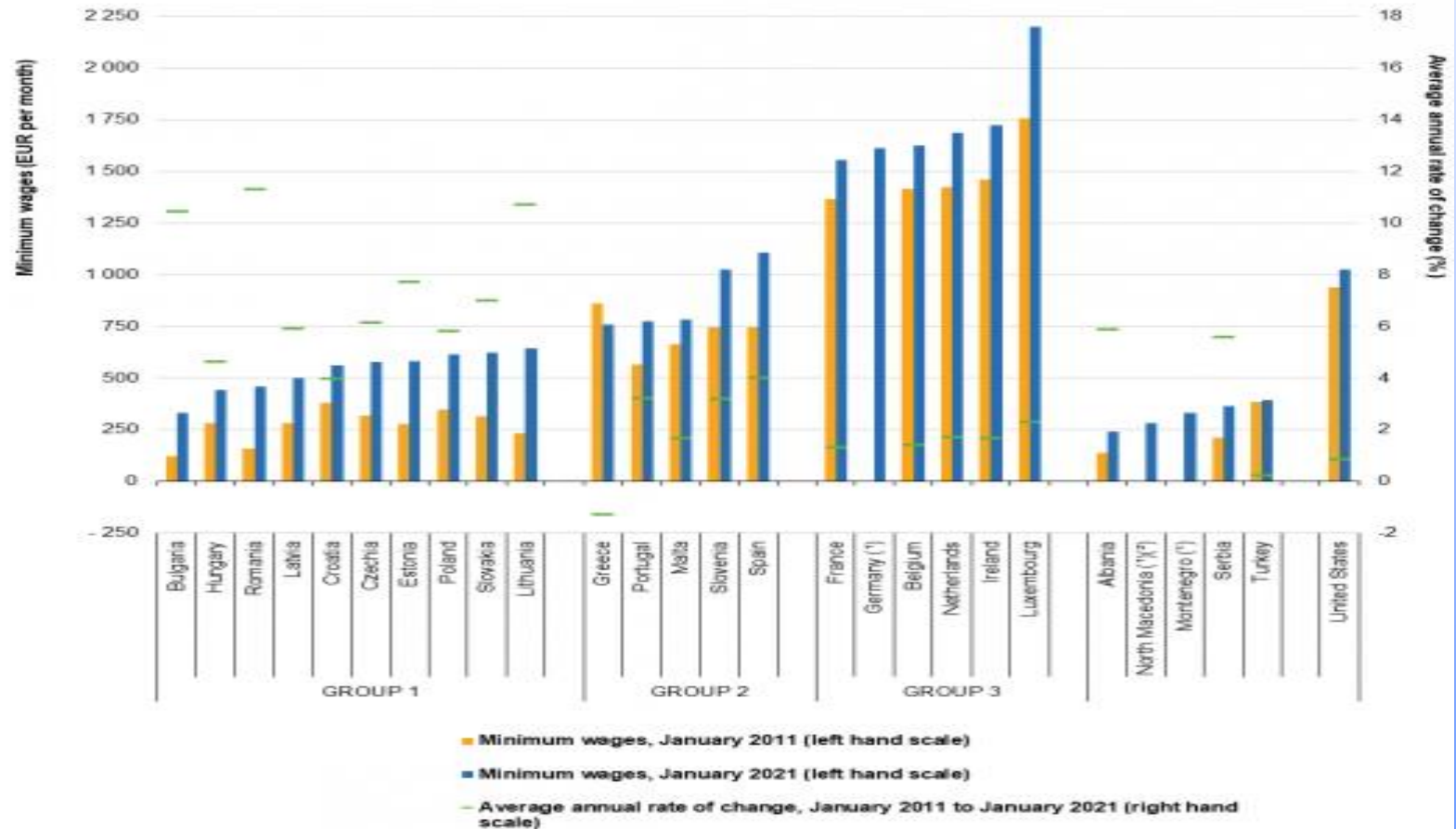
- **Market size:** CEE 130 mil., Russia 140 mil., other former SU 130 mil. – together cca 400 mil.
- **Regained political stability & low risk** (*90's till 2014*): investment protection, OECD, NATO, EU...
- **Immediate and long-term market potential:** economic recovery & growth
- **Privatization and acquisition opportunities:** purchase of monopolies, later purchase of previously privatized or private companies
- **Market access consideration:** trade and investment liberalization, accession to the EU market - important for the US, Australian, Asian companies
- **Low-cost but qualified labor**
- **Investment incentives**
- **Geographical proximity** to the West and Russia (springboard to Russia, supply source for WE)
- **Cultural and historical proximity** of many countries to the “West”
- **Dramatic change in 2022: relocation within the bloc**

# Hourly labour costs 2020



# Minimum wages

**Minimum wages, January 2011 and January 2021**  
(EUR per month and %)



Note: Denmark, Italy, Cyprus, Austria, Finland and Sweden: no national minimum wage.

(\*) January 2011 data and average annual rate of change not available.

(\*\*) July 2018 instead of July 2020.

Source: Eurostat (online data code: earn\_mw\_cur)

# BTW...Yale University initiative

- Since the invasion of Ukraine began, over 400 companies have announced their withdrawal from Russia
- Prof. Jeffrey Sonnenfeld and his team (Yale School of Management) created the list of these companies, and finally four groups:
  - 1) WITHDRAWAL - *Clean Break*: companies completely halting Russian engagements; as of March 17, 151 companies, Accenture, AirBnB, Aldi, BAT, Daimler, Deloitte, EY, McKinsey, Rolex...
  - 2) SUSPENSION - *Keeping Options Open for Return*: companies temporarily curtailing operations while keeping return options open; 180 companies, 3M, Adidas, Apple, Caterpillar, Chanel, Cisco, Dell, Inditex, McDonald's, Maersk, Oracle, VW...
  - 3) SCALING BACK - *Reducing Activities*: companies scaling back some but not all operations, or delaying investments; 80 companies, Bosch, C-P, Danone, Dow, Nestlé, Unilever...
  - 4) DIGGING IN - *Defying Demands for Exit*: companies defying demands for exit/reduction of activities, 24 companies, Auchan, Oriflame, Pirelli, Subway....

# Some cons...

- **Labor force** – "brain drain", upward trend of real wages for skilled workers, unwillingness of unskilled workers to work for a small wage, lack of certain professions – *import of labor force from cheaper locations*
- **Increase of the other costs** – energy, land, utilities, rent, administration, however still lower than in the West
- Increase of costs may prompt **departure of activities** based on unskilled labour (e.g. to non-accession Europe and East Asia)
- **Shortages in business infrastructure** – lack of highways, railways quality, telecommunication
- **Size of the countries and mobility across borders** – increased with CV crisis
- **Investment environment** – rapidly changing, sometimes poor or with various obstacles (ownership of land, investment procedures...) - from "tax holidays" to "national treatment" and back again to new incentives (accelerated depreciation, more generous loss carry-forward, tax credits, tax allowances, contribution to re-education), in some cases strong political background (Hungary), usually changes with the change of governments
- **Investment promotion policies: harmonization of FDI regimes with EU:** examples of nonconforming FDI instruments: Slovakia (special incentives for foreign investors), Hungary (10-year tax holidays granted only to large investors), changed with the EU entry
- A big surprise: **war** in Ukraine

# Foreign labor force in Slovakia

**2021: 70,000**

Ukraine: 20,000

Serbia: 10,000

Romania: 7,500

CR: 6,000

Hungary: 5,000

**Reasons for employing foreigners:** no supply on the local job market and missing qualifications, lower salary requirements, better labor morale

**Problems:** cultural integration, concentration on one place, fights, alcohol....

**2022: 100,000 vacant job positions** in Slovakia! (however, 10% of Slovak labor force works abroad, est. 350,000)



# Why foreign labor force?

- No interest to work in industrial enterprise, high fluctuation, departure abroad to work in other sector
- SMEs cannot compete with big companies (salaries, benefits...)
- Missing education and vocational training – eg. for chemical and engineering production
- Low attractiveness of jobs in the production
- Location of the job opportunities and low flexibility of local labor force, lost habits to work...



# Strategies of foreign investors

- Market seekers
- Cost seekers
- Knowledge seekers
- Natural resources seekers
- Network optimizers

# Slovakia – Detroit of Europe ??? 😊

Number of cars produced per factory  
(2006 – 295 000)

## Volkswagen (1991)

2010	144 500
2012	400 000
2014	394 000
2017-19	400 000 app.

## Kia Motors Slovakia (2007)

2010	229 500
2012	285 000
2014	324 000
2017-19	330 000 app.

## PSA Peugeot Citroen (2006)

2010	187 000
2012	240 000
2014	255 000
2017-19	350 000 app.

*Production per 1000 inhabitants (HN, 2020):*

*Slovakia 202, CR 134, Germany 75*

*Production total SR 2019: 1 110 000 cars cca (inc. LR)*

*2020: 985 000 cars*

*Pandemic caused the decline by 11%*

*Share of cars and components on Slovak export – 50%*



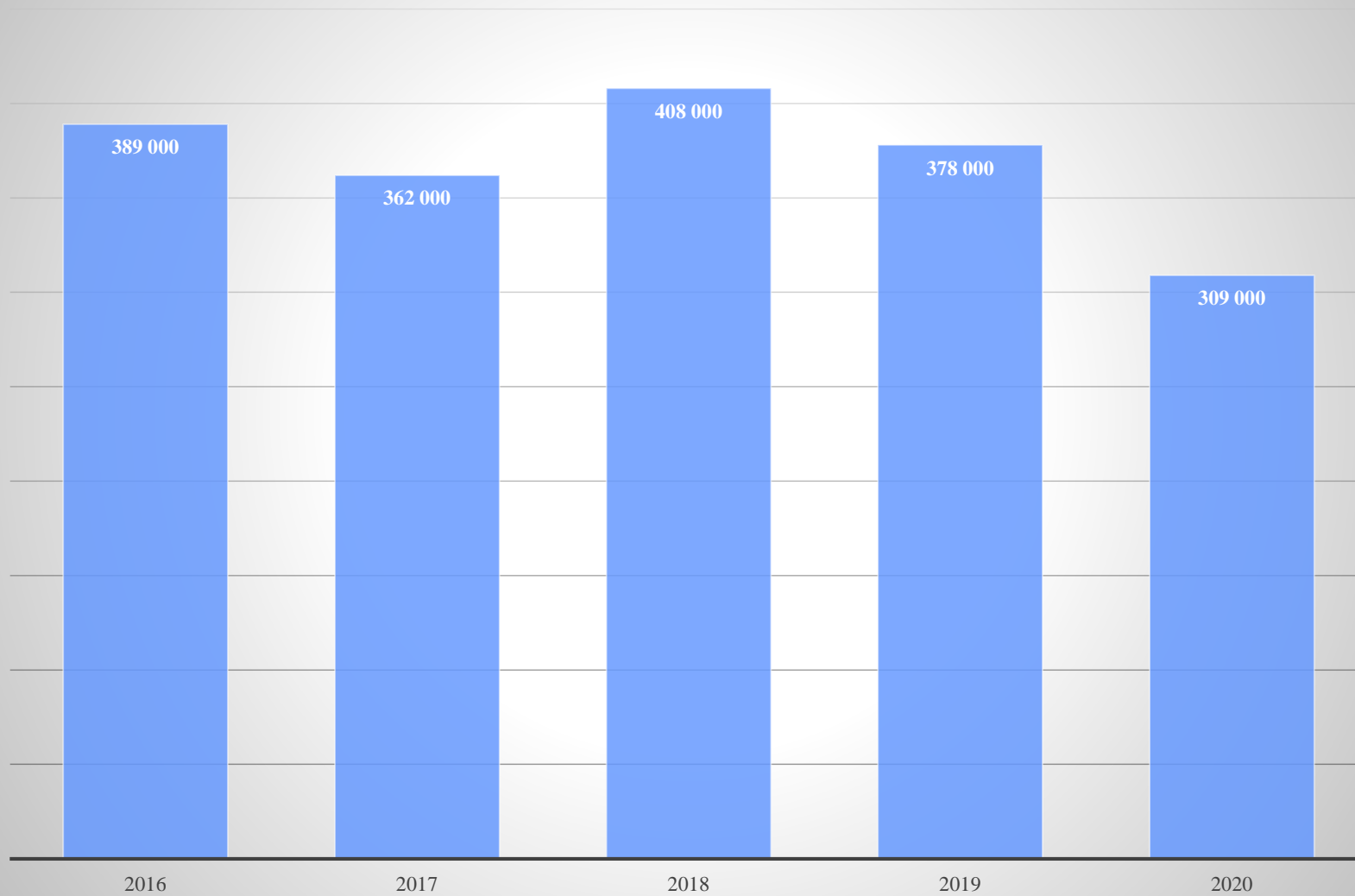
# Volkswagen Slovakia

# History

- 1991 – Joint venture
- 1992 – Volkswagen Passat
- 1994 – VW Golf A3 (till 2005)
- 1999 – 5000 employees
- 1999 – VW Polo (till 2007)
- 2000 – “Company of the year in SR”
- 2002 – VW Touareg
- 2003 – SEAT Ibiza (till 2005)
- 2005 – Audi Q7
- 2008 – Skoda Octavia
- 2010 – Martin plan opened + Porsche
- 2011 – the New Small Family
- 2017 – 19 Volkswagen up!, Škoda Citigo, SEAT Mii, Volkswagen Touareg, Audi Q7 Audi Q8, Porsche Cayenne, in 2017 5000000st car – white VW Toureg for Australia - **cca 400 000 cars a year!**
- 2020 – new facility for 1 bil. EUR announced (instead of Izmir, Turkey) for Passat and Superb – another **300 000 cars** planned



## VW Slovakia Car Production



# Pandemic in Slovak car industry in 2021

**2021: 1 million cars**

i.e. PSA 316 000 (decline by 6.5% compared to 2020),

KIA 308 000 (increase by 15% compared to 2020)

VW and JLR the rest

Slovakia: 184 cars/1000 inhabitants

Czech Republic: 110 cars/1000 inhabitants

EU average: 25 cars/1000 inhabitants

## **Productivity**

Slovakia and Slovenia: 13 cars/1 employee/year (2nd best in the EU)

Spain: 18 cars/1 employee/year

Automotive on Slovak industry: 48%

Automotive on Slovak export: 42%

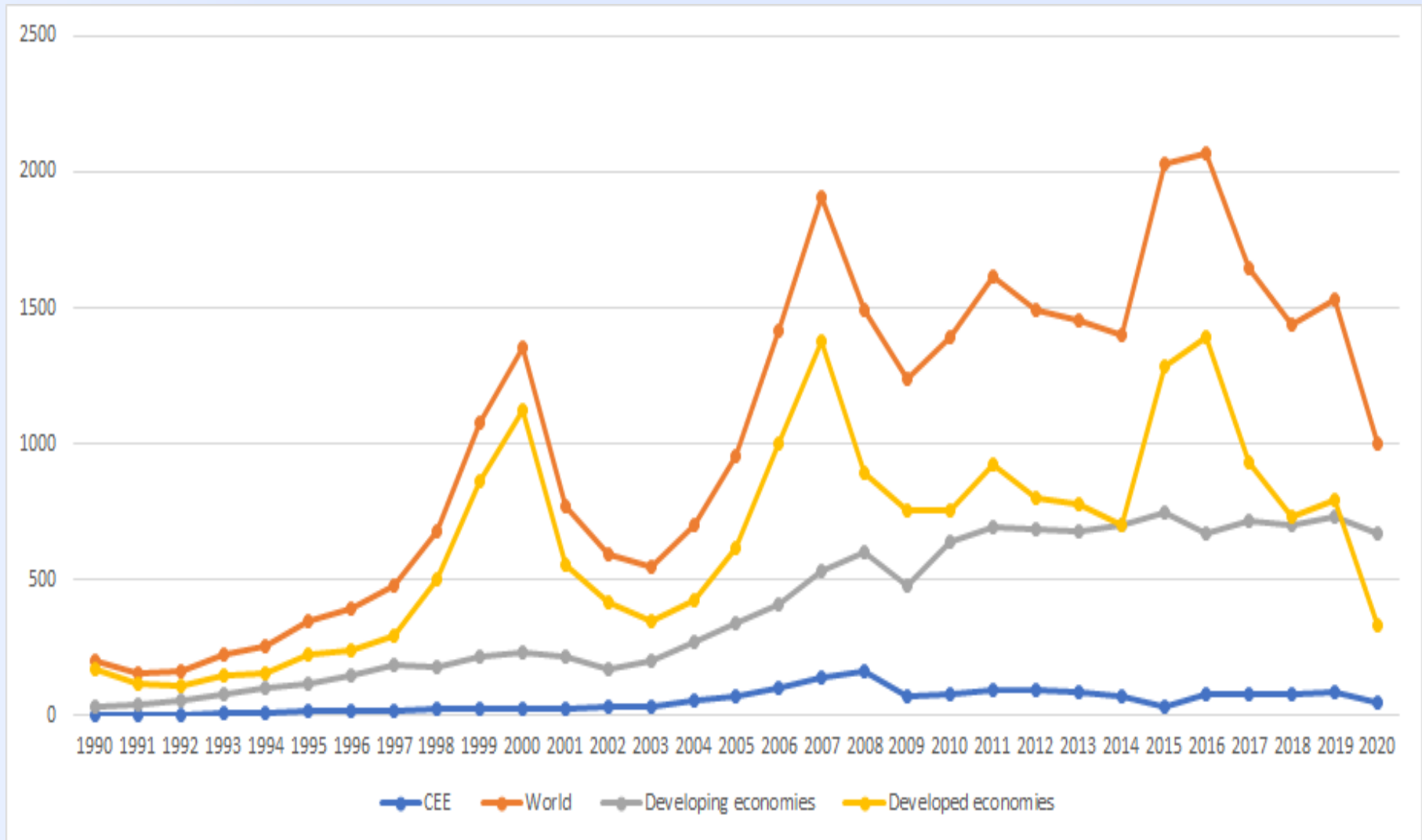
164 000 direct employees in automotive

254 000 – all employees in sector- related industries



# Global Inflows of FDI

1990-2020 by groups of countries \$ billions





# CEE in Global Investment Flows

## World FDI inflow

2001 - \$ 683 billion  
2005 - \$ 950 billion  
2007 - \$1,902 billion  
2008 - \$1,497 billion  
2009 - \$1,181 billion  
2010 - \$1,372 billion  
2011 - \$1,568 billion  
2012 - \$1,575 billion  
2013 - \$1,425 billion  
2014 - \$1,403 billion  
2015 - \$2,041 billion  
2016 - \$1,983 billion  
2017 - \$1,700 billion  
2018 - \$1,495 billion  
2019 - \$1,539 billion  
**2020 - \$0,998 billion**

## World FDI stock

2001 - \$ 7,296 billion  
2005 - \$ 11,457 billion  
2007 - \$ 17,896 billion  
2008 - \$ 15,325 billion  
2009 - \$ 18,202 billion  
2010 - \$ 20,279 billion  
2012 - \$ 22,877 billion  
2013 - \$ 24,765 billion  
2014 - \$ 25,379 billion  
2015 - \$ 26,577 billion  
2016 - \$ 28,496 billion  
2017 - \$ 33,218 billion  
2018 - \$ 32,943 billion  
2019 - \$ 36,470 billion  
**2020 - \$ 41,354 billion**

## CEE FDI inflows

2001 - \$ 26 billion – 4 %  
2005 - \$ 71 billion – 7 %  
2007 - \$142 billion – 8 %  
2008 - \$162 billion – 11 %  
2009 - \$ 68 billion – 6 %  
2010 - \$ 60 billion – 5 %  
2011 - \$ 83 billion – 5 %  
2012 - \$ 87 billion – 5 %  
2013 - \$ 75 billion – 5 %  
2014 - \$ 72 billion – 5 %  
2015 - \$ 32 billion – 2 %  
2016 - \$ 77 billion – 4 %  
2017 - \$ 74 billion – 4 %  
2018 - \$ 72 billion – 5 %  
2019 - \$ 86 billion – 6 %  
**2020 - \$ 46 billion – 5 %**

## CEE FDI stock

2001 - \$ 186 billion  
2005 - \$ 526 billion  
2007 - \$1,158 billion  
2008 - \$ 891 billion  
2009 - \$1,117 billion  
2010 - \$1,170 billion  
2012 - \$1,213 billion  
2013 - \$1,380 billion  
2014 - \$1,110 billion  
2015 - \$1,012 billion  
2016 - \$1,156 billion  
2017 - \$1,361 billion  
2018 - \$ 1,329 billion  
2019 - \$ 1,432 billion  
**2020 - \$ 1,505 billion**

# Foreign Direct Investment (Stock - \$Billion)

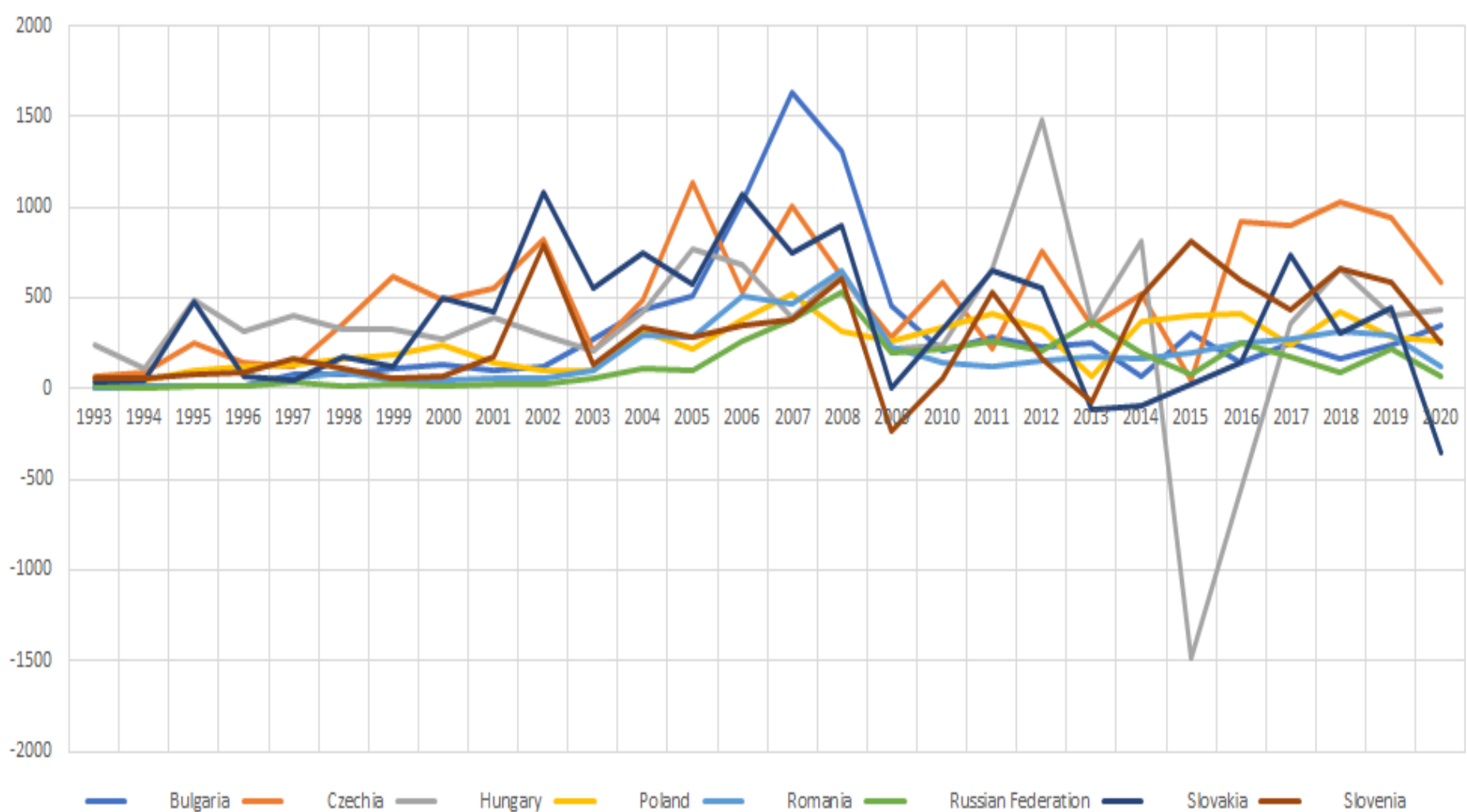
(US \$ at current prices and current exchange rates)

	1993	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Bulgaria	0.25	0.45	2.7	13.87	23.48	37.94	44.06	49.23	44.97	45.68	48.62	50.3	45.46	43.47	42.95	50.92	50.43	52.72	59.72
Croatia	0.27	0.50	2.79	13.61	24.73	42.14	28.3	33.31	32.22	29.02	30.9	30.41	29.49	24.37	24.65	28.69	27.92	29.42	32.07
Czechia	3.42	7.35	21.64	60.66	79.84	112.41	113.17	125.83	128.5	120.57	136.49	134.08	121.51	116.63	121.85	155.99	164.22	171.33	188.77
Estonia	0.26	0.67	2.65	11.19	12.12	15.67	15.45	15.84	15.55	16.35	18.94	22.2	20.9	18.92	19.66	24.2	25.1	27.94	34.45
Hungary	5.58	11.3	22.87	61.11	80.15	95.47	88.08	98.9	91.01	85.62	104.41	109.15	100.41	86.25	82.70	92.56	92	93.26	100.99
Latvia	0.22	0.62	1.69	4.91	7.51	10.99	11.31	11.52	10.87	12.6	13.49	15.9	15.12	14.73	14.33	17.62	17.47	17.89	20.46
Lithuania	0.14	0.35	2.33	8.45	11.62	15.65	13.27	14.82	15.46	16.15	17.73	19.53	16.89	16.5	16.17	19.62	19.42	20.85	23.71
Poland	2.31	7.84	33.48	86.35	115.79	164.37	148.42	167.4	187.6	164.42	198.95	232.01	211.48	185.99	188.73	240.38	229.53	234.93	248.73
Romania	0.22	0.82	6.95	25.38	44.52	61.61	64.76	70.34	68.70	69.51	76.33	83.63	75.27	70.4	74.57	90.97	92.89	99.2	107.53
Russian Fed.	0.18	5.6	29.74	178.64	263.9	488.28	212.89	367.38	464.23	408.94	438.19	471.47	290.04	262.75	393.91	441.12	408.1	493.16	446.66
Slovakia	0.64	1.3	6.97	29.59	38.57	47.71	50.42	52.54	50.33	51.98	55.12	58.02	49.74	46.01	47.59	59.51	59.86	60.95	63.99
Slovenia	1.93	1.81	2.39	7.6	8.86	10.94	11.97	11.28	10.67	11.49	12.2	12.27	12.39	12.64	13.67	16.74	17.47	17.98	20.42
Ukraine	0.48	0.9	3.88	17.21	23.13	38.06	47.00	45.35	52.87	58.65	65.12	67.03	49.84	43.78	45.2	45.18	44.01	51.39	48.93

Source: WDI database World Investment Report 2021

# Foreign Direct Investment Inflow Per Capita

(US Dollars at current prices and current exchange rates per capita)



Source: UNCTAD (World Investment Directory) and World Bank (World Development Indicators)

# More than 3 mil. refugees for 3 weeks

*(March 18,2022)*

- Poland – 1.8 mil.
- Romania – 460 ths.
- Moldova – 340 ths.
- Hungary – 270 ths.
- Slovakia – 220 ths.
- Czech Rep. – 180 ths.
- Austria – 117 ths.
- Germany – 160 ths.
- Belarus – 1475
- Russia – 143 ths.
- *Source: Doteraz utiekli viac ako tri milióny ľudí.  
Denník N, 18.3.2022*



**Thank you for your attention!**