

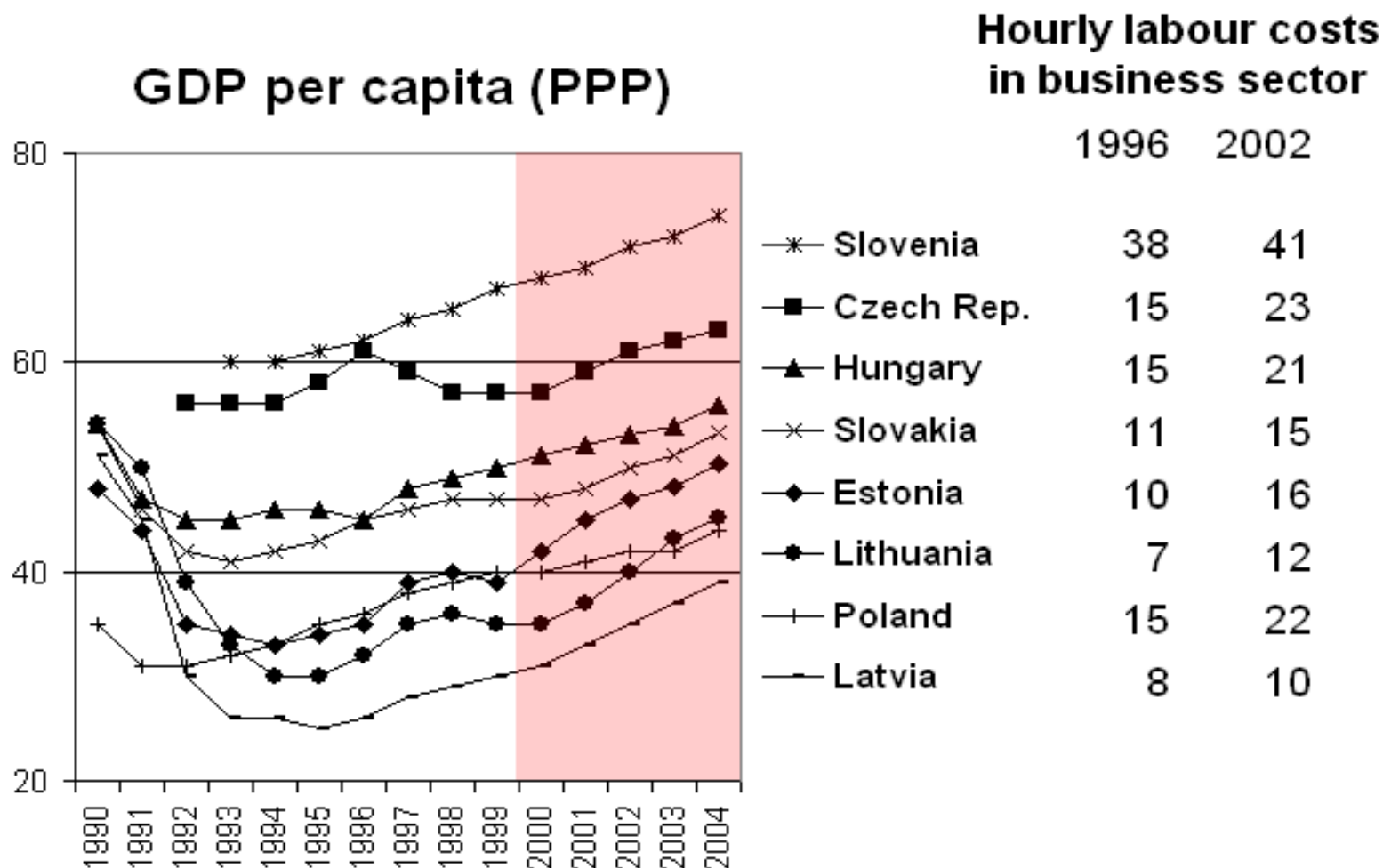
Foreign Direct Investment in the new EU member states: Impacts on the host country economies

Fafø Østforum, April 7th, 2005

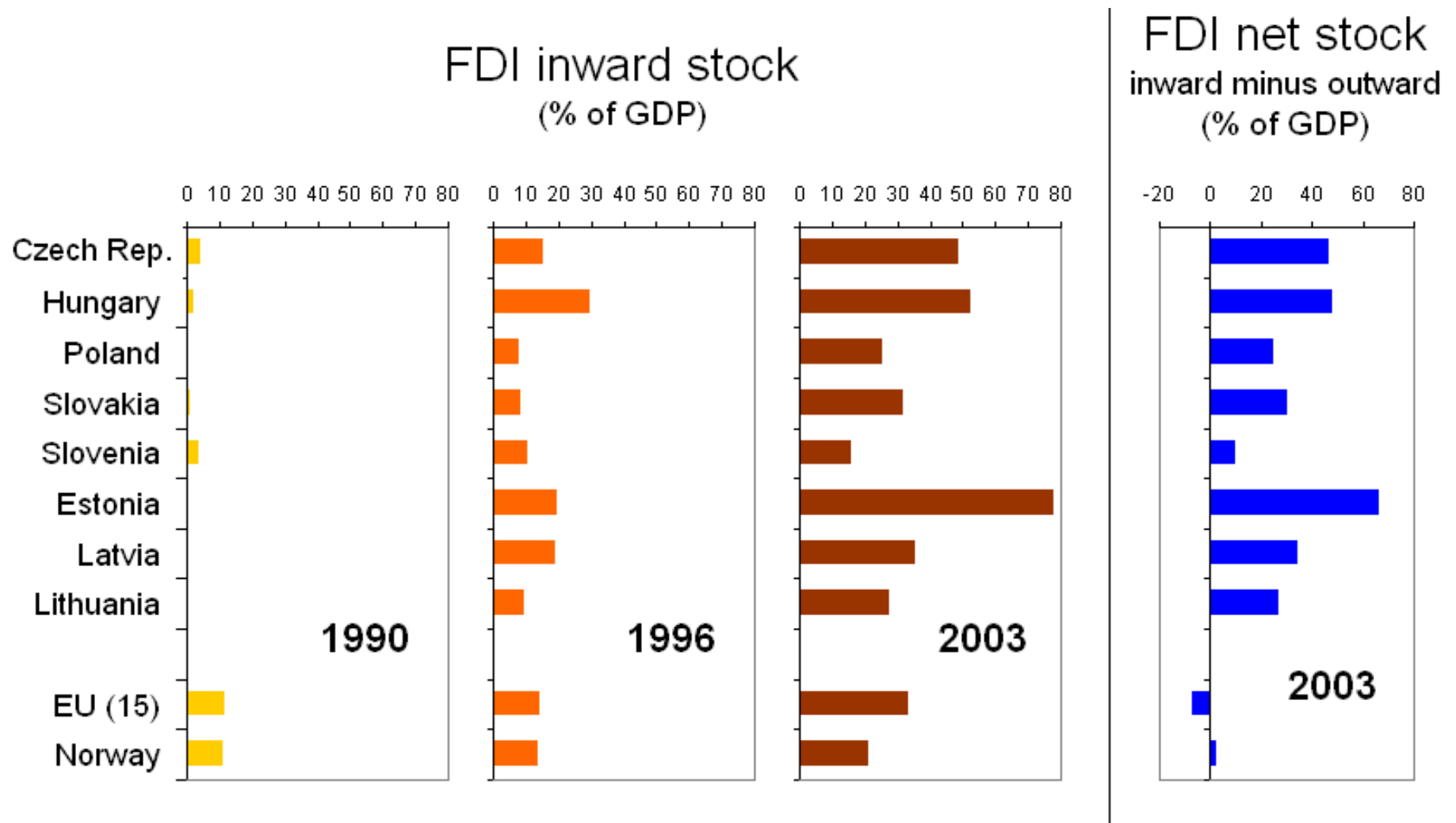
Martin Srholec
Centre for Technology, Innovation and Culture
University of Oslo

Economic level and labour costs

EU(15) = 100



FDI in the new EU members



FDI is agent of change

(positive vs. negative changes)

1. Structural change (industrial restructuring)
2. Technology change (spillovers vs. crowding-out)
3. Distribution of income (residents vs. foreigners)
4. Institutional change (interest group)
5. Sets the policy agenda (a conflict of interest?)

Structural change

- Uneven distribution of FDI across sectors
- The highest penetration in manufacturing (electronics & transport equipment) and selected services (trade & finance)
- FDI is a driver of restructuring: creating jobs vs. destroying jobs
- Regional differences as well

Technology change

- Technology/productivity gaps between foreign affiliates and domestic firms
- Technology transfer & spillovers???
- Strong theoretical reasoning but weak empirical evidence
- Or rather crowding-out of resources from domestic firms (skilled labour, credit, subsidies, etc.)

(Re)distribution of income

- FDI effects in the absence of spillovers?
- Higher productivity in foreign affiliates but source of income for non-residents
- Foreign owned capital, foreign technology, tax holidays (even subsidies)...
- The only income for residents might be compensation for (cheap) labour
- Widening gap between GDP and GNI
- Where is the contribution of FDI to local standards of living?

Institutional change

- Shared interests of foreign investors (lobby)
- Power to shape rules of the game
- Agenda for reforms: liberalization, deregulation, privatization, europeization, etc.
- What variety of capitalism in the new EU members?
- Institutional arbitrage by foreign investors
- Issues of labour relations, corporate governance, environmental standards, etc.

FDI sets policy agenda

- Shared interests vs. a conflict of interests
- Large MNCs vs. small governments
- Governments in a prisoners dilemma
- The policy of investment incentives
- Focus on industries vs. on activities
- Short-term vs. long-term and visible vs. invisible FDI effects
- Investment agencies as agents of FDI?

Some speculations

Many are painting a rosy picture BUT

- What if the idea of knowledge spillovers through FDI is a „wishful thinking“?
- What if exports expansion is counterbalanced by income repatriation?
- What if foreign affiliates create less jobs than they crowd-out from domestic owned firms?
- What if FDI is an agent of technological & institutional lock-in?
- What if the new EU members need different institutions & policies for catching up anyway (different from *acquis communautaire*)?

The challenges ahead

- A need for policy framework promoting spillovers
- A need for collective action at global, European and/or regional level (MAI?)
- A need for national policy space (strategy)
- A need for balanced academic and public discussion