ECONOMIC DEVELOPMENT AND FOREIGN DIRECT INVESTMENTS

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Abstract: This article surveys the latest developments in the literature on the impact of inward foreign direct investment on growth in developing countries. In general, FDI is thought of as a composite bundle of capital stocks, know-how, and technology, and hence its impact on growth is expected to be manifold and vary a great deal between technologically advanced and developing countries. The ultimate impact of FDI on output growth in the recipient economy depends on the scope for efficiency spillovers to domestic firms, by which FDI leads to increasing returns in domestic production, and increases in the value-added content of FDI-related production. The FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. However, the higher productivity of FDI holds only when the host country has a minimum threshold stock of human capital. Thus, FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy.

INTRODUCTION

It is often stated that a high level of foreign direct investments in a country generates growth effects on the economy of the home country by facilitating local investments, increased consumption, the transfer of technology and the know-how, by the increase of exports, etc. At the same time, the entrances of capital though the portfolio foreign investments lead to the development of the capital market, of the specific understructure or to the capital cost cutting. Irrespective of the form the foreign investments are carried out, it is certain that the presence of the foreign capital in the home country is contributing, along with local economization, to the cover, even partial, of an economy’s financing outfit. The penetration of foreign capital is seen as a prerequisite of general development, due to its effects of entailing spread in the entire economy.

MATERIALS AND METHODS

Research methodology includes „bottom to top” analysis of the mentioned indicators. The economic method of comparison has been used to compare macroeconomic effects and positive implication of foreign direct investments is determined by their contribution to economic growth.

RESULTS AND DISCUSSIONS

Under the circumstances of passing to the market economy, in the ex-communist countries the private property has reborn, the main investors being persons or private companies. In turn, they seek primarily to obtain most profit. This situation results in a certain convergence of interests between the foreign and the autochthonous investor.
However the practice demonstrates that this convergence of interests at micro economical level often is in divergence with the macro economical interests. For the private investor the destination and the field for his project of investment are less important, it only counts whether it will bring certain and great profit, while the macro economical interest demands a certain orientation of the new investments towards domains of national interest or, at least, towards domains approved by national interest.

Under the circumstances following the abolishing of the communist totalitarian system, on one hand, and the increase in globalization processes of economy problems and the intensification of integration tendencies on all continents, especially on the European one, on the other and, the countries in transition have a series of interests convergent with those of developed countries, among them the following being worth mentioning:

- The harmonization of levels of economic development and the creation of increased possibilities of economic revitalization for this group of countries;
- Creating the conditions for more intense use of human resources at their dwelling place and preventing their emigration to industrially developed countries;
- The intensification of international division of labour in order for more countries to become developed and to be able to act as suppliers of technology and science in exchange for the imports, both of other technical-scientific knowledge and of cheaper and more performing end products;
- The more efficient use and in improved ecological conditions of the mineral resources, allowing a longer period of time covered by these resources;
- The consolidation of the democracy in countries in transition;
- Creating the necessary conditions for the process of economic and political integration at the level of the entire European continent.

On the other hand, a series of specific interests of the developed countries are more evident, but they do not overlap those of the receiving national economies, such as:

- Ensuring profitable investments of the excess of capital accumulated on the capital market and in the western banks, which are not conveniently turned to good accounts in their own national economies;
- the intention to create new commodity markets for specific products of high technological level and which can not be accomplished on their market without the development of the technological level of the other economies;
- the interest for expanding the presence of capital and of control over other national economies in order to obtain possible advantages from it;
- the tendency to take control over major important economic units or fields, by so-called strategic investments, which often target the portfolio investment.

In addition, certain divergences of interests occur even at internal level of national economies of developed countries exporting foreign direct investments, between the orientations towards the exterior of potential investors and the general interests of national governments of their home countries, which consider the exports of foreign direct investments as being a cause of negative effects on the level of specific employment in these national economies. Exporting foreign direct investments is often considered an export of employment by these countries. As such, by example, certain empiric researches on the impact of exporting foreign direct investments, based on long-term observations, of German experts, have revealed a series of fears of the German government for the fact that by the foreign direct investments of German companies in different regions of the world, there will be some blocking of the employment in the specific national economy. The research carried out in this
field has revealed however that these effects of foreign direct investments are not very important.

The employment developed on other markets as a consequence of these exports of foreign direct investments are competitive only to a limited extent, having a complementary role beside the economy of the countries exporting foreign direct investments. However, there is a certain influence and it is causing the policies of countries developed towards ISD export, especially in countries in transition, to be followed with consideration and interest, correlated with the national interest of protecting specific employment.

The foreign direct investments generate benefits for the receiving countries which are often more important than the capital itself. A positive implication of foreign direct investments is determined by their contribution to economic growth. This is performed in different ways, just like the foreign investment takes the form of a new investment (greenfield) or of a participation of the foreign investor in the privatization process.

Foreign direct investments can lead to an increase of local investments, given that national companies can become suppliers of the foreign investor, can gain access to their distribution channels or can be simply stimulated to invest in order to keep up with the competition determined by the presence of the foreign investor.

Certain types of privatization require great quantities of capital and the capacity to carry out complex economic analyses. Foreign investors can contribute to this, not only because of their possibility to gather large amounts of money for buying a unit, but also for their possibility to make further investments and to quickly develop the efficiency of the unit going through the privatization process.

The reduction of internal investments financed by the state and the taking over of part of the investment by the foreign investors, contribute to a better situation of the balance of payments by reducing the amount of capital goods imported by public financing. At the same time, a great amount of foreign direct investments also leads to a modification of the field structure and to an improvement of the technical level. In addition, foreign direct investments determined by the participation in the privatization process can also have favourable effects on the balance of payments, offering important values of capital in critical periods.

Foreign investments contribute both directly, as well as indirectly, to the reduction of the deficit in the current account. The increase in foreign investments by materialization in productive unities directly contributes to balancing the balance of trade, in the sense that by manufacturing more goods with a similar quality to that of the country generating the investment, the exports will increase and the imports will be decreased. The second way to cover the deficit of the current account is the effective entrance of foreign capital, improving the country’s position as current account.

Foreign investments are benefic for the balancing the current account of the balance for external payments not only on short term, but their effect is very important on average and long term, by the effect the productive unities have on the country’s balance of trade, on imports and exports. Therefore, the level of entrances of foreign capital in the form of direct investments in a certain year can be less important, but the consolidated level of investment over several years becomes very important.

Foreign direct investments have immediate effects on the balance of trade. The practical achievement of the investments causes at the initial moment the importation of machines and equipments, financed by the foreign investor. This way is solved the blockage caused on one hand by the lack of currency at the state’s level or of autochthonous entrepreneurs in order to accomplish the respective imports, and on the other hand by the lack in the internal production of the respective equipment (with competitive technical parameters).
If the foreign investor is producing primarily for export, then, depending on the destination of the returns, there is the possibility of a positive effect on the balance of trade. A positive effect can be obtained also for the production on the internal market, if this way a substitution of certain imports will be achieved [1].

One of the most important contributions of foreign direct investments to the economic development of the home country is considered to be the transfer of performing technologies. This is especially necessary for the less developed countries which, by definition, are far from innovations and the level of applying the technologies. A great share of the technological innovations are accomplished in the trans-national corporations, because they have the financial power to support the expensive research-development activities but also to apply them, in profitable conditions, by distributing the end product on great markets. Technologies cannot always be marketed as a physical product, and their owners do not agree sometimes to offer them by licensing contract either, due to the fact that they can be copied and used by persons who have not invested in their development. Technological superiority creates a comparative advantage and represents a main source of the external trade and at the same time the spreading and the imitation of the innovations in other countries. It also contributes to the attenuation and even the elimination of technological differences and thus to the transformation of these countries in producers and, subsequently, exporters of services [2].

Foreign direct investments represent therefore not only a source of capital, but also a method of attracting advanced technologies in the receiving economies. The technological contribution brought by the foreign capital represents an important factor of the impact of foreign direct investments. It is well-known that great trans-national companies are the greatest producers and users of advanced technologies. They are permanently seeking and elaborating new performing technologies, assuming enormous expenses for research-development. By their intensive use subsequent continuous increase in the productivity of production factors and of profit value is ensured. This way can also be explained the advantages held by great companies on international markets. Nowadays technologies are considered one of the main factors of ensuring economic growth. The transfer of technology generates positive effects by stimulating innovation and the spreading of respective technologies at the level of local companies.

By modern technologies and the know-how, foreign direct investments contribute to surpassing certain obstacles standing in the way of local companies, regarding the increase of economic performances, of international competitiveness. The analysis of this aspect has demonstrated that the process of restructuring, re-technologization and modernization is also inherent for the local economic agents, which target the increase in the competitiveness of products or services offered on the market. Suppliers of stock and other components are forced to perfect specific technologies, in order for the supplied production to correspond to technological requirements applied for units with foreign capital.

As against the foreign investor, most often the home companies use equipments and technologies with physical and moral wear which cause reduced productivity and lead to the realization of low quality level products. This reduces the capacity of the respective companies to compete on the international market and implicitly to collect the currency from export. By foreign direct investments the investor will bring advanced technologies, know-how and modern production techniques. At the same time, this infusion of technology can also have entailing effects in the economy by stimulating local innovation or spreading modern technologies in other companies than those where the initial investment was made.

The transfer of technology and of know-how is an important motivation of the interest for the foreign capital. The difference in development as opposed to the developed countries
require an endowment of developing economies in transition to the market economy with new, advanced and performing means of production and technologies. Material and human resources rationally used would lead to an increase in the quantity and the quality of products and services offered on the market and consequently will certainly lead to competitiveness on international markets.

*Taking over and implementing of new forms and methods of management* also represents a component of the restructuring necessary for the success of transition. An innovative and strategic management, with a wide view on rapid transformations and on competition on the market will be the basis of a progress of production activity of each economic agent creating favorable perspectives for the development of the entire economy. The transfer of managerial, organizational and marketing competences represents an important component of the investment package for the home economy, these aspects being critical for revaluating production factors existing at local level and for increasing production competitiveness, and by this the competition. With a wide practice in management field, the trans-national companies succeed in a relatively short time to apply the new management methods and programs. The success of such a transfer largely depends on the level of information and training of managers of home countries economy. In many cases it is necessary to organize advanced programs of training for the personnel and, especially, for the managerial team, which will perform management and will ensure the increase of efficiency of activities carried out in the future. This component is considered a qualitative one and, although is difficult to quantify, it can still be evaluated through empiric analyses. Therefore foreign direct investments represent not only a circulation or a transfer of financial resources, but complex transfers of managerial, marketing, technological competences and practical competences.

A special role of investments is that of regulating the *level of employment*. The number of work places is certainly an indicator also reflecting the benefic impact of foreign direct investments. Operating new production capacities, as well as the expansion of the existing ones will inevitably lead to creating new work places. Most often, companies transfer performing technologies for which the human factor is less employed. The developing countries, facing high levels of unemployment, will not be affected by the new investments, because technologies are not adapted to the requirements of this market, respectively of intense exploitation of human labour. In exchange, in the manufacturing and services industries, the level of autochthonous employment, specialized in the field, is the highest.

In addition, foreign direct investments can contribute to developing human resources through training programs carried out for specific personnel, causing increase of extent of population training. Foreign investors often employ autochthonous personnel for the leading positions of average or even top level, because they are more familiarized with the business environment, with local consumers’ preferences and the customs in the home country.

Foreign investors will also implicitly bring together with the investment *an access to distribution channels* and experience related to sales on world market. The possibilities of increase of returns from exports will be thus materialized without involving great costs. Many developing countries have succeeded increasing the level of exports by attracting foreign direct investments and thus, increasing returns in convertible currencies. At he same time, the presence on the market of exporting companies with foreign capital also caused an entailing effect and a stimulation of exports for local companies.

The carrying out of commercial flows implies developing specific understructure, services (banking, assurances, telecommunications, etc.) and the specialization of the
CONCLUSIONS

Foreign direct investments can generate several positive effects; however, under the specific circumstances of the economies in transition certain negative effects are not excluded. These negative effects can be the more striking as the receiving countries, economies in transition, do not have well structured economic policies and constant sectorial options.

Foreign capital also generates other categories of effects, not directly having a financial form. Foreign investments cause improvement of business environment, stimulate competition, contribute to spreading the best practice of corporate governance, perfect accounting techniques and regulations, limit governments’ capacity to introduce policies and regulations opposed to international tendencies. Their presence in the economy doesn’t always seem beneficial, or not in all countries. Therefore, it “is in the power” of the home country to assimilate as many advantages and to limit the disadvantages of the presence of foreign capital, through the policies it promotes.

REFERENCES