THE CONTRIBUTION OF FOREIGN DIRECT INVESTMENTS TO PERFORMANCE AND COMPETITIVENESS GROWTH OF RECEIVERS COUNTRIES

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Abstract
Attracting the direct foreign investments represents one of the economic systems' priorities, both at the microeconomic and macroeconomic level. The typology, the particularities and objectives of these investment processes determined certain transformations on worldwide level of the financial flows, a significant growth being observed at the level of the emerging countries. The objective of the present paper is the identification and quantitative and qualitative analysis, based on statistic information, on the contribution of the direct foreign investments to the performance of the countries in Central and Eastern Europe..
Keywords: foreign direct investments, performance, competitiveness, Central and Eastern Europe.

1. INTRODUCTION

The need of capital and investments, which amounts to a level well above the current internal resources of each country, highlights the use of foreign capital as foreign direct investments. By supplementing domestic capital resources, the deficit between domestic savings and investment needs is reduced, resulting in a more efficient use of local resources. The inflows of the FDI stimulate the orientation of local investments in economic activities upstream or downstream of the foreign capital transmitter's main activity thus contributing indirectly to the mobilization of local saving in productive activities (Mazilu, 1999).

Upon the entry of FDI in a country, there is an interest of both the transmitter of foreign capital and the receiving country.

The main interests of foreign investors in the host country target local market penetration of the receiving country and thus expanding the market share of foreign investors, the access to local resources (natural, human, technological) of the host country, the access to inputs that have a low cost (they provide a competitive advantage based on costs), the access to a higher research – development potential. (Iacovoiu, 2009).

The access to the local market is essential for foreign investors aiming at expanding products and services market and targeting the development of distribution channels with long-term economic effects (Leitão, 2011).

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The access to local resources and inputs with low cost has a significant impact on the foreign investors' strategy. The investor, in most cases, will relocate the production in the host country, focusing on exports and, in a small manner, on meeting the domestic country's market demand. The main interests of the FDI receiving country refer mainly to reducing the need for foreign capital investment by increasing the internal resources necessary to support economic development and higher performance, the access to foreign investor's technology and know-how necessary to implement in the Romanian companies, thus seeking to increase national competitiveness in foreign markets and improving the credibility of the host economy given by the presence of translational corporations in the country, which will facilitate the financial inflows and the credits (refundable and non-refundable) from international institutions. (Mazilu, 1999). The benefits of the foreign direct investments on performance, competitiveness and economic development of the host country at both micro and macro should be a starting point for establishing the strategy of Central and Eastern European countries in order to attract greater foreign capital inflows.

2. THE EFFECTS OF FDI ON MACROECONOMIC BACKGROUND

The effects of FDI on macroeconomic background mainly refer to sustaining economic growth and to the impact on the balance of payments and current account balance of the host country.

A. The role of FDI in sustaining economic growth

There is a bidirectional relationship between FDI and economic growth: on one hand the flow of FDI from one country sustains the economic development of that country, and, on the other hand a sustainable economy is a catalyst for attracting foreign capital flows. (Iacovoiu, 2009, Bi and Colesca, 2006). To determine the impact of FDI flows on the host country growth, the direct link between two macroeconomic indicators (FDI stocks as a percentage of GDP and real GDP growth rate) is analyzed in table 1.

TABLE 1 – FDI STOCK AS A % OF GDP AND REAL GDP GROWTH RATE

Country	FDI stocks as a % of GDP			Real GDP growth rate (%)										
	2000	2006	2008	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Romania	18,8	33,6	36,7	2,1	5,7	5,1	5,2	8,4	4,1	5,5	5,1	6,0	7,1	-7,1
Bulgaria	21,5	65,8	92,2	5,4	4,1	4,9	4,5	5,6	5,5	6,0	6,0	6,2	6,0	-5,0
Czech Republic	38,2	54,8	52,7	3,6	2,5	1,9	3,6	4,2	6,0	5,3	4,7	6,0	3,0	-4,1
Poland	20,5	30,6	30,7	4,2	1,1	1,4	3,8	5,3	3,2	4,5	4,6	6,6	4,8	1,7
Hungary	48,6	73,0	41,4	6,0	4,3	3,8	3,4	5,2	4,1	4,6	4,2	1,3	0,6	-6,3

Source: Statistical reports UNCTAD (UNCTAD, 2007; UNCTAD, 2010)

The data from Table 1 illustrates the main trend in the evolution of these countries in the period 2000-2009. However, the year 2010 deflects from the general trend. Therefore:

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1.   It can be noticed that developed economies like Czech Republic, Poland experienced moderate growth rates (real GDP growth rate below 4%), while countries such as Romania, Hungary, Bulgaria experienced a strong growth (real GDP growth rate above 4%). In the year 2010, when the crisis hit the economy of all these countries, the following fact can be observed: developed countries (Czech Republic, Poland) which have a durable and sustainable economy experienced a decrease of the real GDP rate smaller than the other three countries that have experienced an accelerated decrease.

2.   In Hungary, Bulgaria and Czech Republic, the inflow of FDI contributed significantly to economic growth (FDI stock as a percentage of GDP is above 40%) while in countries like Romania and Poland, the influence of FDI inflows on economic growth is low (FDI stock as a percentage of GDP is under 40%).

Observing these trends, the five countries analyzed can be divided into four categories, represented in table 2:

TABLE 2 – RELATIONSHIP BETWEEN FDI INFLOWS AND ECONOMIC GROWTH IN THE ANALIZED COUNTRIES

	Significant contribution of FDI inflows (FDI stock as a percentage of GDP is above 40%)	Insignificant contribution of FDI inflows FDI stock as a percentage of GDP is under 40%)
Strong growth (real GDP growth rate above 4%)	1. Bulgaria, Hungary	2. Romania
Moderate growth (real GDP growth rate below 4%)	3. Czech Republic	4. Poland

The evolution of the countries from the first category highlights in the best manner the positive bidirectional relationship between incoming FDI flows and economic growth. Example: starting with the year 2000, when FDI inflows began to grow, Bulgaria started to record growth rates over 4%. Meanwhile, the growing economy attracted more foreign capital flows, so that in 2006 attracted FDI stock represented about 66% of GDP. The real GDP growth rate reached values above 6% until the year 2009. The sudden decrease from 2010 was due mostly because of economic and financial decline recorded worldwide. In the second category is Romania, which, although experienced higher growth rates, they were not supported in the same measure by FDI inflows. In the third category is Czech Republic, country in which the economic growth was moderate but supported by FDI inflows, leading in turn to foreign capital attraction. In the last category is Poland, a country with a developed economy, in which the FDI inflows are lower that the FDI outflows and where the competitiveness and innovation of the local companies allow a growing economy.

In conclusion, the analyzed countries can be classified in 2 categories: economies that have achieved the necessary FDI inflows in order to generate economic growth such as Bulgaria, Hungary and Czech Republic and economies that have a strong growth rate which is not supported by the foreign capital (Romania and Poland).

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B. The influence of FDI on the balance of payments

The impact of FDI on the balance of payments can be point out by taking in account the effects of investments projects (with foreign capital funding source) on the trade balance and current account. The effects are the following:

- in the first stage (investment), the capital inflows are a mean of balancing the balance of payments because they finance the current account deficit;

- in the second stage (implementation of the investment), due to massive imports made by foreign companies (equipment, machines, raw materials), a negative effect against trade balance is noticed.

- in the third stage (development of the investment), positive effects on the trade balance are notices, if the investitors decided to sell the production on external markets. On the current account, positive effects can be observed when the profits are reinvested in the host country and capital outflows as dividends are not significant.

To determine the impact of FDI flows on balance of payments, the direct link between two macroeconomic indicators (trade balance and current account – Table 3) is analyzed.

TABLE 3– THE EVOLUTION OF TRADE BALANCE AND CURRENT ACCOUNT IN PERIOD 2001-2009 (MLD €)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009
Romania	-2,5	-1,6	-2,9	-5,1	-6,9	-10,2	-16,8	-16,2	-4,9
Bulgaria	-1,1	-0,9	-1,5	-1,3	-2,7	-4,6	-7,8	-8,2	-3,5
Czech Republic	-3,7	-4,4	-5,0	-4,7	-1,3	-2,7	-4,1	-1,0	-1,5
Poland	-6,6	-5,9	-4,9	-8,2	-3,0	-7,4	-14,7	-17,4	-6,8
Hungary	-3,6	-4,9	-5,9	-6,8	-6,4	-6,8	-7,0	-7,7	-0,4

Source: EUROSTAT (2011) statistical reports

Although the overall evolution of the five countries is negative, analyzing the intensity of deterioration of trade balance in 2008 and comparing it with 2001, the countries can by divided in two categories:

- countries where the trade deficit widened significantly (at least three times) as Romania and Bulgaria.
- countries where the negative trend is not pronounced (up to three times) as Poland, Czech Republic and Hungary.

Analyzing data referring to the evolution of trade deficit with the involvement of FDI in economy, we can group the five countries as follows (table 4):

TABLE 4 – THE RELATIONSHIP BETWEEN FDI AND THE TRADE DEFICIT

	SFDI	USFDI
Strong growth of trade deficit	1. Bulgaria	2. Romania
Moderate growth of trade deficit	3. Czech Republic, Hungary	4. Poland

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Bulgaria has experienced a sharp increase in the trade deficit suggesting the negative impact of foreign capital on the trade balance caused by the increasing of imports of machinery, raw materials. In the second category is Romania, a country with a widening trade deficit for the analyzed period, but, given the fact that FDI inflows have a little impact on economic growth, it can be concluded that the widening trade deficit is not due to foreign companies' activities. Countries from the third category not only benefited from FDI inflows but what is most important, the inflows were directed mainly to exports or to goods which have replaced imports contributing to the trade deficit reduction. In the last category, the trade deficit increased moderately and in the same time the FDI inflows were insignificant. In the year 2009, we can see that the situation changes radically in all the examined countries, all, except Czech Republic, experiencing a significant financial deficit improvement. This situation should not be seen as something positive because the financial deficit improvement is not due to export growth but rather due to imports decrease which are due to drastic reduction of FDI inflows. The values for these five countries are presented in table 5 and table 6.

TABLE 5 – EXPORTS, IMPORTS, FDI IN 2007-2009

Country	2007			2008			2009		
	E (mld €)	I (mld €)	FDI (mld $)	E (mld €)	I (mld €)	FDI (mil $)	E (mld €)	I (mld €)	FDI (mil $)
Romania	46	62,8	9,9	53,5	69,7	13,9	44	49	6,3
Bulgaria	20,4	28,1	12,4	23,2	31,3	9,8	19	22,4	4,4
Czech Republic	109,4	113,5	10,4	123,6	124,6	6,5	101,3	102,7	2,7
Poland	145,4	160,1	23,6	164	181,4	14,7	138,7	145,4	11,4
Hungary	88,2	95,2	71,5	93,1	100,9	62	78,7	79,1	5,6

Source: Statistical reports EUROSTAT (2011) and UNCTAD (2010)

TABLE 6 – COMPARISON BETWEEN IMPORTS, FDI AND TRADE DEFICIT 2008-2009

Country	2008			2009			I 2009/2008	FDI 2009/2008	Trade deficit 2008/2009
	I (mld €)	FDI (mil $)	Trade deficit	I (mld €)	FDI (mil $)	Trade deficit			
Romania	69.7	13.9	-16.2	49	6.3	-4.9	-30%	-55%	331%
Bulgaria	31.3	9.8	-8.2	22.4	4.4	-3.5	-28%	-55%	234%
Czech Republic	124.6	6.5	-1	102.7	2.7	-1.5	-18%	-58%	67%
Poland	181.4	14.7	-17.4	145.5	11.4	-6.8	-20%	-22%	256%
Hungary	100.9	62	-7.7	79.1	5.6	-0.4	-22%	-91%	1925%

Source: Own calculation based on statistical reports EUROSTAT (2011) and UNCTAD (2010)

It can be observed that Romania has experienced an improvement in trade deficit by 331% mostly due to imports decrease with 30%, a decrease caused by another drop: FDI inflows dropped with about 55%. The situation with a long term negative impact is similar in all the analyzed countries.

Regarding the current account, the statistics for the period 2001-2009 are presented in Table 7. The following tendencies can be noticed:

- In 2008, all the five countries are facing current account deficit at a lower level than in the previous year, but yet very high in some countries such as Bulgaria (-25,2%) and Romania (-11,9%). In contrast, the other three countries register lower values between 3% and 7% from GDP.

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- In the year 2009, the current account deficit is reduced in all the five countries reaching values under 10%. Moreover, Hungary was able to reach a current account surplus of +0, 17% from GDP.

- In the year 2010, the situation remains positive for Hungary, the surplus reached +0, 5% from GDP. In 2011, a surplus growth of +0,7% from GDP is forecasted.

TABLE 7 – CURRENT ACCOUNT IN 2001-2011 (% FROM GDP)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Romania	-5,5	-3,3	-5,5	-8,4	-6,8	-6,1	-13,6	-11,9	-4,46	-5,1	-5,4
Bulgaria	-7,3	-5,6	-8,5	-6,6	-12,4	-17,8	-25,4	-25,2	-9,45	-3,0	-3,1
Czech Republic	-5,3	-5,6	-6,2	-5,4	-1,8	-3,3	-3,3	-3,1	-1,1	-1,2	-0,6
Poland	-2,8	-2,6	-2,1	-4,0	-1,2	-2,7	-4,8	-5,1	-1,7	-2,4	-2,6
Hungary	-6,0	-7,0	-7,9	-8,4	-6,8	-6,1	-6,8	-7,1	+0,17	+0,5	+0,7

Source: www.economywatch.com; * forecasted

Correlating these tendencies with data referring to FDI involvement in the economy, we can group the five countries into three categories presented in table 8:

TABLE 8 – THE RELATIONSHIP BETWEEN FDI AND CURRENT ACCOUNT DEFICIT

	SFDI	USFDI
Current account deficit increase	1. Bulgaria	2. Romania, Poland
Current account deficit decrease	3. Czech Republic, Hungary	

The evolution of the countries from the third group is notable. These countries, due to FDI inflows, registered a decrease in the current account deficit. This demonstrates the positive impact of FDI flows that represent an important source of financing the current account deficit.

On the opposite side is Bulgaria, where the significant FDI stocks have generated an increase in the current account deficit, the net impact of FDI being negative. The main causes for this situation are: the deepening of trade deficit due to imports of foreign companies and the tendency of foreign investors to repatriate profits from the host country. Romania and Poland registered an upward trend of the current deficit in the last three years due to a low inflow of foreign capital.

In conclusion, we can say that the impact of foreign capital in the analyzed countries is different, depending on certain conditions from each country. Thus, in Hungary and Czech Republic, FDI inflows have been achieved while reducing trade and current account deficits. In Bulgaria, the balance of payments deficit widened, situation caused also by the foreign companies' activities.

Romania is the only country which, even if it didn't have significant FDI inflows, it realised an increase of the trade and current account deficits. This can suggest that the negative influence was caused by other factors and not by FDI.

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3. THE EFFECTS OF FDI ON MICROECONOMIC BACKGROUND

The effects of FDI on microeconomic background are observed particularly on labour force and development – research – innovation activity.

A. The effect of FDI on labour force

To highlight these effects, we will analyze the evolution of specific indicators such as unemployment and life long learning.

Unemployment

Statistical data referring to unemployment in period 2004-2009 compared with the evolution of the Greenfield investments financed by FDI is as in Figure 1 and Figure 2:
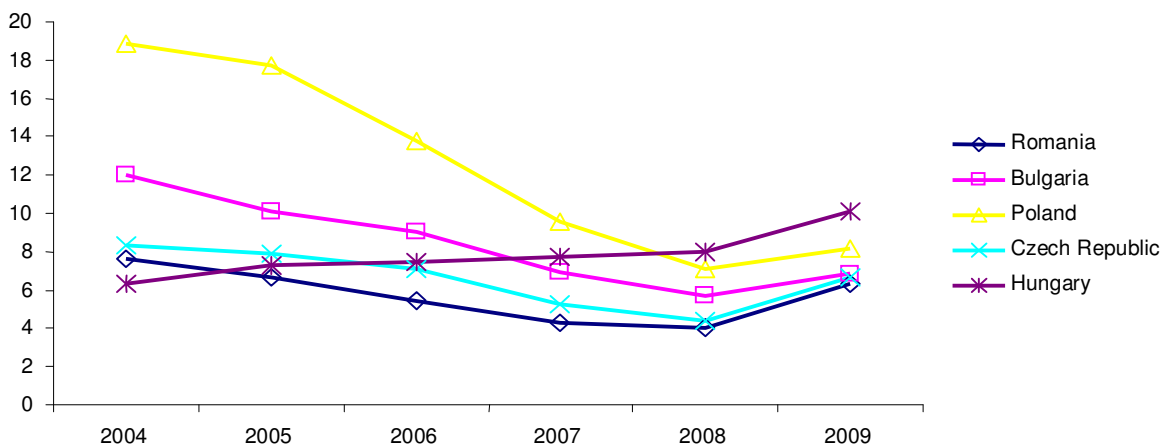
FIGURE 1 – UNEMPLOYMENT 2004-2009
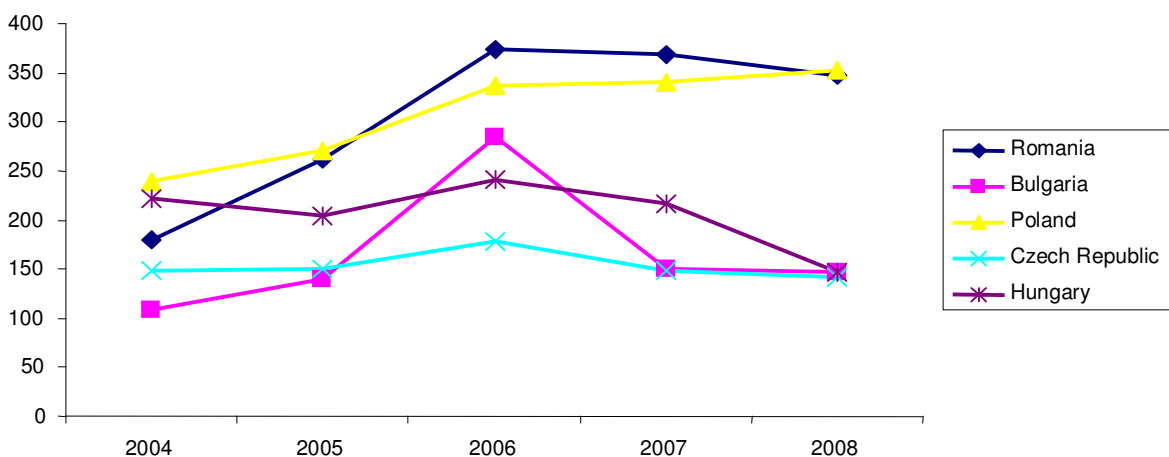Source: www.economywatch.com

FIGURE 2 – EVOLUTION OF GREENFIELD INVESTMENTS FIANNCED BY FDI
Source: UNCTAD, 2009, pg. 212

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As can be seen in Figure 1 and Figure 2, the two graphs are in a mirror, when the number of greenfield investments is lower (2004 - 2005), the unemployment is higher and when the number of greenfield investments trends to the maximum level (2006 - 2007), the unemployment reached a minimum level.

Thus, in Romania, the lowest values of unemployment are achieved in 2007-2008, while the number of greenfield investments reached the highest level in 2006-2007. The same situation is observed with the other four countries.

Life long learning

Increasing the quality of human resources through training is reflected in an indicator called life long learning. In table 9, this indicator refers to people aged 25 to 64 who stated that they received education or training in the four weeks preceding the survey as a percentage of the total population of the same age.

TABLE 9 – LIFE LONG LEARNING 2002-2009 (%)

Country	2002	2003	2004	2005	2006	2007	2008	2009	2009/2002
Bulgaria	1.2	1.3	1.3	1.3	1.3	1.3	1.4	1.4	16.67%
Czech Republic	5.6	5.1	5.8	5.6	5.6	5.7	7.8	7.6	35.71%
Hungary	2.9	4.5	4	3.9	3.8	3.6	3.1	2.7	-6.90%
Poland	4.2	4.4	5	4.9	4.7	5.1	4.7	4.7	11.90%
Romania	1	1.1	1.5	1.6	1.3	1.3	1.5	1.5	50.00%

Source: Statistical reports EUROSTAT (2011)

Overall, an increase of this indicator in the surveyed countries can be observed. The exception is Hungary, where this indicator drops by 6.90% in 2009 compared to 2002. The first places are occupied by Czech Republic (7.60%) and Poland (4.70%). Although Romania had a significant increase compared with the year 2002, it is on the fourth place. The data demonstrates that the countries which had a massive input of foreign capital (Hungary, Bulgaria) have not registered the best values of this indicator. This proves that foreign investor's preference is oriented to a cheap and qualified labour force instead of an expensive, specialized and based on knowledge and technology labour force.

B. The effect of FDI on research – development - innovation activity (RDI)

Once with internalization of production and globalization of economic flows, transnational companies play a major role in the process of technological innovation. Transnational companies, issuers of FDI, are pursuing one of the following objectives (Iacovoiu, 2009):

- Whether the internalization of production to have access to natural resources and cheap labour force, leaving the activity of RD in the background;

- Or seeking to gain access to RD local opportunities, thus placing the RD in the foreground activities.

Investors from the second category represent an opportunity for the host country because they not only allow a transfer of know-how but they also allow the host to connect to the global network of research and technological innovation, thereby increasing the opportunity to develop their own innovation capabilities.

Eurostat managed to measure innovation in several European countries through an indicator called "turnover from innovation - % from total turnover". This indicator is defined as the ratio of turnover from products new to the enterprise and new to the market as a % of total turnover. It is based on the Community innovation survey and covers at least all enterprises with 10 or more employees. An innovation is a new or significantly improved product (good or service) introduced to the market or the introduction within an enterprise of a new or significantly improved process.
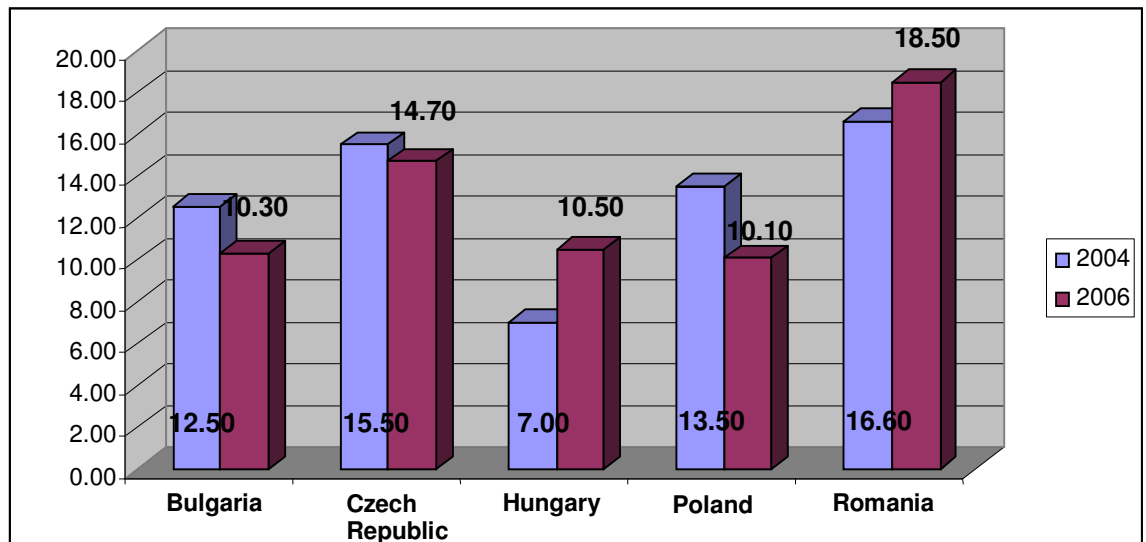

FIGURE 3 – TURNOVER FROM INNOVATION - % FROM THE TOTAL TURNOVER
Source: Statistical reports EUROSTAT (2011)

As can be seen in the Figure 3, on three of the five countries, namely Bulgaria, Poland and Czech Republic, there is a downward trend of the analyzed indicator in 2006 compared with 2004, higher in the first two states. In contrast with this situation is Hungary, which has an increase of this indicator with 3.50% (from 7% in 2004 to 10.5% in 2006).

It can be concluded that in 2006, from the countries that had a massive inflow of foreign investments, only Hungary was able to benefit from a significant increase of this indicator suggesting the positive impact of foreign business activities on the technological and innovative potential of this country. In the other two states, where there were massive inflows of foreign capital (Bulgaria and Czech Republic), the value of this indicator decreased in 2006 compared with 2004. This may suggest that the activities of foreign companies in these countries focused mainly towards internalization of production to have access to natural resources and cheap labour force, leaving the RD in the background.

Romania, although it has not benefited from significant inflows of foreign capital, is among countries that have experienced an increase of this indicator in 2006 compared with 2004 by 1.9%. This increase can be explained by the fact that the activities of foreign companies have been focused both on the internalization of production and also on the research – development activity leading to increase the technological and innovative potential of Romania.

4. CONCLUSIONS

In the countries of Central and Eastern Europe, attracting FDI is one of the most viable solution to supplement domestic resources and thus to cover capital investment requirements. The effects of capital inflows of FDI have an impact on the economy of host country resulting in increased performance and competitiveness.

When a foreign investment is made, there is a different interest of both parties. The investor seeks access to local market; access to local resources and to low cost inputs and the host country seeks to obtain additional capital resources and the possibility to access the technology and know-how of the investor.

The most important benefits of capital inflows of FDI based on statistical information provided by competent international institutions (UNCTAD and Eurostat) are:

- on the macroeconomic level – on economic development, balance of payments and current account balance;

- on the microeconomic level – on labour force and research – development – innovation activity.

Given the proven benefits of FDI inflows, each country must establish a strategy aimed to attract foreign capital. The strategy should follow:

- creating of a legal framework positive for FDI inflows, stable and transparent which should facilitate the access of foreign investors on local market (incentives, exemption from income tax and customs duties);

- eliminating of country risk (the possibility of financial losses of foreign investors due to problems from the host country). The components of country risk are: macroeconomic policy, trade strategy, investment priorities, political and financial strategy.

- providing access to necessary facilities: ensuring adequate infrastructure, access to water, electricity, internet.

Each country should understand the positive effects of foreign capital inflows and act as to attract more investments.

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