Sources of Growth in CEE: Daring Leap

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My argument:

- Create asymmetric capabilities for a Daring Leap Forward
Dealing with CEE market imperfections: FDI

In the 1990s and 2000s, foreign MNEs with FDI, were a response to the market imperfections in Central and Eastern Europe (CEE).

They were seen as reducing the cost of international activities, increasing the efficiency of resource allocation and co-ordination, a key player in CEE market development, a major source of job provision and possible knowledge transfer.

Foreign MNCs are still seen as a source of growth in CEE, but…. they should go beyond CSR to creating Innovation Foundations.
Local firms have had limited assets that are difficult to transact

<table>
<thead>
<tr>
<th>Complementary assets held by local owners</th>
<th>Knowledge assets held by the MNE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Row 1: Easy to transact</td>
<td>Column 1: Easy to transact</td>
</tr>
<tr>
<td></td>
<td>1. Indeterminate</td>
</tr>
<tr>
<td></td>
<td>Column 2: Difficult to transact</td>
</tr>
<tr>
<td></td>
<td>3. MNE is sole residual claimant = wholly-owned affiliate of the MNE</td>
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<tr>
<td></td>
<td>2. Local firm is sole residual claimant = wholly-owned operations of local firm</td>
</tr>
<tr>
<td></td>
<td>4. Joint venture between MNE and local firm</td>
</tr>
</tbody>
</table>

**Value chain position**

<table>
<thead>
<tr>
<th>Closeness to</th>
<th>End customer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product</strong></td>
<td></td>
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</tbody>
</table>

Nature of product

- **High value**
- **Low value**

**Integrators/orchestrators**
- Product/market knowledge network
- Market explorative/exploitative
- Product explorative

**Product Excellence**
- Discoverers
- Craftsmanship
- Specialised product developers
- Scientists
- Product knowledge network
- Explorative product innovators

**Market exploiters**
- Market networks
- Market exploitative

**Production runners**
- Low cost production expertise
- Product exploiters
- May not realise that their product has higher value as they may not have marketing capabilities
Some success stories in CEE

- Solaris
- Irena Eris
- Mlekovita
- Pesa
- Wallmania
- CCC
- Cersanit
- Maspex
- Podravka
- Mercator
- Agrofert
Spending on knowledge-based capital as INVESTMENT

Note: between 2006 and 2009, in most of the countries shown in Figure 2, business investment in KBC rose further as a share of GDP, or declined less, than investment in physical capital. For instance, in Denmark, investment in KBC rose from 7.3% of GDP to 8.3%, an increase of 1 percentage point. Investment in tangible capital in Denmark fell from 11.4% to 10.3% of GDP over the same period.

R&D as % of GDP

(1) 2015: estimate or provisional.
(1) 2005: estimate.
(1) Break in series.
(1) 2014 instead of 2015.
(1) 2012 instead of 2015.
(1) 2005: not available.
Source: Eurostat (online data code: rd_e_gartot)
Previously under-appreciated sources of growth

Sectors with incremental R&D and traditional design with new business models

- some mature industries facing low-wage competition in sectors like garment, toy-making or footwear to re-invent themselves and maintain jobs through the exploitation of clever branding, software-enabled features and new business models.
Extensions of already existing sources

- Extending export to emerging markets with high growth potential
- Create knowledge-based platforms internationally
  - Emerging economies as a “second home market” through targeted platforms for FDI and export by using both institutional and firm-level resource capital
    - The Danish water platform in Singapore
Innovative solutions

Developing innovative solution based on service-dominant logic

- Solutions combining products, modularization and service provision to meet demand of numerous dispersed smaller clients
- Collaborative business models
Innovation centres overseas

Growing innovation in overseas knowledge hubs

- Joint research and business development platforms in
  - the Silicon Valley
  - China
  - Brazil
  - India
  - Israel
  - South Korea
Creativity

- Fostering creative platforms
- Vertically embedded in the educational system
- Emphasising original thinking
- PBL
People

- From individual stars to collaborative teams

- Identity

- Strengthened self-esteem
Summing up: The pillars of the CEE economies

Currently:
- Internal demand
- EU funds
- Export
- FDI inflow
- Productivity improvements

Future:
- Regional and foreign demand
- Knowledge-based capital
  - For bundles supporting niche differentiation
  - Reconfigured traditional and implementing new business models
  - Explorative innovation
- Outward FDI
- Increased organisational efficiency
Dziękuję bardzo za zaproszenie!
Благодаря!
Thank you!