

Hazley, Colin; Hirvensalo, Inkeri

Working Paper

Barriers to Foreign Direct Investment in the Baltic Sea Region

ETLA Discussion Papers, No. 628

Provided in Cooperation with:

The Research Institute of the Finnish Economy (ETLA), Helsinki

Suggested Citation: Hazley, Colin; Hirvensalo, Inkeri (2002) : Barriers to Foreign Direct Investment in the Baltic Sea Region, ETLA Discussion Papers, No. 628, The Research Institute of the Finnish Economy (ETLA), Helsinki

This Version is available at:

<https://hdl.handle.net/10419/187202>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Keskusteluaiheita - Discussion papers

No. 628

Colin Hazley - Inkeri Hirvensalo

BARRIERS TO FOREIGN DIRECT INVESTMENT IN THE BALTIC SEA REGION

This document has been prepared by the Research Institute of the Finnish Economy (ETLA) for the Baltic Sea Business Summit 98 which took place on 18-19 January 1998.

HAZLEY, Colin - HIRVENSALO, Inkeri, BARRIERS TO FOREIGN DIRECT INVESTMENT IN THE BALTIC SEA REGION. Helsinki: ETLA, Elinkeinoelämän Tutkimuslaitos, The Research Institute of the Finnish Economy, 199, 92 p. (Keskusteluaiheita, Discussion Papers ISSN 0781-6847; No. 628).

ABSTRACT: In contrast to the global trend, foreign direct investment flows into Central and Eastern Europe declined in 1996. Among the five Baltic Rim transition economies Poland has attracted the largest inflows of FDI with FDI stocks more than double those in Russia. Among the three Baltic countries investments into Estonia increased significantly during 1993 and 1994 but have since then stagnated, whereas those into Latvia have continued to grow since 1994. Investments into Lithuania have lagged behind those going into Estonia and Latvia but nevertheless increased considerably in 1996.

In investigating the problems being experienced by companies what has become strikingly clear is that the myriad of problems together do tend to congregate to form a bottleneck to further Foreign Direct Investment. Instead of enhancing business activity, the business climate is restrictive to foreign companies. These companies can potentially provide skills and knowledge which can assist in developing the competitiveness of the economy. The findings of this study point to both similarities and differences in investment barriers and the degree of problems identified in each country. Firstly, a comparison of experiences between countries shows that companies are generally experiencing more investment barriers in Russia than in the Baltic countries and Poland. Secondly, the experiences are similar in emphasising unclear, rapidly changing legislation as well as inconsistent, sometimes even retrospective, regulations and their implementation particularly on accounting and taxation. Thirdly, as opposed to the ease of finding persons with high technical qualifications, problems in finding human resources with sufficient management, marketing, finance, and language skills surface as one of the biggest investment barriers in each country.

KEY WORDS: FDI, Baltic Countries, Poland, Russia, Investment Barriers.

HAZLEY, Colin - HIRVENSALO, Inkeri, BARRIERS TO FOREIGN DIRECT INVESTMENT IN THE BALTIC SEA REGION. Helsinki: ETLA, Elinkeinoelämän Tutkimuslaitos, The Research Institute of the Finnish Economy, 199, 92 s. (Keskusteluaiheita, Discussion Papers ISSN 0781-6847; No. 628).

TIIVISTELMÄ: Vaikka suorat sijoitukset maailmanlaajuisesti kasvoivat vuonna 1996, sijoitukset Keski- ja Itä-Eurooppaan supistuivat. Itämeren transitiomaiden joukossa Puola on houkuttellut eniten suoria sijoituksia, enemmän kuin kaksi kertaa niin paljon kuin Venäjä. Baltian maissa sijoitukset Viroon kasvoivat huomattavasti vuosina 1993-94, minkä jälkeen kasvu on pysähtynyt, kun taas sijoitukset Latviaan ovat jatkaneet kasvuaan. Suorat sijoitukset Liettuaan ovat jääneet selvästi Viroom ja Latviaan tehtyjä sijoituksia pienemmiksi mutta siitä huolimatta kasvaneet voimakkaasti vuonna 1996.

Ulkomaiset sijoittajat kohtaavat näissä maissa suuren joukon vaikeuksia, jotka yhdessä muokkaavat investointi-ilmapiiiristä ulkomaisten yritysten toimintoja rajoittavan. Ulkomaiset sijoittajat voisivat kuitenkin tarjota tietoja ja taitoja, joilla on merkitystä transitiomaiden kansainvälisen kilpailukyvyyn kehittämisessä. Tutkimuksen tulokset osoittavat, että maiden välillä on sekä yhtäläisyyksiä että eroavuuksia suorien sijoitusten esteissä. Ensiksi, yritykset ovat kohdanneet Venäjällä selvästi enemmän suorien sijoitusten esteitä kuin Baltian maissa tai Puolassa. Toiseksi, kokemukset ovat kaikissa maissa yhtäläiset siinä, että eniten vaikeuksia on aiheuttanut nopeasti muuttuvat lainsäädäntö sekä epäyhteyksiset, joskus jopa takautuvat toimeenpanosäännökset erityisesti kirjanpidossa ja verotuksessa. Kolmanneksi, vaikka transitiomaissa on helppo löytää korkean teknillisen koulutuksen omaavaa henkilökuntaa, tutkimus osoitti selvästi, että liikkeenjohdollisista, markkinointiin, kirjanpitoon ja rahoitukseen liittyvistä tiedoista ja taidoista on pulaa.

AVAINSANAT: Ulkomaiset Suorat Sijoitukset, Baltian Maat, Puola, Venäjä, Sijoitusten Esteet.

EXECUTIVE SUMMARY.....	3
1 AUTHORS' PREVIEW.....	5
2 THE ROLE AND IMPORTANCE OF FDI	6
2.1 DEFINITIONS AND MEASUREMENT OF FDI	6
2.2 THEORETICAL UNDERPINNINGS IN EXPLAINING FDI.....	7
2.3 GLOBAL TRENDS IN FDI.....	8
2.4 TRENDS OF FDI INTO CENTRAL AND EASTERN EUROPE AND THE BALTIC RIM REGION ..	10
3 INVESTMENT MOTIVATION AND IDENTIFICATION OF THE BARRIERS	18
3.1 INVESTMENT MOTIVATION.....	18
3.2 IDENTIFICATION OF INVESTMENT BARRIERS	18
3.2.1 <i>Investment barriers in Russia</i>	19
3.2.2 <i>Investment barriers in Estonia</i>	21
3.2.3 <i>Investment barriers in Latvia</i>	21
3.2.4 <i>Investment barriers in Lithuania</i>	22
3.2.5 <i>Investment barriers in Poland</i>	23
4 A REVIEW OF THE SITUATION IN THE TARGET COUNTRIES.....	24
4.1 DESCRIPTION OF THE SURVEY METHODOLOGY	24
4.2 DESCRIPTION OF THE SPECIFIC FINDINGS OF THE STUDY	25
4.2.1 <i>Legislation</i>	25
4.2.2 <i>Establishment Barriers</i>	27
4.2.3 <i>Customs and Tariffs</i>	27
4.2.4 <i>Financing</i>	28
4.2.5 <i>Human Resource Issues</i>	30
4.2.6 <i>Illegal Activities</i>	31
4.2.7 <i>Distribution and Infrastructure</i>	31
4.2.8 <i>Other Issues</i>	32
4.3 DISCUSSION OF THE SPECIFIC COUNTRY PROBLEMS.....	34
4.3.1 <i>Russia</i>	34
4.3.2 <i>Estonia</i>	38
4.3.3 <i>Latvia</i>	42
4.3.4 <i>Lithuania</i>	44
4.3.5 <i>Poland</i>	46
5 CONCLUSIONS AND RECOMMENDATIONS	53
LIST OF REFERENCES	55
APPENDICES	58
APPENDIX 1 BARRIERS TO FDI IN THE BALTIC SEA REGION QUESTIONNAIRE	58
APPENDIX 2 COMPANIES INTERVIEWED.....	63
APPENDIX 3 REVIEW OF THE SITUATION IN THE TARGET COUNTRIES INTERVIEW DATA	65
APPENDIX 4 LISTS OF MAJOR INVESTORS IN THE REGION	82
APPENDIX 5 BREAK-DOWN SUMMARY OF THE PROBLEMS IN EACH COUNTRY	86
LIST OF PUBLICATIONS ON EASTERN EUROPE BY ETLA	93

Executive Summary

The starting point of this study is that FDI is beneficial for the development of the host countries, particularly in the Baltic Rim transition economies, where the value creating assets are lower than in the western European market economies. Eminent scholars of international business agree that for the development of the investment environment most significant assets are intangible assets that are created. This view implies that, governments have a crucial role in boosting economic development.

In 1996 foreign direct investment flows set a new record. Inflows increased by 10 per cent, to \$349 billion. Increases in FDI inflows exceeded the growth in the nominal value of world gross domestic product and international trade. In contrast to the general trend foreign direct investment flows into Central and Eastern Europe declined in 1996. The FDI flows into Central and Eastern Europe accounted for 3.5 per cent of world investment inflows in 1996. The increase since 1991, when the share was only 1 per cent, is considerable. However, the success of Central and Eastern Europe in attracting FDI remains relatively weak by global standards. In 1995 the inflows into the region doubled and reached \$ 14 billion but decreased in 1996 to \$ 12 billion.

Among the five Baltic Rim transition economies Poland has attracted the largest inflows of FDI and consequently has also the largest FDI stocks, more than double the size of Russian FDI stocks. Particularly during 1996 investments into Poland grew rapidly. Among the three Baltic countries investments into Estonia increased significantly during 1993 and 1994 but have since then stagnated, whereas those into Latvia started to grow in 1994 and have continued to grow since then. Investments into Lithuania have lagged behind those going into Estonia and Latvia but nevertheless increased considerably in 1996.

In an effort to uncover problems currently being experienced on the ground, interviews were conducted with both parent companies with subsidiaries located in the target countries and with functioning subsidiaries operating in the country itself. In total the study collected information from the sources of at least 55 companies but on balance, the majority of interviews were conducted with expatriate managers and therefore, for the most part, reflects the view of western investors.

In general, with few exceptions, no single problem experienced by those companies interviewed, has been so insurmountable that any particular company has had to depart from the country. Equally so, it must also be recognised that most problems listed may also be considered as difficulties only. However, what is strikingly clear is that the myriad of problems together do tend to congregate to form a bottleneck to further Foreign Direct Investment. Therefore, removal of these constraints would enable the critical mass to drive each economy to much higher levels.

Instead of enhancing business activity, the business climate is restrictive to foreign companies, many of whom, have already proven themselves internationally in other business arenas. These companies can potentially provide skills and knowledge which can assist in developing the competitiveness of the economy.

The findings of this study point to both similarities and differences in the investment barriers and the degree of problems identified in each of the five countries. This is only natural considering differences in the economies and timing of economic reforms. Firstly, a comparison of experiences between the five countries shows that companies are generally experiencing more investment barriers in Russia than in the Baltic countries and Poland. Secondly, the experiences are similar in emphasising unclear, rapidly changing legislation as well as inconsistent, sometimes even retrospective, regulations and their implementation particularly on accounting and taxation as the most significant investment barriers in each country. Thirdly, as opposed to the ease of finding persons with high technical qualifications, problems in finding human resources with sufficient management, marketing, finance, and language skills surface as one of the biggest investment barriers in each country.

Throughout the region the work in progress, which aims at filling the loopholes in legislation and regulations as well as implementation measures is extremely important and needs strong support. The chronic problems in management and business skills should also be resolved, as this will undoubtedly become a stumbling block in future economic development. Training courses may provide some assistance but the most practical way to ensure these skills are taught is via foreign companies. It is therefore essential that local employees be given more possibilities and opportunities to gain experience with foreign firms. FDI should therefore be encouraged even more to facilitate this.

When comparing the findings of the present study to those barriers that have been identified earlier, some additional remarks seem warranted. In general the barriers found by this study do not seem to differ very much from those identified previously. This finding is a significant one but could be interpreted in different ways. First, one could argue that the changes in investment environment have not yet been sufficient to reduce the barriers. Secondly, one could also argue that the perceptions of the interviewed companies change slowly and do not fully reflect the present reality. However, the findings of this study do not support such a conclusion, either, that the most favourable experiences are found among the most recently established companies. It is important to note that whatever the absolute scale of barriers might be, companies base their investment decisions, among others, on their perceptions of these barriers. Therefore, it is significant that in addition to the lowering of barriers, sufficient and timely information is available for potential investors in these countries.

1 Authors' preview

After the former planned economies of Eastern Europe started their economic reforms at the turn of the 1990's the Baltic Rim region has witnessed the birth of many new economic ties. These ties first manifested themselves in redirection of trade flows from East to West and soon thereafter in direct investments in the region. The companies in the surrounding Baltic Rim countries, Germany, Denmark, Norway, Sweden and Finland were among the first direct investors from the other side of the Baltic Sea.

From the very beginning the pioneer-investors have experienced many kinds of problems in the establishment and development of their businesses. This is only natural taken into consideration the profound restructuring process of the target countries. Such problems have also been subject to relatively extensive media coverage in the western press, which has had great interest in monitoring the transition process. However, such often scandalous articles have tended to divert attention away from the fact that foreign direct investments into the region have grown rapidly during the last couple of years and a continuously growing number of foreign companies are investing in these countries.

This study focuses on the barriers to foreign direct investments in the five transition economies bordering the Baltic Sea, namely: Poland, Lithuania, Latvia, Estonia and the St. Petersburg region of Russia. By drawing attention to the barriers, as they are experienced by the investors, the authors hope to provide useful and timely information to assist the authorities of the Baltic Rim transition economies in their efforts to attract new foreign investors. At the same time, although our study focuses on the investment barriers, we would like to point out that our study, like most other recent studies on the subject, testifies to an improved situation and investment climate throughout the region. However, as the Baltic Rim countries are competing with other regions around the world as potential host countries for direct investments, the changes in the investment environment are also viewed by the investors in relation to changes in those other markets. Therefore updated information about the investment barriers, as they are experienced by the investors on the ground, is crucial for structuring future economic reforms.

We thank the Stockholm Chamber of Commerce for commissioning the Research Institute of the Finnish Economy to carry out this study. It has enabled us to update our understanding of the nature of investment barriers and in this way has also enhanced our skills to carry out similar studies in the future.

January 15, 1998

Inkeri Hirvensalo

Colin Hazley

2 The role and importance of FDI

2.1 Definitions and measurement of FDI

Foreign direct investments (FDI) generally refer to investments where the investor's purpose is to exert significant influence on the management of the enterprise in the foreign country. As opposed to passive investments, such as portfolio investments, where the investor is mainly motivated by the return foreseen on the investment, *the emphasis in FDI is on controlling the management in the target company.*

In accordance with the guidelines of International Monetary Fund foreign direct investment is defined as capital investment where the investor's holding or proportion of the voting rights is 10 % or more. Most statistics on FDI are compiled on the basis of this rule. However, for practical purposes the proportion of voting rights, which is sufficient for control, varies greatly. In some cases only 100 % ownership is sufficient whereas in others less than 5 % ownership may be sufficient for control, particularly in cases where ownership is widely dispersed.

Foreign direct investments can be carried out basically in two different ways. They can be either *greenfield investments*, which refer to newly created enterprises, or *acquisitions*, which refer to cases where investors acquire existing companies or parts of them. A combination of these two is the case, where the investor acquires an existing company for strategic reasons but creates an entirely new company in practice.

Joint ventures refer to affiliates, which are partly owned by the investor, and *subsidiaries* refer to wholly owned affiliates. Alliances, cooperation agreements, subcontracting arrangements or other forms of non-equity linkages cannot be considered direct investments unless they also involve capital transfers tied to voting rights from the investing company. Likewise, mere lending operations cannot be considered direct investments. However, as foreign investments are often financed partly by equity and partly by loans extended to the joint venture or subsidiary, in these cases the loans are also included in FDI statistics.

The statistics published by the central banks and national statistical offices differ somewhat on the exact content of FDI, which makes direct comparisons somewhat difficult among the transition economies of Eastern Europe. The statistics used in this report are based on the World Investment Report 1997 by the United Nations, which uses the balance of payments statistics compiled by IMF as their major source and national statistics of the host countries in question¹.

¹ There are significant problems in assessing the FDI in real terms. First, there is no price and quantity elements in FDI-flows required to construct price indices and evaluation of the investment flows also depends on the choice of currency. Secondly, revaluing stocks of FDI present even more problems due to the fact that data on FDI stocks are mostly unadjusted book values. And finally, FDI data generally include funds involving only the parent firm and foreign affiliates and exclude investment funds raised outside the investing company. It has been estimated that for the year of 1994 parent firms financed only slightly more than one-third of the value of the total assets of their foreign affiliates. Most of the assets were financed by debt instruments and around 30 per cent of the assets were financed by financial institutions located in the country of the foreign affiliate. This implies that foreign direct investment is more important in today's world economy than that shown by the balance of payment and other conventional statistics. In transition economies, however, due to the high credit risks and nascent

2.2 *Theoretical underpinnings in explaining FDI*

Several different theories have been suggested over the years to explain the development of foreign direct investments. These range from macroeconomic approaches, which examine broad national and international trends, to microeconomic explanations, which analyse the foreign direct investments in the context of international growth of individual firms. Without describing these different theories in detail it can be said that all these approaches have been able to provide partial explanations to the development of FDI but none of them have received unanimous support as the best model.

A third approach, which considers the interaction between firms at an industry level, can be positioned between these two ends. One relatively recent example of the third category of theories, which combines previous micro- and macroeconomic approaches, is Dunning's "Eclectic Approach" (Dunning 1977, 1981, 1988 and 1993). This approach hypothesises that a firm will engage in FDI if three conditions are satisfied: First, the firm possesses firm-specific advantages vis-à-vis firms of other nationalities in serving particular markets. In particular such firm-specific advantages take the form of intangible assets, know how of technology and management or marketing. Secondly, it must be beneficial for the company possessing such assets to internalise them through an extension of its own activities rather than externalise them through licensing and similar contracts with independent firms. Finally, it must be profitable for the firm to utilise these advantages in conjunction with at least some factor inputs located outside its home country; otherwise foreign markets would be served entirely by exports and domestic markets by domestic production.

The analysis can also be extended from the firm level to a national level and argues that the probability of a particular country to engage in international investment depends on whether its own firms possess such intangible comparative advantages over firms in other countries.

According to this approach the greater the firm-specific intangible assets, the greater incentives the firm has to exploit them by itself. Furthermore, the direct investment alternative will be chosen where locational advantages favour a foreign rather than a domestic production base. However, these two are not sufficient to explain the expansion abroad. The firm must have some advantage gained through the internalisation of foreign activities before FDI can take place. Even though the eclectic approach of Dunning has the merit of incorporating both micro and macro level factors in explaining the FDI, it has not been easy to test the model empirically, because the factors are not easily quantifiable.

This study looks at the barriers to foreign direct investments in the transition economies of the Baltic region. From Dunning's three factor groups the focus is thus on the locational factors influencing investment decisions. Such factors include local legislation, governmental policies and their implementation, transportation infrastructure, availability of raw materials and sufficiently skilled labour force, etc. In addition there is a clear linkage to the internalisation advantages that potential

status of the local banking sectors, it can be assumed that these outside sources of financing are not as significant as in other parts of the world.

investors perceive, i.e. how profitable the foreign investment is considered within the foreseeable time horizon.

From Dunning's three factors the intangible assets of investing companies are not investigated in this study. However, they are the ones that the host countries are likely to be most interested in when they are trying to attract foreign investors. According to Dunning (1993) the value generating assets in general, which are also the driving forces behind the FDI, are increasingly taking the form of created assets, e.g. the human capital, (stock of all kinds of knowledge, technological capacity, organisational systems, transport and communications infrastructure and even Government policy). From the point of view of the FDI acquiring country it would then be important to be able to attract such assets into the country. Accordingly, the ultimate responsibility for a country's competitiveness in global markets can be said to rest with its own democratically elected government, which formulates the policies followed in most of the above sectors. However, the role of multinational (or transnational) companies is also crucial in influencing the extent and pattern of regional integration and fostering networks of national competitive advantages.

The starting point of this study is that FDI is beneficial for the development of the host countries, particularly in the Baltic Rim transition economies, where the value creating assets are much lower than in the western European market economies. From the theoretical point of view there are differing approaches as to how beneficial the FDI is for the host country. For example, Porter, in analysing the competitive advantage of nations emphasises rivalry between domestic companies in creating national competitive advantages, and does not attach great significance to inward FDI. A more commonly held view, on the other hand, is that of Dunning, which emphasises economic progress created by investments irrespective of their origin. According to Dunning the preference of domestically owned investments over foreign owned investments is an expression of willingness of the people to trade economic sovereignty for economic progress. What is more significant, though, for the development of the investment environment and where both Porter and Dunning agree is the view that the most significant assets are created. This view implies that, governments have a crucial role in boosting economic development.

2.3 *Global trends in FDI*

In 1996 foreign direct investment flows set a new record. Inflows increased by 10 per cent, to \$349 billion. Increases in FDI inflows exceeded the growth in the nominal value of world gross domestic product and international trade, which expanded by 6.6 per cent and 4.5 per cent in 1996 respectively. The stock of FDI reached about \$ 3.2 trillion in 1996. Sales and assets of transnational corporations are growing faster than world GDP, exports and gross fixed capital formation. About 44 000 companies with almost 280 000 foreign affiliates are active direct investors today. Reinvested earnings accounted for about one tenth of total FDI flows in 1995 having been negative in the early 1990's.

In contrast to the general trend foreign direct investment flows into Central and Eastern Europe declined in 1996, after more than doubling in 1995.

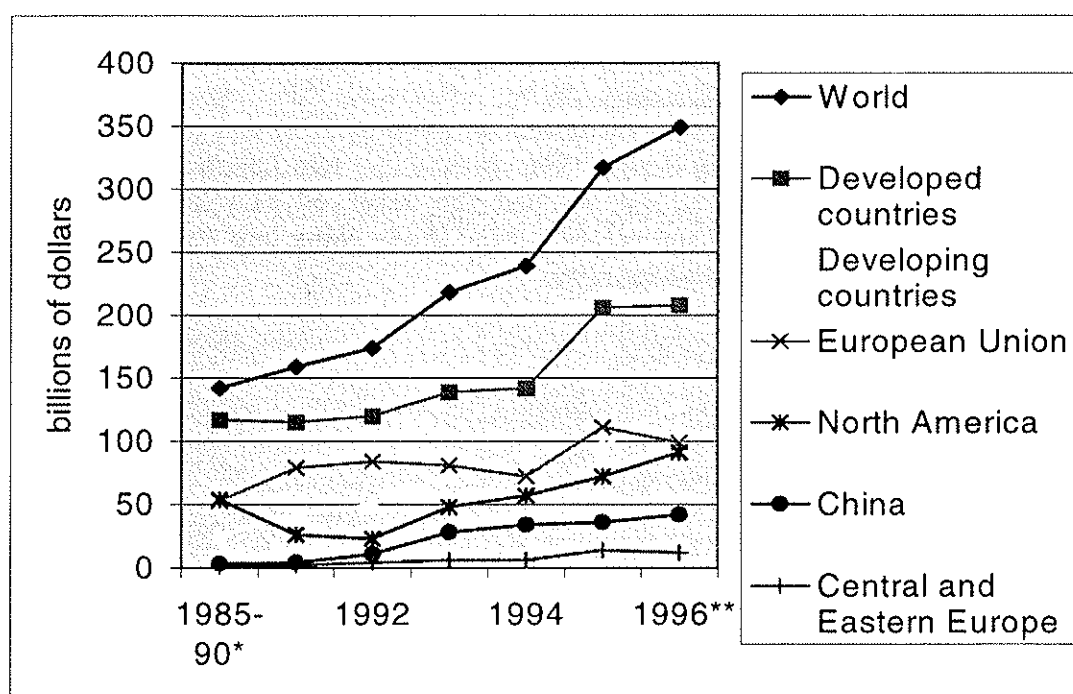
Developed countries invested \$ 295 billion abroad and received \$ 208 billion in 1996. The United States absorbed 25 per cent of all FDI in the world, and was by far the largest investor abroad, followed by the United Kingdom, Germany, France and Japan. The European Union was the largest host and home region, accounting for a half of FDI inflows to developed countries.

Developing countries invested \$ 51 billion abroad and received \$ 129 billion in 1996. Their share of total world outflows rose to 15 per cent while their share of inflows grew to 37 per cent. China was the largest host country after the United States, while Hong Kong had the largest investment outflow and outward FDI stock of any developing economy.

South, East and South-East Asia as well as Latin America attracted record investment flows in 1996, increasing by 25 per cent to more than \$ 80 billion, while those to Latin America reached nearly \$ 39 billion. Africa attracted little FDI in 1996, though more than in 1995.

Figure 1 below diagrammatically shows the global trends in FDI inflows from 1985 to 1996. This figure also highlights the relative scale of growth in FDI inflows to Central and Eastern Europe as compared to other regions.

Figure 1 FDI inflows, by host region and economy, 1985-1996.



* average inflows for the years 1985-90

** estimates

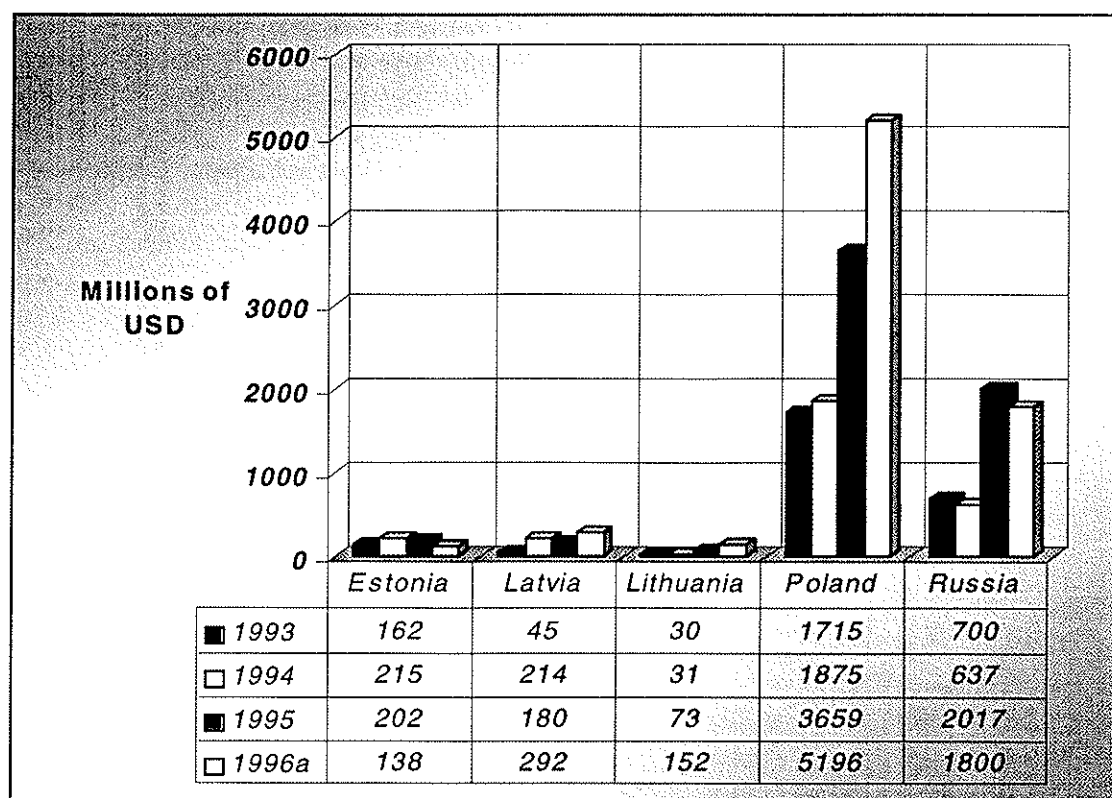
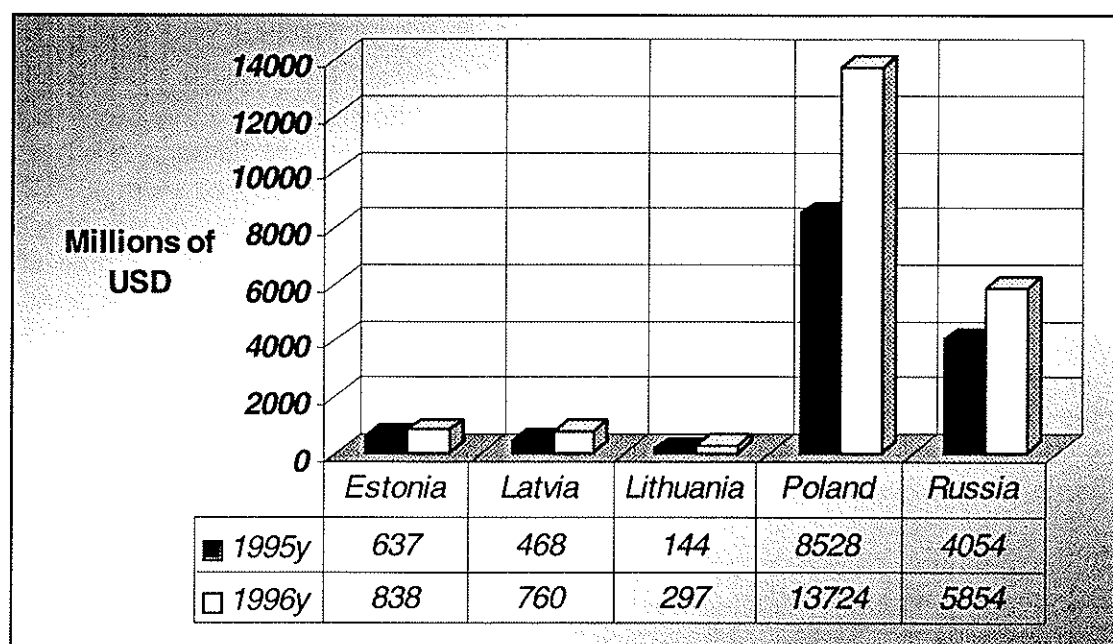
Source: UNCTAD, FDI/TNC database

2.4 Trends of FDI into Central and Eastern Europe and the Baltic Rim region

In 1996 the FDI flows into Central and Eastern Europe accounted for 3.5 per cent of world investment inflows. The increase since 1991, when the share was only 1 per cent, is considerable. However, the success of Central and Eastern Europe in attracting FDI remains relatively weak by global standards, particularly if the overall growth rate of 10 per cent in 1996 is taken into consideration. In 1995 the inflows into the region doubled and reached \$ 14 billion but decreased in 1996 to \$ 12 billion. The inward stock of investments reached \$ 46 billion, only 1 per cent of the world total.

The decline in FDI flows reflects, in part, declines in privatisation-related investments particularly in Hungary but also more generally problems related to transition to a market economy. Investment flows to the region remain concentrated in the Czech Republic, Hungary, Poland and the Russian Federation. The first three countries alone accounted for 68 per cent of the region's inflows and 73 per cent of its inward stock in 1996. Western European transnational companies dominate the FDI source picture, followed closely by those from the USA and the Asian newly industrialising economies, in particular the Republic of Korea. A small but growing share of inflows is accounted for by intra-regional investments, particularly within the Commonwealth of Independent States.

Among the five Baltic Rim transition economies Poland has attracted the largest inflows of FDI and consequently has also the largest FDI stocks, more than double the size of Russian FDI stocks (see tables & charts 1a and 1b). Particularly during 1996 investments into Poland grew rapidly. Among the three Baltic countries investments into Estonia increased significantly during 1993 and 1994 but have since then stagnated, whereas those into Latvia started to grow in 1994 and have continued to grow since then. Particularly during 1996 investments into Latvia increased greatly and the investment stock almost reached the level of FDI stock in Estonia. Investments into Lithuania have lagged behind those going into Estonia and Latvia but nevertheless increased considerably in 1996.

Table & Chart 1a. FDI Inflows in the Baltic Countries, Poland and Russia, 1993 to 1996.**Table & Chart 1b. FDI inward stocks in the Baltic Countries, Poland and Russia, 1995 to 1996.**

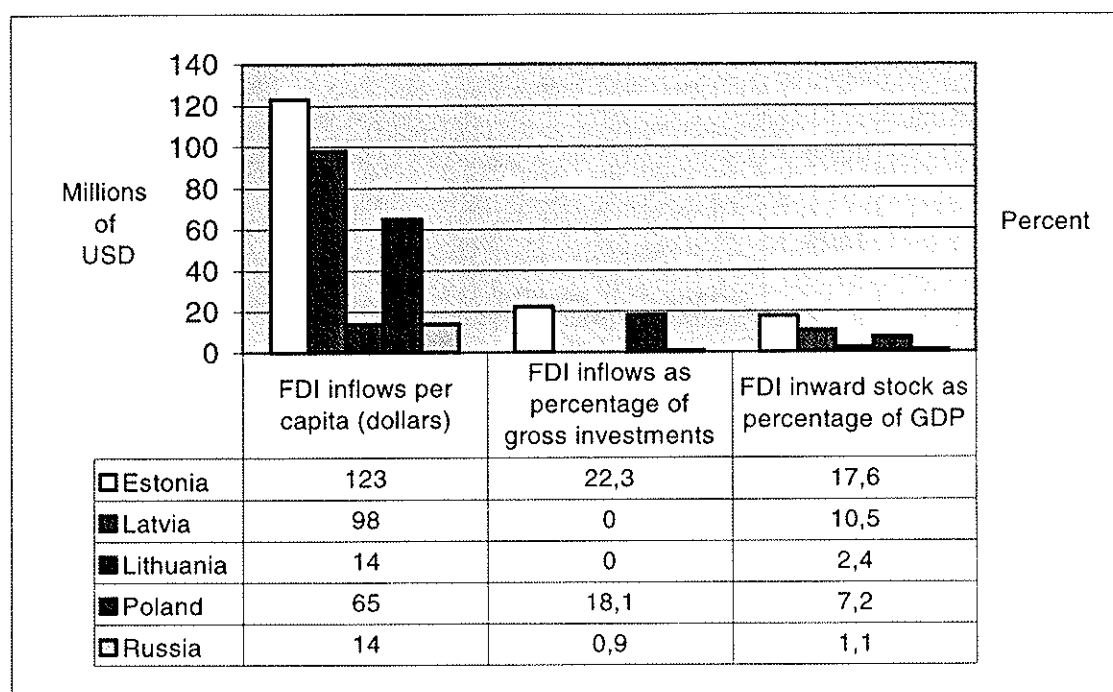
a estimates

y estimated by accounting flows since 1992 for Latvia, Lithuania and Russia

Source: UNCTAD, FDI/TNC database

The significance of FDI to the domestic economy can be evaluated on the basis of investment inflows per capita, investments as compared to the total investments (gross fixed capital formation) and to the gross domestic product in each of the five countries. Table & Chart 2 gives this information and indicates that the significance of FDI for the domestic economy is greatest by all these accounts in Estonia, whereas it is smallest in Russia.

Table & Chart 2 Importance of FDI in the Baltic countries, Poland and Russia, 1995



Source: UNCTAD, FDI/TNC database

FDI inflows as percentage of gross investments rise above the world average (4-5 per cent) in Estonia and remain negligible in Russia. However, the Estonian level of 22 per cent is typical also for small and open economies in general. The share of FDI of the GDP is also above the world average (10 per cent) in Estonia and clearly below it in Russia. Among the Central and Eastern European countries Estonia is third after Hungary and the Czech Republic in FDI inflows per capita but below the level in some market economies. Based on these rough estimates of the significance of FDI on the economies, we can hypothesise that the FDI inflows into Estonia are close to the “normal” level of FDI inflows in market economies whereas in all the other countries there is plenty of potential for the FDI inflows to reach these “normal levels”. However, what is much more difficult to estimate is the significance of the FDI for the qualitative development of the economies and particular industries within the economies in developing their crucial intangible assets².

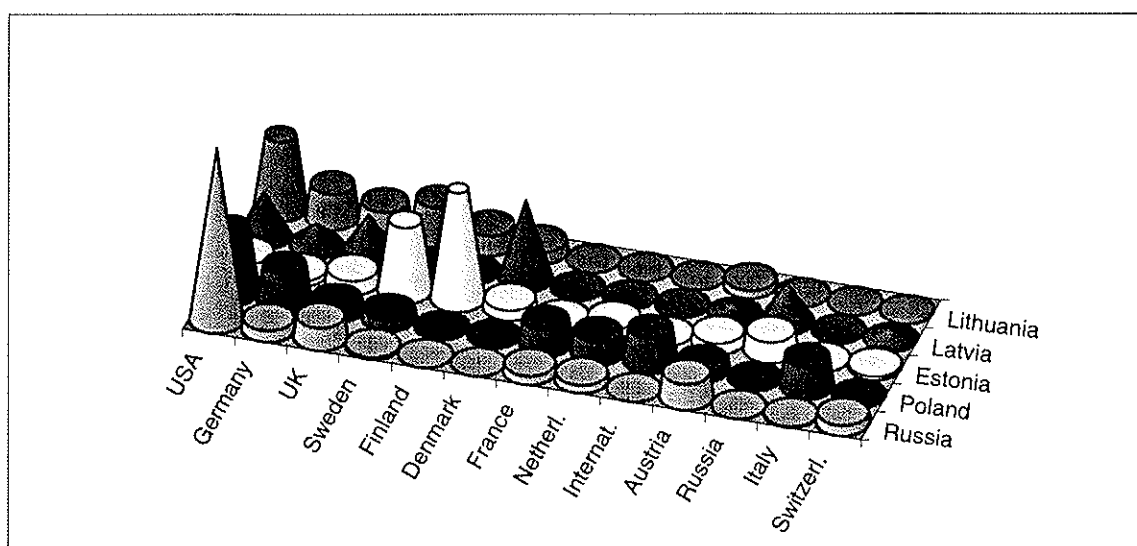
² There is some evidence that the role of foreign firms in supporting the industrial R&D in Estonia has been very limited in the study by Marianne Paasi (1997) *Changes in industrial R&D - the case of Estonia*, Paper to be published in NATO Advanced Research Workshop on “Institutional Transformation of S&T Systems and S&T Policy in Economies in Transition” in Budapest, 28-30 August 1997.

The largest investors in the Baltic Rim region by countries of origin are the USA and Germany (see table & chart 3). This is the case particularly in Russia, Poland and Lithuania. The Nordic countries dominate in turn as foreign investors in Estonia and Latvia. Finland is the largest investor country in Estonia and Denmark in Latvia while Sweden is the second largest investor country both in Estonia and Lithuania. Russia is also one of the leading foreign investors in Estonia and Latvia.

Table & Chart 3

Foreign direct investment in the Baltic countries, Russia and Poland by 10 largest investing countries in 1996-97 (percentage share of total FDI)

Russia**	Poland**	Estonia*	Latvia*	Lithuania**
USA 59.1	USA 23.1	Finland 37.6	Denmark 27.0	USA 25.2
Austria 8.3	Germany 12.6	Sweden 23.9	USA 15.0	Sweden 12.6
UK 7.2	Internat. 11.3	Russia 6.5	Russia 13.0	Germany 11.4
Germany 3.7	Italy 10.2	UK 4.4	UK 13.0	UK 8.4
Switzerl. 3.4	France 8.4	Austria 3.5	Germany 7.0	Luxemb. 6.5
France 2.8	Netherl. 7.3	USA 3.3	Sweden 5.0	Finland 6.3
Netherl. 2.6	UK 3.9	Denmark 3.1	Switzerl. 3.0	Denmark 3.9
Canada 0.7	S. Korea 3.4	Netherl. 2.7	Finland 3.0	Norway 2.5
Sweden 0.7	Sweden 3.3	Germany 1.5	Liberia 3.0	Austria 2.5
Italy 0.3	Austria 3.2	Switzerl. 1.1	Austria 3.0	Estonia 2.3



* December 31, 1996

**First half of 1997

Sources: Goskomstat, Russia; Polish Agency for Foreign Investments; Eesti Pank, Estonia; Latvian Enterprise Register; Lithuanian Department of Statistics. Due to differences in the time frames the figures are not fully comparable between the countries in question.

There are also significant differences between the five countries in the structure of investments, which is described in table 4 and also depicted on figures 2 to 6. Roughly 60 per cent of FDI have gone to the industrial sector in Poland, 40 per cent in Russia, Estonia and Lithuania and only about 20 per cent in Latvia. In Russia the financial sector is a significant recipient of FDI, particularly in the first half of 1997, when the majority of FDI was directed into that sector (excluding investments in the treasury bills, which outweighed by far all other investments both in 1996 and 1997). In Latvia the largest investments are made into the communication and transportation sectors.

Among the industrial sectors direct investments have been largest into food industry in Russia, Poland and Lithuania. In these countries 14-21 per cent of the investments have been directed into this industry, which also includes the beverage industry. Wholesale and retail trade has received a significant share of investments, 26-31 per cent, in Estonia and Lithuania. Appendix 4 provides lists of 30-50 largest foreign investors in Estonia, Latvia, Lithuania and Poland.

The structure of the FDI into the Baltic Rim transition countries differs from country to country also by the form of financing, although comparable information is not available for all countries. The information on investments in Estonia indicates that Estonia follows the general pattern of FDI in the world, where a growing share of the direct investment is provided in the form of loans to existing companies rather than in the form of equity to new enterprises. In 1993 the share of loans was about one quarter of total FDI while in 1996 it was about three quarters. The Estonian case also shows that a significant share of finance comes from reinvesting the profits of the enterprises rather than repatriating them back to the mother company.

A characteristic of the Russian situation is the spectacular increase in other foreign investments rather than direct investments, notably investments into the short-term treasury bills, since 1995. In 1996 and the first half of 1997 about two thirds of all foreign investments have been directed into the governmental securities and only one third into direct investments. In the Baltic countries and Poland, on the other hand, the share of other investments has remained negligible due, among others, to the balanced budget policies carried out by the governments of these countries.

In Russia the geographic distribution of direct investments is very uneven with the city of Moscow being the most favoured location. Almost 60 per cent of all foreign direct investments have concentrated in Moscow and as much as 83 per cent during the first half of 1997. The city of St. Petersburg together with the Leningrad region, which represent the Russian regions bordering the Baltic Sea have received about 5 per cent of the total FDI and only less than 2 per cent in the first half of 1997.

Table 4**Foreign direct investment in Russia, Poland and the Baltic countries by economic sectors in 1996-97 (in percentage shares of total FDI)**

Russia*	Poland**	Estonia***	Latvia***	Lithuania***
Industry 41.5	Industry 62.7	Industry 43.0	Communications 31.7	Industry 38.3
(Food industry 20.3)	(Food industry 21.3)	Wholesale & retail trade 26.0	Transportation 20.2	(Food industry 16.6)
(Oil and gas 6.6)	(Transportation equipment 11.9)	Transport, storage & communications 14.0	Industry 21.5	(Light industry 7.1)
Finance, banking and insurance 37.4	(Electrical and optical equipment 6.3)	Finance 7.0	Finance 13.8	(Wood and paper industry 3.7)
Marketing activities 5.3	Financial intermediation 19.0	Property, rental and business services 3.0	Trade 4.9	Wholesale and retail trade 31.3
Trade and catering 4.9	Wholesale and retail 6.0	Other sectors 7.0	Hotels and restaurants 2.8	Post and communications 9.6
Transportation and communications 0.6	Transportation and communications 5.0		Others 2.2	Financial intermediation 5.3

* 1996 and first half of 1997

** stock to June 30, 1997

*** stock at the end of 1996

Sources: Goskomstat of Russia; Polish Agency for Foreign Investments; Bank of Estonia; Central Statistical Bureau of Latvia; Lithuanian Department of Statistics. Due to differences in the time frame and the industrial breakdown of the FDI the figures are not fully comparable between the countries in question.

Figure 2 Investment by Sector in Russia

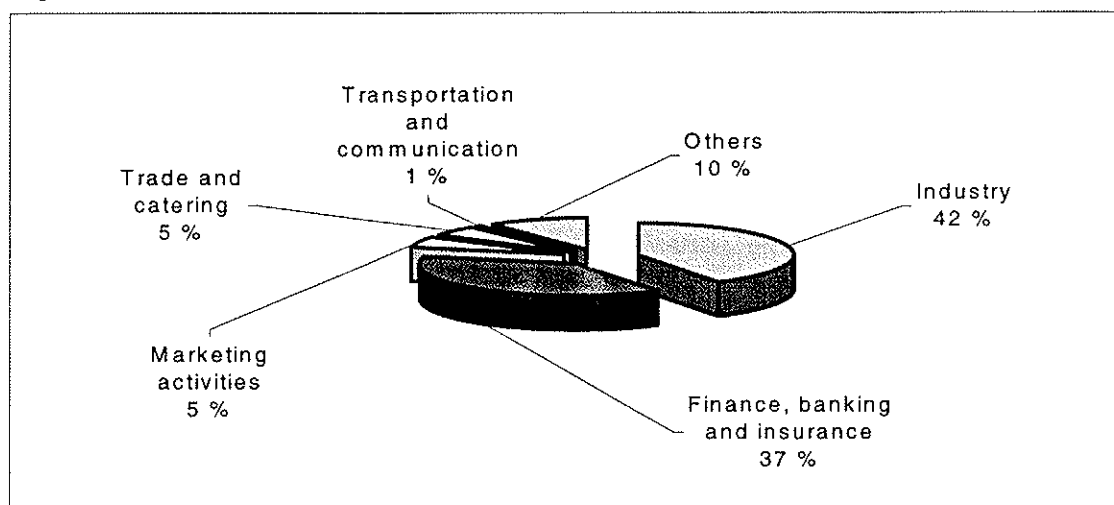


Figure 3 Investment by Sector in Poland

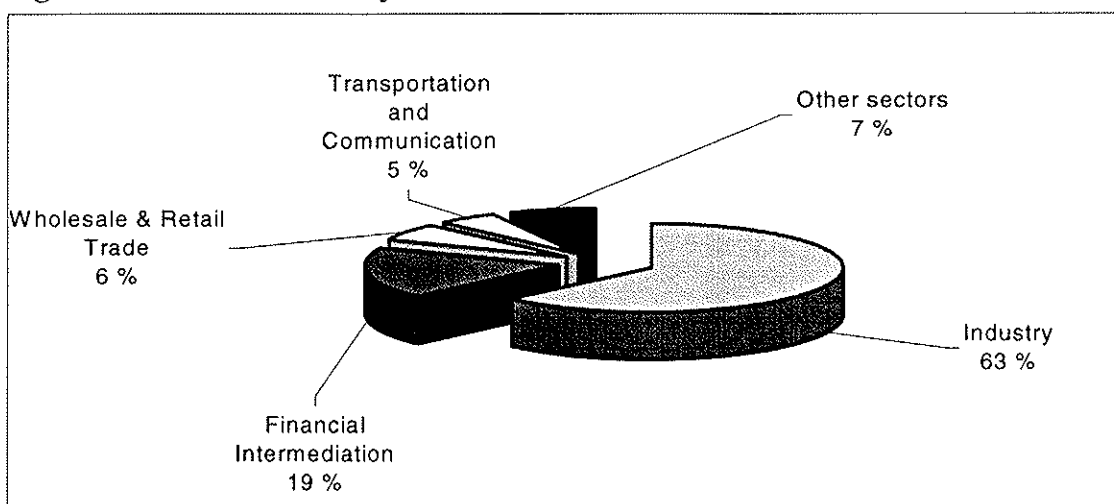


Figure 4 Investment by Sector in Estonia

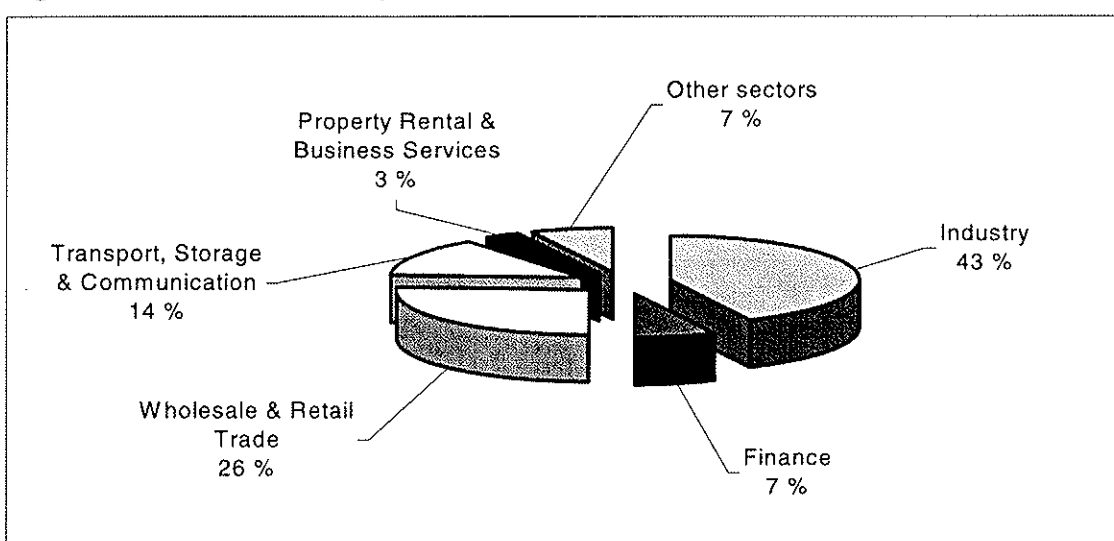


Figure 5 Investment by Sector in Latvia

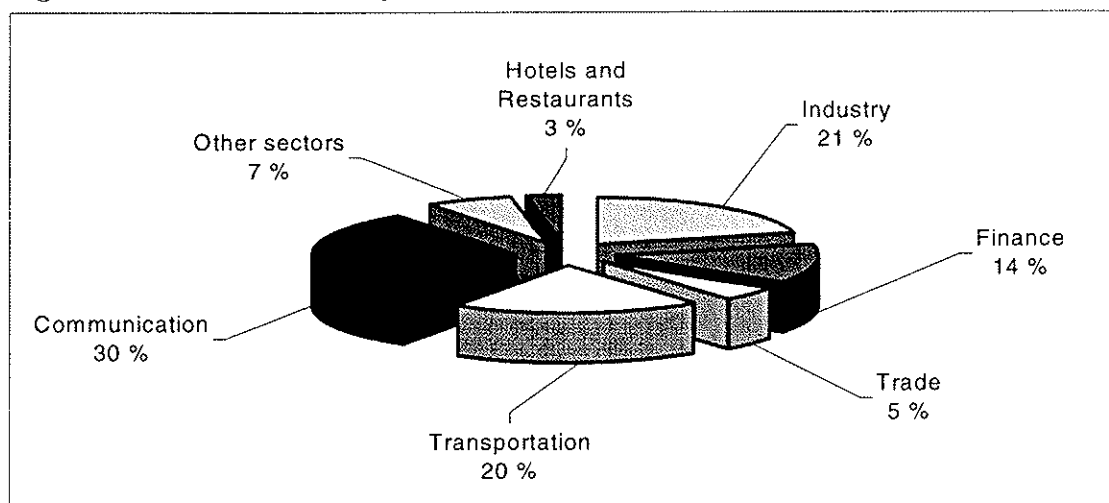
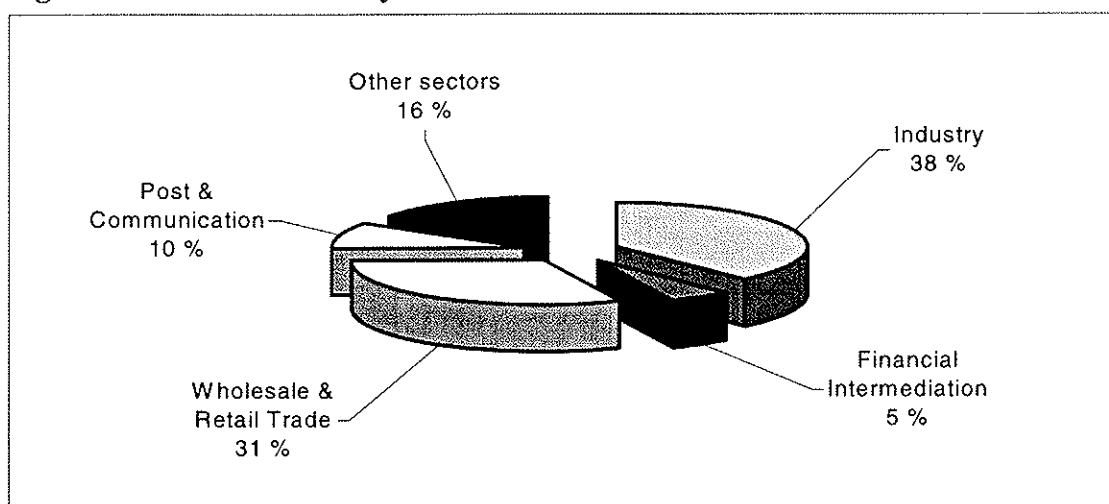


Figure 6 Investment by Sector in Lithuania



3 Investment Motivation and Identification of the Barriers

3.1 *Investment motivation*

International studies show that acquiring new markets and increasing sales has been the main motivation for making foreign direct investments. The development in Eastern Europe has been no different. Apart from the sales motive, cost factors also play an important part in investment decisions. In Eastern Europe the favourable cost factor has most often been the low labour cost. However, recent studies (Estrin & Meyer, 1997, Pye, 1997) covering FDI into the Czech Republic, Poland, Hungary, Romania and Slovakia found, that in addition to market considerations, both strategic position factors (to gain first mover advantages and/or to follow customers/competitors) and investment climate factors, played very important roles in the investment decision making process.

The significance of market potential as well as the cost of local inputs are clearly related to the expected long term profitability of the investment. The investment climate factors are more related to the internalization barriers, which prevent the companies from starting activities of their own rather than serving the market at an arm's length and using local intermediaries. Strategic positioning, in turn, is related to the competitive situation on the target market.

3.2 *Identification of investment barriers*

Referring to Dunning's three groups of factors, identified above, which influence the entrepreneur's decision to engage in foreign direct investments, there can also be three kinds of barriers to FDI. The first group of barriers (sometimes also called internal barriers), which hinders a company from developing or utilising such intangible assets that would be required to enter the foreign market, for the most part fall outside of this study. In the case where the company only has know how that allows it to serve the domestic market, it is precluded from entering the foreign markets. Additionally, the case where the company does not have any true competitive advantages on the particular foreign market also falls outside of this study.

However, the two other groups of barriers, which act as obstacles to internalisation, i.e. barriers to extension of the company's own foreign operations, and barriers that diminish the profitability of using the local factor inputs, are external barriers that interest this study. Examples of each category of barriers, which have been identified in transition economies, are given in the following table. The categorisation is indicative by nature and illustrates how some barriers, notably taxation, can act both as barriers to internalisation and barriers to using the local inputs.

Table 5
Examples of external investment barriers

Barriers against extending company's own activities (Internalisation barriers)	Insufficient profitability in using local factor inputs
<ul style="list-style-type: none"> • FDI legislation • Transaction costs • High customs duties for those factors that need to be imported into the host country (otherwise high customs duties are likely to act as stimulants to FDI) • High level of taxation • Administrative hurdles to acquire all necessary licences 	<ul style="list-style-type: none"> • Access to labour/ quality of local skills/ wage level • Access to raw materials/ price/ quality • Access to capital/level of interest rates • High social security costs/ taxation on other factor inputs

A study by OECD assessing the investment opportunities in transition economies lists the main external barriers identified by companies interviewed in OECD countries in 1994 as follows: central bureaucratic, administrative and legislative issues; protracted and complex negotiations or approval procedures; frequent changes of government officials and difficulties in finding the decision makers who would accept responsibility; and inconsistent policy changes and conflicting information from different ministries.

Additionally, the slowly developing business infrastructure and varying degrees of inadequacy in the areas of communications, distribution and banking were mentioned as significant barriers. Finally, the human resource issues represented a common problem encountered by the investors. Based on that analysis the most significant investment barriers encountered by western investors in the transition economies fell into the category of administrative and establishment barriers.

The following account based on earlier studies summarises the situation in each of the five target countries.

3.2.1 Investment barriers in Russia

Among many international organisations the Union of Industrial and Employers' Confederations of Europe has paid attention to the development of investment environment in Russia. In their joint declaration they point out that the lack of appropriate legal protection of economic rights, lack of transparent and reliable information about economic operators, unpredictable and inconsistent implementation of economic laws and regulations constitute major impediments to increased foreign as well as domestic investment in Russia.

They also point out that a special deterrent to entering into joint ventures with Russian companies is provided by the lack of laws and established procedures for shareholder

protection. Particularly small and medium sized companies are deterred by the general insecurity as well as by difficulties with the local bureaucracy. The Russian tax system also remains a major disincentive to both domestic and foreign investors. Problems concern the large number of taxes, the lack of stability, transparency and lack of consistent enforcement. Tax rates are often high and there are frequent, often retrospective, changes. No distinction is made between inadvertent and criminal error, penalties are excessive and the appeal process is cumbersome. Closely linked to the tax problems are the anomalies, which arise when compared to the Western regulations, in accounting rules used to calculate taxes.

Moreover, according to the joint statement, the poor quality of much public administration, particularly at local governmental level combined with the real and perceived level of crime and corruption, continue to seriously inhibit potential foreign investors.

In a study conducted during the first half of 1997, among about 100 Finnish companies on the issues of financing trade and investments in Russia, The Finnish Confederation of Industry and Employers identified the inadequate legislation and its implementation as the main problem direct investors face in Russia. In particular, they pointed out lacking or unreliable registers on land and share ownership as well as the retroactive and inconsistent implementation of the existing legislation, as the sources of greatest barriers.

The same study also analysed barriers to trade and investment in general and identified the following as most frequently encountered barriers: certification, customs clearance, taxation, bribery and 'mafia'. About 50 per cent of the respondents had faced problems with certification and customs clearance whereas about 30 per cent of the respondents had experienced them in the questions of taxation and bribery. About 20 per cent of the respondents named 'mafia' as a barrier.

On the other hand, in three consecutive surveys in 1991, 1993 and 1995, concerning the experiences of Finnish companies in Eastern Europe (Laurila 1992, 1994 and Laurila – Hirvensalo 1996), the investment climate in Russia has been found to have continuously improved. However, when compared to that of Estonia the Russian investment climate has been found consistently less friendly and less attractive than that of Estonia. For example, in the 1995 study the Russian environment was most often characterised as "tolerable" whereas the Estonian climate was "satisfactory". This study also identified the unpredictability of customs regulations and taxation as well as the arbitrary and inconsistent interpretations of the regulations by local authorities as the greatest problems investors faced in Russia.

In Russia the Foreign Investment Advisory Council was established in June 1994 as a result of joint efforts by the Russian government and Western businesses to initiate co-operation in improving the investment climate in Russia. The Council includes CEO's from ABB, BASF, Citicorp, Coca-Cola, Ernst & Young, Mobil Corp., The Pioneer Group, Procter & Gamble, Raytheon Intl. United Technologies, Mitsui, Mars, Renault, Thompson CSF, British Petroleum, Campofrio, FATA, Siemens, FIAT and EBRD and is co-chaired by Victor Chernomyrdin, the Prime Minister of the Russian Federation, and Michael Henning, CEO Ernst & Young International. The Council's

aim is to assist in defining and developing a favourable environment for foreign investments in Russia.

In this work the objectives of the Council are: to ensure that foreign investment provides desired benefits for the Russian economy; to align foreign investment with the short and long term goals of the government, and to align foreign investment with the need to develop domestic industry. The Council has three permanent working groups, which concentrate on improving the image of Russia for foreign investments and in removal of internal and external barriers to foreign investment. In its latest session in October 1997, the council paid special attention to accounting and taxation issues and developed recommendations on ways to adopt international accounting standards and taxation rules in Russia.

3.2.2 Investment barriers in Estonia

In a diagnostic study of the environment for foreign direct investment in Estonia, published in February 1997, the Foreign Investment Advisory Service of the International Finance Corporation and the World Bank point out that foreign investors are generally pleased with the Estonian investment environment and only few complaints are raised. The most common problems are access to land, which is described as a major bottleneck, and access to residence and work permits. Immigration is particularly a problem in light of the legal requirement for at least 50 per cent of the members of the management board to be residents of Estonia.

Although there are few complaints about the overall policy framework, there are myriad problems of interpretation of the law, minor conflicts between bits of legislation, and lack of consistency in the application of the law. Many of these problems concern tax accounting and reporting. It was also pointed out that there is a lack of formal or regular dialogue between the government and the business community. The private sector has had few opportunities to see or provide comments on draft legislation, and even fewer opportunities for input into associated implementing regulations.

3.2.3 Investment barriers in Latvia

The International Finance Corporation and the World Bank commissioned a study by the Foreign Investment Advisory Service on the Latvian investment climate in 1995. In this study attention was paid to the tough competition, which Latvia is facing from other countries inside and outside the Baltic region in attracting export-oriented FDI, which is not especially tied to specific locations. Many of the advantages that Latvia offers are also available in some of its neighbours.

The study considered that foreign direct investors can play a key role in the transformation of the Latvia economy and identified specific problems in attracting foreign investors to participate in the privatisation process. Problems were identified in: the selection of companies to be privatised, the privatisation process itself, the use of privatisation certificates, the unresolved questions of land ownership, and in the treatment of enterprise liabilities.

In a program for economic development of Latvia into 2010, a group of Latvian economists state that neither the government nor the private sector can ensure the volume of investments necessary for the development of national economy. This means that foreign investments will play a major part in the economy of Latvia in the coming years. Successful foreign investment projects ensure the entry of new technologies into Latvia, the introduction of enterprise management methods necessary for a market economy and a more qualified labour force. However, they also point out that there also exist counter-arguments for the expansion of foreign investment in Latvia, even though they do not have sufficient economic substance: i.e. the take-over of the control of the Latvia resources, the selling out of Latvia, the loss of the national identity.

In a response to the present study the Latvian Development Agency stated that serious problems for foreign investors in Latvia are related to acquisition of information about new legislative acts. Translation of legislation is not ensured in Latvia and the available sources are quite expensive and irregular. Municipal regulations are not available in foreign languages at all. Moreover the qualifications of judges are low and therefore court cases take a very long time to be tried, which in turn promotes the shadow economy.

Particularly small and medium sized companies suffer from supporting legislation and organisations as well as from lack of financial support. In addition, problems still exist in immigration matters, particularly in obtaining visas. There are also some limitations for foreign investors for engaging in certain industries, particularly, in timber harvesting, and insurance.

3.2.4 Investment barriers in Lithuania

As Lithuania has lagged behind Estonia and Latvia in attracting foreign investments governmental attention, directed to investment barriers, is of a more recent origin. Such analytical studies that have been commissioned by the International Finance Corporation and the World Bank on Estonia and Latvia, are not available for Lithuania. In March 1997 Prime Minister Gediminas Vagnorius called in foreigners for an investor's forum and demanded to hear their problems. The criticisms voiced were mostly about the state's heavy-handed approach towards business. Among the country's biggest investors, Philip Morris Cos. of the U.S., spoke the loudest and was allowed two consecutive meetings with the prime minister, who listened and reacted on the complaints, which essentially concerned the forced use of expensive domestic raw material.

Lithuania has also launched two free economic zones with considerable tax benefits for the foreign investors. However, it is realised that free economic zones alone are not enough to attract investors, because the investors need good economic conditions outside the zone, too. One of the major concerns of investors in Lithuania is the appreciation of the domestic currency, the litas, in expectation of the dismantling of the currency board system in 1998.

3.2.5 Investment barriers in Poland

A study published by the Polish Agency for Foreign Investment in October 1996 testifies to an improved investment climate since 1993 but highlights unfavourable changes in regulations as the most common anxieties among foreign investors in Poland. Second, on the list of concerns, were higher taxes and other payments, followed by political instability and price increases. A good portion of the foreign investors had also encountered unfair competition, particularly from governmental agencies in Poland.

According to the study, foreign investors experience difficulties in the ever-changing legal environment in coping with the flood of new regulations, which often take the companies by surprise. Moreover, according to the investors, the new legal regulations have loopholes and are inconsistent, while the law is interpreted and enforced by the authorities in a variety of ways. However, there is an acknowledgement that while changes may be frustrating, they are also necessary.

A 1997 survey by the Polish Agency for Foreign Investment indicates a further improvement in the investment climate. However, still three-fourths of the managers of foreign-owned companies voiced concern for the frequent changes of legal regulations, which take the companies by surprise and two thirds pointed out that the regulations had loopholes and lacked consistency.

In an effort of combat the stereotypical images that still prevail on the investment environment in Poland, the Polish Agency for Foreign Investments has organised events for foreign businessmen and journalists. The Agency's president, Waldemar Dabrowski, stated in a press conference on August 27, 1997, that due to fears regarding workforce difficulties and hearsay regarding the business environment foreign investors are frequently more cautious in their initial corporate strategies than necessary. As a result, they are likely to revise plans upwards with the consequent increases in investments.

4 A Review of the Situation in the Target Countries

4.1 *Description of the survey methodology*

The above discussion on the identification of FDI barriers shows that quite a lot of information is already available in studies carried out by various international research organizations and local development agencies concerning the nature of FDI barriers in the Baltic Rim transition economies. Therefore, it was felt that the appropriate way to approach the problem would be through indepth company interviews, which would allow probing more deeply into the questions than just gathering information from a mail survey. The investigation strategy was then, firstly, to test whether the situation had changed considerably from that covered by earlier studies, and secondly, to probe more deeply into the matters. As there is no single widely accepted theory about the development of FDI in general (not to speak of development of FDI in the transitional conditions in particular), the approach of the study was exploratory rather than testing existing hypotheses concerning FDI development.

The study was conducted during October-December and altogether 65 representatives of 44 companies were interviewed using the open-ended questionnaire in appendix 1. A list of the companies interviewed is given in appendix 2. The companies were chosen from lists of significant foreign direct investors in each individual country (provided by the relevant national organisations) with the aim of getting as wide a representation of various industries as possible. In particular, companies which have operations in several of the target countries, were chosen because they believed to be the better able to make comparisons between the investment environments of the countries in question. However, several practical considerations have influenced the final group of interviewed companies and particularly the managers within those companies.

Firstly, the availability of key persons for interview purposes, varied. Even though most companies were willing to co-operate and provide the requested information, it was not possible to reach all targeted companies. On the other hand, some companies (about 5 per cent of the total) refused interviews. The fact that ETLA, the research institute carrying out the investigation, is Finnish, most likely influenced the access to companies and accordingly it was somewhat easier to interview Finnish companies or companies operating out of Finland than to those in other countries. The investigators were Finnish and British by nationality.

Secondly, in interviews carried out with companies in the target countries, the most readily interviewed managers were local managers. However, in some cases where local managers were interviewed, it became evident that their views differed greatly from those of the investing mother company. Moreover, it was difficult to gauge what reference point they could utilise from which make a comparison of the situation from, since they had little or no working experience outside of their own country. In the parent company interviews that were conducted in Finland, expatriate managers visited the subsidiaries in the region regularly, maybe once or twice a month, and others had stayed in the target countries for a few months or even years when the operations were started. Indeed their views were predominantly those of the western mother-company. On balance, the majority of interviews were conducted with expatriate managers and therefore, for the most part, this study reflects the views of

the western investors. In order to get a more balanced view of the situation, a wider study including the views of more local management should be carried out using also local investigators, who have better access to the local management.

On average the interviews lasted 1-2 hours, but in some cases as long as 3 hours. A draft version of the questionnaire was used in a test run of interviews in Riga, where country managers of subsidiaries from all 3 Baltic countries and also the managing director from the mother company were interviewed. At the beginning of the study the investigators worked together in order to ensure similar approach to the questionnaire. However, most interviews were carried out individually by either of them and in practice the interviews covering operations in the three Baltic countries were carried out by Colin Hazley while those covering Russia and Poland were carried out by Inkeri Hirvensalo. In a few cases the interviewees filled out the questionnaire and specific points were discussed over the telephone afterwards.

4.2 *Description of the Specific findings of the Study*

This study focuses on the barriers to foreign direct investments in Poland, Lithuania, Latvia, Estonia and the St. Petersburg region of Russia. While the focus of the following account is on investment barriers, it must also be pointed out that the study testifies to an improved investment climate throughout the region.

The following account describes the barriers that have been identified and highlighted most often by those companies interviewed. There were clear differences between host countries in the degree to which the problems were considered actual barriers. However, the range of problems was very similar throughout the five countries. Section 4.3 gives the individual country summaries of the findings and appendix 3 provides the interview results by country in table format.

4.2.1 Legislation

Uncertainty and Inconsistency in Implementation

The legal interpretation of new laws, new tax and/or customs regulations are difficult and unclear and often differs depending on which official or ministry one consults or deals with. New laws conflict with older ones, consequently these inconsistencies result in uncertainty. There appears to be lack of functionality and observed fairness in implementation. In addition the behaviour of officials is also unpredictable and/or erratic.

New laws and regulations are introduced speedily without consulting the business community - In many cases there is no prior consultation with industry leaders to determine impacts of the proposed legislation (or if there is, it is usually insufficient, biased towards certain interest groups or simply ill-conceived at best). The net effect in many cases is that foreign companies increasingly find themselves on a more uneven playing field having and even higher cost structure.

The speed at which new laws and regulations are introduced is often not matched with equal speed in implementation - For example, officials on the periphery (usually customs or tax officers) are often not informed of the latest changes. This results in confusion, uncertainty and costly delays. Appeals procedures are long and drawn out and have simply become a waste of time and money.

Legal Reforms in Privatisation, Land and Restitution of Property are Too Slow

Lack of policy decision or slow privatisation progress – in certain sectors (eg energy), the government does not have or has not yet ratified any policy defining which path the government will take in this area. This means that investors do not know how to proceed or can not even begin to seriously plan for the future and therefore put investment plans on hold. Indeed, this must be seen as a serious bottleneck for FDI.

Unsettled land-ownership disputes renders considerable amounts of land (often the best plots) unusable.

Bureacracy sleuthness is still a problem. More time is required to achieve anything. As one manager explained, "Even to change this process one still requires bureacracy to do it."

Tax Regulations are Burdensome

Tax regulations require extensive bookkeeping and reporting and are often ill-conceived or illogical. In some cases changes in tax laws are so swift that companies unavoidably are in violation of latest changes resulting in penalties for these companies concerned.

Restrictions through Certification

Protectionism of local products (to the detriment of the foreign investor's products) is practised by certain municipality agents. In addition, favouritism, through bribery, is also used. For example, locally manufactured products can obtain cheaper prices for testing or certification. At the same time, it is also possible to reduce the time required to obtain the paperwork by paying bribes to agents.

In many cases, international standards and certificates are not recognised. EU agreements have yet to be ratified and even when they have been the agreements do not appear to be implemented in practice. Non acceptance of EU/Scandinavian standards results in additional cost and time delays for the investor's product.

Legislative Restrictions of Business Operations

In some cases, the movement of people and goods are restricted by existing legislation. This ranges from tax regulations discouraging business trips to laws preventing imports.

4.2.2 Establishment Barriers

Protectionism

Local companies are granted permission (through permits, licenses etc) to operate on certain activities whilst foreign companies are prevented from doing so – For example, logging of timber. Intense lobbying by local firms and groups to keep foreign competitors out is also alleged to take place. This even takes the form of collusion.

Entry Restrictions

In some cases it is not possible for foreign companies to own the land their premises are located on, hence 'Lease-only' agreements are available. This exposes the company to several potential sources of threat: high rent prices for the land, once agreement comes up for renewal; the possibility of future refusal should facilities require expansion, and, the possibility of being evicted by the state or municipality at some later date.

In some cases there are operating restrictions due to the legal forms of company permitted. This has resulted in protracted negotiations to ensure that the company can operate as had planned but nevertheless deters entry.

Additionally, privatisation has yet to take place in some sectors, which again prevents foreign companies from operating as they would wish.

Complicated Procedures

In many cases, the procedures are detailed, complicated and plentiful, with various stages of approval, requiring many signatures, before establishment.

Access to Adequate Premises

Lack of good locations or good facilities for business premises – These are often competed for by foreign and local companies but not on the grounds of competitive bidding. Often, local interest groups (usually the western investor's competitor) will do all they can to keep the company out of the plot.

4.3.3 Customs and Tariffs

Delays at Customs

The time lag between introduction of new regulations and actual implementation often leads to misunderstanding, uncertainty and inconsistencies, which further provide ample opportunities for abuse, misuse or corruption. In many cases, customs officers are unaware of the latest regulations – This results in goods being delayed at the customs point and wastes management time and effort.

Procedures and Rules Vary

Inconsistent interpretation of regulations and rules is rife. Uncertainty is a major problem. Regulations vary between customs points and often change depending on which official is on duty.

Problems with Officials

Corruption is still widespread – It takes many forms ranging from down right blatant requests for bribes by officials to the more subtle behind the scenes dealings. It is commonly alleged that many customs officers drive cars inconsistent with their salary levels. A further allegation is that, customs officers, to encourage bribes from the companies concerned, create many of the problems of delay and misinterpretation.

Bureaucracy is still very much at the core of many complaints in this area – Procedures are often complicated and require various signatures on accompanying documentation. At the same time, the intention of the officials is not quite clear. Random decision making by officials also appears to complicate the process. Officials can not handle non-standard paperwork and mistakes are often difficult to rectify. Relations, both cross border and with the business community at large, would also seem to leave a lot to be desired.

Tariffs are Unfair

In some cases, tariffs and duties are quite high on imported goods and in fact this leads to accusations of protectionism of local products. In other instances, tariffs seem illogical with little recourse available to appeal against costs.

VAT is Problematic

VAT scams such as 'paper exports' where goods are imported then re-exported only on paper, still occur (i.e. pay VAT on import. Then obtain export certificate from corrupt official to claim back VAT and then resell goods on local black market). This Shadow economy activity also makes statistical information totally unreliable.

Up-front payment of VAT is also a drain on the resources of smaller companies – especially local ones - and the refunding process is burdensome and drawn out.

4.2.4 Financing

Insufficient Access to Capital - Obtaining Loans and Credit

Lack of Collateral amongst customers/clients – This restricts the potential pool of customers since credit will only be given to those customers who are more solvent or have good cash flow. Usually guarantees are needed to get loans but since local companies have weak collateral or do not have sufficient resources of capital

accumulation, the only way open is through Real Estate or a foreign company. This means that many small local companies must use expensive short term financing.

In some cases, there is insufficient capital base amongst local banks never mind venture capital.

Bad Debt/Payment for Goods

Credit limits are being stretched. Related to the above lack of finances or cash flow, either within state-owned companies or privately owned local companies, foreign companies are again restricted in their activities by the amount of debt they can carry. For example, they not only must pay VAT and Tariffs upon import but must also wait more than 30 to 40 days (average norm suggested by companies interviewed but sometimes beyond 90 days) before receiving any payments. Since there is very little recourse available for the collection of interest, let alone the debt itself, some companies request advance payment only.

Reliable credit information on potential customers or clients is not readily available. This is especially the case for foreign companies where they do not have locals to access informal channels. For example several local managers put it like this: "our country is a small place, old school or family connections are still used to obtain the right information, without local knowledge you just don't know".

Bankruptcy law loopholes – although common to every country in the world, local companies are 'crashed' quite frequently, and with assets being written into spouses names, recourse to claims against debts is virtually useless.

Banking and Liquidity of System

In certain areas, it is believed that there are currently too many local banks operating in the market. Therefore consolidation is likely to result in a wave of mergers and acquisitions at some later stage. The question is of course which banks will ultimately loose out and perhaps go bankrupt and which ones will survive. – In some cases, foreign banks have only recently been permitted to operate in the country concerned and indeed it remains to be seen how these banks fair in the near future competing with what seemed to be a protected industry sector. – A further issue is the question of Liquidity of some banks and also the threat of currency devaluation.

Reliability of Local Suppliers not as desired.

Local firm financial stability – as with customer information for the purpose of credit rating, information is also scarce about local suppliers. New start-ups are common and track records are often short making it difficult to assess the long-term viability of local companies.

Service care/warranty can be poor - whilst it is often the case that local companies can in theory supply most needs to a foreign investor, in reality practice does not often hold up this view. For example local firms may be able to supply the basic product however, the after sale service and warranty leaves a lot to be desired in many instances. At the same time there does not seem to be any satisfactory recourse to any means of legal action. Quality standards and levels of technology also appear to prohibit the use of local companies especially for larger orders.

4.2.5 Human Resource Issues

Shortage of Functional Management Skills

There is a chronic shortage of functional management skills, particularly within the levels of 'middle-management' in the areas of marketing, accounting and language skills. This problem is exacerbated by the, relatively small, pools of people to choose from and the lack of experience or exposure to western business practices.

Employee recruitment becomes a trade-off between experience and youth. For example, the manager's dilemma is often choosing between a more stable and mature manager, to choosing a younger university graduate. In the case of the more-mature candidate, the risk of getting someone with the older soviet-style mentality is higher. Whereas, the younger person has very little experience, but also has a more amenable attitude, which can be shaped. However, the risk is that many younger employees tend to believe that everything is easy, they can be risk seeking in nature and look only for short-term profits. Moreover, they are more inclined to desert the company after receiving expensive training.

Mindset and Loyalty of Employees

Mentality - old soviet traits are still prevalent: Personnel are still afraid of responsibility and are unwilling to make a decision. The risk of being blamed when things go wrong is still quite worrisome. In many cases, employees still need to be given 'orders' or be told what to do.

Retaining good employees, once trained to western standards, is often a problem - In some cases competitor firms have come to the employees present employers office to try to poach the employee. However, the major problem is one of salary - employees will often 'jump-ship' once trained and leave in favour of higher salary alone. Trustworthiness - several companies have experienced difficulties in this area. This ranges from outright fraud to simple theft by employees - but this is more the exception than the rule.

Difficulties obtaining Work and Residence Permits

In certain instances, it is quite a long and slow process before work permits are granted with restrictions on numbers of expatriates also existing. The problem is further compounded due to uncertainty surrounding residence permits for the expatriate's family.

4.2.6 Illegal Activities

This has been found to be a sensitive issue – Whilst many managers state that they have experienced no problems whatsoever, others claim they have experienced some problems but are understandably unwilling to give details. At the same time, several managers (foreign and local) have given explicit details of their experiences.

Crime

Security is still an issue – ‘Roofing’ or ‘Umbrella’ organisations still exist in one form or another. Many managers pay for official security firms or use the latest electronic equipment to protect their premises. However, some managers are still threatened by local villains, who even write in attempts to extract so called ‘protection payments’.

At the other end of crime spectrum, more sophisticated criminals have even breached bank security to make illegal withdrawals. Moreover, leakage of client information has also been cited as a problem with some banks.

Protection of immaterial rights, copyrights, patents and trade-marks is very weak.

Corruption

It is alleged that police officers are corruptible and often collude to help local gangsters go about their activities. Equally so, it is also suggested that police officers are powerless to do anything because senior officers are also implicated in many corrupt activities and are therefore reluctant to upset the status quo.

Officials or their agents occasionally ask for bribes – As has already been mentioned, some officials ask for payments to speed up the process.

Collusion Between Locals and Authorities

In many cases, local contacts are used extensively to gain information, favouritism or even lucrative contracts. In other cases, bribes are used to achieve the same results.

4.2.7 Distribution and Infrastructure

Inadequate Infrastructure

In many cases, huge and widespread investments are required to upgrade and improve the existing infrastructure ranging from transport networks, utilities/services to more modern communications networks.

Technology Lag

Although, new technology is available, it is not widespread and those using it still require training and experience working with it before levels can be brought up to desirable standards.

4.2.8 Other Issues

Poor Attitude of Investors

It has also been pointed out on several occasions, particularly by the local managers, that foreign companies adopt poor attitudes towards locals. For example, It is frequently alleged that many foreign investors treat local employees poorly. There are reported incidences where locals have been told that they should feel honoured to work for the western company and being able to receive western training and should not be concerned with salary levels.

At the same time it is also alleged that some foreign companies are engaged in disreputable business activities.

Local Demand is often too small to warrant investment purely for the domestic market.

In some instances, the relative size of each market on there own often does not warrant investment in facilities purely to serve the domestic market only.

Poor Perception of the Country

Inaccurate or bad press reports deter investors from initial investment.

4.3 *Discussion of the Specific Country problems*

In the following discussion on the five Baltic Rim countries, the reader should bear in mind that as a general rule (with few exceptions that we are aware of), no single problem experienced by those companies interviewed, has been so insurmountable that any particular company has had to depart from the country. Equally so, it must also be recognised that most problems listed may also be considered as difficulties only. However, what is strikingly clear is that the myriad of problems together do tend to congregate to form a bottleneck to further Foreign Direct Investment.

For example, it should become obvious to the reader that much more time and resources are spent in resolving day-to-day problems than should otherwise be the case in a more efficient economy, and hence momentum is being lost. However, what is not apparent from our discussion, is the high number of very talented, hard working and intelligent senior managers that we have encountered, who seem to be restrained in many directions. Therefore, should these constraints or bottlenecks be removed it is undoubted, that the critical mass would drive each economy to much higher levels.

In researching the problems, we interviewed 19 parent companies located in Finland, whom between them have at least 39 subsidiaries in the Baltic countries. In addition, we interviewed a further 26 subsidiaries located in each country concerned. Together, this pool of information therefore represents a total of 65 company sources.

4.3.1 Russia

Among the companies interviewed those operative in St. Petersburg had set up manufacturing subsidiaries in the following industries: food and beverage industry, medical equipment production and building materials industry. In addition they included companies operating in construction, engineering as well as shipping and forwarding services. Most had started production operations since 1993. Normally the subsidiary had been established a couple of years before the manufacturing or service activities started.

The predominant motivation among the interviewed companies to establish subsidiaries in St. Petersburg was the vast and rapidly growing Russian market relatively close to their home markets. In addition, many stated that the need to establish an early presence in the market was the driving justification for the investments. Most were relatively small operations and used as a testing ground for developing strategies for entrance into Moscow or other Russian regions later on.

Even though the companies represented a wide range of industries, they shared a similar ownership structure and most were 100 per cent owned subsidiaries of the western mother company. Those subsidiaries that had existed already since the end of 1980's, had originally been established as joint ventures, the only possibility according to the Soviet legislation at the time. However, all of them had undergone ownership restructuring and the Russian partners were left with a small minority share at the most. On the other hand, most of those companies that had been established

since 1992 were created as 100 per cent wholly owned subsidiaries and registered as local companies.

There are several reasons behind this development, the most common one being the need of the foreign investors to gain full financial control of the investment. Also the Russian ownership share was diluted in many cases as a result of limited financing possibilities of the Russian shareholder and the galloping inflation. In addition to sharing a similar ownership structure the investors also had very similar experiences in many other respects.

In Russia the foreign investors encounter more barriers than in the other Baltic Rim transition economies. Practically all investors have faced problems with tax legislation and accounting rules, particularly with retroactive stipulations that they could not take into account while planning their activities. However, there were clear differences among the respondents in their attitudes towards the difficulties encountered. As all had faced problems in these areas, some pointed out that the difficulties were not insurmountable and could be managed by investing time and energy into finding sufficient information and learning the matters in detail. Also those companies which had operated in St. Petersburg already for years, faced smaller problems than newcomers to the market. In addition to taxation and accounting the companies interviewed faced specific problems in the field of insufficient protection of immaterial rights and restrictions in the local legislation to make public investments.

In the field of establishment barriers a relatively common theme seems to be problems encountered in identifying the right partners. Many companies spent a lot of time and energy trying to find suitable partners. Once the partner with similar interests was found, various problems with establishing the operation were solved with the help of the partner. Those companies, which were most satisfied with their establishment procedures had engaged a local consultancy to help identify the right partners.

Problems faced in the banking sector were also many and widely recognised. They included deposits lost in a failing bank, heavy bureaucracy of the Central Bank, whose licence is required for many types of transactions and above all no local financing possibilities. Closely tied to the banking issues are the problems in obtaining mortgages and using real estate as a security as well as the problem of obtaining reliable credit information from potential customers.

Practically all respondents also had faced problems in the area of human resource management. It is common to be able to find technically qualified personnel. However, it is just as common to find that they lack understanding of market economy concepts, initiative, efficiency and language skills. Particularly management and marketing skills are lacking among the middle managers. Difficulties were encountered especially in finding qualified personnel for accounting and financing positions. Language problems were also considerable. Many Scandinavian multinational companies use English language as the second official language in their Russian subsidiaries. However, they have not been able to find sufficiently proficient people who fulfill the language skill requirement. Even more difficult has it been for them to find expatriates with sufficient Russian knowledge.

Several companies noted that they had encountered requirements for bribes by various Russian authorities and that such requests had increased during the last few years. None of the respondent companies admitted having paid personal bribes exceeding normal courtesy offered to a business partner. However, most were under the impression that competitors or other foreign companies were paying, which in turn was reflected in the increased requests. Some respondents drew the line between offering something that was targeted for public use (e.g. a new ambulance for the community) and personal gifts, which were not accepted at all.

Raw material sourcing possibilities were extremely limited among the interviewed companies. In most cases the quality of the local products was not acceptable. Some pointed out that even their Russian clients resented the image of Russian produced goods so much so that their end product could have no marks of Russian origin on them. Getting access to local distribution channels was a problem particularly in the food industry.

Views on the general investment climate in Russia varied greatly among the respondent companies. Several pointed out that they had faced sheer hostility towards foreign investors while others stated that their treatment had been friendly or at least neutral. The majority, however, stated that as foreign investors they were under a much stricter scrutiny by Russian authorities, particularly the tax police, than the domestic companies were.

All the companies interviewed were operating in St. Petersburg. However, several of them voiced concern for the fact that they had started operations in St. Petersburg instead of Moscow, which seems to have strengthened its position as the financial and business centre of the country. St. Petersburg is now regarded more as one of Russia's regions instead of an important business centre in its own right. However, it is not possible to compare the investment climate of both cities on the basis of the interviews because the views are quite controversial on that account.

The following table 5 provides rough estimates of the frequency of the problems encountered by the respondents. It also gives as a point of comparison to the barriers as identified by the Union of Industrial and Employers' Confederations of Europe in their joint declaration earlier during 1997.

Table 6
Findings of ETLA study on Russia and comparison to barriers identified earlier

RUSSIA UIECE* Study PROBLEM	RUSSIA ETLA Study 1997 PROBLEM	% firms with problem	Comparison comments
Legislation The lack of appropriate legal protection of economic rights Unpredictable and inconsistent implementation of economic laws and regulations Tax system	Legislation Inconsistent tax regulations and accounting rules Uncertainty about authorities' rulings Immaterial rights violated	91 % 73 % 82 % 9%	ETLA study confirms that the same barriers are still encountered
Establishment barriers Local bureaucracy	Establishment barriers Bureaucracy Protectionism Land ownership	82 % 45 % 27 % 9 %	ETLA study confirms that the same bureaucratic barriers still exist
Customs clearance	Customs/Tariffs High tariffs, long delays, problems with certification, bribes	73 %	ETLA study confirms the problem still exists
	Access to capital payments for goods banking system no local credit high credit risk	82 % 36 % 18 % 18 %	
Information Lack of transparent and reliable information about economic operators	Information Limited and biased information concerning various regulations	64 %	ETLA study highlights a different facet of the information problem
	Human resources Lack of management skills Language problems	91 % 91 % 18 %	
Crime and corruption	Crime/Corruption security problems bribery	55 % 27 % 27 %	ETLA study confirms the problem still exists
	Reliability of local suppliers No local supply or insufficient quality	65 % 65 %	
	Distribution/Logis- tics/Infrastructure Access to distribution networks Infrastructure technology	45 % 18 % 27 %	
	Other issues Hostility towards investors Non-acceptance of Russian goods	55 % 35 % 18 %	

*Joint declaration of the Union of Industrial and Employers' Confederations of Europe, 1997

When compared to the investment barriers identified by the Union of Industrial and Employers' confederations of Europe the list of barriers collected by this study is quite similar. Compared to earlier studies, for example that published by OECD in 1994, there seems to be a shift in the relative importance of barriers. Whereas earlier the barriers were mainly characterised as problems with finding the right partners and protracted negotiations with various authorities, the respondents of this and other recent studies emphasise problems with accounting and taxation rules, in particular. Moreover, the experiences of the interviewed companies identified by the present study, are very similar to each other almost irrespective of the industry.

In addition, it was found by this study that lack of management skills among the local managers is a significant investment barrier. This was the case even though most interviewed companies had only employed relatively young persons, under the age of 35. Technical training and skills were found high among the potential employees but marketing, accounting and financing skills, in particular, were found insufficient.

4.3.2 Estonia

Initially, nine parent companies based in Finland were interviewed regarding the activities of ten subsidiaries in Estonia. Interviews were later conducted in Estonia with a further ten subsidiaries of foreign companies from countries such as Germany, Sweden, Denmark and Finland. Industry sectors included: telecommunications and electronics equipment; services; wholesale and retail trades; construction materials; energy; chemicals; transportation; food, and last but not least, forestry.

Most companies, (more than 80%) were wholly owned subsidiaries. Several companies held majority ownership shares whilst at least one company was now majority owned locally. Most companies entered the market in the early part of the 1990s to gain access to the local market, stating that they viewed their investment as a long-term commitment. Turnovers ranged from 180 thousand USD to about 275 million USD, and most had already reached profitability within the first two years.

The extent of the problems was widespread but nearly all companies had experienced problems in many areas. It was also observed, that, those companies who had used local specialist firms for activities such as setting up a subsidiary or customs clearance and transportation, had experienced less problems in these areas.

One of the most severe problems in Estonia today is that currently being experienced in the area of Human Resources. More than 90 % of firms interviewed experience some type of difficulty in either: obtaining work or residence permits; recruitment of functional management/trained personnel, and/or the loyalty and attitude of employees.

However, the most common problem is the acute shortage of middle managers and personnel trained in functional management skills, with 80 % of firms interviewed reporting this as a problem. While there are undoubtedly many very talented entrepreneurs and managers operating at present, the lack of delegation possibilities means that existing managers must spend time supervising mundane tasks. At the centre of the problem seems to be the dilemma of hiring older managers at the risk of inheriting the old soviet mentality to hiring a younger more amenable person who is not risk averse and expects little work for large gains.

Indeed, the situation is probably most dangerous in the financial sector where many young well educated but often inexperienced personnel have been recruited into positions of responsibility, being lured there by higher salaries and prestigious status of the financial sector. This, of course, compounds the skill-shortages problem even further, suggesting that the problem will likely remain until consolidation of the banking sector occurs at some later point in time. When one considers the disproportionate high number of local banks in Estonia (about 12) relative to its small

population, then one could easily conclude that consolidation is not too far away.

Bearing in mind the shortage of skills, one can not fathom the logic behind why there should be any restriction in the numbers of work permits in some sectors of industry. To add to this, the slowness in obtaining a work permit, or residence permit in the case of the expatriate's family, must surely be seen as a distinct problem which is restricting much needed skills were they are best delivered and one which could quite quickly be removed.

The second most serious problem is that of legislation, with 80 % of firms interviewed reporting that they are currently experiencing some type of problem in this area. The most recurrent problem (more than 70 % of firms) would seem to be the inconsistencies and uncertainty surrounding legislation at the level of implementation. Within this problem the following issues are a cause for concern: arbitration does not work; bankruptcy laws do not protect creditors; implementation is unfair, and the general lack of overall consistency in implementation is widespread.

At the same time, the openness and freedom that the Estonian economy is renowned for would also appear to have some practical limitations. For example: tax regulations impose high taxes on travelling for business purposes, thus discouraging business activity; animal food laws prevent some imports; the uncertain nature of land reforms and restitution of property currently reduces potential economic activity since investors are deterred from setting-up on any doubtful locations.

Related to the above is the area of establishment, which again shows that the Estonian economy is not as open as it is claimed to be. Over 45 % of firms interviewed reported experiencing some type of entry restriction or protectionism. In some cases foreign companies are not permitted to have access to extract raw materials or have permits or licences to operate, with some even experiencing collusion between local companies and authorities to prevent them from entering. Other firms would also appear to experience problems in the early start-up phase by apparent legal interpretations as to the rights and restrictions in *modus operandi*. These restrictions cause problems in purchasing and operations and indeed incur extra cost to the companies concerned, when in fact this type of set up is very much the accepted norm in many EU countries.

Another major problem area in Estonia is that of business finance. More than 70 % of firms questioned voiced either having a problem in the areas of bad debt or access to capital or that they have concerns over the state of the Estonian banking system and currency. At least one third of companies surveyed mentioned that they had experienced some problem with bad debt of some of their customers, whilst 40 % thought that the banking system suffered from liquidity problems. Related to this, is of course, the question of credit information. Although only 20 % of firms mentioned that raising finance was not easy, about a third of the firms questioned said that credit information was unreliable, unavailable or simply not controlled and therefore subjective in nature.

The issues raised in the above areas of business finance may not constitute a significant problem taken by themselves, however, when taken together with other problems mentioned earlier, then one should be perhaps quite alarmed at potential

scenarios emerging. For example, one scenario (partly suggested by one interviewee and partly suggested by the author) could occur when the banking and financial sector starts to experience intense competition and consolidation, say when growth starts to decline. In an effort to compete, many young and inexperienced managers may give out more credit or loans (based on poor credit information) to firms who can not sustain growth levels, perhaps due to market conditions or maybe due to the chronic shortage of management skills, and thus may falter. As the economy begins to slow down even more, several of the local banks could inevitably collapse under the burden of their debt.

This type of situation, although hypothetical, is nonetheless very possible. When the above situation is taken together with other factors such as: the poor implementation of the legal system; the volatility of the Estonian stock market; the liquidity of the banking system; and the pressure on the Estonian Kroon; then one must observe that there is some cause for concern both for the Estonian economy and its Government.

One additional feature of the Estonian economy is the high level of illegal activity which affects about two thirds of companies interviewed. More than 50 % of companies said that they had experienced some type of criminally or corruptly motivated incident in the not too distant past. About one third also claimed that they felt there had been some type of collusive dealing, involving local companies and local authorities, practised to their detriment, recently.

Surprisingly, customs and tariffs are still a problematic issue with about 47 % of companies mentioning that there was some type of problem in either delays or poor relations at customs points and/or problems associated with VAT requirements.

Within the area of distribution and infrastructure, 40 % of firms surveyed mentioned that the local infrastructure was in need of much investment. Criticisms were generally centred round communication and information systems, but equally so, the existing levels and knowledge of technology were also not at desired standards.

The Reliability of local suppliers is also a notable problem that manifests itself in two forms. The first concern is the financial stability of the supplier. There are many relatively young start-up firms who have short track records and little history when it comes to credit information. To add to this, bankruptcy law loopholes enable assets to be diverted into spouse names rather than left to creditor's claims. The second problem with suppliers is maintaining quality standards and the after sales care and warranty services which do not seem to function as one could expect in a Western European country.

Table 7
Findings of ETLA study on Estonia and comparison to barriers identified earlier

ESTONIA		% firms with Problem in 1997	Comparison Comments
PROBLEM FIAS Study 1997 (Survey Nov-Dec 1996)	PROBLEM ETLA Study 1997 (Survey Nov-Dec 1997)		
Legislation	Legislation	80 %	ETLA study confirms that these same problems are still encountered.
Interpretation of the Law	Inconsistencies/Uncertainty in implementation	73 %	
Conflicting Legislation	Restricting Business Operations	27 %	
Lack of Consistency			
Taxes and Reporting			
Lack of consultation with the business community			
Access to Land	Land Reforms/Restitution - too slow	33 %	
	Establishment Barriers	47 %	
	Entry Restrictions	33 %	
	Protectionism	33 %	
	Customs/Tariffs	47 %	
	Delays/Relations	33 %	
	VAT problems	20 %	
	Finances	73 %	
	Access to Capital	20 %	
	Bad Debt/ Payment for goods	33 %	
	Banking/Liquidity of system	40 %	
	Interest rates/Currency Risk	20 %	
	Information		
	Access to reliable credit info	33 %	
Human Resources	Human Resources	93 %	ETLA study confirms problem still exists
Access to work or residence permits (numbers also)	Obtaining work or residence permits	33 %	
	Shortage of Functional Management skills	80 %	
	Mindset/ Loyalty	40 %	
	Illegal Activities	67 %	
	Crime/	33 %	
	Corruption	33 %	
	Collusion between Locals and Authorities	33 %	
	Reliability of local Suppliers	27 %	
	Distribution /Infrastructure		
	Technology Lag	40 %	
	Other Issues		
	Attitudinal 'differences'	27 %	

Although the data presented in the above table does not contain the same areas of investigation, and/or basis for a direct comparison, the data does still demonstrate that there appears to be close correlation between ETLA's findings and the findings of the previous FIAS study. This is especially the case in the area of legislation where problems uncovered in both studies seem to be more pronounced. If this is representative of the other problem areas, then one could draw the conclusion that many of the problems listed are recurring and that any alleviation measures, currently being taken to prevent the situation, are not effective enough.

4.3.3 Latvia

Initially, five parent companies based in Finland were interviewed regarding the activities of their subsidiaries in Latvia. Interviews were later conducted in Latvia with a further nine subsidiaries of foreign companies from countries such as Germany, Sweden, Denmark, Norway and Finland. Industry sectors included: telecommunications; electronics & hydraulic equipment; wholesale trade; construction materials; energy; chemicals; pharmaceuticals; food, paper, and publishing.

Most companies, (more than 75%) were wholly owned subsidiaries whilst several companies held majority ownership shares. Most companies entered the market in the early to mid 1990s to gain market share or penetrate the local market and some to study the market. Again, nearly all stated that they viewed their investment as long-term commitments. Turnovers ranged from 20 thousand USD to 1.5 million USD, and most had not or did not expect to reach profitability within the first four or five years.

The extent of the problems was widespread but nearly all companies had experienced problems in most areas. It was also observed again, that, those firms who had used local specialist firms for activities such as setting up a subsidiary, customs clearance or transportation of goods, had experienced less problems in these areas.

In Latvia the most significant problem would appear to be in implementation of legislation with over 80 % of companies interviewed stating that they currently experience difficulties in this area. At least three quarters of the companies questioned say that implementation is always lagging behind, is unfair, doesn't function or changes unpredictably. Moreover, product certification and registration also seems to be a problematic issue for about one third of companies surveyed. In fact, in this regard one could go as far as stating that Government legislation (and sometimes the lack of it) is not conducive to facilitate nor enhance the business environment and that it restricts business activity.

The second most significant problem in Latvia, as with Estonia, is that of Human Resources with at least 75 % of companies interviewed claiming that they currently experience problems in recruiting personnel with functional management skills. Indeed the shortage problems would appear to be widespread across all areas of specialism such as accounting, marketing and sales, and management alike. This evident lack of skills in the areas of functional management and middle management must put a further constraint on the potential development of the economy and therefore must be addressed in both the short and long term.

Another major problem that is currently being experienced is that of lack of finances which not only appears to raise its head in the payment for goods but also in the area of infrastructure. At least two thirds of the firms stated that the payment for goods is an ongoing difficulty with many customers stretching credit limits beyond normally acceptable thresholds. Furthermore, the problem of limited financial resources seems to be more acute amongst local companies since foreign companies are operating at substantial credit limits. However the problem which would appear to be stifling economic activity and growth stems more from the bottleneck at the client or

customer end (in many cases state owned enterprises) rather than at the consumer end.

In fact, the lack of available finance is even more evident in infrastructure where two thirds of companies claim that a lack of investment has left inadequate levels of infrastructure, not to mention lack of good premises in Riga. Whilst the lack of investment in basic infrastructure is quite obvious, not so obvious is that many firms would probably invest more if this infrastructure were improved. Therefore, it would appear that the lack of finances seems to be restricting economic activity in more ways than perhaps it otherwise should.

A further significant problem would appear to be in the area of customs with 58 % of firms saying they were not satisfied with officials or procedures. In fact, 58 % of firms say rules and procedures are implemented inconsistently whilst 42 % say that the erratic decision making of customs officials is a major difficulty. It is also quite evident from our interviews that this process has become an ad-hoc procedure rather than a predictable routine which management can delegate to subordinates. Moreover, the above problems in customs and legislation, in fact, seem to divert management attention away from the more important business issues to the mundane functional problems. The net result is that companies are losing momentum and potential economic activity is being restricted.

One further problem area is the question of illegal activities. At least two thirds of companies interviewed said that they were aware of corrupt activities or that they recognise crime as an extra cost of doing business utilising local security 'firms'.

Table 8
Findings of ETLA study on Latvia and comparison with barriers identified earlier

LATVIA		% firms with Problem in 1997	Comparison Comments
PROBLEM (FIAS study 1995 and those Acknowledged by LDA)	PROBLEM (ETLA Study 1997)		
Legislation Information on new Acts not translated Lack of supporting legislation of SMEs Low quality of Legal system Privatisation process problematic	Legislation	83 %	Some issues are concurrent but other issues have not been investigated or observed by ETLA
	Implementation/Change	75 %	
	Certification	33 %	
Establishment Barriers Limitations on foreign investors in certain industries Land ownership disputes	Establishment Barriers Obtaining good premises	33 %	This issue was not observed directly from any company interviewed.
	Customs/Tariffs Procedures vary Problems with Officials	58 % 58 % 42 %	
Finances Lack of Financial support	Finances payments for goods	67 %	The lack of financial support has also been found in infrastructure by ETLA
Human Resources Obtaining visas	Human Resources Shortage of Functional Management skills	75 %	This issue was not observed
Illegal Activities Poor legal system promotes shadow economy	Illegal Activities Corruption	67 %	This issue was not investigated.
	Crime/Security	33 %	
	Distribution Inadequate Infrastructure	33 %	
	Other Issues Poor attitude of investors	67 %	
		17%	

The above table, although exhibiting some degree of correlation is not a sufficient basis for comparison or conclusions, as the same industries or areas were not investigated.

4.3.4 Lithuania

Initially, three parent companies based in Finland were interviewed regarding the activities of their subsidiaries in Lithuania. Interviews were later conducted in Lithuania with a further eight subsidiaries of foreign companies from countries such as Germany, Sweden, Denmark, Norway, Great Britain and Finland. Industry sectors included: telecommunications; electrical equipment; wholesale and retail trades; construction materials; furniture; petroleum; food and services.

Most companies, (more than 80%) were wholly owned subsidiaries. Several companies held majority ownership shares and one company had actually changed ownership to become totally local owned. Most companies entered the market in the early to mid 1990s to gain market share or access to local market and some to follow their clients from Scandinavia. Again, nearly all stated that they viewed their investment as long-term commitments. Turnovers ranged from 3.6 million USD to 40

million USD, and most had not or did not expect to reach profitability within the first three to four years.

The extent of the problems was widespread but companies had differing degrees of problems experienced ranging from very few problems to problems in most areas. It was also observed again, that, those firms who had used local specialist firms for activities such as setting up a subsidiary, customs clearance or transportation of goods, had experienced less problems in these areas.

Similar to Latvia, Lithuania's legislative environment apparently restricts foreign investment at both levels of establishment and operation. More than 80 % of firms surveyed stated that they experienced problems with legislation. Some 58 % said that tax regulations were burdensome (due to the bookkeeping requirements), unclear, unfair, or simply stupid at best. At the same time, the same number of firms said that the implementation of legislation was inconsistent, unclear and poorly thought out with little effort to speak to all the main business groups concerned.

On the operations side, the constantly changing taxation system breeds substantial uncertainty and is exacerbated by inconsistency in its implementation. Occasionally ill-conceived bookkeeping procedures are swiftly implemented, then removed at some later date – clearly a needless exercise.

In the areas of establishment, about two thirds of companies interviewed said that they had experienced problems due to either the complicated nature of procedures or the protectionist policies of the Government. The complicated, detailed and bureaucratic procedures requiring many stages of approval before establishing a company have been cited by 50 % of companies questioned, as being the worst barrier to establishment.

The next most significant problem is that of customs and tariffs with 58 % of firms saying that they had or are experiencing problems at customs points. It would appear that delays and varying rules and procedures account for 42% of company complaints with unequitable nature of tariffs being cited by an equal number of firms as another problem with customs tariffs seeming illogical and discriminatory against foreign companies.

Financial resources again seems to be a bone of contention with at least half of the firms surveyed claiming that they were experiencing some sort of problems associated in either obtaining loans or credit and/or had some grievance with the local banks. Amongst these problems were limited access to capital due to small capital base and lack of venture capital in Lithuania; apparent lack of finance within smaller local start-ups who are disappearing, and the lack of credit information. To add to this foreign banks have only recently been permitted to open up in Lithuania, however it remains to be seen whether these banks are allowed to compete in what seemed to be a protected industry.

One further issue which was not considered a major problem is that of labour flexibility. Unlike Latvia where most of the economic activity occurs in the capital Riga, business activity in Lithuania is spread out around at least three major cities, with educational establishments also being dispersed. To add to this, many potentially

good employees own their homes. Subsequently, it is difficult to find personnel trained and educated who are also prepared to relocate.

Table 9

Findings of ETLA study on Lithuania and comparison to barriers identified earlier

LITHUANIA		% firms with Problem in 1997	Comparison Comments
PROBLEM (Data From LDA)	PROBLEM (ETLA study 1997)		
Legislation	Legislation	83 %	ETLA study confirms this. ETLA has encountered cases where authorities try to force companies to locate in certain locations (ie Petrol stations).
Heavy state bureaucracy	Tax Regulations	58 %	
Free Economic Zones not sufficient to attract FDI	Implementation Inconsistent or unclear Certification	58 %	
Establishment Barriers	Establishment Barriers	25 %	Not observed by ETLA
Compulsory use of expensive domestic raw materials	Procedures complicated	67 %	
	Protectionism	50 %	
	Customs/Tariffs	17 %	
	Delays/Rules vary	58 %	
	Tariffs unfair	42 %	
Finances	Finances	42 %	Acknowledged by ETLA discussions with companies.
Appreciation of domestic currency is a threat	Obtaining Loans/Credit	50 %	
	Banks	50 %	
	Human Resources	25 %	
	Lack of functional management Skills	25 %	
	Illegal Activities	50 %	
	Corruption	25 %	
	Crime	17 %	
	Discrimination	17 %	
	Distribution	25 %	
	Infrastructure	25 %	

The above information supplied by the Lithuanian Development Agency is too vague to make any detailed comparison. However, ETLA's study does seem to confirm that some of the previously identified problems still do exist.

However, in regard to the LDA's statement that "creation of free economic zones are insufficient to attract FDI on their own", it has to be said that although this claim is well intended it is not surprising. For example, if the decision process is carried out in the same manner that municipal planning architects adopt in trying to dictate locations of petrol stations to foreign investors, then it has to be stated that the wrong tools are being used for the job at hand. The choice of business premises is also a function of marketing where location is everything and often dictates commercial success or failure. Those people who understand the needs of the business sector should be involved in the decision making processes of this type.

4.3.5 Poland

The information on foreign investors views on the investment barriers in Poland is not fully compatible with that on Russia and the three Baltic countries. For logistical reasons fewer companies were interviewed in Poland than in the other four countries. On the other hand, the Swedish Trade Council in Warsaw carried out a survey among 40 Swedish foreign investors during October-November 1997 and the results of that

survey were available for analysis along with another survey by the Polish Agency for Foreign Investment.

When analysing the situation in Poland one has to take into consideration also the differences in timing of economic reforms in the target countries. Poland leads the other countries by 2-3 years having started the "big bang" reforms already in 1989, while Russia and the Baltic countries introduced their reforms in 1991-92. Therefore the expectations of foreign investors are likely to be that also the investment environment and climate would be better developed and more positive in Poland than in the other countries. The surge in foreign direct investments into Poland during 1996 in particular also supports such expectations.

The investment motivations among the few companies interviewed also differ somewhat from those in the other countries. As the early mover advantages still seemed to be important justifications for entering the market, several companies had already come to the conclusion that they no longer existed on the Polish market. Competition was seen keener on the Polish market than on the other Baltic Sea Rim markets and the price of acquiring privatised companies or making greenfield investments was considered already high.

However, even though the experiences of foreign investors are generally relatively favourable in Poland, the legislative environment as well as taxation and accounting rules are still seen as causing a lot of unexpected problems for foreign investors. About 30-50 per cent of the large Swedish companies reported that problems in customs clearance, legal matters, taxation and certification still could be considered significant investment barriers. In addition to these the small and medium sized Swedish investors experienced problems with the communications and banking system.

Even though the level of taxation was generally considered high and the rules very strict, at least some interviewees felt that taxation rules are fair. The new accounting legislation was also considered clear and would enable the investors to evaluate the financial position of the Polish companies much better than the old. However, it is generally not implemented yet. Acquiring land for industrial purposes was cumbersome but also not generally considered a great problem. On the other hand finding suitable housing for the employees was found difficult among the interviewed companies.

Where the foreign investors felt that they were not always given equal treatment in comparison to local Polish companies, was in relation to federal and local authorities. According to the interviewees it is not uncommon to be asked to pay bribes in order to expedite the decision making process. Particularly the privatisation process was experienced as very cumbersome in this respect involving negotiations with a large number of authorities. Also access to all raw materials was considered equally difficult. On the other hand, however, very few companies in the Swedish survey considered bribes as a problem in Poland.

Concerning management questions it was pointed out that the level of management training is very uneven in Poland. Due to the large number of private institutions and no generally accepted accreditation of the degrees offered the level of graduates varies greatly.

The following table 10 gives detailed estimates of the significance of individual barriers among the interviewed companies. It also provides similar estimates for the survey carried out by the Swedish Trade Council. Again it is difficult to make direct comparisons but it seems that the share of companies, which have identified particular legal, bureaucratic, customs, certification and other problems as barriers seems to be up to one quarter of the interviewed companies in both cases. When compared to Russia, where such percentages were much higher, the significance of the barriers, accordingly, does not seem as high. Also the views and corresponding barriers identified by the respondents vary more in Poland than they do in Russia.

The table also gives a comparison to barriers identified by the surveys carried out by the Polish Agency for Foreign Investment in 1995 and 1997. In Poland the list of barriers identified by the earlier studies also resembles very much the list of barriers collected by this study. However, the present study highlights the more specific nature of the problems encountered as opposed to the barriers identified earlier. As in the other countries, also in Poland the questions of human resources are emphasised in the findings of this study. Moreover, in the human resource questions the views of the respondents coincide much more than they do in other questions. All respondents consider high management training needs as investment barriers.

Table 10
Findings of ETLA study on Poland and comparison to barriers identified earlier

POLAND PAIZ study 1995, 1997* PROBLEM	POLAND ETLA study 1997 PROBLEM	% firms with Problem	Swedish Trade Council Survey* Large enterprises	Swedish Trade Council Survey** Small or medium sized enterprises	Comparison comments
Legislation Unfavourable and inconsistent changes in regulations Increased taxes and other payments	Legislation Lacking framework Rapidly changing taxation High penalties Slow administrative processes	75 % 25 % 25 % 25 % 25 %	30-50 % of companies reported legislation, taxation and bureaucracy as a barrier	>50 % reported legislation as a barrier 24-30 % of companies reported taxation and bureaucracy as a barrier	Both ETLA study and the Swedish Trade Council survey confirm the barriers
	Establishment barriers Unfair privatization process Purchase of land	50 % 25 % 25 %			
	Customs/Tariffs Delays and slow refunding	50 % 50 %	30-50 %	24-30 %	
	Access to capital and payments for goods Access to capital Cumbersome payment rules	75 % 50 % 25 %		16 %	
	Information Credit information Dumping by local competitors	50 % 25 % 25 %		24-30 %	
	Crime/Corrup- tion Violation of brand names Bribes	50 % 25 % 50 %	16 %	10%	
	Reliability of local suppliers	50 %			
	Distribution/Lo- gistics/Infra- structure	50 %			
Other issues Political instability Price increases	Other issues Attitudes towards foreign investors Certification	25 %	30-50 %	24-30 %	Slightly different focus of barriers

*Polish Agency for Foreign Investment: Foreign Investment in Poland: Private & Public Attitudes, 1996;

And Foreign investors in Poland, 1997

** Swedish Trade Council "Hinder för handel och investeringar i Polen – synpunkter från svenska företag, Warsaw, November 1997

On subsequent pages 51 and 52, table 11 summarises the findings of this study for all the five Baltic Rim countries. However, as a quick-reference guide, the following diagrammatic representation in figure 7 shows the extent of the problems encountered across the region. In particular, this figure demonstrates that legislation, establishment barriers, customs & tariffs and human resources are the most common problem areas.

Figure 7 **Extent of Problems Encountered across the Region**

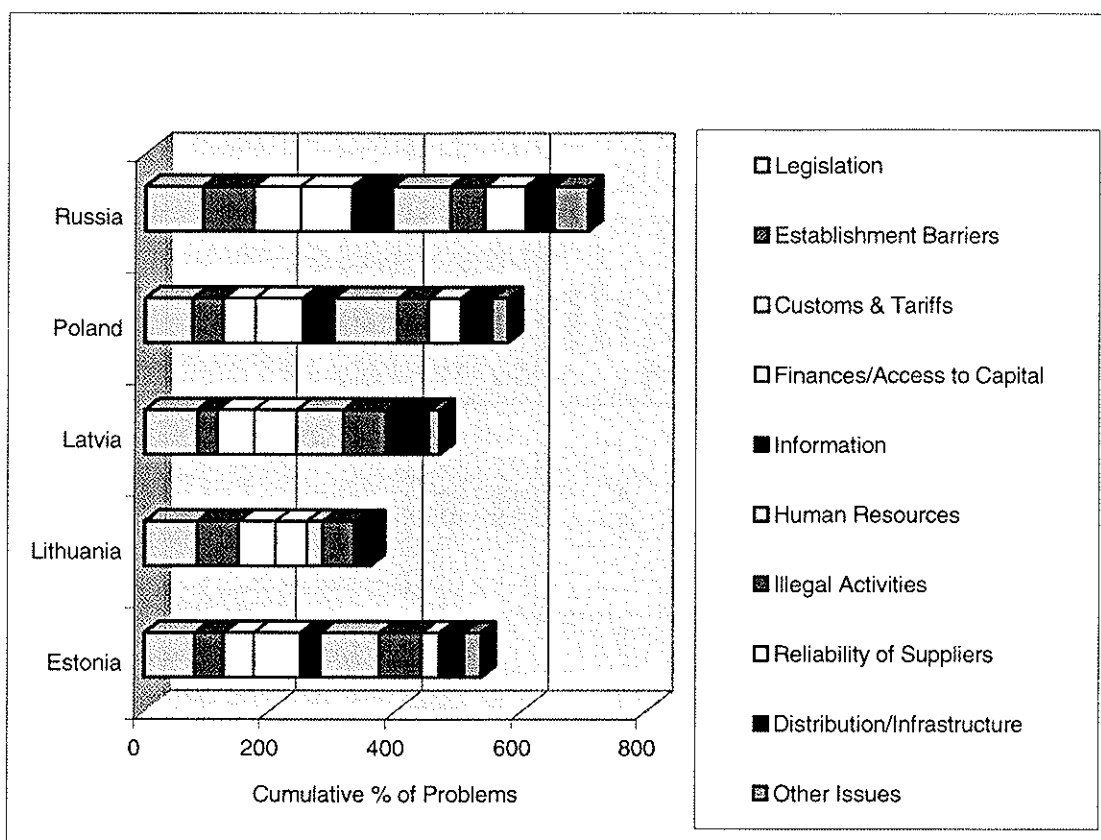


Table 11 Summary of the findings in ETLA's study for Estonia, Lithuania, Latvia, Poland and Russia

ESTONIA	LITHUANIA	LATVIA	POLAND	RUSSIA
PROBLEM	PROBLEM	PROBLEM	PROBLEM	PROBLEM
<ul style="list-style-type: none"> Legislation Inconsistencies /Uncertainty in implementation Restricting Business Operations Land Reforms/Restituton - too slow 	<ul style="list-style-type: none"> Legislation Inconsistent or unclear Tax Regulations Certification 	<ul style="list-style-type: none"> Legislation Implementation /Change Certification 	<ul style="list-style-type: none"> Legislation Lacking framework Rapidly changing taxation High penalties Slow administrative processes 	<ul style="list-style-type: none"> Legislation Inconsistent tax regulations and accounting rules Uncertainty about authorities' rulings Immaterial rights violated
% firms with Problem	% firms with Problem	% firms with Problem	% firms with Problem	% firms with Problem
80 % 73 % 27 % 33 %	83 % 58 % 58 % 25 %	83 % 75 %	75 % 25 % 25 % 25 % 25 %	91 % 73 % 82 % 9 %
<ul style="list-style-type: none"> Establishment Barriers Entry Restrictions/Protectionism 	<ul style="list-style-type: none"> Establishment Barriers Procedures complicated Protectionism 	<ul style="list-style-type: none"> Establishment Barriers Obtaining good premises 	<ul style="list-style-type: none"> Establishment barriers Unfair privatization process purchase of land 	<ul style="list-style-type: none"> Establishment barriers Bureaucracy Protectionism Land ownership
47 %	67 % 50 % 17 %	33 %	50 % 25 % 25 %	82 % 45 % 27 % 9 %
<ul style="list-style-type: none"> Customs/Tariffs Delays/Relations VAT problems 	<ul style="list-style-type: none"> Customs/Tariffs Delays/Rules vary Tariffs unfair 	<ul style="list-style-type: none"> Customs/Tariffs Procedures vary Problems with Officials 	<ul style="list-style-type: none"> Customs/Tariffs Delays and slow refunding 	<ul style="list-style-type: none"> Customs/Tariffs High tariffs, long delays, problems with certification, bribes
47 % 33 % 20 %	58 % 42 % 42 %	58 % 58 % 42 %	50 % 50 %	73 %
<ul style="list-style-type: none"> Finances Access to Capital Bad Debt/ Payment for goods Banking/Liquidity of system Interest rates / Currency Risk 	<ul style="list-style-type: none"> Finances Obtaining Loans/Credit Banks 	<ul style="list-style-type: none"> Finances Payments for goods 	<ul style="list-style-type: none"> Access to capital and payments for goods Access to capital Cumbersome payment rules 	<ul style="list-style-type: none"> Access to capital and payments for goods banking system no local credit high credit risk
73 % 20 % 33 % 40 % 20 %	50 % 50 % 25 %	67 %	75 % 50 % 25 %	82 % 36 % 18 % 18 %
<ul style="list-style-type: none"> Information Access to reliable credit info 			<ul style="list-style-type: none"> Information Credit information Dumping by local competitors 	<ul style="list-style-type: none"> Information Limited, biased information concerning regulations
33 %			50 % 25 % 25 %	64 %

Barriers to Foreign Direct Investment in the Baltic Sea Region

Human Resources	93 %	Human Resources	25 %	Human Resources	75 %	Human Resources	100 %	Human resources	91 %
• Shortage of Functional Management skills	80 %	• Lack of functional management Skills		• Shortage of Functional Management skills		• High training needs	100 %	• Lack of management skills	91 %
• Obtaining work permits or residence permits	33 %					• High turnover and high salary requests	75 %	• Language problems	18 %
• Mindset/ Loyalty	40 %					• Relocation difficulties	25 %		
Illegal Activities	67 %	Illegal Activities	50 %	Illegal Activities	67 %	Crime/Corruption	50 %	Crime/Corruption	55 %
• Crime/Corruption	53 %	• Corruption	25 %	• Corruption	33 %	• Violation of brand names	25 %	• security problems	27 %
• Collusion between Locals and Authorities	33 %	• Crime	17 %	• Crime/Security	33 %	• Bribes	50 %	• bribery	27 %
Reliability of local Suppliers	27 %					Reliability of local suppliers	50 %	Reliability of local suppliers	65 %
								• No local supply or insufficient quality	65 %
Distribution /Infrastructure	40 %	Distribution	25 %	Distribution	67 %	Distribution/Logistics/Infrastructure	50 %	Distribution/Logistics/Infrastructure	45 %
• Technology Lag		• Infrastructure		• Inadequate Infrastructure				• Access to distribution networks	18 %
								• Infrastructure technology	27 %
Other Issues	27 %			Other Issues	17%	Other issues	25 %	Other issues	55 %
• Attitudinal 'differences'				• Poor attitude of investors		• Attitudes towards foreign investors		• Hostility towards investors	35 %
						• Certification		• Non-acceptance of good of Russian origin	18 %

5 Conclusions and recommendations

The first conclusion, which can be drawn on the basis of this study, concerns potential for foreign direct investments in the Baltic Rim transition economies. According to the findings of our study, considerable potential exists for the direct investments to grow in the five countries targeted by the study. Despite the fact that FDI into the region has been growing rapidly during the last few years, other regions in the world have achieved a higher growth in FDI. Only in Estonia is the share of FDI from gross investments and gross domestic product close to the level found normally in small and open market economies. Therefore the economic potential of the Baltic Rim transition countries is not being realized as could be the case and additional steps could be taken to improve the situation.

As scholars of international business point out, crucial assets for building international competitiveness are increasingly created - intangible assets, such as knowledge and skills, as opposed to material assets, such as land and machines. This realization implies, on the one hand, that governments have a central role in creating a favourable investment climate. On the other hand, the role of multinational or transnational companies is also crucial in influencing regional integration and fostering networks of national competitive advantages. The second conclusion of this study highlights, accordingly, the role of governments in trying to combat the protectionist tendencies, which still produce hostile attitudes towards foreign investors in their countries. At the same time it also highlights the responsibility of international companies in actually investing in the required know how by training and engaging in local networks by sourcing locally.

The findings of this study point to both similarities and differences in the investment barriers and the degree of problems identified in each of the five countries. This is only natural considering differences in the economies and timing of economic reforms. Firstly, a comparison of experiences between the five countries shows that companies are generally experiencing more investment barriers in Russia than in the Baltic countries and Poland. Secondly, the experiences are similar in emphasising unclear, rapidly changing legislation as well as inconsistent, sometimes even retrospective, regulations and their implementation particularly on accounting and taxation as the most significant investment barriers in each country. Thirdly, as opposed to the ease of finding persons with high technical qualifications, problems in finding human resources with sufficient management, marketing, finance, and language skills surface as one of the biggest investment barriers in each country.

In other questions the experiences differ more from country to country. In Russia the companies are experiencing more problems with cumbersome customs procedures, badly functioning banking system and limited credit information about potential business partners than in the other four countries. However, there were also clear differences among the respondents in their attitudes towards the difficulties encountered. Some pointed out that the difficulties were manageable by investing time and efforts in studying the environment and learning the procedures in detail.

In Estonia the respondents emphasised problems in getting work and residence permits for expatriates, which exacerbates, in turn, the acute shortage of middle managers and personnel trained in functional management skills. The financial

situation also appears to be extremely tight as many companies, both local and foreign, experience problems due to the bad debt or credit payments of their customers. This problem suggests that many companies are exposed to more risk than they can manage. In general, concerns were also voiced over the liquidity of the banking system and currency risks.

In Latvia the barriers are quite similar to those identified in Estonia. The most significant problem seems to exist in the implementation of legislation. Similar to Estonia there is also a severe shortage of functional management skills in the areas of marketing, accounting and general management as well as concern for the financial situation of the local companies with regard to stretching credit limits. However, compared to a relatively favorable situation of customs procedures in Estonia, customs is still a problematic area in Latvia requiring more of management's time than is practical.

In Lithuania companies are facing greatest problems in the seemingly restrictive legislative environment in both areas of establishment and operation of a company. Similar to Latvia the implementation of legislation is lagging behind and not considered conducive to facilitate the flow of FDI. Also the financial resources of local companies are too strained. A particular problem in Lithuania is that of labour mobility, as it is difficult to find personnel willing to relocate.

In Poland foreign investors face fewer barriers than in the other four countries. This reflects, no doubt, the head start of economic reforms, which Poland got in relation to the other Baltic Rim transition economies. However, also in Poland the investors experience biggest problems with the changing legislation and its implementation as well as with finding sufficient management resources.

When comparing the findings of the present study to those barriers that have been identified earlier, some further remarks seem warranted. In general the barriers found by this study do not seem to differ very much from those identified previously. This finding is a significant one but could be interpreted in different ways. First, one could argue that the changes in investment environment have not yet been sufficient to reduce the barriers. Secondly, one could also argue that the perceptions of the interviewed companies change slowly and do not fully reflect the present reality. However, the findings of this study do not support such a conclusion, either, that the most favorable experiences are found among the most recently established companies. It is important to note that whatever the absolute scale of barriers might be, companies base their investment decisions, among others, on their perceptions of these barriers.

Throughout the region the work in progress, which aims at filling the loopholes in legislation and regulations as well as implementation measures is extremely important and needs strong support. The chronic problems in management and business skills should also be resolved, as this will undoubtedly become a stumbling block in future economic development. The most practical way to ensure these skills are transferred is via foreign companies. It is therefore essential that local employees be given more possibilities and opportunities to gain experience with foreign firms. FDI should therefore be encouraged even more to facilitate this.

List of References

Assessing Investment Opportunities in Economies in Transition, Organisation for Economic Cooperation and Development, 1994

Borsos, Julianna – Erkkilä, Mika (1995), *Regional Integration in the Baltic Rim – FDI and Trade-based Integration in the Triangle of Finland, Estonia and St. Petersburg*, ETLA Discussion Paper No. 539, 1995

Borsos, Julianna – Erkkilä, Mika (1995), *Foreign Direct Investment and Trade Flows Between the Nordic Countries and the Baltic States*, ETLA Discussion Paper No. 540, 1995

Draft Economy Program (model) of Latvia – 2010, publication of Economists Association 2010

Dunning, John H. (1977), Trade, Location of Economic Activity and MNE. A Search for an Eclectic Approach; in Ohlin B., Hesselborn P-O and Wijkman P. (Eds.) *The International Allocation of Economic Activity*, London

Dunning, John H. (1981), Toward an Eclectic Theory of International Production; *Journal of International Business Studies*, Vol. 11, No. 1, pp. 9-31

Dunning, John H. (1988), *Explaining International Production*, Unwin Hyman, London

Dunning, John H. (1993), *Multinational Enterprises and the Global Economy*, Addison Wesley, New York

Economic Development of Latvia, Report by the Ministry of Economy, Republic of Latvia, Riga, June 1997

Estonia. *Diagnostic Study of the Environment for foreign Direct Investment*, Foreign Investment Advisory Service, a joint service of the International Finance Corporation and the World Bank, February 1997

The Estonian Investment Agency, Annual report 1996

Estrin, saul & Meyer, Klaus (1997), *The East European business Environment: Opportunities and Tripwires for Foreign Investors*, CEES Working Paper No. 2, 1997

Foreign Direct Investments in Poland to June 30, 1997, *Polfacts*, Polish Economic Newsletter, November 1997, No.30

Foreign Investment Advisory Council, 8th session, October 13, 1997, material of the meeting in Moscow

Foreign Investment in Poland: Private & Public Attitudes (1996), Publication by Polish Agency for Foreign Investment, New World Publishing, Inc., Warsaw

Foreign Investors in Poland, Survey carried out by the Polish Agency for Foreign Investment in 1997, mimeograph

Hernesniemi, Hannu (1996), *Barriers to Economic Cooperation of Baltic Rim Countries*, ETLA Discussion Paper No 555, 1996

Hinder för handel och investeringar i Polen – synpunkter från Svenska företag, Swedish Trade Council, Warsaw, November 25, 1997

Idänkaupan ja sen rahoituksen kehittäminen: Idänkaupan rahoitusprojektin raportti, Teollisuuden ja Työnantajain Keskusliitto, August 1997

Laurila, Juhani and Hirvensalo, Inkeri (1996), Direct Investment from Finland to Eastern Europe; Results of the 1995 Bank of Finland Survey, *Review of Economies in Transition*, Unit for Eastern European Economies, Bank of Finland 5/1996, pp. 5-26

Laurila, Juhani (1994), Direct Investment from Finland to Russia, Baltic and Central Eastern European Countries: Results of a Survey by the Bank of Finland, *Review of Economies in Transition*, Unit for Eastern European Economies, Bank of Finland, 3/1994, pp. 5-17

Laurila, Juhani (1992), Experiences of Finnish-soviet Joint Ventures, Bank of Finland Bulletin, March 1992, Vol. 66 No 3, pp. 6-9

Latvia. Improving the Business Climate for Strategic and Export-oriented investors; Foreign Investment Advisory Service, a joint service of the International Finance Corporation and The World Bank, August 1995

Pye, Robert B. K. (1997), *Foreign Direct Investment in Central Europe (The Czech Republic, Hungary, Poland, Romania, and Slovakia): Results from a Survey of Major Western Investors*, Finance Working Paper A.97/1, april 1997, City University Business School, London

Oschischnig Mario (1997), Foreign Direct Investment; Tendencies and Trends, Bank Austria East-West Report 4/97

Russia: Foreign Economic Relations; Trends and Prospects, Quarterly Review No. 3, 1997

Survey of Lithuanian Economy 1997/ May, Department of Statistics to the Government of the Republic of Lithuania

UNICE (Union of Industrial and Employers' Confederations of Europe), *Statement on Relations between Russia and the European Union*, 13 June 1997

World Investment Report 1997, Transnational Corporations, Market Structure and Competition Policy, United Nations, New York and Geneva, 1997

Appendices

Appendix 1 *Barriers to FDI in the Baltic Sea Region Questionnaire*

Country	City
Name of Interviewee	Date of Interview
Name of Respondant Company	Main business Sector of the Mother company
Name of Subsidiary/s in Target Market	Main business Sector of the Daughter company
Legal Form of Subsidiary	Why has this form been chosen
Objectives and Motivation of the Investment	Time Horizon for reaching Profitability
Main Products During 94-97	Sales figures (turnover) - 94 - 95 - 96 - 97
<i>What are Your Experiences in the Target Market Compared with that in a Western European Country</i> - General Terms Only (just to get an idea of overall feeling)	

Experiences of Establishing the Subsidiary	
Information about setting up - <i>Easily obtainable</i> - Who is the Main Body Responsible - <i>Are the Procedures Helpful/Discouraging</i>	
Any Administrative Hurdles Encountered From Central Government	Any Administrative Hurdles Encountered From Local Government
Any Problems with Customs Clearance	Any Problems with Tarrifs/Imports
Enforcement of Legislation - <i>To YOUR Knowledge Does it Work</i> - <i>What about Protection of Property Rights</i>	
What about Financing/Banks	
Is the Acquisition of Property/Premises an issue (eg Are there any Ownership Problems)	
Any other Problems in area of Establishment	
Which of the above Problems do YOU Believe is the Single Most Obstacle to FDI	

Experiences in Operating the Subsidiary	
Acquiring Resources - Easy	
Suppliers in Host Country – Reliable - or do you have to supply from outside	
Does Recruitment of Employees pose a problem	Employees-Training/Skills Lacking
How does Taxation affect You	Any Special Book-keeping Requirements
Relationships with Central Administration	Relationships with Local Administration
What about Crime	
Management Culture	Expatriate Manager Restrictions (permits)
Do Levels of Technology Restrict Operations	
Are Markets Easily Accessible	
Do Attitudes towards Foreign Investors make things any more difficult	
Is there much Competition from Local Companies	Any Discriminatory Practices
How about Logistics/Distribution	
Is Repatriation of Profits a Problem	
Any Other Problems in Day-to-Day Operations	
Which of the above Problems do YOU Believe is the Single Most Obstacle to Further FDI	

What Strategies have you adopted to overcome the Barriers	
How has Perceived Barriers Compared to Actual Barriers Encountered (post investment)	
Are there any Similarities in Obstacles encountered Across the Target Markets	
What are the Expectations of Your Investment For the Future	
Are EU Membership Ambitions Helping to Remove Barriers, or Not	If So, Can you give any Examples
What do YOU believe can be done to Alleviate the Major Problems which you have highlighted	
1	
2	
3	
4	
5	

Appendix 2 Companies interviewed

ETLA would like to extend their warm gratitude and thanks to all of the following companies who agreed, sometimes at very short notice, to participate in our study by giving interviews. ETLA also sincerely hopes that the frankness and openness with which much information was discussed has not been interpreted in the wrong manner. Any misrepresentation is purely accidental and is in no way deliberate on ETLA's behalf.

Interviews carried out in Finland

Company Name	Location of Mother Company	Location of Subsidiary/s and/or Offices	Main Industry Sector
A. Fredrikson Oy	Finland	Russia	Clothing
Anonymous Company	Finland	Estonia and Latvia.	Food
Berner Ltd	Finland	Estonia	Wholesale Trade and manufacturer of cosmetics and hygiene products
Hartwall Oy	Finland	Russia	Food and drinks
IVO Group IVO Power Engineering OY	Finland	Poland, Estonia and Russia.	Power generation and supply
Karl Fazer Oy	Finland	Poland , Estonia, Latvia, Lithuania and Russia	Food and Drinks
Kemira Chemicals Oy	Finland	Poland & Estonia	Water Treatment Equipment and chemicals
Tikkurila Oy	Finland	Russia	Paints
Lars Krogius Oy Ab	Finland	Russia, Estonia, Latvia, Lithuania	Shipping and forwarding
Life Sciences International (Labsystems Oy)	USA	Russia	Medical equipment
Outokumpu Oy	Finland	Russia	Mining, engineering
Raisio Yhtymä	Finland	Poland, Russia	Food
Scancem (Lohja Rudus Oy Ab)	Sweden, Finland	Russia, Estonia (2), Latvia and Poland (2)	Construction Material Plant and Exports
Schetelig Oy Ab	Finland	Estonia, Latvia, Lithuania & Russia	Greenhouse plants, chemicals, Seeds and asessories.
Siemens OY	Finland/Germany	Estonia, Latvia & Lithuania	Telecoms, Medical Equip.
Skanska	Sweden, Finland	Russia	Construction
Valio Ltd	Finland	Estonia	Dairy Products

The following companies have been interviewed in the target countries with respect to their subsidiary operations in each respective country, the overwhelming majority we found to be very helpful indeed:

Company Name	Location of Mother Company
Siemens	Finland/Germany
Stora Papirs	Sweden
Egmont Ltd	Denmark
Vattenfall	Sweden
AGA	Sweden
Danfoss	Denmark/Finland
Nycomed	Norway
Ericsson	Sweden
Ingman	Finland
EcoFin	Sweden
Ericsson Lithuania	Sweden
Zibaline Lempa (PI Lenning)	Germany
Price Waterhouse	Finland/United Kingdom
Onninen	Finland
BI Osterotus	Germany
Lietuva Statoil	Norway/Sweden
Nokia Telecommunications	Finland
AS Elocoteq	Finland
Finest Vendors	Germany
Merita Bank	Finland
Mets & Puu (Thomesto)	Finland
Mercuri Urval	Sweden/Finland
Scansped	German/Swedish
P. Jahn & Partners Baltic	Denmark

Appendix 3 Review of the Situation in the Target Countries Interview Data

INDUSTRY SECTOR											
LATVIA	PROBLEM	Telecomm (2)	Construction Materials	Paper	Publishing	Electronic and Hydraulic equip.	Energy	Chemical	Pharmaceuticals	Food (2)	Wholesale Trade (2)
	Legislation	Gap between Gov and local Admin. Business Sector has 3 rd life of its own Unpredictable changes occur. Laws and procedures cumbersome			Implementation is Unfair – Hence Not an even playing field. Local companies not forced to pay all legal taxes and license fees.	Legislation changes fast. – But not informed about changes.	Lack of policy legislation on energy (put on hold). - No long term strategy. Gov. no political incentive as can import cheap at present. Privatisation decision awaited.	Old soviet regulations for gas useless but being replaced by newer safety standards. EU standards need to be ratified and implemented faster.	Pharmacies not well regulated. Legislation does not function at all eg. only registered products should be sold – However a second list exists where products are not registered but are still sold.	Legislation does not permit acceptance of International certification. EU Certificate agreements are not always implemented at officer level. No authorised organisation, or structure, for reliable advice on legislation Privatisation process used – But Local partner didn't want deal. Discovered Local partner doing behind the scenes deals with Agency officials.	Implementation always one step behind. Hard to obtain import procedures
	Establishment Barriers		No local source of good quality aggregates available.	Warehouse was bought through privatisation agency who did not inform about fire regs requiring renovations thus tripling the price.		Difficult to locate good inexpensive premises.	Low import prices reduces incentive to build own power supply even though imports come from chernobyle style power plants	Old equipment and sinking in need of replacement Huge investments required to upgrade existing production facilities.		Limited choices of property available in Riga. Restitution of property is also a concern.	
	Customs/Tariffs	Procedures and tariffs randomly vary across customs points.. Mistakes difficult to rectify later. Must complete documents manually. Random decision		Procedures vary. Officials not very helpful nor can they handle non-standard paperwork. If EU certificate with product there seems to be no incentive to speed	Procedures vary. High taxes on imports which also differs from time to time. Illogical tariffs on imported material as locals cannot produce the same goods locally.	Officials corrupt. Too much paperwork and bureaucracy. Must monitor to be aware of latest taxes or VAT rates.	There is no logical balance in tariffs. (less green fuels – from Russia - carry the same tariff rates)	Problems outside on neighbouring borders in getting raw materials from Belorus through Russia as not permitted to carry full loads in Russia.		Procedures vary depending upon customs point and official on duty. Random decisions by officials – Can use statistical price (higher) if invoice deemed too low. Can	Customs clearance is still a problem. Rules vary Delays if bribes not paid Intra-trade between countries does not function– must

	on tariffs Poor service is rife.		up process. (no \$)							force goods onto convey at firm's expense.	use separate trucks for each consignment
Access to Capital and payments for goods	Locals don't understand loan obligations. Cumbersome payment system		Customers stretching credit	Not using local banks due to high costs		Local companies have problems paying due to lack of finances or cash flow.	Customers could not currently pay fuel bills at levels to pay back any capital investment	State customers stretching payments up to 6 months.	Reimbursement of patient costs – Local company products paid before foreign firm's products	State-run firms are poor paying back credit. <i>Unpaid debt is a problem.</i>	<i>Will use advance payments only normally</i>
Information									Most customers – Hospitals/Doctors are educated with certain brand name drugs – convincing these to prescribe new drugs requires much education.		
Human Resources	Shortage of Specialised skills. Shortage of English language skills in managers. Young and Inexperienced central/local Admin workers with no awareness for private sector needs.	Finding good Chief accountants is a problem	Good Sales staff shortages Skills and attitude lacking – Had to 'let' 3 persons go. Western companies attract people for 'permanent' jobs. But difficult to remove once in. Unlike local firms who do not abide by labour laws.	Shortage of Specialised skills. Salary levels growing fast. Young people need time to be trained.	Finding managers with technical, language and management skills is difficult. Social security costs have risen sharply (+30%).			Shortage of management skills particularly amongst technical staff.	Shortage of skills in both management and sales as people with both medical physician and business background are required..	Staff member left after receiving training in accounting. <i>Functional managers and management skills hard to find. Has taken longer than expected to train employees</i> <i>Local partner demands led to management control/ logistics problems later.</i> <i>Management ignored Expat instruction until majority control taken by board</i>	
Illegal Activities Crime/Corruption n/Discrimination	Seen as extra cost of doing business. (Mafia exists) Experienced car theft. Allegations of 'dirty tricks' by local competitors	Have resorted to using direct contacts to improve relations with local authorities.	Was a problem earlier – But now using 'official' security firms.		Security supplied through lease.	The V.P. of LatEnergy was removed from job for suspicious dealing – No decision making is taking place. Gov. deal with local private heating plants buying at 4 times normal tariff rates	Personal relations are essential with authorities to assist marketing. Manipulation is evident.	Certification is cheaper to obtain for local producers. Private company who oversees certification allegedly abuses monopoly. <i>Corruption exists – personal relations are</i>	Pays for local Security umbrella seen as extra cost of business.		

INDUSTRY SECTOR										
LITHUANIA	PROBLEM	Telecomm (2)	Importing of consumer goods	Services (2)	Petroleum	Furniture	Electrical Engineering	Wholesale Trade (2)	Construction Materials	Food
	Legislation	Export taxes are levied on contracts made outside country through other party (mother company). Hence not an even playing field. New laws conflict with existing ones Tax system requires extensive reporting. Bookkeeping regulations – must complete books manually Currency law restrictions prohibits exchange in other currencies.	Tax regulations changing rapidly to prevent tax evasion - This forces smaller businesses to suffer extra costs. Constant change and difficulties in interpreting new rules mean mistakes likely – explanations normally come 2 months after problem has been uncovered and these are usually inconsistent with verbal replies.	Impulsive poorly thought out changes often lead to problems later –for example ill-conceived bookkeeping regs occasionally emerge. Laws are implemented without consulting business community. Companies are playing catch-up. Tax system requires extensive reporting. Accounting policies often quite stupid.	It is still not possible to buy land(99 year lease only agreements are made) – State still retains its right to change rent payments etc. Petrol stations are still not allowed to sell alcohol or Agricultural items For example products which are not produced locally (grilling sausages) are subject to import taxes even.	Legislation changes in customs tariffs have not been good for import business Tax regulations are unclear. Officials interpret rules inconsistently. Individuals don't know when mistake has been made. Certification of products required as international certificates are not recognised	Certification of products required as international certificates are not recognised	Implementation is always one-step behind. Certification requirements are an extra cost to business.	Don't know what changes are.	
	Establishment Barriers	Procedures are detailed and plentiful – changes hard to make. Only owners can deduct taxes for renovation of premises. Law on Land ownership for foreigners just past – Contracts are still very complicated.		Cut backs in civil servants combined with increasing levels of investment have resulted in registration process being longer and more complicated – checking out money laundering. Bureaucratic approval process - requiring many signatures. Land ownership (lease only) still a problem.	Procedures for establishment have become more complicated and difficult – Objections are raised by various Gov. departments. Service station locations are proposed by municipal planners – usually very unsuitable locations. License fees are a significant investment	.	Has taken more time than expected to get into the market – Western methods need time to implement. Old habits are hard to break.	Hard to obtain import procedures Can not purchase facilities – Greenhouses are still state owned	Virtually impossible to get established – Much protectionism of local plants has been experienced. Privatisation of local aggregate factory has not been successful. A strange attitude has been adopted towards foreign investors	Incumbent lobbying to keep investor out.
	Customs/Tariffs	Bureaucratic process. Intention is not always clear. Was difficult at start now have dedicated logistics manager	Customs Procedures vary and depend on official on duty Continuous changes are difficult to keep track of. Time penalties for	Tariffs being used to protect certain groups who are sympathetic to Gov	Excise taxes are levied on imported gasoline fuels – Forcing use of local supplies. Invoices must be signed manually and	Delays (2/3 days) are quite the norm Tariffs are based on Full price not on the discount price – Even when contract shows this price.		<i>Customs clearance is still a problem. Rules vary Delays if bribes not paid</i> Intra-trade between countries does not		High duties (15%) on Branded products

		late payment of import taxes do not allow any leeway between 1 day or 1 month - this causes cash flow problems for small businesses			individually for VAT purposes	Has experienced export problems with Belorussian customs and quite a nasty experience with Belorussian gangsters who took goods at gun-point.		function and is not feasible – must use separate trucks for each consignment		
Access to Capital and payments for goods		It is not possible for traders to obtain long term credit since they do not have any significant tangible assets. Collateral is required as guarantees. This results in expensive short term loan facilities. Foreign banks only recently have received permission to open. It remains to be seen if competition will prevail.	Lithuanian Banks relatively small capital base. Protection of local banks apparent. Companies still have memories of bank crises (Deposits not left in banks long) Ad-hoc loan process relying on contacts - All loans short term - Small firms in weak position. Strict procedures on guarantees. No venture capital except foreigners	Credit information sources needs to be improved – It is very difficult to obtain information on individual customers.	Common for customers to stretch credit. Effort required to 'chase' these firms. Local companies are disappearing in their early start-up periods.	Will use advance payments only normally.				
Human Resources	Reports to be filed for all movements of employees. Management positions hard to fill - Delegation or Responsibility is sometimes equated with blame. Western style advertising usually attracts wrong type Labour flexibility poor - Technical education in Kaunas & People own their houses - Difficult to get good people to relocate.	Foreign investors have unrealistic expectations for salaries with motives also being suspect. Some investors not totally committed taking a more cautious approach Staff are recruited for their contacts rather than their ability and energy This leads to problems on the job. Some investors expect red carpet treatment and adopt teaching roles. Chief accountants hard to find - Bookkeepers still still stuck in the soviet era system.	Over qualified persons accepting jobs with western companies now – but how long will they remain. Locals don't want or need 'policemen' as employers	Difficulties experienced in terminating employment.						
Crime/Corruption/	Personal contacts	Bribes are	Bribes sometimes	Local companies use			Pays for local	Protectionism of		

Discrimination	required as local people tend to know one another. Car thefts several years ago	commonly used to gain deals with local retail chains	required to obtain local authority approvals and to win public procurement contracts – (10% of contract price) Police are not affective. Crime exists but not so visible now	lobbying tactics to obtain best locations – Protectionism				Security umbrella seen as extra cost of business.	local plants evident.	
Reliability of Suppliers			Expect payments in advance even before customer has seen the goods.	Specialised equipment must be imported						
Distribution/logistics/Infrastructure		Local networks of retail shops are often controlled by personal contacts and relations. Bribes are commonly used to gain access	Huge investment required to upgrade state organisation and municipal computer systems/networks.	The Via Ballica highway project still has problems at cities. Local mentality still needs to be educated towards the concept of a convenience store				Levels of technology not yet available. - Staff must first be educated and trained to operate new plant. Facilities.		
Other Issues	Minority groups within government used to land best contracts allegedly									

INDUSTRY SECTOR

INDUSTRY SECTOR												
ESTONIA	PROBLEM	Telecomm (2)	Construction Materials	Energy and Chemicals	Electronics	Services	Banking	Transportation	Forestry	Food products (2)	Retail Trade	Wholesale Trade (3)
	Legislation	Implementation needs to be seen to work.		<i>With-holding Taxes not in line with EU – Need treaty</i> <i>Regulated Prices – Negotiated with central Gov.</i> <i>Gov. have reneged on deal with other foreign investor.</i>	Tax regulations not always clear.	Tax regulations restrict movement of business trips (60% levied on Hotels, taxis and daily allowances)	Monthly reporting to Bank of Estonia is quite onerous & costly with requirements changing often. Laws implemented fast then questions asked later. Difficult to find the decision-maker in Gov. ministries. Land reform – (privatisation) is slow.	No law on the limitation of Risk for warehousing and domestic transportation – Thus some goods being transported at considerable risk and others not being taken. Still some soviet style legislation in place. (eg interest expense on late payments). Local Lawyers and Jurors in courts are not experienced enough.	Transport legislation limiting size and weight of trucks has significantly increased costs. Inconsistent implementation of Legal system results in local companies not paying VAT or Social Security obligations. Thus foreign investors are not competing on an even playing field. Privatisation of land too slow.	Land Ownership/ Privatisation is a problematic issue. Ownership of the plot hard to work out. <i>No authorised organisation, for reliable advice on legislation.</i>	Inconsistencies between Parliament and actual implementation. Cash-register requirements quite onerous and strict for Alcohol. EU changes to Duty Free Sales (big business in Estonia) will affect the economy.	Bankruptcy laws for share companies do not protect debtors claims properly – This, together with difficulties in obtaining credit info, means Business is therefore risky. <i>Fast changing legislation causes uncertainty</i> <i>Animal foods – own laws (Not EU) prevent import) – Protectionism</i> <i>Arbitration does not work - High level officials and lawyers also corrupt.</i> Implementation is always one-step behind.

Establishment Barriers	Privatisation still to be completed.	No local source of good quality aggregates available.	<i>Turnkey Projects require both a power purchase agreement and fuel/power delivery will go ahead.</i> Lease only of premises permitted at present.	New procedures – Decision-making seems uncertain.	Operating restrictions for Rep office as not entitled to same benefits as an affiliate office in Western Europe (e.g. can not purchase flights or cars on behalf of the company).	Interpretation of 'Branch office' has led to some problems with Bank of Estonia. Reserve requirements for banks (10%) now favour foreign or larger local banks. Uniqueness of credit institution set-up in Estonia requires education of local thinking. Access to good plots of land in Tallinn is difficult	Road hauliers association - which provides the permits and licenses – has only recently cut membership to board members only. (i.e. operating a 'closed shop').	Logging operations being given to locals only. Gov. Monopolistic position on land ownership means that prices are effectively fixed by the government and not determined by market forces. Restitution of land disputes is still holding back potential activity.	<i>Collusion between local companies and local authorities to keep investor out of good facilities</i>		Restitution of land disputes is a big problem - Must always check status of land. Rent prices are normally set by the Government. But liberalisation may mean new owners may ask for extortionate rents. Some people are taking advantage of the situation to claim ownership of the land – illegally. <i>Personal visits required to local admin offices Ministries can be useless</i>
Customs/Tariffs	Occasional delays			More discussions with companies required - Too much focus on crooks More free trade zones required.	Reported problems on VAT		Was complicated and problematic in area of clearance but new Electronic projects should improve situation.	Relations on Russian border should be improved to facilitate potential movement of raw materials via rail.	'Paper exports' to avoid VAT are still quite frequent especially those products easily sold on the local black market		Small companies may have difficulties with cash-flow due to up-front VAT payments and sales later - 2/3 months 'Paper exports' are quite common especially amongst smaller companies to avoid VAT <i>Intra-trade between countries does not function and is not feasible – must use separate trucks for each consignment</i>

Access to Capital And payments for goods	State funds necessary before customer base can increase. Higher capital requirements now for banks.		No liquidity in the banking system at present – length of finance and financing required. Therefore forced to use Multinational banks with risk appetite.	Have resorted to IFC to help finance expansion of facilities. Financing of banks needs to have transparency of the system.		Volatile interest rates on lending. Companies are quite young – so difficult to obtain finance since paying for leases rather than equity. Collateral is also weaker than in Western EU countries. Also Too many local banks in Estonia (top 3 have 70% of total assets) – Consolidation is likely in future but who will survive. Liquidity of local banks is an issue.	Using matching concept to reduce exposure to any currency devaluation. Old legislation has No item to cover interest expense for late payment of goods or services.	Liquidity of the banking system is a problem.	Credit collection methods of Local banks ineffective.	Bad debt and bankruptcy problems of some customers –	Credit being stretched. The financial situation of some customers is a major threat. Credit being stretched – especially by Hospitals Money circulation very low Sees the risk of devaluation as a deterrent.
Information						Good Credit information not readily available Estonian Banking Society membership (%) of balance sheet figures – thus too expensive for much larger foreign banks) is required to obtain some information		Leakage of client information from banks – ‘one should be aware that Estonia is a small place where the elite tend to stick together’.		Credit information very subjective and also very difficult to obtain – “Unless you know the right people you just don’t know.”	Credit information very difficult to obtain Credit information very difficult to obtain Uses Finnish Export Guarantee Board

Human Resources	Expat permits slow Expat permit restrictions - Still takes time to obtain	Finding Chief accountants is a problem	Management must spend more time to educate and train local employees.	Functional managers and management skills hard to find. Expat permit restrictions - Still takes time to obtain. - Even medical certs required .	Getting good skilled staff is a problem – The Small pool of potential workforce means that companies are restricted in their growth and development. Staff not comfortable with uncertainty – formal procedures required.	Skills shortage in senior and middle management. Banking sector is attracting most of the young skilled persons (higher \$) But this situation is also dangerous due to the inexperience Expat. work permits as well as family residence permits very slow to obtain- This results in restrictions on labour flexibility	Lack of middle management. Managers tend to be very young with little know how.- This stunts growth and development of the company. Young people also lack language skills. Employees wait for orders and/or need procedures	Lack of functional management skills (especially persons over 40). Require an Expat. Controller – As one should be cautious if possibilities exist for 'leakage' of resources. Frames of reference are different due to culture – Work attitudes also differ. Expat. Permit restrictions on numbers in the Forestry sector.	Business skills and Technical training needed <i>Functional managers and management skills hard to find.</i> <i>Has taken longer than anticipated to train employees</i>	Shortage of good reliable and stable employees – mentality of some older persons can be biased (Soviet) But younger employees not so experienced, hard working or loyal. Problems especially if the position requires any responsibility or trust or good sales skills. "Employment is perhaps too low at present."	Difficult to obtain good reliable and trained staff. Loyalty of staff is also a problem – employees will often jump between different companies to earn higher salaries <i>Keeping employees is hard</i> <i>Control of staff is also problematic</i> <i>Mindset needs to be adapted – as more personal goal orientated</i> <i>Education & training should be relevant to western business.</i> Salary levels growing quite high.
------------------------	--	--	---	--	--	---	---	--	--	--	--

Illegal Activities Crime/Corruption/Discrimination	General corruption with some bribes but not widespread.	Have resorted to using direct contacts to improve relations with local authorities.	<i>Prices of locally supplied District heating being subsidised by Gov.</i>	Could not locate material suppliers with necessary guarantees on large quantity or quality etc.	Not very reliable. Local Ad agencies can not deliver the required service and quality. Local PC company very poor after-care service and warranty.	Internal crime in some banks is still a problem – e.g. Fraud and leakage of information Security levels of automatic systems still not up to required standards	Still some smuggling occurring. Good reliable Security systems quite necessary.	Is aware of alleged high level corruption of Environment minister who is reported to own his own logging company through family ties and insider dealing. The Gov. Forestry Commission has negative feelings toward foreign companies. Leakage of client information from banks – 'one should be aware that Estonia is a small place where the elite tend to stick together'.	Unauthorised withdrawal of money from the company's bank account (360,000 EEK) – through the computer system. <i>Has experienced 2 robberies. Collusion between local companies and local authorities to keep investor out of good facilities.</i>	Estonia is a small place – local contacts are essential. Good reliable Security systems are used.	Manager has been personally threatened by a so-called 'Roofing' organisations and still receives threatening letters Police are often a waste of time. Competitors use bribes to gain access to shelf space at local retail stores <i>Gov. officials expect monetary gain otherwise delays can occur. High level court officials and lawyers also corrupt.</i> Pays for local Security umbrella seen as extra cost of business.
Reliability of local Suppliers						Technology levels and standards not available from local sources. Training and education had to be provided by contractors to ensure adequate service and maintenance.	<i>Must stay on top of quality.</i>	Some Consumers have unrealistic expectations of Retailers.			

Distribution/logistics/Infrastructure	Analogue systems still in use. Convergence to EU standards still to take place.		<i>Huge investments required to upgrade network efficiency of Old Russian heat systems (one-way only) and old apartments.</i>		Railway system is underdeveloped.	Municipalities require updating of computer systems for data.	Owner/Driver trucks used mostly Lack of legislation, or fair implementation of it, in domestic transportation – Old soviet ways still prevalent ie Some companies do not have the costs of registration or observing road safety standards.	Communication Lines need to be upgraded/installed (E-mail etc) <i>Installation of new technology not so successful as top down leadership didn't involve lower levels enough.</i>	Too liberal economy at present	Levels of technology not yet available. - Staff <u>must</u> first be educated and trained to operate new plant. Facilities.
Other Issues			Environmental awareness/concerns are not an issue for locals.		"Baltic unity not apparent at Borders."	Has observed some negative attitudes towards foreign investors in some sectors.	Behaviour of Foreign investors not always very reputable			Only accepts prepayments for exports to Russia, Latvia or Lithuania.

POLAND		INDUSTRY SECTOR				
PROBLEM	Energy and Chemicals	Construction materials	Food products (a)	Food products (b)	Swedish Trade Council Survey*/Large enterprises	Swedish Trade Council Survey*/Small or medium sized enterprises
Legislation	Prices are being negotiated by Gov. who finance the price to get contract. Legislation is not in place yet for energy contracts - (Both a Power purchase agreement and a fuel/power contract are required <u>before</u> the company will deliver the project).	Taxation issues: high tax rates both on companies and private persons; taxes are mostly predictable and fair; However, rapidly changing taxes on land cause problems; New accounting legislation is fair but not used by many local companies yet; High social insurance costs;		High penalties for small technical mistakes in accounting and taxation; Slow tax refundin process; Administrative procedures: "The Polish state does everything to make the life of foreign investors difficult"	Unclear regulations and lack of professionalism at the courts; Complicated regulations for purchase of land, licence needed for purchase of more than 4000 m2; Taxation rules cumbersome and implementation varies from tax office to another; High company tax and VAT rates, limited deduction rules; Services bought abroad are burdened with 22 % Polish VAT, which is not deductible; Monthly advance tax payments; slow refunding	Laws and regulations are often in contradiction with each other and changed too often; High company taxes and social costs; Accounting legislation unclear; Purchase of land very complicated; Complicated legal system; Complicated tax system, which is subject to frequent changes; Arbitrary rulings by the tax authorities; Monthly tax declaration;
Establishment Barriers	Foreign investors' expertise being 'used' to size up requirements - then open process to bidders-- wasting time and money They Need international consultants to steer process.		Permission to purchase premises larger than 5000m2 required additional payments.		Work permits difficult to obtain; Long privatization process; Lacking language skills of civil servants;	Difficult to contact state authorities; Registration of enterprises very time consuming; Obtaining construction licence is very time consuming; Visa and work permits for foreigners subject to too much bureaucracy
Customs/Tariffs			High tariffs (45-55%) on imports Deliberate delays (3 or 4 days) experienced at customs Incumbent lobbying to increase tariffs for investors	High working capital requirement due to slow tax and customs duty refunding procedures.	High customs duties; Long and bureaucratic customs clearance procedures; Arbitrary decisions; High fines for small mistakes in the documents;	Unclear and complicated customs regulations; Complicated customs clearance procedures; Arbitrary decisions by customs officials;
Access to Capital And payments for goods	No liquidity in the banking system -- length of finance and required finances. Regulations allow only a limited proportion of own finance cover --thus not enough money in the local system to cover	Foreign exchange very complicated; profit repatriation not easy; Income in szlotys can only be used for consumption and not for investments; Low payment morale; Low efficiency of local banks High real interest rate 11-12 % favours foreign investors who have access to cheaper capital	Credit being stretched Exports to Russia adopt prepayment approach in \$ only.			Bank services not customer oriented;

Information			Reliable financial information on local companies difficult to get		Hard competition from local state-owned producers who have a limited understanding of costs and pricing.		
Human Resources	Mentality and attitude a problem – personal goals sought mostly. <i>Flexibility of labour is a serious problem- due to relocation difficulties in finding good housing</i> <i>Foreign language skills not widespread yet.</i> <i>Salary levels growing fast.</i> <i>Local managers must spend more time in educating and training local employees</i>		No general accreditation of university degrees, especially in the financial administration it is difficult to know what are the general qualifications of persons who hold similar degrees from different universities; Significant training needs in financial administration	Management clash with employee share-holders, initially. Training of managers and sales people is required. Keeping good managers is also a problem – there is much competition	Insufficient marketing skills but situation improving rapidly; High turnover of personnel, who are easily attracted by higher salaries only paid by competitors; Very detailed cost reporting is needed contrary to Scandinavian business culture.		
Crime/Corruption/Dis crimination			Privatization process not fair towards foreign investors; Bribes required by various authorities	Competitor found marketing same product brands in Russia (copies) – Court Case now pending. Competitors bribing wholesale sales reps to secure preferential shelf space	Only very minor problem		
Reliability of local Suppliers	Local consultants are not very professional – not aware of western requirements		Access to local raw materials problematic				
Distribution/logistics/Infrastructure	Baltic Ring main (section from Poland to Lithuania) has yet to be completed		Deficient transportation systems			Insufficient number and bad quality of telecommunication lines; Insufficient quality of roads;	
Other Issues Attitudes towards foreign investors			Attitudes towards foreign investors very sceptical		Poland does not accept EU's product certifications; Polish certification is slow and costly	Unjustified and too costly requirements for certification; EU-certifications not accepted	

INDUSTRY SECTOR

INDUSTRY SECTOR									
RUSSIA	Clothing	Energy	Construction Materials (2)	Construction	Shipping and forwarding	Medical Equipment	Food products (2)	Engineering	Wholesale (Import/Export)
Legislation	Retrospective tax regulations; Accounting legislation very difficult; Everything has to be negotiated at the presidential level! Immaterial rights not protected;	Tax system unacceptable; Accounting and auditing must be evaluated; Uncertainty exists over durability of political decisions	1) Numerous taxes – seems impossible to make profits; Never know beforehand what/how much to pay in taxes. Negotiated settlements with tax inspectors are the norm. 2) Accounting system is very complicated. Retroactive tax legislation has caused problems; Very strict local stipulations for various manufacturing operations; Accounting system very complicated; e.g. exchange rate losses are not deductible	Tax issues had to be taken to court in St. Petersburg; Foreign investors under much stricter scrutiny than in Moscow; Land ownership not possible; Depreciation rules incomprehensible, no mortgage possibilities for buildings under construction Requirements for licences from local authorities vary; no advance decisions; individual decisions changed after persons change	Access to federal authorities in Moscow crucial for developing business even in St. Petersburg; the right licences and permissions have to be acquired there	Federal authorities very bureaucratic, even more in Moscow than in St. Petersburg; Hospitals in Russia cannot legally make any investments; Local tax authorities require months of unnecessary work; Even small calculation mistakes are punished by fines;	1) Introduction is quite rapid. Standards on packaging for imports and exports being prepared means even more changes/duties to cope with 2) Taxation is complicated and the rules need to be known in detail; One case taken to court and decided in favor of the company; Two parallel sets of accounting rules are needed;	No big legislative obstacles encountered; Rapidly changing taxation manageable;	High taxes with constantly changing rules. Tax system confines a subsidiary's operations to the district it is first established in. Short-termism evident in legislation
Establishment Barriers	Old communist attitudes still govern; Close contacts help to overcome these	Couldn't make a deal with local energy company	1) Stamping procedures are time consuming Raw materials are inferior in quality – therefore must import 2) Requirements of local authorities for various manufacturing operations are higher than for domestic companies; Bribes often required	Local bureaucracy burdensome and time-consuming but not impossible	Unexpectedly long waiting time for telephone lines;	Premises difficult to buy due to missing drawings and knowledge about the owner of the real estate	1) Privatisation agency adopted a surprisingly hesitant approach; Anti-monopoly officials gave discouraging treatment in purchase of Employee owned factory; 2) Difficulties in the beginning but once the right partners were found no big barriers were encountered	For a service company no big barriers; they are presumably bigger for a manufacturing operation.	Still can't own the land even after privatisation.
Customs/Tariffs	All kinds of problems; bribes required		1) High tariffs required on imports from Estonia. Relations poor. 2) No possibilities to appeal for decisions of customs officers, which can be contradictory	Certification rules unclear, different in St. Petersburg and Moscow; Customs clearance possible at the sites	Many political problems with limited unloading of vessels and significant delays.	Certificates and licences from the health authorities are a continuous headache	1) Double invoicing (VAT scam) still a problem – investor can not prevent this occurring once goods cross border into Russia 2) Difficulties in importing investment	Small problems with customs clearance.	

Access to Capital And payments for goods	Lost some money in the bankruptcy of a local bank; no mortgage possibilities; Credit over 180 days to the subsidiary requires a licence from the Central Bank; Exchange rate losses not deductible	Banking system chaotic	No possibilities to get local credits	No local financing possibilities		Licences from the Central Bank have to be applied through mail;	Due to banking practicalities the company has to give short credits to their customers; no credit losses so far;	All financing from the head office; Small credit risks taken but no losses so far;	No confidence in Russian Gov. to protect foreign investors' cash
Information	Even the banks do not know the Russian bureaucratic requirements; Auditors very expensive		Credit risks difficult to evaluate	Western journals too pessimistic about the Russian economy	Access to authorities in Moscow crucial	Subsidiary in St. Petersburg cannot handle matters in Moscow	Moscow much more difficult than St. Petersburg	Old planning norms still influence the operations today;	
Human Resources	Difficult to acquire managers, who would understand western management and marketing; Local head accountant the most important person	Management selection not as required	1) Managers have different thinking and attitudes; Good chief or even general accountants are hard to find and keep; It is necessary to use an expat. business controller 2) Language skills of local personnel very limited; Reliable personnel difficult to find	Management skills in construction are totally lacking in Russia; All local decision making concentrated on the highest level; A new generation of middle management has to be trained;	Financial control of local management essential;	Technical skills of personnel are high but they lack initiative, efficiency and language skills; Training of the personnel a continuous challenge; Want to earn as much as possible as quickly as possible	1) Training of sales people is required; 2) Strong input in training is required; the transfer of market economy concepts is most difficult; The level of technical training is high;	After 8 years of operation the work of the local personnel has started to bear fruit;	
Crime/Corruption/Discrimination	Illegal copies of products; Stealing in many points of transportation		Bribes asked for frequently	Bribes asked for	Security problems	Bribes required, no problems with mafia once you have contracted a local security firm	1) Security umbrella used needed but seen as a cost of business; 2) The investor is not aware of any problems, if there are, they are taken care of by the locals	Not a problem for a consultancy	
Reliability of local Suppliers	No local sourcing possible		No local raw material supply;	Limited supply of local construction materials	Russian vessels in poor condition, could not be certified	Local sourcing not possible	1) Quality standards not consistent; 2) Local sourcing not possible, everything imported	The level of technological know how is relatively high	
Distribution/logistics/infrastructure	Electricity and water problems	Had to introduce own technology (old)					1) Getting access to distribution channels is hard to overcome;		

Appendix 4 Lists of Major Investors in the Region

Top 30 Estonian Companies With The Most Foreign Investment

No.	Name of Company	Total Foreign Direct Investment (million EEKs)	Foreign Direct Investment in 1996 (million EEKs)	1996 Turnover (million EEKs)	Number of Employees	Field of Activities	Foreign Shareholders (share of company, %)
1.	Eesti Telefon	799	100	991	3685	Telecommunications	Telia (24,5) ABTelekom Finland (24,5)
2.	EMT AS*	495	263	546		Mobile telecommunications	Telia (24,5) ABTelekom Finland (24,5)
3.	Kunda Nordic Tsement	438	58	285	597	Cement production	Atlas Nordic Ltd (30,33) IFC (10,55) Nefco (5,27) Finnfund (3,96)
4.	E.O.S. AS	357	334	62	29	Oil terminals, wholesale and retail trade of oil products	Coastal Baltica Holding Co. Ltd. (100)
5.	Radiolinja Eesti AS	350	150	50	60	Mobile telecommunications	Radiolinja OY (50) HPY (50)
6.	Horizon Pulp & Paper	241	198	119	550	Paper products	Asean Interests Ltd. (100)
7.	Neste Oil Eesti	210	164	852	39	Sale of fuels	Neste Markkinointi OY (100)
8.	Pakterminal AS	189		303	80	Oil terminals	Tankmaatschappij Dippina (50)
9.	Eesti Statoil AS	150		204	163	Sale of fuels	Statoil AB (100)
10.	Eesti Coca-Cola Joogid AS	133	-10	338	231	Soft drinks	Coca-Cola Getränke Holding Co. (54)
11.	Elcoteq Tallinn AS	117	90	***113	1314	Electronic components assembly	Elcoteq Network OY (66,8) Finnfund (33,2)
12.	Kreenholmi Grupp	112	41	969	5184	Textile products	Wäferi AB (82)
13.	Loksa Laevatehase AS	111	72	74	640	Shipbuilding	OSF Portfolio Investment A/S (100)
14.	Eesti AGA AS	109	27	51,8	72	Gas products	OY AGA (100)
15.	Nitrofert AS	104	21	472	589	Liquids & gases	Gazprom AO (100)
16.	Saku Õlletehase AS	103	41	363	185	Beers & soft drinks	Baltic Beverages Holding AB (75)
17.	Eesti Gaas AS	95	73	636	244	Gas distribution	Gazprom AO (30,64) Ruhrgas AG (15,06) Baltic Rep. Fund (7,35)
18.	Tolarami-Investeeringute AS	92	0,5	17,8	22	Investments	Asean Interests Ltd. 100
19.	Kemira Agro Eesti AS	90	40	74	13	Wholesale & retail sale of fertilisers and agrochemical products	Kemira Agro OY 100
20.	Leibur AS	85	1,7	203	600	Bakery products	Cultor OY (75) Cerealiala AB (25)
21.	Estonian Air *	79	20	365	380	Air transport	Maersk Air 49
22.	Paulig Baltic AS	79	0,8	96	48	Coffees & spices	OY Gustav Paulig AB (100)
23.	Sonmarin AS	71	-4,6	29,4	27	Liquid fuels storage	SonmarinOY (100)
24.	HTM Sport Eesti AS	73	-6	142	398	Sports goods	HTM Sport S.p.A. (83)
25.	Põltsamaa Felix AS	58	27	69	152	Fruit & vegetable products	Procordia Food AB (91)
26.	Flexa Eesti AS	57	-4,1	79,6	162	Furniture parts	Flexa Holding AS (100)
27.	Õsel Foods AS	56	28	73,4	100	Soft drinks	Finnish private capital (50)
28.	EVR Koehne AS	50	50	5,8	94	Railway engineering	H. Koehne Bauunternehmung GmbH (51)
29.	Eesti Tööstusliisingu AS	50	39	7,7	7	Leasing	Merita Rahoitus (40) IFC (20)
30.	AMP Eesti AS	50	38	10,5	159	Electronic components, tools	AMP Inc.(100)

Source: Estonian Investment Agency web site at <http://www.eia.ee/factsheet/fact8.htm>

Top Foreign Investors In Lithuania
(as of april 1997 - millions of us dollars)

Investor	Origin	JV/ Investment	Industry Sector	Mill USD \$
Lancaster Steel Co. Inc, Lancaster Distral Inc., Distral S.A.; Dilan Trading NV	USA/ Columbia/ Netherlands	Klaipėdos Nafta	Oil Terminal	43.16
Motorola	USA	Omnitel	Telecommunications	40.00
Philip Morris	USA		Tobacco Products	38.00
TeleDenmark; Millicom, East Holding BV	Denmark/ Luxembourg	Mobilios Telekomunikacijos	Telecommunications	38.00
Statoil	Norway	Statoil Lietuva	Petroleum Products	28.00
Calwer Decken und Tuchfabriken; DEG; International Finance Corporation (IFC)	Germany	Liteksas ir Calw	Textiles	25.10
Shell	Great Britain/ Netherlands	Shell Lietuva	Petroleum Products	21.20
Lukoil; EuroOilinvest	Russia/ Luxembourg	Lukoil Baltija	Petroleum Products	20.61
Neste Oil Ltd.	Finland		Petroleum Products	20.35
Partek Insulation; Finnfund; Nefco	Sweden/ Finland		Construction Materials	18.10
Coca-Cola	USA		Soft Drinks	15.90
Kraft Jacobs Suchard	USA		Confectionery	15.50
Baltic Beverages Holding (a Pripps-Hartwall company)	Sweden/ Finland	Kalnapolis	Beer Brewing	15.00
Siemens	Germany	Baltijos Automobilių Technika (BAT)	Electronics	12.50
Dansk Olie og Naturgas; Danish Central and Eastern European Investment Fund; T.K. Boesen; E. Pihl & Son; Odin Energi ApS	Denmark	Minijos Nafta	Oil Drilling	12.25
Surgut Gasprom	Russia	Garbdo Mida	Petroleum Products	12.10
Baltic Fund (Partners: Rockefeller and Co., Al-Ibrahim Royal Family and Lazard Freres Assets Management)	USA	Hotel Vilnius; Vilniaus Bankas; Other	Real Estate Development/ Banking	12.00
Farimex	Switzerland	Ekranas	Electronics	12.00
Icelandic Health Company; Icelandic Pharmaceuticals; Iceland Prime Contractor Pharmadule; Swedfund International	Iceland/ Sweden	Ilsanta	Pharmaceuticals	11.00
Svenska Petroleum Exploration AB	Sweden	Genėio Nafta	Oil Processing	10.50
Masterfoods (a Mars company)	USA		Food Processing	8.85
Petrol Holding A.S	Norway	Pemco Kuras; Pemco Baltija; Pemco Packers	Petroleum Products	7.80
Richard Hammerle Farberei und Appertur Gesellschaft	Austria	Kateks	Textiles	7.25
TeleDenmark; Milicom International Cellular SA	Denmark/ Luxembourg	Comliet	Telecommunications	7.10
McDonald's Restaurants	USA		Food Industry	6.00
Ochoco Lumber	USA		Wood Processing	5.50
Tuch Fabrik Wilhelm Becker	Germany	Eurotextil	Textiles	5.50
Terminal Forest Products	Canada	Pajūrio Mediena; Vilniaus Mediena	Wood Processing	4.85

Source: Lithuanian Investment Agency web site at http://www.nerisena.lt/invest/Uz_invest.htm

List of Major Foreign Investors in Poland
(millions USD as of 31 December 1996)

INVESTOR	EQUITY & LOANS	COM-MIT.	ORIGIN	BRANCH
FIAT	888.1	953.0	Italy	car manufacture
EBRD	613.8	0.0	Internat.	banking, capital participation in enterprises
Polish-American Enterprise Fund	464.0	0.0	USA	Capital co-operation with private firms and participation in privatisation
IPC	370.0	0.0	USA	paper industry
ING Group	350.0	53.0	Netherlands	banking
Pepsico	292.0	500.0	USA	sweets, soft drinks, chips manufacturing, catering
Coca-Cola Amatil	285.0	0.0	Australia	soft drinks production
International Finance Corporation	277.3	0.0	Internat.	Investment in private sector projects across all industry sectors
Nestle	248.0	0.0	Switzerland	confectionery
Philip Morris	227.0	145.0	USA	tobacco industry
ABB	200.0	0.0	Internat.	power supply systems, turbines, electric engines
Thomson Consumer	185.0	0.0	France	tv tubes and sets
Pilkington	168.9	0.0	Great Britain	glass plant
Saint Gobain	150.0	250.0	France	glass, insulating materials production, construction
SHV Macro N.V.	148.0	54.0	Netherlands	wholesale trade centres
Unilever	140.0	0.0	Internat.	washing powder production, food processing
Procter & Gamble	130.0	190.0	USA	personal hygiene products
Reemtsma Cigarettenfabriken GmbH	130.0	45.0	Germany	tobacco industry
Daewoo	129.5	1225.0	Korea	Electronics equipment and car production
Michelin	112.0	150.0	France	tyre production
Goodyear Tire and Rubber Company	112.0	55.0	USA	tyre production
Philips	108.1	70.6	Netherlands	Electric appliances
D. Chase Enterprises	100.0	200.0	USA	mass media
MARS Inc.	100.0	20.0	USA	food processing
Curtis	100.0	0.0	USA	electronics, construction

Source: Polish Agency for Foreign Investment web site at <http://www.paiz.gov.pl/frames.htm>

Most Important Foreign Investors in Latvia
(During 1996)

Investor	Country	Latvian Enterprise	Area of Activity	Investment millions of USD
ABB	Sweden	ABB Energoremonts	Installation of Energy equipment, repairs	4
Hartwall Prippts Ringness AB	Finland, Sweden	Aldaris Brewery	Beverages	7
Finnish Telecom Cable & Wireless	Finland, United Kingdom	Lattelekom	Telecommunications	160
Corpora Tres Montes	Chile	Proexpo SIA	Powder beverages	15
Kellogg	USA	Kellog Latvia	Food processing	22
Knauf	Germany	Saulriesu buvmateriālu kombināts	Building materials	4
Statoil	Norway	Statoil Latvia	Oil products	25
Royal Dutch Shell	Netherlands, United Kingdom	Shell Latvia	Oil products	22
Neste	Finland	Neste	Oil products	8
BECK	USA	Radisson SAS Daugava	Hotels	21
SAS	International Consortium	Air Baltic	Airlines	3
AB Chippsi	Finland	Latfood	Food Processing	4
Karl Danzer Furnierwerke	Germany	Zunda	Wood products	15
Enso	Finland	Pakenso Baltica	Goffered packaging	12
House of Prince	Denmark	Rīgas tabakas fabrika	Tobacco	10
Culor Oy	Finland	Hanzas Maiznīca	Food processing	10
Coca Cola	Austria	Coca Cola Dzerieni	Beverages	3
Teledisk GmbH Handelsgezelshaft Mit Beschrnkter Haftung	Austria	Sandriko and Co	Food processing, beverages	5
GEIT BV	Switzerland	Kalija Parks AS	Transit of mineral fertilisers	2

Source: Latvian Development Agency - Economic Development of Latvia Report June 1997

Appendix 5 Break-Down Summary of the Problems in Each Country

LATVIA	INDUSTRY SECTOR										
PROBLEM	% firms with Problem	Telecomm (2)	Construction Materials	Paper	Publishing	Electronic & Hydraulic eqp	Energy	Chemical	Pharmaceuticals.	Food (2)	Wholesale Trade (2)
Legislation	83 %										
• Implementation/Change	75 %	XX			X	X	X	X	X	XX	X.
• Certification	33 %			X				X.	X	X	
Establishment Barriers	33 %					X				X	X
• Obtaining good premises											
Customs/Tariffs	58 %										
• Procedures vary	58 %	XX		X	X	X	X			X	X
• Problems with Officials	42 %	XX		X.		X.				X.	X
Finances	67 %										
• payments for goods				X		X	X	X	X	XX	X
Human Resources	75 %	XX		X		X		X	X	XX	
• Shortage of Functional Management skills			X		X						
Crime/Corruption	67 %										
• Corruption	33 %	X	X				X		X	X	
• Crime/Security	33 %	XX		X.		X					X
Distribution	67 %	X		X	X	X	X	X		X	X
• Inadequate Infrastructure											
Other Issues	17%			X		X					
• Poor attitude of investors											

LITHUANIA	INDUSTRY SECTOR										
PROBLEM	% firms with Problem	Telecomm (2)	Import Trade	Services (2)	Petroleum	Furniture	Electrical Engineering	Wholesale Trade (2)	Construction Materials	Food	
Legislation	83 %										
• Tax Regulations	58 %	XX	X	XX	X	X					
• Implementation Inconsistent or unclear	58 %	X	X	XX		X		X	X		
• Certification	25 %					X	X	X			
Establishment Barriers	67 %										
• Procedures complicated	50 %	XX		XX	X			X			
• Protectionism	17 %								X	X	
Customs/Tariffs	58 %										
• Delays/Rules vary	42 %	X	X		X	X		X			
• Tariffs unfair	42 %		X	X	X	X				X	
Finances	50 %										
• Obtaining Loans/Credit	50 %		X	XX	X			X			
• Banks	25 %		X	XX							
Human Resources	25 %										
• Lack of functional management Skills	25 %	XX		X							
Crime/Corruption	50 %										
• Corruption	25 %	X	X	X							
• Crime	17 %			X				X			
• Discrimination	17 %				X				X		
Distribution											
• Infrastructure	25 %			X	X			X			

ESTONIA		INDUSTRY SECTOR										
PROBLEM	% firms with Problem	Telecomm (2)	Construction Materials	Energy and Chemicals	Electronics	Services	Banking	Transportation	Forestry	Food products (2)	Retail (Importer)	Wholesale Trade (3)
Legislation	80 %											
• Inconsistencies/Uncertainty in implementation	73 %	X		X	X		X	X	X	X	X	XXX
• Restricting Business Operations	27 %					X		X	X			X
• Land Reforms/Restitution - too slow	33 %			X			X		X	X		X
Establishment Barriers												
• Entry Restrictions/Protectionism	47 %	X			X	X	X	X	X	X		
Customs/Tariffs	47 %											
• Delays/Relations	33 %	X			X	X		X	X		X	X
• VAT problems	20 %											
Finances	73 %											
• Access to Capital	20 %	X			X		X					
• Bad Debt/ Payment for goods	33 %											
• Banking/Liquidity of system	40 %	X		X	X		X		X	X	X	XX
• Interest rates/Currency Risk	20 %						X	X				X
Information												
• Access to reliable credit info	33 %						X		X		X	XX
Human Resources	93 %											
• Obtaining work or residence permits	33 %	XX			X		X		X			
• Shortage of Functional Management skills	80 %		X	X	X	X	X	X	X	XX	X	XX
• Mindset/ Loyalty	40 %					X	X	X			X	XX
Illegal Activities	67 %											
• Crime/Corruption	53 %	X				X	X	X	X	X		XX
• Collusion between Locals and Authorities	33 %		X			X			X	X	X	
Reliability of local Suppliers	27 %				X				X			
Distribution /Infrastructure												
• Technology Lag	40 %	X		X			X			XX		X
Other Issues												
• Attitudinal 'differences'	27 %			X		X	X	X				

RUSSIA		INDUSTRY SECTOR								
PROBLEM	% firms with problem	Clothing	Energy	Constructi on materials (2)	Constructi on	Shipping and forwarding	Medical equipment	Food products (2)	Engineerin g	Wholesale Trade
Legislation	91 %									
• Inconsistent tax regulations and accounting rules	73 %	x	x	xx	x		x	x		x
• Uncertainty about authorities' rulings	82 %	x	x	xx	x	x	x	x		x
• Immaterial rights violated	9%	x								
Establishment barriers	82 %									
• Bureaucracy	45 %	x		x	x	x	x			
• Protectionism	27 %		x	x				x		x
• Land ownership	9 %									
Customs/Tariffs	73 %									
• High tariffs, long delays, problems with certification, bribes		x	xx	x	x	x	x	xx		
Access to capital and payments for goods	82 %									
• banking system	36 %	x	x					x		
• no local credit	18 %			x	x				x	x
• high credit risk	18 %									
Information	64 %									
• Limited and biased information concerning various regulations		x		x	x	x	x	x	x	x
Human resources	91 %									
• Lack of management skills	91 %	x	x	xx	x	x	x	xx	x	
• Language problems	18 %			x			x			

INDUSTRY SECTOR						
POLAND	%firms with Problem	Energy and Chemicals	Construction materials	Food products (a)	Food products (b)	Swedish Trade Council Survey* Large enterprises
Legislation	75 %					Swedish Trade Council Survey* Small or medium sized enterprises
• Lacking framework	25 %	x				>50 % reported legislation as a barrier
• Rapidly changing taxation	25 %		x			12-15 % of companies reported taxation and bureaucracy as a barrier
• High penalties	25 %				x	
• Slow administrative processes	25 %				x	
Establishment barriers	50 %					
• Unfair privatization process	25 %	x				
• purchase of land	25 %			x		
Customs/Tariffs	50 %					
• Delays and slow refunding	50 %			x	x	12-15 %
Access to capital and payments for goods	75 %					
• Access to capital	50 %	x		x		
• Cumbersome payment rules	25 %		x			8 %

Information	50 %							12-15 %
• Credit information	25 %							
• Dumping by local competitors	25 %						x	
Human Resources	100 %							
• High training needs	100 %	x					x	
• High turnover and high salary requests	75 %	x					x	
• Relocation difficulties	25 %	x						
Crime/Corruption	50 %							5%
• Violation of brand names	25 %						x	
• Bribes	50 %						x	
Reliability of local suppliers	50 %							
Distribution/Logistics/Infrastructure	50 %							
Other issues	25 %							
• Attitudes towards foreign investors								12-15 %
• Certification								17-25 %

List of Publications on Eastern Europe By ETLA

KARI ALHO - OSMO FORSSELL - JUHANI HUTTUNEN - MARKKU KOTILAINEN - ILKKA LUUKKONEN - OLLI-TAPIO MATTILA - JORMA MOILANEN - PENTTI VARTIA:
Neuvostoliiton kauppa Suomen kansantaloudessa. (Trade between Finland and the Soviet Union in the Finnish Economy). ETLA B 50, Helsinki 1986.

PEKKA SUTELA: SEV - yhteistyötä vailla tuloksia ja tulevaisuutta. (CMEA - Cooperation without Results and Future). ETLA B 69, Helsinki 1990.

VEIJO KAITALA - MATTI POHJOLA - OLLI TAHVONEN: An Economic Analysis of Transboundary Air Pollution between Finland and the Soviet Union. ETLA Discussion Paper No 335, Helsinki 1990.

VEIJO KAITALA - MATTI POHJOLA - OLLI TAHVONEN: Transboundary Air Pollution and Soil Acidification: A Dynamic Analysis of an Acid Rain Game between Finland and the USSR. ETLA Discussion Paper No 344, Helsinki 1990.

VEIJO KAITALA - MATTI POHJOLA - OLLI TAHVONEN: An Analysis of Negotiations between Finland and the Soviet Union. (on transboundary pollution issues). ETLA Discussion Paper No 354, Helsinki 1991.

VEIJO KAITALA - MATTI POHJOLA - OLLI TAHVONEN: A Finnish-Soviet Acid Rain Game: "Club Solutions", Noncooperative Equilibria and Cost Efficiency. ETLA Discussion Paper No 358, Helsinki 1991.

ROBERT HAGFORS - TOIVO KUUS: The Structure and Distribution of Income in Estonia and Finland. ETLA Discussion Paper No 365, Helsinki 1991.

EIKE HINDOV: On Population Development in Estonia and Finland. ETLA Discussion Paper No 373, Helsinki 1991.

VEIJO KAITALA - MATTI POHJOLA: Acid Rain and International Environmental Aid: A Case Study of Transboundary Air Pollution between Finland, Russia and Estonia. Discussion Paper No 400, Helsinki 1992.

V. BUSHENKOV - V. KAITALA - A. LOTOV - M. POHJOLA: Decision and Negotiation Support for Transboundary Air Pollution Control between Finland, Russia and Estonia. ETLA Discussion Paper No 418, Helsinki 1992.

PASI AHDE - TEET RAJASALU (eds.): On the Economic Structure of Estonia and Finland before the 1990's. ETLA Discussion Paper No 422, Helsinki 1992.

HANNU HERNESNIEMI - JULIANNA BORSOS: Suomalaisten yritysten rooli Venäjän öljy- ja kaasuklusterissa. (The Role of Finnish Companies in the Russian Oil and Gas Cluster). A report prepared for the Invest in Finland Bureau, 1.11.1993 Helsinki. Not published by ETLA.

OLEV LUGUS - PENTTI VARTIA (eds.): Estonia and Finland - A Retrospective Socio-Economic Comparison. ETLA B 86, Helsinki 1993.

JARI HYVÄRNEN: Pietari, Viro, Itäisen Suomenlahden seutu: kehittyvä, vai taantuva talousalue. (St. Petersburg, Estonia, Area of the Eastern Gulf of Finland: Developing or Regressing Economic Area). ETLA Discussion Paper No 437, Helsinki 1993.

JARI HYVÄRINEN: Alueellinen kilpailukyky Suomen itäisellä, rannikkoseudulla, Pietarissa ja Virossa. (Regional Competitiveness in Finland's Eastern Coastal Regions, St. Petersburg and Estonia). ETLA Discussion Paper No 455, Helsinki 1993.

MARIA KALOINEN: Suomen kilpailuetu Venäjän transitoliikenteessä. (Finnish Competitive Advantage in Russian Transit Traffic). ETLA Discussion Paper No 459, Helsinki 1993.

MIKA ERKKILÄ - MIKA WIDGREN: Suomen ja Baltian kaupan potentiaali ja suhteellinen etu. (Finnis-Baltic Trade Potential and Comparative Advantage). ETLA B 101, Helsinki 1994.

JARI HYVÄRINEN - JULIANNA BORSOS: Emerging Estonian Industrial Transformation - Towards a Dual Industrial Strategy for Estonia. ETLA C 68, Helsinki 1994.

JULIANNA BORSOS: Foreign Companies in Estonia - Industrial Environment and Experiences. ETLA Discussion Paper No 488, Helsinki 1994.

KAAREL KILVITS: Current State of Estonian Industry. The basic material in autumn 1993 for the joint Estonian-Finnish study project on "the Future of Estonian Industry". ETLA Discussion Paper No 500, Helsinki 1994.

GUSTAV VON HERTZEN - JULIANNA BORSOS: An Agro-food Industrial Strategy for the Baltic States. ETLA Discussion Paper No 509, Helsinki 1994.

JARKKO RANTALA: Suomalaisen rakennusteollisuuden kilpailukyky projektiviennissä, Case: Venäjän Sotilaskylä. (The Competitiveness of the Finnish Construction Industry, Case: Military Housing Projects Financed by Germany in the CIS Countries). ETLA Discussion Paper No 515, Helsinki 1994.

JUHA RUMPUNEN: Estonia: Policy and Criteria for EU Membership. ETLA Discussion Paper No 534, Helsinki 1995.

JULIANNA BORSOS: Domestic employment effects of Finnish outward FDI in Eastern Europe. ETLA B 111, Helsinki 1995.

JARI HYVÄRINEN - HANNU HERNESNIEMI: Industrial strategies for Latvia. A paper prepared for the Nordic Council of Ministers. Helsinki 1995.

HANNU HERNESNIEMI - JARI HYVÄRINEN: Industrial strategies for Lithuania. A paper prepared for the Nordic Council of Ministers. Helsinki 1995.

JULIANNA BORSOS - MIKA ERKKILÄ: Regional integration in the Baltic Rim - FDI and trade-based integration in the triangle of Finland, Estonia and St. Petersburg. A paper presented at the OECD policy meeting in Helsinki, Finland, 19-20 June 1995. ETLA Discussion Paper No 539, Helsinki 1995.

JULIANNA BORSOS - MIKA ERKKILÄ: Foreign direct investment and trade flows between the Nordic countries and the Baltic states. A paper presented at the OECD policy meeting in Helsinki, Finland, 19-20 June 1995. ETLA Discussion Paper No 540, Helsinki 1995.

ANTTI PIISPANEN: Business potential for Finnish companies on the Eastern Baltic Rim. ETLA C 72, Helsinki, 1996.

BIRGITTA BERG - KAAREL KILVITS - MIKHEL TOMBAK: Technology Policy for Improving Competitiveness of Estonian Industries. ETLA C 73, Helsinki 1996.

MARIANNE PAASI: The absorptive capacities of Estonian firms - Can a technology-based industrial strategy succeed? ETLA Discussion Paper No. 554, Helsinki, 1996.

HANNU HERNESNIEMI: Barriers to Economic Cooperation of Baltic Rim Countries, ETLA Discussion Paper No. 555, Helsinki 1996

VENLA SIPILÄ: Suomen ja Venäjän välinen kauppa 1986-1995, ETLA Discussion Paper No. 567, Helsinki 1996

MARIANNE PAASI: The inherited and emerging absorptive capacities of firms - Results of a firms survey in the Estonian electronics industry, ETLA Discussion Paper No. 569, Helsinki 1996

INKERI HIRVENSALO: Strategic Adaption of Enterprises to Turbulent Transitional Markets; Operative Strategies of Finnish Firms in Russia and the Baltic States during 1991-95. ETLA A 24, Helsinki 1996.

BORSOS-TORSTILA, JULIANNA: Foreign Direct Investment and Technology Transfer, Results of a Survey in Selected Branches in Estonia, ETLA Discussion Paper No. 580, Helsinki 1997

VISURI, PEKKA: Baltian maiden turvallisuspoliittinen asema, ETLA Discussion Paper No. 593, Helsinki 1997

BIRGITTA BERG (Ed.): Estonian Economy and European Integration, ETLA C 75, Helsinki 1997

BIRGITTA BERG-ANDERSSON: Comparative Evaluation of Science & Technology Policies in Lithuania, Latvia and Estonia, ETLA Discussion Paper No. 622, Helsinki 1997

ELINKEINOELÄMÄN TUTKIMUSLAITOS (ETLA)

THE RESEARCH INSTITUTE OF THE FINNISH ECONOMY

LÖNNROTINKATU 4 B, FIN-00120 HELSINKI

Puh./Tel. (09) 609 900

Telefax (09) 601753

Int. 358-9-609 900

Int. 358-9-601 753

<http://www.etla.fi>

KESKUSTELUAIHEITA - DISCUSSION PAPERS ISSN 0781-6847

- No 601 JUKKA LASSILA - HEIKKI PALM - TARMO VALKONEN, FOG: Suomen kansantalouden limittäisten sukupolvien malli. 21.05.1997. 83 s.
- No 602 JOUKO NÄTTI, Atypical Employment and Gender in Finland. 02.06.1997. 33 p.
- No 603 MIKA MALIRANTA, The Determinants of Aggregate Productivity, The Evolution of micro-structures and productivity within plants in Finnish manufacturing from 1975 to 1994. 09.06.1997. 38 p.
- No 604 DAN STEINBOCK, The Competitive Advantage of Finland: The Primary Research Projects. 11.06.1997. 41 p.
- No 605 MARKKU KOTILAINEN, Construction in the Nordic Countries. 13.06.1997. 27 p.
- No 606 REIJA LILJA, Similar Education - Different Career and Wages? 30.06.1997. 38 p.
- No 607 RITA ASPLUND, Private vs. Public Sector Returns to Human Capital in Finland. 08.08.1997. 68 p.
- No 608 PETRI ROUVINEN, Suomi - Euroopan kilpailukykyisin? 08.08.1997. 9 s.
- No 609 AIJA LEIPONEN, Yritysten osaamisintensiivisyys ja kansainvälistyminen. 08.08.1997. 27 s.
- No 610 MIKA PAJARINEN, Ulkomaiset suorat sijoitukset ja ulkomaalaisomistus Suomessa: katsaus historiaan ja viimeaikaiseen kehitykseen. 19.08.1997. 48 s.
- No 611 JYRKI RUUTU, Suomalainen työehtosopimusjärjestelmä, palkat ja inflaatio. 20.08.1997. 44 s.
- No 612 MIKA MALIRANTA, Plant Productivity in Finnish Manufacturing. Characteristics of high productivity plants. 22.08.1997. 43 p.
- No 613 PETRI ROUVINEN - PEKKA YLÄ-ANTTILA, Konkurrenskraften i Norden. 08.09.1997. 21 s.
- No 614 HANNU HERNESNIEMI, Toimialojen tuotannon kasvun työllisyysvaikutukset Suomessa vuosina 1980 - 1996. 09.09.1997. 31 s.

- No 615 ATRO MÄKILÄ, Elintarviketeollisuuden osaamistarpeiden ennakointi - kyselytutkimus. 19.09.1997. 41 s.
- No 616 SEPPO LAAKSO, Asuntojen hinnat ja asuntojen ominaisuuksien kysyntä pääkaupunkiseudun asuntomarkkinoilla. 22.09.1997. 16 s.
- No 617 ELISABETH HELANDER, Finland's Research Clusters: Important Assets for a New Member of The European Union. 25.09.1997. 10 p.
- No 618 ATRO MÄKILÄ, Vakuutusyhtiöiden osaamistarpeiden ennakointi - kyselytutkimus. 30.09.1997. 28 s.
- No 619 RITA ASPLUND, The Disappearing Wage Premium of Computer Skills. 03.10.1997. 22 p.
- No 620 ERKKI KOSKELA - MARKKU OLLIKAINEN, Optimal Public Harvesting in an Economy with Multiple-use Forestry. 13.10.1997. 26 p.
- No 621 WANG HUIJIONG - LI SHANTONG, Prospects and Problems of China's Economy. 06.10.1997. 38 p.
- No 622 BIRGITTA BERG-ANDERSSON, Comparative Evaluation of Science & Technology Policies in Lithuania, Latvia and Estonia. 08.12.1997. 76 p.
- No 623 MARKKU KOTILAINEN, Etelä-Suomen talousnäkymät vuosina 1997-2001. 12.12.1997. 10 s.
- No 624 JOHANNA POHJOLA, CO₂-päästöjen vähentämisen kansantaloudelliset vaikutukset: Tuloksia polttoainerakenteen muutokset huomioonottavasta CGE-mallista. 18.12.1997. 52 s.
- No 625 JANNE HAKALA, Osakeomistuksen jakautuminen suomalaisissa pörssiyhtiöissä. 31.12.1997. 85 s.
- No 626 ANNE ERONEN, Yrityksen henkisen pääoman arviointi - malleja ja tunnuslukuja. 12.01.1998. 40 s.
- No 627 MARKKU KOTILAINEN, Economic Policy in EMU. 12.01.1998. 12 p.
- No 628 COLIN HAZLEY- INKERI HIRVENSALO, Barriers to Foreign Direct Investment in the Baltic Sea Region. 02.02.1998. 92 p.
- No 629 OLAVI RANTALA, Asuntokysyntään vaikuttavat tekijät ja sen kehitys talouden pitkän ajan kasvu-uralla. 29.01.1998. 60 s.

Elinkeinoelämän Tutkimuslaitoksen julkaisemat "Keskusteluaiheet" ovat raportteja alustavista tutkimustuloksista ja väliraportteja tekeillä olevista tutkimuksista. Tässä sarjassa julkaistuja monisteita on mahdollista ostaa Taloustieto Oy:stä kopiointi- ja toimituskuluja vastaavaan hintaan.

Papers in this series are reports on preliminary research results and on studies in progress. They are sold by Taloustieto Oy for a nominal fee covering copying and postage costs.

d:\ratapalo\DP-julk.sam/29.01.1998