Giving up sovereignty for good?
Foreign Direct Investments and economic sovereignty in Estonia

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Budapest, 2013
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Introduction

Foreign direct investments (FDI) constitute one of the most important dimensions of economic globalization. They are often regarded to be the main source of technology transfer and of new jobs. Therefore governments seek to attract FDI by favourable policies and an investments friendly legal environment. The last two decades of post-communist Eastern Europe were particularly dominated by a competition of governments for foreign, mainly Western, investments. Lately the countries in the region started themselves to export capital. The flow of money across national borders influences relations among states, relations among social groups and sectors within states, and indirectly forms the economic setting of individuals. First of all, it undermines and reconfigures state sovereignty. Therefore the study of the causes and consequences of FDI must be a paramount task of both economics and international relations.

In the present the thesis I argue that Estonia has followed a good economic policy in terms of attracting foreign direct investments, however due to these radical business-friendly policies, it also had to give up some of its economic sovereignty. To support my argument I will first demonstrate the specific characteristics of the Estonian model, followed by the comparison of the Estonian data to Baltic and Visegrád countries, and lastly I assess the benefits from foreign direct investments on the economy.

The present thesis evaluates the impacts of foreign direct investments in a less-studied country, Estonia. Estonia is a particularly interesting case for those who study the relationship between economic integration, state sovereignty and the success of modernization. Economically the country opted early on for a policy of limited sovereignty. The currency was pegged to Deutsche Mark and then to Euro. Subsequently, at the first possible moment, the country has abandoned its own national currency. The changing governments very consequently pursued policies favourable to economic integration and free markets. Control over financial and economic processes were given up more unequivocally then in most other countries of the region. Estonia passed very FDI favourable policies and has attracted a large magnitude of investments, especially if the size of the economy and population is taken into account.
The focus of the analysis in this thesis is on the macro level, thus implications on individual firms will not be covered. It is also important to note that the thesis focuses on the economic aspects of foreign investments; implications on culture or society are beyond the scope of this text. The time frame of the analysis is mainly between 1991 and 2008. The first date is the formal re-establishment of the Estonian independence, while the second one is connected to the global financial crisis. The crisis had deep and complex consequences for the Estonian economy, which are beyond the scope of this thesis.

In the first part of this thesis after a short historical overview I highlight those policies executed by Estonia that are relevant to foreign direct investments. I will also compare the Estonian model to the other Baltic countries and to the Visegrád Group. In the following part the theoretical background of foreign direct investments and state sovereignty is elaborated. After that, Estonian FDI data is compared to data from the Visegrád and Baltic countries. In the final part of this thesis the impacts of foreign direct investments in Estonia is assessed.

The thesis combines theoretical literature on sovereignty and foreign direct investments with quantitative data on foreign direct investments in Visegrád Four and Baltic countries and with empirical data on the effects and consequences of FDI on the host country’s economy, technological infrastructure and local firms.

My choice of this specific topic reflects my wider research interests in this area. The choice of Estonia fits well to my past research and studies on post-socialist Central and Eastern Europe. On the other hand, the question of foreign direct investments and state sovereignty requires an interdisciplinary approach using both international relations and political economy, which both are fields I am interested in. The current thesis could also be used as a basis for future research on Central and Eastern Europe.

Although, this topic seems not so close to the present-day Hungary, there are several relevant implications and questions, which are connected to the general theme of the thesis. First of all, the current thesis focuses on Estonia’s foreign direct investments and compares it to other countries in the region, including Hungary. There can be seen many similarities between Hungary and Estonia: both countries have been quite successful in terms of attracting foreign direct investments compared to their respective economy and population in the region. In these terms, Hungary was in a leading position in the 90 and Estonia in the 2000s, while these countries followed a quite
different model related to foreign direct investments. The relation toward foreign investments is connected to current debate in Hungary among observers and shapers of these policies. Recent topics include on discussing the current tendency towards shifting less focus on foreign investments and to concentrate more on the internal economical actors. In the light of such discussions, the Estonian experience and results on foreign direct investments could be used as a valuable point of comparison.
Estonia: historical background

In this section the history and basic background information about Estonia is briefly described.

Estonians gained independence in 1918, after centuries of German, Swedish, and Russian rule, which started in the 13th century. The independence lasted until 1940. During World War II it was invaded first by the Soviet troops, then by the Germans, and then the Soviets again. Estonia was annexed to the Soviet Union in 1944. The incorporation of Estonia into the USSR in 1940 was an action never recognized by the US (cf. CIA World Factbook, 2013).

The Estonian Republic used to be the smallest in population among the former Soviet republics. During the heavy industrialization of the 1960s and 1970s, many factories were closed down in rural centres, and the industrial development was mainly concentrated in the Northern part of the country, especially in the capital (Juliussen 2008, p. 44).

Independence was regained in 1991. However, the last Russian troops left in 1994. According to the CIA World Factbook (2013) 26 percentage of the population is Russian as the consequence of the Soviet era. In 2004, Estonia joined both the European Union and NATO. Estonia formally joined the OECD in 2010. Its official currency, the kroon (means crown in Estonian), was replaced by the euro as its official currency on 1 January 2011.

This is how the CIA World Factbook (2013) describes Estonian further economic development after it entered the European Union in 2004: “[Estonia] has a modern market-based economy and one of the higher per capita income levels in Central Europe and the Baltic region. Estonia’s successive governments have pursued a free market, pro-business economic agenda and have wavered little in their commitment to pro-market reforms. The current government has followed sound fiscal policies that have resulted in balanced budgets and low public debt.”

Estonians remember the decades under Soviet rule as the years of oppression and humiliation. At the same time the country (at that time called Estonian Soviet Socialist Republic) was also an economic laboratory for Moscow already since the 1960s. This meant comparatively more liberal economic policies, such as limited usage
of joint venture companies and small-scale privatization. This past, and the general high level of education, gave Estonia a head start compared to the other post-Soviet republics. Another factor, which was in favour of Estonia’s rapid growth, is that it had a larger and more centralized light industry than the other two Baltic countries (Hansen and Sorsa 1999, in Bohle and Greskovits 2012, p. 126).
1. Building the neoliberal h(e)aven: the economic policies after the re-establishment of independence

This chapter is composed of several important sections describing Estonia’s path to building a business friendly environment. The first section is about the general background of the transition highlighting the deindustrialisation and the role of society, in the second part describes the adoption of strict monetary policies and the third part focuses on business friendly fiscal policies. The fourth part explains the concept of foreign direct investments and the policies adopted in Estonia connected to it, while the final part of this chapter focuses on the comparison of the main economic models in the Baltics and Visegrád countries.

1.1. Transition

This section briefly overviews the process of transition in Estonia. In this part the consensus on the reform will be discussed, followed by description of the deindustrialisation process and its diverging effects on different parts of the society.

Hansson (1993, p. 4) points out an important aspect in the political and economic transformation in Estonia: there was the consensus among Estonians to return to Europe and the need for radical economic reform was accepted. Shortly after regaining its independence, Estonia signed bilateral free trade agreements with several European Free Trade Association members and a most favoured nation agreement with EC. The radical and painful deindustrialisation and restructuring of the economy was seen as a necessary step in returning to Europe and reducing ties with Russia (Hansson 1993, p. 4). This has led to the dissolution of its complex industries, while recovery was carried out mostly by traditional industries (Bohle and Greskovits 2012, p. 125). Hansson (1993, p. 4) also claims that “Estonia has maintained social peace in the face of one of the most severe terms-of-trade shocks experienced by any former CPE [Centrally Planned Economy], including a seventy-fold increase in the price of gasoline over of one year. The ability of the Estonian authorities to implement and maintain balanced
budgets and a tight monetary policy in the face of such a shock is also founded on this consensus and direction in society.”

However, the effects of the transformation weren’t equally distributed among the Estonian society. Most non-Estonians were concentrated in towns in the North-East and in the capital, at places where heavy industry was the main economic activity, while rural areas and other towns was predominantly Estonian (Hansson 1993, p. 5). The drastic negative effects of deindustrialization fell on non-Estonians (Hansson 1993, p. 5). Taagepera (1983, p. 272 in Hansson 1993, p. 6) also points out that the minorities in Estonia, in contrast to most post-socialist countries, are relatively recent immigrants, since most arrived after 1945; at that time the share of ethnic Estonians were of 94%, while according to the 1989 census this figure dropped to 61.5% (Hansson 1993, p. 5).

1.2. Monetary policy

In this section of the thesis the Estonian monetary policy is discussed. Following the re-introduction of the Estonian kroon, the currency was pegged to the Deutsche Mark, introducing a fixed-exchange regime and strict laws concerning the operation of the Bank of Estonia. Monetary policy measures by the Bank of Estonia were extremely limited; this was sacrificed for the sake of a stable currency, which was seen as an important factor to attract investments. The kroon remained stable during almost two decades, and it was finally replaced by the euro in 2011.

Estonia was the first ex-Soviet to leave the ruble zone, readopting the kroon after a half century as the sole legal tender in June 1992 (Hansson 1993, p. 9). Hansson (1993, p. 9) highlights that Estonia was the only ex-Soviet country to adopt the new currency without an interim period, where both currencies are circulated (the conversion period was only 3 days long).

Concerning monetary affairs, Estonia adopted a fixed exchange rate policy, where the kroon was pegged to the Deutsche Mark. Hansson (1993, p. 10) points out that the initial rate of the kroon was set at an undervalued level and there was legislation passed over the prohibition of the Central Bank to devaluate the currency. Concerning convertibility the kroon “quickly became convertible for current account purposes and for repatriating foreign direct investments […] (Hansson 1993, pp. 10-11). Another piece of relevant legislation on this topic was the Law on the Security of the Estonian
Kroon, which stated that the Central Bank had the obligation to fully back the kroon by gold and foreign currency reserves (Hansson 1993, p. 10). These obligations don’t really leave much leeway for active monetary policy measures for the Central Bank to undertake. The bank can only print new money (increase monetary supply), when it has the proper backing for it (in contrast to the recent wave of quantitative easing in many rich-world countries).

Printing money has been for centuries a crucial component of state sovereignty. In the case of Estonia, this privilege was sacrificed in order to achieve a stable currency, which attracts foreign investors, who don’t want to see their capital lose value; in other words, giving up a part of economic sovereignty for future gains from investments. Although by looking at the size of the Estonian economy, it could be argued that a different currency regime wouldn’t have been possible to adopt. Hansson (1993, p. 10) argues that Estonia had little experience in running monetary policy, and as a small, open economy it needed a stable and convertible currency, simple and failsafe policies, and institutional guarantees that the policies already carries out are maintained.

Another theory could also underpin Estonia’s reason of adopting the fixed exchange rates is called the irreconcilable trinity or Mundell-Fleming trilemma. This theory states that from three equally desirable goals, only two can be fulfilled simultaneously in an economy (Gilpin 2001, pp. 248-249). This problem is explained by Gilpin (2001, pp. 248-249): “Nations may want stable exchange rates to reduce economic uncertainty, but they may also desire discretionary monetary policy in order to promote economic growth and steer their economies between recession and inflation. In addition, governments may want freedom of capital movements to facilitate the conduct of trade, foreign investment, and other international business activities.” Relating this theory to Estonia, it is clear that the country wanted to be open to investments and to have a stable currency, which means that the discretionary monetary policy had to be discarded.

The Estonian kroon remained stable in the past; in the first years after its introduction it rigidly maintained the 8 kroons/Deutsche Mark parity, while in the meantime the Russian ruble fell from 75 to 250 ruble/Deutsche Mark (Hansson 1993, p. 11). After Germany has adopted the euro, Estonia became pegged to the euro and in
2011 the country joined the Eurozone, and thus giving up even more control over its currency\(^1\).

### 1.3. Fiscal policy

The next part of this thesis focuses on the fiscal policy that is connected to creating a business friendly environment. In this paragraph I summarize the key points in of this section. Following the transition, reforms were implemented on the basis of monetarist ideas. Flat rate taxes were adopted on corporate tax and were subsequently reduced. Taxes on re-invested profits were later abolished. Government budgets and governments remained stable.

After the transition Estonia adopted policies to create an ultraliberal business environment, led by the countries first prime minister, Mart Laar. The basis of these reforms was the famous book of Milton Friedman, Free to choose (Bohle and Greskovits 2012, p. 125).

Following the 1989 economic reforms, Estonia started modernizing and nationalizing its tax reform within the Soviet Union (Hansson 1993, p. 7). Single lump-sum payments where paid to the Soviet Union government and uniform value added tax, progressive personal income tax and standard corporate tax were introduced (Hansson p. 7). At this time the corporate income tax was at a flat rate of 35% (Hansson 1993, p. 10), this was reduced by 2000 to 26% and by 2008 gradually to 21% (EMTA 2013). Besides lowering the tax rate, the corporate income tax on re-invested profits was abolished in 2000 to keep FDI in the country (Hunya 2004, p. 106). Also, the withholding tax on distributed profit (26%) is equal to the flat tax rate on personal income.

Another important thing to highlight is that Estonia maintained sustainable debt level and budget balance in the past twenty years. In the past ten years the budget deficit was well under 3%, sometimes even with a surplus, while the government debt was 12.5% of the gross domestic product in 2010, one of the lowest in the European Union (OECD 2013).

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1 Although by joining the Eurozone, the Governor of the Bank of Estonia received a seat in the Governing Council of the European Central Bank, providing some influence in the monetary policy of the Eurozone.
A further point to note is the relative durability of the Estonian governments and their rock-solid commitment to liberal economic policies. Almost all governments were led by prime ministers from the centre-right parties, were based on the coalition of mostly centre-right parties and were upholding pro-business policies. It is also important to note, that the government could take back its economic powers at any time, so I would argue that its economic sovereignty would be lost forever.

1.4. The concept of foreign direct investments and its promotion in Estonia

This section is divided in two greater parts. The first one introduces the concept of foreign direct investments, while the second one observes the policies carried out by the Estonian governments in order to attract FDI.

1.4.1. Clarifying the concept of foreign direct investments

In the previous parts of this thesis the concept of foreign direct investments has been already used mentioned many times without clarifying its exact meaning. The aim of this section is to elaborate the concept of foreign direct investments, since it constitutes a central part of this thesis. In the beginning of this part a long and exact definition will be given, followed by highlighting the most important implications of it. In the final part of this block the differences between the long term foreign direct investments and the short term portfolio investments will be highlighted.

First of all, the exact definition of foreign direct investments is needed to describe further implications of this concept. The provided definition is of great length; however this is a key and central concept of this thesis, so it is of paramount importance. For the exact definition I have used the 4th Edition of the Benchmark Definition of Foreign Direct Investment of the Organisation for Economic Co-operation and Development (2008, p. 8):

“Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct
investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The “lasting interest” is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise. Direct investment may also allow the direct investor to gain access to the economy of the direct investment enterprise which it might otherwise be unable to do. The objectives of direct investment are different from those of portfolio investment whereby investors do not generally expect to influence the management of the enterprise.”

There are several parts of the definition which are needed to be highlighted in order to understand the concept. Key parts of this FDI definition are that it has to be cross-border, with a long-term strategy and with sufficient control. While the first to concepts are pretty clear, the last one needs to be further clarified. There are many different views on what does “significant degree of influence” mean exactly. Different statistical offices and scholars place the needed amount of voting power to a different exact number. Most sources define this amount somewhere between 10% and 50%, while others claim that exact share of influence is hard to define, since it varies in time, sector and ownership structure within the firm.

After explaining the definition of foreign direct investments, it is important to differentiate it from portfolio investments. Simai (2000, pp. 251-252) highlights four major differences between FDI and portfolio investments in four aspects: contribution to the development, difference in timeframe, motivations and the degree of fluctuation.

In term of contribution to the development of the host country Simai (2000, pp. 251-252) points out the following: while foreign direct investments can bring new technologies, management knowledge, new markets and sales opportunities, portfolio investments only provide easier or cheaper access to capital for host countries. There is a difference in timeframe: foreign direct investments are planned on a longer term basis, while portfolio investments are planned on a shorter term (Simai 2000, pp. 251-252). These two investments also differ on the motivations: while portfolio investors are mostly concerned by short term gains, such as profits, dividends and interests, on the other hand foreign direct investments concentrate more on more long-term goals as well, such as market capitalization and efficiency (Simai 2000, pp. 251-252). The last
major difference pointed out by Simai (2000, pp. 251-252) is the degree of fluctuations between the two types of investments: portfolio investments are more vulnerable to market fluctuations, while foreign direct investments are sensitive to cyclical fluctuations.
This section describes the policies connected to foreign direct investments in Estonia. Although, in a later part of this thesis a more precise definition and explanation will be provided, for the sake of better comprehensibility a shorter, more simpler one will be presented in this part of the thesis. This section highlights several important points: the equal treatment of foreign investments, abolition of tax holidays and criticism connected to some FDI promotion measures.

The attraction of FDI has been a particularly high priority in Estonia. The laws on ownership reform, foreign investment, and privatization were coupled with special incentive programs (Ginevicius and Tvaronaviciene 2005, p. 181). One of the main goals was to create a simple, transparent, non-discriminatory legal framework in order to attract foreign direct investments (Juliussen 2008, p. 47).

As a result of these policies, foreign investors are allowed 100% ownership and no sectors are closed from FDI. Furthermore, foreign firms also have equal access to government funds, such as the KredEx, and to non-profit organization, like the Enter Estonia Foundation, which assists investors in finding business partners. Foreign companies have the same rights as domestic ones, and the repatriation of profit is unrestricted (Juliussen 2008, pp. 48-49).

The country also managed to develop a stable and welcoming economic environment, relatively highly educated labour force and relatively low labour costs (Vissak 2002, p. 239). The foreigners were also attracted by the good geographical location. From the 2000s new industries were established: plastic industries, electronic assembly, farming, food and wood processing (Juliussen 2008, p. 45).

Similarly to the other Baltic States Estonia adopted policies, like tax concessions, in order to attract foreign investments (Ginevicius and Tvaronaviciene 2005, p. 179). It is important to note, that Estonia was first to abolish tax holidays from the region to foreign investors (Hunya 2004, p. 106). In the other Baltic countries preferential tax treatment was abolished only by the early 2000-s (Hunya 2004, p. 108-109). Hunya (2004, p. 108) also points out a rather dangerous practise of tax competition among the Baltic states, especially in the case of corporate income tax, and draws attention to the fact that such questions can be deeply divisive in domestic politics, threatening even the stability of coalition governments.
While the overall impact of the reforms was positive, one should not overlook their problematic side-effects either. The liberalization of trade and investment together with the limited restructuring of industries caused the temporal decline of the knowledge- and technology-intensive industries. During the beginning of the 90s there was also a drastic fall in employment in the agricultural and industrial sector (Juliussen 2008, p. 44).

Although the Estonian FDI promotion policies were mainly well received among experts, they have been also criticised by some scholars, for example by Varblane and Ziacik (2001). They point out to that there were several unnecessary bureaucratic elements in procedures connected to purchasing land, obtaining residence and work permits and repaying value added tax to exporters. However, in the past 10 years there have been several improvements on various fields in slimming down bureaucracy according to the Doing Business report (World Bank 2013). The task of reducing red tape has not yet vanished from the agenda, for example getting electricity still remains an overcomplicated task in Estonia, according to same report.

1.5. Comparing the Baltic and Visegrád countries model

This following part compares the different models followed in the Baltics and in the Visegrád countries. Although, it is beyond the scope of this thesis to explain the origins and the precise functioning of these models, I will identify their principal features. A later part of the thesis will deal with the individual countries and with the actual amount of foreign direct investments in these countries.

Dorothee Bohle and Béla Greskovits distinguishes three types of capitalisms in Eastern Central Europe in their book entitled Capitalist diversity on Europe’s periphery. These are the following: „a pure neoliberal type in the Baltic states, an embedded neoliberal type in the Visegrád countries, and a neocorporatist type in Slovenia“ (Bohle and Greskovits 2012, p. 22).

Bohle and Greskovits (2012, p. 22) claim that the Baltic states were „rapidly instituted market economies, but did little to mitigate businesses’ risks and losses or help them by adequate industrial policies to capture promising market niches.” An another characteristic of this model is that the „Baltic welfare states fell short in providing sufficient protection against inequality and social anomie” (Bohle and
These authors also highlight some of the flaws in the Baltic democracies. In all three countries political participation is low and in Latvia and Estonia a large share of residents are altogether excluded from political participation (Bohle and Greskovits 2012, p. 22). Furthermore, social partnership is the least institutionalized in these countries (Bohle and Greskovits, p. 22). In short the Baltic neoliberal model can be described as pro-market and non-interventionist, with some weaknesses in the democratic participation, shallow social policies and weak trade unions.

The Visegrád countries adopted a different model and „opted for a socially and politically more inclusive strategy” (Bohle and Greskovits 2012, p. 22). These states intervened to mitigate the costs of transformation to domestic firms, by providing them resources, while maintaining generous welfare schemes (Bohle and Greskovits 2012, p. 22). This model is best described as „the search for compromises between market transformation and social cohesion [...]” (Bohle and Greskovits 2012, p. 22). Also, the V4 countries, in contrast to the Baltic ones, offered political rights to all its residents (Greskovits and Bohle 2012, p. 22).

Hunya (2004, p. 106) also highlights a paramount difference of the FDI promotion policies of Baltic and Visegrád countries: “It is fair to state that direct investment promotion policies have been of secondary importance in all Baltic countries – in contrast to other CEE countries such as the Czech Republic and Hungary. In the last few years, there have been no tax breaks or direct subsidies available for foreign investors only. If such incentives exist, they apply to both foreign and domestic investors. The main policies to attract FDI have included macroeconomic stabilisation, structural reforms, the creation of a business-friendly environment, and privatisation.”

This means that the primary and immediate goal of the Baltic countries is not to attract FDI, but rather to create a stable economic environment which then provides undistorted business opportunities to investors. In my interpretation this difference can be translated into a difference concerning the main features of the FDI-strategies. The Baltic states, especially Estonia, can be said to possess a catch-all strategy in terms of foreign direct investments. This means, that the government aims more at the overall quantity of the FDI, instead of on its quality. In contrast, the Visegrád countries focus rather more on the quality of the foreign direct investments, discriminating according to the exact type and sector of inflowing capital. They do so by giving tax breaks to
specific industries, which are considered important by the leaders of economic policy in these countries, in hope of getting benefits such as job creation or technology transfer.\textsuperscript{2}

\textsuperscript{2} A fairly good example of such an important industry could be the automotive industry in Slovakia and Hungary.
2. Inward and outward foreign direct investments in Estonia, compared to Baltic and Visegrád countries

In the first chapter the background of the Estonian model was analysed, followed by a short outlook on the Baltic and Visegrád model. This chapter focuses on the amounts of foreign direct investments in these countries, focusing primarily on Estonia and later comparing the data to the other countries. The first part focuses on the inward foreign direct investments, which is described extensively, while the second part analysing outward investments is less thorough.

2.1. Inward FDI in Estonia, the Baltics and Visegrád countries

The following section is about the analysis of inward foreign direct investments in Estonia and the comparison of the Estonian data to the other two Baltic states and to the Visegrád Four. Both stock and flow data are used. The economies and populations of these selected countries vary greatly, which means, that looking at the absolute amounts of foreign direct investments is not enough to compare them. In order to make it more comparable, per capita values and FDI in percentage of the gross domestic product will be used. This is especially important in the case of Estonia, since it has the smallest economy and population. In the following part of this section outward foreign direct investments are also examined by similar method as the inward one.

By only looking at the absolute values, Estonia and the other Baltic countries share of the total amount of FDI is quite low. However, examining the per capita and the percentage of GDP values, it can be said that Estonia is one of the most successful countries to attract foreign direct investments.

In this chapter there are various graphs presented, which are created on the basis of the United Nation Conference on Trade and Development’s statistical database. The timeframe analysed falls mainly between 1992 and 2008. The initial year of 1992 was chosen, because statistical data is available for most countries from this year on, including Estonia. Data from the Czech and Slovak Republic are available only from 1993, after the dissolution of Czechoslovakia. The FDI data on Czechoslovakia from
1992 are omitted from the figures due to clearer visibility; however these values are taken into account in all other relevant calculations.

Due to the large size of the graphs, their number and for the sake of greater visibility all relevant graphs can be found at the end of the thesis, in the appendixes. Some of the graphs partially contain the same information; this is due to the fact that often the Estonian data is reproduced on a separate graph without the other countries.

Although the UNCTAD data is already available from the year 2011 as well and these values are also presented in the graphs, the present thesis mainly focuses on the period until 2008. All of the selected countries have experienced a major drop in inward foreign direct investment flows following the 2007-2008 financial crisis, in most of these countries the critical year was 2008 in terms of FDI decline. In Estonia the FDI inflows haven’t recovered to the pre-crisis level. It would be certainly interesting to analyse also the effect of the crisis, however this is beyond the scope of this thesis.

2.1.1. Overview of inward FDI in Estonia

This section describes the Estonian foreign direct investment inflows patterns in the past two decades. This part highlights the privatization, the strengthening of Swedish banks, the low levels of Russian foreign direct investments presence and raises some questions.

In 1993 Estonia decided to carry out privatization in the form of private sales, because this was seen at that time as a fairly effective way of making the country open to investments (Hunya 2004, p. 103). However, Hunya (2004, p. 103) also claims, that the sale of the assets was carried out on low prices and so the revenue from privatization in that year only accounted for 17% of total foreign direct investment inflows.

The first part phase of privatization was finished by 1996 in Estonia; most utility companies were sold out by this time. German investors were the most active at this time, after that the main source of FDI became Sweden and Finland (Juliussen 2008, p. 48). The bulk of the privatisation process was completed in 2001 (Juliussen 2008, p. 42), but after the EU accession the infrastructural sector was also made private. This gave a big boost of FDI and foreign banks took over the local banking systems (Bohle and Greskovits 2012, p. 133). The peak amount of inward FDI flows (Appendix
1) was at 2005, which is largely due to the takeover of Hansabank by Swedbank and due to privatisation.

It is interesting to note, that Russian presence is quite low in Estonia, despite the fact, that Russia is a neighbouring country and that a significant part of the population is of Russian origin. Hunya (2004, p. 99) explains this in the following way: “Although Russia is a neighbour, who controlled these countries when they were part of the Soviet Union, Russian firms do not appear as significant investors (5 percent or less of the FDI stock in all three countries). It seems fair to claim that, for historical reasons, governments of the Baltic countries are wary about too large an influence of Russian investors and, in fact, hinder them in penetrating. Privatisation conditions are usually formulated in a way that virtually shuts out Russian investors.”

The impact of the financial crisis on the inward Estonian inflows is clearly seen in 2008 on the graph in Appendix 1. It fell from the 2007 value of $2720 million to $1730 million in 2008. However, an even larger slump can be observed in 2011, when inward FDI flows fell to $260 million reaching a 15-year old low. This is quite unique in the region, since other regional economies experienced a more modest fall or even a modest recovery in inward FDI flows. However as stated before, analysing the impacts of the crisis in Estonia would be a complex question and is beyond the capacities of this thesis.

2.1.2. Comparing Baltic and Visegrád countries in aspect of inward FDI

In order to evaluate, whether Estonia was successful in attracting FDI, the Estonian data should be compared to other countries. I’ve chosen to compare the Baltic countries and the Visegrád Group, since these countries have similar historic past and economic development. At the first section the absolute values of the investments in the selected countries will be presented, followed by comparing these investments to the population and gross domestic product of the national economies.

At the beginning of the 1990s there was a large amount of liquid capital in the world, looking for destination. The post-communist countries represented not only new

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3 However, at this point some things remain unclear: if Estonia has such liberal policies toward all potential sources of foreign direct investments, then with what measures can it still block Russian investments?
markets, but lower production costs, higher profit rates and the impressive possibilities related to privatization (Ginevicius and Tvaronaviciene 2005, p. 179).

Ginevicius and Tvaronaviciene (2005, p. 179) also highlight an important aspect in these countries: “Post-socialist economies have in general low levels of domestic savings due to their low levels of incomes. The foreign direct investment (FDI) is seen as an important potential contribution to the process of restructuring, economic growth and development of technology in these countries.”

By looking at the amount of foreign direct investments each country has received (Appendix 2) in absolute terms, it is clearly seen, that Poland, the Czech Republic and Hungary have attracted most of the FDI in this region. However, this is no surprise: these countries are among the larger ones in terms of territory, population and size of economy.

Concerning Estonia on (Appendix 2) it can be said that Estonia has surpassed the other Baltic countries in FDI inflows by 2002, despite the fact that Estonia is smaller in territory, population and size of economy. Until 2011 Estonia hold the first position in every to attract FDI in every year from the Baltics, except in 2006 when Lithuania had slightly more (by $19.5 million).

At Appendix 4 the share of inward FDI to Estonia compared to all Visegrád and Baltic countries is demonstrated. This graph shows that the share of Estonia of the total amount of inward FDI stocks was at between 2 and 4 percentages, with an average 3.0% over this period. It could be concluded, that the inward FDI to Estonia on the regional level is marginal, however in the following sub-sections it will be demonstrated, that Estonia attracted a disproportionally large amount of FDI.

2.1.3. Comparing inward FDI per capita

After comparing the absolute values of FDI inflows, it is important to relate FDI to population size, since there are huge differences between the countries in this aspect. Appendix 4 demonstrates that until the beginning of the 2000s, Hungary, Slovakia and the Czech Republic have attracted the highest amount of FDI inflows per capita. From around 2003 however, Estonia took over the lead, its per capita skyrocketing compared to the others, accounting for nearly twice as much FDI per capita than any other country. In the 1990s the average FDI per capita was around $200 and the peak values
was $2100 in 2005, which was largely attributed to the Swedbank purchase, as mentioned before.

Ziacik (1998 in Juliussen 2008, p. 51) argues that Estonia has been successful in attracting FDI because of the liberal economic reforms, privatization through tenders (instead of vouchers), low level of risk and geographical proximity to Finland and Sweden. The high transportation costs to Western markets are major obstacles (Ginevicius and Tvaronaviciene 2005, p. 181), but the investors appreciated financial and political stability. Ginevicius and Tvaronaviciene (2005, p. 181) also remark that the production costs are higher than in other Baltic countries, but lower than in Central Europe and therefore still provide the country with a competitive advantage.

Bevan and Estrin (2004) also found empirical evidence which underpins some of the previous arguments. Bevan and Estrin (2004, p. 783) found that in transition economies FDI inflows are closely linked to the geographical distance and unit labour costs. The analysis of Bevan and Estrin (2004, p. 785) highlights that EU accession also plays an important part in the increase of FDI inflows: their findings demonstrate that already the announcements on accession increased the amount of FDI inflows. Indeed, EU accession had a serious impact on these economies, since in most of these countries FDI inflows doubled after joining the European Union.

By looking at more closely only at the Baltic countries (Appendix 6), it can be seen that Estonia had an advantage compared to Latvia and Lithuania most of the time in the 1990s. This can be attributed to several facts. Hunya (2004, p. 94) highlights this as “[…] Estonia started to receive FDI earlier than Latvia and Lithuania as it was, on the whole, more attractive than the other countries due to early market reforms, full-scale liberalisation, and equity-sales-based privatisation.” Hunya (2004, p. 94) also notes that the late-comer Latvia and Lithuania managed to catch-up by the 2000s. The Latvian economy was even second in per capita FDI in the selected 7 countries between 2006 and 2007.
2.1.4. Comparing inward FDI to GDP

Since these selected countries also vary by the size of their economies, it is also crucial to compare the FDI to the amount of gross domestic product of the states.

On Appendix 7 inward FDI stock data is compared to the size of the Baltic and Visegrád countries’ GDP. This graph demonstrates, that among Hungary, Estonia has the highest amount of FDI stock compared to its economy. The peak value for Estonia was 87% of GDP in 2009, which is considered a very high value.

Hunya (2004, p. 96) claims that Estonia is a special case in term of this high level of FDI and that it hard for other countries to reach this level (at the time of the publication Hunya used data from 2002 which indicated that inward FDI stock was 66 percentage of GDP in Estonia). Hunya (2004, p. 96) explains this by “the attractiveness of one of the most open and foreign-penetrated economies in the world. Estonia has been able to attract FDI beyond the absorption capacity of its small market by serving as headquarter for many Nordic transnational corporations in their penetration on the other two Baltic countries”. This fact, that Estonia is a hub for many Nordic transnational will also be important in the following part of this thesis, because this is connected to the outward foreign direct investments.

2.2 Outward FDI in Estonia, Baltics and Visegrád countries

While the thesis focuses on inward FDI, it must be mentioned that Estonia is also a source of foreign direct investments. This is again seen by most observers as the sign of economic success. But one must be cautious in evaluating such figures. It can be a disadvantage for capital scarce economies to export capital; it can drain the resources from internal investments (Szentes 2002, p. 108).

In order to make this data more comparable, like in the previous section, not only the absolute amounts of outflows will be included, but other indicators such as outward FDI compared GDP will be examined. It is highly important to look at these values as well, since Estonia has the smallest economy of the selected seven countries. This section is divided in two parts, first I will focus on the Estonian data, after that I will compare this data to the other countries.
2.2.1. *Estonian Outward FDI: intermediator between Swedish banks and Baltics*

The next section describes the patterns of outward foreign direct investments from Estonia.

In the 1990s almost all outward investments from Estonia were towards the Central and Eastern Europe and around three quarters of it were directed toward to the other two Baltic countries (Juliussen 2008, p. 47). From the 2000s outward FDI flow has increased significantly (see Appendix 8). Local firms started to invest abroad because of the small local market and because of economies of scale. The local actors dominated this field until 1998, after that foreign ones replaced them (Ginevicius and Tvaronaviciene 2005, p. 181-186).

This change implied a switch from direct to indirect outward investments. A study in 2001 demonstrated that 65% of the Estonian companies investing abroad are in fact indirect investors, which mainly originate from EU countries (Ginevicius and Tvaronaviciene 2005, p. 181-186). As Ginevicius and Tvaronaviciene emphasizes, that this means that European firms invest in Estonia in the first place to move on later to the other Baltic states’ market: especially Finnish and Swedish investors are carrying out these operations (Varblane et al. 2001)

Hunya (2004, p. 96) also claims that the overwhelming share of the outward investments is attributable to foreign affiliates and highlights why a large share of it lies in the banking sector. Hunya (2004, p. 96) explains this by demonstrating that this is mainly due to two Swedish banks expanding to Latvia and Lithuania via their Estonian subsidiary, which means that these investments are not mainly in form of equity, but are rather loans. Hunya (2004, p. 97) also highlights some other important areas, in which Estonian affiliates of foreign companies’ area active: telecommunications, real estate, retail and transport.

Following the graph in Appendix 8, it can be seen that the yearly flow data is fluctuating on a large scale, following a steady gradual increase starting from 2002 and peaking in 2007 at $1750 million. What is also interesting from the graph is the slump in 2010, when the outward FDI flow dropped to a ten-year-old negative record, followed by an even larger drop 2011. Although analysing the situation after 2008 is beyond the scope of this thesis, it is clear that such great fluctuations are complex to interpret and are in need of further research.
2.2.2. Outward FDI compared to the Baltics and Visegrád Group

The short section below compares the Estonian outward FDI values to the other regional countries.

Hunya (2004, p. 96) points out an important fact on small countries and outward FDI: “it is fair to say that small, low-income economies usually lack companies that can invest abroad. This is reflected by the very low outward FDI figures of Latvia and Lithuania. […] Estonia is an exception. Although small and comparatively poor, its outward FDI stock is significant relative to the size of the country […].” Although I would argue with Hunya (2004) in labelling Estonia as ‘comparatively poor’ or ‘low-income’ (since 2006 Estonia joined the World Bank’s list of high-income countries, one year before Hungary, but this could be due to the author’s usage of older data), he highlights an important general trend, in where Estonia is an exception. Appendix 11 underpins Hunya’s argument, since throughout the 2000s Estonia’s share of outward foreign direct investment stocks were around 9% in the region, reaching 10%, which can be considered quite high.

The graph in Appendix 9 is showing the outward flow data in the region. It can be concluded from the graph, that the outward FDI flows have significantly increased in all countries since the 2000s. Drawing conclusions from the graph, it could be stated that in most of the Baltic and Visegrád countries it took around ten years to become active sources of FDI for other countries.
3. Assessment of FDI impacts on the Estonian economy: the advantages and disadvantages

Previous chapters of this thesis have analysed the Estonia’s background relating to foreign direct investments, followed by the looking at the exact amount of FDI moving in and out of the country. This part focuses on the impacts of foreign direct investments. In the first part of this chapter a theoretical background between states and transnational corporations will be demonstrated, following a summary of possible effects of FDI on the host country, finally in the last part evidence is gathered on the exact impact of foreign direct investments in Estonia.

3.1. The complex relations between states and TNCs

This theoretical part describes some general aspects between transnational corporations and states. It is important to overview this relation, since TNCs provide the FDI for the states.

First of all, in order to describe the relation between transnational corporations (TNCs) and states is to highlight their different goals. The main objectives of TNC are to maximize profits and shareholder value, while states want to maximize growth of GDP and growth in quantity and quality of employment opportunities (Dicken 2011, p. 223). Some experts argue that the conflicts between states and TNCs are inevitable since both parties try to maximize benefits from the interactions (Simai 2008, p. 328). However, Dicken (2011, pp. 223) also highlights that TNCs and states are highly depend on each other:

“[…] although their relationships may be conflictual in certain circumstances, states and firms need each other. Clearly, states need firms to generate material wealth and provide jobs for their citizens. […] Conversely, TNCs need states to provide the infrastructural basis for their continued existence: both physical infrastructure in the form of the built environment and also social infrastructures
in the form of legal protection of private property, institutional mechanisms to provide a continuing supply of educated workers, and the like.”

Simai (2008, p. 325) highlights that large TNCs with a strong market position can limit states, especially small ones, by limiting their macroeconomic policies, however states can even at this moment limit and restrain corporations. States’ have a very powerful tool available described by Dicken (2011, p. 234): “A nation-state’s ultimate sanction against the TNC is to exclude a particular foreign investment or to appropriate an existing investment.” The TNCs in the meantime also have a drastic move available, which is highlighted by Dicken (2011, p. 233): “The TNC’s ultimate sanction is not to invest in a particular location or to pull out of an existing investment”. Another thing to highlight is that the state’s economic sovereignty is always limited. Each country is constrained by the decisions made by other actors (Szentes 2002, p. 107).

This section demonstrated that although TNCs and states have different main goals, they are relying on each other in many aspects. Also, TNCs with great influence can apply pressure states; however both of them have powerful last resort instruments to block each other.

3.2. Overview of possible positive and negative effects of FDI on the host country

In this section some of the main possible positive and negative effects on the host country will be summarized.

Foreign direct investments can have various effects on the host economy. Simai (2000, p. 265) points out, that the positive effects don’t appear simultaneously. There are many potential positive effects. The capital inflows can influence positively the balance of payments, a net growth in export can occur, tax revenues can increase for the government, there can be growth in employment and wages or growth in general economic output and in research and development or managerial know-how could spread or the quality of products and services can improve.
Simai (2000, p. 265-266) also highlights some of the possible negative impacts. If transnational corporations have a dominant position in the host country’s economy, they can influence and limit the effectiveness of national macroeconomic policies:

They can distort the structure of production and consumption, distort the balance of payments with increasing the amount of imports, or by optimizing taxes though transfer pricing, or limiting local business or increase social tension with their employment policy (Simai 2000, p. 265-266).

Observers often emphasize that while foreign capital can be useful, dependency is dangerous. Therefore countries should try to avoid asymmetric relations, they should diversify the sources of FDI and they should create a competition among the investors (Szentes 2002, p. 107-108).

Economic growth requires investment and credit. For Eastern European countries this meant a reliance on external resources. The quantity of FDI soon became regarded as the main indicator of economic success. But it is crucial for host countries to focus also on the quality of FDI, not only the quantity (Vissak 2002, p. 238).

For the host country the type of FDI is also very important. According to Sinani and Meyer (2004, p. 446), different types of inward FDI create different spillovers; furthermore, spillovers also depend on the size of the firm, its ownership structure and its trade orientation.

FDI in simple assembly, processing and natural resources limit the potential beneficial spillovers for the local firms (Narula et al., 2000 in Vissak 2002, p. 238). High skill production activities which demand more qualified workers are more likely to help the modernization of the domestic economy (Juliussen 2008, p. 53).

3.3. Empirical evidence in Estonia of FDI impacts

While the previous section focused on the theoretical aspects of the impacts of foreign direct investment, the following part will examine the empirical evidence on the Estonian economy.

The empirical data indicate that the largest group of investors in Estonia are market-seeking investors, followed by efficiency-seeking investors and natural resource seeking investors (Juliussen 2008, p. 50).
The bulk of the money to Estonia arrived from the Nordic countries. Estonia has traditionally strong economic ties with them, especially with Finland, because of cultural and historical and management style similarities (Ginevicius and Tvaronaviciene 2005, p. 187). In 2004 42.8% of FDI came from Sweden and 37% from Finland (Ginevicius and Tvaronaviciene 2005, p. 181). In 2006 Sweden accounted for 39.5% and Finland for 26.4% of total FDI inflows (Juiliussen 2008, p. 45). These data demonstrate that Estonia is heavily relying on the FDI of Sweden and Finland. Since these two countries add up to more than 60% of the total FDI inflows, this is creating a dependency, which according to the previous theoretical section could be dangerous for Estonia.

The largest share of foreign direct investments is made in the financial sector, in 2004 this was 29.8% Ginevicius and Tvaronaviciene 2005, p. 182), followed by the manufacturing sector, although the electronic business has also been rapidly growing in the past years due to Scandinavian multinationals’ investment (Juliussen 2008, p. 53). The real estate sector (13.2%) has a significant share too. The main investments in the manufacturing industry are: food and beverages, wood, publishing and printing, textile industry and electronics industry (Juliussen 2008, p. 46). Vissak (2002, p. 238) has shown, that these simpler manufacturing industries involve relatively simple technology, which means that there can be little technological gain for local businesses.

Tallinn receives the dominant share of FDI: steadily 80% since 1999 (Juliussen 2008, p. 50). Many analysts argue that Estonia should attract FDI to regions outside Tallinn, especially to the eastern part of the country (Vissak 2002, p. 240).

Vissak and Roolaht (2005, p. 49) also found that the outflow of FDI is increasing the current account deficit, applying pressure on the exchange rate. Vissak and Roolaht (2005, p. 47) have also discovered, that there is a significant difference between net average monthly wages between domestic and foreign-owned firms: in 2003 these were €285 and €434. This has the following dangers (Vissak and Roolaht 2005, p. 47): “A country’s economic position worsens when increased wage levels spreads to locally owned companies. If productivity in these firms does not grow as quickly, their competitiveness decreases. This, in turn, can increase unemployment.” Vissak and Roolaht (2005, p. 44) have also found some evidence for the positive effects of FDI, such as the increase of economic growth and the trade balance improvements.
Sinani and Meyer (2004, p. 456) have detected some spillover effects analysing local Estonian firms in the 1990s: “[…] domestic firms benefit from direct contact with foreign firms, independent of any effect due to investment and human capital. These estimates suggest that an increase in foreign presence by 10 percentage points increases the sales’ growth of domestic firms by 6.9% if the spillover variable is measured as the share in employment, by 3.9% if it is measured as the share in sales, and by 1.7% if it is measured as the share in equity. Hence, spillovers have the largest effect when measured as the share in employment.” They also point out that their evidence is in line with the theory that foreign firms increase competitiveness in the host economy by stimulating local firms to utilize their technology more efficiently (Sinani and Meyer 2004, p. 456). Sinani and Meyer (2004, p. 461) also found that small firms, which not involved in export benefit more from spillovers, than other types of domestic firms.

However, Sinai and Meyer (2004, p. 456-457) have also found some other evidence: “technology gap between foreign and domestic firms is too large because the technology of foreign firms is too advanced, local firms may not be able to comprehend and adapt foreign technology. […] These results indicate that domestic firms lack absorptive capacity due to a large technology gap.” This means that although FDI brought in Estonia new technologies, the local businesses could not benefit from them, since these technologies are too complicated for them to adapt.
Conclusion

In this thesis I have examined Estonia and its ability to attract FDI. After regaining its independence Estonia adopted very rapidly market and business friendly policies. I have also established that there was a consensus among Estonians on these measures, furthermore governments were relatively stable and remained committed to these free market policies. I have argued that although Estonia has given up some of its economic sovereignty for the long term benefits of the country, the overall strength of the state has not diminished, since it can change these policies at any time. Governments need to monitor closely the benefits and harms of specific economic policies and need to intervene whenever the balance turns negative. They are not without power even in the most open and integrated economies, such as Estonia.

I have found that Estonia is one of the most successful countries in the Baltics and Visegrád countries to attract foreign direct investments, which is mainly because of the early and bold measures to create a business friendly environment. I have established, that Estonia was the most successful country to attract FDI relative its population in the Baltics during most of the observed time between 1992 and 2008. During the 1990s the Visegrád countries were first in attracting both the absolute amount of FDI and the per capita amount; however from the early 2000s Estonia took over the first place in the FDI per capita ranking. In short, I have found that by only looking at the FDI numbers, it is clear that Estonia followed proper economic policies. I have also established that by looking at the impacts of FDI on the Estonian economy, there are mixed results. Although the overall picture is rather positive, there remain several questions concerning technology transfer or the high dependence on Sweden and Finland and the overwhelming concentration of foreign direct inflows in the capital. I have also found that a large part of FDI inflows are to the low-technology manufacturing sectors, limiting the benefits to local firms.

The current thesis could be further expanded with additional research. One interesting question which remains open is the effects of the 2007-2008 financial crisis on Estonia, as well as more recent events, such as the drastic fall of FDI inflows in 2011. A further topic could be analysing Russian investments in Estonia and in the region, since I have found little evidence on the relatively low amount of Russian FDI
in the Baltics. Another topic which could be interesting is to do a more comprehensive comparative research on the Baltics and Visegrád countries, since this thesis mainly focused only on Estonia. This would especially useful, since most of the publications are either dealing only with the Baltics or only with the Visegrád countries.
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Appendix:


Appendix 4: Inward FDI stocks in Estonia percentage of all Baltic and Visegrád countries between 1992 and 2011. (Source: UNCTAD 2012)

Appendix 5: FDI inflows per capita in Baltic and Visegrád countries between 1992 and


Appendix 10: Outward FDI flows in Baltics and Visegrád countries, percentage of GDP. Note: data for Slovakia and Czech Republic available form 1993. (Source: UNCTAD 2012)

Szuverenitás (f)eladása? Közvetlen külföldi t kebefektetések Észtországban

Dolgozatomban azt állítom, hogy Észtország jó gazdaságpolitikát folytatott a közvetlen külföldi beruházások (KKB) vonzásának szempontjából, azonban ezen széls ségesen piacbarát politika miatt egyben a gazdasági szuverenitása egy részéről is le kellett mondjon. Ezt úgy kívánom bemutatni, hogy el ször az észt gazdaságpolitikai modell fbb vonalait mutatom be, ezután összehasonlítom az észt, baltikumi és visegrádi országok közvetlen külföldi beruházás adatait, majd a KKB-k észt gazdaságára való hatásáért fejtem ki. Egy rövid történelmi áttekintés után ezt a három pontot fejtem ki részletesen a dolgozatomban.

A történelmi bevezet után, dolgozatom els részében azokat a lépéseket vizsgálok meg, amik a befektetet barát környezetet alakították ki Észtországban. Ebben a részben kielemem, hogy Észtország lemondott a saját valuta használataról a stabilitás és befektetések ösztönzése érdekében. Szintén ebben a részben fejtem ki az fiskális politikát, kiemelve azt, hogy az elmúlt évtizedek kormányai stabilan kitartottak a korábban meghozott gazdaságpolitikai lépések mellet. Az észt befektetések mellett ösztönző lépéseket is szintén ebben a részben elemzem, kiemelve azt, hogy a külföldi befektetet knek nyújtható kizárólagos kedvezményeket Észtország viszonylag hamar megszüntette. Ennek a fejezetnek a végén vetem össze a balti és visegrádi országok gazdaságpolitikai modelljeit, kiemelve a modellek fbb jellegzetességeit.

Dolgozatom második részében az észt közvetlen külföldi beruházási adatokat hasonlítom össze a másik két balti ország, illetve a Visegrádi Négyek adataival. Ebben a részben els sorban a beáramló t kére koncentrálok és a 1992 és 2008 közötti periódust vizsgálok. Ebb 1 a fejezetb 1 az derül ki, hogyha az abszolut beáramló beruházásokat hasonlítjuk csak össze, akkor Észtország csak a két másik balti országot tudta megel zni, a visegrádi országok messze több t két voltak képesek ebben az id szakban vonzani. Megnéztem továbbá az egy f re jutó KKB-t és az országok GDP-jéhez képesti KKB-t, ekkor azt tapasztaltam, hogy a 2002-t 1 messze Észtország volt képes a legtöbb t két vonzani a vizsgált országokból. Ezeket az adatokat azért volt kiemelten fontos megvizsgálni, mivel Észtország rendelkezik legkisebb lakossággal és gazdasággal ezekb 1 az országokból. A kiáramló t két is megvizsgáltam hasonló módszerekkel,
ebben az esetben is az abszolút számok tekintetében hasonló volt a helyzet, mint a beáramlónál. Az állományi KKB adatokat nézve közel régione szinthez képest közel 10% is elért a 2000-es években, ami jelent s részarányának mondható az ország adottságaihoz képest. A jelent sebb kiáramló t ke f leg a svéd bankokkal magyarázható, amik Lettországba és Litvániába terjeszkedtek.

Dolgozatom végs részében KKB-k hatásait vizsgáltam meg. Ennek a fejezetnek az elején el ször a transznacionális vállalatok és az államok közötti kapcsolatot mutatom be. Ebben a fejezetben azt emelem ki, hogy a két szerepl nek különböz céljai vannak, mégis sok mindent l függeneegymással. Ebben a részben azt is kiemelem, hogy bármennyire is er s pozíciója van egy TNC-nek, az államnak még így is maradnak bevethet eszközei a transznacionális vállalat ellen. Ebben a fejezetben az elméleti lehetséges KKB-k hatásai után az észt gazdaságra való hatásokat vizsgáalom meg. Észtországban számos szempontból pozitív hatással vannak a KKB-k a gazdaságra, az egyik legfontosabb, hogy a helyi vállalatokat versenyképesebbé tette a külföldi konkurrencia megjelenése. Technológiatranszfer szempontjából viszont kevésbé volt sikeres az ország. A magas fejlettség technológiát nem tudták átvenni a helyi vállalatok, illetve hogy a KKB-k egy jelent s része a feldolgozóipar alacsony technológiai szint területére érkezett.