

Foreword

The discussion of competitiveness of the countries and firms in Central and Eastern Europe is a timely issue. In the last 25 years since the fall of the Iron Curtain, these former socialist countries have undergone a fundamental and remarkable transformation of their economies and societies. They have reached 50–80 % of the EU average in GDP per head and are growing 1–2.5 percentage points faster again than the EU average today. This successful economic development was based on a quick economic and political integration into the EU including access to EU regional funds and the Single Market as well as major internal efforts to adapt the institutional framework, modernise and privatise former state-owned firms, liberalise access to markets and foster entrepreneurship. Strong capital, technology and knowledge transfer via foreign direct investments from the West to CEE and the integration of CEE firms into European or even global value chains contributed to this economic catching-up process too.

To analyse competitiveness, this book relies on both the country and the firm perspective. Firms are operating within the institutional and economic structures of a country, which may facilitate or hinder business success. Governments determine the level of productivity and finally prosperity by how they design institutions, economic policy and production factors. Identifying (traditional) national industry clusters and developing them further—such as the furniture industry in Poland, engineering in Czech Republic, tourism in Croatia or agriculture in Romania, Ukraine and Serbia—is a good example for the close interplay between national economic policy and firms' development of competitive advantage. Similarly, building up new industries such as the automotive industry in Slovakia and Hungary, information technology in Romania, aviation industry in Poland and business process outsourcing in Central Europe in general proves that governments have room to manoeuvre when steering the development of their economies.

Looking at the reforming countries in CEE reveals differences in their comparative advantages. The global financial and economic crisis of 2008–2009 highlighted the strengths and weaknesses of each economy. While Central

European economies such as the Czech Republic, Poland and Slovakia bet more on a qualified workforce and product quality, Southeast European countries such as Romania, Bulgaria and Serbia still rely on low labour costs and low taxes. Overall, we can observe a divergent development in competitiveness. On the one hand, some of the early reformers from Central Europe—Hungary, Slovakia and Slovenia—have been steadily losing in competitiveness since their accession to the EU, dropping more than 20 ranks in the Global Competitiveness Index in the period from 2004 to 2015. On the other hand, Poland, Romania and the Czech Republic have been improving continuously their positions in the same period. Despite these differences, CEE economies face a “sandwich position” in their global competitive positioning. Other emerging economies, particularly from Asia, challenge them in terms of cost and efficiency, while West European economies, Japan and the USA are still ahead in terms of innovation and product quality. Most of the CEE economies are in a transition from an efficiency- to an innovation-driven economy. The task now is not to get stuck as a nearby low-cost producer for Western multinationals but to upgrade existing strengths in industrial production and expand into more knowledge-intensive manufacturing. Encouraging investments in agriculture and food processing and capturing more value in outsourcing are other suggested directions of development.

Here, the firm perspective comes into play. Firms compete on international markets, and the success of a nation is ultimately the result of the competitiveness of its firms. Given the smallness of most of the CEE economies, higher levels of prosperity can only be achieved via business expansion abroad. So far the subsidiaries of foreign multinationals drive the export of CEE economies. The majority of exports stem from the production sites of VW Group, Hyundai, Samsung, Foxconn, General Electrics and Siemens, which service European markets from CEE. Leading domestically owned and internationally active firms are often state-owned or state-controlled ones in the energy and commodity sector, diversified business groups and niche specialists. State-owned firms, publicly listed firms and large business groups are mostly spearheading internationalisation as they have the critical mass of resources to bear the costs and risks of going international. Although size matters, a large potential lies in promoting mid-sized firms that follow smart specialisation strategies. The “hidden champions” and “local heroes” that concentrate on market niches and expand their business internationally are great role models. This type of firm seems to fit the conditions in CEE countries perfectly, namely a well-educated workforce, strong engineering tradition and high affinity to ICT. Add a good dose of entrepreneurship (and seed capital) and you have a formula that could ignite a wave of internationally successful firms originating from CEE.

It is not surprising that these entrepreneur run firms increasingly attract the attention of business researchers and policymakers. This overview of the competitive assets of CEE countries, their specific economic structures and potential

development paths is a good starting point for deeper research. In this sense, this book provides a valuable contribution to the understanding of the mechanisms of competitiveness in the region of Central and Eastern Europe.

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