

## INVESTMENT OPENNESS: SHOULD ALL INVESTMENT BE WELCOMED

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### **Abstract**

**Purpose** – the purpose of this article is to elaborate traits of investment that are conducive or contra-conductive to the development of a national economy that receives an investment. Reasons for investing in a country and reasons why countries attract investment are also provided in the article.

**Design/methodology/approach** – the analysis of existing literature and analysis of investment attraction, which inter alia includes indications or analysis with regard to desirability of different forms and types of investment, has been employed. Information contained in this paper has been discussed at the international scientific conference called “Changes in Global Economic Landscape – in Search for New Business Philosophy” that was held in Riga on April 29-30, 2011.

**Findings** – attracting foreign investment is crucial for small, investment-driven countries such as the Republic of Latvia, especially in financially difficult times. Though, not all investments prove to bring benefits to a receiving country. Hence, countries should be aware of the desirable and non-desirable traits of international investment and aim to foster the desirable investment and avoid the pitfalls of non-desirable investment. This paper shows traits of both.

**Research limitations/implications** – the paper does not look at the reasons at micro (firm) level, but rather at the macro (state/ national) level. This is done with the aim of further elaboration of policies that foster desirable investment, which, however, is out of the scope of this paper.

**Practical implications** – the paper may serve as a basis for policy makers to see possible implications of international investment on domestic economies.

**Originality/value** – the author has not come across with considerable analysis on the desirability of investment. Hence, this article is the author’s first attempt to gather available information and analysis in the domain of desirable and non-desirable investment from the viewpoint of a state.

**Keywords:** international investment, desirable investment, non-desirable investment.

### **Introduction**

Development of a country can be grounded in endogenous endowments, exogenous endowments, or a mix of both. A country rich in endogenous endowments, such as skilled workforce, abundant production resources or availability of financial capital is ceteris paribus development-wise arguably better positioned than a country not rich in the aforementioned. Countries not rich in domestic resources need to acquire them, be it human resources, financial resources or else.

Many countries that seek increased growth and development do their utmost to attract exogenous resources for that purpose, including foreign capital in the form of foreign investment. However, forms of foreign investment are different and so are their applications and consequently effects on the national economies of the receiving countries.

Of all the forms of investment, often foreign direct investment (hereinafter – FDI) is perceived as the form of investment that fosters the development of the national economy of the receiving country the most. This is because of the characteristics of FDI such as investments in productive sector, possible spillover effects of FDI, FDI being a long-term investment and many more. Likewise, portfolio investment is also often regarded as beneficial for the development of the national economy of the receiving country, since portfolio investment provides stable long-term financing for investment objects that create value, which is a pre-requisite for this type of investment to take place.

To the contrary – there are other forms of investment that are not considered beneficial for the development of the national economy of a receiving country. These are, among others, short-term speculative investment that enters a country to capitalise on some specific fault of the national economy, to reap fast profits and exit until the domestic economy or a particular sector of it collapses. One of the typical examples of such investment is investments that create asset price bubbles, which create enormous wealth for their creators in the short and enormous losses to the sectors or national economies experiencing those bubbles and their subsequent burst. Other examples of non-beneficial investment include investments that

discourage development of local business community, investments that enter the country with the sole purpose of destroying foreign competition, and other forms of investment.

Conventional perceptions and propositions of the politicians of the Republic of Latvia proclaim that investment attraction to the country will solve many of the crisis-related problems and will bring the national economy back on sustainable footing, since Latvia is a small, open, and investment-driven country. Other small and investment-driven countries are no exception to this perception as well. The observed experience around the world and in the Republic of Latvia, however, proves that not all investment brings fruit to the development of the national economy of a country and hence not all investment is desirable. Investment that is not strategically directed but rather directed at an unregulated branch of speculative economy or investment that is directed for acquisition and liquidation of a competing company in another country are just some of the examples of investments that are doubtfully desirable. Investment can serve as a gap filling tool when needed; however, overinvesting may lead to asset price bubbles and deterioration of national competitiveness. There are also other favourable and non-favourable traits of international investment that are discussed in this paper.

When looking at aggregate investment in Latvia, one can also observe that foreign direct investment, arguably the desirable investment, constitutes just about one fifth of total accumulated foreign investment in Latvia. Many countries around the world, including Latvia, are at the forefront of defining their new attitude towards investments as such as well as defining how to enhance the desirable investments especially in the times when the essential financial flows are declining or even reversing.

The author of this paper has not found much research into the topic of desirability of investment and policies, which should be pursued by countries to foster the inflow of desirable investment and counter the inflow of non-desirable investment. There is research that contains indications of the desirability of different investment; however, this research needs further elaboration, since most of it concentrates on some specific aspects of investment or specific types of investment, or even specific geographic coverage of investment under assessment. Hence, this paper attempts to gather the available analysis on the desirability of investment with the goal to elaborate aspects that distinguish between desirable and non-desirable investment from the point of view of the receiving country.

To elaborate the aspects for distinguishing of the desirability of investment, it is important to understand why countries try to attract investments and why investors invest, since this is the starting point for the investment debate. Furthermore, it is also important to understand what characteristics of national economy attract investment and what deter it. When these issues have been dealt with, elaboration of traits distinguishing desirable investment from non-desirable investment can be put in a broader perspective.

Methods employed for writing of this paper are as follows. Analysis of existing literature and analysis of investment attraction, which *inter alia* includes some indications or analysis as to the desirability of different forms and types of investment, has been employed. Moreover, information contained in this paper has been discussed at the international scientific conference called “Changes in Global Economic Landscape – in Search for New Business Philosophy” that was held in Riga on April 29-30, 2011. The issue of distinguishing desirable investment from non-desirable investment has also been discussed with a number of academics and high level managers both in public and private sector. Discussants have positively evaluated the author’s idea to embark on the topic as well as have shared some insights that have been considered in the course of writing this paper.

This paper does not look at the reasons at micro (firm) level, but rather at the macro (state/ national) level. This is being done on purpose, since the issue being addressed in this paper is concerned with distinguishing among different types of investment and their impact on the national economy of the receiving country as well as what can be done about that. As this is the policy level issue at the outset, macro level is of paramount interest to see what can be done at a country level to foster the desirable investment and limit the non-desirable investment.

The paper is organised as follows. The next part sheds some light on global investment trends. The third part describes why countries try to attract investment, and the fourth part deals with the issue of why investors invest in certain countries. The fifth part shows in what way international investment can be considered desirable to a country, and the sixth part – to the contrary – shows in what way international investment can be non-desirable to a country. The last part concludes the paper and provides suggestions for further research.

### **Global investment trends**

World Investment Report 2010 (UNCTAD, 2010) admits modest recovery of the global FDI in the first part of 2010, which leads to predict some optimism in FDI full recovery in the medium to long-term. According to the said report, global FDI had been expected to rise to over USD 1.2 trillion in 2010, USD 1.3-1.5 trillion in 2011, and USD 1.6-2 trillion in 2012. These numbers, if do come true, will be approaching the global FDI peak level of 2007, when total global FDI was about USD 2.1 trillion. The swift recovery of FDI and prospects for its further growth show that countries interested in attracting FDI should be ready for embarking on the attraction process quality- and quantity-wise.

Later UNCTAD (2011) estimates show that the estimates of World Investment Report 2010 have been slightly overoptimistic, since the global FDI is estimated to having reached USD 1.122 trillion in 2010, which is a modest increase of 0.7%, if compared with corresponding numbers of 2009. It is interesting to note that FDI to developed countries has contracted by 6.9% comparing 2010 with 2009, whereas developing economies witnessed a surge of 9.7% and South-East Europe and the CIS stayed almost where they were, with a 0.8% increase. Some countries have lost significant part of their FDI inflows, leaders being Japan (-83.4%), South Africa (-77.9%), Ireland (-66.3%), Nigeria (-60.4%), Luxembourg (-55.7%), and a number of other countries. The biggest winners in terms of increased FDI flows in 2010 were the following countries: Malaysia (+409.7%), Czech Republic (+199.6%), Indonesia (+162.7%), Singapore (+122.7%), Austria (78.8%), and a number of other countries. Moreover, year 2010 was the first year to mark the fact that more than one half (53%) of FDI flows have been received by developing and transition economies.

Deterioration of economic and financial situation as well as global slowdown of the growth of international economy can serve as facilitators of greater international competition for FDI. Moreover, changing economic landscape in terms of which countries receive the global FDI flows also shows that more attention needs to be paid by countries for developing appropriate investment attraction policies.

Intensifying competition for and availability of FDI goes hand in hand with intensifying competition for other sources of capital. There will always be countries that will not succeed in attracting the most desired FDI or FDI in sufficient amounts. That may well be due to different reasons, some of which being unattractive investment climate, weak regulatory system and rule of law, corruption, and many other obstacles to investment. Countries not succeeding in attracting FDI might still opt for other forms of financing, which might be sub-optimal compared to FDI, and hence not bring the expected benefit, if not to the contrary.

### **Reasons why countries strive to attract investment**

Traditionally, many reasons might be found for why countries seek to attract investment. Fostering growth of a country is one of the most widespread reasons for attracting investment into a country, as seen from the academic and non-academic debate. Vast inflows of capital from abroad do allow recipient countries to grow, at least in the short term and as measured by macro level variables. Recently, however a debate has begun that probably growing is not enough or even is not right as a proposition of a development path of a country. This is since the advocates of sustainability and sustainable development claim that growing quantitatively (as measured by macro variables such as the GDP or GDP per capita) is not correct if that is being done at the price of decreased sustainability of the place over the long term. Rather, smart growth, or as it is called – development, is necessary instead. Believing these propositions, one can also claim that countries seek to attract foreign capital to develop, not just to grow.

Some discussion on the importance of investment and FDI in particular has been discussed by Zvigulis and Jevcuka (2010). Among the benefits to a receiving country are transfer of technology, improvements in efficiency and productivity of producing sector, spillover effects, etc.

By attracting foreign capital, countries strive to attract positive “externalities” that are connected with that capital. Those externalities might include bringing over new skills and technologies from the countries providing investment. Bringing over skilled workforce can also be considered beneficial, especially in cases of small countries that lack workforce.

Attracting financing can also serve as a positive catalyst for attracting further financing from other sources. This might be especially true if some big companies or big private investors decide to invest in a country, thereby declaring a country interesting and safe enough for investments, which might encourage other investors to invest in the country.

Increased investment into a country can also mean increased budget revenue for administration of a respective country. These increases can take place in the form of increased government revenues from

different taxes, increased revenues from exports etc. Benefits can also accrue in the form of improved indicators of the national accounts.

List of reasons why countries try to attract foreign investment, which have been listed above, is a non-exhaustive. Though, it includes often persisting perceptions as to why countries should strive to attract investors and investment. It is important to understand these reasons, since they have an impact on the decision taking at the macro level.

When striving to attract foreign investment, policy makers need to bear in mind that there are certain pre-conditions that need to be fulfilled for the effect of foreign investment to be as beneficial as possible. Wang and Wong (2009) find that “FDI promotes productivity growth only when the host country reaches a threshold level of human capital; and FDI promotes capital growth only when a certain level of financial development is reached”.

Countries need to decide on what are the core reasons why they want to attract foreign investment. Are those reasons some of the above mentioned or any other. Do countries try to attract just foreign capital or also foreign know-how, technologies etc.? In this regard, it is interesting to note an example from the Gulf Cooperation Countries (GCC), mentioned in the paper by Faras and Ghali (2009) and stating that distinction between real and financial FDI must be made. As commonly known, GCC countries have a surplus in capital. What is not that commonly known, is that GCC countries need advanced technologies and know-how. Hence, these countries as well as others that use the advice need to understand what benefits the particular financing will bring and why it is necessary for the development of the national economy of the receiving country.

### **Reasons why investors invest in certain countries**

Countries wanting and seeking investment need to know why investors look for investment possibilities outside their countries of origin. This can help the said countries embark on investment attraction more wisely, including both, attracting investment in the right manner as well as attracting the right investment.

The most traditional reason for investing abroad, which is in line with the neoclassical economic theory, says that investment abroad is being done with the aim of profit maximisation and cost minimisation. Since firms, when investing abroad, do have additional costs as compared to investment domestically, the gains from foreign investment need to at least offset the increased costs of doing foreign investment. Firms may want to get access to foreign markets and therefore invest abroad. Firms may also want to avoid some trade barriers, and thereby invest in a country as opposed to exporting to a country. Other reasons might also include various factor endowments that become reasons for investing abroad. According to Dunning (1993, cited in Deichmann et al., 2003), “the importance of each [characteristic of a market, such as resources, labour, infrastructure, and other variables] varies according to a firm’s specific inclination toward natural resources, markets, efficiency, strategic assets, and other firm-specific considerations”. There are also so-called “follow-the-leader” investment strategies, which basically imply that as soon as some companies start investing in a country, others will follow (Kindleberger, 1969, as cited in Deichmann, 2003).

Some authors claim that different factors determine investments in different regions. By using a regression analysis on a panel data set, Tondel (2001, cited in Deichmann, 2003) has found that the only important variable that determines why investors invest in Central and Eastern European countries is transition progress. At the same time, similarly important variables for Commonwealth of Independent States countries are market size, natural resources, and wages. These conclusions arguably also show different motives of foreign investors when investing in either of the groups of countries.

Research by Globerman and Shapiro (2003) reveals some insights into what are the necessary preconditions for a country to attract US FDI. The research claims that no major US FDI will be received by a country that does not have effective governance system in place. Countries that do not receive major or even any US FDI are typically countries that do not promote free and transparent markets, have ineffective governments, and often have legal systems not rooted in English common law. Moreover, the authors find that for those countries that have received US FDI governance infrastructure – including the nature of the legal system – is an important determinant of the amount of US FDI received. Since US is an important trend-setter as well as an interesting capital holder in the eyes of many countries, these characteristics or minimum requirements for attraction of US FDI might be worth considering for a country seeking to attract investment, not only from the US.

Already back in 1973 Reuber *et al.* (1973, cited in Sethi *et al.*, 2003) identified some determinants of the flow of the US FDI into Western Europe, such as lucrative market, liberal host government policies, technological infrastructure, skilled labour, and cultural proximity. These determinants are among the

“traditional” determinants as seen elsewhere in the literature as well as in the public debate on investment attraction determinants.

Cevis and Camurdan (2009) constructed a model for testing what are the factors that foster FDI attraction and what are factors that deter it in developing countries and transition economies. They found that “FDI is related positively with interest and growth rates, trade (openness) rates and the previous period FDI but inversely related with inflation rates”.

Since foreign investors need to collaborate in and with the local market of the country they invest into, it is important to understand what the resource conditions that seen as attractive by investors are. Deichmann *et al.* (2003) has found that human and social capital is the most important determinant of distribution of investments. This factor underlines the importance of professional skills and highly developed infrastructure that help in investment attraction. The authors also find that natural resources are important, especially for countries that are unattractive by other measures. Foreign firms also tend to respond positively to favourable investment climate, trade policy, and market reforms. Financial depth is also important, though in the analysis it falls short of one percent level of significance.

### **Traits of desirable international investment**

Many decades back scientists tried to determine what the possible positive impacts of foreign firms investing in a country are. Safarian (1973) mentions spillovers from the firm that might be important for a host economy. He identifies benefits from manpower training and uncaptured productivity as being the most important benefits from spillovers. At that time, the spillover definition was relatively narrow and no much research was done to tackle the issue, just as there was insufficient empirical data to judge.

One of the most typical reasoning why policy makers tend to argue for and work to attract external resources is to finance savings gaps and promote growth and economic development (Dornbusch, 1998, cited in Combes *et al.*, 2011). Investment, indeed, can be seen as the financier of insufficient capital for development of a national economy, subject to appropriate policies being put in place. Foreign investment is particularly important for countries that are not rich in natural endowments and that need to base their economic structure on production of other products and services. This is especially true for small countries, which do not have well-developed systems of education and science, yet these countries must rely on production of high value-added products and services. In similar cases foreign investment can be beneficial for the host country if financing is complemented with transfer of knowledge, technologies or know-how.

Smarzynska Javorcik (2004) in her article analyses if FDI increases the productivity of domestic firms through spillovers, which have been often claimed as one of the positive aspects of attracting FDI to a country. In literature, the author has not found sufficient conclusive evidence that would prove the existence of such spillovers – the existing evidence can either not be generalised or it encounters problems with establishing of causality between foreign investment and spillovers. Hence, although usually spillover effects are being sought within industry (horizontal spillovers), the author looks for spillovers between foreign affiliates and their local suppliers (vertical spillovers), with particular emphasis on spillovers in backward linkages. Author finds an interesting and noteworthy revelation when looking at the positive aspects of FDI. She proves that FDI creates positive backward externalities if there is some shared ownership in a company or project receiving the investment, which is also a company or project that does have backward linkages. This is associated with larger share of local sourcing associated with companies or projects with larger domestic ownership, which, in turn, leads to higher output in domestic companies.

Impact of foreign investment on the national economy also varies based on how it is being made. FDI in an asset-creating mode (investment that brings in new technologies, skills etc. and is oriented towards export markets) has been found to be conducive to the development of the host national economy, as explained by Dyker (1999, cited in Deichmann, 2003). In the same vein, investments in asset-absorbing mode (investments that mobilise existing assets with the emphasis on the domestic market) do not bring that much benefit to the receiving economy. Similarly to that, Ramcharran (2000, cited in Deichmann, 2003) states that “FDI in greenfield and non-privatisation investments have generally been more conducive to economic growth than FDI in privatisation of state-owned assets”.

It has been widely described in academic research and also in non-academic publications that investment and FDI in particular tends to flow to those countries that have at least minimum regulatory system in place, which is in accordance with international standards that have favourable investment climate etc. Hence, a country that is preparing for massive investment attraction has to do its best to put adequate rule of law in place, streamline its business environment, decrease bureaucracy for business, promote transparent dealing, fight corruption, and many other activities. Even if all of this is being done in the name of investment

promotion, this still brings benefit to the country as such and any domestic entities (legal and private) that operate in the country. Hence, preparation for investment attraction and improvement of domestic conditions to attract even more foreign investment can also be considered benefit from foreign investment, although indirect and pre-emptive in this case.

### **Traits of non-desirable international investment**

Although investment attraction is often positioned as universal panacea for solving difficulties faced by countries, not all available evidence and research confirms the assertion of the universal panacea. A number of authors post various negative aspects of attracting foreign investment.

Growing amounts of foreign investment pose potentially negative effects on domestic market structures and national sovereignty (Venron, 1971 and Caves, 1982, as cited in Hooley *et al.*, 1996). In addition to that, Faras and Ghali (2009) state that FDI can also not contribute to the growth of the host economies if it is being attracted by economic growth and some particular favourable economic conditions in the host country. In such a case, FDI is typically attracted due to significant market size of the host economy, and there are cases when more than the necessary amounts of FDI have been attracted. That is not favourable from the point of view of the host country, since excess financing inflates asset prices, other prices, and tends to overheat national economies.

Issue of overheated economies has also been analysed by Combes *et al.* (2011) with regard to significant increases of capital inflows and their relation to the national competitiveness. "Capital inflows generate higher demand for both tradables and nontradables and lead to a higher relative price of nontradables and to appreciation of the real exchange rate". The impact of different types of capital that flows in an economy, however, is different. Capital inflows that are connected with domestic consumption under the situation of constrained supply will inflate prices and hence contribute more to the appreciation of the real exchange rate than will investments that have significant imported goods content. In this vein, FDI will arguably put less pressure on the real exchange rate appreciation than will bank loans. Additionally, it also needs to be mentioned that "with a fixed exchange rate, capital inflows potentially increase inflation", which is an issue also seen in many countries facing significant capital inflows and having fixed exchange rate in place. Testing of the available data gathered by the authors shows that portfolio investment has about seven times larger impact on the appreciation of the real exchange rate than does FDI or bank loans.

Montiel (1998) analyses effects of increased capital inflows on a large number of developing countries. Although this research is more than a decade old, many similarities can be drawn with what has happened during the recent financial and economic crisis that broke off in 2008. Huge capital inflows that were witnessed by many developing countries both then and now posed significant challenges for governments of the respective countries to devise appropriate policies to absorb them and prevent asset price bubbles and their consequent bursting. As seen from the empirical evidence, many countries did not cope to devise appropriate policies and run into problems associated with excessive inflow of foreign investment that was not directed to productive areas of national economy; instead it created asset price bubbles with all the corresponding adverse effects on the national economies of the respective countries – macroeconomic overheating and macroeconomic imbalances. Authors also mention the potential threat posed to globally-integrated investment-dependent countries when capital flows reverse. Reversals of investment flows in these cases have the potential to be significantly harmful for the host economies.

Foreign investment and its relation to economic development via employing right policies is being analysed by Soon and Stoeber (1996) based on the experience of Singapore, a highly developed country by contemporary measures but a less developed country just some decades ago. In their article authors look at a number of possible pitfalls a country can run into when attracting foreign investment – particularly from the point of view of policy formulation. One of the pitfalls mentioned in the analysis is that when promoting foreign investment politicians may start viewing investment attraction as the policy cornerstone rather than instrument for driving development of the national economy of a country. On one hand, government interventions may speed up investment attraction via positive regulation, investment promotion, provision of information, and in many other ways. On the other hand, too much of government intervention may result in market distortions that occur via suboptimal investments. Among disadvantages of foreign investment that occurred in the case of Singapore, authors mention high dependence of the country on foreign investments and decisions taken about the said, which is largely out of control of the receiving country. Moreover, large inflows of foreign investment resulted in unbalanced development, i.e. domains of national economy that received foreign investment developed rather swift if compared to those that did not. Moreover, putting most of the effort in attracting investment and building local conditions that are seen as enabling for foreign

investors may result in underdeveloped local entrepreneurs, since all effort is being put in assisting foreign investors.

It has long been held that tax incentives are seen as attractive for foreign investors to invest funds in the particular country. Many countries and municipalities in particular do offer various tax incentives for potential investors, thereby thinking of being more attractive in the eyes of those potential investors. Szanyi (1998) in his paper explains that the experience of Spain and Portugal as well as some Central European countries show that tax incentives had little diverting effect on FDI. It is interesting to note that tax transparency and stability are rather those drivers that divert those flows. As authors put it, there is no clear evidence of the fostering effect of tax holidays, whereas there is evidence that competing tax breaks to foreign investors have caused developing countries substantial loss of fiscal revenues. Hence, one can conclude that investors move outside their home countries not because of some external stimulus, which tend to be short-run, but rather due to well thought-out reasons and where stability and predictability more than offsets short-term financial gains.

Szanyi (1998) also claims that while investment can be the main debt financing throughout transition periods, the level of investment might start to diminish in the course of time. Meanwhile, transfer of profits might start to soar, thereby creating net outflow of capital.

When inflow of foreign investment is done through mergers and acquisitions, it is always a question of the intentions of the acquiring investors with regard to future operations of the acquired company or business. Good businesses are not always been bought with the best possible intentions of further developing those businesses. They are sometimes bought for being closed down thereby reducing competition in the market, which in such a case has been undesirable from the acquiring company's point of view. This is in a way supported by Szanyi (1998) where he argues that sometimes foreign investors that have acquired domestic businesses tend to replace products produced by the domestic company with the products produced by the acquiring company. In these cases, it tends to be difficult to know if this has happened due to the fact that domestic products have become obsolete or due to the fact that domestic products are being pushed out of the market in favour of products of the acquiring company.

Countries benefit not only from foreign investment, but also from domestic investment. Having domestic investors and domestic investment is important because the existence of such denotes that capital is being accumulated and diverted to possibly productive domains of the national economy. Misun and Tomsik (2002) analyse if FDI crowds in or crowds out domestic investment using data of Czech Republic, Poland, and Hungary as the basis for their research. Authors do observe some crowding out effect of FDI. Authors claim that the positive impact of rising FDI is not assured, since "in some cases, total investment may increase much less than FDI, or even fail to rise when FDI increases", thereby signalling of non-conductive traits of FDI.

Foreign investment often is associated with higher imports into a country, since the company investing in a country needs to buy equipment it has gotten used to, which is usually imported. Hence, it can happen that all of the funds leave the country rather than goods being acquired domestically. Often importing of goods is necessary since no such goods are being produced domestically. Safarian (1973) in his paper states that high dependence on imported techniques can create an environment where entrepreneurial spirit is dampened permanently. In the case of heavy inflows of foreign investment and consequent rise in imports of goods, entrepreneurial effort can indeed be put in peril. The author goes further to argue that if a country creates an environment where domestic saving and domestic entrepreneurial groups are being supported for long time, substantial growth can occur without FDI or foreign-controlled technologies. From nowadays perspective, this argument needs to be further elaborated bearing in mind all the regional and international agreements on free trade, free movement of labour and products etc., which, however, is out of the scope of this paper.

### **Conclusions and suggestions for further research**

Varying evidence exists as to the conductive and contra-conductive characteristics of foreign investment, and especially those of FDI. It is impossible to have one single opinion as to if foreign investment is desirable or not in the understanding that it is conductive to the development of the national economy of the receiving country or not. However, further research in this domain is necessary.

One of the immediate conclusions from the information presented in this paper is that foreign investment indeed can be beneficial if it is absorbed in the right way and if policies that prevent the negative traits of it are present. Some of the positive aspects in addition to financing of financial gaps and making working capital readily available are transfer of knowledge, technologies, and know-how. Spillover effects are also

often cited among the positive aspects of foreign investment, although research mentioned in this paper suggests they might be occurring vertically rather than horizontally. At the same time, foreign investment also poses significant threats to the development of a national economy if it is not absorbed in the right way, inter alia due to inefficient public policies in the relevant domain. Among the perils of foreign investment one can also mention the conventional threats such as losing of sovereignty of a country, at least financial if not politic. Excess capital inflows tend to overheat economies with the consequent results of lost national competitiveness and inflated asset prices that tend to create asset price bubbles and burst over time. Foreign investment can also cause loss of competitiveness through appreciating real exchange rate.

From the traits of investment mentioned in this article, one can embark on deriving possible factors for understanding if particular investment under consideration is conducive to the development of the national economy or not. However, it is not straightforward to tag different investment proposals or projects with the sign “go on” or “go home”. It requires more than analysis of available literature on the determinants of investment being conducive or not. Hence, the author of the paper has decided to embark on assessing impact of a number of investment projects with the utmost goal of elaborating investment impact assessment criteria on the national economy of the country. This is also the possible suggestion for further research. Additionally, further research can be done to assess investment desirability on a regional level.

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