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Analyse of the chosen localization factors of FDI in the Slovak Republic

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Abstract
European Union is a main player on a field of foreign direct investments (FDI) including both internal and external FDI. In the literature, there are many factors influencing decisions of foreign investors, including specific local (host country) determinants and home country characterisitcs. The aim of the proposed paper is to analyse chosen localization factors influencing investors by investing with emphasis on foreign direct investments.

Key words Foreign direct investments (FDI), Slovak republic, localization criteria

1. INTRODUCTION

Foreign direct investments (FDI) are those investments that are located abroad to gain a control over the business. Investor participates not only on the profit but also on the ownership so he can control and manage (Táncošová, 2004).
European Union is a main player on a field of foreign direct investments (FDI) including both internal and external FDI. This indicates not only potential of one market but also ability of the european companies fo different industries to compete succesfully na the markets of the third countries.
Recent decrease of the internal FDI has raised the question: what are the main factors influencing investors to invest within the EU and how to support the attractiveness of the Europe for the investors? (European Commission, 2013).

2. LOCALIZATION FACTORS OF FDI

Maier and Tödtling (1997) have introduced basic characteristics of the localization decisions of the businesses) including decisions of the foreign investors). They have compiled localization decisions criteria in various spaces (country, region, town, land) – see Table 1.

Table 1 Localization decisions criteria in various spaces

Space	Criteria
Country	Taxes, political and economical stability, unions, inflation, growth, regional state support
Region	Workforce characteristics, wages, unions, market dynamics, market access, area, economic structure, contractors, services, regional supports
Town (community)	Transport Access (plane, train, car), workforce quality and quanity, specific infrastructure (university, research facilities), local economic

	policy, life standard
Land	Infrastructure link, size and price, state of environment

Source: Maier a Tödtling, 1997

There are many theories which attempt to explain the determinants of FDI. These theories are significant steps towards the development of a systematic framework for the emergence of FDI. The literature examines a large number of variables that have been set forth to explain FDI. Some of these variables are included in formal hypotheses or theories of FDI, whereas others are suggested because they make sense instinctively. Most of the variables used in empirical studies appear in the UNCTAD's (1998) classification of the determinants of inward FDI.

Table 2 FDI determinants

1. Policy framework for FDI
Economic, political and social stability
Rules regarding entry and operations
Standards of treatment of foreign affiliates
General legal and administrative system that shape the structure and functioning of markets (e.g.competition & M&A policies, corporate and labour taxation, product & labour market regulations, IPRs|
Ïnternational agreements od FDI
Privatization policies
Trade policies (tariffs and non-tariff barriers) and the coherence of FDI and trade policies
2. Economic determinants (by FDI motive)
2.1 Market seeking
Market size and per capita income
Market growth (potential)
Access to regional and global markets
Country-specific consumer preferences
Structure of markets (e.g. market concentration, entry barriers, pricing)
2.2 Resource seeking
Availability of natural resources (e.g. oil and gas, minerals, raw materials, agricultural land)
Physical infrastructure (ports, roads, power, telecommunication)
2.3 Strategis asset seeking
Skilled labour and quality of educational infrastructure (e.g. schools, colleges, universities)
Quality of technological and R&D infrastructure (e.g. research institutions, universities, ICT)
Innovation clusters
2.4 Efficiency seeking
Cost and productivity of local labour supply
Cost of raw materials and intermediate inputs
Cost of transport and communication to/from and within host economy
Financing cost
Industrial infrastructure (e.g. subcontracting and business services, supplier industries, industry clusters)
3. Business facilitation
Investment promotion
Investment incentives (tax and financial)
Cost related to corruption and bureaucratic inefficiency
Social amenities (e.g. quality of life)
Infrastructure and support services
Cluster and network promotion

Social capital

Source: European Comission according UNCTAD, 2013

In the literature, there are many determinants often cited in the econometric studies.

DVH, CR, czech consulting and engineering company operating in the fields of the transport, environment protection, regional development and spatial planning has elaborated many studies containing the examination of the decision criterion and their importance according to the foreign investors. They have declared 10 the most importans criterion influencing the investor decision the most by the multiobjective analyse technique.
The criterion influencing the most the foreign investors by the location selection:

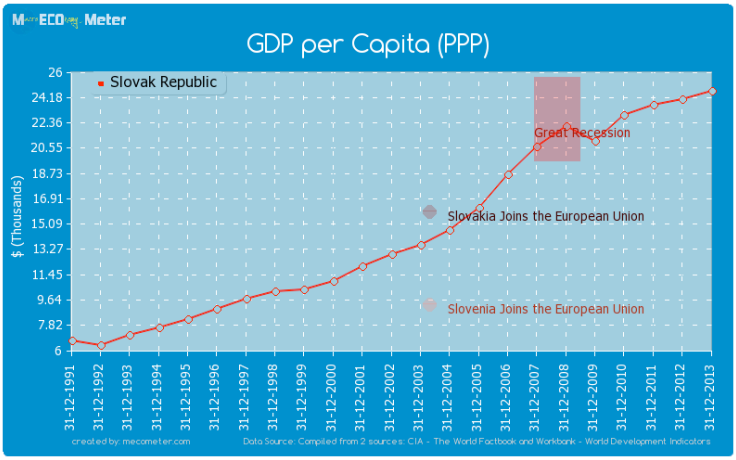
1. Human resources
2. Local economy
3. Property legal statsu
4. Territorial identity
5. Externalities
6. Environment
7. Transport
8. Infrastructure
9. Price
10. Integrity and conformity with the planning documentation (Burger, 2014).

3. CHOSEN FDI LOCALIZATION FACTORS IN THE SLOVAK REPUBLIC

Considering the relationship of FDI with several macroeconomic variables, some that might be thought to have a connection to FDI flows are the size and growth potential of the host market, economic stability, the degree of openness of the host economy, and income level, as well as the quality of institutions and level of development.

Market Size

Artige and Nicolini (2005) in Demirhan-Masca (2008) state that market size as measured by GDP or GDP *per capita* seems to be the most robust FDI determinant in econometric studies. This is the main determinant for horizontal FDI.



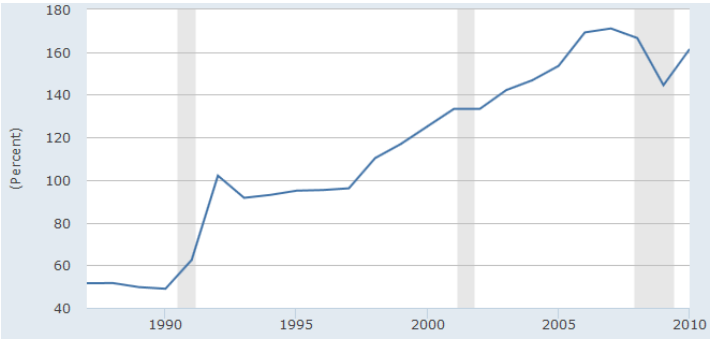
Graph 1: GDP per capita in the Slovak Republic
Source: MecoMeter, 2014

The GDP per Capita (PPP) of Slovak Republic is similar to that of Czech Republic, Seychelles, Cyprus, Greece, Portugal, Lithuania, Estonia, etc. Slovak Republic's GDP per Capita (PPP) had a positive growth of 81.3 (%) in the last 10 years from (2003 to 2013).

Openness

Charkrabarti (2001) in Demirhan-Masca (2008) states that there is mixed evidence concerning the significance of openness, which is measured mostly by the ratio of exports plus imports to GDP, in determining FDI, as well. The maintained hypothesis is: given that most investment projects are directed towards the tradable sector, a country's degree of openness to international trade should be a relevant factor in the decision.

Slovakia is also one of the most open economies in the world, according to the latest survey carried out by the International Chamber of Commerce, which shows that the country placed 14th out of 75 countries. The areas with the best evaluation are the openness of trade, the trade policy, and support for foreign investors, the Hospodárske noviny daily wrote. Based on the survey, Slovakia's openness is comparable to countries like Norway, Denmark and Austria. The list is topped by Hong Kong, Singapore and Luxembourg, while Bangladesh, Sudan and Ethiopia reported the worst results (Spectator, 2013).



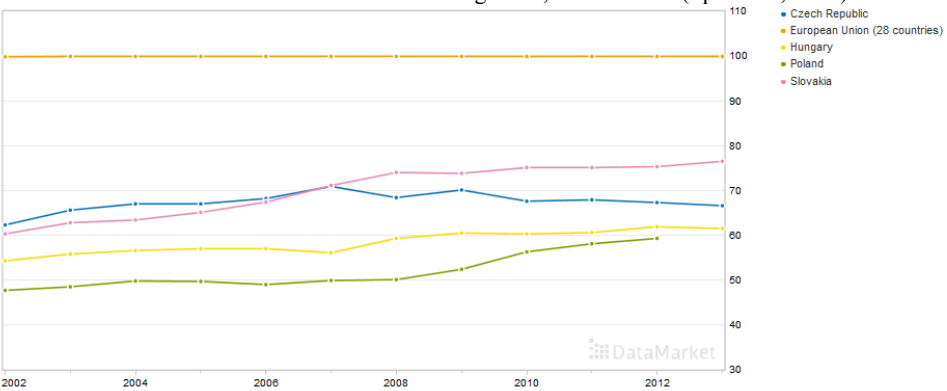
Graph 2: Openness at constant prices for Slovak Republic
Source: University of Pennsylvania, 2014

Labour Costs and Productivity

Charkrabarti (2001) in Demirhan-Masca (2008) claims that wage as an indicator of labour cost has been the most contentious of all the potential determinants of FDI. Theoretically, the importance of cheap labour in attracting multinationals is agreed upon by the proponents of the dependency hypothesis as well as those of the modernization hypothesis, though with very different implications.

In 2012, the average hourly labour costs in the whole economy were estimated to be €23.4 in the European Union and €28 in the eurozone, based on data of the Eurostat. In its statistics labour costs are made up of wages and salaries and non-wage costs, such as employers' social contributions.
However, Slovakia is far from this average, with its average hourly labour costs amounting to only €8.3. Lower labour costs were reported only in Bulgaria (€3.7), Romania (€4.4), Lithuania (5.8), Latvia (€6.0), Poland (€7.4) and Hungary (€7.5). Out of the Visegrad Group countries, the Czech Republic had the highest hourly labour costs, of €10.6. On the other side of the ranking is Sweden with the highest hourly labour costs in the region, €39, followed by Denmark (€37.2) and Belgium (€37.2).

While for 2012 Slovakia reported just slightly more than one third of the EU average with labour costs, it experienced one of the most robust growth rates. Between 2008 and 2012 its hourly labour costs rose 13.8 percent, the fifth fastest growth in the EU. Bulgaria ranked first with 42.6-percent growth, followed by Sweden (23.3 percent), Austria (15.5 percent) and the Czech Republic (15.3 percent). Thus, within the eurozone Slovakia achieved the second fastest growth, after Austria (Spectator, 2013).



Graph 3: Labour productivity per hour worked
Source: DataMarket, 2014

4. CONCLUSION

Recently, economists have focused on the analyse of the factors influencing the inflow of the FDI and the direct and indirect impacts of these investments. Direct impact of FDI is the increase of the financial capital volume that can be used to the economic growth. Despite of it, FDI bring also indirect positive effects. Therefore, the analyse of the factors influencing the decisions of the investors have become a very important field of study. Considering the relationship of FDI with several macroeconomic variables, some that might be thought to have a connection to FDI flows are the size and growth potential of the host market, economic stability, the degree of openness of the host economy, and income level, as well as the quality of institutions and level of development. We have focused on three of these mentioned factors. Market size measured by GDP per capita has increased during the searched period and it is similar to that in Czech Republic, Potugal, Cyprus, etc. Considering the opennness, Slovakia is also one of the most open economies in the world. Slovakia's openness is comparable to countries like Norway, Denmark and Austria. On the other hand, by labour cost, Slovakia is far from average. Thus, within the eurozone Slovakia achieved the second fastest growth, after Austria considering the labour cost. Labour productivity during the searched period has grown, too.

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