# What are the Investments Opportunities in the European Capital Regions?

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**Abstract:** There might be some specific problems for Central East European Countries (CEE/ CEEC) to comply with the additionality principle and to avoid excessive deficits at the same time. The main reason is that the budgets of the CEECs still face some risks for revenues and expenditures. Therefore, maintaining structural expenditure at a stable level without allowing for temporary public deficits will be difficult for CEECs. In this paper we will provide several arguments that suggest not targeting the EU structural assistance exclusively at the reduction of regional disparities within CEECs. Doing so would not only face problems due to missing administrations and statistics at the regional level, but might also be at the expense of national economic growth and extend the process of catching-up. Each CEEC has it own specificity that is reflected more or less on capital region. According our analysis we will find what are the opportunities for investments in this Capital regions.

**Keywords:** development; investment; region

**JEL Classification:** R1; R5

## 1. Introduction

The CEE includes the former socialist countries, which extend East from the border of Germany and south from the Baltic Sea to the border with Greece.

The enlargement of the European Union (EU) in 2004 extended in 8 countries: Estonia, Latvia, Lithuania, East of Germany, Czech Republic, Poland, Slovakia and Slovenia from CEE and in 2007 other two countries joined: Bulgaria and Romania. In 2013 Croatia will accede the EU. These countries started a tremendous process for development of their communities and regions.

Taking into consideration that "the EU mission in the 21th century is to:

- Maintain and build the pace established between its Member States (MS);

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- Bring European countries together in practical cooperation;
- Ensure that European citizens can live in security;
- Promote economic and social solidarity;
- Preserve European identity and diversity in a globalised world;
- Promulgate the values that European share"[1]; we have to be optimists and hard workers in building our common future.

## 2. The EU Policies for Growth

The three pillars of the Lisbon Strategy (economic competitiveness, social inclusion and environmental protection) have been compared with the three cohesion policy objectives.

In the same time when the EU is using all resources to implement Lisbon Strategy "globalization is increasing shaping our lives by fostering the exchange of peoples, goods, services and ideas and by offering new opportunities to citizens and business. Greater trade flows and economic growth have increased prosperity, transforming the lifestyles of Europe's citizens and lifting millions worldwide out of poverty. But globalization also confronts us with new economic, social, environmental, energy and security challenges[2]."

Cohesion policy is one of the main instruments of the EU to support its Member States and regions, particularly the poorest one. The current European budget for Cohesion policy is more than 347 billion Euro and for next period 2014-2020 will be 376 billion Euro. The reduction of regional disparities remains a key concern in the enlarged Union. A clear majority of contributions argued in favor of concentrating funds more strongly on less developed Member States and regions.The EU Regions have a central role as they are the primary institutional partner for universities, other research and education institutes and SMEs, which are key to the process of innovation, making them an indispensable part of the Europe 2020 strategy.

## 3. Financing of the EU Budget

The issue of budgetary imbalances first emerged with the accession of the United Kingdom to the Communities in 1973 and became progressively the leitmotiv of all financial framework negotiations, often overshadowing the discussions on the content of the EU policies. Even though the roots of the problem are generally

[1]Pascal Fontaine (2010), Europe in 12 lesssons, EU, Brussels, p. 4.
[2] EU Declaration on Globalization, European Council Presidency Conclusions, Brussels, 14 December 2007.

considered to be on the expenditure side of the budget, correcting measures have been applied mainly on the revenue side.

Two new corrections were introduced in the 2007 Own Resources Decision for the period 2007-2013 only. Germany, Austria, Sweden and the Netherlands benefit from a reduced rate of call on the VAT based resource[1]. Moreover, the Netherlands and Sweden were granted a gross reduction in their GNI resource payments (EUR 605 million for the Netherlands and EUR 150 million (in 2004 prices) for Sweden), to be financed by all Member States. Since their introduction in 1988, the EU's multiannual financial frameworks have ensured strict budgetary discipline and medium-term predictability of EU expenditure. However, this predictability came at the price of limited flexibility.

The degree of a country's openness is heavily determined by its size. Smaller countries such as Belgium are usually more open than big countries like France, as they are more dependent on the outside world for getting what they need (imports) and for selling their domestically produced goods and services (exports). Therefore, to assess the degree of trade integration inside the Internal Market, the focus should not only be on the degree of openness in any given year, but also on changes over time. A significant increase indicates that a country is becoming more open and integrated inside the Internal Market and therefore it is “trade creating”.

However, in many new Member States, integration has not lost momentum after accession, although significant cross-country differences can be observed: while Poland, Lithuania or Latvia have seen further increases in imports during the current decade, countries like Estonia or Hungary stayed at their (high) 2000 levels. Overall, enlargement can be seen as the major driver for further integration within the Internal Market. Among the “older” Member States, only some small countries exhibit high import penetration rates: Belgium (whose imports from other EU countries account for more than 49% of GDP), followed by Austria, Luxembourg, the Netherlands and Portugal. As expected, the big economies are the least open ones, with shares of intra-EU imports of GDP ranking between 9.9 % in the United Kingdom and 16.6 % in Germany. While many of these larger economies had shown growing degrees of openness during the nineties (in particular France and Spain), only Germany maintained that momentum during the current decade. By contrast, the Nordic countries and Austria, which joined the EU in 1995, are still increasing their imports from other EU countries. Nevertheless, the highly dynamic trade performance of Belgium or Germany shows that the Internal Market still offers the potential also for more trade integration for long-time members – both with regard to small and already highly integrated economies (Belgium) and for big economies such as Germany.

[1] The rate of call is fixed at 0.225% for Austria, 0.15% for Germany and 0.1% for Sweden and the Netherlands.

## 4. Why to Invest in the EU?

Foreign Direct Investment (FDI) is a international investment made with the intention of acquiring an everlasting financial interest in an economy. If done strategically then this kind of direct investment can really bring huge benefits to investors. The importance of liberalization has made many countries to open up their economies. Considering this in mind, one continent which has really banked on this is Europe and the formation of European Union only corroborates this fact. The integration of 27 countries in Europe has really made it one of the most preferred destinations in the world for investment.

The European Union views FDI not as a mere sense of investment but also a way of promoting economic and social growth and development. The investment policy of the European Union is tilted more towards providing investors with a kind of stability and legal certainty coupled with an environment conducive to carry out business and in accordance with the International rules. It has abolished all the trade barriers that were acting as a hindrance for free trade. Furthermore, the European Union has also adopted a common currency which has served as a major fillip towards increasing trade in the European Union.

The services sector forms the core of the European Union as it accounts for a major chunk of the entire Economy of the EU. Some of the key sectors worth investing in the European Union are Aerospace and Defence, Automotive, Biotechnology, Information and Communication Technology (ICT), Nanotechnology, Nuclear, Logistics, Engineering, Real Estate and many others.

As the European Union is a host of comprehensive range of countries, it has really become one of the best destinations for investing in the Real estate sector. The diverse property opportunities across the Union and the well established rental markets have already attracted loads of foreign investors. Bulgaria, Croatia, Hungary, Czech Republic, Poland, Romania and Turkey are the hottest destinations for investing in Real Estate.

As far as trade is concerned, the various economic policies of the EU really make it one of the best trading destinations in the world. This is evident from the fact that the European Union is the largest exporter as well as largest importer in the entire world. The EU exports large amounts of Machinery followed by energy, Chemicals and Transport Equipment and textiles clothing. Other commodities that are exported by the EU include dairy products, meat, iron and steel, wood pulp, paper products, alcoholic beverages, pharmaceuticals, motor vehicles, air craft, plastics and paper products. Machineries also account for large number of imports of the EU followed by Transport equipment and chemicals, plastics, crude oil, textiles, metals, clothing, vehicles and aircraft.

Despite the global financial meltdown, European Union is showing a speedy recovery and EU's economy has started showing an upward trend. The European Union Commission has come up with a proposal with a strategy known as the Europe-2020 Strategy to help the EU recover to economic growth at a faster rate. For this, the Directorate-General for Economic and Financial Affairs in its report has analyzed the bottlenecks that may come against this growth and also highlighted the need to address the issues hindering the economic growth of the Commission. The monetary policy of the EU is no longer restrictive and businesses can once again gain free access to credit and other business activities.

The European Union is really one of the most important destinations which should not be overlooked by investors who want to expand their reach across the world. Its exuberant natural resources and ever increasing sectors really make it one of the most preferred destinations for investment in the world today.

Due to the integration of 27 countries, the European culture is considered to be a massive one and there is a collation of many languages and religions. However, this has only united the Union and it is working on ways on how to sustain its rich and varied culture. Improving cultural relations and co-operation forms the core of the European Union.

Ever since its establishment, the European Union has set only one objective-to create a single market for all of the member states of the Union. This has really worked and it is evident from the fact that the European Union has now become the largest economies in the world. The European Union is hence attracting loads of young people and entrepreneurs. It has already started taking the necessary steps to make the working environment more conducive to businesses and is providing all the necessary financial and technical support for those willing to start a business or work in the Union. The European Union has lately started taking initiatives to expand the working opportunities for Non-European citizens. The EU allows all its citizens to work and live anywhere in the EU carriers and that too with the entitlements of social benefits such as healthcare.

The continent of Europe has always been known for its different languages and traditions but with united values. The Union has also undertaken numerous initiatives which promises further liberalization of the Union which will provide lots and lots of opportunities not only for the residents of the Union but also to people from all parts of the world.

## 5. Study Cases – Poland and Romania

**Poland's** 38-million strong consumer markets is one of the biggest in Europe[1]. The country's favorable localization, in the centre of Europe, where the main communication routs intersect, makes it possible to export goods to all European countries and thus reach over 500 million consumers. Poland's major trade partners are, among others, Germany, Russia, China, France, the UK, Italy, Hungary, Ukraine and Spain.

Well-educated Polish economists, engineers, IT specialists and scientists are highly sought-after and appreciated employees who find employment in IT companies, R&D centers and scientific institutes.

In the 2010 Ernst & Young European Attractiveness Survey international concerns' managers indicated Poland as the top potential investment destination for their FDI projects in Europe. The report places Poland on the 5th position in terms of job creation and 8th among European countries which are most active in attracting FDI projects. Authors of the report emphasize that against the backdrop of other West European countries, Poland has been developing rapidly both in terms of job creation and foreign investment. In 2009 new FDI projects generated 7,500 jobs.

The country offers a wide range of investment incentives. Investors are invited to locate their projects in 14 Special Economic Zones (SEZ), i.e. special zones where economic activity may be run in favorable conditions. Polish SEZs offer attractive tax exemptions, employment incentives and well-prepared investment lots.

Poland is a country with a number of tourist and sport opportunities. The diversity of landscape and natural wealth together with the wide range of recreation forms ranging from sea sports through lake yachting, skiing and mountain climbing attract tourists from all over the world. Recreational tourist opportunities may effectively be completed with elements of Poland's rich cultural heritage and history.

The EU grants may be allocated to projects from virtually all sectors of the economy. Poland is scheduled to be the largest beneficiary of EU funding in the coming years. In order to successfully control their distribution and use, Operational Programmes, Regional Operational Programmes and the Operational Programme for European Territorial Cooperation (Interreg IV), have been established.

"Structural funds are the basic instrument of the EU's structural policy. They have been set up to support the more poorly developed regions, in solving their most

[1] http://www.paiz.gov.pl/en.

urgent economic problems. Between 2007 and 2013 Poland will receive a vast injection of investment: the EU has granted us over 67 billion EUR"[1].

The principles for implementing the structural funds in Poland are stipulated by the National Cohesion Strategy (NCS). This is a strategic document which specifies the priorities and areas of application and the system for the introduction of: the European Regional Development Fund, the European Social Fund and the Cohesion Fund in Poland, under the framework of the Community budget for 2007–13.

"Furthermore, EU funds will be utilized for the improvement of water quality, construction of modern rubbish dumps and for the building of a flood prevention infrastructure. The Brussels capital may also be used for ecologically friendly activities. All this will be possible as a result of the **Infrastructure and Environment Operational Programme**, which is one of several operational programmes specifying goals for the spending of funds.

Under the framework of the **Innovative Economy Operational Programme** (IE OP), Poland will receive EU support in such areas as R&D and the development of exports. The anticipated results will be scientific laboratories of the highest standards that work in cooperation with business, ultra modern technology among firms,

The **Human Capital Operational Programme** is a plan running to 2015, for the expenditure of EU funds for investments in human resources. It embraces the financing of training for the unemployed, raising qualifications for those in work, modernization of the educational system, reducing barriers related to finding work, raising the effectiveness of public administration and supporting innovative faculties in higher education. The concept of the programme was to create an educational system, which would ensure training in the professions and trades that are needed for the labor market. Due to this we can expect that in the near future, Polish personnel will be competing with the western Europeans mainly according to their improved qualifications and not only for lower paid positions.

The EU has also taken into account the development of the poorest regions of the Union, within which there are five Polish voivodships. The **Development of Eastern Poland Operational Programme** (EPD OP) is to decrease the gap that divides the voivodships of: Świętokrzyskie, Warmińsko-Mazury, Podlasie, Podkarpacie and the Lublin region from the wealthier EU regions. Under the framework of the EPD OP, financial support will be provided to firms that increase attractiveness for investment in Eastern Poland and promotion of the Region. It must also be remembered that each of the 16 voivodships has its own operational programme (Regional Programme), which provides support for entrepreneurs for

[1] www.mrr.gov.pl.

investments, the infrastructure within the gminas (local authorities), or for internet development in the region"[1].

In Poland a there are three tier division in public administration, divided as follows: voivodships – regions (16), powiats – districts (379) and gminas – local authorities (2,478). The national administration is divided into government administration and self governing bodies. The government administration is the gathering of the administrative organs directed by the council of ministers. The self governing administration is that bureaucracy organized either locally or regionally.

Mazowieckie voivodeship and the City of Warsaw, Poland's capital, is the leader of Poland's transformation and the country's most swiftly developing region. It can boast young, well-trained human resources, the lowest unemployment and the highest employment - features attesting to the region's high economic level. The Mazowsze region stands out for its significant degree of internal differentiation. In nationwide terms, it displays great potential in every field: science, research, education, industry and infrastructure.

**Investment Opportunities[2]:**

- area with a large concentration of companies also foreign;
- the highest level of income per citizen;
- location in trans-European transport corridors; well-developed railway network and the largest airport in the country ensuring connections with the big cities in the country and in Europe;
- area with the highest level of innovations; outlays on R&D activities are one of the highest in the country;
- importance of the region is stressed by Warsaw - capital of the country and the region, as well as a city of international importance;
- Warsaw is characterized by the highest dynamics of economic changes in the country, large pool of qualified labor, high rate of privatization in the state sector;
- central sitting at the crossroad of commercial routes;
- economics leader: the highest rate of participation in gross domestic product – 21,6% of the Polish GDP;
- first position in Poland in gross domestic product per capita - about 160% average;

[1] www.funduszestrukturalne.gov.pl.
[2] www.paiz.gov.pl.

- Warsaw Stock Exchange is the largest in the Central Eastern Europe.

**Sectors with huge potential:** Food industry, construction and BPO.

**Romania** has joined the European Union. Since January 2007 the Romanian (Ionescu & Toders, 2007, p. 11) state improved the mobility of Romanian workers throughout Europe. Per year more than 4 million workers are performing works in foreign countries.

**Investment opportunities-objectives for Romania:**

In order to allow multimodal transport of freight and passengers, transport modes shall be connected in freight terminals, passenger stations, inland ports, airports and/or maritime ports. These nodes shall connect at least two transport modes. Realization of inter-modal transport in and through Romania is seen of key importance to[1]:

- Maximize the utilization of currently under-used freight infrastructure (rail + Danube);
- Attract cargo to inter-modal solutions into the transport market in Romania;
- Support the development of efficient green logistics corridors via Romania in CEE;
- Lower external costs in Europe (e.g. $CO_2$ emissions);
- Empowering Romania as the Eastgate Trade Hub of Europe;
- Priority of the development of intermodal transport;
- Existing market is limited and concentrated around Corridors nr.4 & 7, key corridors within existing & new EU TEN-T, reflecting area where most new industries established locations;
- Corridor nr. 4 is the route most in demand and used for inter-modal transport Constanta Port is key entry port into Europe in new EU TEN-T Key hubs for phase one development: South Port of Constanta, Bucharest side, Timisoara North side, and Oltenita / Giurgiu;
- Creating direct route for serving EU from Asia (saving 2400 sea miles and reduce $CO_2$ emissions);
- Route is more efficient and will attract additional benefits;
- It will create new business for Romania (brokers, storage, transport companies);

[1] www.adrbi.ro.

- It will stimulate Romania to further develop logistic infrastructure (roads, inland ports, intermodal strategy, railway transfer hubs).

Romania's legal framework has a considerable amount of impact on the Foreign Direct investment. With a view to ensure a favorable business climate and provide incentives for large-scale investment projects, the Romanian legislation in charge of regulating the Foreign Direct investment, undergoes revisions quite frequently. Factors such as, free access to the domestic markets, no imposed limits on the participation of foreign businesses in Romanian commercial enterprises and free access to the domestic markets, make Bucharest a favorable foreign investment destination.

In Romania, foreign investors can engage in business activities in different ways as follows: By increasing the capital of an existing business or acquiring shares, by establishing a new commercial company, a branch or a subsidiary (that is either entirely owned by or involves an association with a Romanian firm),by acquiring leases or concessions.

**"The city of Bucharest is** a market of about two million inhabitants, continues to be attractive for hypermarket operators. Carrefour, Kaufland and Auchan have recently signed agreements with land owners of Electroaparataj (Pantelimon), Romprim (Berceni) and Grantmetal (Crangasi) for new hypermarkets, according, while the Irish Caelum Development has announced the start of work on Park Lake Plaza Mall in Titan, which will be anchored by a Cora hypermarket.

Development of industrial and logistics real estate is planned to begin in Bucharest towards the end of 2012 or early 2013. The project will be implemented by Octagon building company, owned by Greek businessmen Alexandros Ignatiadis and Paschalis Paganias, which became a majority shareholder in Comat Electro."[1]

Bucharest[2] is the cultural, industrial and financial capital city of the country of Romania. It is the largest city in the country and is located in the southeast corner of Romania, on the banks of the Damboviţa River. In terms of the economy, Bucharest is the most prosperous city in the country of Romania. It is one of the most important industrial hubs and transportation centers of East Europe. The city of Bucharest has a wide variety of educational, cultural, recreational and convention facilities. As such, it is the center of the Romanian economy and industry. This is due to the fact that it accounts for approximately 17.4 per cent of the gross domestic product of the country of Romania.

The economy of Bucharest is centered on the industry and service sectors. Service, in particular, has grown in the past decade. Bucharest today is the headquarters of more than 186,000 firms, including the leading companies of Romania. Another

[1] http://www.investineu.com/content/invest-bucharest.
[2] www.adrbi.ro.

important source for this growth of the service industry has been the rapidly evolving construction and property sectors. In addition, the city is considered to be the largest center of information technology and communication in Romania. It is home to many software companies that operate offshore delivery centers.

Each capital region from the EU has its particularities that with a good leadership it could provide welfare for the citizens of that particular region.

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