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Journal of Security and Sustainability Issues *www.lka.lt/index.php/lt/217049/*
ISSN 2029-7017/ISSN 2029-7025 online
2014 Volume 3(3): 55–67
http://dx.doi.org/10.9770/jssi.2014.3.3(5)

FOREIGN DIRECT INVESTMENT: DRIVING FACTORS AND OUTCOMES FOR SECURE AND SUSTAINABLE DEVELOPMENT

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Received 25 September 2013; accepted 15 December 2013

Abstract. Driving factors and implications of foreign direct investments were widely discussed during the latest decade. Anyway, impression remains that due to the specifics of that type of investment, misinterpreting of their economic composition is rather frequent than rare. Hence, the paper starts with detailed classification of investment types. The next part of the paper is devoted to a review of approaches to FDI driving factors and outcomes. Finally, current trends of foreign capital flows in Lithuania, Latvia and Estonia are being observed and evaluated. Novel insights about new consistent patterns of foreign capital directions are being provided. The paper is being finalized by indicating contemporary implications of FDI withdrawal for host country related to its further secure and sustainable development.

Keywords: Foreign Direct Investments, globalization, sustainable development.

Reference to this paper should be made as follows: Antanavičienė, J. 2014. Foreign direct investment: driving factors and outcomes for secure and sustainable development, *Journal of Security and Sustainability Issues* 3(3): 55–67. DOI: http://dx.doi.org/10.9770/jssi.2014.3.3(5)

JEL Classifications: F2, F3, F6, R1

1. Introduction

In the past two decades the vast majority of countries effectively participated in the process of globalization defined as the broadening and deepening of links between national economies into a worldwide market for goods, services and especially capital. Because of globalization, a leading role in shaping and driving cross-border integration through the transfer of production facilities, functions and technology has been played by multinational corporations (herein after referred to as MNCs). Since the 1990s, trade and investment have become the prime driving forces behind globalization, while the growth of foreign direct investment (herein after referred to as FDI) has become one of the driving factors as well as one of the outcomes of development of separate countries and geographic regions (e.g. Sahoo 2006; Tvaronavičienė *et al.* 2009; Šimelytė, Antanavičienė 2013; Tvaronavičienė, Lankauskienė 2011; Tvaronavičienė, Lankauskienė 2012; Evrim-Mandaci *et al.* 2013; Tvaronavičienė *et al.* 2013).

Impact of foreign direct investment on economic growth and sustainable development during the last decade was discussed rather amply (Tvaronavičienė *et al.* 2009; Tvaronavičienė, Lankauskienė 2011; Šimelytė, Antanavičienė 2013, Tvaronavičienė *et al.* 2013). More companies are expanding their operations abroad through direct investment than ever before and countries are competing to attract multinational corporations (Tvaronavičienė *et al.* 2009; Tvaronavičienė *et al.* 2013). The rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects, which include productivity gains, technology transfers, job opportunities, the introduction of new processes,

managerial skills, and know-how into the domestic market, employee training, international production networks, and access to markets. Multinational corporations also receive benefits: increased availability of raw material, cheap labour, lower production costs, ready market and legal facilities in such countries (Sahoo 2006; Tvaronavičien*et al.* 2009; Šimelytė, Antanavičienė 2013; Tvaronavičienė, Lankauskienė 2011; Tvaronavičienė, Lankauskienė 2012; Evrim-Mandaci *et al.* 2013; Tvaronavičienė *et al.* 2013).

The role played by FDI in the economic growth of various economies spurred researchers and policy makers to explore the links between FDI and growth and identify the driving forces stipulating capital flows. Different studies that have been done through the years have found that FDI indeed affects economic growth while others have found no such connection (Tvaronavičienė *et al.* 2013; Tvaronavičienė, Grybaitė 2013; Mačiulis, Tvaronavičienė 2013). Indeed, the amount of research done on FDI has been increasing day by day in an attempt to identify the determinants and impacts of FDI however it remains a complex problem which depends on several characteristics specific to each country, sector and company. In fact, the level of FDI may depend on an host country economy growth patterns, total tax burden, business environment, institutional arrangement, market size, purchasing capacity, labour force qualification, innovative mind-sets and mobility, trade openness, geographical location etc. (Balkytė, Tvaronavičienė 2011; Dudzevičiūtė, Tvaronavičienė 2011; Tvaronavičienė, Grybaitė 2012). The purpose of this article is to establish some of the determinants of FDI and their performance trends in the case of European countries.

The major aim of this article is to provide criteria for formulating efficient economic policy. The article is structured as follows. For methodological purposes, the article is divided into three parts. The first part explores scientific literature in order to compare different investment types. The second part is empirical and is based on *ad hoc* selected comparisons. The final part consists of a discussion and generalization of the results.

2. Types of investment: similarities and differences

According to different theories and principles the word "investment" can be defined in many ways and can be used in a number of contexts. In colloquial language, *investment* is being meant the use of money to earn more money. Investment can also mean savings or savings made through delayed consumption or, according to economics, *investment* is the utilization of resources in order to increase income or production output in the future. An amount deposited into a bank or machinery that is purchased in anticipation of earning income in the long run, are both examples of investments. Although there is a general broad definition of the term investment, and it has to be pointed out that it obtains slightly different meanings in different contexts.

According to classical economics, *investment* refers to any physical or tangible asset, for example, a building or machinery and equipment. On the other hand, finance professionals define an *investment* as money utilized for buying financial assets, for example stocks, bonds, bullion, real properties, and precious items. Sustainable development and economic growth is driven by investment into tangible assets, or, to put into another way, into factors of production.

To summarize, *investment* means money or tangible, intangible and financial assets invested in order to obtain profit (income) or other result from the object of investment. *Investors* are legal and natural persons, all government units and foreign states, international organizations, and also undertakings without the rights of legal person, that invest their own or borrowed assets or assets held and used on trust. An investor, performing an act of investment, acquires the right of ownership or the creditor's right of claim over the object if investment, or the right to manage and use the object. *Object of investment* is own capital of the economic entity, all types of securities, fixed tangible assets and fixed intangible assets. *Reinvestment* means the investment of the profit in the same economic entity in which the profit was obtained. According to the object of investment, all investments can be divided into capital investments and financial investments:

Capital investment is the investment into (or a purchase of) capital assets that include fixed tangible assets and intangible assets. Capital investment is the investment into production, acquisition or the increase of value of capital assets. Capital asset is expected to be used for a considerable time in business in order to produce goods or provide services for future consumption. Examples of capital assets in most

businesses are land, buildings, plant, machinery, motor vehicles, investments in subsidiary companies, and etc.

Financial investment is the investment into (or a purchase of) financial assets, such as shares, bonds, and other debt securities, bank deposits, and so on, with a primary view to their financial return in future, either as income or capital gain. The level of financial investments in economy is related to such factors as the rate of interest, the extent to which the investment is likely to be profitable, and the general climate of business confidence. According to the influence of an investor on the economic entity, investments can be divided into direct and indirect (or portfolio) investments:

Direct investment is the investment aimed at establishing an economic entity and acquiring the capital of a registered economic entity or share in the capital, also reinvestment, loans, to economic entities the capital whereof is owned by the investor or in which he has a share in the capital, subordinated loans where the objective of the investment is to establish or maintain long-term direct links between the investor and the economic entity in which the investment is made, and the share in the capital acquired through investment accords the investor a possibility either to control the economic entity or to exert a considerable influence upon it.

Indirect (portfolio) investment is the investment where a share in the capital acquired through investment does not accord the investor any possibility to exert any considerable influence on the economic entity. According to the place of registration or reside of the investor, investments can be divided into domestic and foreign investments:

Domestic investment is the investment by residents in their own country. For example, investments in Lithuania made by the Government of Lithuania, natural and legal persons of Lithuania, also the domestic undertakings without the rights of the legal person.

Foreign investment is the investment in the country by foreigners (foreign governments, international organizations, foreign natural and legal persons). According to the status of the investor, investments can be divided into government and private investment:

Government investment is the investment made by using the government (central government, municipalities, extra-budgetary funds) budget resources, loans obtained in the name of the government, resources of state-owned (municipal) enterprises and other state-owned (municipal) assets as well as loan guarantees extended by the state (municipalities), in order to meet the needs of the state.

Private investment is the investment made by a private sector – economic entities and households.

Foreign Direct Investment is the category of international investment in which a resident entity in one economy obtains a lasting interest in an enterprise resident in another. A lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise. The direct investment is established when a resident in one economy owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise, or the equivalent for an unincorporated enterprise. All subsequent transactions between affiliated enterprises, both incorporated and unincorporated, are direct investment transactions. FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transactions between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI can also be defined an internalized investment flow which includes capital assets as well as intangible assets. The investor keeps control of the subsidiary that it has established and derives benefits from its investment through:

- Increase in sales (either on local markets or through exports to third markets);
- Reduction of costs of production;
- Increase in production efficiency of the group as a whole. The foreign investor assumes the operational risks of its enterprise. *A direct investment enterprise* is an enterprise resident in one economy and in which an investor resident in another economy owns, either directly or indirectly, 10% or more of its voting power if it is incorporated or the equivalent for an unincorporated enterprise. The numerical threshold of ownership of 10% of the voting power determines the existence of a direct investment relationship between the direct investor and the direct investment enterprise. An ownership of at least 10% of the voting power of the enterprise is regarded as the necessary evidence that the investor has sufficient influ-

ence to have an effective voice in its management (Finance Maps of Word 2012).

A direct investor is defined as an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which have a direct investment enterprise that is, a subsidiary, associate or branch, operating in a country other than the country or countries of residence of the direct investor(s). *A subsidiary* is an incorporated enterprise in which:
- the foreign investor controls directly or indirectly (through another subsidiary) more than 50% of the shareholders' voting power, or;
- the foreign investor has the right to appoint or remove a majority of the members of this enterprise's administrative, management or supervisory body.

An associate is an enterprise where the direct investor and its subsidiaries control between 10% and 50% of the voting shares. *A branch* is an unincorporated enterprise that:
- is a permanent establishment or office of a foreign direct investor;
- is an unincorporated partnership or a joint venture between a foreign direct investor and third parties;
- is land, structures and immovable equipment and objects directly owned by a foreign resident;
- is mobile equipment operating within an economy for at least one year if accounted for separately by the operator (e.g. ships, aircraft, gas and oil drilling rigs).

Foreign direct investment flows are made of three basic components:
1. *Equity capital:* comprising equity in branches, all shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and are included under other direct investment capital) and other capital contributions such as provisions of machinery etc.
2. *Reinvested earnings*: consisting of the direct investor's share (in proportion to direct equity participation) of earnings not distributed, as dividends by subsidiaries or associates and earnings of branches not remitted to the direct investor.
3. *Other direct investment capital* (or intercompany debt transactions): covering the borrowing and lending of funds, including debt securities and trade credits, between direct investors and direct investment enterprises and between two direct investment enterprises that share the same direct investor (Finance Maps of Word 2012).

More specifically, the definition of *direct investment flows* is the following:
- *for subsidiaries and associate companies*
- the direct investor's share of the company's reinvested earnings;
- plus the direct investor's net purchases of the company's shares, debt securities (bonds, notes, money market and financial derivative instruments) and loans (including non-cash acquisitions made against equipment, manufacturing rights, etc.);
- less the company's net purchases of the direct investor's shares, debt securities and loans;
- plus the net increase in trade and other short term credits given by the direct investor to the company.
- for branches
- the increase in reinvested profits;
- plus the net increase in funds received from the direct investor;
- plus inter-company flows, with the exception of certain flows between affiliated banks, affiliated intermediaries (e.g. security dealers), and Special Purpose Entities (SPEs) with the sole purpose of serving as financial intermediaries.

International direct investment positions are defined as:
for subsidiaries and associates
- the market or book (balance sheet) value of shares and reserves attributable to direct investor;
- plus loans, trade credits and debt securities credited by direct investors (including determined but not yet paid dividends);
- less reverse loans, trade credits and debt securities;
- for branches
- the market or book value of fixed assets, investments and current assets, excluding amounts due from direct investor;
- less the branches liabilities to third parties

Rapidly growing economies became favourite investment destinations for the foreign institutional investors. These markets have the potential to grow in the near future. This is the prime reason behind the growing interests of the foreign investors. The promise of rapid growth of the investable fund is tempting the investors and so they are coming in huge numbers to these countries. The money, which is coming through the foreign institutional investment, is referred as 'hot money', because the money can be taken out from the market at any time by these investors.

Because of globalization the investment sector be-

came very strong. At the same time the developing countries understood the value of foreign investment and allowed the foreign direct investment and foreign institutional investment in their financial markets. Nevertheless, the foreign direct investments are long term investments; however, they could be unpredictable.

3. FDI stakeholders and driving factors

In order to understand why FDI flows to some countries are more substantial than to others it is necessary perceive motivation of companies that are involved in FDI and regulation of FDI both at international and local levels. Usually FDI flows through investor, which is being called a multinational corporation. A multinational corporation (MNC) is a corporation that is registered in more than one country or that has operations in more than one country. It is a large corporation which both produces and sells goods or services in various countries. The main objective of MNC is to maximise profit and to reduce cost. Therefore consideration is given to regions which are likely to bring highest returns on investments and enabling environment for business to succeed. This provides one of the main reasons why there are more FDI in some countries than others. MNCs investments are higher in regions that provide the best mix of the traditional FDI determinants.

There are different types of MNCs. Some are vertically integrated. The subsidiary provides inputs to the parent which produces a final good. Oil companies are good examples of vertically integrated MNCs. Oil exploration and production are accomplished abroad where the subsidiary exports crude petroleum to the parent corporation which then refines the crude into gasoline. Another example is the Maquiladora program. The US parent corporation exports components to an assembly Maquiladora subsidiary which in turn re-exports the assembled good back to the parent corporation. Other MNCs are horizontally integrated, meaning that the subsidiary produces a similar good to that of the parent. The soft drink industry is an example of horizontally integrated MNCs. The subsidiary is a bottling company which produces pretty much the same product as the parent company. The department of the United Nations that is responsible for the development of FDI is the UNCTAD. This body was established in 1964 specifically to integrate the developing countries into the world economy through the encouragement of foreign direct investment. Specific functions include providing technical assistance to developing countries with special attentions to the needs of least developed countries and creating a forum for intergovernmental deliberations so as to have enabling environment for FDI. Most FDI flows are from the industrialised world to the developing countries. The developing countries have a major role to play because the policies of such countries go a long way in determining the inflow of FDI to such countries. Hence most of these countries have investment promotion agencies to encourage foreign investment.

It is believed, that one of the advantages of foreign direct investment is that it *helps in the economic development* of the particular country where the investment is being made. This is especially applicable for the economically developing countries. During the decade of the 90s foreign direct investment was one of the major external sources of financing for most of the countries that were growing from an economic perspective. It has also been observed that foreign direct investment has helped several countries when they have faced economic hardships (Tvaronavičienė, Lankauskienė 2011).

FDI also *permits the transfer of technologies*. This is done basically in the way of provision of capital inputs. The importance of this factor lies in the fact that this transfer of technologies cannot be accomplished by way of trading of goods and services as well as investment of financial resources. It also assists in the promotion of the competition within the local input market of a country. The countries that get foreign direct investment from another country can also *develop the human capital resources* by getting their employees to receive training on the operations of a particular business. The profits that are generated by the foreign direct investments that are made in that country can be used for the purpose of making contributions to the revenues of corporate taxes of the recipient country. Foreign direct investment helps in the *creation of new jobs* in a particular country. It has been observed that foreign direct investment allows for the development of the manufacturing sector of the recipient country. Foreign direct investment can also bring in advanced technology and skill set in a country. There is also some scope for new research activities being undertaken. Foreign direct investment *assists in increasing the income* that is generated

through revenues realized through taxation. It also plays a crucial role in the context of rise in the productivity of the host countries. In case of countries that make foreign direct investment in other countries this process has positive impact as well. In case of these countries, their companies get an opportunity to explore newer markets and thereby generate more income and profits. It also *opens up the export window* that allows these countries the opportunity to cash in on their superior technological resources. It has also been observed that as a result of receiving foreign direct investment from other countries, it has been possible for the recipient countries to keep their rates of interest at a lower level. It becomes easier for the business entities *to borrow finance at lesser rates of interest*. The biggest beneficiaries of these facilities are the small and medium-sized business enterprises (Benefits of Foreign Direct Investment 2010). As we can see, there are a lot of positive aspects of foreign direct investments. Unfortunately there are many negative ones as well.

The disadvantages of foreign direct investment occur mostly in the case of matters related to operation, distribution of the profits made on the investment and the personnel. One of the most indirect disadvantages of foreign direct investment is that *the economically backward section of the host country is always inconvenienced when the stream of foreign direct investment is negatively affected.* The various disadvantages of foreign direct investment are understood where *the host country has some sort of national secret* – something that is not meant to be disclosed to the rest of the world. It has been observed that the defense of a country has faced risks as a result of the foreign direct investment in the country. At times it has been observed that certain foreign policies are adopted that are not appreciated by the workers of the recipient country. Foreign direct investment, at times, is also disadvantageous for the ones who are making the investments themselves. Foreign direct investment may *entail high travel and communications expenses*. The difference of language and culture that exist between the country of the investor and the host country could also pose problems in case of foreign direct investment. Another major disadvantage of foreign direct investment is that there is a *chance that a company may lose out on its ownership to an overseas company*. This has often caused many companies to approach foreign direct investment with a certain amount of caution. At times it has been observed that there is *considerable instability in a particular geographical region.* This causes a lot of inconvenience to the investors. The size of the market, as well as, the condition of the host country could be important factor in the case of the foreign direct investment. In case the *host country is not well connected with their more advanced neighbours*, it poses a lot of challenge for the investors. It has been observed that the *governments of the host country are facing problems* with foreign direct investment. It has less control over the functioning of the company that is functioning as the wholly owned subsidiary of an overseas company (*Disadvantages of Foreign Direct Investment* 2010). This leads to serious issues. There have been adverse effects of foreign direct investment on the balance of payments of a country. Even in view of the various disadvantages of foreign direct investment it may be said that foreign direct investment has played an important role in shaping the economic fortunes of a number of countries around the world.

The concept of the investment development path (IDP), which relates to foreign direct investment (FDI), was first proposed by Dunning in the early eighties (Tvaronavičienė, Kalašinskaitė 2010). According to the basic IDP proposition, the inward and outward foreign investment position of a country is tied with its economic development. There is strand of economic literature, in which it is claimed that the impact of FDI on economic growth in a country depends on the degree of its development (Tvaronavičienė, Lankauskienė 2011; Tvaronavičienė, Lankauskienė 2012; Tvaronavičienė *et al.* 2013). The investment development path (IDP) suggests five stages that a country goes through and which affect the level of investment. During the first stage a country is considered to be almost unable to attract inward direct investment. This is the case due to low per capita income, underdeveloped economic systems and governmental policies, poor infrastructure and communication, and above all, a labour force with low human capital. The few direct investments made are mainly in the labour-intensive manufacturing and primary sector like agriculture. In the second stage, inward direct investment starts to rise. The investments are still mostly located in natural resources and primary commodities. In this stage, the host government is beginning to change policies in order to stimulate FDI. The domestic firms begin to move their production towards semi-skilled and knowledge-intensive consumer goods. The third stage

is characterized by rising domestic income which causes an increase in demand for high quality goods, partly enhanced by an increased level of competition among companies. The rising incomes cause a decrease in growth of inward direct investment and an increase in the growth of outward direct investment towards countries with lower levels of IDP. The competition between domestic and foreign firms increases as well when the domestic firms acquire competitive advantages. The enlarged market and increased innovation will enable economies of scale and encourage technology-intensive manufacturing. When the stock of outward direct investment exceeds the stock of inward direct investment, the country has reached the fourth level. The domestic firms can only compete with foreign firms in sectors where they have a competitive advantage. Instead they invest abroad in markets where the labour is cheaper. In the domestic market the capital-intensive production increases in turn. The fifth stage characterizes by a continuous increase in outward and inward direct investment where advanced industrial nations find themselves. The importance of MNEs is clear here. The domestic supply of natural resources is of less importance and instead the ability to exploit markets in other countries is significant (Dunning, Narula 2002).

There are many articles about Foreign Direct Investments, their impacts on various sectors of the country and a lot of different researchers' hypothesis about driving forces, which attract these FDI to a specific country (e.g. Busse *et al.* 2007; Tvaronavičienė *et al.* 2009; Tvaronavičienė, Kalašinskaitė 2010; Lankauskienė, Tvaronavičienė 2012; Tvaronavičienė, Lankauskienė 2011; Tvaronavičienė *et al.* 2013; Šimelytė, Antanavičienė 2013). Some statements are based on estimates, while others remain unproven. In this subsection a few of the most significant and widely acknowledged ideas about FDI and its main determinants will be presented. One of the most important factors in attracting FDI is a country's *tax policy*. (Bellak *et al.* 2009; Bellak *et al.* 2010) analysis shows that South Eastern European Countries (further SEECs) which aim to increase FDI inflows should first reduce legal barriers toward FDI. Second, SEECs should keep corporate income taxes low at least in the short and the medium-run. Third, SEECs need to free financial means to improve their infrastructure endowment in the medium to long-run. Fourth, once the institutional environment and the infrastructure endowment have improved, SEECs might even consider to increase corporate income taxes again as "infrastructure rents" will accrue, which can be taxed without losing FDI (Bellak *et al.* 2009).

In addition, the direction of causality between investment climate or, more generally, business climate at the host country and FDI must be discussed. From a scientific point of view, some authors, who have studied the relationship between institutions and growth triggered by FDI and other driving forces, have stressed that positive institutional climate stimulates sustainable economic growth and development rather than vice versa. Some authors (e.g, Kaufmann *et al.* 2008; Tvaronavičienė *et al.* 2009; Tvaronavičienė, Grybaitė 2012; Tvaronavičienė *et al.* 2013; Vosylius *et al.* 2013; Mačiulis, Tvaronavičienė 2013) claim that the quality of institutions has an impact on growth but the reverse influence depends on the democratisation process and on the public governance. Other economists point out that the quality of institutions has a more important effect on long-term growth than on short term. Some authors point out the sensitivity of context and indicate, that role of institutions depends on the ability of the country to make them effective within a local institutional arrangement. According to Busse *et al.* (2007) institution quality may be approached by governance defined by Kaufmann *et al.* (2008) as "the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them". Nevertheless, despite the fact that some scientists and other stakeholders believe that business climate plays a very important role in attracting FDI, institutional factors are difficult to measure (Tvaronavičienė, Grybaitė 2012). Estimating the strength of that driving force remains a methodological issue and hence, related research limitations have to be taken into account.

Some studies suggest that *human resource development* (HRD) is the key driving force determining FDI flows in developed and developing countries (Miyamoto 2008; Mačiulis, Tvaronavičienė 2013). While HRD and FDI individually affect growth, they also reinforce each other through complementary effects. In general, enhanced HRD increases incoming FDI by making the investment climate attractive for for-

eign investors. On the other hand, FDI contributes to HRD since multinational enterprises (MNEs) themselves can be active providers of education and training, bringing new skills, information and technology to host developing countries. Ultimately, this complementary effect leads to a virtuous circle of HRD and FDI where host countries experience continuous inflow of FDI over time by increasingly attracting higher value-added MNEs, while at the same time upgrading the skill contents of preexisting MNEs and domestic enterprises (Miyamoto 2008).

Scientists have the opinion, that the degree of a *country's openness* can affect FDI in multiple ways. Lower import barriers discourage tariff-jumping FDI but may stimulate vertical FDI by facilitating the imports of inputs and machinery. Lower export barriers tend to stimulate vertical FDI by facilitating the re-export of processed goods, and other horizontal FDI by expanding the effective market size and leading to an improved business climate. Scientists claim that trade openness can create room for technological progress and efficiency by allocating inputs via the elimination of protection for import substitution industries which in turn influences economic growth and through it leads to sustainable development. It has been argued that a country with a higher degree of openness has a greater ability to absorb technological developments generated in the leading nations, and this absorption capability leads them to grow more rapidly than a country with a lower degree of openness. However, counter arguments of the positive link between trade openness and economic growth can also be found in empirical literature. For instance, there are claims that economic openness may bring macroeconomic instability by increasing inflation, depreciating exchange rates and inviting balance of payments crisis. Similarly others assume that a high degree of trade openness may increase inflation and lower the real exchange rates which may create a negative impact on domestic investment.

FDI flowing into any country depends upon the rate of return on investments and the certainties and uncertainties surrounding those returns. Therefore, private investors compare the potential return and risks of their investment in the context of different investment destinations. The literature on the determinants of FDI is very rich. The expectations of private investors in a host country are guided by a host of economic, institutional, and regulatory and infrastructure related factors. Before making an investment, investors look at certain major economic policy issues particularly relating to trade, labor, governance and the regulatory framework, and the availability of physical and social infrastructure. Some of the fundamental determinants of FDI, such as geographical location, resource endowment and size of the market, are largely outside the control of the national policy. However, national economic policies to create a favorable investment environment, and particularly the investment framework, can help to make FDI inflows consistent with economic potential. Countries can also act on their economic determinants to maximize their economic potential (e.g. Sahoo 2006; Tvaronavičienė 2014).

Different opinions and results of investigations on factors influencing Foreign Direct Investment are presented in the literature. Some authors have found that market size and labor force are most significant, while the results of others suggest that these determinants are absolutely insignificant and unimportant. The reason for this is the different statistical data, period and type of analyses used by the individual researchers. Therefore we cannot confirm who is right or wrong, because each test is based on different methods and hypotheses. In the second part of the article some hypotheses have been verified and used as a basis to perform regression analysis.

4. FDI outcomes for secure and sustainable development

In this section, we will discuss FDI performance in Lithuania, Latvia and Estonia. We have chosen those particular countries as FDI in this region is considered as very important driving factor conditioning secure and sustainable development. Since majority of theorists almost unanimously agree, that development level is directly related to FDI attraction, let us focus on that single indicator and juxtapose it to FDI performance. In order to reveal concrete processes we do not use correlation and regression analysis, which is more appropriate for generalizing and searching for consistent patterns. Let us glance at GDP per capita change pattern in Lithuania, Latvia and Estonia (Figure 1).

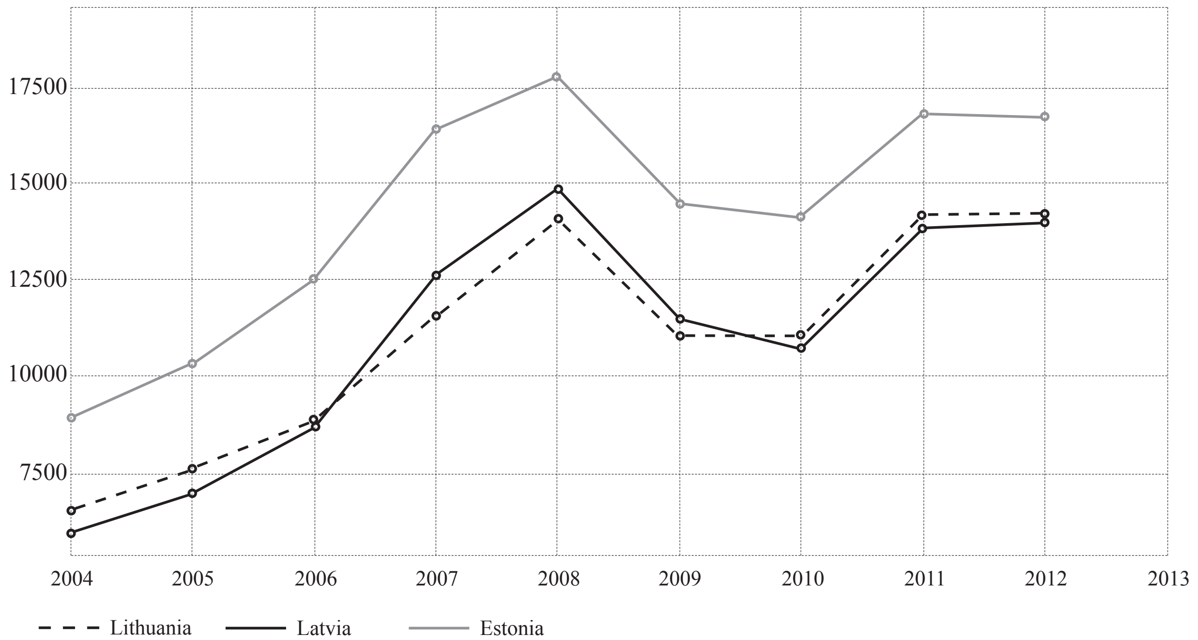

Fig.1. Change of GDP per capita* in Lithuania, Latvia and Estonia during 2004-2012 year period

Source: World Bank, http://data.worldbank.org/indicator/NY.GDP.PCAP.CD/countries/LT-LV-EE?display=graph

*GDP per capita (current US$). GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars

The following comment can be provided: countries developed very similarly; Estonia is seen as more advanced country, alas, following the same development pattern. Economies in all countries recovered after global crisis, and following economic logic, it would be natural to expect that gradual increase in FDI should be observed. Let us concentrate on the latest data on FDI flows in Lithuania, Latvia and Estonia and, though, consider data of years 2009 and 2012. Let us recall, that foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, acquired by foreign investor. On the other hand, if investors directs earnings to the capital origin country, and long-term capital depreciates, natural outcome is not inflow but outflow of foreign direct investment. It is peculiar how much attention in scientific literature is devoted to capital inflows of foreign capital and prevailing positive effect they cause. We reason, that instead, phenomenon of withdrawing capital of foreign origin should be tackled. In Figure 2 we display statistical data reflecting process of withdrawing foreign direct investments from Estonia and Latvia.

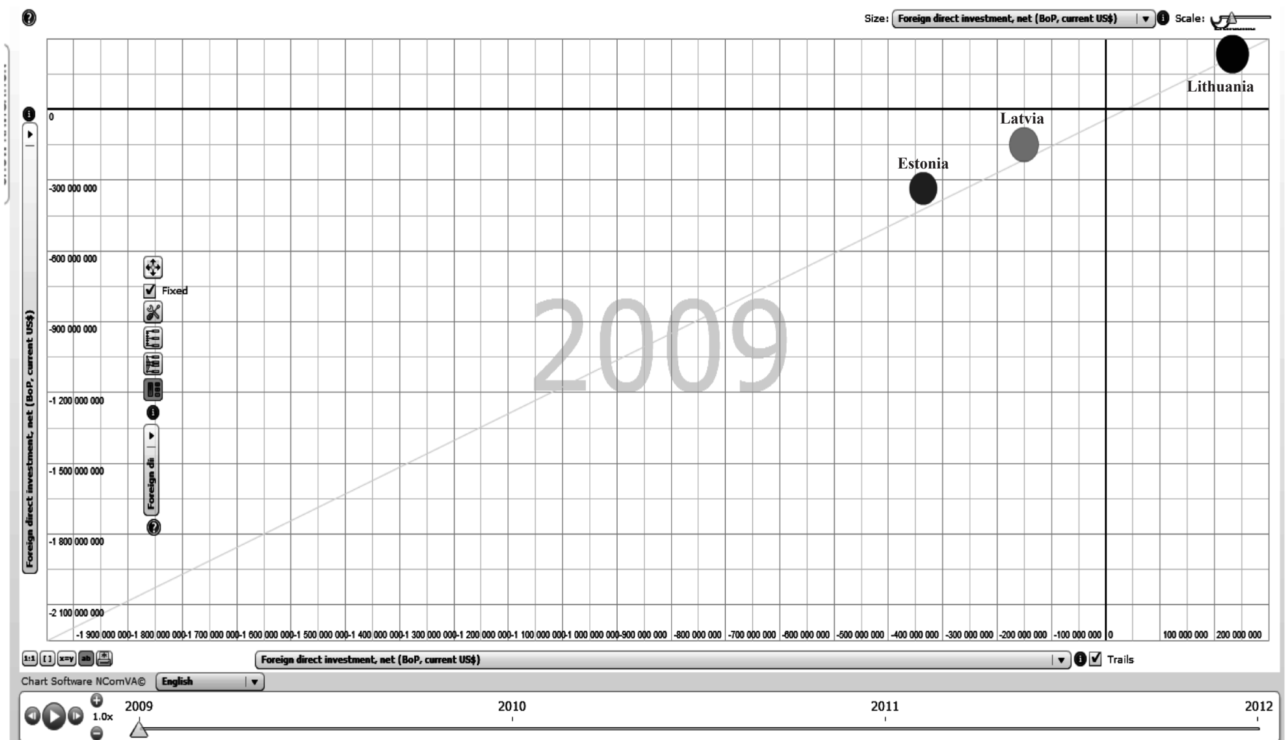

Fig.2. Process of withdrawing foreign capital from Lithuania and Latvia
reflected by indicator FDI, net inflows, year 2009

Source: UK data service Foreign direct investment, net inflows
(BoP, current US$); http://ukdataservice.ac.uk/help/get-in-touch.aspx

In order to test if observed phenomenon can be attributed to category of signals of consistent patterns, let us glance at the same indicator in year 2012 (Figure 3).

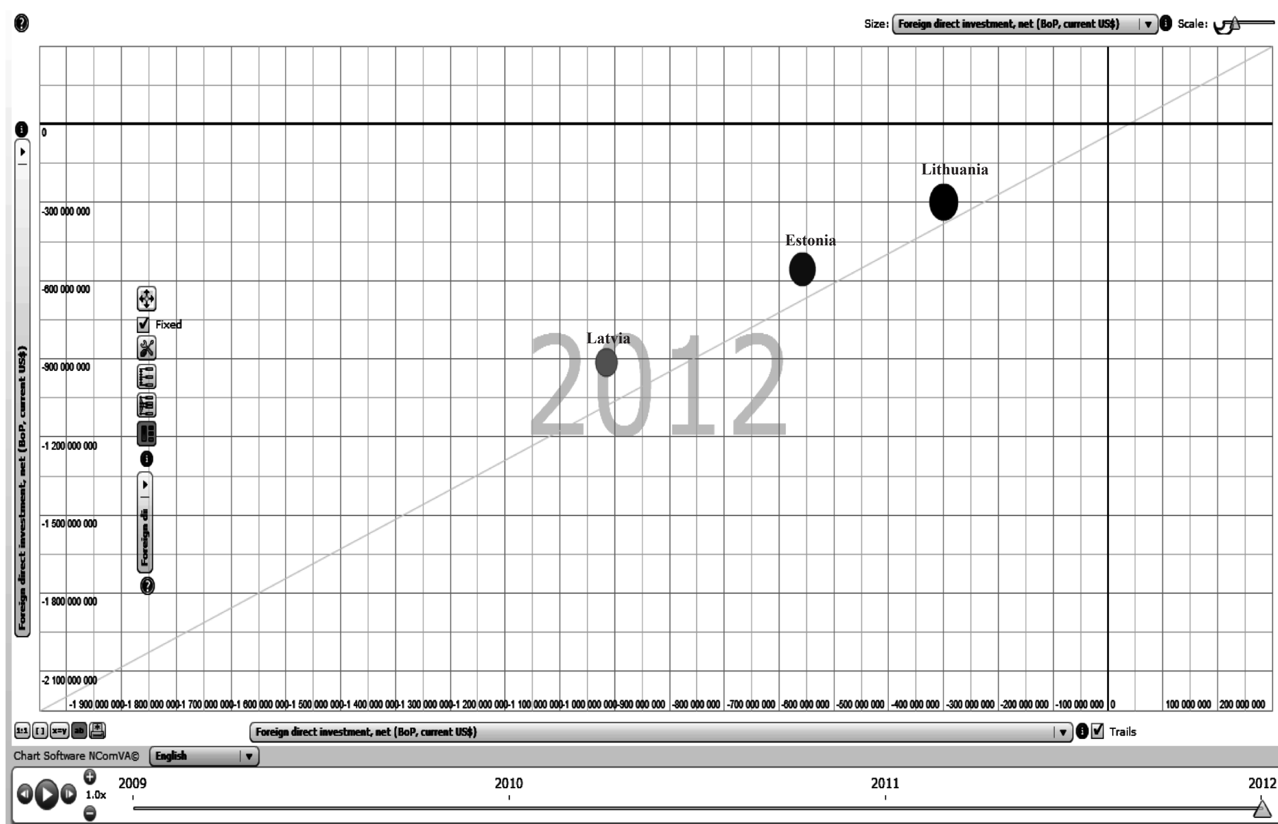

Fig.3. Process of withdrawing foreign capital from Lithuania and Latvia reflected by indicator FDI, net inflows, year 2009

Source: UK data service Foreign direct investment, net inflows (BoP, current US$); http://ukdataservice.ac.uk/help/get-in-touch.aspx

Data provided above verify our assumption about lasting phenomenon, or rather consistent pattern, of FDI withdrawing. Despite the decision to change direction of capital flows might be natural to investing party, it might be threatening security of sustainable economic growth of host country. Hence, we suggest a comparatively new question, which should be investigated and answered: what causes FDI outflow and what impact such outflow has for secure and sustainable development on foreign capital recipient country (e.g. increase of indebtedness (Baikovs, Zariņš 2013); need for subsidies (Giriūnienė 2013); unsustainability of some industrial sectors (Laužikas, Krasauskas 2013; Tvaronavičienė 2014); enhanced need for new strategies (Laužikas, Mokšeckienė 2013; Laužikas, Krasauskas 2013; Wahl, Prause 2013; De Alencar, Almeida 2013).

Our assumption is that FDI have to be examined as phenomenon cyclical; outflows have to be foreseen, and negative outcomes hedged. That, as we indicated above, would be as new area of economic research, which would complement existing one by providing additional facet to complex picture of FDI driving forces and implications on secure and sustainable development of foreign capital recipient countries. Security of sustainable development, or interrelated taken security and sustainability has become a hub of contemporary scientific consideration (Lankauskienė, Tvaronavičienė 2012; Vosylius *et al.* 2013; Mačiulis, Tvaronavičienė 2013; Lankauskienė, Tvaronavičienė 2013)

Conclusions

Researchers distinguish different driving factors of Foreign Direct Investment. Usually, the problem of successfully competing for FDI is being emphasized. Discussion spins around determinants, which are the most effective in FDI attraction. Usually foreign direct investment flows are made up of three basic components: equity capital, reinvested earnings and other

direct investment capital. FDI has gained significant importance since the 1990s as a tool for accelerating growth and development of economies were MNCs play a leading role in cross-border cooperation and are heavily involved in international trade.

The major benefits of Foreign Direct Investment include: economic development, transferring technologies, creating new jobs, raising the productivity of the host country and others. However, disadvantages occur mostly in relation to operation, distribution of the profits made on the investment and the personnel.

The major factors influencing inward FDI are as follows: goods market efficiency, labor efficiency, fiscal incentives, institution efficiency, and development of infrastructure, financial market development, lower tax rates, lower inadequately educated labor force level, and level of corruption. Thus, authors try to identify which drivers are more important compared to others. However, identification is a complex problem due to the fact that the determinants can differ depending on characteristics specific to each country, sector and company. In the presented paper we formulate new insights and suggest new area for scientific research. We find that FDI may not only inflow, but may outflow as well. It means that causes and consequences of outflow of already invested foreign capital have to be investigated and assessed.

We claim that foreign investment drain might be threatening security of sustainable economic growth of host country. Our assumption is, that FDI have to be examined as phenomenon cyclical; outflows have to be foreseen, and negative outcomes hedged. That, as we indicated above, would be as new area of economic research, which would complement existing one by providing additional facet to complex picture of FDI driving forces and implications on secure and sustainable development of foreign capital recipient countries.

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