'Structural reforms' during the adjustment period: do competitiveness-enhancing measures lead to an increase in FDI?

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> Europe has many strengths: we can count on the talent and creativity of our people, a strong industrial base, a vibrant services sector, a thriving, high quality agricultural sector, strong maritime tradition, our single market and common currency, our position as the world's biggest trading bloc and leading destination for foreign direct investment. (Europe 2020: 34)

> Europe faces a moment of transformation. The crisis has wiped out years of economic and social progress and exposed structural weaknesses in Europe's economy. (Europe 2020: 3)

1. Introduction

Compared with FDI, competitiveness enhancing measures have come to scholarly attention only more recently and sporadically. The comparative lack of literature on such measures is partly due to conceptual problems in assessing competitiveness and thus also these measures. Compared with governments and policy designers (for example, Tyson et al. 1984; Lall 2003), on the policy level, the scholarly community has not devoted much attention to the more specific issue of the relationship between competitiveness enhancing measures and FDI increases (for exceptions see Hunya 2000; Honkapohja and Korhonen 2013). As the quotations at the head of this chapter highlight, however, in the adjustment period, supranational agencies, including the European Commission, have focused particularly on competitiveness as a priority policy issue, but attention has also been paid to FDI. Whereas work by policy professionals has grown dramatically, critical analysis of the discourse and narratives surrounding 'competitiveness' as used in public policy circles is a fairly neglected sphere of scholarship (Bristow 2005). More specifically and constructively, while we can draw on accounts from the sphere of critical political economy concerning competitiveness and governance (for example, Majone 1997; Holman 2004), investigations of the construction of the competitiveness-centred narrative are more rare (for example, Rosamond 2002).

In this chapter my aim is twofold, both theoretical and empirical. First, I shall outline competitiveness enhancing measures, including their relationship to FDI. Here, I define competitiveness enhancing measures as series of government-induced actions unfolding over a period of time, aimed *deliberately* at increasing national competitiveness. Second, my practical aim is to examine the recent history of competitiveness enhancing measures in selected countries on the southern and eastern EU periphery, and how the competitiveness enhancing measures they have implemented have targeted FDI increases. On a more theoretical level I discuss conceptual issues with regard to the causal relationship between competitiveness enhancing measures and FDI. Formulation of premises then enables me to carry out a content and discourse analysis of the collected empirical material and thus to answer the question of how competitiveness enhancing measures in southern and eastern EU peripheries in the adjustment period sought to increase FDI.

Among the countries on the EU's southern and eastern peripheries, I selected Hungary, Latvia, Portugal, Spain and Greece as these were also the cases – along with Romania and Cyprus – where the EU launched a special financial assistance programme to remedy an acute economic situation.[1] Besides annual growth surveys and the Europe 2020 document, altogether I analysed 44 documents, typically, but not only National Reform Programmes (NRP) and EC recommendations and Occasional Papers, Article IV Consultations of the IMF and shorter versions of OECD Economic Surveys.[2] The analysis of recommendations and implementations in five countries focuses especially on the EC annual growth surveys for the years 2008 and 2010–2013. The analysis pays somewhat more attention to European Commission-related documents, given that there was a marked change in EU economic strategy in 2008 and during the adjustment period. Nevertheless I do not compare competitiveness

1. The EU also launched a special assistance programme in one non-southern, non eastern EU member, namely Ireland. A crucial document for assessing changes in all cases was the 2008 NRP. As Romania joined the EU only in 2007, no such report was prepared by 2008. Cyprus was eliminated due to the more unusual character of the crisis.

2. The Annex lists all the reports which I analysed. Except for Latvia, I had at least three reports/papers written in 2008 (or earlier), and at least four reports for the adjustment period, written between 2010 and 2013.

enhancing measures in the five countries: their histories of EU integration differ substantially (see, for example, Halpern and Wyplosz 2002), and a straightforward comparison would have limited benefits. However, I devote some space to highlighting differences between the group of southern European countries, Greece, Portugal and Spain – the group of countries which suffered most in terms of competitiveness (see de Grauwe 2010) – and the post-socialist EU countries in central-eastern Europe, Hungary and Latvia.

I understand competitiveness enhancing measures as a government policy which has a history, unfolding over time (Pierson 2005) and as a semiotic element of a larger narrative, a 'text'. My method of assessing competitiveness enhancing measures in concrete reports (texts) is content analysis: I analyse fragments of texts as embedded in narratives (Franzosi 1998; Franzosi 2004): I collected and analysed all the sentences, paragraphs, sometimes whole sections from the abovementioned documents that discuss or are related to competition or competitiveness, and investment.

The chapter has the following structure. In Section 2 I tackle the question of what national competitiveness is. How is it defined academically and practically in the discourses of supranational bodies? For illustration, I draw not only on scholarly debates but also on the analysed material and on the formulations of supranational agencies. At the end of the section, I outline the concept of competitiveness enhancing measures as the main subject of the inquiry: as a policy progressing over time (Pierson 2003, 2005), and also as a cause of various outcomes, such as an increase in FDI. In Section 3 I discuss the history of competitiveness enhancing measures in the five selected countries. In this, the largest section in the chapter, I show how the introduction of competitiveness enhancing measures unfolded over time, becoming more radical since 2009, and taking various forms until 2013. In Section 4 I unpack and systematise competitiveness enhancing measures in the European Commission reports into four main types. In Section 5 I look into how competitiveness enhancing measures targeted FDI, or which specific competitiveness enhancing measure addressed FDI. In the final section, I summarise the main outcomes of this exercise and briefly evaluate competitiveness enhancing measures' 'success' and how they targeted FDI increases.

2. (National) competitiveness and competitiveness enhancing measures: overview and definitions

Only relatively recently has national competitiveness become a dominant concept and policy issue. In policymaking, the concept possibly owes its popularity and appeal to its blending of general aims of competition-induced economic development (growth) in a global free-trade environment with social cohesion and prosperity at national level. Contemporary discourses of various international organisations and supranational agencies monitor and evaluate national economies, their institutions and sub-units in accordance with various indicators or link their performance to broadly defined competitiveness (for example, Garelli 2003).

In the past three decades, the notion of competitiveness has expanded in a spatial sense from the widely used, generally accepted microeconomic level of firms to regions and states, but increasingly also to supra-national entities, such as the EU. The concept of the *competitiveness of nations* or states entered the academic debate and policy analysis only in the 1980s. Many controversies were not resolved concerning its definition and use for policy purposes. While some scholars remained cautious (in general, see, for example, Porter 1990) critics not only questioned its utility altogether, (Krugman 1994; De Grauwe 2012), but even avoided the concept (Hall and Jones 1998) or even criticised its underlying assumptions as those of 'comparative advantage' (Prasch 1996; see also Hall and Jones 1998). Others conceptualise dimensions of competitiveness and formulate more precise analytical frameworks, linking up microeconomic and macroeconomic 'composite' indicators (Delgado et al. 2012; Haemaelainen 2003). Some highlight the temporal dimension of competitiveness, differentiating between outcome and process (Aiginger 2006), or short-run and long-run competitiveness (Boltho 1996).

Judging from its use in discourses and definitions, the notion of national competitiveness is strongly linked with issues of domestic or external market shares, trade at various levels, costs and productivity (cf. Delgado et al. 2012: 6), but it is also closely associated with presence in strategic industries, investment or endowments in economies of scale. Competitiveness is often understood as having a quantitative and a non-quantitative (qualitative) dimension. Quantitative competitiveness is often referred to as cost and exchange rate-related, and it is most commonly calculated from real or nominal effective exchange rates as well as unit labour costs. The non-cost component includes institutional environment, proximity to major markets, technology and qualitatively differentiated products, and stresses the importance of intra-sector trade. (see, for example, OECD 1998) Global investment attractiveness (Delgado et al. 2012) is another indicator of the competitiveness of increasingly open economies with regard to foreign direct investment, which combines quantitative and qualitative issues. The latter is especially important and instrumental in assessing the competitiveness of countries and economies with low capital-intensive industries, such as the southern European economies before European integration or the central and eastern European post-socialist economies (for an overview, see De Grauwe 2010).

A widely, but not universally accepted consensus asserts that 'competitiveness is what underpins wealth creation and economic performance' (Delgado et al. 2012: 7), which links up issues of productivity with long-run prosperity (cf. Lewis 2004; Aiginger 2006). The biggest differences derive from scholars' choice of whether to include other, less strictly economic perspectives, most importantly, whether temporal (long-term) and social dimensions should be included in the definition of competitiveness. Two assessments can be adduced to illustrate this point. The first assessment highlights the importance of external, and short-term competitiveness. Competitiveness is:

> the ability of a given country to produce goods and services of international quality standards more cost effectively than other countries. ... [where] REER misalignments will constitute a crucial component of a country's overall competitiveness, which should, however, be supplemented by a broader range of measures, including other relative price measures, external sector outcomes, production costs, and measures of institutional quality. (Di Bella et al. 2007: 4)

The second assessment incorporates the social and temporal perspective. Competitiveness is:

> the ability to maintain market shares while *at the same time* being able to earn sustainable and high incomes, as well as maintain and improve social and environmental standards. (Aiginger 1998: 7, emphasis mine).

There is no consensus on competitiveness among supranational agencies. Reports by three of them – the IMF, the OECD and the European Commission – published in the period 2008—2013 do not contain explicit definitions of competitiveness, but there are significant differences in terms of emphasis. In contrast – especially – to IMF recommendations, EU documents such as the Annual Growth Survey (AGS) and Europe 2020 devote more attention to employment, social rights and environmental standards. But there is an increasing shift here, too. In March 2008, in their evaluation and revision of the Lisbon strategy, EU leaders concluded that 'job creation and increasing competitiveness' were the new priorities of the European joint economy. Apart from vaguely linking the issue of competitiveness to employment, EU authorities also identified four priority areas in which these issues were to be tackled: investing in knowledge and innovation, unlocking business potential (especially SMEs) and energy and climate change. During the adjustment period, competitiveness and growth were to be created within an economy that is also 'smart, sustainable and inclusive' (AGS 2010: 4), while job creation became secondary, linked only to the general goal. In the grand narrative of the 2010 Annual Growth Survey, competitiveness as a future EU goal appeared together and on a par with employment, productivity and social cohesion (a 'competitive social market economy'). In the third Annual Growth Survey in 2013, 'competitiveness' in the introductory paragraph is linked only to growth and defined as an ultimate aim of economic restructuring.

Among EU member states, nowhere has economic transformation been intertwined with European integration more dramatically than in the transformation economies of the post-authoritarian southern European states in the 1980s (Greece, Portugal, Spain), and probably to an even greater extent in the post-socialist eastern European states from the 1990s (Hungary, Czechia, Slovakia, Poland, Slovenia, Latvia, Estonia, Lithuania, Romania and Bulgaria). The global economic crisis and the euro area crisis reinforced the 'competitiveness' driven focus of supranational agencies in interpreting developments in these countries. Most recently, in the adjustment period, policy recommendations and implementations in the countries of the European periphery within the framework of the global economic crisis were based on a single explanation: the crises were a consequence of serious losses of competitiveness on the part of these states, especially 'too high' unit labour costs (Wyplosz 2013).

The frequency of use of 'competitiveness' and its significance increased from 2008 to 2013, in all documents of supranational agencies, especially those of the European Commission. The notion of the competitiveness of national economies was also narrowed down and was increasingly associated with cost (as well as price) competitiveness and concerns about overall performance in external markets.[3] There was an increasing focus on structural measures to improve the cost and price competitiveness of national economies. In terms of its discursive use in the context of recommended measures – with the exception of documents related to Hungary – from 2009 onwards (external, cost) competitiveness is to be 'restored', 'regained', 'recouped' and not only 'increased', 'improved', 'maintained',' ensured' or 'strengthened', as was characteristic of the recommendations of 2008. The greatest shift can be identified in the European Commission documents. There was a significant shift in focus from achieving the long-term goal of a research and development-driven knowledge-based economy, production of high value added goods and services, characterised by high employment rates to the new goal of export-oriented growth and recovery of the economy, with measures aimed at improving cost-driven competitiveness and export potential. For example, in the case of Portugal, there was a switch from 'improving the quality of public finances in intervention areas that boost the country's potential growth and employment and improving the productivity of factors' (POR EC 2008: 10) to more concrete 'modernisation measures and the focus of public policies on continuing to foster internationalisation, improving competitiveness and the country's export capacity, with the aim of achieving 40 per cent of GDP originating from exports' (PT EC 2011: 6; see also PT EC 2008: 10 and PT EC 2011: 15). We can see a similar turn in equivalent documents for Latvia, from 'developing a favourable and attractive environment for investment *and work'* (emphasis mine) to stressing only investment (cf. LV EC 2008: 5, 14 and LV EC 2011: 11). The case of Spain seems to be the least radical, as the 2008 NRP (cf. ESP EC 2008: 9–10) already included a 'move towards the internationalisation' of businesses, and the EC recommendations of 2008

3. The NRPs of 2008 often include also free and sometimes even 'poetic' formulations and definitions of competitiveness. The most illustrative report is the 2008 NRP for Portugal. This document is rich in expressions, formulations and definitions surrounding the concept of competitiveness and measures to achieve it. For example: 'mobilising the agenda towards growth and competitiveness', 'the recognition of the contribution of women to a more far reaching concept of competitiveness and innovation in the business fabric' and 'culture can generate wealth and is an engine of growth, competitiveness, employment and innovation' (EC POR 2008: 4; 24, 35-36).

prioritised improved competition (liberalisation) in selected sectors (energy) and implementing education reform, while the 2012 equivalent formulated the goal of 'reorientation of the economy towards tradables' (ESP EC 2012: 46).[4] Not surprisingly, the most radical, negative change occurred in Greece[5], in relation to which a purported reorientation to export-led recovery, a structural reform agenda is formulated typically 'to strengthen external competitiveness, accelerate reallocation of resources from the non-tradable to the tradable sector, and foster growth' (GRE EC 2010: 10).[6]

While they do not provide an explicit definition, the authors of IMF documents consistently focus on cost and price competitiveness in their assessments.[7] In a broader, comparative sense IMF documents occasionally use the term 'competitive position of the economy' (HU IMF 2008: 40), while discussing measures (structural reforms) to make the economy 'competitive' (for example, PT IMF 2008: 26). It is important to note that from 2009 the authors of IMF documents stress even more the issue of competitiveness for policy making, including 'external competitiveness' through cost channels', or 'international competitiveness' (for example, HU IMF 2012: 13) which is judged in terms of REER (Real Effective Exchange Rate), labour productivity/unit labor costs/and external market share. In contrast, the authors of OECD and, especially, European Commission documents are less consistent in their use of the concept, as they also pay attention to non-cost factors, especially in the 2008 NRPs.

4. The 'increase in productivity by increasing qualification levels and innovation' is not the only important goal in the 2008 document: the 2008 Spanish NRP celebrated major achievements in the implementation of R&D and innovation strategies, as well as a major increase in employment rates.
5. Whereas the 2008 NRP for Greece also mentions the goal of 'increasing the outward orientation' of the economy, it formulates the general goal of establishing 'a knowledge-based society by restructuring the Greek economy towards the production of high value added goods and services, [along with] the faster increase of productivity' (GRE EC 2008: 5, 20–29). In contrast, the 2010 NRP already states the need for a medium-term programme, with the radical goal of 'altering 'the economy's structure towards a more investment- and export-led growth model' (GRE EC 2010: 10), a shift which is reinforced in the 2013 NRP.
6. In the Greek case, the drama has unfolded through the implementation of cuts in public spending, equivalent to 7 per cent of GDP – which in any case is decreasing – already in 2010. The story underlying this is that 'these cuts and the respective release of resources for the private sector are also expected to contribute to restoring competitiveness in a medium-term perspective' (EC GRE 2010: 14).
7. This is underlined in a reported exchange of views between national authorities and IMF staff. In a document from 2006, for example, we learn that the Greek authorities considered competitiveness in a broader sense, where 'improved competitiveness [was] key to sustaining medium term growth and closing the gap in living standards with western Europe' (GRE IMF 2006: 13).

In the 2010–2013 period, the concept's meaning narrows down in European Commission documents to market performance. Simultaneously, its relevance for policymaking increases. This is expressed most radically in the interchangeable use of 'export' (performance) and 'competitiveness' (LV EC 2011: 15). Another radical assumption is that improving cost competitiveness is a goal in itself, as it is alleged to condition growth (and in some definitions also jobs; see ESP EC 2011: 6; ESP EC 2013: 4; also LV EC 2011: 7). Another aim is to put in place structural measures supposed both to enhance enterprise competitiveness in open product markets and to foster exports and productivity, leading to economic growth (LV EC 2011: 11). Even if not unproblematic, a radically different – if rare – and broader definition of national competitiveness centres on a non-cost measure, namely skills. It proposes the adaptation of the labour force's skills to labor market demands to increase the 'competitiveness of individuals, [and consequently increase the competitiveness of] employers and [consequently increase the competitiveness of] the country' (HU EC 2012a: 73).

In this chapter I follow the broader definition of national competitiveness as a benchmark, which links economic performance with maintaining and improving social and environmental standards as a premise (cf. Aiginger 1998). I define competitiveness enhancing measures as policies that have a history. More precisely, competitiveness enhancing measures are series of government-induced actions unfolding over a period of time – stretching, for example, from plans and drafts to changes in legislation – aimed at increasing national competitiveness, implementation of which may last up to several years. Following more content-oriented definitions, competitiveness enhancing measures are thus about finding the 'right balance' to improve competitiveness; that is, to fulfil all the requirements of 'sound' fiscal policies, investment growth – especially in innovation and new product markets – and job creation, but also social and environmental standards.

3. Competitiveness enhancing measures in discourse and definitions

Competitiveness enhancing measures as a cause have a temporal dimension (Pierson 2003): the implementation of steps realising concrete policies occurs over a period of time – time is needed so that competitiveness enhancing measures can become a cause. In the adjustment period, from 2009 to 2013, measures evolved from drafts and plans to concrete measures. Moreover, in NRPs, for instance, a report on implementation of the measures is also produced, with various stages, reactions to proposals (from the IMF, the European Commission and so on), discussions with and involvement of relevant stakeholders, drafts, adopted legislative changes, measures and reports on implementation. Most measures typically needed a few years to be implemented: some more (for example, new legislation), some less (pressing labour unions for wage cuts).

In the EU discourse we find only one general, encompassing competitiveness enhancing measure, namely structural reforms, which then become the main focus of recommendations. ‘Structural reforms are an essential part of restoring Europe's competitiveness’ (AGS 2012: 1). The AGS also introduces the term ‘structural reforms’ as a condition to ‘promote growth and boost competitiveness’ (AGS 2013: 13). *Structural reforms* denote first of all economic measures, and less environmental and – except employment – social issues. Moreover, structural reforms denote a series of actions over time, a process. More concretely, this process consist of ‘taking steps’ in the right direction, focusing mainly on consolidating public finances, reducing tensions in financial markets, reducing indebtedness, increasing the share of exports in GDP and creating a favourable environment for business. Implementation of structural reforms – which we can understand as a generic type of competitiveness enhancing measure – requires time and a certain process, from analysis to drafting and, typically, gradual implementation. The common denominator of the listed structural reforms is that they are economic measures favouring and encouraging private investment and simultaneously preparing and implementing cuts in public spending.

Structural reforms are thus general competitiveness enhancing measures, consisting of particular measures and occurring as a process unfolding over a period of time. The EC recommendations to Greece in the adjustment period (see Box) illustrate this conclusion. The NRP of Greece for 2011 (EC GRE 2011) lists both an extensive list of ‘main structural reforms implemented until 2010’, in line with recommendations from 2009–2010, but also a similarly long list of structural reforms in progress of implementation. The document (EC GRE 2011) also reports in greater detail on how these competitiveness enhancing measures came or are coming into existence.

The temporal dimension of CEM: Implemented and in progress of implementation. The example of Greece (EC GRE 2011)

Implemented CEM: 1. Independence of the Hellenic Statistical Authority; 2. Overhaul of the tax system; 3. Fiscal Management and Responsibility Act; 4. Reform of local public administration ('Kallikrates'); 5. Private and public sector pension reform; 6. Labour market reform; 7. Financial Stability Fund; 8. Allocation of the private insurance sector supervision to the Bank of Greece; 9. Restructuring of the railway sector (OSE); 10. Liberalisation of road freight transport; 11. 'Fast-track' important investments 12. Horizontal legislation on the Services Directive; 13. Single Payment Authority for the wage bill in the public sector; 14. Online publication of all decisions involving commitments of funds in the general government sector; 15. New investment law; 16. Liberalisation of closed professions; 17. Healthcare reform; 18. Restructuring of the urban transport entity (OASA); 19. Law on combating tax evasion and restructuring of the tax services 20. Establishment of a commitment registry for the general government.

CEM in progress of implementation: 1. Simplification of the start-up of new businesses; 2. Simplifying licensing procedures for technical professions, industrial activities and business parks; 3. Single remuneration system for public sector employees; 4. Restructuring plan for Public Enterprises; 5. New Law for the Hellenic Competition Authority; 6. Privatisation Plan; 7. Liberalisation of the wholesale electricity market; 8. Single Public Procurement Authority.

European Commission reports for the other four cases also outline structural reform agendas and list measures. Common in these measures is the emphasis on creating a business-friendly environment, promoting entrepreneurship, less bureaucracy ('red tape') and 'improved' business-friendly regulation, modernisation of public administration, culminating in the post-2010 period in explicit support for the reallocation of resources to the tradable sector. The exact formulation of the structural reforms, however, understood as a set of policies to improve competitiveness, exemplified in export-driven growth, is formulated differently in different national contexts. The structural reform – also called 'modernisation' – for achieving an export-led recovery and 'restoring competitiveness' is again expressed most radically and neatly summed up in the Greek EC document: 'to modernise the public sector, to render product and labour markets more efficient and flexible, and create a more open and accessible business environment for domestic and foreign investors, including a reduction of the state's direct participation in domestic industries' (EC GRE 2010: 10). Similarly, in Latvia the list of 'structural reform measures, that support expanding export possibilities and promote productivity to ensure more rapid growth' aimed at rebalancing the economy towards the export driven 'tradable sectors' is the longest (LV EC 2011: 11), listing measures not only in the product and the labor markets, but also in financial markets. Finally, in the Portuguese NRP we find a resolute switch to structural reforms, where among the three actions listed as contributing 'very significantly, and more rapidly, to the competitiveness of the Portuguese economy and to the correction of the existing imbalances' we find the key goal of the measures: 'reinforcing the internationalisation agenda' (PT 2011: 17).[8] The measure of 'reinforcing the internationalisation agenda' includes 'public policies [for] rebalancing incentives in favour of the tradable sector', 'improving the external image of Portuguese products', 'fostering the image of a modern and innovative Portugal' and also 'improving networks and logistics of access to the principal markets' (PT 2011: 19).

The transition to tradable and export-led growth is the smoothest in Spanish NRPs, as the 2011 document does not mention export-led growth or a further need for reorientation. As economic growth slowed down in 2007, there were preparations to increase export orientation – 'business internationalisation' – already in 2008 (ESP EC 2008: 74, 78) and, more arguably, a preparedness to impose 'austerity' as a way to switch to tradeables (ESP EC 2008: 9–11). The 2011 and 2013 Spanish NRP documents discuss structural reforms, including: implementation of Services Directive; labour market 'reform'; action in the housing and rental markets; fiscal incentives; other measures included in the Law on a sustainable Economy; and public pension system 'reform' (ESP EC 2011: 5). These measures are particularly close to those implemented in Hungary, where measures aimed at the 'modernisation' of public administration were central, alongside other measures supposed to foster a business-friendly environment, but labour market and education reform were on the structural reform agenda (HU EC 2011: 5, 9, HU EC 2012a: 18–22).

Formulations of OECD economic surveys and IMF Article IV consultations are similar, but here there is relatively less stress on structural reforms. The list includes more concrete policies, 'structural factors' to which competitiveness is linked. In keeping with the trend, the general

8. The other two measures are 'reduction of energy dependence', and 'increase in saving and reduction of indebtedness of all the domestic sectors' (PT EC 2011: 17).

message of recommendations contained in OECD economic surveys and IMF Article IV consultations in 2008 differed little from their equivalents in 2010–2013, but there was a change in intensity and concreteness. There is a persistent focus on an evaluation of the business environment and a persistent and increasing stress on improving price competitiveness and market outcomes, via liberalisation of protected sectors, privatisation of state-owned enterprises and reduction of entry barriers in strategic sectors, as well as deregulation of professions.

For example, a 2010 IMF document on Latvia suggests that improving competitiveness depends on structural measures, more than or equal to cutting labour costs further (LV IMF 2010: 32). These structural policies are supposed to aim at achieving transparency, fighting corruption, removing obstacles to doing business, improving an unpredictable environment and governance shortcomings, all for a more stable policy environment, especially on taxes (LV IMF 2010 36–38).[9] In Hungary, the persistent stress was on 'continuous improvement of the business environment' as the goal to preserve or improve competitiveness or 'attractiveness for foreign direct investment' (HU IMF PIN 2008: 2–3; HU IMF 2008a: 44–45).[10] In the adjustment period, both IMF and OECD documents warned that 'structural factors' were hampering competitiveness, especially where investors' 'confidence' was at stake; thus the business environment required improvements through 'strengthening policy credibility', restoring bank intermediation and delivering a different fiscal adjustment (HU IMF 2013: 18; 1 cf HU OECD 2012: 1).

In all three southern European countries, OECD and IMF recommendations from 2008 (or somewhat earlier) centred on cost competitiveness measures, especially labour costs. Recommended measures included wage moderation or removing wage indexation, flexibilisation of wage setting (decentralisation of collective bargaining) and/or reducing

9. This line of argument is strengthened in the 2013 document, where it is stated that there is 'a modest remaining competitiveness gap of about 4.6 per cent, which would need to be addressed through structural policies' (LV IMF 2013: 16), with such measures as promoting 'judicial efficiency' and 'monitoring state-owned enterprises' (LV IMF 2013).

10. Similarly, in the stand-by arrangements for Hungary we find the following assessment and objectives: 'to (i) reduce the government's financing needs and improve long-term fiscal sustainability, (ii) maintain adequate capitalization of the domestic banks and liquidity in domestic financial markets, and (iii) underpin confidence and secure adequate external financing. The government is in the process of considering additional steps to improve the competitive position of the economy, which are fully consistent with the programme' (HU IMF 2008: 40).

'rigidities' in employment protection legislation, expanding part-time work opportunities (POR OECD 2008: 123; GRE IMF 2006: 13; ESP OECD 2008: 7; GRE IMF 2009: 11). These more moderate recommendations intensified into more aggressive recommendations in the adjustment period. Measures included decentralisation of collective bargaining mainly to company level, drastic reductions in severance payments in Portugal (POR IMF 2012: 13) and abolition of administrative extensions of collective agreements (POR OECD 2012: 3). In Spain, reduction of other business costs was also suggested to counter the 'inertia in the wage bargaining system' (ESP IMF 2012; cf. ESP IMF 2012: 28). The most radical change in recommendations and implementations of decreasing labour costs and flexibilisation of working arrangements occurred in Greece, all on the pretext of restoring 'cost-competitiveness and boosting employment over the medium term' (GRE IMF 2013b: 6).[11]

4. Types of measures

European Commission recommendations and NRPs are voluminous documents, which outline recommended competiveness-related measures in detail. I unpacked and classified these measures in all five countries. There are seven main types of competitiveness enhancing measures that appear in reports and recommendations. Out of these, three are cost-related: (i) improving the business environment via legislative measures, for business operation and investment; (ii) labour market reforms and a deregulated (flexible) industrial relations (IR) system; and (iii) measures to lower prices in strategic sectors for business (transport, energy and so on). In addition, there are four non-cost competitiveness measures: (i) support for R&D/innovation, (ii) improving the education/skills of the active population, (iii) developing

11. After wage restraint, wage cuts followed, including minimum wages. In terms of flexibility, more options were to be created 'for the adaptability of working hours, especially for small- and medium sized enterprises', while '[w]ork schedules shall be made more flexible in order to allow working hours to better adjust to demand and production patterns that may vary over time, as well as over sectors and firms, and thereby help employment and competitiveness.' Severance pay was reduced, but the government was also supposed to 'promote an efficient wage-setting mechanism, reduce non-wage labor costs' (for example, through steps to reduce the administrative burden posed by various regulations of the Labour Inspectorate). By early 2014, the government was supposed to 'review the minimum wage system, with a view to possibly improving its simplicity and effectiveness to promote employment and fight unemployment and help the competitiveness of the economy' (GRE IMF 2013: 205-207). Simultaneously, support for establishing and operating businesses was to become less costly (GRE IMF 2013: 207–208).

(environmental) infrastructure and (iv) introducing policies for environmentally sustainable development. Among these, I shall look at increasing investment in R&D/innovation as a percentage of GDP, with incentives for private investment, and skill development to meet the requirements of competitiveness, as only these measures are dealt with in more detail and targeted at private investment.[12]

The measure of *improving the business environment via legislative measures* figures prominently in country reports and recommendations, but it is especially dominant in relation to Greece, Hungary and Latvia. The whole arsenal of more specific competitiveness enhancing measures are listed in Latvia's NRP under 'Key policy directions and measures' for 'improving the business environment and modernisation of public administration': reducing administrative barriers (and improving quality of services); modernising public administration; improving the regulatory basis for employment legal relations, labour security and their application; combating grey economy; implementing the Services Directive in Latvia; and improving the absorption of EU funds (LV EC 2013: 29–34). More generally, a constant criticism directed by the European Commission towards the Hungarian authorities centred on falling 'confidence' among foreign investors, allegedly due to 'shortcomings in the stability, predictability and transparency of the institutional and policy framework' (EC HU 2012: 7).

As for implementation, during the adjustment period in Greece and Portugal there was an easing of the financial burden on businesses. In Greece, employers' social security contribution rates were reduced (EC GRE 2011).[13] Portugal seems most similar to Greece; a comprehensive reform of corporation tax was initiated to foster investment and competitiveness (POR EC 2012: 50–51). Similar steps were considered in Spain. The ESP NRP of 2011 lists measures to improve the competitive business environment by means of needs-based modernisation of public administration, via the introduction of a new Basic Statute for Civil Servants, as well as measures for 24-hour company formation. Although it was the least transparent and least acknowledged, Hungary also

12. Note that the EC documents devote much attention to these often project-driven measures. My analysis remains general: due to lack of space I concentrated on highlighting some common characteristics.

13. In the most recent NRP, the 'Ministry of Finance [has the task] to produce a comprehensive list of nuisance taxes and levies, and eliminate them or transfer them (and the associated spending) to the central government budget' (EC GRE 2013b: 144).

decreased the financial burden on businesses in the post-2010 period, in line with recommendations.

Concerning *labour market and industrial relations reform*, the relevant competitiveness enhancing measures were especially detailed with regard to the countries of the EU south, in terms of both recommendations and implementation. For example, in Portugal there were drastic reductions in severance payments and abolition of administrative extensions of collective agreements (POR IMF 2012: 13).

Compared with the measure of *easing the financial burden on enterprises*, both the importance, elaboration and detailed variety of measures addressing the reduction of labour costs increased in the adjustment period. The 2008 NRPs, apart from measures serving 'flexicurity' (for example, ESP EC 2008: 13; HU EC 2008: 120), typically do not address issues of reducing labour costs, but tackle them indirectly, at best (POR EC 2008: 5). However, in the adjustment period measures included wage moderation or direct cuts in labour costs, both in the public and the private domain, as well as the introduction of institutional solutions for weakening the bargaining power of labor, and also offered cost-related solutions to labour market 'rigidities', such as diluting employment protection legislation.

Whereas there was increased support for labour market entry for disadvantaged groups in Greece, the case is extreme because it combined radical wage cuts, flexibilisation measures and new institutionalised solutions via both agreement between the social partners and unilateral government measures during the adjustment period, without prior announcement.[14]

14. 2010 EC recommends radical labour market reforms for Greece: 'Labour and wage reforms will help to curb undue wage pressures, which affect Greek competitiveness negatively. Reforms will ease entry to the formal labour market for groups like women and the young, and facilitate transition from temporary to permanent contracts. Labour market and wage reforms should also enable the public sector reforms to rapidly put downward pressure on private wages and improve competitiveness. Given the sensitivity of labour market and wage reforms, it was decided to follow a two-step approach after consultation with the authorities (in particular with the Ministry of Labour) and social partners. Firstly, the government will launch a social pact with social partners to forge consensus on decentralization of wage bargaining (to allow the local level to opt-out from the wage increases agreed at the sectoral level), the introduction of sub-minima wages for the young and long-term unemployed, the revision of important aspects of firing rules and costs, and the revision of part-time and temporary work regulations. Second, the government will enforce the required changes in wage-setting mechanisms and labour market institutions' (GRE EC 2010: 22).

Measures directed at cutting labor costs intensified further in the adjustment period. Reforms fostering competitiveness included the following: flexibility in working time arrangements was introduced; the minimum wage system was reformed; a shift occurred to firm-level collective bargaining and wage setting; the notification period was reduced for the termination of permanent employment contracts; and wages could not be increased as defined in collective agreements until the unemployment rate falls below 10 per cent (EC GRE 2011: 36–37). This was not all: by 2013, the government was able unilaterally to alter the minimum wage system and initiate further cuts (EC GRE 2013b: 185).

Taking Greece as an extreme case, there are major differences between Portugal and Spain, on one hand, and Latvia and Hungary, on the other. In the former, wage agreements, labour market reforms (including legislative reform), changes in wage setting mechanisms – decentralisation of wage bargaining to company or, at best, sectoral level – and measures aimed at the flexibilisation of the labour market, but also increasing labour market supply happened through an accord between the social partners. For example, in Portugal this was the case with the measure for 'internal adaptability in the company through the flexibilisation of internal mobility, the organisation of working hours and wage bargaining. In addition, various procedures, notably collective dismissal, were also made more flexible' (see POR EC 2011: 23; cf. POR EC 2012: 25–26; ESP EC 2008: 14, 65–72; ESP EC 2011: 16–20; ESP EC 2013: 28, 83, 97). The record in Spain is equally substantial.[15] In contrast, in Latvia and Hungary these measures were introduced unilaterally. Moreover, as labour was already weak or fragmented and wages were comparatively low, it focused mainly on increasing labour market supply, which was characteristic of all cases.

The reform of the labour market and industrial relations is connected to the measure of *increasing labour market supply* by creating incentives

15. The 2011 NRP declares that 'the government maintains its firm commitment to social dialogue as the most balanced and efficient instrument for tackling employment issues and improving the labour market, including the elements of flexicurity. In this context, on 29 July the government and the social partners signed the Declaration to Boost the Economy, Employment, Competitiveness and Social Progress, setting employment as the priority based on a balanced and sustainable economic growth model rooted in increasing productivity. The Declaration is the template for the process of reform to be tackled in this legislature, within the framework of a Social Dialogue strengthened by increasing its scope to include an extensive set of policies in the fields of economic and social policy, and which are essential to reactivate the economy and improve competitiveness.'

for various disadvantaged social groups to enter the labour market, also in line with the Europe 2020 strategy of poverty reduction. Typically, these measures combined a reform (cuts) in social benefit systems, education reforms – to bring disadvantaged groups to the labor market – and changes in labour codes allowing more flexible forms of employment.

The measure of increasing labour supply through providing support for various disadvantaged social groups (young people, women, the disabled) occurred in all cases. This is indirectly a labour cost-related measure, as it puts downward pressure on wages. This support for labour market participation typically came in the form of education and training. In the Latvian case, the measure of strengthening the labour supply is aimed at 'improving the competitiveness of persons at unemployment risk at the labour market, including improvement of skills to match labour market demands' (LV 2013). Similarly, the Hungarian 2012 NRP sets the target of 'improving the "employability" of disadvantaged groups via education', by adjusting 'the skills of workers more to the actual labour market needs' (see also POR EC 2011: 56, 64; ESP EC 2008: 86; ESP EC 2011: 18). The European Commission asserted that these reforms are intended to benefit Hungary's competitiveness (EC 2012a).[16]

As for measures to lower prices in strategic sectors for business (transport, energy), a common measure characteristic of the whole period was liberalisation and sometimes privatisation of sheltered sectors with a dominant presence of state-owned enterprises (such as transport, energy), aimed at increasing competition in the sector and consequently price cuts. Institutionally, this was addressed in all cases in measures to increase the competences and autonomy of the competition authority.

16. In the IMF recommendations, a common justification of labour market reforms, on the pretext of increasing employment, is labour market duality, between employees with permanent contracts and those in precarious employment or no employment at all. As unemployment increased, and underprivileged social groups exist in all societies, given the belief in straightforward market operations, there is a strong reason to even out their employment prospects at the cost of lowering labour standards and the wages of those in employment. Thus there have been increasing calls for wage moderation, lowering labour standards and overcoming 'labour market rigidities in wage setting, employment protection and severance payment' in order to overcome the labour market duality (ESP IMF 2012: 28), implemented with varying intensity.[16] In terms of the labor market, the IMF document formulated 'a need for continuing microeconomic reforms to bring down the stubbornly high rate of structural unemployment and enhance competitiveness within the fixed exchange rate regime' (IMF LV 2013: 17) to promote work incentives via fiscal reforms, such as reducing the duration of family benefits while enhancing formal child care and shifting active labour market policies towards in-work tax credits and benefits, but reducing the guaranteed minimum income (GMI) more gradually with rising income levels (16-17, 37).

Liberalisation was on the agenda already in 2008, although in most cases measures or at least recommendations intensified and became more concrete later. Moreover, in some cases, especially in Greece and, to a lesser extent, Portugal, the liberalisation wave spread to other spheres, especially services and 'regulated professions'.

The variation among cases is significant. Spain embraced liberalisation and pioneered a set of comprehensive measures already in 2008 (see ESP EC 2008: 142, 146). Hungary and Latvia also continuously addressed issues of liberalisation, but focusing on two sectors, energy and transport.[17] Greece, again, experienced the most radical liberalisation in the adjustment period, both extensively and intensively. Extensively, the measures introduced covered not only energy and transport, but also services (related to tourism), retail trade and 'regulated professions' (GRE EC 2013: 42). Measures aimed at 'enhancing competition and competitiveness' accelerated substantially in the adjustment period. They culminated in the 2013 recommendation to remove 'remaining unnecessary restrictions and barriers to entry', as well as liberalisation and privatisation in services dominated by state-owned industries (GRE EC 2013: 76, 194–201). Similarly, somewhat less radically, Portugal also liberalised regulated professions. The Portuguese authorities were also supposed to '[r]educe entry barriers in network industries and sheltered sectors of the economy such as services and regulated professions so as to increase competition and reduce excessive rents' (POR EC 2012: 68), as well as to 'eliminate special rights of the state in private companies (golden shares)' and to ensure fair public procurement processes (POR EC 2012: 74).[18]

In all NRPs, R&D/innovation is addressed, with relatively minor differences between 2008 and the adjustment period. The 2008 NRPs detail concrete, sometimes ambitious projects in support of product development, as well as the contribution of various digital technologies to increase product sophistication and production, all in service of developing a knowledge-based economy[19] (ESP EC 2008: 184). In contrast,

17. In the European Commission's evaluation of liberalisation in transport, there was a 'setback' in Hungary (HU EC 2012b: 10).

18. There was also an elimination of 'context costs' in energy and telecommunications (POR EC 2012: 5), while it is also suggested that 'a reform of port labour and port governance, including the overhaul of port operation concessions, will lead to cost reductions and operational improvements in this part of the transport infrastructure critical for exports' (POR EC 2012: 5).

19. For example, support for projects focused on business and technological modernisation and innovation at SMEs.

NRPs from the adjustment period formulate normative goals of 'structural reforms' and support for innovation led by the private sector with a general aim of returning to the more general goals of increasing R&D/innovation as a percentage of GDP by 2020 (see ESP EC 2011: 21). In all countries, there is arguably more support for innovative, export-driven enterprises or cooperation between enterprises and scientists (LV EC 2013a: 40–44; POR EC 2011: 27–29, 57). Finally, in the adjustment period there are new policies and legislative solutions for investment in R&D/innovation, such as new public procurement laws in Portugal (POR EC 2011: 16) and Hungary (HU 2011: 40). Interestingly, the European Commission criticised Hungary for paying insufficient regard to R&D/innovation (EC 2012) and cuts in higher education.

While R&D/innovation regained its importance irrespective of the crisis in all countries, Greece is an exception, as spending on R&D/innovation decreased drastically in the adjustment period. The 2011 NRP thus formulated a timid recommendation to reconsider revising the target of 2 per cent of GDP for R&D spending down to 0.67 per cent. Modest measures were launched in order to fight the brain-drain and unemployment (EC GRE 2011: 40; GRE EC 2013: 50–51).

Turning to measures related to skill development, from 2008 to the adjustment period a significant change occurred in education goals – at least in some cases – from investment in more general skills to investment in more concrete ones.

The 2008 NRP for Latvia formulated the most generally inclusive education goal as a competitiveness measure. The aim was to:

> [D]evelop qualitative education supply for adults providing sustainable competences for work, civil participation, personality growth and promoting development of competitive knowledge economy based on high skills, as well as a democratic society in Latvia. (LV EC 2008: 14)

Such an assessment differed markedly from reforms in the adjustment period. The direction of reforms is spelled out most specifically for Hungary, exemplified by diversifying the range of non-university, tertiary education and training to address the needs of the labour market.

Table 1 **Types of measures in the National Reform Program (NRP) of selected member states**

Types of measure	Greece	Hungary	Latvia	Portugal	Spain
Improving the business environment via legislative measures	Dominant	Dominant	Dominant	Present	Present
Labour market reforms, deregulated (flexible) industrial relations	Dominant	Present	Present	Dominant	Dominant
Measures to lower prices in strategic sectors for business (transport, energy)	Dominant	Present / continuous	Present / continuous	Present /dominant	Present / continuous
Increase investment in R&D/innovation as a percentage of GDP	Present/ weak	Present	Present	Present	Present
Skills development (education)	Present	Present	Present	Present	Present

Table 1 summarises the findings across cases. We can see that Greece is an extreme case, while the countries of the eastern EU (Hungary and Latvia) and the southern EU (Spain and Portugal) show different patterns. More specifically, the greatest difference is in the stress on flexibilising industrial relations and cutting labour costs in the south (mostly absent in the East), and improving the business environment, which is more pronounced in the east. These differences point to two important structural differences between these two groups of countries. The first is the absence of relevant and strong industrial relations actors, especially sectoral and national level trade unions in the east. The second is the currency and the exchange rate regime: Spain and Portugal (along with Greece), as members of EMU, could not use the flexible exchange rate regime to cut costs, as Hungary could, and thus had to turn to more unpopular measures to cut labour costs directly.

5. Do competitiveness enhancing measures target foreign direct investment and, if so, how?

Perhaps we might expect there to be a straightforward positive relationship between competitiveness enhancing measures and FDI; that is, the more types and specific competitiveness enhancing measures are outlined or implemented, the more stress there would be on FDI. However, content analysis of the relevant documents indicates that ‘FDI’ occurs fairly rarely in recommendations as a policy concern.[20] Nevertheless, as words ‘FDI’ and ‘private investment’ occur more often in the analysed reports since 2010, while FDI and private investment as a policy concern gain in significance in the adjustment period. This also means that although the connection is weak and poorly specified, FDI is still positively associated with competitiveness enhancing measures.

In European Commission recommendations in 2008 the long-term goal is a research and development-driven knowledge-based economy, the production of high value added goods and services and high employment rates (a higher share of exports was also addressed). Typically, increasing FDI was not mentioned, only increasing the share of private investment, mainly in R&D/innovation. In turn, in the adjustment period (2010–2013) the new goal is an export-oriented reorientation and economic recovery, with measures to improve cost competitiveness and increase export potential, which in most cases (LV, GR, HU, PT) goes hand in hand with competitiveness enhancing measures involving institutional reform to attract FDI. There is also substantial variation among cases: recommendations to Greece and NRPs contain the most references to FDI or private investment, while almost none were made with regard to Spain.

What type of the already discussed competitiveness enhancing measures tackle FDI or private investment? A particular type of competitiveness enhancing measure aims at improving the institutional environment for business, favourable legislation and creating supportive public infrastructure for private investment by generally targeting private investment. Within this, the focus shifts to FDI more evidently in countries where private capital is predominantly foreign, as in Hungary. The second type of competitiveness enhancing measure in which FDI is spelled out is investment in R&D/innovation. Finally, more specific measures concern the operation of agencies for attracting FDI.

Greece introduced a new agency for attracting FDI in 2008, with an extensive ‘stock-taking’, brokering role, including a legal expert council to improve the legislative framework for FDI (GRE EC 2008: 46). By 2011

20. I expanded the search to include ‘private investment’ and ‘investment’ to get more results.

measures included adopting a 'Fast Track' legal framework for large-scale investments, a comprehensive strategy to promote exports and the adoption of a new Investment Law; '[m]oreover, a law that modifies the existing institutional framework of the Hellenic Competition Committee and a law that simplifies and accelerates the process of licensing industrial activities, business parks and technical professions have been submitted to Parliament' (GRE EC 2011: 31).

In Latvia the general aim was to attract FDI 'to sectors oriented towards external demand [especially those with high added value]'. A particular type of competitiveness enhancing measure – improving the business environment – was supposed to provide assistance in achieving this goal. A more specific competitiveness enhancing measure was investor motivation 'via the servicing activity of several Latvian agencies which provide the necessary information, communicate with the relevant institutions, offer places for implementation of investment projects … and ensure harmonised inter-institutional cooperation for successful implementation of investment projects'. In 2012, activities for attracting FDI were focused on the priority countries by preparing/developing recommendations for certain sectors and fields and intense investor post-servicing (LV EC 2013a: 38; also LV EC 2011: 16).

Hungary developed a more selective FDI focus, insisting on FDI in R&D/innovation. Thus, as of 2008 drafted decrees were supposed to target prioritised funding of investments in research and development with 'closer cooperation in the domain of FDI' (HU EC 2008: 52). This focus remained also in the adjustment period (HU EC 2012a: 32). The other specific FDI-related competitiveness enhancing measure was to increase the 'competitiveness of a few key industrial sectors and services with FDI involvement in knowledge-intense activities (pharmaceutical industry, biotechnology, the car industry, ICT sectors and business and creative services) with good growth potential … capable of adjusting to the networks of the industrial sector on the global market or supplier chains' (HU EC 2008: 71). Comprehensive education reform was implemented during the adjustment period to attract FDI. The reform included 'diversifying the range of non-university, tertiary education training' to create 'a suitable qualification ratio that meets modern labour market needs' (HU EC 2011: 13).

Portugal's NRPs listed competitiveness enhancing measures related to attracting FDI only in a more general framework. The government was supposed to continue a policy of 'attracting foreign investment to modernise business with strong national involvement' and a general policy of increasing the 'capacity [of the national economy] to attract foreign investments' (POR EC 2011: 16, 22). Although evaluating the country fairly critically as an FDI destination, the reports on Spain did contain explicit measures related to attracting FDI, but only private investment (ESP EC 2013: 8). There is only a general commitment formulated on behalf of both the public and private sectors 'to the physical, human and technological capitalisation of the economy' (ESP EC 2008: 17).

In sum, apart from the cases presented, there is little explicit information on how competitiveness enhancing measures (should) target FDI in the reports. Apart from one progress report (LV EC 2013a), reports do not inform us on how the *mechanism* works or should work, but only suggest that these measures – as part of structural reforms – are a necessary condition of export and private investment-led development. Explicitly stated concerns about increasing or retaining FDI, however, remain modest in the reports.

6. Conclusion: summary and an evaluation of the measures implemented

Structural reforms during the adjustment period produced significant changes, but did not necessarily increase national competitiveness. While cost competitiveness improved and 'structural reforms' gained momentum in all the examined countries they did not produce the anticipated positive effect on growth and employment. More precisely, while unit labour costs decreased below or to pre-crisis levels, minimum wages in all countries fell or stagnated and nominal average wages increased only slightly – as in Spain and Hungary – but mainly remained under the 2008 level. However, compared with 2007, unemployment rates increased in all the countries analysed, while employment rates barely changed. There were also significant changes in trade balances and in expenditure/cuts within the framework of public administration reform, supposedly to create a business friendly environment. As a rule – except in Greece – current account balances in all countries improved consistently from 2009 (with the exception of Latvia in 2011). A major part of this was due to a continuously improving trade balance of goods and services and increased shares of exports in

GDP.[21] Except for Greece,[22] in all countries the rise in export shares in GDP was above 10 per cent, especially until 2012. Cuts manifested themselves also in public administration and social benefits. Nevertheless, GDP growth was modest at best.

The evidence is most negative in the case of Greece: competitiveness enhancing measures were the most radical here, but no economic growth or employment creation occurred. Although it has been argued that '[t]he reforms that have already been enacted in key areas are expected to assist the recovery effort by creating a more competitive and flexible economic environment' (EC GRE 2013: 3), the huge social costs of competitiveness enhancing measures and their implications (for example, a 'brain drain' of the skilled workforce) may lead to radically different outcomes.

Competitiveness enhancing measures targeting poverty reduction and employment generation by reforms of the labour market and industrial relations require more systematic and focused attention. These measures are highly controversial as they seem to have created social conflicts, such as feuds between 'insider' wage earners with standard employment and disadvantaged groups on the outside. Moreover, these competitiveness enhancing measures often restricted or ran against institutionalised practices of including organised labor in decision-making on social policies and wage setting. The long-term impact of these competitiveness enhancing measures is thus important.

Evidence on the impact of competitiveness enhancing measures on private investment and, more particularly, FDI is also inconclusive. Competitiveness enhancing measures specifically targeting FDI varied substantially in the five cases we analysed, ranging from general FDI (Greece) to export-driven FDI (Latvia) and sector-specific 'good FDI' (Hungary, perhaps, or Portugal) or even no measures on FDI, in the case of Spain. As the contributions to this volume show, the record is varies considerably, but overall FDI stagnated or fell below the 2008 level, although sometimes it is difficult even to assess investment data in nationally defined strategic sectors (as in Hungary). After delineating

21. In Greece, the trade balance improved both because imports fell and exports modestly grew after 2009. However, exports did not recover to the 2008 level. Latvia is a partial exception, as the trade balance worsened in 2011 compared with the previous year.

22. In Greece, the export share in GDP grew modestly compared with 2008, by 1.7 per cent (IMF data). In absolute terms, (taking the overall fall in GDP into account) the change is still negative.

periods for examination (for example, competitiveness enhancing measures implemented in 2010–2012 versus 'retained' FDI levels and flows in 2012–2014), it is certainly worth scrutinising in greater depth the relationship between disaggregated competitiveness enhancing measures measures and actual FDI and private investment levels, in various sectors, as well as their purposes. However, this is demanding research outside of the scope of this chapter.

This exercise has other, more general comparative conclusions. There is a clear difference between recommendations for the central and eastern European countries (Latvia and Hungary) and the two southern European countries (Portugal and Spain). The most striking difference is that improving cost competitiveness features higher on the agenda for the south, especially wage cuts or wage moderation, whereas in the east the stress is more on structural measures, such as 'regaining investors' trust' in Hungary, or on improving the business environment in Latvia. The other difference is the complete absence of intermediation of competitiveness enhancing measures via social dialogue in central and eastern Europe. Social dialogue is judged to be an important mechanism in southern Europe for implementing competitiveness enhancing measures, but its significance faded in the adjustment period. The most radical case is that of Greece, as it combines extremes of both. Similar to Spain and Portugal, recommendations focused on decreasing or moderating labour costs. In the adjustment period competitiveness enhancing measures increasingly emphasised structural measures, even more than in Hungary and Latvia.

In the analysed reports, competitiveness and thus also competitiveness enhancing measures are not defined strictly. Due to the level of abstraction associated with it, it functions rather as a 'fuzzy concept' (Lakoff 1973). Furthermore, definitions of competitiveness are fragmentary, and change over time, especially in the adjustment period, compared with 2008. There is also a major difference in measures proposed and associated definitions of competitiveness between the European Commission, on one hand, and the IMF and the OECD, on the other, which is particularly manifest in the pre-adjustment period. The authors of the IMF and – to a lesser extent – the OECD documents stress 'external competitiveness'. While generally more concerned about R&D/innovation and issues of non-cost competitiveness, during the adjustment period European Commission recommendations also seem to shift more focus onto external competitiveness. In terms of the classification of measures, the strongest emphasis, especially in the adjustment period, was on improving the cost competitiveness of business (by decreasing labour costs and administrative costs), improving the general environment for business (where the measure of public administration reform was high on the agenda) and price competitiveness via liberalisation and privatisation in sheltered sectors. There was much emphasis on non-cost competitiveness measures and these occurred only in EC documents.

In this chapter I have attempted to shed light on concepts and discourses surrounding competitiveness and its relationship to FDI. We have seen that competitiveness enhancing measures only sporadically aim at increasing FDI and somewhat more systematically target private investment more generally. In some countries, private investment is supported by government measures only in selected sectors. The findings also indicate that the major general measure of structural reform tackled in all five cases – in varying intensities – concerns the 'institutional environment' facing investors, but also institutions of industrial relations and public governance. In this sense, after 1989, it is justified to stress again the issue of institution building.

Two major limitations of this chapter remain, stemming from the methods and data used to assess the impact of competitiveness enhancing measures on FDI. The empirical material on which this chapter is based – reports of supranational agencies – provide us with only an initial overview, a potential map for further research on competitiveness enhancing measures and its impact on FDI. Therefore there is room for more in-depth research, which brings us to the selection of methods and data. A deeper assessment would necessitate a more targeted analysis of specific competitiveness enhancing measures and rely on other methods of data collection, including interviews with relevant actors, such as leaders of FDI-targeting agencies in the countries analysed. This would provide us with a more precise assessment of which competitiveness enhancing measures attract FDI and how. One could evaluate specific competitiveness enhancing measures targeting FDI, such as investment in R&D/innovation in various countries. Similarly, for example, for Hungary there is good reason to believe that during the drafting of the new Labour Code in 2012, concrete measures for attracting and retaining FDI in metal manufacturing were important. A concrete case study could spell this out in more detail.

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Annex

Documents analysed

EU level

AGS 2011	Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions. Annual Growth Survey: advancing the EU's comprehensive response to the crisis, Brussels, 12.1. 2010.
AGS 2012	Communication from the Commission Annual Growth Survey 2012, Brussels, 23. 11 2011.
AGS 2013	Communication from the Commission Annual Growth Survey 2013, Brussels, 28.11.2012.
EUROPE 2020	A strategy for smart, sustainable and inclusive growth. Communication from the Commission, COM(2010) 2020, Brussels, 3.3.2010.

National level

Greece

EC GRE 2008	Ministry of Economy and Finance (2008) National Reform Programme for Growth and Jobs 2008–2010, October 2008.
GRE EC 2010	EC Directorate-General for Economic and Financial Affair (2010) The Economic Adjustment Programme for Greece, European Economy Occasional Papers No. 61.
GRE EC 2011	Hellenic Republic, Ministry of Finance (2011), National Reform Programme 2011–2014, April 2011.
GRE EC 2013a	Ministry of Finance, Greece (2013) Greek National Reforms Program April 2013
GRE EC 2013b	European Commission Directorate-General for Economic and Financial Affairs, The Second Economic Adjustment Programme for Greece, Second review – May 2013.
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