FDI MOTIVATION EFFECTS ON HOST COUNTRIES

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Abstract We discuss social and economic effects on host countries that is caused by various investors who have different motivations when they invest in the host country. we also discuss that FDI has some type of positive, negative and no economic impacts(in an indirect way) on host country. we mention that negative economic effects are not equally likely in various developing countries. we discuss on what is conditional the size of economic growth in host country. we discuss that positive economic effects are conditional on knowledge differences of FDI home and FDI host country firms. we discuss the reasons why FDI has less positive effect on developing countries than on developed countries. we also discuss that some social effects are conditional on host country characteristics.

Keywords: social and economic effects, FDI motivations, host country factors, host countries.

Introduction

There exists view that FDI effects on host countries are dependent on host country characteristics. so in this article we focus also on this issue and discuss that in reality host country can receive positive effects from FDI if there exists certain conditions in the host country. for example we discuss why developing countries receive less positive effects from FDI than developed countries. also we prove that positive effects on host country employment are conditional on it that whether host country is closed or open economy and we prove this on example of two countries, namely Ghana and United Kingdom and we also represent table where we include list of open and closed economies and by using UNCTAD FDI contribution index we further prove that open economies receive higher positive effect on employment than closed economies. we also mention in article that only technology transfer won't create positive effects in host country and that positive effects of FDI on host country are conditional on local firm absorptive capacities. Also there exists view that FDI stimulates economic growth in opoen economies, which is proved by the fact that in this article we mention that efficiency seeking, asset seeking and market seeking FDI can simulatenously stimulate exports(in indirect and also direct way) and economic growth in host country.

FDI motivation effects on host country

Resource seeking FDI plays positive role in eradication of poverty in host country. but this type of FDI does not stimulate the growth of welfare of people in recipient with every means. Also such type of FDI should stimulate export with high volumes from the host country in third country. also it is desirable if such type of investor will try to increase welfare of people with the means that are dependent on the investor.

Efficiency seeking FDI will reduce the current account deficit if exports will be made by both investor and local firms. Such type of FDI stimulates the eradication of poverty in host country with several ways and also when such type of FDI flows into the recipient country the host country government may pay more attention to it that how to pay its debts in the future. such type greenfield investments are characterised by important effects on host country that are characteristic for greenfield investments if it will be made in the sector that uses significant amount of labor force. also such type greenfiled investments stimulate the development of host country to a greater extent in specific cases. such type of FDI stimulates significantly the economic growth of host country.

Asset seeking FDI can stimulate the economic growth of host country more rapidly. when during of such type of FDI goods flow into the third country it is very likely that outflow of goods wil be accompanied by inflow of foreign currency.

Market seeking FDI can have as positive as negative effects on local firms for example it can stimulate the export of local firms and also it can stop the production of local firms although this problem does not exist in strict forms because such type of FDI can stimulate the production of local firms and it can also hinder the production of local firms. such type of FDI stimulates the welfare of people with different ways. during such type of FDI some local firms are forced to go to the third country to sell the product there. During such type of FDI local firms and investor can create significant economic growth in the host country.

FDI effects on host country

FDI can play negative role in the economic growth that is created by local firms despite of it that whether some factors that cause this will be eradicated and in some cases FDI can have no effect on economic growth. but FDI can also stimulate the production of local firms by transfer of technology. sometimes FDI alos crowds out local firms because sometimes FDI hinders the continuation of work by local firms. This explains why FDI has less effect on developing countries than on developed countries. although the size of positive effects is not the same in every developing country. for example according to every empirical study the crowding out of firms in marroco is less likely than in other developing countries. Also it is possible that FDI can reduce economic growht in host country if there is high level of economic growth in host country and FDI can increase the economic growth in host country if there is low level of economic growth in host country. In order to have significant economic growth in host country investor should stimulate the operations of local firms and also investor should stimulate own operations. There is more positive effect from FDI on economic growth in open economy that is explained by it that when investor makes exports from the host country it crowds in some local investors. Though in china the less investor makes export the higher the association between inflow of FDI and productivity of local firms. and such type of positive effects exist in the same industry and also in other industry. although in some cases the positive effect on productivity of local firms in other industries was conditional on it that from which country was coming investor into the host country.also for example according to Chang[1.p.10) japanese firms didn't increase the productivity of local firms in USA by transfer of technology that proves it that positive effects of FDI on host country is conditional on absorptive capacity of host country because it is possible that FDI flow into USA from japan into the sectors where japanese firms had more knowledge than local american firms and for that reason it is possible that some american firms could not use the knowledge which they received from japanese firms. the fact that positive effects of FDI on host country are conditional on absorptive capacity of host country is proved by the fact the there is less possibility of crowding out of local firms in the same sector where is investor that in it its turn is explained by it that local and foreign firms in the same sector conduct the same operations and because of this they can use the same type of methods of production and for that reason the technology that is transferred from foreing firm on local firms can be used easily that in its turn will stimulate the usage of better methods by local firms and local firm will exist for longer period of time and consequently the production of local firm will be kept for longer period of time. Though according to analysis of our ideas FDI may crowd out even such firms that posses absorptive capacities that in its turn is proved more by the fact that local firms are forced to make such actions that are not desirable for them in order to use absorptive capacities.but the absorptive capacities play important role for achievement of economic growth by host country. although the FDI into china from hong-kong, macao and taiwan played negative role in productivity of local firms in the same industry when at the same time the same is positive from FDI that inflows into this country from other countries. Also according to Gorodnichenko, svejnar and terel[2.p.4] FDI has insignificant effect on productivity of local firms in the same industry only in old and service sectors.

The fact that FDI has less positive effect on developing countries than on developed countries is explained by it that in developing countries investor gains monopolistic power by crowding out of local firms in host country. for example in latin America there was significant crowding out effect from investors, although there exist factors than can crowd out foreign investors and stimulate receivement of significant profit by local firms though this is possible to lesser extent according to some authors in China. also according to same authors the positive effects of FDI on firms in public sector is conditional on it that whether host country is open economy and also on absorptive capacities of this country. Also MNC can stimulate the absorptive capacities of local firms. Also the fact that FDI has less positive effect on developing countries is proven by it that FDI causes in many developing poor countries balance of payment deficit because foreign firms make significant import into the host country, they transfer significant amount of profit into the home country and government loses significant budget income because government reduces taxes to foreign investors or foreign firms are completely exempted from taxes or because of it that foreign firms report their profit to government incorrectly. buT at the same time FDI can reduce the current account deficit because FDI makes export from the host country more successful. FDI also creates the export activity rise factors in the host country although export acitivity may not last for longer period of time by these factors. in developed countries both the FDI that inflows into these countries and FDI that outflows from these countries plays positive role in these countries because of which developed and developing countries may establish close cooperation for conduct of FDI. for example FDI caused significant export from China that could be successful. but negative effects on host country balance of payment are not only caused by imports. although host country receives higher benefit from FDI when there is import in host country than when import is hindered. also export oriented FDI can significantly reduce current account deficit and we can also receive current account surplus. for example there were cases when big individual investors contributed significatnly to host country export(up to 8 %). The fact that FDI plays less positive role in developing countries can be explained by it that current account deficit may not reduce significantly when there is reduction of productivity of some firms despite of the fact that MNC transfers technology to local firms. (there is less education level in developing countries compared to developed countries and consequently it is possible that some local firm productivity may decrease in developing countries. The fact that FDI plays less positive role in developing countries than in developed countries is explained by it that FDI may not stimulate economic development by rising productivity in poor developing countries. Also according to Singer[3.p.227] FDI in primary sector, such as mining, food and raw materials is characterised by less increase of productivity in developing countries. Also according to Chener and Stout[4.p.4] FDI has negative impact on economic development in Nigeria. Also we should mention that less developed countries may not receive technology from FDI when here is insufficient number of human capital, that in its turn is proven by the fact technology transfer may be hindered inside of the sector because local firm does not posses the technology that is possesed by foreign firms and also the transfer of knowledge from foreign to local firms may be hindered if there won't be established connection between local and foreign firms and when local and foreign firms establish ties foreign firms may transfer better technology to local firms. market seeking and efficiency seeking investors establish ties to a greater extent in host country with local firms. The transfer of technology by investor to local firms is conditional on specific characteristics of host country and this is also conditional on investor. The transfer of technology on local firms is also conditional on motivation of investors of investment in host country. The transfer of technology is done by various ways in the host country. Although in many cases investors did not transfer technology in Poland.

MNC may pay higher salary compared to local firms only for short period of time, that may not be necessearily this way according to some studies that in its turn is conditional on increase of education level of local firms. Also this may be accompanied by move of human capital to local firms that in reality happens sometime. this short term event when accompanied by reduction of difference in salary level may be accompanied by maximization of FDI benefit in which host country government also plays role. the higher salary is paid by investor both to skilled and unskilled labor force and this difference may increase significantly if local firms don't rise salary to their workers. for example MNCs paid 30 % higher salary in USA, Mexico and Venesuela.

FDI is associated with economic development that is conditional on it that it is easier to sell product because of FDI that is not conditional on motivation of investor of making investment in the host country. though FDI does not make equally easy to sell product in host countries. but other effect size is conditional on motivation of investor of making investment in the host country.

The fact that positive effects of FDI is conditional on absorptive capacities of host country is proven by the fact only technology transfer on host country is not sifficient for rise of welfare of people but local sector should be sufficiently technologically developed in order to use technology transferred to them by foreign firms that sometimes happens in reality in host country but sometimes local firms don't use experienced workers that can be explained by it that local firms try to increase absorptive capacities by other ways.

FDI has higher positive effect on employement in open economies. for example as Ghana turned into closed economy FDI had less positive impact on employment in this country. Also FDI had high positive effect on employment in United Kingdom that can be explained by it that this country is considered open economy. for example we introduce some of the countries where foreign direct investors formed the high share in total employment according to UNCTAD FDI contribution index for 2009 and the corresponding rank according to trade openness for 2009 out of 183 countries in the following table:

Table 2.

Contribution index for 2009

country	rank according to openness index
Hungary	10
Belgium	14
Hong Kong, China	2
Ireland	6
Luxembourg	4
Malaysia	7
Singapore	1

Source: https://www.theglobaleconomy.com/rankings/trade_openness/ and Web table 33. Country rankings by FDI Contribution Index, 2009.

We also introduce almost all of the countries where according to 2009 FDI contribution index foreign direct investors had low share in total employment and the corresponding rank according to trade openness for 2009 out of 183 countries in the following table.

Table 2.

Contribution index foreign direct investors had low share in total employment and the corresponding rank according to trade openness for 2009

country	rank according to openness index
Colombia	174
Kazakhstan	96
Costa Rica	109
Croatia	102
Bosnia and Herzegovina	101
Peru	154
Chile	121
Uruguay	143
Philippines	124
Russian Federation	153
Venezuela, Bolivarian Republic of	172
Japan	181
Algeria	104

Source: https://www.theglobaleconomy.com/rankings/trade_openness/ and Web table 33. Country rankings by FDI Contribution Index, 2009.

If we compare these two tables we will find that there is obvious differences among the ranks of those countries where FDI formed the high share in total employment and where FDI formed low share in total employment. for example Singapore took first place according to openness index in 2009 out of 183 countries and here Foreign direct investors formed high share in total employment and for example in japan foreign direct investors formed low share in total employment and japan's rank according to openess index in 2009 was 181. in a word such data emphasizes it that effect of investors on employment is obviously dependent on it that whether country is open or not.

Conclusion

When we discussed market-seeking, resource-seeking, efficiency-seeking and asset-seeking foreign direct investments we found out that more or less all them create some factors that contribute to well-being of society. Also it is possible that FDI can reduce economic growht in host country if there is high level of economic growth in host country and FDI can increase the economic growth in host country if there is low level of economic growth in host country. developed countries have a low GDP growth rate compared to developing countries. all of these could be explanation of it that why developed countries receive higher benefits from FDI than developing countries. In the article we also mentioned that positive effects of FDI on host countries is also dependent on absorptive capacities of host countries and we also found out that there is higher level of education in developed countries than in developing countries and according to these we can explain why developed countries receive higher benefits from FDI than developing countries. Asset seeking FDI can stimulate high economic growth of host country more rapidly. This final view ais also proved on the case of Georgia: in 2011 in georgia according to UNCTAD FDI contribution index foreign direct investors formed 33% of GDP in georgia and the same exists in 2013 in Georgia and in 2007-2013 years we could not find statistics about asset seeking FDI in Georgia.(see vaxtang charaia)

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